AUDIT COMMITTEE

Tuesday 11 June 2002
(*Afternoon*)

Session 1

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AUDIT COMMITTEE
9th 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)

COMMITTEE SUBSTITUTES

Miss Annabel Goldie (West of Scotland) (Con)
Mr Duncan Hamilton (Highlands and Islands) (SNP)
Mr Jamie Stone (Caithness, Sutherland and Easter Ross) (LD)

*attended

WITNESSES

Mr Liam McCabe (Scottish Further Education Funding Council)
Mr Roger McClure (Scottish Further Education Funding Council)

CLERK TO THE COMMITTEE

David McGill

SENIOR ASSISTANT CLERK

Ruth Cooper

ASSISTANT CLERK

Seán Wixted

LOCATION

The Hub

Scottish Parliament

Audit Committee

Tuesday 11 June 2002

(*Afternoon*)

[THE CONVENER *opened the meeting at 13:59*]

Items in Private

The Convener (Mr Andrew Welsh): I welcome everyone to the ninth meeting in 2002 of the Audit Committee. I make the usual announcement about mobile phones and pagers and I will set a good example by turning off mine. Scott Barrie and Paul Martin send their apologies; there are no other apologies.

Item 1 on the agenda is a decision on whether to take items 2, 4, 5 and 6 in private. Items 2 and 4 relate to discussion of lines of questioning for today's witnesses and consideration of the evidence that we take. Item 5 is consideration of the committee's draft report on public accounts and item 6 is consideration of the committee's draft annual report for the parliamentary year from May 2001 to May 2002. It is right that, after private consideration, all those items will enter the public domain. Are members agreed that we take those items in private?

Members *indicated agreement*.

The Convener: At our most recent meeting, we decided to hold a further evidence-taking session in relation to our inquiry into further education colleges. The committee is asked whether it should take in private at its next meeting agenda items that deal with lines of questioning and consideration of the evidence that is taken. Do members agree to that?

Members *indicated agreement*.

The Convener: Before moving into private session, we will pause to allow members of the public to leave.

14:01

Meeting continued in private.

14:07

Meeting continued in public.

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

The Convener: I welcome to the Audit Committee Mr Roger McClure, who is the chief executive of the Scottish Further Education Funding Council. He has with him his colleague Mr Liam McCabe, who is also welcome. We will examine issues arising from the Auditor General's report, "Overview of further education colleges in Scotland 2000/2001". I understand that the facts that the report contains have already been agreed. Is that so?

Mr Roger McClure (Scottish Further Education Funding Council): Yes.

The Convener: In today's evidence-taking session, we will ask questions on three main areas: the continuing poor financial health of further education colleges in Scotland; the time scale over which the financial position is likely to improve; and the progress that is being made on a range of initiatives and when those initiatives are likely to have an impact on the adequacy and efficiency of the provision of further education in Scotland. Do you wish to say anything before we begin?

Mr McClure: Thank you for the welcome. As you know, I am relatively new in my post. I started on 1 March and did not expect to meet you all quite so soon. As I am new in the post, it might be useful for me to give you some introduction to my background.

I was interested to read in the *Official Report* of the committee's previous meeting that my predecessor introduced me to you, to some extent, by describing my background. I qualified as an accountant in training with the National Audit Office. I entered the education sphere, working as a financial adviser to the University Grants committee where, with Professor Sizer, we pioneered the financial forecasts that have become familiar. I moved to the Polytechnics and Colleges Funding Council, where I was the director of finance and responsible for funding and all financial appraisal and monitoring activities.

I then moved to the Further Education Funding Council for England, where I had the same responsibilities. In my last post before I came to Scotland, I was the director of finance and pro-rector at the London Institute—in other words, I switched sides and went down into the trenches, from the institution's point of view. The London Institute is not only a very large, federal institution and a higher education corporation; a third of its activity is in further education on a scale that puts it in the top 10 per cent of FE providers in England. I notice that John Sizer, in giving evidence, suggested that I probably knew more about that area than he did. That is unlikely, but I hope that I have reassured you that I have a good grounding in the management of post-school education.

When I took up my post, one of my first tasks was to attend the audit committee of the Scottish Further Education Funding Council, where it immediately became apparent to me that the financial health of the sector was a matter of concern. I have turned my attention to that matter with some vigour in the few months for which I have been in post. I hope that, in answering your questions, we will be able to bring out some of that to you.

The Convener: It is early days in your tenure as the chief executive of SFEFC. We wish you wisdom and success in your work.

Mr McClure: Thank you.

The Convener: Let us consider paragraph 15 of the executive summary of the Auditor General's report, which tells us that

"22 colleges recorded accumulated deficits totalling over £30 million".

How have those deficits been allowed to arise and are they justified?

Mr McClure: I answer your question as the accounting officer for SFEFC; therefore, it is only fair to remind the committee of what was apparent in the evidence that it took at the end of last year. When SFEFC took over responsibility for those colleges, 36—more than four fifths of the sector—were in annual operating deficit. The annual operating deficit that was being presented by the whole sector was some £23 million.

It is difficult for me to speculate on how that deficit arose. One could identify a number of factors that have influenced the performance of further education, many of which will be similar to the circumstances that obtained in England when I worked for the Further Education Funding Council. One might point to the difficult estates problems that colleges inherited at incorporation. The situation may have varied across the country, but many of the colleges will have found that their estates required a good deal of maintenance expenditure and they will not necessarily have had the wherewithal to cope with that. The colleges will also have inherited a wide range of working practices, and the number of hours that their lecturers are contracted to teach will vary. Expenditure on staff is by far the largest component of any further education college's expenditure, and variations in such parameters make a big difference in colleges' expenditure.

In addition, we must remember that further education was traditionally part of the local authority world and questions of solvency were not necessarily uppermost in the college managers' minds. Colleges' performance would have been one line of local authorities' budgets. A college's senior management would often have considered a good performance as meeting the educational needs faced by that college as well as possible and endeavouring in the course of a year to extract from the local authority the resources that were required to do that. With incorporation, the situation has changed dramatically.

14:15

Members will recall that, when SFEFC took over responsibility for colleges, the accumulated provision for pension liabilities had reached £36 million. That is evidence of the extent to which restructuring had been taking place in colleges. Restructuring is expensive in two respects. First, immediate cash payments must be made to staff who are retiring. Secondly, provision must be made on the balance sheet. Both those items affect adversely the income and expenditure account, particularly in the year in which restructuring is done.

I cannot be sure why the colleges are in the situation to which the convener refers, but I imagine that it is the result of a combination of the factors that I have listed.

The Convener: You will accept that a massive problem exists. SFEFC has a responsibility to spend wisely. Deficits over and above the existing ones are accumulating. We have to deal with a deficit of £30 million for starters, not to mention continuing future deficits. Where will the £30 million that is required to cover the existing deficits come from?

Mr McClure: What is SFEFC doing to address the problem that the convener highlights? The sector's annual operating deficit is the strongest and most significant indicator of whether colleges are moving towards financial health. It goes without saying that, if a college cannot make an annual operating surplus, its survival will be in doubt. If a college is to have a long-term future, it must be able to ensure that its expenditure is within its income. When the funding council took over responsibility for colleges, the annual operating deficit stood at £23 million. The audited financial statements for last year show that it now stands at just under £14 million. In other words, there has been a 40 per cent improvement in two years. It is important to focus on the size of the deficit, rather than on the number of colleges with deficits. Each college is trying to deal with its problems, so the number of colleges with deficits may remain the same for another year or two. The important issue is the size of deficits, as colleges move towards breaking even and then surplus.

The figure of £30 million must be set alongside the fact that the pension provision under statement of standard accounting practice 24 is £36 million. The figure of £36 million relates to the sector as a whole. However, a large proportion of the £30 million deficit for the 22 colleges that the committee has identified relates to pension provision. Although that is a real future liability for colleges, the fact that pension provision is included in the deficit figure needs to be taken into account when the size of the accumulated deficit is considered.

The Convener: What is the way out of this situation? There is an existing deficit as well as on-going deficits.

Mr McClure: We must move to a situation in which every college in the sector is able to make an annual operating surplus. That means progressively eliminating deficits.

I have brought with me a graph that illustrates the process. The graph shows the annual operating deficits that the sector makes each year. At the bottom of the graph is the point at which colleges were incorporated. There is a small surplus for the sector in that first year. You can see what happened until the point at which SFEFC took responsibility for the sector in 1998-99. The next point but one represents the most recent year for which we have published accounts. The following point represents the financial forecast update that we have had—the latest information for the current year. We hope that that information is reasonably reliable. The last two points reflect the colleges' longer-term projections.

The case that I am trying to make is that SFEFC made a serious and significant impact on the annual operating deficit very quickly after taking over responsibility for the sector.

The Convener: We are in danger of straining our eyes by looking at your graph. Could one of your assistants make it available to Audit Scotland so that the committee can then see it? If you have copies of it, that would be even better.

Mr Keith Raffan (Mid Scotland and Fife) (LD): You mentioned the condition of the estates. In paragraph 4.14 of the overview, the Auditor General makes reference to the condition survey and states that

"to bring colleges' estates up to an operationally acceptable condition",

whatever that means—I am not sure what it means; perhaps you could tell me—would cost £116 million. I have been round a few of the six further education colleges in my region. That figure is challenged regularly. I understand that a figure of £215 million was the estimate back in the early 1990s. What is the exact situation? When I visit FE colleges—I will touch on one college in a minute—I see that their condition is appalling.

Mr McClure: I cannot give a precise figure now. The figure of £116 million emerged from a condition survey that was undertaken shortly after SFEFC took responsibility for the sector. The survey identified the expenditure that would be required to bring the colleges up to a minimum acceptable standard—that is, to undertake health and safety work and other highest priority work. The figure does not, by any means, represent the sort of expenditure that would be required if we were seriously aiming for a world-class system in Scotland.

SFEFC is reconsidering its capital policy towards colleges. It is able to do that because it can draw on the results of the area mapping initiative, which the Auditor General identified in his report. One of the recommendations that the consultants made was that, because of the condition of many of the colleges' estates and because it seemed unlikely that we would get the capital sums that would be needed to put all colleges into the order that we would like them to be in, the best way forward would be not to think of the colleges' estates as colleges on their own, but to seek opportunities for collaborative development, sharing of facilities, and—at one end of the spectrum—college mergers. The committee can see in the Auditor General's report that, in Glasgow, for example, the prospect for college mergers is good.

Mr Raffan: I accept that point. However, it is not just a question of capital funding, but of the knock-on effect on running costs. I will give a concrete example. Clackmannan College of Further Education is in an old secondary school with 11 huts in the grounds. To keep the huts warm enough for people to be in them, it must keep its heating up to such a level that the main building is virtually sauna-like. The appalling condition of the colleges has a knock-on effect. We also need to demolish the tower block at Fife College of Further and Higher Education in Kirkcaldy. The knock-on effect of that on running costs is pretty dramatic.

Mr McClure: I accept that. All that I can say in response is that SFEFC has tried to use the capital funds that have been made available to it to take account of such concerns. Part of the funds is allocated through a formula so that every college has some opportunity to try to address its highest priorities. The other funds have been allocated on the basis of bids, with colleges making specific proposals. As you would expect, SFEFC has focused its effort on the cases in which the condition of the estate seemed the most extreme.

In some cases, it is not easy for a college to produce a sensible set of proposals without taking a more strategic view of the way in which provision should develop in a region and taking account of the provision in other colleges. The Glasgow colleges are a good example of that. It would not be realistic to think that we could obtain enough capital funding to bring every college that is currently on the scene up to a very high standard. We must find other ways of sharing expensive resources.

Mr Raffan: I accept your point about a merger in Glasgow, but Glasgow is a special case. You cannot apply the same principle to Clackmannan College, although I suppose that you could possibly apply it to Lauder College, Fife College and Glenrothes College. Glasgow is a special case, and you seem to be grasping at that as a straw.

Mr McClure: I mentioned Glasgow once.

Mr Raffan: Twice.

Mr McClure: I am saying that we have the area mapping results for each area of Scotland and we are considering them. The consultants recommend that we should take forward the capital programme in a strategic way on an area basis rather than for individual colleges, and the council is now carrying out that suggestion. I agree that, in many cases, the scale of the difficulties is such that there is no quick solution. Only through strategic development will we be able to resolve the situation.

Mr David Davidson (North-East Scotland) (Con): In the graph that you presented to the committee, there is a plateau at the end of your projection that still shows a period of deficit, which looks as if it is slipping into a larger figure. Why do you think that that is likely to be the case?

Mr McClure: I am not sure that I do think that it is likely to be the case. Those forecasts were made in 2000, I think.

Mr Liam McCabe (Scottish Further Education Funding Council): It was 2001.

Mr McClure: The figures look forward over a number of years to the end of the graph. It is difficult for any institution, including one that is in reasonable financial health, to be sure what its position will be three years hence. For example, an institution cannot be confident about its funding from SFEFC in two or three years' time, so it has to make projections. The financial forecasts of both colleges and universities show that, as you get nearer to a specific period, the forecast sharpens up and performance generally improves because people can make more specific plans. That is why you can see that, for the current year, 2001-02, there is a sharp step-up in the graph, as colleges focus on that year.

As I said in my opening remarks, I do not think that the situation is satisfactory. I have been having discussions with Liam McCabe and his colleagues about how we can accelerate the recovery of the sector's financial health. We have been developing some ideas on that front, so I hope that, as successive rounds of financial forecasts come through, you will see the position change.

Margaret Jamieson (Kilmarnock and Loudoun) (Lab): I want to take you back to the estates question. I have concerns about the way in which the money was disbursed through the sector. It appears that every college received a base figure, which was topped up or not in certain areas, depending on the bids that the individual colleges submitted. Is that correct?

Mr McClure: Yes.

Margaret Jamieson: It concerns me that, in the area that I represent, there is one college—James Watt College of Further and Higher Education's Kilwinning campus—that is a private finance initiative project but which got the initial allocation. I also represent a college that needs significant investment but which appears not to have been considered. I question the way in which that money was disbursed in the first place. Why should a PFI project require further Government funding?

As of next year, the colleges will be required to comply fully with the Disability Discrimination Act 1995. What has been built into the plans for which you have provided money this year to ensure that all the colleges are compliant?

Mr McClure: I shall answer your second question first. Under the disability legislation, colleges must be fully accessible by 2005, not by next year. Certain aspects of the legislation must be implemented by next year, but full accessibility to buildings is not required until 2005. Ensuring that colleges are able to comply with that legislation is clearly a major task for the council in the sector. The colleges have no choice; they must comply.

Members will be aware that one of SFEFC's responsibilities is to inform the Scottish Executive of the circumstances within the sector and to provide advice. You will also be aware that that advice is provided in confidence. I therefore cannot tell you what the council's advice to the Scottish Executive is. All that I can say is that, with a particular issue such as the one that you have identified, you can expect us to ensure that the Scottish Executive is fully informed.

14:30

The distribution of capital is a difficult question.

As I understand it, when the funding council took over responsibility for the sector, it did not have good information available to it on the capital problems that existed or the options for addressing those problems. The funding council did the most rational thing: it organised a survey to identify the most urgent work; it ensured that health and safety matters were addressed, because they simply have to be addressed and cannot be left; it ensured that a certain amount of funding was available to every college so that the colleges could take local decisions on what they regarded as priorities; and it called for bids from colleges to address major problems and tried to target its allocations to the colleges that had clearly established, against criteria, that they had major problems.

Such major bids have, to some extent, run out—not because there are no problems in the sector but for the reason that I gave in an earlier answer. The colleges are now taking stock of their situation and reconsidering the best option to improve their estate. It is not a question of each college saying, "We have a difficult building so we must submit a bid to the funding council." Even if the colleges did that, we would not have the resources to begin to address the problems that would emerge, such would be their scale.

Margaret Jamieson: Why was an initial allocation given to a college that has a PFI?

Mr McClure: PFI projects have assumed particular prominence. They are seen as one way of addressing the shortage of capital funding in the public sector. In a partnership with a private organisation, the capital is provided by the private organisation and recurrent funding can be used to lever in that capital funding. I assume that that was the thinking behind the council's wish to promote PFI projects where a good project could be introduced.

As I am sure you know, PFI projects are difficult to put together and they take a lot of organising. However, when there is a shortage of capital, they are one way of ensuring that capital is available quickly.

Margaret Jamieson: I do not think that I have made myself clear. I am talking about the funds to upgrade the current estates that were given to a PFI college—James Watt College at Kilwinning. Why did that happen and to whom did the money go? Did it go to the PFI contractor or to the college board?

Mr McClure: Convener, we have reached the limits of my knowledge of that particular case. The best that I can do is to undertake to send a note to the committee to explain the circumstances.

Margaret Jamieson: Thank you.

The Convener: If you would clarify the matter, we would appreciate that.

Exhibit 8 in the Auditor General's report shows that the deficits recorded by individual colleges range from an accumulated surplus of £2.5 million at Glasgow College of Building and Printing to an accumulated deficit of some £5.2 million at Inverness College. To what extent does that range reflect the quality of management across the sector?

Mr McClure: That is difficult to answer, because different factors affect individual colleges. Your question raises a significant point. The management of a college will determine how it performs. We are turning our attention to that matter to see how we can improve the overall management of colleges and, in particular, the strategic financial management of colleges.

The Convener: How does SFEFC measure quality of management in individual colleges?

Mr McClure: There are a variety of measures, the most reliable of which is the performance that the college delivers. If a college manages to make operating surpluses and to maintain a healthy financial situation, it is reasonable to assume that it is being well managed. Aside from that, there is the question of the documents that colleges provide to the funding council. I am thinking in particular of the quality of financial forecast documents and of the assumptions and commentary that accompany them.

I am also thinking of the strategic plans that colleges are required to provide each year, the quality of the thinking that goes into those and the assumptions and arguments on which they are based. There is also the matter of the regular visits and meetings between funding council staff and a range of managers from each college. From all those sources, we are able to build up a picture of the quality of management of individual colleges.

The Convener: In your own words, what is that picture?

Mr McClure: It is early days for me, convener. I have had some meetings with colleges, and I would say from the evidence before us that the financial performance of the sector is weak. I hesitate to make any specific judgments on the management of colleges at this stage, but I note from the outcomes that I have observed that the improvement of management must be a priority for SFEFC.

The Convener: I would suggest that "weak" is putting it mildly. I refer you to page 24 of the Auditor General's overview report, in which the financial health of only one college is classified as good. That is the reality of the situation. Can you guarantee that colleges will not just be reclassified and that real improvement will emerge?

Mr McClure: I can guarantee that they will not just be reclassified. I very much expect there to be real improvement, although it is difficult for me to guarantee it. That is certainly the objective of SFEFC.

While it is true that, according to the particular classification that we have adopted, only one college is shown as good, I remind the committee that the clearest measure of the level of concern that SFEFC has over the financial performance of individual colleges is shown by whether the colleges are on quarterly monitoring. Quarterly monitoring shows that we are keeping very close tabs on how the colleges' situations are developing. That applies to 17 institutions, not 41, as might be the implication of your question.

The Convener: Ultimately, the answer rests with each individual college. How will you bring about that real improvement in the quality of management?

Mr McClure: That question gives me an opportunity to say something about the new FE development directorate. This matter was flagged up again in part 4 of the Auditor General's 2000-01 report. In his first report, he had identified that the directorate was a new development for SFEFC. On my arrival, I was keen to pursue its creation. When we first tried to appoint a director in a conventional sense, we found it very difficult to get a suitable candidate. Ideally, a leading principal with a strong track record would have come forward to take up a conventional post.

Over the past month or two there has been a lot of to-ing and fro-ing and discussions with the colleges, with the funding council and others. We have come up with a rather innovative development for both the funding council and the sector: we are going to create a bridging structure between the council and sector that will be headed up by a current principal, who will be on secondment to the funding council for two days a week, and within which we will identify a pool of managers. They will be current managers in the sector, all of whom will have proven track records in different aspects of the management of colleges.

When a college is in financial difficulty, it is not simply because its finance department cannot add up; it is more likely that, in managing its curriculum, estate and human resources, the college is facing particular difficulties. That is why, in this new directorate, we want to create access to a pool of current managers with not only current experience, but proven track records in handling difficult situations in their own colleges.

When we have a college with difficulties on our recovery list, the idea is that, in discussion with the college, we will identify a small team of managers from the directorate, who will be put into the college to work alongside the existing managers to mentor them, coach them and initially help them to identify where the problems lie and how they can be addressed. It seems to me that that is the way to bring good practice to bear most rapidly and most directly in the colleges that are having difficulties.

The Convener: Keith Raffan has another question on this section, before he goes on to cover what colleges need to do to improve their financial health.

Mr Raffan: I have two brief points. The first one follows on from the previous point. How important is it to improve the calibre of board members? I know that a review is being carried out that is considering that and matters such as governance, accountability and so on. How important is that in improving the management of the colleges?

Mr McClure: It is very important. The role of the board in exerting a challenge function and ensuring that senior management has in place the systems and processes that one would associate with good management is important. Board members can bring to bear around the board table a lot of skills that a college might not otherwise be able easily to access. It is hard to generalise on the standard of management, but the evidence suggests that it is variable across the sector.

In the new directorate that I have mentioned, we are including the possibility that we would identify experienced board members who could mentor boards and colleges that were having difficulties. We are making an effort to ensure that credible, successful people who understand FE management work alongside people who are having difficulties, so that progress can be made much more quickly.

The Convener: I would appreciate it if Keith Raffan could focus on the financial matters.

Mr Raffan: I will do that, but I want to ask one more question because it is important.

The Convener: Quickly, please.

Mr Raffan: Well, it is important. The Audit Committee must concentrate on the finances of FE colleges and financial management, but you must consider wider matters, including Her Majesty's Inspectorate of Education reviews. To what extent is it difficult to balance those two things? Could a college be well managed but still get a bad review?

Mr McClure: A college is unlikely to get a bad review if it is well managed. The most likely circumstance of the kind that you suggest is that a college is well managed but, through sheer lack of resources and a poor inheritance, finds it difficult to put forward facilities that the inspectors would find to be of the highest quality. In those circumstances, one would expect a good management to make contingency arrangements to get around the problem. Although a college might be criticised for not having the best facilities, the quality of the educational experience can still be very good. We have found over the years that quality judgments tend to revolve to a greater extent around organisation than around the level of financing.

Mr Raffan: We have already partly touched on the question of whether enough has been done to accelerate the pace of improvement. Exhibit 11 shows that the financial health of 36 per cent of colleges is currently rated as unsatisfactory and 33 per cent of colleges are rated as poor. Paragraph 3.22 states that by 2004-05 the unsatisfactory figure will go down to 5 per cent, but the poor figure will soar to 52 per cent. To be fair, colleges that are in a stable condition double from 19 per cent to 38 per cent, but there seems to be a widening differential. Some colleges are improving, but a lot are getting considerably worse.

Mr McClure: I am not sure that a lot are getting considerably worse.

Mr Raffan: Going from 33 per cent being poor to 52 per cent being poor sounds quite a lot worse to me.

Mr McClure: The point is that the increase in being poor is largely coming from the decrease in being unsatisfactory. You may agree with me that it is not much of an aspiration to advance from unsatisfactory to poor, but that is going in the right direction. The important point behind Mr Raffan's question is whether this is sufficient improvement fast enough. My view is that it is not.

I agree with the Auditor General that we should seek to improve matters more quickly. If we are going to do that, it is important that we are clear about what we are trying to achieve. The first aspect about which we should be clear is that the financial model is conventional; it is the kind of model that many sectors use to analyse financial performance. The model takes account of a wide variety of factors including those that relate to the balance sheet and liquidity.

If we want to try to improve the financial health of the sector, we need to get to a point where we can say that we are fully focusing our attention on the educational mission. We need to be able to say that we have ceased the endless concern about the chronic financial ill health of the sector and that we are looking for what I have begun to call—in the office at least—financial security. The sector should be financially secure.

14:45

I am sure that the committee will agree that it is unlikely that the FE sector will ever be wealthy. It is not in the nature of FE to be wealthy, as FE institutions have always used all of the resources at their disposal to deliver as much as they are able to deliver. Under the legislation, what FE institutions are required to deliver is open-ended—they have to provide adequate FE in Scotland. FE institutions are never going to build up large resources, but they should be financially secure.

We are still developing our thinking on this front, but the definition of financially secure should include the following elements. First, FE institutions should be able to make annual operating surpluses on a consistent year-on-year basis. If FE institutions were in that situation, they would automatically generate sufficient cash to meet all of their liabilities as they fall due and to build up some kind of cash reserve. In a sense, that is the single most important thing that should be done, as no institution will become bankrupt or insolvent provided that it can pay its bills. The way for an FE institution to generate cash is to ensure that it makes an operating surplus.

Secondly, any accumulated deficit that arises from the normal operation of the FE institution should be eliminated. An accumulated deficit represents over-trading in one period that needs to be recouped and paid for in a future period. I exclude pension provisions from that, as they are different. We have to examine those provisions and recognise that, in terms of a charge on the income and expenditure account, they are not directly cash items. Pension provisions represent future liabilities that FE institutions must be able to meet.

The FE sector is in the unusual situation that, if a college was to hit the buffers, it would be the Government that would pick up responsibility for those pension liabilities, not some—

The Convener: I am sorry to interrupt, but are you telling us that, in two years' time, more than half the Scottish colleges will have a poor financial performance?

Mr McClure: No, I did not say that.

The Convener: That is the reality.

Mr McClure: No, I—

The Convener: In two years' time, if 52 per cent of colleges will be poor as opposed to being unsatisfactory, what sort of progress is that?

Mr McClure: When Mr Raffan said that the sector was going backwards, I agreed with him that it was not moving forward as fast as it ought to.

Mr Raffan: Can you define the difference between poor and unsatisfactory? I always thought that poor was worse than unsatisfactory. I am getting very confused by your answer. Can you tell me briefly and simply the difference between poor and unsatisfactory?

Mr McClure: They are technical definitions. The words "poor" and "unsatisfactory" are internal labels that the council adopted in order to be able to describe trends in the sector. In common with most financial models, the council's financial model is based on a scoring system of which the minimum score is zero and the maximum score is 100. All that the council has done, at this stage, is to divide the range into quartiles and to assign a label to each quartile.

The Convener: What does the scoring system mean? What are you scoring?

Mr McClure: The council is scoring the financial health of the institution, taking account of a range of factors—

The Convener: Like what?

Mr McClure: The institution's liquidity—its ability to have sufficient cash to meet its liabilities when they fall due and to make annual operating surpluses. The council also takes into account the institution's accumulated position, reserve position and so forth.

The Convener: Under that scoring system, more than half the colleges will end up being scored as poor.

Mr McClure: If we do not change the situation that is forecast. The committee is seeing in the Auditor General's report an application of the scoring system to the forecasts. As I said, we intend to accelerate that process. I agree with the Auditor General that the results that have been forecast are not satisfactory.

Mr Lloyd Quinan (West of Scotland) (SNP): In the light of the proposed changes in the scoring from poor to unsatisfactory and vice versa, I suggest that we request from SFEFC a copy of its scoring structure so that we and Audit Scotland can monitor whether there is any change in the scoring process. Clearly, any such change in the process and in the manner of assessment could be a moveable feast.

The Convener: Can we have that information?

Mr McClure: There is no difficulty with that. We have already issued a circular to the sector that gives all details of the model and feeds back to each college on its individual circumstances so that it understands exactly how the system works. We have also sought colleges' views on how the model might be refined and improved to make it more reliable. The Auditor General has already received that information.

From the way in which the discussion is progressing, there is a danger that too much weight will be put on the scoring model. The model is a diagnostic tool that enables SFEFC, when confronted with 46—

The Convener: It is accepted, however you define it, that there is poor performance. What are the consequences of continuing poor financial performances by colleges?

Mr McClure: The most significant adverse consequence of poor performance comes about when a college continues to make annual deficits. Such colleges will gradually run out of cash and become insolvent. That is the starkest consequence.

The Convener: Is there a danger of that happening? When might it happen? Deficits are forecast for the future.

Mr McClure: The danger is lower than it appears from the information that the committee has. The funding council monitors colleges' positions closely. At present, no college is close to being insolvent, although a number of colleges rely on financial support. The funding council must keep close contact with colleges and, through the quarterly monitoring process, ensure that they deliver the targets in the recovery plans that they have created to climb out of their difficulties.

The Convener: So the funding council monitors the situation. If a college is in great financial trouble, do you have the ability to step in and sort out the situation before it goes any further?

Mr McClure: Financial trouble is a general term. The most significant problem for a college would be that it did not have sufficient cash to pay bills. When organisations cannot meet their liabilities, they become bankrupt. If a college were in that position, it could apply to the funding council for an advance of its grant. We pay grant monthly to colleges, following an agreed profile. If the council considered that a college's situation justified an advance, we could take that action and recover the advance later.

The Convener: So continuing deficits could be subsidised under those circumstances. When will the deficit be turned around in future? With an accumulated past deficit and a continuing deficit, the situation looks pretty bad. You do not give us much hope for the future, although you say that you are making an improvement. I asked about the consequences of continuing deficits. Is the overall finance simply inadequate, or is there a failure to manage resources adequately? What is the root of the problem?

Mr McClure: I believe that the issue is not only about resources. Resources in the FE sector have been increased substantially in the past, although the sector has been expected to expand during that time. It is hard to distinguish those two effects. I believe that it is the responsibility of the management of an independent and corporate institution to live within the means available to the institution. It is only fair to acknowledge that that is an extremely challenging task for colleges because the outcome that they are supposed to deliver is open-ended. They are supposed to meet the needs of further education in Scotland at an adequate level. It is difficult for those institutions to turn students away, although that is what they must do when their financial solvency is threatened.

Mr Davidson: Is there not a danger that, in the financial sparring that we are doing across the table just now, we are missing a serious issue—that the remit for colleges may have to be readdressed? The expectation takes us into another issue: the reorganisation of the sector. Is the funding council likely to make some public recommendations soon about how to address that? If the colleges are to have an open-ended remit, as you have said three times, nobody in a financial situation other than an accountant will be able to say, “We cannot go that step further in providing what we are here to do.” Is it coming to crunch time as far as the remit for the sector is concerned?

Mr McClure: I do not think that it has reached that point. The statutory requirement on colleges or on the funding council is to secure adequate and efficient further education—I am sure that you are familiar with the terminology. What is meant by adequate is not defined. It would take a case before a court to determine whether provision was adequate. However, we must develop an understanding of what is adequate, which must be set in terms of the priorities that the Scottish Executive identifies for the sector and the kinds of provision that it thinks should be given highest priority. The responsibility of colleges will then be to try to meet those priorities in their own areas.

As I said, resources are not the only way in which we can address the problem. It remains to be seen whether the colleges can work together, collaborating and sharing their facilities and staff—we have seen some examples of that—and whether the existing resources can be made to go further. The Further and Higher Education (Scotland) Act 1992 also requires that education should be efficient, so we should always expect the colleges to provide the best value for money that they can in providing education.

Mr Davidson: Are you suggesting a shared management model as opposed to a shared facility model?

Mr McClure: Both are possible. At the committee’s previous meeting, you were given an example of two colleges in Fife sharing a finance manager. That is working quite well and is a model that other colleges could consider. On the whole, the colleges are not very large compared with independent institutions in other parts of the UK. There is an argument for saying that some of the more expensive specialist staff could be shared. That is one example.

There are also instances in which college facilities can be shared. Yesterday, I met colleges from the Dunbartonshire area, where two colleges want to submit a joint proposal to develop an expensive facility with expensive resources, which neither could afford to do alone.

Mr Raffan: I have a follow-up question. Do you think that the sector has expanded too fast?

Mr McClure: I find that pretty difficult to answer. I do not know what it was like when the expansion period started.

Mr Raffan: You have seen the percentage increase.

Mr McClure: I understand that there has been a big increase. When I first looked at the financial health of the colleges, I expressed the opinion that the sector was under strain and that rapid expansion could be an explanation for that.

Mr Raffan: We are talking about the dissemination of good practice and whether that is happening fast enough. I mentioned shared management in Fife College and Glenrothes College last year. Another example is Falkirk College of Further and Higher Education and Clackmannan College, which are working closely together to ensure that they do not duplicate courses or overlap. Is that sort of change happening fast enough? You twice mentioned the merger in Glasgow as a special case. Perhaps merging Falkirk College, Clackmannan College and the Stirling Centre for Further Education, on Kerse Road in Stirling, might be difficult in some ways, but it might be possible to integrate them further. To what extent is that the future model?

15:00

Mr McClure: That will be a good future model in many instances and in many areas, but the problem is that such things do not happen quickly. All the experience is that merger discussions and collaboration between colleges takes a lot of time. The council is doing what it can to promote such collaboration.

A good example of that is the area mapping exercise to which the report refers. In the course of that work, we brought together all the principals who operate in a particular area to discuss the findings and information as well as the underlying context of the exercise. That is a first stage, but it is a long way from the situation in which colleges reach a concrete agreement to share a particular building or plan part of their curriculum in a co-ordinated way. Those are tricky issues that require good management.

That brings us back, I am afraid, to whether there is the level of management skill that is required to do a difficult job.

Mr Raffan: I want to ask another interesting and important question. To what extent do you see your job as managing a virtually impossible situation? You are a spokesman for the sector that must press for radical restructuring and change to happen much more quickly than is happening.

Mr McClure: I see my job as supporting and encouraging the sector to change. That change is clearly necessary. Clearly, for all the reasons that we have discussed this afternoon, the situation that the council inherited could not be allowed to continue.

It is hard to know what resource is likely to come into the sector in the coming years, but we know from the area mapping work that many areas of the country have FE participation rates that are well below the average. Participation rates are much higher in some parts of the country than in others. That suggests some difficult management issues. We need to consider how the participation level in areas that have low participation rates can be brought up to a level that is nearer the average for the country as a whole. Finding the resources to do that within the sector's existing resources will be particularly challenging.

The Convener: We will now move on to consider whether the additional funding that has been provided to colleges with the greatest financial problems is in danger of supporting the poorest performers.

Margaret Jamieson: At paragraph 3.17, the report refers to the special one-off payment totalling £7 million that was provided to accelerate the pace of turnaround in the nine colleges that were in most financial difficulty. Is that payment sufficient to ensure that those colleges are on their way out of financial difficulty?

Mr McClure: The £7 million will have made a big impact on the financial situation of the individual colleges concerned. A condition of the funding being made available was that the colleges' recovery plans had to meet pretty tough targets. I have no doubt that the £7 million will have a significant impact on the colleges among which it was shared.

Margaret Jamieson: Are you concerned that that one-off payment provides no incentive for the other colleges that have achieved their targets? The one-off payment might be seen to be bailing out poor performers.

Mr McClure: Frankly, I am concerned about that. The situation is very difficult. Given all our discussions this afternoon about good management, it is important that, at every opportunity that arises, we should promote and reward good management and be seen to do so. The minister had a tough choice when the decision to make the money available was made. On the one hand, specific action could be taken to enable the poorest performers to improve their situation quickly at the risk of sending a negative signal to the rest of the sector. On the other hand, one could decide simply to do nothing to avoid sending such a negative signal.

That is a difficult choice. If it had been possible to distribute across the sector the amount of money that was available, that would not have made much difference to the overall financial position. The minister decided that the money that was available should be delivered to the small number of colleges that were in those circumstances and SFEFC duly carried that out. It is a tough choice between doing nothing and doing something that many will take as a negative signal; they will say, "We have already taken some of those decisions and we are not benefiting from that money." Although I understand that view, the number of letters that I have received from principals in which that thought is expressed has been refreshingly small. Those letters have been answered and the issue has not been followed up, but I know from informal discussions that the matter still causes concern around the sector.

Margaret Jamieson: Was that the right course of action to follow? You have had the opportunity to have another look at the accounts of the colleges that received the extra £7 million. Are they beginning to turn the corner?

Mr McClure: The money had conditions attached, which were connected to the recovery plans of the individual colleges concerned. The allocations were announced in February and our close monitoring of those colleges will enable us to judge whether they are sticking to the targets that were agreed. That is certainly our expectation.

Margaret Jamieson: Are you in a position to say whether that is happening?

Mr McClure: I would have to ask Mr McCabe whether we have any early information on that.

Mr McCabe: The early indications from the financial forecast update show that in the colleges where the money has gone through—about £5.5 million of the £7 million has gone through—it has had a positive effect. We would expect such an effect.

The Convener: What does "a positive effect" mean?

Mr McCabe: It means that the financial position is improving almost as a direct result of the injection of that money.

The Convener: If one gets money, one's finances will improve. We are asking about the effect of that money. How are the positive effects of that money manifesting themselves?

Mr McCabe: There were three different strands to the money. Part of it was to reduce indebtedness in the short term; it is clear that where money has gone for that purpose, it has had an impact on the financial side. Although the money has been paid, it will take longer for the benefits that will be obtained from strengthening management to feed through. For some colleges, the third strand—restructuring—has created the headroom to make reductions and savings in the cost base, principally through staff.

The Convener: We will now consider whether the expected pace of improvement in the financial health of colleges is satisfactory.

Mr Davidson: Exhibit 9 sets out the plans that colleges have made in most cases, but not all, for the elimination of their accumulated deficits. Some of the plans suggest periods in excess of three years to resolve the situation and in one of the plans the period is almost ten years. Are such extended time scales justified? Why did SFEFC allow a nine-year turnaround period—are you expecting something dramatic to happen in the interim?

Mr McClure: I do not agree that such lengths of time are satisfactory. I have made that clear to the council's audit committee and to the council itself. I have said several times this afternoon that we have a clear requirement to accelerate the rate of financial recovery in the sector. However, it is important to analyse carefully what underlies the particular circumstances of each individual college. I indicated in an earlier answer that the most important thing is for each college to get into the position in which it can consistently and confidently deliver annual operating surpluses. If it reaches such a position, it will not become insolvent, because it will be generating enough cash to meet its bills and will therefore be secure. If a college has an accumulated deficit resulting from its normal operations, that, too, should be eliminated, because it is a charge on future income.

Careful consideration needs to be given to the SSAP 24 provisions. In the case of some colleges—especially those that have undergone a great deal of restructuring to reduce their cost base and improve their financial position—pension liabilities can be considerable. Pension provision represents a real liability that comes about because of an accepted accounting standard that was introduced not long ago. However, it does not pose an immediate threat to the financial health of institutions. Pension provision is a liability with which institutions must deal in future years. Those institutions are required to make additional pension payments to former employees.

When setting a time scale for eliminating all accumulated deficit, including the deficit that arises from pension provision, we should not require such draconian reductions in colleges' cost base—with the aim of producing the annual surpluses that are needed to eliminate deficit—that colleges' provision is damaged unnecessarily.

Mr Davidson: I now see where you are headed. I asked you whether you were expecting some event that would deal with the problem. You have told us that you have identified a major cause of the deficit, which you believe may be dealt with separately—by direct executive action—as long as colleges get into operating balance. Is that a simplistic way of describing what you are saying?

Mr McClure: That is a fair summary of my argument. Achieving an annual operating surplus is by far the most important priority.

Mr Davidson: Is that the funding council's strategy?

Mr McClure: It is part of the funding council's strategy.

Mr Davidson: How do you envisage the council intervening to sort out the problems with pension liability?

Mr McClure: Provided that a college is secure in the terms that we have discussed, I would not be concerned for any accumulated deficit arising from pension provision to be eliminated very quickly. If a college is in surplus, it can sustain its pension liability perfectly satisfactorily. The pension provision deficit is not a cash deficit.

Mr Davidson: No—it is a balance sheet deficit.

Mr McClure: It is not fair to say that the pension provision is a technical deficit, because it represents a long-term future liability. However, provided that a college is making annual surpluses, I would be content for pension deficits to be reduced over a longer time scale.

Mr Davidson: So you would prefer to concentrate on the issues other than pension provision that are helping to build deficits. Is that your short-term goal?

Mr McClure: Yes.

Mr Davidson: Within what time scale do you expect to have dealt with those issues?

Mr McClure: I do not yet feel able to offer the committee a precise time scale. If we adopt the aim of establishing financial security for the whole sector, I would like us to achieve that within three to five years. Financial security will be achieved progressively, with many colleges achieving it long before it has been achieved in the sector as a whole.

Mr Raffan: Can you clarify the position of Glenrothes College, as set out in exhibit 9 of the Auditor General's overview report? The report states:

"No deficit, cause for concern due to size of college debt has now reduced".

Mr McClure: I ask Mr McCabe to deal with that specific case.

Mr McCabe: We were satisfied that, through restructuring and through organising its debt in a more sensible way, the college had begun to resolve issues relating to its borrowings. We could provide the committee with a note on the situation at Glenrothes College.

The Convener: That would be helpful.

Mr Raffan: I am not an accountant, so would you clarify for me the difference between accumulated deficit and debt?

Mr McCabe: Debt is when you borrow money from someone and have to repay it; accumulated deficit is when, taking your income against your expenditure, there is a shortfall.

Mr McClure: A good example to consider is a depreciation charge. Each year, you have to charge, on your income and expenditure account, an amount that represents the consuming of fixtures and buildings, but you are not spending any money. The amount is an accounting charge. As a result of big depreciation charges, you could be running a deficit on your accounts, but your cash position could be extremely healthy, with plenty of money in the bank.

15:15

The Convener: David Davidson will ask about time scales and college recovery plans.

Mr Davidson: Paragraph 3.16 of your submission describes the challenges that colleges face in their recovery plans to get a speedy elimination of deficits. Those challenges run in parallel with maintaining levels of service. How clear a view do colleges have of the level of service that they must provide and of the relative costs of any adjustments that they may have to make to service provision? How does the funding council judge that balance when agreeing, or not agreeing, recovery plans?

Mr McClure: If a college becomes insolvent, it will not be able to provide any service. Therefore, when a college experiences serious financial difficulty, its priority switches to securing the financial position of the college. It has to make a judgment on the level of service that it is able to provide to students; it has to consider its programmes, and the way in which it runs them, carefully; and it has to adjust provision so that the cost of provision is less than the income that the college can attract. That may sound like a simplistic answer, but that is what it boils down to.

Mr Davidson: Has the funding council set out any parameters for colleges to consider when planning future programmes? Many programmes are dealt with on a short-term contract basis, although that is changing, and colleges live from year to year wondering how they will get bums on seats to fill their courses before they can employ somebody. Are you giving the colleges new guidance and criteria for the future? Colleges have to plan two or three years ahead and their planning will depend on the level of service that they intend to provide.

Mr McClure: It has not been the funding council's practice to give guidance to colleges on how they should plan to deliver their courses. That kind of expertise resides in the colleges and not within the funding council. As I indicated in an earlier response, one of the intentions behind the new development directorate, in identifying the pool of practitioners from within the sector to be brought to the aid of colleges in difficulty, is that colleges will get support in a way that the funding council's staff currently cannot provide.

In their strategic plans and financial forecasts, colleges set out their assumptions and provide a commentary on how they see things moving from year to year. The funding council's staff examine those documents and then meet the colleges to feed back any comments that they have on the assumptions made.

Mr Davidson: Is that done purely on a financial basis or on a qualitative view of service provision?

Mr McClure: Both. All these initiatives are complementary. As we develop area mapping activities, we are considering provision right across areas and not just considering the bilateral talks between the funding council and each college treated individually.

Mr Davidson: That seems to run contrary to something that you said just a couple of minutes ago. You said that you did not have the expertise and that quality and course delivery was down to the colleges, yet you say that that is a factor in how you appraise colleges' financial projections.

Mr McClure: The difference is that the financial forecasts, commentaries and strategic plans are at a higher level. In an earlier answer, I suggested that the council does not have the expertise to plan provision of individual courses, or to provide resources for those courses. The expertise for that sort of planning resides with colleges. At the higher level, we are able to draw on experience and to set individual college responses in the wider context of the sector or the region. In subsequent discussions, the council is able to give advice, feedback and guidance to colleges.

Mr Davidson: Since you became chief executive—we appreciate that you are fairly new to the position—have you made plans to encourage colleges to reduce expected recovery periods, particularly in the longer-term cases? Have you issued specific guidelines on how you want that work to be done?

Mr McClure: No. I have on several occasions indicated my concern about the situation. For example, I raised it with the principals forum, which is a group in the sector that meets regularly. It is my intention to develop jointly with the sector a strategy to accelerate recovery. However, we do not yet feel confident enough that all the elements of the strategy are in place to announce a time scale and so on. That work is in progress.

The Convener: Keith Raffan will ask about the impact of the range of initiatives.

Mr Raffan: Part 4 of the overview lists the initiatives, such as the management review of further education colleges, the condition survey of college estates, the provision of further education in Glasgow, and supply and demand. We have probably covered three of those four initiatives fairly comprehensively so far. I will come to supply and demand in a minute, but could you first give us a brief progress report on the initiatives and tell us when you believe they will have an impact? Are there deadlines by which you expect the initiatives to have had noticeable effect? It is not clear from the overview report whether deadlines have been set.

Mr McClure: It is easier to set deadlines for the processes in each of the initiatives. We have done that and I can describe that work.

On the impact of the initiatives, I think that you would agree that it is much harder to say that an initiative should have a specific effect by such-and-such a date. However, in every case, the impact has already begun to be felt. For example, I will mention again—if I am allowed to do so—the Glasgow colleges that are merging. That merger arose from the area mapping activity that was carried out in Glasgow. I referred earlier to two other colleges in Dunbartonshire that are seeking to make a joint application to the council. That proposal also arose from the area mapping activity. Now that the first stage of the exercise is complete—the overview report has been produced in draft form and has been considered by the council for the first time—such initiatives will, increasingly, emerge in different areas.

That is also true of the other initiatives. For example, the management review—[*Interruption.*] Do we have a problem? There seems to be a large mosquito in the room.

I was talking about area mapping, and the first initiative that the Auditor General identified—[*Interruption.*] Shall I carry on talking?

Mr Raffan: Could you wait? I cannot hear you. [*Interruption.*]

Mr McClure: I was going to refer back to the first initiative that is described in part 4 of the overview, which is the management review of further education colleges. The various stages and procedures that we went through and the action plans that the colleges provided are laid out in the overview. It is difficult to pin down the impact of that initiative, because we are talking about improvement in management performance. I can describe where we expect to see the impact, which is in the strategic plans that the colleges are developing and which are due at the end of this month. That is when the next round of financial forecasts is due.

As part of the strategic plans, we will receive estates strategies from colleges. Moreover, with the other documents that we will receive and the various meetings and discussions, we expect that qualitative improvements in how colleges address those issues will emerge from the earlier process. However, it is very difficult to pin matters down and to say that, by such-and-such a date, there will be such-and-such an improvement from such-and-such a college. It is different territory.

Mr Raffan: So your targets on getting the reports on the condition of the estates from the colleges have been met.

Mr McClure: Those are annual reports, not new ones. However, we want improvements in the way that such reports are carried out.

The Convener: You say that it is difficult to pin matters down. However, I always thought that improvements in management performance were called performance indicators.

Mr McClure: Yes.

The Convener: So they should provide a guide to whether or not you are succeeding.

Mr McClure: That depends on the indicators that are being used. We have already talked at length about financial indicators and the most important financial performance indicators are the results that the colleges deliver in their financial statements.

However, we get into much more difficult territory with performance indicators that concern the main mission of the FE sector. It becomes very hard to identify specific indicators to measure that. As a result, we have undertaken the area mapping initiative, which allows us to examine every area objectively and to address specifically the question whether FE provision is adequate in each area.

Mr Raffan: I want to ask about that.

The Convener: Please do so quickly.

Mr Raffan: It is actually one of our main questions. Are we saying that it is not particularly important?

The Convener: Okay. Go for it, Keith.

Mr Raffan: Right, convener.

You sent a letter dated 6 June to the convener on the state of the mapping exercise. Apparently, a consultation document is being sent to the colleges in a couple of weeks. When exactly will that happen, and can we have a copy of that document?

Mr McClure: Of course the committee can have a copy of the consultation document, but I cannot give the precise date for sending it out to the colleges. I understand that the consultant's report is currently at the printer's; when it comes back it will be sent out with a covering letter, as is our normal practice.

Mr Raffan: The third paragraph of the letter refers to some "data inadequacies and misinterpretations".

Mr McClure: Yes. That refers to a separate exercise that examined industry sectors. SFEFC carried out some pilot work in three sectors to find out whether it could understand how FE provision was meeting the needs of industry. All I can say is that aspects of that have not met the standards that SFEFC expected. Discussions about that are continuing. In the meantime, we will disseminate as much useful information as we can from those pilot exercises and use in other sectors what we learn from those exercises.

Mr Raffan: I want to clarify this point. Paragraph 4.7 of the report says that the data gathering at least was supposed to be completed by 31 March. Are you saying that the process has not been completed, that it is unsatisfactory and that it continues?

Mr McClure: You have asked three questions. The process has been completed. However, one aspect—the industry sector study—was not satisfactory.

Mr Raffan: That is clearly an important element.

Mr McClure: Yes, it is. As I said, the work was carried out in three industry sectors. The area mapping, which covers the whole country, has been completed and we are content with the work that has been carried out in all the areas.

As for the third question, the process is on-going. If we are to base decisions on the area mapping work, we must be pretty sure that it is reliable and rigorous analysis. As a result, SFEFC decided at its last meeting to publish the report. We have set up a number of workshops in different areas. That will allow us to call together the main stakeholders, discuss the reports and ensure that there is sufficient consensus that what is being advanced and the evidence base are sound enough to move to the next stage, which is to consider our strategic options based on the evidence.

Mr Raffan: When do you expect that process to be completed? Are we talking about next Easter?

Mr McClure: May I ask what you mean by "completed"? To which part of the process are you referring?

Mr Raffan: I will give a specific example. You mentioned bringing the stakeholders—which, I presume, means the local authorities, enterprise companies and so on—and the individual colleges together. It is obvious that if colleges start adapting their courses to local needs and perhaps change their courses, that might be a continuing process, but it will involve significant changes in the early stages. I would like you to give us an idea of the various stages. I think that the question is fairly clear.

Mr McClure: The workshops will take place in the coming weeks and months. We expect action to come forward from that point on.

15:30

Mr Raffan: So when do you expect that action?

Mr McClure: As I said, in a number of cases, the action has already started. I expect to see an increase in that action in the autumn.

The Convener: I invite Lloyd Quinan to ask about prioritisation of action.

Mr Quinan: Last year, we heard from the previous incumbent in your job that the further education development directorate was to be created. You have outlined a structure that would be put in place as an alternative to that, which I appreciate, but that throws up a number of questions.

How much will the budget be to create the structure whereby managers in various colleges will be identified and transformed into an expert group that can deal with situations? Who will cover their jobs when they are away fixing the other colleges, especially given that 30 or so colleges out of a number that is not much greater than that could be in deficit? Where will the budget come from?

Who will administer the structure? Are you planing on taking on more staff to administer the structure or will there be a separate directorate?

Who will cover the job of the principal who will convene and run the project in the two days a week when he or she must be away from their college? How much would the principal's new role impinge on his or her ability to deliver the service that they are employed to deliver?

I appreciate the concept but, given that there are limited resources, I cannot see how it can be delivered.

Mr McClure: You are right to say that resources are constrained. The challenge was to come up with a vehicle that would enable us to address directly the highest priority—the financial health of the sector—which we have been discussing for most of the afternoon. We had to review the various options that were available to us, one of which would have been to recruit a full-time director and staff to run a new directorate. The problem with that is that it would take a long time. Furthermore, unless one were lucky with the people that one managed to recruit, there might be a problem with their credibility in relation to their ability immediately to do the job. A second alternative would have been to employ consultants, which would have been expensive and, again, there would have been problems with their credibility because people in colleges might not accept that they had the know-how that is necessary to address the problems.

Mr Quinan: You seem, however, to have bought the consultancy concept. The group works very much in the way in which a group of consultants would. I appreciate that, in effect, you told us that when you talked about the directorate, but I must return to the question that is raised by your admission that you are working with limited resources: who covers for the principal and the managers when they are away? It strikes me that co-ordination of administration of the structure is at the heart of the matter and that that relates again to the budget.

Mr McClure: There are some positive aspects to the issue. We have discussed budgetary provision with the Scottish Executive and a certain amount of provision has been included in the council's budget for the new directorate. That is not the main issue.

On the question of covering for staff, we want to identify colleges and ask them to put forward people who they think can fulfil the role. Bearing in mind the consequences of this, I would expect colleges to be able to release people for different periods of time. In some cases, it might be for one day a week over, say, six months; in others, the commitment might be shorter, longer, more concentrated or more spread out. In putting together each team, we will have to manage differences in people's availability.

In the principals forum, principals made a strong point about participation in the group being a positive opportunity for people in their colleges in that junior managers could be given the opportunity to act up and take more responsibility in particular situations. This is one way to develop managers: we put them in a controlled situation in which they are acting up and are aware that they can lean on fellow managers for support.

I thought it encouraging that the principals saw the proposals as a positive way in which to increase management expertise in the sector, not only among those who are left behind in the colleges and are able to act up, but among those who are part of the group. They will develop their skills through coming across a wider range of circumstances.

The financial arrangement would simply be to ensure that colleges were not out of pocket for the time that an individual was out of the institution and cover had to be brought in.

Mr Quinan: You are covering the fact that locum staff, if I can describe them as such, might be required.

Mr McClure: That is absolutely right. We think that that is a very low cost, high value-for-money way of putting together such an operation.

Mr Quinan: You referred to discussions that you have had with principals. Clearly, other professional bodies, including trade unions, will be involved in the development of the concept. Indeed, I suggest that you would require their co-operation because this flying squad would move from college to college. What stage have you reached in discussions on the proposals with trade unions and other professional bodies?

Mr McClure: We are at a very early stage in the process, because the concept requires development and approval. It is only in the last day or two that the Scottish Executive has made it clear that it is happy to progress the initiative. [*Interruption.*]

Mr Quinan: Sorry—

Mr McClure: Would you like me to repeat that answer?

Mr Quinan: Yes, if you could, please.

Mr McClure: We have had to move forward on a number of fronts, taking people with us on the matter. We are still at a relatively early stage in discussions. The concept has been endorsed by the Scottish Executive and we now have the confidence to go forward and explore the idea with other stakeholders who we think might be involved.

Mr Quinan: Who will administer the new structure?

Mr McClure: That will be done within the funding council, and the director of the new directorate will be accountable to me.

Mr Quinan: May I ask you something, convener? Given Mr McClure's earlier answer on the early stage of discussions with professional bodies and trade unions, I suggest—given that the proposals represent a fairly radical step—that we call representatives of the professional bodies and trade unions concerned to give us evidence on the plan.

Mr Raffan: That is a good point.

The Convener: We will discuss such matters afterwards—we will raise the matter later in the meeting.

I draw this part of today's proceedings to a close. Mr McClure—you are certainly starting your work at a fair pace. I thank you for your input. Your evidence is much appreciated. Clearly, SFEFC is faced with major problems. Your work in tackling the situation will have a major impact throughout Scotland. We wish you well in your endeavours.

On behalf of the committee, I thank Mr Roger McClure and Mr Liam McCabe for their presence today and for their evidence.

Mr McClure: Thank you for giving us a fair hearing, convener.

The Convener: I draw the public part of the meeting to a close.

15:38

Meeting continued in private until 16:00.

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