

AUDIT COMMITTEE

Tuesday 14 May 2002
(*Afternoon*)

Session 1

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CONTENTS

Tuesday 14 May 2002

	Col.
ITEM IN PRIVATE	1077
“OVERVIEW OF FURTHER EDUCATION COLLEGES IN SCOTLAND 2000/2001”	1078

AUDIT COMMITTEE 8th Meeting 2002, Session 1

CONVENER

*Mr Andrew Welsh (Angus) (SNP)

DEPUTY CONVENER

Mr David Davidson (North-East Scotland) (Con)

COMMITTEE MEMBERS

*Scott Barrie (Dunfermline West) (Lab)
*Margaret Jamieson (Kilmarnock and Loudoun) (Lab)
Paul Martin (Glasgow Springburn) (Lab)
Mr Lloyd Quinan (West of Scotland) (SNP)
*Mr Keith Raffan (Mid Scotland and Fife) (LD)

*attended

THE FOLLOWING ALSO ATTENDED:

Mr Robert Black (Auditor General for Scotland)

CLERK TO THE COMMITTEE

David McGill

SENIOR ASSISTANT CLERK

Ruth Cooper

ASSISTANT CLERK

Seán Wixted

LOCATION

Committee Room 2

Scottish Parliament

Audit Committee

Tuesday 14 May 2002

(Afternoon)

[THE CONVENER *opened the meeting at 14:03*]

The Convener (Mr Andrew Welsh): Welcome to the Audit Committee's eighth meeting in 2002. I make my usual announcement about mobile phones and pagers: please turn them off. Apologies have been received from Paul Martin.

I want to inform members about changes to the clerking team. We welcome Shelagh McKinlay, who is in attendance today. She will be our new committee clerk and this will be David McGill's last meeting as clerk to the Audit Committee. David will now concentrate solely on the Finance Committee. I thank him for the excellent work that he has done on our behalf and wish him all success in his future career. Our committee has been exceptionally well served by the quality, effort and work of our clerks and I would like them to know that their work is very much appreciated. All success for the future, David.

David McGill (Clerk): Thank you.

Item in Private

The Convener: The first item of business is to decide whether to take item 3 in private. Item 3 is consideration of arrangements for our forthcoming inquiry into the latest of the Auditor General for Scotland's overview reports on further education colleges in Scotland. Taking that item in private will allow us to consider the details of taking evidence on the report. Do I have the agreement of the committee that we take item 3 in private?

Members *indicated agreement.*

"Overview of further education colleges in Scotland 2000/2001"

The Convener: For item 2, members have been given a copy of the report "Overview of further education colleges in Scotland 2000/2001". I invite the Auditor General to give an overview and to comment on his report.

Mr Robert Black (Auditor General for Scotland): Good afternoon. The report is the second overview report on Scotland's further education sector that I have laid before the Parliament. The report falls into three parts: the results of the audit for the financial year 2000-01; the financial health of further education one year on from my previous report; and, finally, a review of some of the recent developments in the management of the FE sector in Scotland.

I will alert the committee to some of the major issues in this year's report. Auditors' opinions have been made on the accounts, as is proper, and most of those are of a technical nature. Several auditors have drawn attention to the fact that the college accounts were prepared on a going-concern basis. In essence, that issue is to do with the financial viability of colleges and relates to the on-going deficits, to which I shall return in a moment.

The general message is positive. The key financial systems in place in colleges were of a good standard. Where that was not the case, action plans to make the necessary improvements were agreed with college boards and put in place.

At its own hand, the Scottish Further Education Funding Council undertook a review of the internal audit arrangements in the further education sector. The review concluded that there was generally good progress but that there was also some scope for improvement. It is important that the colleges address those issues, as strong internal management is fundamental to the risk management of colleges and to their duty to safeguard public funds.

During 2000, a new accounting standard for further education was promulgated. That standard has been applied for the financial year 2000-01.

As in my previous report, the auditors highlight areas of college activity that require careful management, such as the management of funding from European sources. The conclusion is that a number of colleges need to develop further their management accounting systems to support the additional information requirements for future European Union grant payments. We feel that that is an area of continuing risk in the further education sector. Members will recall that the

committee recently took evidence from the Scottish Executive's principal finance officer about compliance with EU funding regulations.

The grant that is paid to each college is based on a formula that is linked to the level of further education activity in the college. In effect, that grant is the money that comes from the Scottish block. I draw attention to the fact that a number of colleges did not deliver the forecast level of activity and were consequently asked to repay grant.

My report goes on to outline the progress on a number of the committee's recommendations on further education. I have pleasure in saying that, as members will probably be fully aware, both the Scottish Further Education Funding Council and the Scottish Executive have responded positively to those recommendations. That is to be commended.

If we move on to consider the financial health of the further education sector generally, we will see that the total operating deficit in the FE sector was reduced to £13.8 million in 2000-01, which is some £2.2 million lower than in the previous year. However, the deficit as a percentage of income rose slightly from 2.7 per cent to 2.9 per cent.

Perhaps the most significant feature is that the overall financial results mask the fact that a large number of colleges are experiencing financial difficulties. Thirty-four of the colleges incurred operating deficits during the year, which is three more than in 1999-2000, and 16 colleges recorded deficits that were greater than they had forecast. At July 2001, 22 colleges had recorded total deficits of more than £30 million, including 10 colleges with individual deficits that exceeded £1 million.

We were advised that it could take up to 10 years to eliminate some of those accumulated deficits. That is rather a long time. As exhibit 9 on page 21 of the report shows, six colleges might take more than three financial years to do so. Although I welcome the fact that, in each case, a recovery plan is on course, I am concerned that it will take so long for a number of colleges to achieve financial balance through their plans. The committee might wish to consider that issue further. Members will see from the main report that it will take several years before Inverness College and Clydebank College will achieve balance. However, they have benefited from part of a one-off sum of £7 million that SFEFC has made available for colleges in particular difficulty.

I was pleased to note that SFEFC has produced new procedures for identifying and monitoring the colleges that are in the greatest financial difficulty, which is good risk management. SFEFC's assessment of the financial health of colleges in 2000-01 categorised 36 per cent of colleges as

"unsatisfactory", 33 per cent as "poor", 29 per cent as "stable" and 2 per cent as "good". At this point, I should apologise to the committee, because one of the numbers in the published report's executive summary is wrong. The figure for the number of colleges that are stable should read 29 per cent instead of 19 per cent.

In the final part of the report, I update the Audit Committee on the various developments in the FE sector. Although all those initiatives are making progress, there might be a concern about when they will achieve their full impact and improve the management of further education in Scotland.

I am happy to answer any questions that members might have.

The Convener: The report continues our series of overviews of and detailed inquiries into the FE sector in Scotland. Again, I thank Audit Scotland for a very thorough and detailed report and for drawing our attention to areas of considerable concern. Do committee members have any questions?

Margaret Jamieson (Kilmarnock and Loudoun) (Lab): Auditor General, are you satisfied that the agreed recovery plans are robust and achievable, even though some of them might take a considerable time to be completed?

Mr Black: For the recovery plans that are in place, we have been informed that the interim targets are being achieved. However, I am concerned that the completion of some of the recovery plans will take several years. As members will see from exhibit 9, it is expected that six colleges will take more than three years to achieve balance and the longest time that it will take a college to achieve balance is almost 10 years. In my opinion, if we are dealing with periods of that length, there must be considerable uncertainty. I question whether the plans are plausible, given such a time scale.

The Convener: It is important to find out the reasons for the deficits, whether they are endemic and what we can do to cure them.

Mr Black: Indeed.

Mr Keith Raffan (Mid Scotland and Fife) (LD): I have two points. First, although I know that SFEFC has completed a review of the links between supply and demand, paragraph 4.7 refers to

"a further examination of the relative adequacy and efficiency of the provision in each area and for key industrial sectors".

That examination was due to be completed by 31 March. Has that happened?

Mr Black: We understand that SFEFC is on track with all that work.

Mr Raffan: Presumably, then, we could get a copy of that report, because it would be relevant in some ways. There are seven FE colleges in the area that I represent and, after visiting some of them, I am concerned that courses are being undertaken for which no jobs are available.

Mr Black: Yes.

Mr Raffan: My second point is about the condition of college estates. Paragraph 4.14 mentions that a survey on the condition of estates concluded that £116 million would be required to address that issue. Was that survey independent?

Mr Black: Yes.

Mr Raffan: I am quite surprised; I thought that the figure was higher than that. Given cases such as Fife College of Further and Higher Education in Kirkcaldy—where I believe the tower block has now come down—and Clackmannan College of Further Education, the condition of estates looms much larger than it does in this report.

14:15

Mr Black: Yes.

Margaret Jamieson: It would also be helpful to find out how that figure divides up among the colleges, because there is a general concern that much newer colleges are being considered in the same way as much older colleges that require more work. *[Interruption.]*

The Convener: I welcome Scott Barrie to the committee.

Scott Barrie (Dunfermline West) (Lab): I was at a meeting of the Justice 1 Committee.

The Convener: I have a couple of points that follow on from Keith Raffan's comments. It is important that the committee not just takes evidence but follows up on its recommendations from previous evidence. Paragraph 4.12 refers to "a merger feasibility study" for the Cathedral Street colleges in Glasgow and mentions that a report will go before the boards in April 2002. What is the state of play on that?

Mr Black: I understand that that time scale has been met, which means that the boards will have received the report. However, it is up to the colleges, through their merger steering group, to take that forward to the next stage. As you will see from my report, the colleges have agreed to submit proposals to the ministers by autumn 2002.

The Convener: It is very important that we pursue points of detail to ensure that actions are completed.

Has the new director of FE development at SFEFC, as mentioned in paragraph 4.17, been appointed yet?

Mr Black: It is my understanding that that appointment has not yet been made. As the committee will recall, a new chief executive of SFEFC has recently assumed office. He has decided that he would prefer to reconsider the needs of the management structure before moving to fill that post.

The Convener: I would like to pursue that point and find out about developments.

If there are no further questions, I thank the Auditor General and officials from Audit Scotland.

14:17

Meeting continued in private until 14:46.

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