

EDUCATION, LIFELONG LEARNING AND CULTURE COMMITTEE

Wednesday 3 October 2007

Session 3

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EDUCATION, LIFELONG LEARNING AND CULTURE COMMITTEE **6th Meeting 2007, Session 3**

CONVENER

*Karen Whitefield (Airdrie and Shotts) (Lab)

DEPUTY CONVENER

*Rob Gibson (Highlands and Islands) (SNP)

COMMITTEE MEMBERS

*Aileen Campbell (South of Scotland) (SNP)

*Ken Macintosh (Eastwood) (Lab)

Christina McKelvie (Central Scotland) (SNP)

*Mary Mulligan (Linlithgow) (Lab)

*Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD)

*Elizabeth Smith (Mid Scotland and Fife) (Con)

COMMITTEE SUBSTITUTES

Richard Baker (North East Scotland) (Lab)

Hugh O'Donnell (Central Scotland) (LD)

Shirley-Anne Somerville (Lothians) (SNP)

*attended

THE FOLLOWING ALSO ATTENDED:

Richard Baker (North East Scotland) (Lab)

THE FOLLOWING GAVE EVIDENCE:

James Alexander (National Union of Students Scotland)

David Caldwell (Universities Scotland)

Roger McClure (Scottish Further and Higher Education Funding Council)

Howard McKenzie (Association of Scotland's Colleges)

CLERK TO THE COMMITTEE

Eugene Windsor

SENIOR ASSISTANT CLERK

Nick Hawthorne

ASSISTANT CLERK

Andrew Proudfoot

LOCATION

Committee Room 1

Scottish Parliament

Education, Lifelong Learning and Culture Committee

Wednesday 3 October 2007

[THE CONVENER *opened the meeting at 09:30*]

Decision on Taking Business in Private

The Convener (Karen Whitefield): Good morning and welcome to the sixth meeting in this session of the Education, Lifelong Learning and Culture Committee. I have received apologies from Christina McKelvie, who is unable to attend.

The first agenda item is a decision on whether to take in private agenda item 3, which is consideration of candidates for the post of adviser to the committee for its consideration of the Scottish Government's budget. As personal information is to be discussed, it would be both usual and appropriate to consider those matters in private. Do members agree to do so?

Members *indicated agreement.*

Higher and Further Education Funding and Governance

09:31

The Convener: The second agenda item is an evidence-taking session on higher and further education funding and governance. We will hear from four witnesses, all of whom have provided written evidence. They will appear individually. I will not invite opening statements; rather, we will move straight to questions to maximise use of the time that is available. First, we are joined by a representative of the Association of Scotland's Colleges. I welcome Howard McKenzie back to the committee for the second week in a row and thank him for joining us. We will move straight to questions.

Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD): My question is on governance and accountability. Howard McKenzie's written statement, for which we are grateful, refers to the DTZ Consulting and Research document on accountability and governance, which arose out of the review of Scotland's colleges. The DTZ report found that

"In general, the standard of accountability and governance in Scotland's colleges is good. However, practice has ranged from 'average' to the 'very good', indeed 'exemplar' in some cases".

How are the association and colleges making progress on the recommendations in that report to improve governance and accountability across the board?

Howard McKenzie (Association of Scotland's Colleges): Among other things, the ASC runs a forum for the chairs of the colleges' governing bodies, so we have been consulting them. A comprehensive training programme is available for governors in the colleges' boards of management. We took it on board that there is a clear need to share best practice, so we picked up those recommendations in the principals' continuing professional development. We highlighted the exemplary work and principals have done presentations to one another on that part of the process. We shared the best practice among the principals and members of boards, which we felt was the correct way to proceed.

As a result of one or two recommendations, we have given guidance to the governing bodies on how they should deal with certain issues that were highlighted in the reviews that Mr Purvis mentioned.

Jeremy Purvis: I have a brief supplementary question. How will you gauge and monitor the success of that work? Are there issues from the review of accountability and governance to which you will return?

Howard McKenzie: A variety of reviews of governance are carried out. Virtually all the auditors and people who examine us look at governance in some form, including the external auditors from Audit Scotland or those who are appointed by it. We have no plans to carry out another process, although we have a management review carried out with the Scottish Further and Higher Education Funding Council, which examines the best and worst practice. However, generally, the boards are autonomous, so it is up to them to pick up the best practices and implement them. In my experience of boards on which I have served and of boards that I have visited, they always strive for the best governance.

We should bear it in mind that board members are volunteers and do not get paid. There is a limit to the amount of time we can draw on to train them and help them to do their work.

Rob Gibson (Highlands and Islands) (SNP): I want to ask about the way in which funding is managed, and I will start with the inheritance of the system in which you work. My experience of Inverness College is that it has not been possible to remove its debt burden successfully. Many colleges suffer from having been unable to do so because of changes to the management structure. Will you comment on that?

Howard McKenzie: People who are now principals went through incorporation in 1992. I was at a college then. We were given our own accounts on 1 April 1992, but no working capital. It probably took us 10 to 12 years to build up the working capital to enable us to run a £36 million business from day 1. In some cases, the process was successful, although it has been less successful in others. Most colleges therefore started with a burden. The management of colleges varies as does management of other businesses. Some colleges thrive and some do not, but in general, they thrive and do what they are supposed to do.

The debt burden is important, and there is concern in the sector that colleges are ending up with mortgages on capital projects. The projects are properly sorted, but money is still coming out of front-line activities to pay back loans. Indeed, in the case of Inverness College, servicing the loan reached the stage at which it was almost taking over everything. However, I think it is on the way out of that situation.

Rob Gibson: Do a number of colleges in the system face similar burdens?

Howard McKenzie: I suppose that mortgages are increasing as more capital projects are being carried out, but I have been told that there is only one college left with a loan burden because it is making a loss.

Rob Gibson: Good.

What about the current financial system? Are you happy that the Scottish Further and Higher Education Funding Council has suggested a longer financial cycle? How would that work with respect to governance? Would a board be given enough time to be able to work with such a budget?

Howard McKenzie: Absolutely. There are two aspects to consider. On the revenue side, we receive an annual revenue allocation from the funding council. We know roughly what that allocation will be, but it can vary and one must plan. The process tends to mean that funding is given in one-year dollops, and we cannot really plan for, or get any money for, three years' time. I am sure that we could do, but it is quite difficult. Making the horizon further away would be extremely useful.

On the capital side, we have reached the stage at which colleges need large amounts of capital for rebuilding their buildings, which are all 30-odd years old. The funding council's plan to enable us to build up funds to replace buildings in 30 years is essential. The idea is very good, and I hope that Parliament will give the funding council enough funds for that. Once we finish the round in which we will need larger dollops of money, we should lay down foundations so that, in 30 years, somebody can knock down the buildings that are just being built and put up other buildings.

Aileen Campbell (South of Scotland) (SNP): Can improvements be made in order to scrutinise more effectively the use of public money in further and higher education in colleges?

Howard McKenzie: Its use is heavily scrutinised. I think that 73 organisations scrutinise it in some way, about 30 of which deal with finance. The regime works well. There is hardly any part of my activity that is not audited at least two or three times, from Her Majesty's Inspectorate of Education's academic audit to scrutiny by the internal auditor, whom my board would appoint, and the external auditors, who are appointed by Audit Scotland. We come under the Scottish Public Services Ombudsman's remit if there are complaints. There is a raft of other organisations—if I get on to volume training and the audit burden of that, I will be speaking for more than my 45 minutes.

Aileen Campbell: Do you think that you are overscrutinised?

Howard McKenzie: Yes—we are very heavily overscrutinised.

Aileen Campbell: Does overscrutiny impact on the quality of tuition?

Howard McKenzie: To be perfectly honest, we discussed whether to have an auditors' room in the new building because there is an auditor on site auditing something every day.

Aileen Campbell: Is there any way you would like the situation to be improved? Can it be streamlined? Is it transparent enough?

Howard McKenzie: The problem is that it is so transparent that it becomes opaque. If we put lots of sheets of glass on top of each other, they are all transparent, but we cannot actually see through the pile of glass. That is part of the problem: there are too many audits overlapping each other.

In our submission on the spending review, the ASC suggested that we should use more of the processes that already exist. The way the funding council operates and audits colleges is rigorous, but it captures everything at once. For instance, we are audited on how we deliver the means-testing part of fee waivers for students. That is £1.8 million for my college and it takes about a day and a half of audit. However, I distribute about £47,000 in individual learning account moneys, which takes up seven days of audit. The problem is disproportionality, to which the Crerar report referred. We suggested that the existing processes that work well should be used, rather than new ones being invented. That way, the money could go to the front line rather than being dragged down and having bits nipped off along the way for auditing, reauditing and auditing the auditors.

Mary Mulligan (Linlithgow) (Lab): I recognise that you made a distinction between academic and financial audit but, if there is so much monitoring, how do colleges get into difficulty?

Howard McKenzie: Colleges get into difficulty in the same way that any other business or local public sector organisation does: they spend more than they have coming in. That is partly to do with their financial management. I referred to the fact that most college principals were middle management at the time of incorporation. That was only 15 years ago, and we were told then that we would manage our own financial affairs. At that time, the principals were academics who never dealt with money. It has taken a while for colleges to size their businesses correctly.

In Scotland, there was a process in which the colleges competed for the same total. That drove them to expand at a rate that they could not afford and they clearly overtraded. The system propelled them into overtrading and they did not have the financial mechanisms to check that and work it all out, but now we have such mechanisms and colleges are beginning to come through. For example, the financial managers community practice has been set up—it shares best practice.

We have been capped for seven years now and, in that time, all the colleges but one have come back into some sort of financial surplus and the management of finances has become a lot stronger.

Mary Mulligan: I am thinking about Inverness College in particular, where there have been difficulties. Is there too much of a particular kind of monitoring that is not effective and which allows problems to develop? Is there anything that should be put in place that would pick up such problems earlier?

09:45

Howard McKenzie: It is a question of people listening to what the monitoring says—this takes us back to the auditing being so transparent that it becomes opaque. In many cases, either the board has perhaps not understood what the figures are saying or the figures have not been robust. Businesses do the same all the time—overtrading, for example—and they come into and go out of business doing that. It is not surprising that in such a diverse sector colleges can get into difficulty. We now have the balance right, and the one or two colleges that are off the danger list but on the next one down are recovering slowly.

At both Inverness College and James Watt College, it was the college's expertise, with the help of the funding council and the further education development directorate, that helped to put things right. That is a significant change—support exists for the boards and principals.

Elizabeth Smith (Mid Scotland and Fife) (Con): It is clear from what you have said that you consider charitable status to be an extremely important principle that underpins education. I want to pursue that. John Wheatley College has been asked to amend its administration slightly in a year and a half so that it meets the criteria that the Office of the Scottish Charity Regulator is looking for. Would the other colleges in Scotland have any difficulty in meeting the charitable status criteria as they stand?

Howard McKenzie: First, there are 667 days until we lose charitable status. John Wheatley College was put forward from among the colleges as almost a sacrificial lamb. It was found to be exclusively charitable, but the difficulty is with ministerial direction. The college has been asked to make changes that it cannot make—only the people in this building can make the difference.

Losing charitable status would have a radical effect on colleges not only financially—it would cost about £50 million to stay as we are, and we might have to cut that amount from front-line services—but in how we are seen within our communities. We are not businesses that make

money and give it back to our shareholders; we do our activity and give that back to the people and stakeholders. That is the radical difference.

We are charitable—the charities regulator agrees—but the problem is the technical process. Not being a charity would have a radical effect. The situation is already having an effect on our ability to make applications through the Big Lottery Fund and on some VAT and rateable value issues; for example, the process for rating new buildings is different for charitable organisations from that for ICI or BT.

Elizabeth Smith: Is current charity law effective in defining charitable status as you would hope it to work in the college system? I know that you have grave concerns—rightly so—about bogus colleges in Scotland. Although they are not going to get charitable status, there is an issue about the definition of a college and what underpins the benefits that can be had from a charitable foundation in any institution. Could you comment on that?

Howard McKenzie: The reports that we have had from John Wheatley College said that OSCR went through a thorough, quick and effective process. We felt that its judgment was fair and accurate.

It is a problem that a lot of bogus colleges have been set up. Anyone can set up a college—although not a university or special school—and the recent issues about bogus colleges have meant that the bona fide colleges are finding it difficult to prevent students from being hoodwinked into parting with money for nothing. Charitable status is one mark—almost like a kite mark—that shows that colleges are in it not for the money but for the benefit of the communities that they serve.

The Convener: I have a follow-up question about charitable status. OSCR says clearly that the issue is not the charitable work that colleges do, it is that ministers can use their powers of intervention when appropriate. What would happen if those ministerial powers of intervention were to be removed to allow you to satisfy OSCR? How would you be accountable if they were removed?

Howard McKenzie: The colleges are absolutely as one about retaining charitable status. There are two ways to achieve that: one is to give a class exemption for colleges and universities under the Charities and Trustee Investment (Scotland) Act 2005 and the other is to remove ministerial powers. The sector is split between which is the best way in which to retain charitable status, but we know that we have to do it. Our preference is to be given the same standing as universities without ministerial powers of intervention.

However, another school of thought thinks that if we ever get to the stage when the minister needs to use those powers, they probably should because students will be suffering.

At the moment, our preference is for the ministerial powers to be taken away so that OSCR would be happy, but we will not be particularly worried if the other course is taken. Indeed, if you asked us to stand on one leg and whistle Dixie, we would probably do it if it meant that we got charitable status.

The Convener: As you said, if ministers need to use their powers of intervention, something has gone badly wrong. What safeguards could be put in place to reassure people that, if things were to go wrong and there were no ministerial powers of intervention, a situation would not be allowed to get out of hand so that students were being adversely affected?

Howard McKenzie: Many of the ministerial powers could be exercised just as effectively by the funding council. Each college has a financial memorandum with the funding council, which can do a range of things. If, for instance, there were a failure in academic work, that would be picked up through the quality mechanisms that are operated by the funding council. The financial systems and reporting structure that are in place would deal with financial aspects and flag up any problems. We would not be without safeguards; the process by which the safeguards would be put in place would be different. You might want to ask Roger McClure about that when he gives evidence later.

Ken Macintosh (Eastwood) (Lab): My question is on the same theme. Did the funding council intervene soon enough in the case of colleges such as James Watt, Inverness, Moray College and the Central College of Commerce?

Howard McKenzie: The straight answer is that I do not know. It is easy to say in retrospect that the funding council should probably have intervened earlier, but the situation is difficult. Colleges are autonomous organisations—we run our own businesses. The idea behind being able to exercise academic freedom is that we get the local strength that is vital for colleges. If the funding council were to intervene too early, it could destroy some of the localism that makes the system work. If the funding council were to act too late, in retrospect, it would all look very bad.

The funding council has learned considerable lessons from the two recent problems, and the further education development directorate has been put in place and strengthened its processes. The way in which the colleges were enabled to help each other and implant the best practice is a model in the public sector—you will not find that in

the national health service, which has far more financial management difficulties.

Ken Macintosh: Across the board, there are many examples of excellence in further education, so it is more dispiriting when things go wrong. The few bad cases undermine confidence in the system.

You said that the system is transparent, but is the relationship between the funding council, the further education development directorate and the colleges transparent? I do not even understand what that relationship is. I do not believe that the FEDD has powers to tell a college to do anything.

Howard McKenzie: I do not think that the FEDD has such powers, whereas the funding council does, but you will have to ask Roger McClure for the detail of that.

Ken Macintosh: Everyone has a genuine concern about colleges losing their charitable status. Although ministerial powers of intervention have never been used—there might be an argument that they should have been used in some cases—if we were to remove them, we would need much more confidence that the relationship between whatever regulatory or scrutinising body there is and the colleges would stop colleges going off the rails promptly and in a way that was genuinely open and accountable to the public, so that members of staff, pupils and the rest of us who are accountable for public money could have confidence in the system. I suggest that, at the moment, there is no such confidence. Do you share that view? Should the process be improved or has it already been improved? Should we be happy with it?

Howard McKenzie: The process has been improved in the light of what happened at Inverness College and James Watt College. If the ministerial powers of direction were to be exercised by the funding council, the process by which those powers were managed would have to be changed—it would have to be strengthened, which would probably mean a more interventionist approach. To a certain extent, colleges call in the FEDD when they need help or advice, not just when they face dire problems. Recently, a college that did not have a robust enough equality and diversity policy went to the FEDD, which put in resources from other colleges. That helped it to bring its policy up to the required standard.

Ken Macintosh: To me, the obvious relationship to replace any ministerial powers is the one between the funding council and the colleges, which requires to be strengthened to give us more confidence. The relationship between the funding council and the universities is different. If we were to recommend any changes in the relationship between the funding council, the

FEDD and the colleges, should those changes be reflected in the funding council's relationship with the university sector? Perhaps you do not wish to comment on that.

Howard McKenzie: I know that the university sector's relationship with the funding council is different from our relationship with the funding council, but I cannot really comment on that—David Caldwell might be able to. I know, too, that the funding council's relationship with the post-1992 universities is different from its relationship with the ancients and that a different process is involved.

To an extent, those relationships have to be different. They could not be the same, given the nature of colleges, which are local institutions that deal with extremely large numbers of students. We deal with 450,000 people, whereas the universities have about 100,000 students. The scale of the colleges and their local nature mean that they need a slightly different touch from, say, the University of Edinburgh, which has a global reach. In addition, the colleges and the universities receive different proportions of their funding from the funding council. The Scottish Parliament information centre briefing states clearly that the colleges get about 70 per cent of their funding from the funding council, whereas for some universities the figure is only 20 to 25 per cent.

Ken Macintosh: I have two very brief questions, the first of which is on bogus colleges. My questions follow on from Elizabeth Smith's point. Other than by allowing colleges to have the mark of recognised charitable status, what could Parliament or the Government do to tackle the worrying problem of bogus colleges? My second question is about numbers.

Howard McKenzie: The key is to ensure that the bogus colleges do not get on to the Home Office list, which allows them to get visas for students. That is one of the main reasons for their existence. The Scottish Government can be involved in that.

10:00

However, the ASC believes that the key to closing that door is the trade names legislation. If people want to set up as "Royal Fudge Company", they need to apply to Companies House to find out whether the criteria allow the word "Royal" to be used in that context. Other criteria apply for universities, polytechnics and special schools. If a new body wants to use the word "College" in its title, the legislation—which is United Kingdom wide—should apply a set of criteria on what constitutes a college. For example, a college might be required to have charitable status or be audited by an external body such as HMIE. If a new

institution meets the criteria, it should be able to call itself a college. That would not prevent the establishment of any new college—a new college of physicians, for example—that fitted the criteria that were laid down.

Ken Macintosh: Should it be the job of the funding council, the police, local authorities or an Executive body to regulate, police and investigate the matter?

Howard McKenzie: In the context of business names, such matters are dealt with by part of what used to be—I cannot remember its new title—the Department of Trade and Industry. I think that it could deal with the Scottish Executive and with the bureaucracy involved.

Ken Macintosh: Secondly, I want to ask—

The Convener: Sorry, I will allow Mary Mulligan to put her question. We will cover Ken Macintosh's other question a little later on.

Mary Mulligan: We have already touched on the maintenance of college buildings and the general estate. Are colleges putting in place mechanisms to address maintenance issues?

Howard McKenzie: As things stand, the colleges apply for capital grants from the funding council, but the leverage is quite high. In many cases, the funding council provides 50 per cent of the capital and the college raises the rest. For example, for my college's £53 million rebuild project—which I will go and have a look at after this meeting—about half the money, or £23 million, comes from the funding council and the rest comes from land sales, land deals and also some debt. I will end up with a mortgage of somewhere between £4 million and £8 million. People should keep calm, though, as the amount of debt depends on the amount that I get from the land sale rather than on whether the project goes over budget.

Mary Mulligan: Could anything be done to make the situation better? Clearly, there is always a need to invest in the buildings.

Howard McKenzie: The funding council's idea is by far the best. It believes that we should have an on-going capital commitment that enables us, over a period of time, to build up a fund against depreciation so that we can replace buildings. That is how universities have worked over hundreds of years. They have put money aside in real terms so that they can rebuild buildings at the end of the period. The funding council's idea will put us on a much better footing, as businesses apart from anything else.

I am very aware that I am rebuilding a building that was built 30 years ago by someone who also left me with bits of land that I could sell off to fund the new building. In 30 years' time, a new principal

will want to do the same thing. That person will need a pot of money—if I cannot leave land, I will need to provide cash—to be able to rebuild in 30 years' time. The idea is about the stewardship of the public servant.

Mary Mulligan: I am not sure that your higher education colleagues think that they are in quite such a good position as you might think, but we can pursue that later.

The Convener: Are the current student support arrangements as good as they could be? Do they adequately help the more deprived students, who often enter higher education via further education colleges? Could the arrangements be improved?

Howard McKenzie: Whereas the student support arrangements for higher education involve student debt, which causes people particular difficulties, the student support arrangements for further education work particularly effectively. However, some aspects of housing benefit could be made a lot easier for students in further education. The further education bursaries that they get for college can affect their housing benefit, which introduces a degree of uncertainty. That means that people who have no spare resources often are unwilling to undertake their course, or they find it difficult and need a lot of support.

In higher education, loans are used. We suggested in our strategic spending review submission that all students in higher education in colleges should be taken out of the loans system, because most of them trigger the bursary—the grant part—and will never be in jobs that will allow them to pay back their loan, so it will hang over them until such time as it is written off. We should not ask that of them in the first place; instead, we should use the existing further education mechanisms for all those who study in colleges. That would remove a whole set of barriers for the 26,000 or so people who study in colleges at higher education level.

The Convener: You will be aware that the Government has already indicated its intention to legislate to abolish the graduate endowment. Do you have any views as to whether or not that will make a difference to higher education?

Howard McKenzie: You would be better asking David Caldwell that question, because my students come mainly from the poorer parts of our society, and the graduate endowment does not affect them at all. David Caldwell will probably be able to tell you about the effect of the endowment on higher education students in universities.

Richard Baker (North East Scotland) (Lab): The Open University has provided us with a briefing. It is concerned

"that plans to abolish the graduate endowment will further accentuate the inequity in the way full-time and part-time students are treated."

Are you concerned about that regarding part-time students in the FE sector?

Howard McKenzie: In further education colleges, two thirds of students are part time. The process is pretty reasonable for them. Again, you will have to ask the universities about the impact of the graduate endowment. However, the process for going from full time to part time works remarkably well in colleges—the universities might want to mimic it in some way.

The decision to go part time or full time is largely a personal choice. Many of my full-time students have chosen that option because it is the quickest way to upgrade their skills and get on to the learning ladder. In universities, the process is perhaps different—people might be at work, and so on.

Richard Baker: I note from your submission to the strategic spending review that you are hoping for funding support for an additional 4,000 students. As you have just indicated, many of them will be part time. I imagine that you hope that, in any review of student funding support, they will be considered under the overall approach.

Howard McKenzie: Yes. The system is such that we do not differentiate between the students. People in colleges can do the same qualification whether they are full time or part time. How people get it does not really matter; it is about the numbers and supporting the students as they go through their courses.

Jeremy Purvis: Still on the spending review, I draw your attention to the age participation index for entries into higher education courses, including those on the college estate. I notice that, over the past 10 years, there has been quite a lot of fluctuation, although the level is now pretty much back at where it was 10 years ago. You are calling for additional funding for more places. Is there unmet demand among young people who want to enter colleges for FE? Presumably, not all the additional 4,000 students will be HE students. Could you give us some more detail about how you see that number breaking down and about whether there is unmet demand, in so far as there are young people who wish to come into colleges but you are not funded to provide their places?

Howard McKenzie: The quick answer is yes, there is unmet demand. Scottish Executive research, the results of which are coming out in October, identifies unmet demand among young people who are not in education, employment or training—we are not allowed to call them the NEET group—and older people, because it is not just young people who are denied college places.

Principals often talk about the terrific unmet demand. For example, only three out of every four applicants get a place on a construction course, because we do not have enough places, as we have been capped for seven years. We are unable to grow. I can put on an extra course or admit an extra cohort only by cutting something at the other end. On top of that, I have to deal with special needs provision, which is open-ended. If during the year people require more support—which is not in my gift—I have to make allowances for that. It is a juggling act.

Unmet demand varies, depending on the college and the location. In my college, we receive about 6,500 applications for 2,200 full-time places. In various industries the situation is worse. It is our submission that we should grow the numbers slowly. We could grow faster, but we would end up with the problems of overtrading and so on that we experienced five or six years ago. We have to take that into account and grow slowly, to deal with the number of people who want places.

About 5,000 people a year in Scotland apply for two or three courses, do not receive a place and disappear from the system. Around the same number try repeatedly for places. It is unfortunate, but those people tend to be the least organised and capable in society—they are the people who need the most help.

Ken Macintosh: You mentioned expanding student numbers in your submission. Student numbers grew for several years, but have reached a plateau in the past couple of years. There seems to be a backlash against sending large numbers of students to university or college, but I am not sure that people's impressions of the situation are fair. What do you think? How can we continue to grow? What demand is there for further places at university and college?

Howard McKenzie: I cannot comment on demand for university places. The recent drop in HE numbers is almost entirely accounted for by the drop in higher national programmes in colleges, which has a lot to do with debt. For example, nursery nurses now have to have a higher national certificate. A nursery nurse will end up with a debt of £5,000 to £6,000 and a job that pays £12,000 to £14,000. The threshold for paying back her loan is £15,000, so she will not have to pay it back, which is fine. However, the debt remains and continues to have an impact until it is written off in 10 years' time. People think, "Why bother?" Taking on such a risk is a big issue. Some people do not understand the system and take on the debt; others fight shy of doing so and do things differently.

There is a little competition—if that is the right word—between universities and colleges. More kudos is attached to going to university and it is

perhaps easier to get into university than it used to be, so people go to university instead of getting an HNC or a higher national diploma. No doubt my university colleagues will moan at me for saying that.

Ken Macintosh: There is no doubt that people still want to go to college, but the debt puts them off.

Howard McKenzie: At the interface between colleges and universities there is a little frisson of competition, but we are not short of people. There is huge demand out there for colleges and universities. We do not have to fight over students; there are more than enough to go round.

10:15

The Convener: You have had a week to reflect on the answers that you gave to the questions that we asked you last week. At the end of the session, I asked you what would be the single most important thing that the Government could do to improve the situation in your sector, and you responded that it would be to remove the cap on student numbers. We have touched on that issue today. Having had a week to reflect on the question, do you still think that removing the cap on student numbers would be the most significant step that the Government could take to improve the situation for the FE sector?

Howard McKenzie: It is by far the most important thing that could happen, because thousands of people apply to college but cannot get in. They are probably the ones who need us the most, because they need the most support and help to contribute to the economy and the country. I still say that the most important measure is to expand the size of the further education sector for the people of Scotland.

The Convener: Thank you for attending the committee for a second week in a row. We will now allow you to go back to Jewel and Esk Valley College to do your real job.

I suspend the meeting briefly to allow a changeover of witnesses.

10:16

Meeting suspended.

10:17

On resuming—

The Convener: Our second witness is David Caldwell. He is the director of Universities Scotland and he also appeared before the committee last week. I thank him for returning. We will move straight to questions.

Jeremy Purvis: I do not have a question on governance in higher education, but I would like to ask about age participation. I was interested in the evidence that the committee received last week on age participation, and I have a similar question to the one that I put to the representative of the colleges. I am aware that there is a different funding mechanism in the HE sector, but even in the context of a falling age participation index there appears to be unmet demand. Given that we did not ask previously about the demand for courses, could you address that? We heard from the colleges that there are plenty of students to go round. From your perspective, do you know why the age participation rate has fallen? I appreciate that it has fallen by a relatively small amount over the past few years.

David Caldwell (Universities Scotland): It is hard to explain the changes. They may be to do with statistical fluctuations. The age participation rate is calculated according to a particular index—the proportion of those of a particular age who go into higher education by the time they are 21—but it is not a perfect measure. There will inevitably be fluctuations from one year to another, because not everybody goes into higher education at a fixed age. A characteristic of the system is that, over the years, an increasing number of people have been entering as mature students, so there is a change in the pattern. We ought not to be unduly worried by small fluctuations from year to year, but if there was a consistent downward trend over a number of years that ought to give us serious cause for concern.

The actual drop was from a high of 51.5 per cent to a low of 46.4 per cent. The latest figure rose above 47 per cent again, so we are starting to move in the right direction. However, as I said in my evidence to the committee last week, we should be concerned that other countries are increasing their age participation rates while ours is at best remaining static or is perhaps declining slightly. Participation rates of about 60 per cent will become the norm in the most competitive economies, so we need to push in that direction.

I agree with Howard McKenzie that there is unmet demand. Universities could take more students than they do. There are more qualified applicants than we can take and there is scope for expanding the system, although not massively.

Jeremy Purvis: The notes accompanying the age participation index that was published earlier this year state:

“A one percent change in the overall API would correspond to a change of around 650 in the number of young student entrants”.

It strikes me that, if a number of young people from a particular cohort go into the more competitive economy—we know that youth

unemployment has fallen in the past few years—or take a gap year when they leave school, which is more common than it used to be, that could have a considerable impact on the age participation index. However, you said that there is unmet demand, so a number of young people who want to go into higher education cannot do so because you are not funded to take them.

David Caldwell: That is correct, but you are also correct to suggest that a number of factors come into play and alter the figures to some degree. That reinforces my point that we should not worry about small fluctuations from year to year. However, it should worry us if we begin to see a consistent trend in the wrong direction.

Jeremy Purvis: I have a question on finance, but I think that other members have questions first.

Rob Gibson: I am interested in the extent to which the quality framework in Scotland affects universities' finances. When we talked about competition for students between universities, I reflected on a lecture that Professor Rice gave not long ago in this very room. He said that the strength of the Scottish higher education system is in the liberal arts and that it is a model for many of the American universities that we most look up to—they learn from us. Are the pressures in allocating grants for teaching and so on leading to a move away from those traditional subjects and towards vocational courses? Does competition therefore exist mainly in vocational courses rather than in pure learning?

David Caldwell: I do not want to have to make those choices. It is terribly important that we do both those things extremely well. The liberal arts are immensely valuable in a variety of ways. They make a huge economic contribution as well as contributions to culture and society. However, science, engineering and technology are equally important, and there is hard evidence that Scottish higher education is particularly strong in those areas. Scotland does well compared with the rest of the UK in terms of the number of students and the quality of research. We have to nurture and support those areas, although not at the expense of the liberal arts.

Universities face big resource challenges. The big difference between the Scottish universities and the ivy league universities in the United States is not the size of the institutions—quite a number of the prestigious ivy league institutions are not mega-universities—but the fact that they have vast amounts of money, and so they can achieve remarkable standards of excellence. In Scotland, with much less resource, we have managed to be remarkably competitive with those institutions, as we can demonstrate using a number of key indicators.

Rob Gibson: On the vocational side of higher education, Howard McKenzie talked about there being a slight frisson regarding what colleges provide. Is a lot of thought going into working together? In the Highlands—my own area—we are expecting to have a university that makes that a possibility. Are there enough links throughout Scotland to maximise the financial benefit to the country?

David Caldwell: I do not want to be complacent—we can always do things better. We have to aspire all the time to do things better, which is the whole ethos of the academic quality system that underpins higher education in Scotland—it is about enhancement. Universities are already quite successful at marrying the vocational and the academic, and I would like us to become even better at it. I am proud of the vocational work that Scottish universities do, and I draw attention—as I did last week—to the fact that around 85 per cent of the programmes that are offered by Scottish universities have strong vocational content.

At an event earlier this week, I was challenged to consider that universities might promote themselves as vocational training establishments. We can probably resist that marketing move—it is not a terribly charismatic title. I am happy to take pride in the fact that university courses have substantial vocational content, and that universities are key deliverers of the doctors, nurses, teachers, lawyers and many other professionals on whom the economy depends. I resist terms such as “vocational training establishment” because universities are successful in marrying the vocational and the academic. We waste a lot of time dividing education into those categories, rather than trying to ensure that we have the right combination of the two.

Rob Gibson: Is there pressure for extra spending from those vocational elements that you consider to be well represented in Scottish universities? Are they more expensive subjects to deliver?

David Caldwell: Medicine is, of course, an intrinsically more expensive subject than many liberal arts subjects, so in unit terms—the cost per student—vocational subjects demand more money. We need to ensure that Scottish universities are resourced in a way that allows them to continue to be as internationally competitive as they are now—and preferably to enhance that competitiveness, which would benefit Scotland hugely.

Elizabeth Smith: Those are interesting comments. I am struck by what you said last week and this week about the importance of the distinction between vocational and academic

training. They do go together. You will be well aware of comments that are being made in some universities—and among some employers—that we might be sending too many people into higher education, especially considering the burden of financial resources. Do you accept that we are sending too many people into higher education?

David Caldwell: No. There is practically no issue about which I feel more strongly than that one. All the indications—and these are not our figures, they are the result of research by Future Skills Scotland—are that in 10 years' time, we will need more people who are educated to graduate and postgraduate level than we have now.

It is true that you can find examples of recent graduates who are in jobs for which they are overqualified. Within two or three years, the great majority of them will find themselves in jobs that are entirely appropriate for graduates. Even if people appear to be overqualified for certain jobs, they may, by virtue of their graduate experience, deliver much more than others would in those jobs. Having graduates fill such positions may result in quality improvement.

Is having a few people who appear to be overqualified for the jobs that they are currently doing a bigger problem than having people who are underqualified in the posts that need to be filled? The answer to that question is relatively obvious. Having a shortage of qualified people could be a grave problem and could seriously undermine economic progress. There must be a move to encourage aspirations and to increase the participation rate. As I said earlier, we do not need to do that massively—we are not looking for a huge increase in participation—but we must keep pushing upwards to keep pace with our international competitors.

10:30

Elizabeth Smith: That is an interesting answer. Am I right in thinking that the issue may be the relationship between demand and the skills that the sector is supplying? As you say, some people may be overqualified and may not be able to use their skills to best effect. Is there anything that universities can do to address that issue, so that the graduates who come out of our universities have skills that are better suited to the jobs that are and will be available in the 21st century?

David Caldwell: I preface my comments by saying that we do not wish to be complacent and that we can always do better. The evidence suggests that, currently, universities are doing a pretty good job. In response to surveys, about 85 per cent of employers say that graduates are more or less job ready. The figures for those coming out of colleges are also good—not quite as high, but

not much lower. The satisfaction levels for those who go into employment direct from school are a bit lower still. That suggests that, at a global level, universities are not doing too badly. However, I accept absolutely that we need to find ways of engaging even more effectively with employers than we do now, and of doing our best to provide the graduates whom the economy needs and—for the benefit of our graduates—who are prepared for the careers to which they aspire.

Elizabeth Smith: Should the better communication between universities and employers to which you refer focus on the skills that are required in the workplace generally or on more specific training for the employment for which students are applying?

David Caldwell: It should be more generally based. Employers have a much larger role to play in providing specific skills. Employability is even more important than employment. The real job of universities is to ensure that their graduates are broadly employable, so that they can develop their careers over a lifetime, rather than that they fit into a particular niche now. That is not universities' sole purpose, but it is one of their principal functions.

Aileen Campbell: I would like to ask some questions about QAA Scotland and the quality enhancement framework. You note in your submission that the framework contains several elements, including public information, subject review, and improved learning. Do you think that it has been an effective tool? Do you have any further recommendations to make on it?

David Caldwell: Before I answer that question, I want to say a quick word about annex B of our paper, which is about regulation. It is a snapshot in time, which was taken two or three years ago. A number of things have changed since then. We offered it just as an example of the various forms of external scrutiny to which universities are subject. It should not be taken as a description of what is happening now, because a number of things have changed, nor should it be taken as a complaint. We are not complaining about being subject to external scrutiny; all we were seeking to do was demonstrate that a great deal of external scrutiny took place—rather more than most people imagine.

QAA Scotland is a remarkably good example of effective and successful regulation. Nothing is more important to the higher education sector in Scotland than its reputation for quality. It is an exceptionally good thing that in the UK generally and in Scotland in particular we have one of the most rigorous systems anywhere in the world of scrutinising academic quality. It is a very robust system, which has developed over time.

One of the reasons why I regard the quality enhancement framework as such a success is that it is an area in which Scotland is leading the world in a variety of ways. The distinctive strengths of that approach to academic quality are that it involves the institutions themselves taking the primary responsibility for maintaining quality. However, they still have to satisfy external scrutiny that they are doing the job in a robust and responsible way. There is an external check.

The next most important thing is that there is an ethos of continuous improvement. It is not about ticking a lot of boxes to say that things are okay and that an acceptable standard has been reached. It is more than that: it is about institutions reaching an acceptable standard but being driven by the desire to keep trying to make things better.

The final strength that I would single out is the whole-hearted engagement of students in the process. The external scrutiny process always involves a student member. The process for training students to engage effectively has been particularly thorough. The consumer of the education is a key partner in the process. I genuinely believe that it is no accident that, throughout Europe and beyond, people are looking at the development of the system in Scotland with a great deal of interest and many of them are seeking to move in the same direction.

Aileen Campbell: Is it unusual for students to have such a say in the process? Is that where this process is leading the way?

David Caldwell: It is exceptionally rare. I cannot recall instantly what is happening in every country in the world, but I cannot think of another example of a system in which students are so heavily embedded in the process.

Aileen Campbell: Do you think that you suffer from the same problem as the colleges: there is so much over-auditing that the system is opaque?

David Caldwell: I repeat that we are not complaining about the extent of external scrutiny in our sector; we are just saying that there is quite a lot of it. External scrutiny mechanisms ought to be no more onerous than necessary to meet the requirements of public accountability. We totally accept the need for public accountability and are broadly content with the forms of external scrutiny to which we are subject.

Mary Mulligan: The Audit Scotland report "Estate management in higher education", which I am sure you will have read, suggests that an estimated £700 million would be needed to improve the higher education estate. Is that now being addressed? I recognise that money has been invested during the past few years, but are we heading in the right direction? What are the outstanding challenges?

David Caldwell: It is being addressed and we need to continue to address it. For many years, universities were not in any more advantageous a position than colleges in that respect. We had a long period in which no capital funding was available for the renewal of premises, but a number of universities managed to undertake projects using other sources of finance to modernise parts of their estate. Inevitably, however, there were limits to how much they could achieve.

As a result of the previous spending review, a significant amount of additional money was made available for investment in the university estate. That will make a significant difference. We are only beginning to see the effect of that because that money began to flow significantly only two years ago, and capital projects take time, but we have started on the route that we need to take. We simply need to keep going for some years and then to continue investing steadily so that we do not let a substantial backlog build up.

Very few university buildings are in a seriously depleted state where very urgent action is required. A significant number of buildings require attention and renewing within the foreseeable future, but they are adequate for the time being.

Mary Mulligan: The Audit Scotland report recommends that higher education institutions develop realistic financial plans to support their estate strategies. Have you been unrealistic or complacent in the past? If you have, have you moved on?

David Caldwell: Universities have always been realistic about what they can achieve within the available resources. It is characteristic of all that they have well-thought-out estate strategies, which involve members of the governing body who have particular expertise in such areas. I am convinced that their strategies are realistic, but they are also subject to their envelope of resource.

Mary Mulligan: Having looked at all the different indicators of why problems arose, it is important to have a strategy in place. You might have already answered my final question. Has the current standard of the estate affected the ability of universities in Scotland to attract students and staff?

David Caldwell: No; things have not reached that point. Although I accept that proportionally more might need to be done in Scotland than in England, the discrepancy is not large; there has also been a lack of investment in England. I do not believe that we have lost out because Scottish universities are less attractive to students, but it is important that we modernise our estate in the interests of our learners and of ensuring that we do not fall behind the international competition. It

is not just England we are talking about; we are talking about international opportunities.

Mary Mulligan: Or Wales.

10:45

The Convener: Do you believe that the current student support arrangements are adequate? If they are not, how can they be improved?

David Caldwell: The issue of part-time students needs most immediate attention. Although they do not represent as high a proportion of our student population as they do in FE, they still constitute about a third of it.

The system for supporting such students remains confusing, and some rationality is required. In particular, we need to look at part-time students paying fees to study for qualifications for which full-time students do not have to pay.

The Convener: I assume, then, that you welcome the Government's commitment to review support for part-time students and taught postgraduate courses. Will you make a submission to that review and, if so, what suggestions will you make?

David Caldwell: I am sure that we will make a submission to the review. In fairness to all involved, I should say that we have not been able to address this problem fully until now because of the complexity of the issues affecting part-time students.

I think that, in our submission, we will argue that part-time students should not find themselves disadvantaged in comparison with full-time students. That said, it is tremendously difficult to make like-for-like comparisons and we need to establish support arrangements that are broadly equitable rather than exactly the same.

The compelling need with regard to postgraduates is to increase their number. The most startling finding of the Futureskills Scotland work is its estimate that we will need nearly 200,000 more workers with postgraduate qualifications by 2017. It will be very difficult to meet that target unless we get more people into postgraduate places.

The issue is not only postgraduate support but the provision of places in the system. After all, it is not only the further education system whose numbers have been capped. We need to create more postgraduate places and consider whether certain student support issues are constraining the number of people entering postgraduate courses. The factor might or might not be significant, but we need to explore it.

The Convener: Does Universities Scotland have a view on the Government's intention to

abolish the graduate endowment? What difference will such a move make to the universities sector?

David Caldwell: Universities Scotland's view on this matter has been communicated as part of the consultation process. We thought very carefully about it. In principle, we support the graduate endowment's abolition mainly because, as we were careful to point out in our response, it will benefit the majority of our full-time undergraduate students.

The answer to your first question is that abolition does not deal with part-time or postgraduate students, but we welcome it in so far as it benefits the majority of our full-time undergraduate students.

Another qualification that we entered was that greater generosity towards our students, which we welcome, absolutely must not be at the cost of funding institutions. We do our students no favour if they go to institutions that are not resourced to be as competitive internationally as we want them to be or to deliver the learning environment that our students are entitled to expect. Therefore, we emphasise our welcome for the undertaking that we have been given that decisions on student support will have no impact on or connection with decisions on funding institutions.

It is also important that greater generosity in student support does not incur the cost that fewer students have the opportunity to go into higher education. I hope that those Chinese walls are firmly in place.

Richard Baker: The proposal to relieve the debt burden on all Scottish graduates has been costed at anything between £100 million and £1.9 billion. Are you concerned that that could have wider funding implications for the sector?

David Caldwell: I certainly would be concerned if that proposal had an adverse impact on the funding of institutions or if it resulted in fewer people having the opportunity to go into higher education. Provided that those matters are protected, it is for politicians to decide what is affordable within the overall envelope of resources that is available to them.

Ken Macintosh: It is fair to say that, from the outside, Universities Scotland's relationship with the funding council seems fairly stable. Do you feel that universities are more vulnerable to unforeseen or unpredictable outcomes of the research assessment exercise? For example, the RAE has led to practices such as poaching staff between universities. The RAE has been reformed already, but does it need further reform? Is the whole RAE process an anxious one for universities?

David Caldwell: It is certainly true that a frisson is associated with the RAE. As you say, the RAE is always being subjected to reform—that happens after pretty well every RAE. It is true that funding from the RAE tends to be more volatile than funding for teaching from the funding council, because much depends on the rating that a university achieves for its research.

In the RAE's favour, Scottish universities by and large welcome such scrutiny of the quality of their research periodically and welcome the channelling of more funding wherever excellence is found. There is some uncertainty about the amount of funding that a university will receive, but Scottish universities have done well in recent research assessment exercises. I hope that more recent initiatives such as the research pooling exercise, which the Scottish funding council launched and which universities warmly welcomed, will result in Scottish universities performing even better at the research assessment exercise in 2008, which is just round the corner.

As for future reform, to some extent we are in other people's hands as the United Kingdom Government has decided that there will be significant changes in the RAE and that it will be more metrics based in the future, the element of peer judgment being correspondingly reduced—although, I trust, not eliminated.

On the whole, while, like most things, the RAE is not perfect, it has been a success. It has been a good mechanism for driving up the quantity and, more important, the quality of research undertaken in universities in the UK, and especially in Scotland, over the past 20 years or so.

Ken Macintosh: Your submission talks about accreditation by professional regulatory and statutory bodies. I would like to know more about your relationship with those bodies.

Through casework and anecdotal stories that have been recounted to me, I have heard about law students entering law degree courses believing that they are taking the first steps towards becoming a solicitor, but finding out that the actual entrance to the profession is at the postgraduate certificate level. There is anxiety that there has been a rapid expansion in the number of law courses that are offered at undergraduate level. I am not sure that there is any foundation for that anxiety, but are you confident that universities have a good relationship with bodies such as the Law Society in relation to entry to the professions? There is nothing wrong with someone having a law degree as a general degree, of course, but are you confident that students are not embarking on courses that they assume will lead to a professional degree but which turn out to lead only to a general degree?

David Caldwell: Like you, Mr Macintosh, I have no evidence for believing that there is a problem in that regard. I believe that, on the whole, universities have a good relationship with the Law Society. In terms of professional and statutory bodies in general, I would say that it is a particular challenge for universities that there are so many of them and that they all operate in slightly different ways, which means that the universities must tailor the relationship to the needs of the particular statutory body. My experience has been that the relationship with the Law Society has always been close. It is important that students have a clear understanding of where the course is leading and what professional recognition it will provide. Most universities take that matter extremely seriously and offer good guidance to students entering programmes about exactly what they can expect as a result of those programmes.

The evidence suggests that the general expansion of law programmes is probably a good thing. It is true to say that it means that a lot of graduates from law programmes will not necessarily end up as solicitors or advocates but will go into other occupations, but all the indications suggest that those legal skills are highly valued in a wide range of occupations. I have no evidence that people leaving universities with degrees in law or legal studies are having difficulty finding remunerative employment.

Ken Macintosh: Far from it.

Who controls the number of students entering law degree courses? Are there any mechanisms by which universities decide how many law graduates there should be, or is that entirely up to individual universities or the Law Society?

David Caldwell: On some questions, I am afraid that I have to admit to ignorance. I could undertake to investigate that matter and write to you with an answer in due course.

I can make a general point about regulation of the number of places. There is a lot of evidence to indicate that that is not desperately effective. One of the most persuasive reasons for avoiding too interventionist an approach, which would involve telling universities how many places to offer in certain subjects, is the extreme difficulty of getting the sums right.

For decades, attempts have been made to plan the number of doctors and teachers—to give two obvious examples of people whom we need—but the central planners have consistently got the sums wrong. Sometimes the figures are too high and sometimes they are too low. I have a degree of scepticism about the general principle of trying too firmly to regulate the number of students who go into certain programmes.

11:00

Jeremy Purvis: I have two questions, the first of which is on the graduate endowment. Statistics that were published today show that, from 1999 to 2005-06, the number of students who left higher education courses in Scotland grew consistently. Is the graduate endowment a disincentive, to use an American phrase, for those who enter universities, given that the leaving rate among Scottish students has grown consistently? Is there a connection between the graduate endowment and the age participation rate?

David Caldwell: The evidence is too thin to draw a firm conclusion about that. I am not saying that the graduate endowment could not have an effect at the margin, but I would be surprised if it went much beyond that. Broadly speaking, the number who attend higher education programmes in Scottish universities has continued to rise slightly, even during a period when the age participation rate has gone down slightly. Although we would all like our completion rates to be better, they remain among the best in the world by international standards. A high proportion of people who enter higher education complete their programme successfully.

Jeremy Purvis: We will take evidence from a representative of the Scottish funding council. You may have seen the council's written submission, which mentions the comparative situation with England and Wales and the possible effect on that of decisions that may be taken there on fees. What should we expect to happen if a competitive difference emerges? In practice, would there be changes to the number of applications or research grants, for example? What would be the impact or consequences of a lack of competitiveness here?

David Caldwell: The effects would come in stages and would not happen immediately, but once the process started, it would be hard work to reverse it. It is important to point out that the issue is about comparisons not only with England, but with other parts of the world.

More than 20 per cent of the staff in Scottish universities come from outwith the UK—leading academics are drawn here from all over the world. Increasingly, we work in an international context. The first effect would be that the most successful and active research staff would be attracted by the higher-quality research facilities and infrastructure and better teaching infrastructure in other countries. England is simply the closest country with which we are in competition, but it is not the only one. There would be a gradual drift—what people often call a brain drain—of some of our most able people as they began to look elsewhere. That would be different from the present situation, in which Scotland brings in extremely able people from other parts of the

world because our system is seen as particularly attractive.

The next stage would be the beginning of an effect on student perceptions. Students are not drawn simply by price. In the end, cheaper higher education in Scotland would not outweigh perceptions about quality. If students thought that teaching facilities and infrastructures elsewhere were better and that stronger staff teams were available elsewhere, one would begin to see them choosing to go elsewhere. The most important point that I want to make is that it is vital that we never get into that position. We do not need to do so, as we are highly competitive and we can attract people. We are not losing people—there is no brain drain—and we want to maintain that position. We want to maintain a strong Scottish system that is internationally attractive.

Mary Mulligan: Given that we are competing against other countries such as England, with its top-up fees, and that increasing numbers of people are going into higher education in the Asian countries, what can we do to ensure that we maintain our competitive position?

David Caldwell: We all need to play a part to ensure that we do that—indeed, the universities already do so—but we must honestly admit that resources are an issue. We must ensure that our universities are resourced to a level at which they can be internationally competitive, which has implications for public funding. However, I can offer you comfort: we get outstanding value for money from additional public investment in universities. We can demonstrate that, for every additional pound of public investment that has gone into universities in recent years, universities have been able to lever in at least another pound from sources outwith public funding. Therefore, we get at least £2 of public benefit back for every extra pound that is invested, which is an amazing bargain. Universities make a significant contribution, but we must look for genuine partnership. There must be commitment by the Government, the Parliament and the higher education sector to ensure that we resource our system in a way that enables it to remain competitive and—ideally—enhances its competitiveness.

Mary Mulligan: Mr McKenzie mentioned the relationships between colleges and the funding council and between universities and the funding council. Does the funding council recognise the need for the continuing investment of resources in higher education? Are relationships good enough to get that message over so that we do not fall behind?

David Caldwell: We have a good relationship with the funding council. One must remember that, in the last resort, the funding council's main role is

to allocate the global sum that it is given. It does not control the total amount of money that is available—the Government decides that. However, in its role as adviser to the Government, it supports the higher education sector and the further education sector and contributes to making cases on their behalf and emphasising their importance to the Government's overall policy objectives. We are broadly content with our relationship with the funding council, which is good and cordial.

Rob Gibson: I have a small point about the direction of our universities. We talked earlier about seeking excellence. Do you think that, as some people have suggested, there is a need to have fewer universities and more mergers in the cities in particular so that the limited pot of money can be spent better in Scotland? The UHI Millennium Institute should be accredited and incorporated in the next year or so, which is what was planned. However, perhaps the overall mindset of the existing university establishment is against mergers and in favour of continuing to spend the money as it is spent at present.

David Caldwell: I will answer that question by questioning an assumption that underlies it and then questioning some of the evidence.

The assumption that I question is that mergers necessarily save money. There is a lot of evidence to counter that. In the short and medium term, mergers cost money. The most notable university merger in the UK in recent times was that between the Victoria University of Manchester and the University of Manchester Institute of Science and Technology, which cost an enormous amount of money. It may well justify itself in the long term through the larger institution having a greater impact and being more effective but, in the short and medium term, merging is not a way of saving money but of spending it. In the long term, a merger probably does not save money, although we might get more for our money as a result.

The bit of evidence that I query is the suggestion that higher education institutions have a mindset that is ill disposed to mergers. Since 1990, there have been nine mergers in higher education in Scotland. That has reduced the number of institutions to two thirds of what it otherwise would have been—we have 20 institutions when we would otherwise have had about 30. The mergers have been led by the sector. Universities are driven by the desire to ensure that they are internationally competitive and if, in their judgment, a merger will enable them to achieve greater competitiveness, you will find them leading the way. They will not resist mergers.

Members should reflect on the fact that universities are all large institutions. In every city in which they are located, they are among the largest

employers. They are large businesses—some of the largest in Scotland.

I certainly do not rule out mergers. If you asked me to get out the crystal ball, I would say that the probability is that, in 10 or 20 years' time, we will have a smaller number of institutions than we do now. As I said, the trend has been downwards over quite a long time. I do not think that there is resistance; there is a genuine desire in universities to do whatever we can to ensure that we remain internationally competitive, including restructuring if it achieves that aim.

The Convener: I will ask you one final question before we allow you to go. Last week, I asked you what one thing the Scottish Government could do to improve things for universities in Scotland. Like Mr McKenzie, you have had a week to reflect on the answer that you gave to the committee. Have you changed your mind? Do you have any clear view about what might make a significant impact for the betterment of the university sector in Scotland?

David Caldwell: I was caught off guard by the question last week and not prepared for it. However, I have not changed my mind and continue to believe that the most important thing that we can do is to raise aspirations among everyone in Scotland to reach the level of educational and intellectual development of which they are capable. I add that we must also ensure that the opportunities are available to them to fulfil those aspirations, because I accept that it is no good raising people's aspirations if we do not give them the opportunity to fulfil them. Addressing unmet demand is an important part of the package.

The Convener: Thank you very much for that, Mr Caldwell, and for attending.

I suspend the committee for five minutes to allow members to have a short comfort break and to allow for the changeover of witnesses.

11:15

Meeting suspended.

11:22

On resuming—

The Convener: I reconvene the meeting and welcome our third witness, who has been alluded to quite often during our two previous evidence-taking sessions. I am pleased to welcome Roger McClure, the chief executive of the Scottish Further and Higher Education Funding Council. Thank you for joining us this morning, Mr McClure. We will proceed straight to questions.

Jeremy Purvis: This relates to an earlier question, which you might have heard, Mr McClure, concerning the governance of the colleges. Do you have any comment to make on your role in driving forward best practice in governance and accountability? The colleges are autonomous bodies that provide continuous professional development to both principals and board members. What role does the funding council play in that? Are there any strictures in your funding mechanisms that can be used if you consider that the governance of FE institutions is not up to scratch?

Roger McClure (Scottish Further and Higher Education Funding Council): It is important to stress that the funding council, as a matter of philosophy, believes that colleges and universities in Scotland will be most effective if they are well governed. It is impossible for any central body remotely to manage or oversee the activities of those institutions. That applies to colleges in particular, given that they operate in local circumstances—which differ throughout the country—and that the stimuli to which they must respond are different and change rapidly. The same is true for the universities, except that they operate not only in local markets, but in national and international markets.

We firmly believe that we will get the best outcome for the country if each institution is as well governed and well managed as possible, and we have taken various initiatives to reinforce that. For example, one of the seven main aims in our new corporate plan is for

“Scotland’s colleges, universities and Funding Council to be highly effective, world-class organisations.”

Within that, the first objective is to achieve

“high standards of governance, leadership and management and a culture of continuous improvement”.

If you read the corporate plan, you will see specific actions to which the funding council has committed itself in order to reinforce those standards of governance in colleges and universities. Those actions include reporting regularly on corporate governance arrangements in the institutions; drawing on external and internal audit—direct observation of what is happening in the institutions; benchmarking the good practice guides that the institutions use to ensure that they match the good practice that has been published nationally in the UK; and providing funding to support CPD, which was mentioned earlier by Howard McKenzie, not only for governors, but for senior managers. All those activities are designed to support the institutions.

A fundamental point is that, from 1 January 2006, the financial memorandum that underpins our relationship with institutions became a

completely different document from the one that preceded it. The previous document was 25 or more pages of rather obscure prescription about buildings, financial controls, and so on; the current financial memorandum is a three-page document that sets out clearly at the level of high principle what we expect of governing bodies as a condition of their funding. The condition is that, if they accept the funding, they must do the things in that document.

Jeremy Purvis: I have a brief supplementary question. Standards of leadership and governance are now an important part of HMIE reports on colleges. What are the trigger mechanisms in the financial memorandum and the conditions of grant if a college is not operating to the appropriate standards of governance and accountability? Would you take a steer from HMIE reports? Do you have your own mechanisms for determining action, or does the responsibility lie with HMIE?

Roger McClure: There are a variety of ways in which we can pick up signals. It is also important to stress that there are two types of poor performance. One is technical poor performance—in other words, a governing body has not constituted its committees properly or has not met regularly, or its meetings have not been quorate or whatever. Technical poor performance is not a good thing, as it is likely to lead to further, more significant poor performance. However, it does not, of itself, mean that things will go wrong at the college. Performance is monitored through internal and external audit, and a corporate governance statement must be included in the accounts not only of the higher education institutions—as it says in your background briefing from SPICE—but in colleges. There are one or two statements in your background briefing that are not quite accurate. Perhaps I could submit a document to ensure that the committee has the correct information. The colleges have exactly the same requirement in corporate governance as the higher education institutions.

It is much more significant if a college starts to perform badly either in the quality of the provision that it makes for its students or in its financial performance, which is what people have tended to hear about in recent years. That is where the funding council’s monitoring of financial statements and financial forecasts and all our intelligence gathering comes in. That work is now done much more coherently and holistically. We construct internally, for our own purposes, what one might call a profile of an institution’s performance and look at the statistics for the institution’s returns, its HMIE reports, its financial returns, and so on.

From talking regularly to institutions, we also get an impression of how a college is performing. Of

course, performance indicators give specific information, as do HMIE reports and QAA reports on universities. If after considering all that information we conclude that an institution is performing poorly or has gone seriously wrong, the starting point is the governing body. The governing body is responsible and if it does its job properly such things do not happen. An institution can get away with having a not-wonderful governing body if it has a good principal, but if the principal is not highly effective the situation will quickly lead to poor performance by the institution.

The corollary of that is that the task is extremely difficult, particularly for colleges. Colleges have relatively thin management; funding that is designed to deliver outputs rather than create large reserves and so on; an average course length that is well less than a year; and a clientele that is incredibly volatile. The sector proportion of part-time students is about 80 per cent—I think Howard McKenzie said two thirds. It is an extremely demanding management challenge, as well as a financial challenge, to keep all that on the road and remain solvent.

11:30

Rob Gibson: We discussed research that proposed a longer financial cycle. What advantages or restrictions would such a change bring?

Roger McClure: Institutions have sought such a change for some time and the issue has been discussed on several occasions. I think that pretty nearly everyone agrees that it would be excellent if we could tell institutions exactly how much money they would receive for the next three years, on a rolling basis. The trouble is that the Government announces money through the spending review by giving firm figures for one year and indicative figures for the two subsequent years, as you know. In such circumstances it would be irresponsible of the SFC to commit itself to firm figures for institutions. If the council committed itself in that way, it would have to take care that its allocations were prudent, in case things went wrong in subsequent years. Such prudent figures would not help institutions to plan any more than the current system does.

The current system is pretty well understood. Institutions know well in advance of the coming year exactly what their allocation will be in all the main respects. Experienced managers understand the spending review process and know what the indicative numbers mean. When we publish our annual grant letters, which indicate the precise amount for the coming year, we give a forward look that says as much as possible about how we intend to do things in the subsequent years. Most planning officers and others in institutions are able to get a good idea of what is coming their way.

Rob Gibson: Howard McKenzie was keen to talk about the ability to build up working capital. Must you alter how you fund, to take that on board?

Roger McClure: How we fund has no bearing on whether colleges have enough working capital. Howard McKenzie was talking about the size of the quantum that is available to the sector. What happened at incorporation—this is true for the universities, too—was that colleges received running-costs funding that matched what was perceived or estimated to be their running costs at the time. Of course, that included working capital for running costs. However, colleges did not get anything like the funding that a business would receive for capital investment in that business. Instead, their buildings were vested in them—the buildings were just passed over and they were told, “Here’s your building”. Many colleges will tell you that they became the owners of not just a building but a large liability, for which there was no funding provision.

For decades, both England and Scotland relied on capital grants that I am afraid have not been a consistent means of maintaining and developing the estate. That was the position until three or four years ago when, to the great credit of the Scottish Executive, a large capital programme was initiated, in the college sector initially. It enabled the funding council to allocate money in two ways: a formula amount every year to every college so that they can attend to basic maintenance and minor works; and now, as you all know, the large building programme that we are running to deal with the poor estates that had deteriorated by the turn of the millennium. You will see new estates emerging in the papers and around you. A great thing has happened in FE in Scotland. We have some way to go; we have 16 projects on the go at the moment and more to come. That programme will transform the face of further education in Scotland.

What Howard McKenzie said is absolutely right: our giving a new building to a college does not solve the problem unless the college has added to its regular income the means to sustain that building in the future—what we call in the trade the cost of capital. Howard McKenzie alluded to the funding council’s attempt to change the situation. We are trying to persuade the Government that we should provide the equivalent of that cost of capital on a regular basis to institutions in both sectors so that they are in a position to sustain and renew their estates. That would mean a formula capital allocation to all institutions; thereafter, it would be down to the governing body to ensure that it sustains its estate appropriately.

Rob Gibson: I hinted at another aspect of those projects—the anticipation of local needs, about

which you would expect to receive requests from particular colleges. Is the quality of courses and research adequate for such developments to take place at fairly short notice? We have spoken about the potential for a new industry to start, with a college gearing up to service its needs. Would shorter-term funding with two years of indicative funding thereafter, or a longer-term funding cycle, be beneficial or detrimental to such a situation? Adaptability in the college sector will win it plaudits.

Roger McClure: The current arrangements work pretty well. You should not have the impression that because we allocate only one year ahead there is any real risk of a dramatic change in any institution's funding in the following two years. The whole trajectory is clear from the spending review. As I said, if there is any additional money, we identify how we will allocate it as far as we are able to do so. Without having the exact figures, institutions have a pretty good understanding that they will have the necessary resources to work with.

The college sector has been in a consolidation phase in the past few years, to recover from the poor financial position that it was in at the turn of the century. As there has been no overall growth, colleges have had to work out the changing needs in their localities and how to adjust to them. The colleges have known enough about their financial position to be able to do that. It is a very responsive sector—it is one of the things that it is extremely good at.

Aileen Campbell: Do you consider that the ways of assessing best value for public money, such as through Audit Scotland, are adequate? Will you say more about other mechanisms to scrutinise use of public money?

Roger McClure: I will take each sector separately, although I have one comment about both sectors. The great bulk of public funding that we allocate to the institutions is allocated according to a formula to which I alluded briefly in my written submission. It is essentially a capitation formula: an amount is allocated for each student for whom a course is provided, but it takes account of the different costs of courses, and there are other adjustments to reflect the student's background, such as whether they are remote—the things that you would expect. The price per student is therefore determined by the Government of the day, which decides how much money it is going to allocate to each sector and how many students it wants the sector to deliver. In a way, the efficiency of the sector is built in at that point, because that is the amount of public money that goes into each student. Of course, the unit cost could be much higher than that, because an institution that is successful at attracting other

business, from which it gets a contribution, can feed that back into its courses. That is a good thing, but it will not change the cost to the public purse, which is predetermined by the spending review decisions of the Government. That is particularly true in the college sector, where the competition that might be expected is not so obvious, so people are not forced to consider how they manage particular activities. Within certain urban settings, there is competition between colleges, but for most of Scotland a local college is doing the job.

We have not left it there. Two or three years ago, we devised a large-scale cost benchmarking exercise for colleges throughout the sector—the exercise was conducted by consultants, who developed the methodology. Since then, we have regularly published benchmark figures for colleges' costs in a great deal of detail on a comparable basis, so that they can compare how they are doing. More recently, they have all become members of two or three benchmarking clubs—that is, clubs that are made up of colleges that have similar characteristics. That is where it really begins to pay off. The managers can get together and say, "Let's really understand how you got that figure when we've got this figure." The learning comes out of that discussion.

The university sector is much more clearly subject to competition because it is essentially a national system—indeed, it is an international system. We might like high-quality research to cost less, but if we want high-quality research in Scotland we have to be prepared to pay for salaries, facilities and equipment of the kind that our competitors in England, Europe and America are prepared to pay for; otherwise, we will not get that high-quality research. I am afraid that it is a law of arithmetic.

Aileen Campbell: Do you benchmark against universities elsewhere? You mentioned the comparison with the English system of top-up fees and suchlike.

Roger McClure: We do not do that ourselves in any detailed way. Such benchmarking exercises are incredibly difficult to do because there is so much that is not exactly the same. We have to make lots of assumptions. That is even true when we try to benchmark against England. I was referring to the fact that, at the sharp end, where the universities are trying to recruit researchers, they are very aware that they are in a global market, so they cannot set the price. They have to negotiate a price that is being set by that global market. We are price takers rather than price makers.

Aileen Campbell: The Association of Scotland's Colleges mentioned that bursaries had a negative impact on housing benefit, and that you allocate

£60 million to colleges for bursaries for people on low incomes. You are trying to widen access, but were you aware of the problem of the knock-on effect of bursaries on housing benefits? It is an unintended consequence that affects students' benefits and their total income.

Roger McClure: I am not sufficiently aware of that interaction to give the committee useful advice at the moment, but I can certainly find out.

Elizabeth Smith: I turn to the overall financing of universities and colleges, for which I fully appreciate that you are only partly responsible. There are very senior figures in universities who are deeply concerned about the problem that you have just mentioned, which is that we cannot hope to attract, on a competitive basis, staff and resources of the highest quality unless more money is put into the system. It strikes me that we need far greater resources, not simply from the funding council but from other sources. How do you suggest that we do that? Do you accept that an independent inquiry, similar to the one that Andrew Cubie carried out a few years ago, may be needed, so that money can be found for the much more expensive research that we undoubtedly need—especially in areas such as medical sciences—and the concerns of people such as Bernard King and Brian Lang can be met? They are deeply concerned about the competitiveness of our universities, especially if top-up fees in England are increased from £3,000.

11:45

Roger McClure: To date the Scottish Government has supported research activities in Scotland extremely well. Scotland has more than kept pace in the funding of research. David Caldwell referred to the success of Scottish research that is evident from indicators. The fact that we have been successful in attracting major American companies such as Wyeth Pharmaceuticals and Alexandria Real Estate Equities shows that that investment is paying off. However, there is no doubt that whether we can continue in that position is open to question. Every country on the globe is looking for ways of getting more resources into higher education and research. The costs of carrying out that work—on medicine, on particle physics or, as in Glasgow, on gravitational waves—are extremely high.

This is such a big question that it is for the elected Government of the day to decide whether it wishes to compete and whether investment in research is the right strategy for economic success, although I for one believe absolutely that it is. Yesterday I came back from Ireland, where we discussed the issue with American colleagues. In July I was in Chicago to discuss higher education policy with representatives of seven

English-speaking nations that meet regularly. I know that the Governments of developed countries throughout the world have no doubt that, if the knowledge economy means anything, they must continue to invest in research to maintain their position, let alone to make progress. I have no doubt that the necessary resources must be found, but it is for the elected Government of the day to decide how that is done. There are various options, of which the committee is well aware. Some countries have already introduced those measures, whereas others have gone in different directions. A judgment must be made, and it is not for me, but for the elected Government, to make that judgment.

Elizabeth Smith: Do you accept that Government resources are inevitably limited and that there are alternative ways of funding universities and colleges? Are there lessons to be learned from places such as America—where far more private money is available, especially to ivy league universities—about where that money can be sourced?

Roger McClure: There are always lessons to be learned from other countries. Although at the moment the Americans are concerned about their system, it is still stated by many to be the most successful system in the world. Different approaches have been adopted in places such as Australia and New Zealand. Even in Europe, which has had some of the most bureaucratic systems, people are now talking of different ways of financing universities that would not have been on the agenda hitherto. We would be foolish not to look at what is happening there. However, we are a democratic country and elect a Government. On such a big question, it is for the Government to decide whether it will give priority to funding higher education through taxation or whether some other source of funding should be found.

Richard Baker: There is much debate about what may happen to university income in England in 2009 and about whether the cap on top-up fees will be removed. Is there not pressure before then, with the 2008 research assessment exercise? Is it not crucial that we secure the right level of research funding for Scottish institutions, so that we can compete in the exercise and benefit subsequently from UK funding?

Roger McClure: There are two issues. Many people are talking as if it is a done deal that the level of top-up fees will be raised or that the cap will be removed altogether. I am not an expert in Westminster finance, but it is not obvious to me that it is a done deal. As I understand it, unless a new way is found to account for public expenditure, any increase to the cap—or its abolition—will count as public expenditure. Because a mechanism has been adopted in

England whereby the institutions are paid up front from public expenditure and the Government subsequently recovers the money from students over a long period of time, there would be a significant public expenditure hit. Are we really saying that, if the cap was abolished, the Government would write a blank cheque for any amount of fee income that any prestigious institution cared to put in its brochure? It might be that ways are being found to allow that, but it is not obvious to me that that will happen.

We state in our written submission that, in broad terms—I stress that, because the calculations are complicated and one ends up making assumption after assumption—there is parity between Scotland and England in the current spending review period. However, what happens in 2009 will be crucial and we will watch it carefully.

On the research front, we expect an improvement in the proportion of high-quality research across the Scottish research base. It will be dispiriting for Scottish researchers if, having worked hard and raised their game as required by Government, they do not receive a commensurate reward.

Richard Baker: You talked about the current broad parity of funding, but by 2008 there will have been fee income for a number of years.

Roger McClure: No, I am counting that. Sorry. I am projecting forward to 2008.

Richard Baker: You said that it has been difficult to benchmark funding for Scottish institutions against those in the rest of the UK. Are you confident that, before we get to 2009 and all the debates around that, income levels in 2008 will allow Scottish universities to compete in the exercise? Without benchmarking, can we be sure about that?

Roger McClure: I could produce several pages of calculations and assumptions that might persuade you that there is broad parity. However, that is not the issue. As we state in our written submission—you asked for about two pages, so it is condensed—it is perception that matters. Students are not interested in several pages of obscure comparisons and assumptions from the funding council. As David Caldwell implied, if a perception begins to grow that Scotland is no longer competing in the way in which it funds its institutions, that will take root quickly. The media would give the idea plenty of oxygen. When a perception takes hold, it is hard to shift.

If you want some tangible evidence of that, when the Cubie committee came to the conclusion that Scotland-domiciled students should not pay fees, there was still a great dip, which appeared to show that students knew that there was a discussion about fees and that that was enough to

put them off. They did not focus on the fact that they were not going to have to pay fees. Perception is important.

Ken Macintosh: I return to accountability. How has the relationship between the funding council and colleges changed, particularly in the light of the relatively few cases that have caused concern over the years? In particular, can you shed some light on the relationship with the further education development directorate? I am not sure that I understand how it works.

Roger McClure: Perhaps it would be helpful to give some perspective on that. When I came to Scotland, some 34 of the 45 colleges—or however many there were at that time—were in financial deficit. The reasons for that appear to have been several and may have included management and governance. The very rapid expansion in the sector, which was promoted at the time, was also a major factor. Furthermore, there was something of a beggar-thy-neighbour funding system. The idea was that how much an institution got one year depended on how much it grew the previous year. Institutions were expanding like crazy to grow their following year's grants. I do not wish to make any comment on whether that was appropriate.

In England, where I was at the time, there was a need to bring down the average level of funding. As colleges came out of local authorities, there were huge disparities in the levels of funding for doing the same thing. There was a real need to drive efficiency. As we entered the new century, it appeared from the financial reports that things had gone too far. Too many colleges were in deficit, and that was making the headlines. Nobody was hearing about all the good work that colleges were doing, about how inclusive they were and about their natural instinct to take all comers.

The Scottish Further Education Funding Council received helpful support from the Scottish Executive by way of funding and a financial security campaign. We said that, in three years' time—that is, by July 2006—we wanted the whole sector to be financially secure. We got there, bar two colleges: Inverness College and James Watt College of Further and Higher Education. I should stress that, as was discussed earlier, Inverness College had inherited its situation; it had been in trouble from the early 1990s. For a while, it seemed to be doing well and looked as if it was on track. It appointed a new principal, there was a period of two or three years when it was not clear what was happening, but then it suddenly became clear that things had gone right off track again. However, we fixed that very quickly. I will return later to discuss the role of the further education development directorate in the process.

James Watt College looked as if it was doing perfectly well. However, intelligence began to

reach us that its figures were not quite what it had thought they were. Once it became clear how bad the situation was, we had to intervene. From the point of intervention, the situation was sorted very quickly.

We have to get across to the committee the fact that the institutions are autonomous. The Scottish funding council is not in charge of the books, and we do not run the institutions' systems. We are dependent, at least initially, on the intelligence that we get from them. If they report to us that there is a problem but that they have worked out what it is, that they are going to fix it and that it will be all right in six months' time, we are likely—unless we have some other reason to intervene—to accept that and to monitor the situation closely. However, it might turn out that the situation will have got worse six months later. That is the main reason why onlookers think that things can take a long time to get to grips with.

In fact, it is more a question of its taking longer than it should do to find out what the real problem is. However, once it is clear to us that there is a major problem, as it was at James Watt College and as it was at Inverness eventually, the evidence shows that we have been able to address it very quickly. We had a lot of discussion with the Audit Committee about that.

The further education development directorate played a major role in that. It was a funding council innovation, and was designed as a bridge between the funding council and the sector. The idea was that colleges are special places to manage, as I said earlier. Bringing in management consultants to identify problems and make recommendations to solve them is expensive and not terribly effective, because the consultants do not understand what they are dealing with.

The great thing about the development directorate is that the people who do the assignments are experienced practitioners from the college sector. They have experienced similar problems, and they recognise what they are looking at. They know if the wool is being pulled over their eyes. They know when a problem can be fixed, even if the local manager might be saying that it is all too difficult. The directorate has been enormously successful. The teams who have gone in have identified quickly what was going wrong in the institutions and made clear recommendations as to how things could be put right. We have built on that work to great advantage.

I should add that that activity is incredibly cost effective. All that we pay is the cost of releasing the people concerned. We reimburse the home institution just for the salary cost and the costs that are associated with releasing them. Of course, that money goes back into the sector.

As Howard McKenzie said, although the high-profile financial security cases have attracted most attention, most of the directorate's assignments relate to strategic developments that are not controversial and do not attract headlines but deliver benefit to colleges in a cost-effective way. In that way, the sector helps itself.

12:00

Ken Macintosh: That is helpful.

Given that we are looking at the possibility of removing the powers of ministerial intervention to ensure that colleges retain their charitable status, do you think that we need a similar power to be given to the funding council to replace the powers of ministerial intervention?

Roger McClure: That would certainly be a possible route. The financial memorandum sets out specific conditions that are conditions of grant. The institutions are obliged to accept those conditions and, if they do not, I have the power, with the backing of the council, to withhold the grant from the institution. Clearly, withholding the whole grant would be what is known as a nuclear option and we would hope that things would never get that far. However, as with the ministerial powers, it is the sort of thing that sits quietly in the background and keeps people to the mark. In theory, there is no reason why the funding council could not have those powers if that would deal with the main issue, which is that, as you have heard several times today, charitable status should remain with both sectors. Indeed, the Government has committed itself to sorting the problem. It has not decided exactly what route to take, but it has said categorically that it will act to ensure that colleges retain their charitable status.

The Convener: I am conscious that Mr Macintosh pre-empted Elizabeth Smith's line of questioning on charitable status. Do you have anything further that you want to ask on that issue?

Elizabeth Smith: No.

The Convener: In that case, Mary Mulligan may ask a question.

Mary Mulligan: I accept that FEDD has been a useful tool. However, you seem to imply that one of the difficulties was identifying—or admitting, sometimes—that there is a problem, which has to be done before assistance can be requested. Do we now have a way of tackling that gap?

Roger McClure: I hope so. It is not an easy problem to address. Unless we wade in and take over institutions' systems—no one would advocate that—we will have to rely on the institutions to give us accurate information. In fact, one of the requirements in the financial memorandum is that

the principal of any institution—whether it is a college or a university—must inform me without any delay of any event that they think will significantly interfere with the ability of the institution to deliver in terms of learning, research and so on.

By the way, as was mentioned this morning, the regime—if I may use that derogatory term—between the colleges and the council is exactly the same as that between the universities and the council. There is the same kind of monitoring in both sectors. Howard McKenzie suggested that that was not the case. He might think that the colleges are uniquely regulated, but I assure him—as I have done in the past—that the regime is exactly the same.

To return to my point, any principal will be reluctant to inform me of such a problem unless they are facing a serious situation that they cannot fix themselves. That brings us back to where we started this morning. It is quite impossible for a remote, central body to do what is required. The body that should be doing it is the governing body of the institution. Institutions have finance committees, quality committees, estates committees and so on. If the governing body is doing its job properly in setting clear performance targets, guidelines and parameters and is monitoring those and expecting the evidence that supports that monitoring to be produced, any problems should be picked up locally and dealt with by the governing body.

I sometimes refer to the governing body as the funding council in situ. Particularly for post-1992 institutions in both sectors, the governing body looks very much like the funding council as it is of about the same size and has a similar make-up. In effect, the members of the governing body are public trustees who are charged with looking after and overseeing the activities of what is essentially a publicly funded institution. If we can get that governance bit right by achieving a clear understanding that such matters should be dealt with by the governing body rather than by the funding council, that will go some way towards dealing with the time gap and allowing us to get a hold on what is going wrong.

Mary Mulligan: My question on estate maintenance was probably answered in your reply to Rob Gibson, but I want to ask about investment. You talked about what happened in the past and how investment is now being made. How will that progress in the future? Is there now a recognition that investment needs to be steady, constant and not forgotten about? Will we therefore have the right levels of investment in the future?

Roger McClure: I absolutely agree that investment needs to be steady and constant. In their financial make-up, institutions should have

funding that reflects the cost of the buildings and facilities within which they operate. Without that, we will just go back to stop-go and people not knowing whether or not they will have a capital programme.

It may surprise members to learn that, when I was at the University Grants Committee way back in the mid-1980s, estates management was essentially carried out from Park Crescent in London. The UGC had a team of estates people—who were essentially civil servants—with masses of plans for all 70 universities that existed in the UK at that time. They had all the institutional plans and they decided when a new block would be built. They would phone up the institution and say, “You are going to have a new block.” That is how it was done. Universities used not to have to worry about estates strategies, because they just waited for the UGC to give them a building when the UGC thought that the time was right. I am exaggerating a bit, but that is more or less where we have come from. To get to the point where we provide enough funding to sustain facilities is quite a transition.

The Convener: I have one final question, which you might feel is not as appropriate for the funding council as it was for the other bodies that have given evidence this morning. If the Scottish Government was to do one thing to improve your ability to do your job, what would that be?

Roger McClure: Unfortunately, I cannot use David Caldwell’s device of saying that I am completely surprised by that question.

As I have said in other forums, if the Government and others really believe in the rhetoric that is spoken about the knowledge economy—given that a lack of economic competitiveness will lead to our standards of living, public services and everything else coming under threat—they ought to be prepared to make bold investments in the sector. I am afraid that that has not been the pattern of things, although I have stressed that our research funding has kept pace with that of England, which has been extremely beneficial.

If that is our key strategy for survival, why are we not prepared to say—as a business would in the private sector—that we should make a significant step change in investment. Instead, I suspect that we will receive some kind of average spending review outcome that will need to be shared out. I well understand all the pressures on public expenditure, but education and research are investments in our future. If we really believe that higher knowledge and skill levels will be what count in the future, we should make a significant step change in investment rather than just maintain our position. Why not go out on our own and go for it, as some other small countries around the world have done?

The Convener: Thank you very much for that suggestion, on which I am sure the committee will want to reflect. I also thank you for your patience in waiting to appear before the committee this morning.

I will suspend the meeting very briefly to allow our final witness to join us.

12:10

Meeting suspended.

12:10

On resuming—

The Convener: I am pleased to welcome to the meeting our final witness, James Alexander, the president of the National Union of Students Scotland, who has been very patient.

Jeremy Purvis: I will not ask Mr Alexander about college governance. Instead, I will pursue a line of questioning about participation rates, applications and graduations. We have heard this morning about the factors that affect participation rates; about students' studying experience; and about the high completion rate in Scotland. What are the critical barriers to learning for all students going into further and higher education?

James Alexander (National Union of Students Scotland): First, I thank the committee for inviting me to give evidence.

Students in further and higher education face many barriers, but primarily the fear of debt and student hardship. For example, they are being forced to live on funding that, in many cases, barely meets their rent. Indeed, in the big cities of Glasgow, Edinburgh and Aberdeen, the rent can be almost the same as the loan that they are able to get. That is a major barrier for full-time students.

Part-time students face many other barriers. The fact that studying part-time is regarded almost as a luxury is reflected in higher fees and less support.

Although we should be pleased about the figures for student retention and course completion, one major barrier is access to adequate information on why students are dropping out of or staying on in their courses. It is very easy to ask a student to fill out a simple form or tick a box about why they might be leaving, but their real reasons might be far more complex than that. Very often, although one straw might have broken the camel's back, a whole range of issues will have led to a student eventually dropping out. We certainly need more in-depth research into and interviews with students who drop out.

Jeremy Purvis: Your helpful written submission refers to the Scottish funding council's joint quality

review group, which you have chaired, and agreements that have been reached on the student learning experience. What is the critical area for improvement in that respect? Moreover, given the situation with student finances and potential graduate debt, what priority must be given to and what balance needs to be struck between quality of provision in the sector and its competitiveness?

12:15

James Alexander: I am pleased to have chaired the quality review group, which has had a huge impact across the sector. It marks one of the first times that further and higher education representatives have been brought together in one room to discuss in depth and in detail the quality assurance and enhancement system across both sectors and ways of bringing that together. You will see that there are now three core principles, one of which is student engagement—not just asking students to complete a survey or occasionally asking them for their views, but bringing them in as partners and stakeholders in their learning. That means that students are involved in decision making: they have places on the committees and have an input into the decision-making process. That has been an important development in Scotland over a number of years and, as others have said this morning, it has had a real impact. I want the role and position of students to be extended as a result of the review.

Other areas that I would like to be addressed as a result of what we have come up with are not just about the learning and teaching that takes place in the classroom, but about looking at the quality of the whole student experience. That includes the library, the careers service, the halls of residence and the welfare support that is available to students who have difficulties. All those things have a profound impact on the quality of the students' experience in education, and they are areas that I hope that we will now consider. We also need a culture of quality and continuous enhancement of what is on offer—not sitting back and being complacent because we have a good product now, but thinking about how the learning experience can be improved.

I would also like the diversity of our students no longer to be considered a challenge. We should, instead, to try to ensure that people's different perspectives are brought into the classroom. An international student, for example, will have a very different perspective on their learning from that of a home student and there are many more examples. Depending on a student's circumstances and background, they will have a different view of their learning. We must ensure

that those different perspectives and circumstances can be brought out in the classroom to improve the depth of learning for everyone. That is mentioned extensively in the joint quality report.

Jeremy Purvis: I want to press you on where the balance lies between the quality in the sector—all the areas that you have outlined—and the individual student's income and potential debt. Which of the two is the most important factor in a student's decisions about whether to go into higher education and which institution to attend, whether within the United Kingdom or abroad? What is the most important factor: the quality and competitiveness of the provision or the individual student's finances?

James Alexander: We need to dispel the myth that the quality of provision is directly linked to an institution's income. In the past, some of the biggest advances that have been made in quality, in students' engagement in their learning and in allowing students to say where improvements can be made in the learning experience have not been in any way related to the income of the institution or the fees that students might pay. It is wrong to link high-quality provision to the level of fees that a student pays or the institution's level of income; they are separate issues.

Jeremy Purvis: Perhaps I did not make myself clear. Which is the biggest factor when a student is choosing whether to go into higher education and, if so, where to go: their individual income and potential debt or the opportunities that they will be given by the institutions or the sector? From a student's perspective, which is the more important? I know that that is a generalisation, but those are the most important factors.

James Alexander: Students from different demographic groups have different perceptions of why they are going into education in the first place. For students from middle-class backgrounds, there is usually a family expectation from a young age that they will go to school and then to university. That is how their life is expected to unfold in terms of their education.

For people from the poorest backgrounds—those who do not participate in education as much as I and the sector would like—the process is a different way round. The first issue that they consider is whether they can afford to go into education in the first place. When someone thinks about that and makes the assessment that they cannot afford it, that is one of the biggest tragedies in tertiary education in Scotland and we need to resolve that.

For those who find a way to overcome the funding barriers and go into education, we must ensure that we provide them with adequate

information on what to expect from that learning experience. We must encourage them to think about what they want to achieve in their time in education and how that can be matched with what is on offer at the institutions. At present, that is a problem. I have seen students panicking about where to go because they cannot tell from an institution's brochures, prospectus and other information exactly what they will experience during the educational process. Clearer information for students is a key part of the quality system and an issue on which we need to work.

Rob Gibson: You have been involved in joint inquiries about quality and other issues. How much are students embedded in the management structures of colleges and universities in this day and age?

James Alexander: Students have places on college boards of management and university courts. In most cases, the students who sit on those bodies are elected student representatives, such as the president of the student association. In further education, work must be done to provide better support to student associations, which is an issue that we have included in our spending review submission to the Scottish Government. On behalf of the Scottish funding council, we operate a service called sparqs, which stands for student participation in quality Scotland. One key part of that body's role is to develop student representatives and ensure that they are effective members of institutions' governing bodies.

During the review of Scotland's colleges, discussions took place on how we can better support the student members of boards of governors and effort is being put into that. However, issues exist about continuity, particularly when there is a new student representative from one year to the next. That is a major problem in further education, in which courses are typically shorter and there is less opportunity for students to become involved before sitting on a board of management. We hope to address those issues and we are working with the sector to find adequate solutions to the problems.

Rob Gibson: What advice have you given your members as a result of the Universities and Colleges Admissions Service report that was published in the summer, which basically showed that poor, female and part-time students have a much harder experience at university? That is the kind of issue that students might talk about. What back-up do you provide to the student representatives on the boards of management in colleges and the courts in universities?

James Alexander: That links to the retention issue that we discussed earlier. If someone is having a hard time at university, they are obviously more likely to drop out than someone who is

enjoying their time. The issue is part of the work on widening access that we have been doing with the Scottish funding council and other bodies in the sector. Before the election, we called for the creation of a widening access unit in Scotland, which would go into schools and engage young people—I am talking about very young people of 10 or 11—raise their aspirations and encourage them to go into further learning. The unit would also initiate extensive research on the issues that students face and use that research to make recommendations to Government and committees such as this one on what can be done to tackle the issues of people who traditionally do not participate as heavily or students who are more likely to drop out. We urgently need a body in Scotland to do that work and make such recommendations.

Rob Gibson: I understand the point about such a body, but has NUS Scotland provided ammunition for the student reps on the governing bodies so that they have a particular focus this year, given the trenchancy of that UCAS report?

James Alexander: We have not given specific guidance on that UCAS report, but we have regular meetings with student officers and regular conferences at which all the student unions from across Scotland gather together. Key to our discussions are access issues and how they can be resolved, both on a local level in particular institutions and on a national level.

Aileen Campbell: Some of the points that I wanted to make have been addressed. Would you like students to have more of a voice in the approach to assessing best value and ensuring that learning objectives are met and, if so, how could that be done? I understand that you have been involved in the quality enhancement framework. Are there ways in which such participation could be improved? Are there other ways of following that route?

James Alexander: As a sector, we are developing the notion that students are stakeholders and partners. We have a partnership of people who are involved in improving the learning experience on a sector level. However, there is still work to be done at an institutional level, particularly in further education, to ensure that that model of partnership is embedded fully. To the colleges' credit, they have done a lot of work to engage, and to improve the representation of, students, but a great deal of work still needs to be done. We are working to ensure that student representatives can be as effective as possible and that colleges and universities make maximum use of their input and regard them as stakeholders.

Aileen Campbell: Has the introduction of fees and endowments had an effect on participation

rates in campus elections to the student representative council associations? I have some anecdotal evidence that is based on my experience. I started university in the first year in which fees were charged and I had to get a part-time job because my rent was not covered by the loan. That meant that I could not participate fully in the whole of student life, which is about so much more than just learning a subject and becoming job fodder—it is about broadening one's academic horizons. Have such developments impacted on the type of people who serve in the university courts?

James Alexander: You have said exactly what I was going to say. I talked earlier about the quality of the whole student learning experience. People go into tertiary education, and employers value them because of the people they become while they are there. That is about more than just the academic side. People learn about themselves through engaging in voluntary activities, raising money for charity, being a member of a sports club or being a representative in the student union. All those activities create valuable skills and attributes that employers look and call for.

As students have needed to find more and more money under their own steam to enable them to afford to stay in education, they have taken part-time work—which, in many cases, is almost full-time work, given the number of hours involved—on top of doing their courses. Not only students' course work, but their ability to participate in extracurricular activity has suffered. There is a great deal of evidence, particularly from America and other countries, that suggests that participation by students in extracurricular activity such as sports, volunteering and raising money for charity can benefit hugely their academic performance. It also has an effect on the sort of people they become while they are at university and on the skills for employers that they develop as a result.

We must be mindful of the knock-on consequences of students having to spend more time in low-skilled paid employment that is generally of no use in developing skills. That is having an effect on the graduates and students we are producing.

Elizabeth Smith: In your submission, you made a specific request for greater involvement by the business sector in the learning experience. Will you expand on that? What kind of activities would you like the business sector to engage in?

James Alexander: I debated that with Brian Lang on the radio the other day. Throughout our discussion, we have talked about institutional funding. The contribution that business makes towards the cost of universities and higher education is an area in which, according to the

Organisation for Economic Co-operation and Development's figures, we perform poorly—many countries are ahead of us. We are very far down that OECD list. In my view, our institutions are very competitive and are world class, but if we are to consider developing their income, we need to engage businesses more in paying for research and development. Businesses are demanding skilled graduates in the workforce. Such graduates are fuelling the knowledge economy that we know we need to create in Scotland, so we must ensure that businesses are contributing to some of the cost of creating that economy.

12:30

Elizabeth Smith: Would you therefore limit the contribution that businesses can make to cost, or are there other things that they can do within the learning process? Would you like to see businesses involved in teaching or secondments? What exactly would you get from them, beyond a financial contribution?

James Alexander: The financial contribution is a key aspect, but businesses also have a role in giving students skills for the workplace as part of their course. Giving students inroads into the business environment is key. David Caldwell talked about employability. We need to embed employability skills in the curriculum. My course left me with very little experience of the wider skills that I might need, such as delivering a presentation, preparing reports, analysing information and working as part of a team. Those are all skills that businesses want, so they must be embedded in the courses that are offered.

The Convener: I will allow Richard Baker to ask a supplementary question.

Richard Baker: I have only one question. James, you said that it is important that students have access to enough funding while they are studying to ensure that they can not only continue their studies but take part in the whole student experience. We have been discussing not only the abolition of the graduate endowment but potentially costly proposals to relieve the burden of graduate debt in Scotland. I am afraid that this is another question about balance. Where do you think the balance in funding priorities lies between ensuring that students have enough money to live on, study effectively and engage in the wider student experience, and investing in addressing graduate debt?

James Alexander: There are two aspects to that. You mentioned proposals to alleviate graduate debt, which is the debt of people who have already been through the system—albeit a system that had a bad funding model. Those graduates are the ones who survived that system and they have done well to get through it. However, our priority for funding should be for

current and future students—to ensure that they can afford to go to university in the first place, fulfil their potential and achieve their aspirations—rather than giving money back to graduates who have already been through a difficult system.

We need to address the problems of student hardship. The key problem that we face is that even a full grant of £4,000 a year, rather than a loan, would not mean that a student would leave university without any debt. Undoubtedly, students would have to do what they are doing now, which is get credit cards and bank loans and work in paid employment. Of course, the difficulty with credit card debt, as opposed to student loan debt, is that it has to be paid back almost instantly and the interest is sky high. That, as much as anything else, is an enormous deterrent. Mounting credit card debt can be a major cause of students dropping out of university.

Ken Macintosh: You mention accountability and governance in your paper. Do you think that the recommendations of the review of Scotland's colleges—in other words, the direction in which we are heading—will be sufficient to address the concerns about governance and accountability, particularly in the college sector?

James Alexander: I think so. They are a strong step in the right direction. The review of Scotland's colleges was a good piece of work on which there was collaboration throughout the sector. It was a positive consequence of bringing together people with lots of different perspectives throughout the sector to make recommendations. The outcomes should have positive consequences. I would not go as far as to suggest that there was a problem with governance in the sector. Although James Watt College and Inverness College are examples of where there have been problems, on the whole, we have a strong further education sector that has good governance practice.

A number of comments have been made about auditing. I do not think that there should be so much auditing that the money is diverted from students. What we have works well to ensure that the student experience is as strong and positive as it can be.

The Convener: Mr Alexander, thank you for your attendance at the committee this morning and for sitting and listening to all the other witnesses before you gave evidence.

12:36

Meeting continued in private until 12:44.

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