

EDUCATION, LIFELONG LEARNING AND CULTURE COMMITTEE

Wednesday 28 November 2007

Session 3

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EDUCATION, LIFELONG LEARNING AND CULTURE COMMITTEE 11th 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)
George Foulkes (Lothians) (Lab)
Hugh O'Donnell (Central Scotland) (LD)
Shirley-Anne Somerville (Lothians) (SNP)

*attended

THE FOLLOWING GAVE EVIDENCE:

David Caldwell (Universities Scotland)
Fiona Hyslop (Cabinet Secretary for Education and Lifelong Learning)
Stephen Kerr (Scottish Government Lifelong Learning Directorate)
Roger McClure (Scottish Further and Higher Education Funding Council)
Chris McCrone (Scottish Government Finance Directorate)
Howard McKenzie (Association of Scotland's Colleges)
Douglas Tullis (Scottish Government Legal Directorate)

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 28 November 2007

[THE CONVENER opened the meeting at 10:02]

Decision on Taking Business in Private

The Convener (Karen Whitefield): I welcome members to the 11th meeting in this session of the Education, Lifelong Learning and Culture Committee. Richard Baker is substituting for Ken Macintosh.

Under agenda item 1, the committee will decide whether to take in private item 4 and any future consideration of the draft stage 1 report on the Graduate Endowment Abolition (Scotland) Bill. As members know, item 4 is consideration of the written evidence that we have received at stage 1 on the general principles of that bill and consideration of our approach to the draft stage 1 report. Do members agree to take in private item 4 and any future consideration of the draft stage 1 report?

Members indicated agreement.

Graduate Endowment Abolition (Scotland) Bill: Stage 1

10:03

The Convener: Item 2 is stage 1 of the Graduate Endowment Abolition (Scotland) Bill. This is our final oral evidence-taking session at stage 1.

I welcome the Cabinet Secretary for Education and Lifelong Learning, Fiona Hyslop. She is joined by Stephen Kerr, who is head of the higher education and learner support division of the lifelong learning directorate; Chris McCrone, who is the Glasgow finance team leader in the finance directorate; and Douglas Tullis, who is head of the solicitors education, enterprise and pensions division of the legal directorate.

I understand that the minister would like to make some opening comments before we move to questions.

The Cabinet Secretary for Education and Lifelong Learning (Fiona Hyslop): Just a few comments, if that is okay.

We are pleased to be here to give oral evidence on the Graduate Endowment Abolition (Scotland) Bill. The bill will rid graduates of the burden of unsustainable debt, which can hold them back from fulfilling their social and economic potential, and will remove the fear of debt for many prospective students.

Initially, the bill will benefit around 50,000 students—those who graduated in the summer and those who are already in the system. We believe that it is an investment in our people and our economy, and that providing the opportunity for young people to access higher education based on their ability to learn and not their ability to pay is an important principle.

The abolition of the graduate endowment fee will reduce overall student debt. Currently, the average student debt is £11,000. It is clear that debt or perception of debt plays a key part when young people are deciding whether to pursue higher education courses.

The graduate endowment fee has failed to achieve its aims of improving access and raising resource to fund future generations of students. Therefore, our clear policy intent is to scrap the scheme. The failure of the graduate endowment to contribute to widening access is clear, as shown by figures from the Scottish Further and Higher Education Funding Council and the Higher Education Statistics Agency. I understand that there has been correspondence with the committee to provide additional information on

that. The consultation on the principle of abolishing the graduate endowment fee had a hugely positive response. Almost all the 44 respondees were in favour and 23 of them specifically mentioned widening access or at least removing a perceived barrier to participation as one reason why they support the proposal.

The graduate endowment fee has proved to be an inefficient way of providing funds to the taxpayer and has not raised the level of income that was initially predicted. In the three years for which the graduate endowment has been in operation, two thirds of those who are eligible to pay the fee have not paid it back directly but have simply added it to their student loan. That is where the aspect of debt becomes increasingly important. As the average time that is taken to repay an income-contingent loan is approximately 13 years, the associated costs mean that the taxpayer loses about one third of all income that is collected anyway.

Those comments should give members an indication of the parameters of our concerns about the graduate endowment fee and our rationale for introducing the bill.

The Convener: I will begin the questions by asking about participation. One policy intent of the bill is that abolishing the graduate endowment should lead to increased participation. What evidence exists that the graduate endowment has deterred potential students from participating in higher education?

Fiona Hyslop: On the widening access agenda, there has been no movement among those in the most deprived areas. When the bill to introduce the graduate endowment fee was published and then enacted, the intention was to widen participation among those from the most deprived areas. However, the correspondence that the committee has received from Stephen Kerr shows clearly that that has not happened. The age participation index, which relates to the numbers who go to university, has clearly reduced.

The point is that, for most students, the graduate endowment fee becomes part of the loan debt—two thirds of students add the fee to their loan after graduation. It is clear from research by the Joseph Rowntree Foundation and other research that the previous Executive commissioned that the fee has an adverse impact on those who want to pursue higher education. Fear of debt is particularly acute among those in more deprived areas.

The Convener: Is it not the case that many young people who grow up in Scotland's most deprived areas would qualify for an exemption from the graduate endowment? If so, perhaps the reasons why they do not enter higher education do not relate to the graduate endowment in any way.

Fiona Hyslop: That would be the case if the graduate endowment fee was means tested for those from poorer backgrounds, but it is not. The exemptions from the graduate endowment fee are for mature students; lone parents who are entitled to the lone parents grant; those who are undertaking a higher national certificate or higher national diploma course; those who are on courses that take less than two years to complete; and those who are involved in courses that relate to matters such as nursery nursing, midwifery and health care. However, there is no means test for the exemption. The convener would be correct if graduate endowment fee exemptions were given on a means-tested basis, but that is not the case.

The Convener: My experience is that those who enter further education often—but not always—come from more disadvantaged communities. Therefore, a higher proportion of students in further education who choose to go on to higher education are likely to come from more deprived communities and will qualify for the exemption, whether or not it is means tested.

Fiona Hyslop: Well, I would like to live in a country where there is parity of esteem between the colleges and universities and where access to both is based on people's choices and ability to learn. I would be concerned if the idea that everything is okay because more people from deprived areas go to colleges were considered to be a reason for not changing the system. I want to have a system where those from more deprived backgrounds have the same choices as anybody else and can go on to university if that is their choice and they are able to. The fact that the graduate endowment fee is not means tested undermines your argument.

The Convener: I was not suggesting for one minute that we should not have parity of esteem, but it is a fact that many people from deprived backgrounds find it easier to access higher education by first accessing further education when they leave school or perhaps later in life. We should encourage that because we want to have a highly skilled workforce.

You said that research from the Joseph Rowntree Foundation suggests that there is a barrier to participation, but was that research not conducted prior to the introduction of the graduate endowment?

Fiona Hyslop: That research was conducted by questioning 300 young Scots in 2000 and 2001 on issues relating to debt. Bear in mind that two thirds of students who are liable for the graduate endowment fee transfer their fee liability on to their student loans and that, according to the research, the fear of debt is very much part of the barriers that people perceive. The research revealed that a number of factors lie behind the concerns of young people from disadvantaged areas—

"a lack of familiarity with higher education ... a lack of funds ... a fear of debt ... feelings of cultural isolation"—

but fear of debt was key.

I will quote from one of the participants in that research:

"I did like it [university], but just no' having any money, I didn't like that I just kept thinking ... I was going to be in what, £12,000 worth of debt if I stayed on".

That quotation, which is on page 39 of the Joseph Rowntree Foundation research, is from an interviewee called Jean, who ended up dropping out of university. We know clearly from the research on fear of debt that people from deprived areas are more likely to have concerns about participating in education if they have concerns about debt. The graduate endowment fee was introduced after the research was done, but fear of debt is the point of connection between the bill and concerns about going to university with an added fee of £2,000-plus for people from more deprived areas. It is clear that fear of debt has a serious impact on participation at university.

There is also other, more recent research. London's South Bank University, the Policy Studies Institute and NOP carried out a survey in spring 2005 for the previous Executive. In that research, which was published in September 2005, a sizeable number of people—42 per cent—said that they had friends who were deterred from going to university because they were worried about the debts that they would build up. Obviously, 2005 is some way into the period of the graduate endowment fee's operation.

The important thing to remember is that two thirds of students who are liable for the graduate endowment fee add it on to their loan, so loan debt and the fear of debt are pertinent to the consideration of the bill to abolish the graduate endowment fee.

The Convener: You used a number of quotes and suggested that students had enjoyed university but had dropped out because they had no money. If such students have no money while undertaking their courses, how will abolishing the graduate endowment increase the amount of money that they have while undertaking education?

Fiona Hyslop: Our main concern is the impact of the fear of debt on applying to university in the first place. Abolishing the graduate endowment fee will clearly have an impact for those who graduate, because students become liable to pay it on graduation.

The Convener: It is not on graduation; they have to be in employment too.

Fiona Hyslop: Yes.

The Convener: They must be earning and have income that they perhaps did not have while they were students.

Fiona Hyslop: Yes.

The Convener: They will have an income on which they can rely before they are asked to repay that debt. The example that you highlighted was somebody who had dropped out of university because they had no money while at university. The motivation for the policy may be to stop students dropping out of education because of a lack of income, but the policy will do nothing to increase the income that students have during their higher education courses.

10:15

Fiona Hyslop: The important point is to encourage people to go into higher education in the first place. If people drop out because of debt or problems at university, their families and communities will perceive that. We should consider the impact of debt on the working patterns of students when they are at university. Currently, many students have to take part-time jobs to help to fund them through university, because they are conscious of the debt that is building up for when they graduate. That concern is not particularly relevant to the bill, which is not about students' income levels while they are at university, but we must be aware that debt has an impact on students' working patterns during their time at university, because they know that they are building up as much as £12,000 of debt.

The Convener: You cited evidence on debt while people are at university and spoke about students taking on employment during their courses. What specific evidence is there that the graduate endowment is preventing students from entering higher education?

Fiona Hyslop: The graduate endowment fee is part of the debt that lies across the land. Two thirds of those who are liable for the fee add it on to their loan debt. People know that they will have difficulty paying the fee; when families receive the bills, they are concerned about the amount that they are required to pay. The graduate endowment fee is closely connected to the issue of debt in Scotland. Part of our strategy for tackling debt in Scotland is to abolish the fee.

The Convener: Will the bill abolish student debt in its entirety?

Fiona Hyslop: No. The bill will tackle the legal liability to pay the graduate endowment fee that students acquire on graduation. If Parliament passes the bill, 50,000 students and graduates who graduated this summer will have their graduate endowment fee abolished. A considerable number of students will be affected.

The Convener: Is it correct to say that the bill will not abolish their debt?

Fiona Hyslop: It will reduce their debt. The bill is the first step in our strategy for tackling the debt burden in Scotland. It will reduce by more than £2,000 the debt burden of many students in Scotland.

Elizabeth Smith (Mid Scotland and Fife) (Con): You are aware that in England undergraduates who entered university from 2005-06 pay a top-up fee of £3,000, which is greater than the fee burden in Scotland. However, over the past year, the number of students at English universities has risen. Why has that happened in England, when you are confident that in Scotland expensive higher education is putting people off?

Fiona Hyslop: We must return to the central issue. We are seriously concerned about the impact of fear of debt on those from more deprived areas. You are correct to cite the current participation rates in England. I refer you to the letter that the committee received from Stephen Kerr, which goes through the participation figures for young full-time first-degree entrants to higher education from more deprived areas. We are concerned that, although the policy intention of the Education (Graduate Endowment and Student Support) (Scotland) Act 2001 was to improve those figures, they have remained static. My concern is less with the overall numbers in the age participation index than with the impact of the fear of debt on the participation levels of those from more deprived areas. It is more relevant for us to focus on widening access for those people.

Elizabeth Smith: I accept that, up to a point, but there has not been a huge change. If many people in Scotland were being put off by the graduate endowment, we would have expected the number of students from deprived areas to have fallen by more than it has. I am interested in finding out why the trend in Scotland is different from that down south. The ability of different categories of student to access higher education is not the only reason for that.

Fiona Hyslop: It is interesting that the overall figures for participation are going down in Scotland, which is of concern to a number of us. In England, the trend has been different but, at the moment, students become liable to pay the fees only at the end of their courses. It will be interesting to watch the trend in England when the liability becomes current, as opposed to payment being due by students in future. It is a case of wait and see. We are concerned with what is happening in Scotland specifically. In addition to the clear research on the fear of debt, more than half those who responded to your call for evidence said that the reason why they support the abolition of the graduate endowment is that they want to

encourage wider participation by and access for students from deprived areas.

Elizabeth Smith: Do you accept that it is a potential problem for the Government in Scotland that there are different trends north and south of the border? Many students from Scotland go to study in England and vice versa. There will be difficulties in maintaining a level playing field throughout the United Kingdom.

Fiona Hyslop: We are responsible for what happens here in Scotland. We think that it is important that access to education is based on the ability to learn, not the ability to pay. I am not sure that anyone would argue that we should increase fees in Scotland because that has happened in England and there has been an increase in participation there. Fees have been increased there for income and resource reasons. We should consider our own agenda and try to improve participation levels in Scotland. We are experiencing a worrying trend.

Elizabeth Smith: Are resources shifting south?

Fiona Hyslop: I do not think that resources are shifting south. I do not think that more people are necessarily moving south for their education, if that is what you are implying.

Elizabeth Smith: I am saying that there is a potential for resources to shift south if it is seen that more money is being pulled in there—if you are right about the trends in separate parts of the UK.

Fiona Hyslop: As I said, it is more a case of waiting and seeing the trends in England. The full impact of top-up fees down south hits students on graduation, as opposed to when they first apply to university. That is why we have to keep an eye on the trends there. However, we are particularly interested in what is happening here.

Elizabeth Smith: Do you accept that many people in the university sector find it difficult to accept that it is a case of wait and see? They want the problem to be addressed now, given what might happen 10 or 20 years down the line.

Fiona Hyslop: Universities have not told me that they are concerned about participation rates in relation to income provision down south. They are probably more concerned about the fact that the age profile is different in England and that there is an increasing population trend there, whereas in Scotland there is a reduction. The challenge that we face relates to falling school rolls, which is where the future cohort will come from. That is why we need to work with the sector to encourage older people to return to education and encourage people to study part-time at university. I have started work on that and I intend to continue it.

Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD): Good morning, cabinet secretary. In your letter of 21 November, you say that, from the Government's perspective, the baseline year for looking at comparison data is 2001-02. As you know, we asked which year it would be most accurate to view the figures from.

I am interested in the Government's figures in "Students in Higher Education at Scottish Institutions 2005-06". Table 14 in that document shows the differences between that year and previous years. There were more entrants into first-degree courses in Scotland in 2005-06 than there were in 2001-02.

Fiona Hyslop: I am not sure about your reference. I have a statistical publication from 12 June, which shows the age participation index for Scottish higher education institutions. The age participation index was 31.9 per cent in 2001-02, which is the year that we agree is the baseline, and 30.2 per cent in 2005-06.

Jeremy Purvis: I was talking about entrants.

Fiona Hyslop: Oh, entrants.

Jeremy Purvis: I was referring to Government figures that were published on 16 May. I am not sure whether you have the figures to hand, but I was referring to table 14.

In answering questions from the convener, you stated clearly the position with regard to student debt being a barrier to entry into higher education. I wonder whether that is the case. If, as you say, the graduate endowment has been a contributory factor in that, I would have thought that, in the two comparison years, the number of first-degree entrants would have decreased. However, the figure has gone up.

Fiona Hyslop: I am more than happy to exchange statistical publications and come back to the committee on that. The figures from 12 June 2007 are those that I cited, which show the movement down from 31.9 per cent in 2001-02 to 30.2 per cent in 2005-06.

I cannot comment on the paper that you are looking at, as I do not have a copy of it in front of me. There was a slight movement in 2005-06 because there was an increase in the value of the young students bursary at that time. There was a slight improvement in that figure, although there was still a downward trend. If that is what you are referring to, we suspect that the previous Government's enhancement of the young students bursary resulted in not a huge but a marginal improvement in the numbers.

Jeremy Purvis: I was asking whether the number of entrants, from the year in which the graduate endowment started to last year, has gone up or down. It has gone up.

Fiona Hyslop: If you look at the API for 2001-02 from the Higher Education Statistics Agency, you will see that 51.5 per cent is the overall figure for 2002. In 2005-06, the figure goes down to 47.1 per cent. There was a slight increase in 2005-06 on the figures for 2004-05—a marginal rise of 0.5 per cent—which we suspect was due to the impact of raising the level of the young students bursary.

Jeremy Purvis: You are answering a question that I did not ask, cabinet secretary. Let us move on to the age participation index. Are you saying that, in your estimation, the change between 2004-05 and 2005-06 was due to an increase in the bursary?

Fiona Hyslop: Without further research, we can draw only generalised conclusions, but I suspect that that is the case. There was an increase of 0.5 per cent.

Jeremy Purvis: Would you say that the drop between 2001-02 and 2002-03 was due to the introduction of the graduate endowment?

Fiona Hyslop: The graduate endowment fee added to the debt burden of students. We know, from the research to which we have referred, that fear of debt and debt itself can have an adverse impact on those from deprived areas who want to go to university.

Jeremy Purvis: I am interested in that. It is important, and I am disappointed that you do not have a copy of "Students in Higher Education at Scottish Institutions 2005-06", which shows a drop in the number of entrants into higher education between 2001-02 and 2002-03. It is interesting that that drop was in the number of entrants to other higher education institutions, not in the number of entrants to universities or to first-degree courses. Indeed, the drop that is reflected in the age participation index is a drop in the number of other HE students rather than a drop in the number of first-degree or postgraduate students. Over the period, there was a drop of about 8,000 students. Those students were not liable to pay a graduate endowment.

Fiona Hyslop: That is why I am keen to emphasise the importance of the wider access issues for students from deprived areas. The statistics from the Higher Education Statistics Agency, which you received in correspondence, make it clear that there is no impact on the number of students coming from deprived areas—their number remains static.

I refer you to the statistics that were published on 12 June, which I am more than happy to forward to the committee for your report. Table 3 makes it clear that, even if we strip out students from further education colleges—you are making the point that the reduction in student numbers was more acute in those institutions, which I

acknowledge—there is still a downward trend. Between 2001-02 and 2005-06, the proportion of first-degree students entering Scottish higher education institutions went down from 31.9 per cent to 30.2 per cent. The reduction was more acute in colleges—you are right to identify that—but there was also a downward trend in the number of first-degree students entering universities.

Jeremy Purvis: Over the same period, the downward trend is even stronger in Scottish further education colleges. The figure for higher education institutions has improved, but it has continued to decline for further education institutions, to which the graduate endowment is not relevant.

10:30

Fiona Hyslop: I dispute that the figure is improving for universities. Our statistics show clearly that it is reducing. The figure for colleges is reducing at a higher rate. One reason why we are embarking on a review of the higher national diploma and the higher education experience in colleges is to find out why the figure has reduced more in colleges than it has elsewhere.

You are right to identify the reduction in participation at colleges, but I am not sure whether that is relevant to the case for the graduate endowment fee, because the table to which I referred, which I will provide to the committee, also shows a clear reduction in the number of students who are taking first degrees at universities.

Jeremy Purvis: I return to Elizabeth Smith's question. I am not clear about why, if the cabinet secretary thinks that the graduate endowment fee has been a disincentive to entrants, the number of entrants would—according to the figures that were provided with the lifelong learning directorate's letter—increase. You say that the numbers are part of a trend, but that you are most concerned about people from deprived areas. Over the same period, why has the percentage of entrants from deprived areas increased?

Fiona Hyslop: Participation by people from deprived areas has not increased—the figures have been in a steady state at 14 or 15 per cent from 2002-03 to 2005-06. That evidence was provided to the committee in a letter from the Government to the convener, which I assume has been distributed.

Jeremy Purvis: You must know that 1 per cent represents an increase of approximately 1,200 students. Your information shows an increase from 2002-03 to 2005-06.

Fiona Hyslop: I am not suggesting that the previous Administration had no impact on

widening access. Much productive work has been done through wider access forums. The convener is familiar with the work of the greater opportunity of access and learning with schools—GOALS—project in Lanarkshire, which has been mentioned in Parliament and which encourages people from non-traditional backgrounds to go into further or higher education. I am not saying that no impact has been made on countering problems and widening participation by people from deprived areas. However, if the graduate endowment fee's purpose was to improve substantially participation from deprived areas, it has not had that impact. The good work that has taken place to widen access from deprived areas has probably compensated, although I cannot provide research on that. It would be wrong to deny that the previous Government did much good work to try to widen access.

Jeremy Purvis: Has a negative impact been felt?

Fiona Hyslop: The point was that the graduate endowment fee—

Jeremy Purvis: Has the graduate endowment had a negative impact on widening access for entrants to degrees?

Fiona Hyslop: All the research shows that fear of debt puts off people from more deprived areas. We can cite two research exercises that make it clear that increasing the burden of debt is likely to deter more people from more deprived areas.

Jeremy Purvis: We all know that both those exercises predated the graduate endowment policy. Has the graduate endowment had a negative impact on the number of entrants to higher education from deprived areas?

Fiona Hyslop: The research that the previous Scottish Executive conducted in 2005 points clearly to the fear of debt putting off people from more deprived areas.

Jeremy Purvis: Has the graduate endowment put people off?

Fiona Hyslop: The graduate endowment fee must be seen as part of the loan debt policy that affects many students. You are considering the fee in isolation, but students perceive it as part and parcel of their loan debt.

Jeremy Purvis: I am still not sure whether that is a clear answer on whether the graduate endowment policy has had a negative impact on the number of entrants to higher education from deprived areas. In the period that the information that you have provided to the committee covers, the percentage of entrants from deprived areas has increased.

Fiona Hyslop: Little impact has been made on the numbers from deprived areas—the change is less than 1 per cent. In the evidence that has been submitted to the committee, almost half of respondents have acknowledged that the graduate endowment fee has been a barrier to participation.

When the British Medical Association wrote to the committee on 20 November, it said that the graduate endowment fee imposed a significant financial barrier to education. Perhaps there is a difference of perception between such respondents and the members of the committee who are concerned about the issue, but we know from the Joseph Rowntree Foundation and the NOP research that we quoted—which was conducted in 2005—that fear of debt puts off those from more deprived areas most.

Christina McKelvie (Central Scotland) (SNP): You made the point about liability. Some scare stories that were printed over the weekend suggested that current students would be liable to pay the graduate endowment. Will you make the position on that clear, and perhaps reassure those students?

Fiona Hyslop: I respect the will of Parliament: the graduate endowment fee will be abolished for those who graduated in the summer, and for those who will become liable over the coming years, if and when the Scottish Parliament—that means parties across the chamber—vote for abolition. I am confident that we can get the support of colleagues and win the case to do that, but the liability will be removed only when the Scottish Parliament approves the Graduate Endowment Abolition (Scotland) Bill. I encourage those who want the endowment to be removed to urge those who have a vote in the Parliament to use that vote, but abolition is still subject to the will of Parliament, and we cannot pre-empt the will of Parliament or of this committee. If the bill is passed, our intention is that, certainly by April 2008, those who graduated in the summer and those who are currently in the system will not have to pay the graduate endowment fee.

Christina McKelvie: If there is any delay in getting the bill through Parliament, will the current group of students become liable?

Fiona Hyslop: Our intention is that the bill will be passed in time for those who become liable on 1 April 2008—that means those who have graduated this summer—to be covered by the legislation. We thank the committee for its co-operation in moving forward, because to ensure that this year's cohort and this summer's graduates can benefit, we want the bill to reach stage 3 before that date. The bill has been drafted in such a way as to allow us some movement there, if necessary. Douglas Tullis, who is from the

Scottish Government legal directorate, can explain what would happen if there was any delay.

Douglas Tullis (Scottish Government Legal Directorate): That is not anticipated as a problem. The point in relation to possible retrospection arises in section 2 of the bill, which clearly provides that it applies to the graduate endowment liability, in relation to which the due date is 1 April 2008. Even in the improbable event that the Parliament did not finalise its procedure in relation to the bill until after that date, there would be an element of retrospection. However, it is not thought that any legislative incompetence would arise through such retrospection in relation to the bill.

Christina McKelvie: That will reassure some of the students who contacted me over the weekend—they were extremely worried about some of the things that they were reading in the media. Thank you.

Richard Baker (North East Scotland) (Lab): You referred to fear of debt in general as a driver for the bill, but there are far more punitive aspects for students, such as credit card debt. Why have you chosen to invest the money in abolishing graduate contributions rather than in providing support for students while they are studying?

Fiona Hyslop: The graduate endowment is something that we can act quickly to resolve—doing that is within this Government's competence, whereas legislation on credit cards is a reserved matter. The committee might want to consider the fact that the graduate endowment fee is part of state-sponsored debt. There are, quite rightly, concerns throughout the country about the growing debt and credit culture. We can try to reduce the amount of state-sponsored debt as we have responsibility for that area—the graduate endowment fee adds to that debt. That is why we can take early action to remove that aspect of the debt burden from our students and graduates.

Richard Baker: State-sponsored debt is far less punitive for students than credit card debt is, for example in relation to interest rates. If students had more access to funding while they were studying, that would help them avoid credit card debt. The policy memorandum talks about developing an

“adequately funded student support system.”

Earlier, you referred to the young students bursary. Why is it not better to invest the money that is required for the bill in such schemes? By how much do you intend to increase the young students bursary?

Fiona Hyslop: As you know from our programme for government, we intend to consult on our proposals for student support and wider

debt issues. That might be an opportunity for members to input into the wider concerns about issues such as the management of credit card debt. It is important that we improve support for students during their time at university, which is why we seek to develop proposals on that, particularly for part-time students, about whom I have particular concerns—we need to support them so that we level the playing field somewhat. We also have proposals to improve student support systems, which is why there is an allocation in the budget settlement that was announced two weeks ago that will allow us to do that.

You are right to identify the issue as one on which improvement is needed, but the proposed abolition of the graduate endowment fee has been warmly welcomed by students throughout the country—they are supportive of it. The National Union of Students Scotland has stated:

"We acknowledge and support the view that the Graduate Endowment has failed to achieve its aims of promoting social inclusion by reducing barriers to widening access and participation."

From the written evidence, you will see that students throughout Scotland think that abolishing the fee is the correct thing to do, which is why we are proposing that. However, you are right that we can take other measures and you are correct to identify the impact of the young students bursary. We will consider that aspect of policy as part of our consultation next year. However, we can and should do something about state-sponsored debt, which is why we are trying to tackle it by abolishing the graduate endowment fee.

Richard Baker: On widening access, some organisations have raised a much broader concern about student funding. I want to press you on the issue. Why is the bill the first measure that you are taking, rather than measures to increase funding for students while they are studying? The bill will go through, but there will be no increase in the young students bursary prior to that.

Fiona Hyslop: The bill is a measure that we can take within the competence of the Parliament.

Richard Baker: You could increase the young students bursary.

Fiona Hyslop: We can do a number of things. We are committed to tackling the debt burden—that is a manifesto commitment and something that we said we would do. However, I remind the member that, to ensure that those who graduated in the past summer benefit from the abolition of the graduate endowment, we had to act quickly to introduce the bill, so that their liability will be removed come April 2008. We had to act within a fairly tight timescale to benefit those people. We could have made other decisions about where to

put resources and delayed the bill, but we thought that it was important to introduce the bill quickly.

Richard Baker: It could be argued that it is also important to increase resources for students who are studying now, not just for those who have just graduated.

How will abolishing the graduate endowment fee widen access to university, if the effect of the spending review settlement is to freeze student numbers?

Fiona Hyslop: The previous Administration had a cap on student numbers, so that situation exists now. Under the previous Administration, there was no proposed increase in student numbers. I acknowledge Universities Scotland's view that the current position is that there is a cap on numbers.

Richard Baker: There was no idea that that would be the future position—our manifesto states that we want to raise the cap on student numbers. The universities would be willing to engage in such an increase. I return to my question: if the effect of the spending review settlement is to freeze student numbers, how on earth can you increase access through the bill?

Fiona Hyslop: The time for debating manifestos is during elections. At present, we are considering what the previous Administration did and what the new Administration is doing. A cap has been inherited from the previous Administration. You are right to identify the issue of widening access and participation. Tackling the fear of debt is an important part of that, although it is not the only part. In considering overall student numbers, the impact on those from more deprived areas is important.

Interestingly, Andrew Cubie said in *The Scotsman*:

"I do not grieve the passing of our carefully crafted Scottish Graduate Endowment scheme, as such. The Scottish Government, after all, has helpfully committed to substituting individual graduate contributions to the fund by public contribution—ie, from taxpayers. The target of our original support is, therefore, still addressed."

10:45

Richard Baker: It seems to me that the effect of your spending review is to freeze student numbers, which defeats the very purpose of the bill to widen access.

Mary Mulligan (Linlithgow) (Lab): I have a very quick supplementary to Christina McKelvie's question about the timetable. Mr Tullis said that, if the bill's passage is not completed by 1 April, retrospective legislation will be needed to cover any students who might be caught up in the overrun. Would you consider doing the same for students from previous years who had not been included in any such legislation?

Fiona Hyslop: Correct me if I am wrong but, as Douglas Tullis pointed out, section 2, which says

"This section applies to graduate endowment liability in relation to which the due date is 1 April 2008 or after",

has been deliberately drafted to cover any slippage. However, if, with the committee's co-operation, we can have the stage 1 debate in December and stage 2 consideration in January and February, we should be able to have the stage 3 debate well in advance of the due date.

I believe that your question is about retrospective legislation to cover people who are already liable to pay the fee. The Scottish National Party opposed the introduction of the graduate endowment fee and regrets the fact that people have had to meet that liability. In essence, you are asking us to pay the bills of those who paid in 2005-06 and who became liable in April 2007. However, if we chose to do that, the accounting mechanism would require us to pay a bill of £41 million in that one year. As we have pointed out, the settlement is tight and, returning to Richard Baker's point, I suppose the question is whether it would be more appropriate to deal with that liability instead of, for example, providing support for part-time students. Those are the decisions that a Government has to make. We can introduce legislation to deal with liabilities that are due in April 2008 because, as far as timescale is concerned, that date lies on the margins of when the bill might be approved. As I have said, if we did what you ask, we would immediately have to meet a £41 million liability from this year's budget.

Mary Mulligan: One of my colleagues will return to the question of retrospection, so I will not pursue it. I simply wanted to flag up the fact that different sets of students will get different treatment.

My main question is about differences in treatment, particularly for part-time students. Although I fully support the aim to extend education to everyone regardless of their social background, I am concerned that abolishing the graduate endowment will not assist in widening access, especially to part-time students.

Fiona Hyslop: That is correct. I share your concern that if we want to encourage back into education people from more deprived areas and, in particular, women returners or older members of the community who might have families, support for part-time students is important. We are introducing separate measures to address that issue. This policy intention is very important in allowing us to level the playing field. As much as we want education to be free and as much as we want access to university education to be driven by the ability to learn, not by the ability to pay, we must also realise that we have to tackle some of

the inequalities between part-time and full-time study that are in the system that we inherited. Members of all parties recognise that. Indeed, that is one of the reasons why we included funding to help part-time students in our budget statement.

Mary Mulligan: The bill will do nothing to encourage people into part-time courses.

Fiona Hyslop: That is not its intention.

Mary Mulligan: The intention of the bill is to extend access and to increase the number of applications. How many people do not apply for, or drop out of, courses because of the graduate endowment scheme?

Fiona Hyslop: The graduate endowment fee adds to the debt burden. The fear of debt is considerable for those from more deprived areas, in particular. It is difficult to quantify how many people do not apply or drop out because of the graduate endowment, but it is clear even from the evidence that the committee has received so far that the graduate endowment legislation has done little to improve the situation. It has provided support in the form of the young students bursary, which will continue to be provided, but the graduate endowment fee offers no guaranteed income. The way in which both this and the previous Government have had to account for the fee has restricted its use. We are committed to continuing to provide the levels of support that the fund was meant to establish. I quoted Andrew Cubie because he recognises that we intend to continue supporting young students.

Mary Mulligan: So you do not have specific figures to show how many people have been put off so far. I will turn the question round. How many people do you expect will apply once the graduate endowment has been abolished?

Fiona Hyslop: I would like the current trend of a general reduction in the number of people who participate in higher education in Scotland to be reversed. We must look at the issue in the wider context of tackling debt. We live in a country in which there are concerns about the level of individual debt and household or family debt. It is important for us to do something to tackle state-sponsored debt.

Your question was about numbers. I anticipate that if we start to tackle the debt burden there will be an increase in the number of people from more deprived areas who apply to universities. The bill is only one step towards doing that, but it is an important step.

Mary Mulligan: I will not return to the figures about which Mr Purvis was arguing. However, you have said that because of the bill you expect there to be an increase in the number of applications and a reduction in the number of drop-outs.

Fiona Hyslop: The focus must be on those from more deprived areas. It is in our interest to reverse the worrying downward trend in participation generally. We should all be concerned that the age participation index has decreased from more than 50 per cent to 46 or 47 per cent, but the fear of debt has a particular impact on those from more deprived areas.

Mary Mulligan: Do you expect there to be an increase only in the number of students from deprived areas, rather than an increase across the board?

Fiona Hyslop: I anticipate and hope that there will be both, although I cannot guarantee that the abolition of the graduate endowment fee will have that result. We expect that removing or tackling the debt burden will have a substantial influence on the number of people, especially from deprived areas, applying to university. However, members will not expect me to be able to say that the bill will have an absolute impact, because debt is not made up only of the graduate endowment fee. Even if we reduce that element of the debt burden, substantial debt will remain. It is difficult to extrapolate from the debt burden the role of the graduate endowment fee.

The committee is trying to isolate the impact of the graduate endowment fee from that of the overall debt burden; I am trying to persuade members that the fee is a fundamental part of the debt burden that students and graduates bear, but that it is not the total burden. For that reason, it is difficult to estimate what impact removal of the fee will have on total numbers in the future. However, the consultations that have taken place, the written evidence that the committee has received, NOP research and the work of the Joseph Rowntree Foundation make clear that debt and the fear of debt have an adverse effect. It would be remiss of us not to try to tackle that.

Mary Mulligan: We do not have precise figures either for those who have not applied or for those who are more likely to apply. However, if you did not expect there to be an increase in applications, you would not have introduced the bill. I do not want to get into next week's discussion of the budget, but where has provision for additional students been made?

Fiona Hyslop: The participation rate per head of population is going down, and we need to reverse that trend. However, as I have indicated, we need to widen access for those from more deprived areas, not just to increase the total number of people in the population who attend university. You are talking about the percentage figures, and the downward trend is certainly of concern.

Mary Mulligan: That is helpful. Thank you.

Aileen Campbell (South of Scotland) (SNP): Good morning, cabinet secretary. Just to pick up on some of the points that were made by Mary Mulligan, you are responsible for all students, and those who teach part-time students have welcomed the bill as a means to assist students. Part-time students do not have to pay the graduate endowment anyway.

Fiona Hyslop: That is correct.

Aileen Campbell: I imagine that the Government has proactive plans to help part-time students.

Fiona Hyslop: That is what I have indicated. It might be helpful to say that, not only do part-time students not have to pay the graduate endowment fee, students from England do not have to pay it either. Those myths about the bill have come not from the committee, but from some of the coverage of the bill. There are people who are not affected. However, that does not mean that we cannot do things in other policy areas to help part-time students. We intend to do such things.

Richard Baker: Abolishing the graduate endowment will make studying here a financially more attractive option for students from the European Union as well. If more students come from the rest of the EU to study in Scotland, where you say there will be a cap on student numbers or a de facto freeze, students from poorer backgrounds in Scotland who want to go to university here will face more competition. Might the policy end up working against itself?

Fiona Hyslop: I suppose the argument must be that we need to do the right thing by students and their families and tackle the fear of debt. I do not want Scotland to have any policies that provide a fortress approach. Indeed, that is one of the concerns that we had about the increase in variable top-up fees for English students that was introduced by the previous Administration. I think that we should have an engaging, international outlook to our higher education system, and that is exactly what we are embarking on in our discussions with the universities about where we want the sector to be in 20 years' time. I would rather have an expansive, outward-looking system than one that looks inward.

Richard Baker: I accept that, but you have not really answered my question, which was quite specific. My understanding is that the stated aim of the bill is to widen access. That is its fundamental basis. However, the bill might make it more difficult for students from poorer backgrounds in Scotland to go to university, because more EU students might come and study here. To what extent have you factored that into your approach to the bill?

Fiona Hyslop: We constantly monitor the number of EU students who come to Scotland.

They make a welcome contribution. We want many EU students not only to come and study here but to stay here and bring up their families here, precisely because we have that reduction in the number of young people coming forward.

If you take the view that you expressed, you should also consider the potential impact of falling rolls. Elizabeth Smith mentioned the increase in England, which relates to the fact that there are more young people there who can apply to go to university in the first place. We have the reverse situation and we have to try to address it.

I do not want to see a fortress Scotland by any means. The institutions themselves have a responsibility to ensure that there are places available for Scottish students and, increasingly, many of them do so. It would be wrong to try to find an excuse for not abolishing the graduate endowment fee. If the excuse was fear of EU students, that would be a worrying message for the Parliament to send out to our international partners.

The Convener: Mr Purvis, I ask you to be succinct so that we can move to the next line of questioning.

Jeremy Purvis: Absolutely, convener.

Cabinet secretary, given your answers to Mary Mulligan's questions on expansion for those from deprived areas, are you saying that there is capacity within the funded places at the moment?

Fiona Hyslop: There is certainly capacity within places at universities to have wider participation from those from more deprived areas. If you ask universities, as I am sure you will, whether they can do more to ensure that those who have the ability can participate at university, every one of them would say, "Yes, we could improve our rates of participation of those from more deprived areas." Many of them are doing great work in trying to do that, but I think that that is a generally accepted point.

Jeremy Purvis: So there is capacity in funded places. There is no unmet demand.

11:00

Fiona Hyslop: The situation in Scotland is that, despite the on-going projects, such as GOALS in Lanarkshire, to which I referred, to encourage people from more deprived areas to go to university, there is still a difficulty and we have some way to go. It is a big challenge for universities to make that difference.

Recently, I spoke to the University of Glasgow about what it is doing to widen participation in subjects such as medicine and veterinary studies, which have been particularly difficult in the past for

those from more deprived areas to access. It is making major inroads on that compared with the previous situation. The University of Edinburgh has also taken great steps to try to address the situation. I attended the local employment action plans in Scotland project—LEAPS—graduation in the summer. That project is about encouraging those who may not have gone to university, and whose families did not go to university, to do so. If we ask whether there is room in the system for a greater percentage of those from more deprived areas to go to university, the answer is yes.

Rob Gibson (Highlands and Islands) (SNP):

You have underlined the good news that we are starting to tackle the issue that puts people off going to university: the fear of debt. The bill's policy memorandum claims that abolishing the graduate endowment fee should

"be a contributing factor in opening up access to higher education on a more equitable basis."

It also states that abolishing the graduate endowment is the first step towards meeting the Scottish Government's

"aspiration of having a higher education system in Scotland that is free for all."

To what extent are those two claims compatible? Can a system that is free for all and which is more equitable be of advantage to those from disadvantaged backgrounds?

Fiona Hyslop: Scotland has a long tradition of free education over the centuries. Part of our history and heritage is that we were the first to embark on free education, with a school in every parish. Access to university that is based on ability is important. A system that is free for all does not mean that everyone has access, because access must be based on ability.

That brings us into a different philosophical realm, because if we are to address the access agenda, we require more than just wider participation schemes for school pupils or people returning to education. Worrying statistics lower down the educational line, at school level, indicate that, of the countries in the Organisation for Economic Co-operation and Development, we have some of the widest gaps between the top-performing pupils and the bottom-performing pupils. The challenge of widening access and participation is as much about closing the educational gap at school level so that more pupils perform well and have the opportunity to access free education. It is not as simple and crude as saying that one piece of legislation will have an impact on the situation. The abolition of the graduate endowment fee is the right thing to do, because it tackles state-sponsored debt. However, it will not on its own close the serious gap in educational performance from primary school right

through to secondary school, which the Government intends to tackle, between people who live in poverty and those who do not.

Rob Gibson: I want to develop the discussion a little, because the points that you have made probably confirm that in deprived areas there is a greater gap between the poor performers and the really good performers. You said that the Government will deal with that problem by other means, but I presume that, because the poor performers in deprived areas are the most vulnerable group, you are saying that, as a start, the fear of debt has to be at least reduced by the bill. The policy memorandum indicates that that is one of the key issues, which must be addressed in order to encourage people to apply to go to university.

Fiona Hyslop: It would be wrong to say that there is a magic bullet that can solve the problem, because there is not. A range of issues must be addressed. It is necessary to tackle poverty generally and to close the educational gap from the early years on. We know that going to nursery has a bigger impact for three and four-year-olds from more deprived areas than it does for other children. We have identified that the barriers to participation start from a very early age. We can address the issue through the abolition of the graduate endowment and tackling the fear of debt, which is one barrier to participation.

It is important that we as a country close the gap between those who have opportunities and those who are denied them. The policy for younger people in "More Choices, More Chances" is designed to ensure that we do not have such record levels of 16 to 19-year-olds not in education, employment or training. That is a wider issue. It is the duty and responsibility of Government to take action if it can do so. Within 100 days of coming into power, we published the bill in order to do exactly that.

Richard Baker: I want to press the point about whether the bill will result in more equitable access. Access will be provided on the basis of ability, and nobody would want to put up walls to make us fortress Scotland. Students from outwith Scotland, including those from EU countries, might find studying in Scotland a more attractive option if the endowment is scrapped. Has any research been done on the potential impact of the bill on the number of students from outwith Scotland who come to study here?

Fiona Hyslop: That has not been a major consideration in the development of the bill. However, there is on-going analysis of the number of students who come here from EU countries to allow us to address any potential effects. The students from the EU who study here make a favourable contribution, because, in common with

many students who come from England, many of them stay and bring up their families here, so there is a wider economic impact.

Richard Baker: I fully accept those benefits, but we are talking about widening access for poorer students. You do not know how many extra students from outwith Scotland could come here. If that leads to a situation in which there is in effect a freeze on student numbers, access to higher education for students from poorer backgrounds might be limited.

Fiona Hyslop: We know that there was not a big increase in the number of EU students coming here when tuition fees were introduced in the first place. Universities have advised us that many EU students come here because of the quality of our education, not the price of it. You expressed concerns about EU students suddenly flocking to Scotland, but the evidence is that when tuition fees came in, they did not put off EU students. The fact that many of them find Scotland an attractive place to study is a good thing in itself. You are right to raise the issue, but I do not think that it is of major concern. The evidence is that the biggest issue for EU students who come to Scotland is not cost but the good quality of the education that they receive. In recent surveys of the experience of international students, Scottish universities were rated highly in comparison with universities in England and elsewhere in Europe. We should be pleased about that, not fearful.

Elizabeth Smith: You have flagged up the policy of abolishing the graduate endowment as an important step in beginning to restore the principle of free education in Scotland, reducing the fear of debt and ensuring that there is wider access to education. When the bill team came before the committee a few weeks ago, we raised two concerns. One was that the evidence on which the policy was based was a little bit shaky—you have addressed some of that in your answers to previous questions. The other concern was that some of the possible policy alternatives had not been examined. Were policy alternatives considered?

Fiona Hyslop: We have a manifesto commitment to abolish the graduate endowment fee. In "It's time to look forward: The first 100 days of an SNP government", we said that we would introduce a bill to abolish that fee within the first 100 days, and we did so. That does not mean that there are not other things that we might want to tackle to address some of the issues to which the policy memorandum refers. That is why we will have a consultation next year on other measures to do with student support and tackling debt. That is part of our commitment, too.

Elizabeth Smith: Might it have been better to consider the alternatives and carry out a cost-

benefit analysis of them alongside the policy to abolish the graduate endowment—which you have obviously decided is the better policy—before saying that you think that that policy is definitely the right one?

Fiona Hyslop: You could argue that, and it is up to the committee to take a view. However, had we done such an exercise, more than 10,000 graduates who have benefited this year would not have benefited, as those who graduated this summer would not have been able to benefit from the legislation that we are introducing. We made it clear that we wanted to maximise the number of students who would benefit from the abolition of the graduate endowment fee. We could have delayed the bill for a year or two, but every time that we did so, there would have been greater difficulty in providing the finance for it. As I have said, retrospectivity with regard to the three cohorts would cost £41 million. If we had added another year, 10,000 graduates could have lost out.

We have acted promptly and in accordance with what we said that we would do, and we are going ahead with the bill. More reflective contemplation can be the hallmark of any Government, but we are trying to take action when we can. Because the bill is quite straightforward, we felt that we could move forward with it fairly swiftly and have a major impact on the 50,000 students who will benefit if the Parliament passes the bill.

Elizabeth Smith: The policy is fairly controversial for all sorts of reasons. If you wanted to persuade the committee and, more important, Parliament—you have acknowledged the importance of the will of Parliament in this—it might have been better if we had been able to look at other options and measure them against the policy.

Fiona Hyslop: That is perhaps the case. However, as you can see from the written evidence that you have received, there is a lot of strong support for the bill from Universities Scotland, individual institutions, the students themselves and—I know this from my own mailbag—parents throughout Scotland, who recognise the bill as a major step forward. They are hoping that Parliament, through its committees and when it comes to votes in the chamber, will support a piece of legislation that will have a major impact on 50,000 families throughout Scotland.

Elizabeth Smith: Many people are in favour of some of the policy proposals that you have on the table just now, but many people are also critical of the fact that the bill does not address some of the key issues regarding access and what is best for higher education in the country. I return to the point that, if you wanted to persuade us of the

value of the policy, it would have been better if you had presented us with some alternatives.

Fiona Hyslop: The responses to the committee's stage 1 consultation are available for people to view. You say that people find the policy controversial, but that is not what has been articulated to the Parliament so far, unless you have now received evidence from people who do not want the bill to go ahead. I would be interested to know where that critical written evidence is. We did not receive such a response to our consultation. Your stage 1 report will be able to reflect where that criticism and controversy have been identified. Just as you are asking me to produce evidence for the policy that I am putting forward, it is incumbent on the committee to provide evidence of people's opposition to the bill.

Aileen Campbell: I want to continue Elizabeth Smith's line of questioning. Could a means-tested graduate endowment be another barrier to access and make access to education less equitable?

Fiona Hyslop: That is perhaps a point that other members have alluded to—whether we considered something else or what else might be possible. The argument could be made for a means-tested graduate endowment fee. I think that that is where the convener was going when she suggested that means testing already exists. Means testing does not exist, but certain categories of graduate can become exempt. However, if half of graduates were not liable for the graduate endowment fee and we then introduced another administrative, means-testing system, very few graduates would be liable for the fee at all. There might then be an argument for just abolishing it anyway.

I return to the critical point that the graduate endowment fee is an inefficient way of raising the money that is necessary to fund student support. In fact, the majority of student support—the young students bursary and so on—comes from outwith graduate endowment fee provisions. Only a third of the bill is paid up front in cash. Two thirds of it is added on to the loan—that is quantified at about £27 million, I think, although somebody can correct me if I am wrong about that figure. Of the amount that is added to the loan, in the past three years, only £57,000 has come back to the taxpayer. Because the graduate endowment fee is so tied up with the student loans system, a third of what comes in from the graduate endowment fee is lost—it does not even go back to students.

By abolishing the graduate endowment fee, we can ensure that the money goes straight to students and bypasses the middle man, which was an inefficient way of finding resources. That, in itself, is a strong argument. There must be better ways of providing support to those from more deprived backgrounds than the student

support bursary, which was not an effective or efficient way to deliver the policy intention in the first place. Many people, including the NUS, say that it has not delivered what it was supposed to deliver.

11:15

Aileen Campbell: The bill seeks to repeal sections 1 and 2 of the 2001 act. However, it provides for section 1 to remain in place in respect of students who are already liable to pay the graduate endowment fee so that they will still pay it. You gave a brief answer on this point earlier, but why was it decided that students who became liable to pay the fee on 1 April 2005, 2006 or 2007 should remain liable to pay it? I think that you mentioned a figure of £41 million. Is the money the only reason, or are there others?

Fiona Hyslop: First, there are issues about applying legislation retrospectively, which is not regarded as the best approach. We should legislate from our point in time. It is not necessarily appropriate to legislate retrospectively.

Secondly, as I said, all the liability would have to be met in one year. Given a budget settlement with an increase of 0.5 per cent in the first year, it would be difficult to find £41 million for the retrospective amount. That is why the bill continues that liability. Many students have already added the fee to their loans. We regret that we cannot tackle that. The problem is that the Parliament previously voted in favour of the measure and it is in place, so those students still have a legal liability, which will continue.

Aileen Campbell: Are there any legal implications of section 2 of the 2001 act not continuing to have effect in respect of the income received from graduates who will continue to be liable to pay? Does that mean that that money will not go towards student support?

Fiona Hyslop: I ask my officials to comment on that.

Chris McCrone (Scottish Government Finance Directorate): As I have explained previously, the income that is still due to be paid is on our balance sheet, as the actual income was taken in and applied in the year in which it was due. Therefore, the income that will come in has been funded already. The income is not still to be applied; it has been applied already.

Mary Mulligan: I acknowledge that you have taken the matter into account in previous budget lines, but it strikes me that, to a lot of people, it will seem unfair that they will continue to pay for something that no longer exists. Do you really expect that they will continue to pay? How much do you actually expect to take in?

Fiona Hyslop: We should remember that the funding is income forgone. That is the basis of our funding in the budget.

I return to the position that two wrongs do not make a right. If we did not do anything, we would continue with something that we think is wrong. We have a state-sponsored debt that we can do something about. Is it unfair? I think that it is unfair that students were asked to pay the fee in the first place. That is our position, and we have been consistent on that.

Mary Mulligan: It was a democratic decision.

Fiona Hyslop: Absolutely. I acknowledge that it was the will of Parliament. I happen to think that it was unfair, but the Parliament as a whole did not. We have to respect the will of Parliament in introducing the graduate endowment fee.

Would it have been desirable to do something about it? The answer is yes. Can we do something about it? It would be difficult, within a tight settlement, to say that, in the first year, we would not only forgo the £17 million from the graduate endowment fee but find the £41 million as well. That is one of the difficulties. However, it should not hold us back from doing the right thing for the 50,000 students who will benefit and for future generations of students.

We are not changing the position of people who were liable before—I regret that they were put in that position in the first place, but that is where we are. If we asked most people whether they and their younger brothers and sisters who are in the system should not benefit because it would be unfair on one group, what would they say? Sometimes, we just have to do the right thing. Part of our proposal is about doing the right thing by those who are currently in the system and those who will be in the system in future.

Mary Mulligan: I just want to register my concern that we do not end up spending more money chasing bad debt than getting a benefit to the public purse.

Fiona Hyslop: Your concerns about pursuing bad debt are well made—that is one problem with the loans system. If one looks at the Government's accounts, one finds that it has to write off a substantial chunk of the money—more than a third and as much as 40 per cent—because it does not anticipate that that chunk will come back. As I said, loans can take 13 years to be repaid. Your concern about the effort that is exercised in pursuing loan debt is well made. However, most of the debt is from loan that was not generated by the graduate endowment fee, although it contributes to it. The debt is pursued and collected by HM Revenue and Customs. We have concerns about the entire student loans system because a lot of time, effort and resources are put into loan

subsidy, which is extensive expenditure for Government, and because much of the loan is never paid back and a lot of time and effort are spent on pursuing bad loan debt.

Jeremy Purvis: I seek clarification on Mr McCrone's response to Aileen Campbell's question. Am I correct in understanding that there will be no legal requirement for the money that is still owed by about 13,000 students—the money that will come to the Government subsequent to the passage of the bill—to be used for student support?

Fiona Hyslop: The legal liability will remain. The important point is to remember the terms of the original legislation—the money was to be used for student support. However, the previous Administration, in its operation of that legislation, used the money by and large to provide for student loan subsidy, because it classed that as part of student support.

Jeremy Purvis: That is helpful. Can you point to where in the bill it states that the liability will continue?

Fiona Hyslop: I think that it is in section 1.

Douglas Tullis: The way in which to consider the matter is that section 3 contains no specific saving of the provision in the 2001 act that provides for the hypothecation—that is section 2, under the heading "Graduate endowment: use of income". There is no specific saving of that provision, which accordingly flies away.

Jeremy Purvis: So that legal liability will not continue under the bill. Did you say that the legal requirement in relation to the funds that will be raised will no longer exist?

Douglas Tullis: Section 2 of the 2001 act will no longer have effect. That is the position.

Fiona Hyslop: We need to read the bill in connection with the original legislation.

Jeremy Purvis: What is the amount of the liabilities that are now outstanding?

Fiona Hyslop: The amount that is due to come in has already been accounted for, partly because the system must be related to the loans. A very complicated system of accounting lies behind the matter, not least because the graduate endowment is so tied up with the student loans system. That is one of the concerns, which you have probably seen from the Finance Committee's report.

Jeremy Purvis: Colleagues will come on to the Finance Committee report. For clarification, if the legal requirement for the money to go to student support will be repealed, where in the budget line will we see that that money is protected? Where in the budget will the committee see that the sum of

money that you anticipate coming in from the existing liabilities that are not being repealed—which you have accounted for—is dedicated to student support?

Chris McCrone: It is clear that, in our Government accounts this year, we will account for the fully expected income from the graduate endowment for 2007-08, which will be the end of the graduate endowment. That income will be applied as if it had been collected. The real bit that is not cash goes into our balance sheet either as a normal debt or as a loan, if people take out loans. Effectively, that income is applied in full in the year in which it is generated, and it is recognised in the year in which it is payable, not in the year in which someone pays £1 to us. That is normal accounting practice.

Jeremy Purvis: So we would not see in the budget what the anticipated income would be from the existing liabilities of graduates who still have to pay.

Chris McCrone: You do not need to. What you will see is on the balance sheet of our accounts. We have taken that income in as it has arisen every year since 2005-06, and we have shown that in our accounts as income and, therefore, applied it.

Jeremy Purvis: I am not sure that you understand why I am asking about this. I am sure that you will have the figures to hand. The existing debt—the debt that is still outstanding and that graduates still have to pay—relates to about 13,000 students. That money, which will subsequently come in, is no longer legally required to go to student support.

Fiona Hyslop: It is already being used—that is the point. It is accounted for in the year in which the students become liable, not when they pay it. You must remember that some of those people will not pay the graduate endowment fee for 13 years, if it is added to their loans. This is where there are genuine difficulties with the student loans system, which is very complicated. A third is used up in resource account budgeting et cetera, and is lost to the taxpayer. For accounting purposes, it is used and applied in the year in which the graduate becomes liable to pay it, not in the year in which it is paid.

Jeremy Purvis: That is helpful. If the convener allows, at the end of the session, when we are talking about the budget, I will come back to that.

Is the figure of £1.926 million, which relates to graduates who are facing debt recovery action, written off by the Government? That is not reflected in the financial memorandum.

Fiona Hyslop: That is the debt recovery figure. It is a liability to be confirmed. We are being

prudent and anticipating that amount as the maximum that will come back. Not everybody who is liable ends up needing to pay—they might have an exemption, such as those who enter postgraduate study. They become liable after their first degree, but the payment does not have to be made until later. There can be periods of exemption, people can drop out, or whatever. Basically, we have budgeted for that amount although we do not expect that to be the eventual figure. It is a prudent figure.

Jeremy Purvis: On a number of occasions, you have cited the figure of £57,000 as having been paid by students who have deferred payment on their graduate endowment by adding it to their loan. I am looking at the Student Awards Agency for Scotland figures, which you will have seen. Can you explain the difference between the £57,000 that you have cited and the figures in the line headed “Paid by part payment part loan”, which are £411,000 for 2007, £248,000 for 2006 and £50,000 for 2005?

Fiona Hyslop: I do not have the figures that you have. Are you quoting the SAAS figures?

Jeremy Purvis: They are in the submission on the bill from SAAS, which is dated 5 November.

Fiona Hyslop: I will see whether one of my officials has a copy of that to hand. The £57,000 is what has been paid back through loan payments by about 2,000 students who have added the graduate endowment fee to their loan. That is how much has been paid back to the taxpayer, which shows how inefficient the system is. Two thirds of the graduate endowment fee is added on to the loan, and only £57,000 is coming back.

I am trying to find the figure of £411,000. You are saying that SAAS has said how much has been paid in full. The information that I provided was accurate when we produced the financial memorandum. The figures that SAAS has produced in its submission cover 2005, 2006 and 2007 and it is recognised that, during the period, people in the three cohorts will still be paying. The £498,000 has been paid in full—that is a cash payment up front. Is that what you are referring to, as opposed to what was added to loans?

11:30

Jeremy Purvis: I do not know whether you have the paper to which I am referring

Fiona Hyslop: I have it now.

Jeremy Purvis: It states:

“Collection response performance of those students liable on 1st April 2007 is as follows”.

The figure in the line headed “Paid by part payment part loan” is £411,000.

Fiona Hyslop: That is the part payment, part loan figure. The income to the taxpayer from students who have paid up by loan—not as part of the scheme that puts the money back into the graduate endowment fee accounting system—will be different. All that I am saying is that the efficiency of the present system is such that two thirds of those who are liable add the graduate endowment fee to their student loan debt, and only £57,000 has been paid back through the tax system—the income-contingent loans system.

Jeremy Purvis: But the procedure by which a student pays back their loan has changed, has it not? The figure could well be different since the change was made to monthly payments—is that not correct?

Chris McCrone: Yes, the £57,000 could have increased since repayments to the Student Loans Company started to come through HM Revenue and Customs, which takes the money from a person’s salary on a monthly basis. However, it is only applied annually when HMRC gets the P35 information and updates its records at the Student Loans Company.

Fiona Hyslop: The fact that, of the £27 million that is put into the student loans system, less than £100,000 has been paid back shows how inefficient the system is, although income is coming in monthly from the three cohorts of students.

Jeremy Purvis: I am not convinced by that, convener.

Fiona Hyslop: I share the committee’s concern. It is a complicated system of accounting, and it is not very efficient for the taxpayer. The fact that a third of the income is lost—it does not go anywhere near students or student support—is of concern in itself.

Jeremy Purvis: With respect, cabinet secretary, the concern is over the lack of clarity in the information that the Government has been providing to the committee; it is not concern about the policy.

The Convener: That is the very issue on which Mr Baker would like to ask questions about the financial memorandum.

Richard Baker: That leads neatly on to the report that we have received from the Finance Committee, which expresses concern about the quality of the financial memorandum. Indeed, that committee said that it found the Scottish Parliament information centre briefing more useful. For example, it has queried the uncertainty over the number of students who are liable, as it is described in the financial memorandum, and the absence from the financial memorandum of the impact of graduates in debt recovery. How do you

respond to the concerns that have been raised by the Finance Committee?

Fiona Hyslop: I know, from sitting on committees, that there are concerns about the amount of information in financial memorandums. I understand that the Finance Committee is now satisfied that its concerns have been addressed by us either through evidence or in correspondence with the committee. I am glad that you appreciate the SPICe paper. My officials made a significant contribution in helping the SPICe researcher to draft the financial element of the paper, as it is a complex area. I am pleased that we were able to co-operate on that. It is a complicated area, particularly because of the interaction with the student loans system. The system that we have to work with is inefficient. We have tried to provide as much information as we can to the Finance Committee and I understand that all its points bar one have been addressed. I am happy to take questions on the Finance Committee's report.

Richard Baker: Those comments are helpful. You mentioned the level of repayment through loans. About £15 million has been paid up front. Is that correct?

Fiona Hyslop: Yes. A third has been paid up front in cash, but that is nowhere near what the bill would be for the student support that it is meant to provide.

Richard Baker: The Finance Committee's report mentions the considerable difference between the presumed £17 million of income and the total if we include the SAAS figure in the SPICe briefing. That figure is almost £2 million, so the total is almost £19 million if we accept the analysis in the SPICe briefing. Are you confident that the £17 million figure in the financial memorandum is still appropriate?

Fiona Hyslop: We should be in a steady state. Those who have been notified that they will be liable when they graduate have now come through the system. We think that the £17 million figure reflects a steady state of investment if nothing changes in the future. For a variety of reasons, however, some graduates who became liable will be exempt. They might go on to postgraduate study, for example. We have to anticipate how many such cases there will be in the future. Prudently, we recognise that the cost could be as much as the £1.9 million that was mentioned earlier, although we do not anticipate that it will be as much as that. We think that £17 million is an adequate figure. We should remember that, whether it is £1 million or £1.9 million, it is income forgone and not income generated. I know that that is a complex concept, but that is the accounting system that is operated because so much of the money is added on to loans.

Richard Baker: I accept that. Obviously, income forgone is income that could have been spent elsewhere.

So, you are saying that the £1.95 million figure for debt recovery is no longer accurate.

Fiona Hyslop: We reckon that it might be £1.9 million. That is the figure that we may need to recover, but we do not think that it will be as high as that.

Richard Baker: For clarity, do you think that it is right that the sum was not included in the financial memorandum? The Finance Committee raised the matter in its report.

Fiona Hyslop: We tried to include as much up-to-date information as we could in the financial memorandum. We understand that there are 949 individuals in debt recovery, but we do not yet know whether their liability is confirmed. If it was confirmed that all 949 were liable, the sum would be £1.9 million. Many of them will be defined by the rules as not liable, so we will not need to account for them.

This is on the margins of where we are. It is important to highlight the differences. There could be another 949 people to be accounted for, but there might not be that number. The system that is in place for exemptions from the graduate endowment fee is quite complicated, and we still do not know whether the 949 people are liable for the fee. However, we were prudent and we included them in our proposals. If they become liable, the figure will be £1.9 million.

Richard Baker: So £17 million remains the best estimate.

Christina McKelvie: What impact, if any, will the loss of income from the abolition of the graduate endowment have on the budget for higher education?

Fiona Hyslop: The 2001 act was explicit that the income was not to be used for tuition fees or for funding universities up front. It was a fee on education for those who were liable to pay it, and the income was to be used for student support.

The previous Administration set up systems whereby the income was used to help to support the student loan subsidy element, which freed up income to deal with other issues that developed in-year. For example, the entrepreneurial chairs that were promised and set up by the previous Administration were funded from that income, as were English for speakers of other languages provision and lifelong learning strategy work. The 2001 act allowed the income to be used to deal with items of policy that came up during the year. Because we have now decided, as part of the spending review, which of those to baseline, we will continue with some and not with others. For

example, ESOL—which is an important part of what we do—is now baselined and funded elsewhere. Although there is income forgone, the types of thing that were funded previously are now going to be caught up with the general spending review budgeting. Therefore, that will not have a direct or immediate impact.

Because the problem with the student loans system meant that the previous Administration could never anticipate how much income it would receive from the graduate endowment fee, it was difficult for it to use the graduate endowment fee as baseline funding for anything else—even though the 2001 act said that it should be used for student support and despite the fact that everybody thinks that its purpose is to pay for grants, bursaries and so on. Because the previous Administration felt that it was more important to provide secure funding for the young students bursary and other support measures that should have been funded by the graduate endowment, it baselined that funding in other funding streams. Therefore, I suspect that there will not be much in the way of lost projects, if that is what your concern is about. In reality, the difficulties of the funding system as set up under the graduate endowment fee were such that student support ended up being funded out of other taxpayers' lines.

Christina McKelvie: Would it be fair to say that, although the bill will have no impact on that funding, a positive impact will be that those budget lines will be more secure because they will be baselined?

Fiona Hyslop: There will be no negative impact on student support proposals, and there was never any impact on university funding. Indeed, security of funding can now be achieved for the young students bursaries and other support schemes through a cleaner, simpler and more straightforward way of providing student support for those who need it. There is also the added benefit that 50,000 people currently—and many more in the future—will not have a £2,000-plus tuition fee to pay at the end of their university careers.

Christina McKelvie: That will be another positive outcome of abolishing the graduate endowment.

Fiona Hyslop: Yes, indeed, and it will establish an efficient way of funding. I stress to the committee that this is not just about tackling the moral issue of state-sponsored debt; it is also about creating a better and more efficient way of funding student support.

The Convener: Three committee members want to speak. I will allow you all in, but I ask that you keep your questions short.

Richard Baker: In that case, I will ask just one question. Given that the spending review is disappointing for universities in particular, is it not the case that the policy is having an impact on the overall budget settlement? Many of the submissions to the committee say that the bill is fine as long as it does not impact on the wider funding of universities. Indeed, we have recently received a submission from the Royal Society of Edinburgh regarding the poor funding settlement and the bill. How do you respond to those concerns within the sector?

Fiona Hyslop: I reiterate that the bill will have no impact on the general funding of the university sector. It could not do so because, under the previous Administration, when the income from the graduate endowment fee came in, it had to be used for in-year flexibility. You will no doubt hear in your next evidence sessions that universities and colleges want regular and dependable sources of income. I do not think that they would thank us for saying that they had to rely on in-year flexibility and a graduate endowment scheme that was an unreliable source of funding. The fact that universities never received their income from the graduate endowment scheme means that they will be neither worse nor better off as a result of the bill.

Jeremy Purvis: I would like some help in identifying the level of support for bursaries and grants in the budget for 2008-09, 2009-10 and 2010-11.

Fiona Hyslop: That continues under the existing lines, which will be under SAAS. There is a slight reduction in the SAAS figures, which is more to do with the number of students who are coming through. The level of support has not been changed at all. Should we decide, following our consultation, to improve the young students bursary—which is where Richard Baker might have been coming from in his questions—that would have an impact. However, there is basically no change there. We will continue to fund that on the same basis as before.

11:45

Jeremy Purvis: How much is that? I do not know whether you have the draft budget in front of you, but I note that there is a line for fees, grants and bursaries. The Cabinet Secretary for Finance and Sustainable Growth explains the increase by saying that there is £30 million for

“a phased transition from student loans to grants”.

What are the figures for grants and bursaries during the spending review period?

Fiona Hyslop: I have the document here. The figures are given on page 112. The figures for

fees, grants and bursaries are £274.7 million, £281.2 million, £279.5 million and £305.2 million.

Jeremy Purvis: And no part of that is part of the transition from student loans to grants.

Fiona Hyslop: The figures that are anticipated for that will continue. Any figures for any new initiatives will come on top, if that is what you are asking. Within the SAAS lines, there is a reduction because of anticipated changes in the population. It is anticipated that there will be fewer students because of the population figures.

Jeremy Purvis: My question is relevant to the bill. The Cabinet Secretary for Finance and Sustainable Growth said:

"We will consult on further student support and graduate debt proposals in 2008, with £30 million available in year 3 to take forward the policy."—[*Official Report*, 14 November 2007; c 3326.]

As far as I can see, that is not identified in the information that has been published, nor do I see a breakdown with regard to grants and bursaries in the amounts that you propose to provide for student support during the spending review period.

Fiona Hyslop: Our additional funding of £300 million for the transition from loans to grants is in addition to what we would continue—

Jeremy Purvis: Is it £30 million?

Fiona Hyslop: Yes—sorry. The £30 million is on top of the baseline figure, which will continue. We will continue to fund and support the young students bursary. The bill will have no impact on that.

Jeremy Purvis: I hear that, but I want to know where that is in the document, so that the committee knows whether there is to be growth or stagnation.

Let me ask the question in another way. What is the real-terms increase for student support in 2008-09, 2009-10 and 2010-11?

Fiona Hyslop: If you are asking about the grants that are currently paid out, they will continue to be paid out. The bill will have no impact on the level. However, you will find that, because we have the opportunity of the additional £30 million that is accounted for in that line, we can increase the amount that is available in grants. The line goes from £274.7 million up to £305.2 million.

Jeremy Purvis: So the figures build up to that over the spending review period, and the £30 million will be for additional grants.

Fiona Hyslop: Yes.

Elizabeth Smith: I ask for clarification. My colleague Derek Brownlee pointed out that the Government's figure for administering the

graduate endowment was £156,000 but that the financial memorandum projected administrative savings of £65,000. In response, he was assured that the difference was to do with on-going maintenance and depreciation costs. If something is about to be abolished, why would there be depreciation costs?

Stephen Kerr (Scottish Government Lifelong Learning Directorate): The Student Awards Agency for Scotland sent a letter about that to the clerk to the Finance Committee yesterday. I have a copy to hand. It sets out the reconciliation of the figures.

The Convener: Perhaps you could circulate that letter to the committee.

Fiona Hyslop: Yes, we will ensure that that is done.

The Convener: I say to Mr Baker that I allowed him to ask a supplementary question earlier. We have had extensive questioning and we have another large panel today.

That concludes our questions, cabinet secretary. Thank you for your attendance. I reflected gladly on your comments to Christina McKelvie on the committee's important role in scrutinising the bill. That, perhaps, helps to address the comments that you made to the media a few weeks ago, when you rebutted the committee for questioning your officials. I am glad to say that you were much better prepared than your officials were when they came before the committee a few weeks ago.

The committee will be suspended for a five-minute break.

11:50

Meeting suspended.

11:56

On resuming—

Budget Process 2008-09

The Convener: Agenda item 3 is further oral evidence on the Scottish Government's budget spending review 2007, as part of our stage 2 budget scrutiny. I welcome back to the committee some of our regular visitors. We are joined by Howard McKenzie, the acting chief executive of the Association of Scotland's Colleges; David Caldwell, the director of Universities Scotland; and Roger McClure, the chief executive of the Scottish Further and Higher Education Funding Council. Thank you for joining us this morning, gentlemen, and thank you for your written submissions. To maximise the time for questioning, we will move straight to questions.

Given the funding package that has been provided, will further education colleges be able to absorb the costs, which are subject to increases above inflation, without requiring further reductions elsewhere in their budgets?

Howard McKenzie (Association of Scotland's Colleges): The straight answer is no. To absorb what is going on, we will have to change what we are doing. The capital line that we have been given is welcome, but it is not quite enough—it will not do everything, and some colleges will be left waiting.

The revenue is just about enough to do what we are doing now, but if we are asked to do any more we will have to start to move the chairs around in the colleges quite quickly. Several principals have told me that they will have to make decisions about some of the more high-cost courses and perhaps move some of the provision for those to lower-cost courses. High-cost courses include engineering, construction and special needs. To deal with the additional costs, the funding may be put into business and other courses that are cheaper to deliver.

The Convener: If you experience difficulties, what will be the likely effect? What hard choices might Scotland's colleges have to make?

Howard McKenzie: I can give an example from my college, where 120 people take 10 per cent of the funding on extended learning support because they have some sort of learning need. There are 8,500 other students. Decisions would have to be made about how many students would get what and where, and whether the college should continue to deliver high-cost support or look for other types of student.

The Convener: In your written submission, you say that you assumed a funding increase of inflation plus 3 per cent. Have you been able to

obtain that increase in the budget allocation that you have been given?

12:00

Howard McKenzie: It is clear that we have not. If we are lucky, we will receive an increase of inflation plus about 0.5 per cent—the Scottish Further and Higher Education Funding Council helpfully referred to that figure in its written submission. One of the hidden costs arises because the Scottish Qualifications Authority has lost its charitable status. Fees for qualifications will go up by nearly three times the rate of inflation so that it can claw back the money it needs as a result of losing charitable status.

The Convener: As the assumed funding increase will not be received, how will colleges ensure that they generate sustainable surpluses to allow them to continue in the years ahead?

Howard McKenzie: A surplus of 0.8 per cent is produced across the college sector. Some colleges that are in the margins of surplus will go back into deficit, and colleges will go away from financial security. Colleges are in much better health than they were, but it remains the case that a lot is done on quite meagre rations.

The Convener: You mentioned financial security, which is one of the key things the sector has regularly asked for, and said that some colleges thought that they had it. If the financial settlement that has been offered will not allow colleges to generate the surpluses that will be needed to guarantee their future, will there be no financial security for the sector as a whole?

Howard McKenzie: For most colleges, the financial security campaign that the funding council has run over the past five years has worked. Colleges are financially secure and sustainable, but those at the back of the convoy will struggle a fair bit. Some colleges that have given evidence on their financial status to the committee or to its predecessor committees will again struggle. The settlement really just enables colleges to survive, not to move forward. In our submission, we say that we could do much more. We are concerned that we will not be able to meet demand, that we will be unable to do more and that we may have to change curriculum profiles to maintain our financial viability rather than to do what students want us to do.

The Convener: Roughly how many establishments could find that their future is not as secure as they hoped?

Howard McKenzie: I cannot answer that question with facts. I think that half a dozen or so of the 43 colleges could find themselves in that position, but that is a guess.

Mary Mulligan: I have a question for Mr McClure. What actions will the funding council take to ensure that colleges that have found themselves with financial difficulties in the past will not find themselves with such difficulties again?

Roger McClure (Scottish Further and Higher Education Funding Council): It is important to stress that there were several components to the financial security campaign, including components that were designed to improve the financial management capability of colleges. For example, there was the sector-wide cost benchmarking exercise. Detailed annual reports on costs are published so that colleges can compare their costs. We have resuscitated the financial managers support group, which had been allowed to fall into limbo. That group has become much more active. There are other initiatives that the sector is active in as it seeks to improve its efficiency, such as the efficient government initiative. We must now find out whether all the improvements have been embedded in all colleges so that they can master the challenges that will arise in the next couple of years.

At the moment, I feel fairly confident. Scotland's colleges have come together as a group and now operate as a brand to help each other. That is shown by the further education development directorate—FEDD—which is largely made up of practitioners from colleges and other active practitioners. The sector is in a much better position to deal with the challenges it faces than it was four or five years ago, when we embarked on the process. We have to see whether it is able to cope.

Rob Gibson: Colleges do not have much scope for diversification to try to get funds. You have stated that the largest barrier to entry to progression into advanced vocational skills qualifications such as higher national diplomas is the policy that does not allow higher education students in Scotland's colleges to access higher education bursaries. That is a concern to us. Do the witnesses consider that the budget will allow increased access to bursaries at a level that is equivalent to the higher education funding that students in universities can receive?

Howard McKenzie: We are not entirely sure. The committee asked about that during the previous evidence session. I am not sure what answer was given. It is clear that a movement from loans to grants will benefit higher national diploma students in colleges. It should be remembered that about 20 per cent of all higher education in Scotland is delivered in colleges, not universities, and that college students tend to come from the most deprived backgrounds. They are also the people who move on to universities in their second or third year. The nation needs to

build on that route, and part of that is ensuring that those people have access so that they do not go into debt in the first place.

Rob Gibson: So you welcome the move from loans to grants?

Howard McKenzie: We will wait and see what it looks like, but yes, we do.

Rob Gibson: We should establish what impact the lack of charitable status will have on colleges' finances if legislation is not changed to allow the FE sector to benefit. Would you like to comment on that?

Howard McKenzie: The first thing to say is that it is 612 days until colleges lose their charitable status. That will cost us about £50 million a year—which, incidentally, is the amount of cash that is extra over the three-year spending review. So there we go; that is how much it will cost us, and we would be negating whatever we have done.

Roger McClure: Howard McKenzie has given you the figure from the top end of the range. It is not an easy figure to calculate, but I think we gave evidence that the figure is likely to be between £30 million and £50 million. The figure will be substantial if charitable status is lost, so we welcome the fact that the Government has made it clear that it will—by whatever method—make sure that the status is not lost.

Rob Gibson: Thank you for dealing with that.

Christina McKelvie: What impact would an improved uptake of individual learning accounts have on college income and course delivery?

Howard McKenzie: ILAs have been fairly effective in some areas but, over the piece, they have not been as effective at getting people in as has, for example, the fee waiver process. Some of that is to do with the way in which the means-testing process is done.

An individual learning account is for the individual, so my wife could obtain an individual learning account, but she could not have a fee waiver because that is based on household income. The fee waiver system can help people who receive substantial benefits because of how eligibility is calculated and the impact on benefits; ILAs involve people in the middle ground rather than those in deprived areas.

Colleges are using ILAs imaginatively in community activities, but they provide only fee income—they do not pay the full cost of a course. If someone takes the European computer driving licence course, an ILA provides a good way for them to obtain money to pay their fees, but we must still use our money from the funding council to deliver the course.

Christina McKelvie: So you think that the fee waiver scheme is a better way to give people access than an individual learning account?

Howard McKenzie: Both schemes follow a means-testing process. The key is that fee waivers tend to hit the very poorest in our society—they are a good way of supporting those people. The scheme is fairly crisp and quick, and the process is done on site. An applicant receives an answer remarkably quickly.

The scheme links into support such as further education bursaries and hardship funds. We can use the result of the means testing to make all the calculations so that a student goes away with a package that includes advice on benefits. That is important and helpful, because if someone makes the shift of deciding to go to college, their benefits will change, so they will have to obtain a new package of funding to survive while they are at college.

To obtain an ILA, people must send away to obtain something. Some people find that daunting, and the process is not the quickest. It does not deal with the other issues, either.

The Convener: If the number of students in further education who use ILAs or even the fee waiver scheme increased substantially, would that have a financial impact on further education establishments? You said that, even with that funding, you must still cover the cost of course delivery. If such an increase were to have an impact, has that been budgeted for or would you have to find money for that from your existing budget allocation?

Howard McKenzie: We would have to fund the courses from the existing budget, so we would just replace one piece of funding with another, because we cannot grow or do any more. The money that an ILA provides would not be enough to pay for us to run a course on a full-cost basis, unless the amount increased substantially.

One issue that colleges have with ILAs is that we are paid late for them. The funding council provides us with fee waiver money up front and we draw money from that pool. At the end of the year, we must account for how we have spent that money.

If a student were given an ILA on 1 September, I would not receive money for that in my bank account until after Christmas, but I would have to find the finance to run that place for the best part of three or four months. If we suddenly had thousands of ILAs, which would be worth thousands of pounds, I would have to find a couple of million pounds from a bank—or somewhere—to fund the process. The bureaucracy behind ILAs is complex. I have heard some of the wonders of accountancy in

Government finance and that is another story of similar magnitude.

Elizabeth Smith: You have spoken about the tight financial settlement and the hard choices that will have to be made. Money talks and the situation will be difficult in many areas. Do you recommend any other changes, to give colleges more flexibility to increase the number of students?

Howard McKenzie: Giving us a lot more money would of course be very helpful, but there is an awful lot of clutter in the student support mechanism, starting with how the benefits system sometimes militates against students. The process has step changes. When someone who went to college to do a further education course takes a higher education course, a different support package applies.

There are other packages, the young person's bursary, the mature person's bursary, the hardship fund, the very hardship fund, the child care fund and the immediate child care fund. They all have little bits of money and we all have to manage and administer them all. Then there is money from local authorities in relation to issues such as child care. It makes life very difficult for people who are making quite a difficult value judgment about whether to give up work and do a college course. However straightforward that decision might seem, it is quite earth shattering for them and it is quite difficult for them to make that change to better themselves. The stuff that they are presented with takes a bit of skill to get through—they are good at doing it, but it can be quite difficult. It would be great if, when a student turned up at the college, we gave them an academic package and a support package and said, "Off you go."

12:15

Elizabeth Smith: Can I just confirm that you are saying that it would be helpful if the process were simplified? Am I right in thinking that you think that the marketing of what is available is quite good but that the process needs to be simplified?

Howard McKenzie: A simplification of the system would make it a lot easier. You heard some of the wonders of Government accounting—we have to live with that. The funding council is extremely good at interpreting that accounting and making it as simple as it possibly can, but it sometimes proves taxing for that organisation as well.

Roger McClure: I will need to check my facts to ensure that what I am about to say is accurate, but I believe that, in recent years, we have increasingly bundled the various funds together so that colleges have the flexibility they need to switch money between them, for the very good reason that that is much simpler.

Richard Baker: Mr McKenzie, am I right in assuming that you do not think that the settlement will lead to an increase in student numbers in colleges?

Howard McKenzie: It will not lead to an increase in student numbers. The unmet demand—which in some colleges is quite substantial—will remain unmet.

Richard Baker: So in terms of widening access and increasing student numbers, you view the key policy area as relating to ways of enabling you to provide those places?

Howard McKenzie: There will be no more places—the funding council cannot give us funding for them because it does not have the money.

The move from loans to grants will widen access more than putting hundreds of thousands more people through courses will. That sounds odd, but we are more likely to change the type of people who come forward and to get better penetration of the groups of people who we need to get back into the economy that way.

Richard Baker: Is the priority to do with addressing the amount of debt people have when they graduate or the amount of money that is available to students while they are studying?

Howard McKenzie: Both are important. The majority of our students, who are further education students, get further education bursaries, which they do not pay back. They struggle on the amounts they receive and some of them have to dip into hardship funds—for which we use funds that are given to us by the funding council—but they seem to manage reasonably well. As Mr McClure said, in recent years we have been able to move money around between the funds. That has been extremely useful as it has enabled us to cover ever more people. The issue relates to how we fund the package of funding we give students to get them through.

Jeremy Purvis: Can you explain where the one-off capital investment of £100 million should be in the budget documentation? Which financial year is it for? Where should it be displayed?

Roger McClure: I am not an expert on Government accounting, but the money was clearly made available in 2007-08 and that is when it has to be—and is being—disbursed. We are able to do that because, in both sectors, the council allocates significant proportions of its capital line to formula funding, which is targeted at maintenance of all kinds, contributions to backlog work, new projects and so on. As members know from the Auditor General's report on the higher education sector, there is no lack of work and projects to be done in the sector to put it into good

order; the same is true of the further education sector.

We were able, with the money that we received in the current financial year, to make an early formula allocation for 2008-09. That means that when we enter that financial year we will, in effect, get the money back again and be able to decide what to use it for. In the colleges, it will undoubtedly be applied to on-going projects, for which it is needed—there is more than enough demand on our budget in that area. In the university sector, the money will be divided between substantial formula funding for all the needs to which I have referred and funding for emerging needs.

Howard McKenzie: I am expecting my share of the money to be in my bank account in February. I account for cash when I can see it. I assume that the money is for this financial year, as I will get it in this financial year.

Roger McClure: I remind Howard McKenzie that he will not get next year's allocation twice—he will get it this year and not next year. I make that clear in case he plans to spend it twice.

Jeremy Purvis: For clarity, are you saying that the figure will not be reflected in future years' capital investment lines?

Roger McClure: That is one of many questions to which one would expect there to be a straightforward answer, but there is not. Technically, the funding will be accounted for in 2007-08, because that is when it was made available and is being disbursed, although I insert the caveat that I hold no brief for how accounting is done technically in the Scottish Government. However, the impact of capital spending is rather different from that of recurrent funding. That is clearest in the universities.

The Auditor General has published the figure that we identified for the backlog of maintenance in the university estate—about £700 million. I will put the matter in simple terms. If the universities are able to use their share of the £100 million—£50 million—to reduce that figure to £650 million, they will have reduced an on-going problem. That capital funding could be seen as equivalent to a much smaller amount of recurrent money in the baseline for 10 or a dozen years. If the capital had not been provided, the institutions would have had to take out a loan or to finance the work from their recurrent budgets.

In a way, there are two answers to the question. It is technically correct to say that the money will be accounted for in 2007-08, but because this is a significant contribution of a capital kind it has a long-lasting effect.

Jeremy Purvis: I appreciate that point. You are talking about investment, which can be buying a car or something else. From the funding council's perspective, where should the money be identified to give the correct view of the financial year to which the money is allotted? Given that you have said that the money was allotted in 2007-08, would you be concerned if it was reflected in capital budget lines for 2010-11?

David Caldwell (Universities Scotland): I shall offer a straightforward answer to that question. While the £100 million is extremely welcome—we are delighted about it—it does not come from the Scottish block allocation for the years of the spending review period that we are examining: it comes from unspent moneys from previous years. In so far as you are asking whether it comes from the Scottish block that has been allocated for 2008-09, 2009-10 and 2010-11, it does not.

Jeremy Purvis: Do you agree with that?

Roger McClure: Certainly. My question is, how do you consider its effect?

Aileen Campbell: Given that there has been a tight block grant settlement from London, which curtails what Government can and cannot spend, how will the universities strive to make savings in their costs?

David Caldwell: The universities are always striving to make savings in their costs. I direct committee members to a publication that you have probably all received from us—possibly more than once—entitled “Making Every Penny Count: Efficiency and effectiveness in Scottish higher education”. It demonstrates not just the savings that the universities have made over the past 10 to 15 years, but that they have achieved much more efficiency than any other major sector that receives significant amounts of public money.

My other point is that we offered an outstanding bargain in the case of the spending review. We said that by the end of the spending review period, we were capable of delivering an additional £340 million-worth of public benefit. We were seeking an additional public contribution towards that of £168 million, or only half. Universities are absolutely committed to continuing to deliver efficiencies and to using additional public investment to lever in money from other sources so that we can get twice as much public benefit as the additional public investment.

Aileen Campbell: In which areas might efficiencies be possible or might you be able to make cost savings?

David Caldwell: In the past, efficiencies have been delivered in a wide variety of areas, most obviously in student to staff ratios, which have increased significantly during the period. It is

interesting that people are keen to reduce class sizes in schools but seem untroubled by pressures for increased class sizes in universities. We have achieved enormous efficiencies, but they have resulted in larger class sizes. There is a stage where we cannot take that form of efficiency any further, and we have to look hard at the quality of provision in our system.

There are many ways in which efficiencies can be made, not least in the renewal of our buildings. That is one reason why we are so grateful for the capital investment, which gives us major opportunities to achieve efficiencies, because old buildings tend to be inefficient buildings. We do not need to scrap them all—some of them are quite capable of being refurbished, but their refurbishment delivers significant efficiencies.

Another area in which we can deliver a major contribution to efficiency is procurement practice. The universities have been in the van for a long time in terms of collaborative procurement. About 80 per cent of university procurement is collaborative, and we are now energetically engaged in the rather more ambitious public procurement initiative that was launched and fronted by John McClelland.

Richard Baker: Returning to the impact of the settlement, you say in your submission that the total new money that is available over the spending review period is £43 million, which is only a fifth of what you asked for. According to your submission, you were looking for a more generous settlement. The reality is that you think that next year there will be a £20 million funding gap as a result of a real-terms decrease in your revenue budgets and the impact of the academic staff agreement. In that context, what will be the impact of the disappointing spending review settlement on you?

12:30

David Caldwell: There are significant cost pressures on universities in the first year of the spending review period. As Mr Baker says, those are connected with the fact that we are tied into a three-year United Kingdom-wide pay deal, the terms of which were widely supported by all political parties in Scotland, as elsewhere. That was not a surprise—it was acknowledged that staff in universities had fallen behind, and the pay deal was intended to make up some of the ground that they had lost. It was widely agreed that that outcome of the pay discussions was appropriate. In the final year of the pay deal, the uplift—taking into account the cost-of-living element and the staged increase—is likely to come to between 7 and 8 per cent. At a time when universities are receiving an increase of inflation minus 0.2 per cent, that clearly involves cost pressures. We have

calculated that over the sector as a whole, for the relevant staff, the total gap is about £20 million. That is an approximate figure, but it is a pretty good estimate.

The universities are well managed in a financially responsible way—they will ensure that they meet their commitments. However, there are cost pressures, which inevitably will restrict the new things that we hoped to do and proposed in our spending review case. I am not saying that we can do none of those things—the universities are leaders of change and are not at all resistant to it, and we will see what can be done within a more limited settlement—but there are cost pressures. If the Government wishes us to make our full contribution towards its strategic objectives, it would be enormously helpful if it found additional flexibility beyond what has so far been announced.

Richard Baker: We understand that the spending review settlement from Westminster is more generous than was perhaps suggested by the impression that the Government gave earlier. You spoke about seeking more support from the Government, but at the moment you have the spending review settlement, and you have pointed to problems regarding the funding of the academic pay deal. There has been a great deal of speculation about the impact of the cuts—or, to be more generous, the cost savings—that you will have to make in terms of, for example, freezing or not increasing student numbers. Will there be problems for universities in that?

David Caldwell: It is worth reflecting on student numbers. I heard what the Cabinet Secretary for Education and Lifelong Learning said earlier about the drop in the participation rate. I agree with her that we need to increase the participation rate again. As it happens, the actual number of people who are taking degree courses in universities has not reduced at any time during the period that the participation rate has slightly dropped. The number of those who are eligible to enter has increased, so the overall number has remained largely flat rather than decreasing during that period. The effect has been that the participation rate has dropped.

One of the additional things that we had hoped to do was create places for 4,000 additional first-degree undergraduates. We might not now be able to do that, which concerns us, because it is extremely important that additional places are properly funded. The university sector—this applies throughout the UK, not just Scotland—went through a period of unfunded expansion in the early 1990s, which set up extremely serious problems that we are only now beginning to finish dealing with.

Unfunded expansion presents a major problem. It is hard to see how the extra first-degree

undergraduate places can be created, given the spending review settlement. That raises an issue in connection with the Government's ambition to widen access through the abolition of the graduate endowment, because it is hard to see how that can take effect if no additional places are created.

Richard Baker: So there is an inconsistency with the stated ambition of the bill.

David Caldwell: There is a potential inconsistency.

Richard Baker: There is obviously pressure with regard to staff numbers. What is likely to happen to the situation of academic staff?

David Caldwell: Of course there is pressure, but I do not want to cause any disquiet, because the most important thing to say about the university sector is that it is a highly people-intensive business. We have extremely talented people working for us, whom the universities want to hang on to. Although the situation will be difficult and no absolute guarantees can be given, the universities will be as ingenious as they can be in hanging on to those talented people. I do not want to suggest that there will necessarily be adverse consequences for staff numbers, but I reiterate the fact that we are talking about serious cost pressures that will be difficult to cope with.

Jeremy Purvis: I have a question about research, but first I return to the overall spending review settlement from Universities Scotland's perspective. I have a letter of 22 November from the First Minister, which you may have seen, because it was made public. It states:

"The reality is that spending in real terms on higher education institutions will increase by 4.4% in real terms over the spending review period".

What is the real-terms increase in spending over the spending review period? Your submission to the committee says that it is 2.9 per cent.

David Caldwell: It seems unproductive to get too hung up on an argument about numbers that can be presented in a variety of ways, but I cannot come up with the 4 per cent figure however I do the calculation—the answer always comes out as 2.9 per cent. That said, I do not have a closed mind on the matter. If it can be demonstrated to me how the 4.4 per cent figure is arrived at, I will be open to looking at that. I have been able to work out how it has been possible to justify some other claims that have been made, so I certainly do not want to say that the Government figures are necessarily incorrect; I can only present the figures as they appear to us. They seem to be solid numbers, which I genuinely believe we have not misunderstood. They indicate that, by the end of the spending review period, the baseline will have risen by 2.9 per cent in real terms.

Jeremy Purvis: Does Mr McClure have a comment on that?

Roger McClure: What David Caldwell has said is accurate. It is a matter of fact that the difference between the figures is the £50 million of capital that was mentioned earlier.

Jeremy Purvis: If that sum was spread out over subsequent years—in other words, if it was used for the financial years 2008-09, 2009-10 and 2010-11—that would take us to the 4.4 per cent figure.

David Caldwell: I think that that is right. If you apply the £50 million to the spending review period, of course that gives you a different answer. The figure that matters enormously to the universities is the percentage by which the baseline is raised by the end of the spending review period. It matters because of international competition, the nearest component of which is our colleagues south of the border. We do not know for certain exactly what the uplift in England will be—I understand that precise figures will be given in an announcement on 4 December—but we know that the English institutions will benefit from the roll-on effect of the final third of the extra tuition fee income in 2008-09, which is probably worth about 3 per cent to them in real terms.

In addition, they anticipate—subject to the announcement on 4 December—that they will get a real-terms uplift worth about 2 per cent a year in each of the three years of the spending review period. If we take that total, which is about a 6 per cent uplift in the public sector contribution, plus another 2 or 3 per cent from tuition fees, that suggests that the English will benefit to the tune of about 8 per cent by the end of the period. If we get 2.9 per cent, a gap of about 5 percentage points will open up. That will not be disastrous, but it will be significant.

Jeremy Purvis: What would your view be if the figure that the First Minister used included the identification in subsequent years of the one-off capital for 2007-08?

David Caldwell: I would respect the way that he made the calculation. I want to reiterate that we are grateful for the £50 million. It will be a real help to us and it is real money. In a sense, it is fair to count it, but it does not go into the baseline. The baseline is important for the long-term future of the universities.

Jeremy Purvis: Forgive me, but if you are saying that it is fair to count it, but not in the baseline, it should not have been fair to add it, so the figure for the real-terms increase over the three-year period should not be 4.4 per cent.

David Caldwell: The First Minister was probably not talking about the baseline. He was probably talking about the overall increase in resources,

including the £50 million, over the period, but I ought not to interpret what the First Minister may or may not have meant—that is a matter for him.

Roger McClure: This is delicate territory, because one thing that I know Universities Scotland and the funding council do not want to do is give a misleading impression outside Scotland's borders that Scotland's universities are in some kind of desperate crisis. They certainly face challenges, but we must reflect on the recent success in attracting leading researchers into the country in what is a genuine international competition. The universities are probably the only parts of the public sector that compete directly for staff and students and others on an international stage. It will not help us if we give a misleading impression of the position, so we must recognise that people can give at least five different answers to the question of how to measure the increase, each of which tells us something different. Depending on a person's starting point or what they are trying to prove, they will no doubt favour one answer over another, but the arithmetic stays the same whichever answer they choose.

On the university settlement, I draw attention to the maintenance of and increase in the capital line, not counting the £50 million. That is significant and important for the universities. Prior to the previous settlement, there was no such capital line for the universities, which meant that all their capital development, struggles to deal with the backlog and so on had to be funded from their own resources out of the current budgets and through disposals of surplus sites and so on. Baselineing that substantial capital contribution has the effect, to an extent—we could argue for a long time about exactly what that extent is—of relieving the pressure on institutions' recurrent revenue budgets. You can go as far as arguing that if the capital line is sustained, it could be worth up to a 1 per cent real increase on the revenue budget, because the institutions will no longer have to find that money within the revenue budget, as it is capital grant.

The issue is complicated. As David Caldwell said, bandying around percentages and trying to make clear cases on them will overstretch our ability to make such cases.

Jeremy Purvis: Yes, but the reason for my question was that last week the Government issued a table to the press that spread out the £100 million over the three years of the spending review period. That allowed the First Minister to arrive at the figure of a 4.4 per cent real-terms increase over that period. Given what you have said about the signals that we should give to people outside Scotland, one would think that the First Minister of this country would wish to give the correct signals on the settlement by accurately

placing that £100 million rather than adding it on to each of the three years. That is the significance of the issue.

12:45

Roger McClure: If I may say so—and as David Caldwell has already said—it is real money. For the universities sector, that £50 million will be applied to their estates. Without it, the universities would either have further deferred work or found money from their revenue budgets. I am less worried about where that money is placed and which figure people count. I am much more concerned about the fact that an additional £50 million that was not available before can now be applied to dealing with capital issues.

Richard Baker: As we are debating the budget settlement for the universities, the accuracy of statements is important. Repeatedly, it has been said in Parliament that Mr McClure has said that the share of the budget for higher education will rise over the period of the spending review. However, the reality is that higher education received 5.12 per cent of the budget in the final year of the current spending review period whereas its share will be only 5.08 per cent in the final year of the next spending review period. The reality is that higher education spending is falling as a share of the budget. Surely, given your comments on the previous occasion that you appeared before the committee, when you urged the Government to make a real investment in higher education, we need to be clear about those important figures if Parliament is to have a correct debate on the budget.

Roger McClure: I cannot argue with that. The figures should be absolutely clear. You cannot defeat the laws of arithmetic. What matters is the money that is available and how it is used. When I previously appeared before the committee, I said what I thought the Government ought to do, but I also said that the Government is elected to make difficult decisions. That is why we live in a democracy.

Richard Baker: Do you think that it is a sensible decision in terms of economic strategy for the higher education sector to receive a smaller part of the Scottish Government's overall budget?

Roger McClure: Convener, I do not think that it is reasonable for me to answer that question, as I am not privy to the demands and pressures on all the other parts of the Scottish budget.

Richard Baker: Fair enough.

David Caldwell: Let me add, on this fraught issue about the proportion of the budget that comes to universities, that some of the controversy over numbers has been slightly

unhelpful. We probably need just to agree sensibly that our share is actually broadly flat. I looked at the figures recently to be absolutely clear about them. In the current year, funding council grant for the universities is 3.12 per cent of the Scottish budget. Next year, it will go down to 3.11 per cent. The following year, it will go back up to 3.12 per cent. In the final year of the spending review period, by my calculations the share will increase to 3.14 per cent. We are working within a very narrow range—at the second figure after the decimal point and over a long period of time. Essentially, our share of the budget is flat. I am quite happy to drop arguments about whether our share of the budget is increasing or reducing because, in any meaningful sense, it will remain pretty much exactly the same.

A significant point is that, in the first year of devolution, the proportion of the Scottish budget that was spent on higher education was 3.63 per cent. If that 3.63 per cent were restored by the end of the next spending review period, the universities would have received every single penny that Universities Scotland argued for as well as a bit more. That is the real issue about the proportion of the budget. The issue is not where our proportion of the budget is going now—it is carrying on much as it has been—but whether we can restore the real value that higher education had in the first year of devolution. That would solve all the problems that the universities have identified.

Mary Mulligan: Clearly, arguments about the figures will rage back and forth. However, it seems to me that when people are faced with difficult settlements, the cuts that they suggest first are often the most unacceptable ones, which is why we get discussions about staff or student numbers being cut in universities.

It has been suggested that some back-office savings could be made. Could the universities do that, and would it allow you to increase your spending pro rata on front-line services?

David Caldwell: The universities are looking for back-office savings all the time, and they look for those greater efficiencies precisely so that they can divert more money to front-line services. However, a characteristic of university expenditure is that a very high proportion is on front-line services; relatively little is spent on back-office services. Even if universities were able, for example, to reduce back-office costs by a third, it would make little difference in providing additional resources for front-line services.

The proportion that is spent on management and administration is quite low, and on the whole it is money well spent. The reason why universities are well managed and financially responsible and have not run into financial crises is the quality of back-office services. Of course savings can be

made at the margin, but it would be a great mistake to think that a big pool of money could be released in that way.

Mary Mulligan: Can you give us any figures on what you think could be achieved?

David Caldwell: It is hard to give a precise figure, and there are also legal obstacles. It is often suggested that universities should collaborate on the provision of back-office services. The trouble is that, as soon as you create a collaborative vehicle that has a separate legal identity from the institutions, you introduce a VAT liability. That problem has been drawn to the attention of Government many times over the years, but no answer has been found. Unless collaboration achieved savings of at least 17.5 per cent, we would get nowhere.

There are practical issues to be addressed, but there is considerable willingness on the part of universities to consider them. We have only to look at other areas, such as the research pooling initiative, to see how willing universities are to collaborate when there is mutual benefit in doing so. That certainly applies to back-office services as well.

Howard McKenzie: I can add an answer from the college point of view. In my college, we have a turnover of about £14 million, £11 million of which is for staffing. That gives me only about £3 million to play around with, and by the time I take away the statutory stuff that I have to pay—rates, water and electricity, for example—I have only about £1 million for procurement. We are part of the procurement process with the universities—the Government e-procurement programme—and the amount that we can save is small. About £60,000 or £70,000 would be the maximum.

I reiterate the point that although shared services sound like a great idea, the fact that we are independent organisations means that the VAT element adds 17.5 per cent straight away, which negates any advantage in sharing services. The colleges in Edinburgh and Lothian share a lot of common services, but we do it in a slightly different way: the service is provided in one place—there is a bit of conjuring. However, sharing employees to do the same work is actually very difficult.

Roger McClure: I can add to the list of activities in which such savings are real, not imaginary. All the building projects that either have been completed or are going on in the college sector—which is a substantial number—have had to meet far more demanding space standards than before, for example on the number of square metres for each student. The capital saving from that is significant, but the on-going running and maintenance costs are also reduced.

There is also cross-sectoral activity. In Galashiels, Heriot-Watt University and Borders College are coming together in a single campus. In Glasgow, we are trying to get the city-centre colleges to come together. As part of that project, we are well advanced with developing a joint sports and health facility with the University of Strathclyde, which will save both sides a substantial amount of money, as well as provide much better facilities.

Networking is crucial to the activity of colleges and universities. It would be very effective and cost efficient if all the information technology networking to connect the various institutions was procured and managed collectively. As David Caldwell has emphasised, on a whole range of activities the sectors have come together as a matter of course to save money, and they will continue to do so.

Mary Mulligan: I appreciate your thorough answers on that. You will appreciate that it is for us to look for possible savings to offset the impact that the settlement will clearly have on students in universities and colleges. Universities Scotland raised the figure of £168 million in its first bid for funding. Was that realistic? You seem to be saying that you will mitigate any impact from the budget. Clearly, however, it does not meet the amount that you originally set out with. I find it difficult to know what your position is.

David Caldwell: The two things are not inconsistent. The settlement causes us severe cost pressures, and it means that we will not be able to do quite a lot of the things that we wanted to do. However, we will of course try to mitigate the effects. There is a balance to be struck. We will try to avoid the worst effects. There is no question of reducing student numbers, although there is a real question whether it is possible to increase them.

We wanted substantially to increase the support for research activity. That is important, considering that the most recent international league table placed five Scottish universities in the world top 200. That is an amazing achievement; per head of population, it is the best result of any country in the world. That league table was driven predominantly by the quality of research work—that was the biggest single factor that was fed into it. That shows that our research-intensive universities are delivering for Scotland. They were invested in at the previous spending review, and they are showing a strong return on that investment.

We believe that, in the next research assessment exercise, both the quality and the quantity of research that is put forward by Scottish universities will increase. Ideally, we needed a substantial amount of extra money to support the

increased volume that we have achieved. We have to try to mitigate the position as best we can. We have to support the high-quality research activity and we have to support knowledge transfer, so that the outputs of research are effectively commercialised for the benefit of the Scottish economy. We must do that as best we can within the more limited resources that are available to us.

However, we must not delude ourselves: we will not be able to do as much as we had hoped to do. There are real consequences of not getting the £168 million, which, as I said, offered Scotland a much bigger benefit than £168 million—we would in effect have been able to double that benefit.

Aileen Campbell: If the settlement has to happen, how will universities protect departments that show significant academic value but which might not generate the same income as other areas in which students are involved?

13:00

David Caldwell: It is not simply a question of how much income is drawn in; there is the question of the strategic importance of subjects. Change will happen. Even if budgets increased by the amount that we want them to, we would still have change in Scottish universities, because they are about change. The external environment changes all the time and universities are active agents of change. We will always have situations in which some departments might close and other new initiatives will start. Universities will try to protect everything that is vital while maintaining the process of change that ensures that they remain up to date and relevant to the current circumstances.

Elizabeth Smith: On that point, do you have any evidence that universities are considering dropping subjects or merging aspects across faculties, or are you reasonably confident that new initiatives will take their place?

David Caldwell: I do not have any evidence that specific considerations are taking place about changes in the wind. I was making a more general point that universities are not resistant to change; they are ready to change to meet new needs. That means that, from time to time, a university may adjust its strategy and concentrate on particular areas and perhaps begin to withdraw from others. However, I have no information that anything specific is in the wind at present.

The Convener: You rightly pointed out that Scotland wants to compete in an international environment and to attract students from other parts of the country to study here. Universities in Scotland have been good at marketing themselves to students round the world and encouraging them

to come here, which generates income for the universities. Given the resource pressures, is there a potential that the numbers of students from overseas will be increased because they are an income source and that that will disadvantage Scottish students, who would have to compete for fewer places because student numbers have been capped?

David Caldwell: International students from beyond the European Union are no threat to places for students from Scotland, because those who come from outwith the EU pay full-cost fees and do not count against our student numbers—we are free to increase the number of such students as much as we can. The trend has been encouraging in recent years. Not only do the individual universities market themselves effectively but, increasingly, they have been marketing collaboratively and on a Scotland-wide basis.

One initiative that we are enthusiastic about is the international lifelong learning strategy, which is designed to take the internationalisation of universities and colleges in Scotland to an even higher level. That is a tremendously important and worthwhile initiative and we can probably push up our international numbers a bit further. Those students are an important source of income, but that is by no means the most important reason why we want them. Their biggest contribution is the fact that they enrich the cultural mix. Studying alongside well-motivated people who come from all parts of the world benefits students in Scotland—that is enormously valuable.

Inevitably, that is one of the more volatile income sources, because, alas, we are not in control of world politics; that is one reason why I downplay it a little as an income source. Events happen and so, for reasons that are entirely outwith our control, the number of international students may rise or fall. Those students are extremely valuable because of the income and, more important, because of the cultural aspect, but we should not become overreliant on that source.

Christina McKelvie: I want to clarify a point that you made earlier about English tuition fees. Is it the case that English tuition fees are used not to provide extra funding in English universities but, rather, to replace Government funding?

David Caldwell: No, that is not correct. The Government in England gave an assurance that the fees would represent additionality. One of the firm outcomes of the spending review south of the border is that the English universities have been given an absolute guarantee that the teaching unit of resource will not fall during the spending review period. English universities will get the tuition fee

income as a bonus, on top of a fixed, real-terms teaching unit of resource.

Christina McKelvie: I seek the panel's views on the level of funding that is provided for student support. Is it likely to widen access to tertiary education when seen in the context of the total budget for university education? The Scottish budget states that the total package for student support is £119 million over three years, which is for a phased transition from student loans to grants, starting with those for part-time students. The settlement also includes £38 million over three years to fund support for part-time students.

David Caldwell: The evidence is equivocal. Universities south of the border have undertaken a certain amount of research to see what difference the introduction of much higher fees has made to access. The answer so far—I stress that it is provisional—is that it appears not to have made much difference. That is not to say that there has been no effect, but, rather, that the effect has been relatively small. One therefore has to express slight scepticism about whether improvements in student support will necessarily improve access to tertiary education. However, provided that such support is targeted carefully and directed at the groups who need it most, it is probable that it will have some positive effect. It is really important to ensure that you get maximum value for the money that you spend in that regard.

We have always been keen to emphasise that it does students no favours if their support arrangements are improved at the cost of the funding of institutions, because that undermines the quality of the learning environment, which weakens the student experience. The two things run side by side. We need to have properly funded institutions and proper systems of student support. That is one of the reasons why we welcomed the repeated assurances that we received from the current Government that the improvements in student support were entirely separate from decisions on the funding of institutions.

Howard McKenzie: About 10 per cent of the further education line, as well as further education bursaries and so on, goes into student support. It tends to get forgotten, but it is in there. The universities' figure is purely for learning and teaching, but ours is for learning and teaching, and £50-odd million is for FE support. We have a mixture in that budget line. Will moving from loans to grants have an effect? We talked earlier about the fact that higher education numbers in Scotland had dropped. A large proportion of that drop was in HN students in colleges, and that coincided with the introduction of loans. That is the nearest that I can get to evidence that answers your question.

Roger McClure: The committee is probably fed up of being told that the situation is complicated,

but I fear that it is. Let us start with figures that we know to be true. Something like 27 or 28 per cent of colleges' intake is drawn from the 20 per cent most disadvantaged households in the country. The colleges, therefore, are very effective at reaching into that population group and getting them into college to do a variety of things. The question, then, is whether in the remainder of that group, in which the problems are pretty intractable, many students might not be participating solely because they do not have enough money. The answer to that is probably no. If people are not participating, it is because a multiplicity of issues is preventing them from doing so.

I have no doubt that making more money available will always help, because it can be used to provide a richer experience and to allow more staff to reach out to and engage with people in, for example, one-to-one work and counselling. That will all make a difference, of course, but the question itself is very complicated and there is no straightforward answer to it.

Christina McKelvie: Have there been any further developments since David Caldwell's recent meeting with the cabinet secretary?

David Caldwell: Developments have been limited. The major development was the meeting itself, which, as the statement issued afterwards said, was constructive. The cabinet secretary listened carefully to our comments, showed considerable sympathy for the points that we made and indicated ways in which she might be able to help. Perhaps the single most important outcome was the agreement to establish a joint future thinking task force, which will be asked to complete its work in a very short timescale. There have been discussions about the task force's composition and modus operandi, and we hope that the arrangements can be confirmed at a meeting in December. In the new year, we will embark on an intensive work programme, which will end in about May.

Richard Baker: As Mr McClure said, many issues are involved in widening access, including a buoyant employment market, which must impact on the number of students coming to university. The Government has put the abolition of the graduate endowment fee on the table. I took on board David Caldwell's welcome for the Government's announcement that student support arrangements would be separate from the overall funding settlement. However, when I pressed the cabinet secretary earlier on why that should be, she said that the £17 million could not be part of the spending review settlement as the money would come out of end-year flexibility. However, that is still income forgone; EYF money could go into other areas, including funding for universities. We have just received a submission from the

Royal Society of Edinburgh on the nature of the settlement. Are people in the sector still relaxed about the abolition of the graduate endowment and confident that the funding for that will be separate from the disappointing funding settlement for the sector?

David Caldwell: In a technical sense, the issues are separate, because they have been separated by the legislation. However, in another sense, they cannot be separated, because all the Scottish Government's expenditure has to be met from the fixed amount in the Scottish block. If money in the block is used for one purpose, it will not be available for other purposes.

I do not want to get into the question of where extra money for universities might come from, because that is not our job. Our job is to make a positive case for the benefits of universities and to make it clear that investment in higher education is the most productive investment that the Government can make. It is not for us to say where money should come from; politicians must make judgments and political choices about priorities. Obviously, I feel strongly that universities should be one of the top priorities. As Muir Russell said in his press statement, this is a missed opportunity.

13:15

Richard Baker: That is a thought-provoking comment in the context of the funding being forgone in the future in the departmental budget.

When the funding settlement was announced, Sir Muir Russell, in a statement from Universities Scotland, raised concerns about how the Scottish universities will be able to compete with their English counterparts, particularly in relation to research funding. Will you elaborate on that?

Also, to follow on from Christina McKelvie's question, the idea was mooted that more funding will be available to universities from end-year flexibility during the spending review period. Have you had any guarantee of that from the Government?

David Caldwell: No. It would be unreasonable to expect such a guarantee to be given so soon after a spending review announcement. However, we have an undertaking that the universities will be high on the list of priorities when end-year flexibility becomes available, and if additional consequentials become available during the spending review period. We have had that assurance.

Richard Baker: What are your thoughts on competitiveness in research?

David Caldwell: I will come back to that.

In the statement that we made immediately after the spending review, we drew attention, among other things, to our competitive position relative to universities in England. Earlier in today's meeting, I said that we calculate that a gap of up to 5 percentage points might have opened up by the end of the spending review period. However, that is subject to the detailed announcement in England. We cannot be firm and say that that will be the precise figure.

Competitiveness is a reason for concern—not only in relation to research, but research is one of the most important components. If there is a gap of 5 percentage points, will we remain as sharply competitive as we are now? I echo something that Roger McClure said—the Scottish universities have done extremely well in attracting international research talent. We want that to continue. We have been net gainers in the recent period. That is a good position to be in, and we do not want it to be eroded. Maintaining the volume and quality of our research is a key priority, but so is opening up opportunities for a larger number of students, and so is more effective knowledge transfer of the outputs of research so that Scotland reaps the economic benefit of the work that is being done.

Aileen Campbell: Although there is a debate about the figures, it is important to note that Muir Russell also said that there was a real-terms increase. Is it useful always to look towards funding mechanisms in England? We talked about the international element of universities in Scotland. Are there useful international comparisons to be made?

David Caldwell: Indeed there are. I am always keen to say that the matter is not just about making comparisons with England. It so happens that England is particularly important because we have a permeable border with England and there is a lot of cross-border student movement between our two countries. Even more significant is the cross-border staff movement, especially of research-active staff, who move to the places that offer them the best opportunities to prosecute their research. They go where there are good research facilities and strong research teams of which they can become a member. Occasionally, research teams migrate from one university to another because they see the opportunity of much better facilities for their work.

Those are significant issues of competitiveness. They affect our relationship with England most immediately, but increasingly they are international in their effect. A remarkably high proportion of the academic staff in Scottish universities—this applies even more strongly to the most research-active staff—comes from outwith the UK. The figure is more than 20 per cent. That shows the international nature of research and the

importance of maintaining that degree of competitiveness. It is a big issue.

13:20

Meeting continued in private until 13:31.

The Convener: That concludes our questions to you. Thank you for your attendance.

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