AUDIT COMMITTEE

Tuesday 25 June 2002
(*Afternoon*)

Session 1

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AUDIT COMMITTEE

10th Meeting 2002, Session 1

CONVENER

*Mr Andrew Welsh (Angus) (SNP)

DEPUTY CONVENER

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

COMMITTEE MEMBERS

*Margaret Jamieson (Kilmarnock and Loudoun) (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

John Burt (Angus College)
Dr Graham Clark (Inverness College)
Philip Hamilton-Grierson (Inverness College)
Matt Mochar (Clydebank College)
James Skinner (Clydebank College)

CLERK TO THE COMMITTEE

David McGill

SENIOR ASSISTANT CLERK

Ruth Cooper

ASSISTANT CLERK

Seán Wixted

LOCATION

Committee Room 2

Scottish Parliament

Audit Committee

Tuesday 25 June 2002

(*Afternoon*)

[THE CONVENER *opened the meeting in private at 14:02*]

14:09

Meeting continued in public.

The Convener (Mr Andrew Welsh): I welcome everybody to the 10th meeting in 2002 of the Audit Committee. The committee began in private session to allow members to consider lines of questioning for the witnesses who will give evidence on agenda item 3, as was agreed by the committee at its meeting on 11 June.

Before we move on to the next agenda item, I inform members that Paul Martin and Scott Barrie have resigned from the committee. Paul and Scott were appointed in 1999 as original members of the Audit Committee. During their three years they have been most valued members of our committee. On my behalf and members' behalf, I take the opportunity to thank Paul and Scott for their contribution to our work. We understand that they are moving on because they have work elsewhere. Their work has been gratefully appreciated. We wish them all success in their future activities.

Item in Private

The Convener: I seek the committee's agreement to take in private agenda item 5, which is consideration of a paper on the forward work programme for the committee from September to December 2002. Due to the fact that we are looking ahead beyond the summer recess, the Audit Scotland publication programme is still at a relatively early stage of development and might, therefore, be subject to change. Accordingly, after discussion with Audit Scotland, we felt that it might be wise to seek the committee's agreement to take item 5 in private.

A draft committee programme will be put together over the summer recess and will come before the committee in September. At that point, our forward work paper can be taken in public in the normal way. Does the committee agree to take agenda item 5 in private?

Members *indicated agreement*.

Mr Keith Raffan (Mid Scotland and Fife) (LD): I want to raise another issue, which is that it is also usual, after taking evidence, to consider such evidence in private. In other words, agenda item 6, which is consideration of evidence that we will take this afternoon, would usually be done in private.

The Convener: We agreed at our previous meeting to take that item in private. Thank you for the timely reminder, but that decision has been taken.

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

The Convener: Item 3 on today's agenda is continuation of evidence taking on the committee's inquiry into the Auditor General for Scotland's report, "Overview of further education colleges in Scotland 2000/2001." At our previous meeting we heard from the chief executive of the Scottish Further Education Funding Council, Mr Roger McClure, and his colleague Mr Liam McCabe. Today we will take evidence from three of Scotland's further education colleges. We have before us Mr John Burt, the principal of Angus College, Mr Matt Mochar and Mr James Skinner, respectively the acting principal and chairman of the board of Clydebank College, and Dr Graham Clark, the principal of Inverness College, and his colleague Mr Philip Hamilton-Grierson, chairman of the board of Inverness College.

Gentlemen, you are all very welcome. In today's 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 being made on a range of initiatives and when they are likely to have an impact on the adequacy and efficiency of the provision of further education in Scotland. I understand that the facts in the report have already been agreed and that the witnesses have no opening remarks to make.

I begin today's evidence session by addressing a question to Dr Clark and Mr Mochar. Exhibit 8 shows that Inverness College has an accumulated deficit of £5.2 million and Clydebank College has an accumulated deficit of £3.6 million. Can you outline the circumstances that have contributed to your respective deficits?

Dr Graham Clark (Inverness College): You are quite right. Inverness College accumulated a deficit at the end of the financial year 2000-01. It peaked at £5.2 million. To some extent, I can only speculate as to the reasons for that deficit because I took office in March 1999 and my chairman took office a little later than that. I can offer evidence but we were not there at the time and I am surmising to some extent.

14:15

There was clearly a year-on-year decline in funding during the 1990s. I have tried to indicate that in the diagram in the statement that I sent to the committee. It could be said that the board and the senior management of the college did not react early enough or decisively enough to that decline in funding. However, it is only fair to say that other factors were involved.

The college was over-involved in capital projects. It had entered into a number of ventures that were loss making to various degrees. It also undertook a lot of development work for the university of the Highlands and Islands project. Those ventures were all a drain on the college's finances.

It is also true to say that there was a high proportion of senior post-holders. However, the college was reasonably efficient in delivering the academic programmes. I put it to the committee that there were a lot of circumstances other than the core business that helped to create the deficit.

Matt Mochar (Clydebank College): I precede my remarks by saying that I have been acting principal of Clydebank College since November 2000, when the then principal went off sick.

The college has a deficit of over £3 million. I think that is because there is a significantly higher unit cost per weighted sum than the sector average. The benchmarking of 1997-98 suggested that the college's costs were 13 per cent higher than the sector average.

Another point that is worthy of note is that there is a greater historic reliance on funding from the Scottish Further Education Funding Council. That is partly due to the socioeconomic characteristics of the area, which makes generation of significant additional income difficult.

I have to surmise as to the management of the college before I took up my post. There seems to be an issue surrounding the robustness of the information available to the management at that time.

The Convener: You have given different explanations, from insufficient early action by the board and loss-making ventures to higher unit costs and reliance on the funding council. How far have you solved those problems and to what extent do those conditions still exist?

Dr Clark: I believe that those conditions no longer exist. We have closed down all of the loss-making ventures; in fact, we have turned one of them into a significant profit-making venture. One of my early actions was to take the college out of proposed capital projects, despite expenditure already having been incurred on professional fees.

We carried out a major restructuring of the management, academic and support staff throughout the college. We also did a lot of work on the governance of the college. There is only one current board member who was a member of the board prior to my coming to Inverness. The result is that we have already reduced the deficit from £5.2 million to a projected £3.6 million in July 2002. We believe that we have made significant inroads and can continue to do so.

Matt Mochar: Clydebank College is implementing significant changes in its organisational structure. That will reduce staff numbers, which is the major cost to the college. We are also changing academic staff's terms and conditions of employment to give greater flexibility for delivery of the curriculum.

Obviously, the changes that we have made will reflect on the curriculum as well as on finance. One reason why costs are high is that the ratio of promoted to non-promoted staff in the academic structure of the college is extremely high. Restructuring has addressed that issue. There has been a 10 per cent reduction in academic staff. Significant steps have been taken to address the situation.

The Convener: I want to ask Mr Burt a question. Exhibit 8 shows that Angus College has an accumulated surplus of more than £1 million. How did Angus College avoid the financial difficulties that many other colleges have experienced?

John Burt (Angus College): To a certain extent, actions that my two colleagues mentioned were taken earlier by Angus College. I will develop that argument. I think that Angus College is currently classified as financially good because it was well prepared for incorporation in 1993. Graham Clark was the principal then—I did not start at the college until 1996—and he laid the groundwork for incorporation. All the building blocks for success were laid at an early stage and that allowed the college to concentrate on its core business. Since then, there has been a culture of prudent financial management throughout the college, from the board through to the staff, the executive and the trade unions. That is one key reason why financial difficulties were avoided.

I think that the second reason relates to the era of the growth of colleges. The rule was that, to get more funds, there needed to be faster growth than in the rest of the sector. Angus College was very successful—it had a growth rate that was significantly above the average for the sector. Through taking the college out into the community and opening up outreach centres, we were able to bring in more funds to the college without necessarily increasing costs to the same extent.

Those are the two prime reasons for the college generating fairly constantly surpluses since incorporation. A great deal of good spadework was done at the time of incorporation.

The Convener: So there has been a combination of prudent management and above-average growth. Has the success purely been down to positive action, or has Angus College been in fortunate circumstances compared with other colleges?

John Burt: In 1993, it was fortunate that there was a view that the funding of the college under the local authorities had not been as generous as that received by some other colleges. Therefore, when there was incorporation on a level playing field, additional funds were made available for the college. With such a good starting point, maintaining operating surpluses year on year became almost a given. That is a lesson for the rest of the sector. We were able to concentrate on the college's development, curriculum and quality, as we did not have the problem of deficits. We got things right at the start.

The Convener: I am a former senior lecturer at Angus College and should declare an interest. I must have been involved in the process somewhere.

Mr David Davidson (North-East Scotland) (Con): The points that the principals have made about the past inherited cash-flow situations, management decisions and time scales bring into account not just the work of the principals, but of the then boards. I would like all the witnesses to answer my question. Were the boards properly equipped to handle the pressures of management and scrutiny? If they were not, what was different between the colleges and the boards of those colleges? We should consider not only the involvement of principals, but the involvement of the college boards. The question relates to the accountability of the colleges and financial outcomes.

Philip Hamilton-Grierson (Inverness College): I have been the chair of the board for only two years. When I took over, there was a clear need to tighten up the college's financial control. As a result, we set up a financial monitoring committee that met monthly and monitored progress in detail with the senior management. The chair of that committee was a chartered accountant who had been a senior administrator in the health service. He and his colleagues brought a wealth of experience, and we introduced a very close monitoring system. On top of that, we had quarterly meetings of our general purposes and finance committee, which went over the same ground but in a broader and more strategic way. As a result, we made a strong commitment to governance at the time that involved the appointment of fresh governors.

Mr Davidson: Does that mean not only that you were selected because of certain attributes and skills but that the new board members received more training than previous board members? My question is more about comparisons than anything else.

Philip Hamilton-Grierson: We were selected because of our business experience, financial background and a degree of track record. As for special training, we did not have any time for that. We went in at the deep end and learned on the job.

Matt Mochar: I am unwilling to comment on anything that happened before I took office. However, I should say that, on the resignation of the previous chair, Mr James Skinner was appointed to the chair of the board. He comes with significant financial skills that have helped in advising the senior management team.

John Burt: I have probably answered this question already. There is undoubted evidence that, at the time of incorporation, Angus College was well served by its board of management, which included accountancy professionals, people from the business community and representatives from the then local authority. They all ensured that the correct incorporation procedures were in place.

James Skinner (Clydebank College): The situation varied from college to college. Previously, I was chairman of the board of management of Anniesland College in Glasgow for eight years. Given the geographical spread of the FE colleges, the quality of the members of boards of management depended on the location of those colleges. I should point out that I am referring to the position at the time of incorporation in 1993.

Mr Raffan: It would be helpful if Mr Hamilton-Grierson and Mr Skinner could briefly outline the experience and background that they bring to the job, thrown in at the deep end though they were.

Philip Hamilton-Grierson: I had been chairman of the state hospital at Carstairs for six years; chairman of the Raigmore trust; and chairman of Northern College, which is the teacher training college in Aberdeen, for four years. As a result, I had a background in the health service and education. Before that, I was also deputy chairman of the Highlands and Islands Development Board.

James Skinner: I worked for the Royal Bank of Scotland for 40 years. When I retired, I was chief manager and responsible for 18 branches in Glasgow.

Mr Raffan: That was just an additional question. I wanted to direct my initial question to Dr Clark, who used the phrase “over-involved in capital projects”. Will you elaborate on that comment? What kind of projects were you referring to and how did they get out of hand? Could you also elaborate on your comment about loss-making ventures?

Dr Clark: I would be pleased to. The phrase “over-involved in capital projects” related to two projects in particular. The first was the construction of a learning resource centre, which is a wonderful facility for the college, but cost a considerable amount of money—in fact, it cost the college about £1 million. The venture came to £5 million overall, and was funded by the Millennium Commission and the European regional development fund. However, the college still had to find 20 per cent of that funding. As a result, £1 million of the college’s £5 million deficit was due to the fact that the college could not put up the cash, and therefore had to borrow it.

There was also to have been what the college called a phase 3 project to replace windows and cladding and to make some environmental improvements.

I would need to confirm the figure, but I recollect that the project cost about £3.5 million. A considerable amount had already been expended on professional fees but, because the college was simply unable to find that 20 per cent, we had to cancel the project.

There were three loss-making ventures. The first was a training company that we shared with North Highland College. Highland Council set up the company, but it was passed to the colleges so that they could undertake Government volume youth training work. The company gradually lost those contracts and the substantial loss that it made per year was shared between the two colleges. It cost about £250,000, in pension and related costs, to close it down.

14:30

The second was a management training company that made a loss, which the college had to slim down substantially, but that is now performing well. The third was the agreement into which the college entered with Lochaber College to deliver courses in Fort William. That was an expensive contract for Inverness College—it cost £80,000 a year simply to rent the building, before we even started teaching.

Those were the ventures that I had in mind when I made those comments.

Mr Raffan: You mentioned the university of the Highlands and Islands as another factor. Could you tell us about the cost implications of the UHI project and why they were exceptional? I would have thought that you would receive extra funding for that project; indeed, a number of other FE colleges, such as Perth College, have been involved in the UHI project, although their involvement has been more marginal than that of Inverness College. Why did the cost implications hit you but not them?

Dr Clark: I cannot speak for Perth College or for any of the others that were involved in the UHI academic partnership. However, I believe that they would all say that the development work cost more than the amount that was given in additional funding through the UHI project, as it was then known. That was certainly the case for Inverness College.

Mr Raffan: Did you make a song and dance about that?

Dr Clark: We tried to.

Mr Raffan: But that was not effective—you did not get any more cash.

I would like to give Matt Mochar an opportunity to elaborate on some points. You mentioned fewer factors than did Inverness College, but your factors included the socioeconomic background of Clydebank. Other FE colleges also represent disadvantaged or deprived areas, so why was that such a significant factor for you?

You said that your unit cost is 13 per cent higher than that of the rest of the sector. Will you elaborate on that and tell us how long that situation has persisted?

Matt Mochar: I referred to socioeconomic factors because they militate against generation of commercial income. Clydebank College is dependent on funding from the Scottish Further Education Funding Council—we are dependent on it for 90 per cent plus of our funding—and our ability to generate commercial income is limited by the socioeconomic area in which we are located.

There are historical reasons why our costs per weighted sum are 13 per cent higher than the sector average. It is difficult for me to comment on how that situation developed, but staff costs were considerably higher because of the ratio of promoted staff to unpromoted staff and because conditions of service were less flexible than in other areas. The issue is also to do with the estate; the college buildings are in a fairly poor state of repair and, in addressing such issues, the Atkins report identified Clydebank College as a priority within the sector. I hope that that answers the question.

Mr Raffan: I am a little worried about your reference to the area's socioeconomic background. Clackmannan College of Further Education, which is one of just six colleges in the area that I represent, also has a difficult socioeconomic background, but it does not seem to be in the parlous state that Clydebank College is in. Clackmannan College shares the same difficulty in generating commercial income, so why is it managing significantly better? You cannot answer for Clackmannan College, so perhaps you can tell us why you are managing significantly worse than it is.

Matt Mochar: I cannot comment on the history behind the situation, but I outlined the factors. The costs of Clydebank College's delivery have been significantly higher than costs in the rest of the sector. There is a desire—perhaps even a demand—for the colleges to look elsewhere than the Scottish Further Education Funding Council for their income. We reckon that the opportunities to do that in our socioeconomic area are few.

The matter goes back to the costs, which were benchmarked in 1997-98. Previous information is scarce, but at that time, our overall costs were 13 per cent higher. In fact, our academic costs in 1998-99 had risen to 17 per cent higher throughout the college. Inefficient management of the human resources that were required to deliver the curriculum had to be brought under control by adopting a realistic approach to the staff to student ratio, for example.

The Convener: We will move from the general to the specific. The SFEFC monitoring assessments for 2001 found that over two thirds of colleges were in unsatisfactory or poor financial health. It is expected that by 2004 more than half will be classified as being poor. Margaret Jamieson will examine what colleges need to do to improve their financial health.

Margaret Jamieson (Kilmarnock and Loudoun) (Lab): What action are you taking to improve the financial health of your colleges? Will you comment on the assistance that you receive from SFEFC to achieve that?

John Burt: Angus College is classified as being in good financial health. The challenge for me and for the board of the college is to maintain that sound position while we build a new community access learning centre for the area that we serve and—looking to the next few years—while some financial factors are not working in the college sector's general interests.

Matt Mochar: I have mentioned some of the measures that have been taken in Clydebank College. We have gone through significant restructuring and reduction of the college's academic staff and we have requested changes in staff's conditions of service in order to allow us to deliver the curriculum on a much more flexible, 24/7 basis.

With the development of the college recovery plan, in which I became involved in November 2002, significant meetings have taken place with SFEFC's financial appraisal and monitoring services directorate. The advice and support that SFEFC has offered have been welcome.

At Clydebank College, the existing management team has been kept in place and SFEFC has offered extra support to strengthen the management team and to make financial resources available. It is significant that those financial resources have been made available. It is extremely expensive to go through a staff reduction exercise through voluntary severance, redundancy or early access to pensions, but it is a way in which to sort out overstaffing. The support from SFEFC has been extremely helpful and the method by which it was applied—support rather than intervention—is also significant.

The Convener: Did I hear you right? Did you say,

“deliver the curriculum on a … 24/7 basis”?

Will you explain what that means?

Matt Mochar: We are trying to ensure that the college facilities are available seven days a week. Although we do not perhaps want them to be available 24 hours a day, we want them to be available as much as possible in order to get away from the culture that thinks of the college as being open only from nine to five for five days a week. I am sorry; “24/7” was a bit of jargon.

The Convener: We move north to Inverness.

Dr Clark: I referred to some of the actions that Inverness College took and I will put them in context. In the financial year 1998-99, the college was in deficit by £2.5 million. I went to Inverness College in March 1999, right at the end of that financial year. In the financial year that will end in July 2002, we expect to have generated a surplus of more than £500,000. We have, if you like, taken £3 million out of the college’s turnover. We have done that by closing loss-making ventures or by turning them into profitable ventures. We have also done substantial staff restructuring. Approximately 40 staff took voluntary redundancy or were made redundant during that process.

The driving force has been the need to get the cash deficit down. The result of all the restructuring that has taken place prior to and during my time is that our pension liability stands at £1.8 million, with a projected total deficit after this year of £3.6 million. You can see, therefore, that we have got the cash deficit down to approximately £1.5 million, which was the priority.

We have been helped enormously by the funding council, and not only through the short-term indebtedness allocation, because the funding council paid for a consultant to help us to produce the financial recovery plan and we are in regular contact with SFEFC. We have had a lot of advice about how to go about making the necessary cutbacks.

We have also tried to grow the college and that has been successful—perhaps not as much as we wished—according to our financial recovery plan. Nevertheless, we have achieved substantial growth of the order of 10 per cent to 15 per cent or so over three years, despite the cutbacks that we have been forced to make.

The Convener: Will you explain about the advice that you have had from the funding council? Was it one-off or continuing advice?

Dr Clark: The advice is given on a continuing basis, particularly to my director of finance by the funding council’s financial appraisal and monitoring services unit, or FAMS.

Matt Mochar: I underline that. We have had regular support from FAMS in relation to the financial elements of the college and we have quarterly reviews because the college has had extra funding; we work closely with the funding council.

Margaret Jamieson: Do you consider that you have exhausted the possibilities for improving your financial health within the resources that are available to you?

Matt Mochar: In this financial year, we have a projected surplus of £74,000. Over the next two to three years, that surplus is projected to rise to over £0.25 million and then to over £300,000.

There is significant potential for growth in Dunbartonshire. We have to work within the allocation from the funding council, but it does not look as though that allocation will increase by much in the next year or two; we will have to manage. We will therefore have to decide which courses we will run. There has been significant growth in Dunbartonshire, into which we could tap if resources were available.

Dr Clark: The picture at Inverness College is not hugely different. There are still opportunities for growth, particularly in our outreach work throughout the Highlands. Our activities stretch from Inverness to Portree, up to Ullapool and down to Fort William, so we cover a large geographic area in which there are patches of under-participation, in particular in the west Highlands.

The ability of the funding council to fund growth will diminish because the total amount of money that is coming into the sector is declining or, at least, not increasing with inflation. Inverness College will therefore have to exercise continued prudence in spending its budgets. That has implications for what the college will look like at the end of the financial recovery period. However, I see little alternative to trimming staffing and non-pay budgets.

John Burt: I concur. Obviously, we have had a fairly light touch from SFEFC’s financial appraisal and monitoring service team because of our strength, but I share my colleagues’ view. This year, Angus College will operate a small surplus on our income and expenditure account. However, about 4 per cent of activity that we currently provide to the community is not funded. The board of management made that deliberate choice based on the fact that we exist to provide education and training services. However, we will not be able to continue to do that in the next two years because there is no growth in the sector. We will have to discontinue some of our activities during the next two years if we are to maintain our financial position.

14:45

Mr Raffan: I visited Clackmannan College recently. Unfortunately, the biggest thing to happen to Alloa in years is the opening of a Tesco supermarket—I say "unfortunately" because one might prefer the biggest thing to have happened in Alloa to have a slightly sounder base. However, Clackmannan College has been quick to get involved and to offer a training programme for the staff. To date, it has trained 150 staff.

To what extent are colleges able to react quickly and positively to economic developments in terms of offering training that might increase their revenue?

Matt Mochar: We reacted quickly to the needs of an electronics company in Clydebank that is expanding at a considerable rate. We have gone through a significant exercise with the managing director of that company to develop a training programme.

We also have representation on the local economic forum and the Dunbartonshire employability group and a member of Scottish Enterprise Dunbartonshire is on our board. As a result, we are able to keep in touch with developments in the area and we have access to the commercial activities that take place in Dunbartonshire. The speed with which we react to that is evidenced by the example that I gave of the electronics company.

We have been involved in talks about the development of the Loch Lomond and the Trossachs national park in relation to hospitality and leisure aspects. We hope that those talks will result in our being able to offer training for a commercial market. Significant growth has been identified in the construction industry in the Dunbartonshire area and the west of Scotland, which will need to be served. Along with jobcentre plus and Scottish Enterprise Dunbartonshire, we are part of a construction alliance that is trying to put together flexible construction programmes to serve the needs of that market.

Dr Clark: I can give a few examples, negative and positive. Members will be aware that the North sea oil fabrication sector has experienced a recent downturn, which is particularly evident in the 2,500 redundancies at BARMAC. Some 2,100 of those people came through retraining courses in Inverness College and we did substantial business there, which is probably one reason why we are slightly ahead of our financial recovery plan.

On the more positive side, the city of Inverness is doing well. We are in discussion with Debenhams Retail plc—the lead company in the new Eastgate shopping centre development—about training for the retail sector. We do a lot of work with Inverness Medical Ltd, which is a success story that employs more than 1,000 people.

I mentioned that one of our loss-making ventures—Hedgefield management centre—is now profitable. It is now doing very good business in management development programmes. We are pretty switched on to the opportunities that are available.

The Convener: In February, the funding council announced special one-off payments. David Davidson will ask questions about whether additional funding that is being provided to the colleges that have the greatest financial problems is in danger of supporting the poorest performers.

Mr Davidson: My first question is directed towards Dr Clark and Matt Mochar. Paragraph 3.17 refers to one-off payments that came to about £7 million. They were intended to accelerate the pace of turnaround for colleges in the most financial difficulty. Both Clydebank College and Inverness College have benefited from those payments. Will the two principals tell us what impact the payments will have in the longer term as well as in the short term?

Matt Mochar: The payment came on the basis of a bid. It was divided into various parcels, which must be used for specific purposes. A base allocation of £250,000 was given to each of the colleges that made a bid and an element of the rest of the money was put aside to reduce short-term indebtedness. An element was put aside for restructuring costs and an element was put aside for strengthening management. The element for restructuring costs is crucial in that it gives us the opportunity to make a considerable staff reduction through voluntary redundancy and early access to pensions, which would otherwise have been extremely difficult to do. The element for strengthening management has allowed us to look in detail at our management information systems and to ensure that the information that those systems produce for us as a management team is robust in terms of making management decisions. I refer specifically to being able to analyse courses—their income and expenditure—and being able to establish the profitability of specific learning that we deliver. We are therefore in a position to establish whether the curriculum that we deliver is being delivered within a manageable financial envelope.

There has been a significant turnaround—we have projected a surplus for this year. At the beginning of the year, without the moneys from the funding council, there was a £1.28 million deficit.

Dr Clark: Inverness College was allocated just over £1 million. All the money was allocated under the short-term indebtedness parcel. We got no allocation for restructuring or for management improvement. I hope that we had already put in place management improvement. We had certainly restructured. I will have to confirm this, but I recall that we used about £210,000 to repay a debt to Highland Council, which was for capital works in the catering and hospitality department prior to incorporation. The remainder of the money was put in reserve, where it is primarily being held. It is not being released into the current budget; rather, it serves to reduce interest on our debt to the bank. The board has no intention of doing anything other than keeping that money in reserve to keep the level of deficit down.

Mr Davidson: On the back of that, can I ask—

Dr Clark: I am sorry, I have been reminded by my chairman that I should have added that the money has also had the effect that we know that we can reduce our repayment period by up to about a year.

Mr Davidson: So far, in the case of Inverness College, the money has dealt mainly with outstanding debt. Clydebank College has been able to tweak the management process. Looking at this as a one-off exercise, will that lead to a sustainable delivery of programmes within the college as far as the outcomes for students are concerned, and in relation to the delivery of new courses?

Matt Mochar: The college has established financial viability for the future. Providing quality to students—the second part of your question—will carry on. As I said, potential growth, from drawing down further funding from the funding council, is limited because of the funding council's situation regarding the disbursing of extra funds. We regard ourselves as being in the situation of operational surplus—increasing in our projections over the next three years, anyway. In terms of the need to use the money prudently, we have established a pattern of operating surpluses in the college.

Mr Davidson: Would it be fair to say, in simplistic terms, that the added payment has relieved you of some debt burdens, which will allow you to progress into a new management style, new budget management and a sustainable surplus.

Matt Mochar: Yes.

Mr Davidson: Do you agree, Dr Clark?

Dr Clark: As I indicated, the management actions and restructuring have taken place in Inverness, which served the purpose of reducing our short-term indebtedness.

We feel that right now we can maintain sustainability, but we have problems with forecasting the budget situation for the next couple of years. The sustainability issues might be a bit of a problem. My chairman would like to say something about that.

Philip Hamilton-Grierson: One of the problems is that the £500,000 surplus a year, which is our recovery plan target, is something like 10 per cent of our aid grant. That is a large chunk of our budget. We have achieved that target, as the principal said, through tight management, but some of that cannot be maintained over a long period.

There are all sorts of things to do in areas of the estate such as cladding and maintenance, in which we have had to be, it might be said, a touch too prudent. In our tight financial situation, we have to be careful about what we spend on such areas. We have not tackled areas of health, safety and disability access that we would like to tackle. We also have a list of improvements to our systems that we would like to do as soon as we can get round to it. The finance system is too manual and could be simplified and speeded up. Our student registration system could also be improved.

On our present financial projections, it will take time to get all those jobs done. We can tackle only about 10 per cent of our wish list. All colleges have an annual wish list of things that they would love to do, but they cannot all be done. We certainly feel that the financial straitjacket will catch up with us over three, four or five years and that we will wish we had done things that we have not done. That is inevitable.

Mr Davidson: When your board decided to put money into reserve to cope with your indebtedness problems, was there a positive decision not to deliver on the things that you will be under pressure to deliver?

Philip Hamilton-Grierson: No. We can use some of that reserve. In our budgeting discussions, we have been considering keeping a small reserve of the allocated money for contingencies. Our wish list of things that we want to do will be much less doable without that reserve. Therefore, some of the reserve will almost certainly move into doing the wish list, but we have not yet decided which items will be prioritised. We certainly cannot do everything. We can use some of the reserve to do that but, with our tight financial regime, there is no doubt that by the end of four or five years, as the principal said, our estate will not look as beautiful and our systems will not be as up to date as we would like.

Mr Davidson: Other members will want to come in on this point, but before I leave it, I want to be clear that you are saying that there are huge question marks around the sustainability of your delivery in Inverness College.

Philip Hamilton-Grierson: No. That is an overstatement. There are no huge question marks. We are confident that we can achieve our planned surplus this year. Next year we will have a hard struggle, but we reckon that we can stick with our planned recovery surplus. The year after that will get difficult, because the financial regime is becoming difficult for all colleges.

Mr Davidson: I do not wish to put words into your mouth, but I said at the beginning that we need to examine the long-term rather than just the short-term benefits of the one-off payments. Your evidence seems to be that, despite the one-off payment, there will be another question mark after three years over whether your college can cope with the indebtedness.

Philip Hamilton-Grierson: There could be a question mark, but it is difficult to see that far forward. Change is always happening. For example, we hope that the UHI Millennium Institute funding, which is tight at the moment, will change over the next two years. In two or three years' time, that regime will be more generous because of the higher education side. That accounts for a quarter of our business and there could be a plus on that side. There are always pluses and minuses. All that I can say is that we work under a tough regime. We cannot do all the things that we would like to do, but colleges never can.

15:00

Dr Clark: To put things in context, £1 million is only about 20 per cent of our deficit, so we are still left with 80 per cent of the problem. It would be wrong to suggest that, somehow or other, such an amount would ease the problem any more than the amount that I indicated. It simply will not do that. It would also be quite wrong to put that money into the college's current budget, as that would simply mean that the money would be spent and would be gone next year. The idea behind holding the money in reserve is to reduce the short-term indebtedness, which is what the money was for.

The Convener: Can sustainability be created in both capital and revenue budgets? Will not chasing one simply store up trouble for the other?

Dr Clark: That is more or less the case. The fact that we are required to create a £0.5 million per annum surplus means that that £0.5 million cannot be invested either in the delivery of the curriculum or in the college's capital such as equipment and buildings.

The Convener: So having all eyes on the revenue budgets simply stores up trouble for the future.

Dr Clark: That is how we would put it. Our priority has been to get the cash deficit down. The downside of that is that the college will inevitably not be in as good physical heart as it could be if we did not need to make those repayments.

Mr Raffan: Mr Hamilton-Grierson used the expression "a touch too prudent" about the college estate, with reference to such things as cladding. Does he mean that the college estate will be neglected? He said that the college will not look as beautiful, but we know that there is a huge backlog in the maintenance and work that must be done. If essential maintenance is being delayed, that will store up a big problem in the future. Will not that cost you even more?

Philip Hamilton-Grierson: You are right up to a point.

Mr Raffan: Which point?

Philip Hamilton-Grierson: We do all that is essential for safety and for the continued use of the building. For example, if leaks happen, we stop the leaks. At the moment, we do not have the resources to tackle a major project such as replacing our heating system, which is inefficient and costs the taxpayer money in the long term. If one was to take a decent long-term view, one would try to plan in the updating of the heating system, but we cannot do such things.

Mr Raffan: I have seen some secondary schools in which the windows have ended up having to be replaced because they have not been painted. Will the college get into that state? Might the building deteriorate to the extent that the costs of putting it right in a few years' time will be significantly higher?

Philip Hamilton-Grierson: There might be an element of that, but it is not a severe problem at the moment.

The Convener: What is the situation regarding capital and revenue in the other two colleges?

Matt Mochar: Clydebank College's situation is similar, in that we also have a significant problem with our estate. As I said, that was identified in the Atkins report. The funding council has provided additional funding to address some significant health and safety issues. That money will be spent on the estate this summer.

We need to address the long-term issue with the estates. If any surplus that we generate simply goes to the payment of our historic deficit, obviously that takes away our ability to address the longer-term issues. Significant work has been done on our estates strategy. In conjunction with the funding council, that work is being taken forward with a view to solving the longer-term problem. The injection of money that we received solved only the short-term problem.

John Burt: As the convener will be aware, Angus College's major problem was that 20 per cent of our activity was delivered in huts that were put up 25 years ago and that were supposed to last three years. I am delighted that, with support from the funding council, we are replacing the huts with a modern but historic-looking building. The cost of doing so is £6.9 million, which will be funded in part by Europe, partly from savings that the college has put aside as part of the regular surplus that it generates and partly from support funds from the local community. By January 2004, when the new community access and learning centre opens, the estates at Angus College will be in a good position.

The Convener: That is most definitely progress, but I am a bit miffed that you are taking away the hut in which I used to teach.

John Burt: I was going to keep you a bit—or sell you a bit.

Mr Raffan: I do not want to anticipate a question that I will ask later, but as we are speaking about estates, will Mr Mochar and Dr Clark in turn tell us how many huts are still on their sites and how old they are? From their estates surveys, what is the estimated cost of bringing those buildings up to an adequate—to use Mr Hamilton-Grierson's term—standard? I am not talking about a beautiful standard.

Matt Mochar: The buildings at Clydebank College were built in the 1960s and 1970s under the cost yardstick that prevailed at that time. The level of maintenance that has been applied to the buildings since that time has been short of what was necessary.

Mr Raffan: Do they have flat roofs?

Matt Mochar: Yes.

Mr Raffan: And all of the problems that are associated with flat roofs?

Matt Mochar: Yes. We have significant workshop space, but it leaks significantly. We are in the process of recovering the roofs. Part of the funding that we have received from the funding council is to resolve the problem of the flat roofs. The funding has also been given to upgrade our boiler and lighting systems, to introduce an element of efficiency into our maintenance budgets.

We are downsizing the main campus at Kilbowie Road by closing down three floors of one of the blocks. We have undertaken a complete analysis of our curriculum so that we can deliver it more efficiently than we were doing in the past, using a smaller space to do so. We have a small rented campus in Dumbarton, which is leased from the local authority. That centre delivers a certain level of learning in Dumbarton. The remainder of the college curriculum is delivered through outreach work in leased premises, including community centres. At present, 40 to 50 outreach premises are used.

The college's main estate is in Kilbowie Road. We also have leased premises in Dumbarton and we make use of outreach centres.

Mr Raffan: How much would be involved in bringing the buildings up to an adequate standard?

Matt Mochar: We have produced options for our estate. The option to repair the buildings, as they stand, came in at around £17 million. The other option was to go for new build, and we established that that would come in at around £14 to £15 million. The board of management is considering which of the options to take forward.

We have developed a collaboration exercise with Anniesland College and Cumbernauld College to examine potential areas for collaboration. It has emerged from that exercise that there is potential to develop a joint engineering and construction facility with Anniesland College.

The Convener: I would like to bring us back on track—I ask Keith Raffan to be quick.

Mr Raffan: The subject is very important. Is the funding council estimate of £116 million to bring the college estates throughout Scotland up to an adequate standard accurate? Given that there are 42 colleges and Clydebank College's estimate is £17 million, it does not need more than my elementary arithmetic to show that £116 million is a gross underestimate.

The Convener: Who wants to be tempted by that question?

Matt Mochar: I can talk for Clydebank College, but not for the other colleges.

Dr Clark: As far as Inverness College is concerned, most of our work is done in brick-built accommodation. We have some huts on one of our campuses in Inverness, which houses the crèche. The school of forestry, of which we are the sole provider in Scotland, is housed entirely in hutted accommodation. We also have huts in Kishorn and on Skye.

You asked about maintenance. We think that the Atkins report was pretty accurate for Inverness. I would have to check, but the figure that is in my mind for Inverness is £2.8 million, which is probably about right, given the total figure of around £120 million. That is the right percentage for Inverness. We are considering a move to a greenfield site, the cost of which would be around £20 million to £25 million.

The Convener: We will finish off this section with a question on one-off payments.

Mr Davidson: I want to ask Mr Burt about the £7 million that went to colleges that were in financial difficulty. How do you feel about that, given that you are a principal of a college that has not received any of that money? Was it equitable that such money should go only to colleges that did not perform well financially?

John Burt: During the past six years there has been more co-operation between colleges throughout the sector. The message that I picked up as chair of the principals forum last year is that there was a strategic need for that money. It is not good for the sector if colleges are in trouble and if there is the potential for them to go out of business. The people who would suffer would be students. In general, there are no complaints about that money, as long as it is spent wisely and is used to improve the situation. That message has emerged in today's evidence.

Mr Davidson: You mentioned that you held a position within the further education sector. Should far more qualifications, such as suggested performance indicators and outcome requirements, have been linked to the funding packages? Are you satisfied that the funding was provided reasonably?

John Burt: I am satisfied—as, I believe, are my colleagues—that the funding was linked clearly to the colleges' recovery plans and that it was monitored by the funding council.

Mr Davidson: Are you happy that the funding was linked only to financial performance and not to delivery? You said a moment ago that your college will have to cut down on non-core programmes in the next couple of years, even though, in the new ethos, they are part of what further education colleges should deliver.

John Burt: What colleges must do in the next two years is not necessarily linked to the additional funding that was broken out for the colleges that were in trouble. The key difficult decisions that we must take are a result of the financial changes that will occur in 2002-03 and 2003-04 in the sector and much of the business community, such as changes in national insurance and pensions contributions. Another factor is that college staff are, rightly, looking at the school teaching sector and the McCrone settlement. Many factors are likely to increase expenditure throughout the sector, which will create pressures on all colleges. We are trying to get the best from our regular resources.

Mr Davidson: Was £7 million the correct amount to resolve the financial difficulties that had accumulated over the years?

John Burt: That is the amount that was made available. I am not sure where that money came from; it was additional money that was found somewhere. When the announcement about the £7 million was made, a further £5 million was broken out across the sector on a formula basis to help the sector through the difficult or uncertain times. All colleges benefited from those additional funds. If my memory serves me right, a total of £12 million was broken out.

Mr Davidson: I raised the issue of sustainability with the other witnesses. Do you agree with the evidence that we have heard that there will be difficulties two or three years down the road? From your robust financial position, do you see sustainability difficulties hitting the sector? Will there be a recurring need?

15:15

John Burt: I am certain that sustainability is a difficulty facing the whole sector. The phrase that I used at the recent Association of Scottish Colleges conference was that alarm bells have started to ring across the sector for 2003-04. I do not think that there is a college that is not aware of the additional financial difficulties. We all have difficult decisions to make about what we offer to our local communities. I do not think that there is a college that is exempt from those difficult decisions. The issue will be the scale of the decisions that colleges have to take to ensure that what they are spending on delivering education and training to communities matches the resources that are coming in.

The Convener: Lloyd Quinan will examine whether the expected pace of improvement and change in the financial health of colleges is satisfactory.

Mr Lloyd Quinan (West of Scotland) (SNP): My question is for Dr Clark and Mr Mochar. Exhibit 9 of the Auditor General's overview suggests that it will be 10 years before Inverness College will remove itself from its current deficit, and that it will take in excess of seven years for Clydebank College to resolve its situation. How can you justify such extended time scales?

Dr Clark: First, to correct you slightly, the Inverness College financial recovery plan gave us a period of no more than nine years from financial year 2000-01, so that period is now down to seven years, or perhaps eight at most.

Inverness College's recovery plan was based on a deficit of £5.2 million and, I hope, a degree of realism about the pace at which that amount of debt could be paid off. It amounts to 10 per cent of our grant in aid every year for nine years, or it did in 2000, when the plan was devised. As a result of the £1 million short-term indebtedness allocation, we can look to reduce that time by perhaps a year and a bit.

Roger McClure's comments at last week's Audit Committee meeting—he said that he was less concerned about the pension aspects of the deficit—were interesting. I mentioned that Inverness College's pension liability is £1.8 million, and that our current total deficit will be down to about £3.6 million, so our cash deficit will be down to about £1.8 million.

The board is about to review the financial recovery plan, in the light of the college budget for next year and the projection of the sector funding for the coming two years, which the committee has heard is not all that encouraging. The Inverness College board may be able to consider repaying the cash debt in a substantially shorter period. If the accounting deficit related to pensions is less important, I can see a situation in which Inverness College might be looking to repay the cash debt in four years.

Matt Mochar: Clydebank College's accumulated historic deficit of £3.65 million is a significant sum of money, and represents more than 30 per cent of the college's turnover. Large surpluses to pay off that accumulated deficit over a short period of time are not likely to arise, given the college's circumstances. Another issue is that a decision has to be made on the basis that we have to address the long-term estates issues of the college, which goes back to the issue of capital versus revenue.

The initial projection of the period to pay off the historic deficit included significant cuts in the curriculum, in particular in areas in which it has now been established that the college will have to make provision because of potential growth in training needs, especially in the construction industry.

Several factors have impinged upon the time scale that will be required to pay off the historic deficit. The board of management reviews the deficit regularly and we hope to make significant inroads into it.

The Convener: Does Mr Burt want to add anything?

John Burt: Your question was about how long we would have to repay our deficit, but I think that we are exempt from that question.

Mr Quinan: In reply to some of Mr Raffan's questions, you referred to the problems that you could have with estates. Mr Mochar said that he has major problems with workshops that have leaks. Are you likely to expand to provide training for the construction industry in those workshops? If the condition of the estate worsens and you cannot use your buildings—these things are very unpredictable—will that eat away at the potential for you to increase revenue and income?

Matt Mochar: That is right. There is an element of chicken and egg. The scenario that is presented in our estates strategy is that we could expect up to 50 per cent of funding from the funding council and an input from the European regional development fund. The college would be expected to raise the remaining 25 per cent from its own resources, which would mean buying money. It would therefore be necessary for the college to use some of its resource to solve its estates problem.

Mr Quinan mentioned our need to establish growth within the engineering and construction industry, albeit in collaboration with a joint facility at Anniesland College. We would need to provide that facility. The extra money that we have received from the funding council for estates this year will solve our flat-roof problem for the next three years, or five years if we are very lucky. We have to address significant estates investment during that period, as well as the need to pay off a historic deficit, of which £1.4 million is a pension commitment.

The senior management team decided that we need to provide for the community within a safe building environment and to balance that with the need to pay off a historic deficit. That balance will be crucial. We have bought time for the next four or five years on the basis of the investment that the funding council has given us, for which we are extremely grateful. After that time, we will have to address the estates question significantly if we are to continue to provide workshop accommodation that will meet the health and safety requirements of construction and engineering.

Dr Clark: The situation at Inverness College is perhaps slightly different from what Mr Mochar described. Our problem is not so much in the teaching area. We have tried to prioritise the maintenance of the workshops and communal areas, which are fundamentally where the students live. Our problem is in more major issues. We have a long-term problem with cladding, which we test every year. In about five to seven years' time, the problem might become very serious. Our heating system is totally inefficient and inadequate and it will cost a lot of money to replace. I am delighted to say that our windows are not falling out yet, but in about seven years' time they might. We also have a lot of flat roofs. Our estates problem is different from what was described at Clydebank College. The teaching accommodation is in reasonable heart.

Mr Quinan: You are saying that if there is an emphasis on maintaining your teaching estates, you will be more secure when considering future income.

Dr Clark: Yes. The problem should not harm the delivery of the curriculum in the eyes of the students perhaps as much as it would in other colleges.

Mr Quinan: It does, however, remain on the horizon at Clydebank.

Matt Mochar: That is correct.

Mr Quinan: That gives me the impression that the juggling act that both of you are having to perform in your different ways means that, at some point, four to five years into your financial recovery plan, something in the college estates could damage, if not scupper, that plan. How could you alleviate the constant worry of that?

There is a specific example at Clydebank. The plan to work with Anniesland College is a marvellous idea. However, if Clydebank's estate is reduced in any way and that prevents you from bringing in the income and students, you will be back into the spiral, although the situation would not be of your own creation. Do you have any suggestions as to how we could address that possibility?

Dr Clark: That is why we in Inverness are considering the possibility of a move to a greenfield site. We know that in that five to 10-year period, there might be major estate issues that have to be solved. The financial appraisals that we have done on selling and rebuilding indicate that it would be more cost-effective to do a new build and move to a greenfield site than to pick up the major bills that we would have if we remained in our existing premises.

Mr Davidson: I am tempted to talk about PPP but I will not because it is not relevant. However, in evidence that has been given to date, there has been talk about cutbacks in further education course delivery. Dr Clark also made a comment about new income flowing from the higher education sector. I know that outside the Parliament there is tension about the continuum between HE and FE and who does what.

If we are considering controlling deficits and improving the financial situation of colleges over time, surely there should be an emphasis on the development and selling of courses; the delivery of the core product in other words. Colleges are not just about managing deficits. Will the witnesses comment on where delivery of the core product comes into the issue? We seem to be concentrating on problems that are stored up by estates and deficit management, but we are not talking about delivery of the core product.

Dr Clark: As I indicated previously, Inverness College is trying to grow and develop the curriculum as much as possible, and we have achieved that.

On higher education, our financial recovery plan is neutral with regard to the university of the Highlands and Islands. The university project is currently funded through traditional funding and will be for another two years. At the time of writing our financial recovery plan, we were advised by the funding council to make no assumptions about increased income for higher education courses. That is our position, and it will be our position until we know otherwise.

Matt Mochar: The curriculum for the future is a matter for prioritising decisions. We have established that there is growth in Dunbartonshire, particularly in the potential social inclusion partnership areas. There are significant areas where the college has not met demand. We would therefore have to decide whether we should continue to provide advanced courses.

Also, as we are unable to grow because there is no extra funding from the funding council, we will have to decide what the priorities are for delivery of the curriculum. It might be that whatever advanced provision we make will be downgraded so that we can provide a better service in the social inclusion partnership areas. The bottom line is prioritisation. When resources are tight, we have to decide what we are going to provide.

John Burt: It is true to say that we must concentrate on our community and on delivering the core curriculum for that community. A point has been made about the demand for learning and training in many communities in Scotland. We have turned on the tap—organisations such as learndirect Scotland and Careers Scotland are turning people on to learning and it is difficult for colleges to draw back from that position. We are the core providers of quality lifelong learning in Scotland and the environment in which we operate puts colleges in a difficult position, especially when those organisations continue to create a demand that must be met.

15:30

Mr Quinan: Mr Mochar did not have an opportunity to reply to the previous question. I will frame it slightly differently. You believe that the cost of refurbishing your estate is £17 million, but that the rebuild cost is £15 million. Is maintaining the estate simply throwing good money after bad? Is that an efficient way for you to manage the college's finances over the next few years? Do you have a solution to that problem?

Matt Mochar: The injection of funds from the funding council has solved our problems in the short term. That money came to us at no cost, if you like. We accepted it gratefully and solved our short-term problems. However, the long-term problem for our estate is the need for significant investment. Clydebank College would have to consider carefully where we could draw investment from and we would depend on public funds to assist with that investment. We would also have to consider whether the college has the potential to draw down its own investment from moneys from our surpluses as well as whether we can be financially viable. Does that answer your question? I have no solution other than that of finding investment to sort out—

Mr Quinan: I am simply wondering whether it is efficient for you and your board constantly to be looking for the potential problems that may be on the horizon for the college's estate. Those problems may stop students coming through the door and prevent you from raising income. Is it efficient for the funding council or the Executive to supply funding to maintain the estate when it might be better to wipe the slate clean and start afresh?

James Skinner: The board of management has not yet finalised its estates strategy. One of our options is to leave the existing site and move to new-build property, perhaps on the riverside in Clydebank. We are not saying that, for the foreseeable future, we will continue to maintain the existing buildings. The funding council has given us leeway of three—or perhaps four—years. During that period, which has already started, our buildings are being brought up to the minimum health and safety standards.

Mr Quinan: That answer leads me on to my next question, which goes back to your core business. It is clear that the recovery plans seek the speedy elimination of the deficit. My question is for both principals. How do you balance cutting costs with maintaining and, more important, improving the levels of service that are essential if you are to bring in finance?

Dr Clark: You are quite right—there is a balancing act. We believe that we are maintaining an adequate service for our students. We have been able to expand our work, which means that the number of students has expanded—not by a great deal, but nevertheless it has expanded. The message from our market is that the light in which we are seen encourages students to come to the college.

I must temper that by saying that the cash deficit has been the priority and must be tackled—I think that Mr McClure sent the same strong message. There has been a balancing act between delivering the financial recovery plan—which we have done—and maintaining the service to our community, not just in Inverness but throughout the Highlands.

Mr Quinan: Has that balancing act been slightly easier for you as a result of previous emphasis on maintaining the fabric of the teaching part of your estate? Secure buildings can allow you to introduce new courses.

Dr Clark: I agree. As part of our marketing effort, we have tried to maintain the parts of our buildings that students use most. We have tried at least to make those parts look attractive, although there may be structural problems in the fabric of the buildings. That has been a definite board of management strategy.

Matt Mochar: There is a balancing act, as Dr Clark said. We reckon that we have managed to maintain the quality and delivery of the curriculum while we have gone through the process of establishing financial viability. The energies of the senior management team have been focused on sustaining financial recovery, but at the same time, we have delivered an extensive curriculum. We have identified areas where there is potential for growth and we could deliver that growth if the funding were available for it. We have successfully achieved that balancing act over the past 18 months.

The Convener: Keith Raffan will move us to the final set of questions.

Mr Raffan: Part 4 of the Auditor General's report covers a number of initiatives that were launched by the funding council to improve the provision of further education—principally, the management review; review of the links between supply and demand and whether colleges meet needs in their areas and key industrial sectors, if there are industrial sectors in their areas; and improving the condition of college estates, which the committee has rather done to death. The witnesses may wish to say more about those issues. I do not wish to miss anybody out. Mr Mochar may wish to answer first.

Basically, the question is about management and governance. We have already touched on all the issues that I mentioned. I presume that colleges submitted their management action plans and that there was feedback in October. I would like to know about the implementation of those plans and supply and demand. The funding council's mapping exercise in key industrial sectors has not been completed. I would like to hear about such issues. Witnesses may also want to say more about flat roofs.

Matt Mochar: I will resist the temptation to labour the point about flat roofs. On the management review, my college welcomes any initiative that enables us to discharge our responsibilities more efficiently and effectively. The review gave us the opportunity to evaluate the management in the college with the board of management and the senior management team. The evaluation has allowed us to look at how we deliver education in Clydebank and we welcome that. Through the management review, we reckon that our senior management team has improved by asking evaluative questions, as has the approach of the board of management.

James Skinner: I support the management review—in fact, I served on the funding council committee that reported to the minister. When I joined the board of Clydebank College, the board agreed to revisit some of the challenge questions in the management review, which the previous board had considered. Clydebank College has looked at the review twice and improved our processes of governance.

Matt Mochar: I would like to talk about supply and demand.

Mr Raffan: I am sorry, but the BBC is having trouble picking me up on tape. That is unusual—it must be pretty ropy. It is obviously near the recess.

Matt Mochar: On supply and demand, a significant mapping exercise is being carried out in the Dunbartonshire area. The exercise has established that there is approximately a 14,500 student unit of measurement potential shortfall of delivery. There is a market there, particularly in areas in which social inclusion is a priority.

That has brought to the college's attention the fact, to which I have alluded, that the college should serve that significant market. However, without the potential to grow in the present funding regime, we must prioritise how we serve that market. The supply and demand exercise and benchmarking across the sector in Dunbartonshire have established the fact that there is significant potential for growth, particularly in areas where social inclusion is important. We will examine that closely to find out how we can satisfy that demand.

Mr Raffan: Collaboration with Anniesland College has often been mentioned in discussion, particularly by Mr Skinner and Mr Mochar. Has any move been made towards sharing, for example, a director of finance between the two colleges, as Fife College of Further and Higher Education and Glenrothes College do, to cut administration costs?

James Skinner: Working parties from each board of management have had two meetings. We have discussed numerous subjects for collaboration, but that is at an early stage. Such collaborations are on the agenda, whether they involve such matters as an independent clerk to the board, a finance manager or student liaison officers. We hope to develop other subjects for collaboration. The pressing subject, about which we have initially spoken to the funding council, is a centre of excellence for construction engineering, which would be geographically situated somewhere between the two colleges.

Mr Raffan: I presume that you work fairly closely with Glasgow colleges and particularly the Glasgow College of Building and Printing. The implications of housing stock transfer for the construction industry are huge. The need for training to deal with them is fairly urgent. I presume that you ensure that you complement each other, rather than overlap.

James Skinner: Absolutely.

Mr Raffan: Does Mr Burt want to comment on management and governance, supply and demand and the condition of college estates?

John Burt: The college's examination of its practices and benchmarking of varying practice throughout the sector were a useful focus. We have used that as the basis of our self-evaluation for management. Action plans for improvement arose from that. That was a useful focusing exercise for the college.

A presentation was given to the principals of the three Tayside colleges on the results of the supply and demand study. That proved to contain interesting background information for our plans for developing our curriculum. It also showed that there was scope for increasing collaboration on curriculums among Tayside colleges. Since then, we have undertaken a major collaborative project on addressing social inclusion in various areas in Tayside where there are high levels of under-representation.

Collaboration is also taking place on European bids. Rather than three colleges making separate European bids, we are coming together to make collective, Tayside-wide European bids. We are also undertaking joint staff development on teaching qualifications. Rather than three colleges doing that separately, we are coming together to collaborate. That has proved a useful focus for developing collaboration.

In the past four to five years, we have had a long-term estates strategy. I am delighted to say that that has been realised with our new £6.9 million building. I stress that, when the same financial pressures as my colleagues have felt are not experienced, the executive team and the board of management are allowed to concentrate on the quality of delivery, improving that quality and the core business—the students and the community—and to plan for facilities improvement.

15:45

Dr Clark: This is a good time for me to come in. I concur with that—the attention of the Inverness College board has been far too diverted to the college's financial position, and it spends an inadequate amount of time on the college's educational mission.

You have already heard from my chairman that we did a substantial review of our governance arrangements back in 1999. We put many changes in place at that time. The management review came along at a convenient time, as it allowed us to benchmark—I think that that was the word used—what we were doing in the way of governance with good practice across the sector. We are currently working through an action plan to ensure that we maintain the highest possible standards of governance.

Some interesting issues came out of the mapping exercise in the Highlands. It showed that only in Lochaber and Skye was participation in further education below what might be regarded as the sector norm. We are addressing that, as we now have outreach centres in both places.

A recommendation was made that the UHI network—both the physical information technology network and the virtual network of colleges—might be put to good application in the delivery of FE. The colleges are beginning to consider whether that is possible. It should be understood that it may not be possible to deliver FE in that way, such education being more manual, vocational and practical than higher education. IT does not necessarily help with such subjects as brickwork. Nevertheless, there are areas of further education where the UHI network will increasingly be used for the delivery of courses. That means that there could be a certain amount of financial benefit to the colleges in the sharing of teachers in the longer term, for example.

The other recommendation from the Highland mapping exercise that was specifically of interest to Inverness College was for opportunities to share a director of finance, health and safety officers or providers of other support services with Moray College, given that college's proximity. We are in discussion with Moray College about such issues. Having said that, I should point out that the distance between Moray College and Inverness College is pretty similar to that between Edinburgh and Glasgow—and I have not heard anybody recommending that Edinburgh colleges work collaboratively with the Glasgow ones.

Mr Raffan: I wonder whether Philip Hamilton-Grierson might wish to add anything to that. Let me return to a point that he made when asked about training—and perhaps James Skinner would like to come in too. The point is that the board of Inverness College was thrown in at the deep end. Does Philip Hamilton-Grierson feel that enough attention is being paid—specifically in the management review or just enough attention full stop—to financial management training for board members and principals of the college?

Philip Hamilton-Grierson: To take the last point first, we are lucky in having a financially literate principal. He has had a lot of experience, so we have not had to train him.

We have introduced induction training for our new board members, which we carry out in-house. Before all board meetings, we try to ensure that board members have visited various departments and have got presentations from them. That is all part of their training. They meet the academic leaders, whose problems they get a chance to discuss. They see students on the ground, and they learn through that. We have not involved our board members in any external training.

On the question of governance, it would be quite wrong to give the impression that it is easy to recruit high-quality board members. The Highlands is full of splendid, highly qualified people, but they are very much in demand. It is difficult to find people who are able to give the required amount of time, especially considering the fact that our estate covers a huge geographical area stretching from Portree to Aviemore to Ullapool. It is a complex college, and we have been struggling with the finance side for the past three years. Now, we are enjoying bringing ourselves up to speed on governance issues, some of which are very important.

There is no doubt about it: what people will be most interested in is the quality of the service that we provide in the Highlands and how we develop that, while getting a much better handle on the quality issues and ensuring that staff training and development are as good as they should be. We want to get at all those quality issues. Frankly, over the past three years, we have been preoccupied with recovery plans and governance issues—and quite rightly so. Although training would be nice, we have to get to grips with what is happening in the college.

Mr Raffan: Perhaps pay would also be nice.

Philip Hamilton-Grierson: Pay would be lovely.

Mr Raffan: Would that help with recruitment?

Philip Hamilton-Grierson: In some cases, yes. However, I do not think that that is the solution. Frankly, we have to make the job interesting.

Mr Raffan: Do you make enough use of retired people? Are any of them asked to help out?

Philip Hamilton-Grierson: The danger is that, on any board, there are three or four people who have retired and who have the time and considerable experience; however, they do all the work. Other board members might be involved in activities in the enterprise network and so on, but do not have enough time to make the same input. That is reality. As a result, boards tend to include some people who are useful, suggest new ideas and are very good at networking, but cannot give the hard time on working committees. That job tends to fall to retired people.

James Skinner: I concur with those remarks. As far as training board members is concerned, we must not lose sight of the fact that, over the years, the Association of Scottish Colleges has laid on various seminars specifically for board members. The biggest problems that I have encountered in the Clydebank area are the quality of board members and the availability of genuinely able people. Fortunately, we have managed to bring in a finance director from the University of Glasgow and one of the assistant principals from the University of Paisley to strengthen the board. However, given the weak business community in the area, it is difficult to find any experienced businessmen who can bring that kind of perspective to the board.

Mr Raffan: Are you in favour of paying board members?

James Skinner: That might help to attract people, but it is not the answer.

John Burt: When we recently advertised three vacancies for the board of management, we received applications from too many quality people and had to disappoint some of them. The key point is that if a successful community college buys into quality improvement, people in the locality will buy into supporting that college. As I said, we had no difficulty filling recent vacancies with quality people such as businessmen, entrepreneurs and chief executives of manufacturing companies.

Mr Raffan: Is the chief executive of a growing manufacturing company able to give sufficient time to the board?

John Burt: At the interview, the applicants said that they would be willing to give that level of support and significance to the job. So far, that has proved to be the case.

Mr Raffan: We have already covered the issue of funding council initiatives, which you obviously welcome. However, are they causing you any operational problems? In other words, are they coming too fast and furiously? Are you experiencing any overload?

Matt Mochar: We welcome the initiatives. Indeed, they are particularly pertinent to the current situation at Clydebank College. If SFEFC had not proposed them, we would probably have considered them ourselves, especially in relation to evaluation. Depending on the work load at a specific time, it is a matter of balance whether or not the initiatives mean overkill. So far, we feel that we have adequate time to devote to them.

John Burt: The main bugbear is not that there are too many initiatives, because they tend to focus on education and training anyway. If one asked across the college, one would probably find that the main bugbear and focus of concern is the audit burden, which causes colleges a great deal of effort. Anything that reduces the number of audits that colleges go through would be welcome.

Dr Clark: I support the comment about the audit burden. For example, Investors in People, the Scottish Qualifications Authority, the Scottish Quality Management System, each local enterprise company with which we work and Her Majesty's Inspectorate of Education impose a significant audit burden on us. I would like continued work to try to bring those audits together.

We must understand that SFEFC is relatively new and is going through a substantial learning curve. Much of the paperwork—which, many people would say, is excessive—and the various initiatives are a reflection of the newness of the organisation. We have been promised that it will settle down. That has not happened yet, but perhaps it will one day.

Mr Raffan: My next question follows on neatly from that point. SFEFC's chief executive told us that he wants to set up a specialist group from within the sector to assist individual colleges to improve their financial performance. The Auditor General's report referred to it as a further education development directorate, although it might be slightly different from what was originally planned or anticipated. How do you respond to that proposal?

Dr Clark: I respond positively to it. Much self-help is available in the sector and SFEFC's new chief executive proposes to use that expertise. It is early days yet. Mr McClure put the proposal to the principals forum, and it was received positively. We look forward to seeing the specific proposals and to working with him.

Mr Raffan: Has there been enough sharing of good practice until now?

Dr Clark: Probably not. Through the 1990s, there was a dog-eat-dog period. It was very competitive, and survival was the name of the game. Recently, there has been much more collaboration, but the sector could do more yet.

John Burt: I support the proposal for a further education development directorate. I was chairing the principals forum when the proposal was put before it. The minutes will show that the proposal received warm support. The view was that the college sector contains a great deal of expertise and that to use that resource differently would be helpful because the resource would understand the context within which the college sector manages.

The voluntary sharing of good practice between colleges, such as staff going from one college to another to help with specific problems, has increased in the past four to five years. I can give examples of that. That development builds on the spirit of co-operation between the colleges.

Matt Mochar: I reinforce what has been said. My experience was that, when I took over Clydebank College in November 2000, the senior management team had significant need of the input of specific expertise. We looked for that outside the sector. It was not there.

The initiative from SFEFC is welcome. We have had extra assistance from outside consultants, which has been invaluable, but the assistance of colleges with a strong financial background that were able to come to Clydebank College and help us with our financial management and the management of our information systems, was also invaluable. I welcome the initiative and I wish it every success, having experienced the need for it.

The Convener: It is always good to end on a positive note. I thank our witnesses for their evidence. If they have any closing comments that they wish to make, I give them the chance to do so.

Dr Clark: I am not sure how well it is known that I retire at the end of the week. The meeting has been a fitting conclusion to my career. I thank you, convener.

The Convener: Our witnesses have given us valuable insights into the Highlands, the north-east and the central belt. Your work is crucial to the long-term well-being of the individuals and the communities that you serve. The committee wishes you all success in your endeavours and thanks you for your expertise and evidence.

I allow the witnesses a chance to leave. We will take a five-minute break before we recommence.

15:59

Meeting suspended.

16:07

On resuming—

European Court of Auditors and European Parliament (Meetings)

The Convener: We move on to item 4, which is consideration of a report on meetings with members of the European Court of Auditors and the European Parliament. The Auditor General for Scotland and Mr David Dees of Audit Scotland accompanied me to the meeting with the European Court of Auditors, which provided an opportunity to meet the court's members and officials. We attended a most informative series of seminars, which I am sure will be the basis of much fruitful, future contact.

We had an opportunity to present information on the remit and development of the Audit Committee in the Scottish Parliament. The members of the Budgetary Control Committee showed interest in the workings of the Audit Committee. They were keen to learn what we do and were interested in the fact that in many ways our work within the United Kingdom and at European level makes us one of the most advanced audit committees. It was useful to give them a reprise of the work that we have done and of the kind of inquiries that we have conducted.

The presence of the Auditor General was especially useful, as it allowed his expertise to be matched with that of Europe. I am sure that what we learned will be applied to a great extent in future. I am determined that our Parliament's Audit Committee will be at the heart of information about Europe-wide trends and best practice, which will enable us to ensure that Scotland is in the forefront of the most recent developments in Europe and elsewhere. It is important that we learn about what is good elsewhere and that we apply that in practice. The detailed report is available to members and I seek comments.

Mr Raffan: In what way are we advanced?

The Convener: I identified great interest in the powers that we have, which enable us to execute not just superficial inquiries, but in-depth reports and to recall people. As you know, we do not do one-offs; we recall people to ensure that recommendations are carried out. We hold site visits, which many audit committees do not do. Such in-depth interrogation and investigation of accountable officials seemed to strike a chord with our European colleagues, who, I believe, would wish to have similar powers.

Always being open to new ideas and willing to learn will ensure that we are able to do our work as the public watchdog in Scotland. The people of

Scotland depend on us and on the independent work that Audit Scotland does to ensure that there is accountability and that best practice is encouraged everywhere in the use of all public finances. The rest of the answer to your question might well be found in the report. You are tempting me to begin a half-hour monologue. Are there any other comments or questions? Is the report accepted?

Members *indicated agreement*.

16:10

Meeting continued in private until 16:42.

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