

# **EDUCATION, LIFELONG LEARNING AND CULTURE COMMITTEE**

Wednesday 24 September 2008

Session 3

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## EDUCATION, LIFELONG LEARNING AND CULTURE COMMITTEE 22<sup>nd</sup> Meeting 2008, Session 3

### CONVENER

\*Karen Whitefield (Airdrie and Shotts) (Lab)

### DEPUTY CONVENER

\*Kenneth Gibson (Cunninghame North) (SNP)

### COMMITTEE MEMBERS

\*Aileen Campbell (South of Scotland) (SNP)  
Ken Macintosh (Eastwood) (Lab)  
\*Christina McKelvie (Central Scotland) (SNP)  
\*Mary Mulligan (Linlithgow) (Lab)  
\*Elizabeth Smith (Mid Scotland and Fife) (Con)  
\*Margaret Smith (Edinburgh West) (LD)

### COMMITTEE SUBSTITUTES

\*Claire Baker (Mid Scotland and Fife) (Lab)  
Ted Brocklebank (Mid Scotland and Fife) (Con)  
Bill Kidd (Glasgow) (SNP)  
Hugh O'Donnell (Central Scotland) (LD)

\*attended

### THE FOLLOWING ALSO ATTENDED:

Ted Brocklebank (Mid Scotland and Fife) (Con)

### THE FOLLOWING GAVE EVIDENCE:

Mark Batho (Scottish Further and Higher Education Funding Council)  
Laurence Howells (Scottish Further and Higher Education Funding Council)  
Blair Jenkins (Scottish Broadcasting Commission)  
Howard McKenzie (Association of Scotland's Colleges)  
Professor Anton Muscatelli (Universities Scotland)

### CLERK TO THE COMMITTEE

Eugene Windsor

### SENIOR ASSISTANT CLERK

Nick Hawthorne

### ASSISTANT CLERK

Andrew Proudfoot

### LOCATION

Committee Room 5



## Scottish Parliament

### Education, Lifelong Learning and Culture Committee

Wednesday 24 September 2008

[THE CONVENER opened the meeting at 10:02]

### Scottish Broadcasting Commission

**The Convener (Karen Whitefield):** Good morning and welcome to the 22<sup>nd</sup> meeting this year of the Education, Lifelong Learning and Culture Committee. We are joined by two additional members: Ted Brocklebank is here and Claire Baker is appearing as a committee substitute. I remind everyone that mobile phones and BlackBerrys should be switched off.

The first item is our continued consideration of the Scottish Broadcasting Commission's final report. I am delighted to welcome to the meeting Blair Jenkins, the chair of the commission. Mr Jenkins, we have a number of questions that we wish to ask, but do you have any short introductory remarks to make before we do so?

**Blair Jenkins (Scottish Broadcasting Commission):** I want only to thank you for this opportunity to come back and talk to the committee at this important point in the process. We have now published our unanimous report, which contains 22 recommendations, and we are pleased that it has been received in the way that we hoped it would be. People have approached it with fresh eyes and open minds, and so far they have been broadly positive.

Thank you again for your invitation. I am keen to answer the committee's questions.

**Kenneth Gibson (Cunninghame North) (SNP):** Initially, I was very impressed by the report, which contains many important and positive features. For example, it talks about the "explosion of creativity" and the

"global audiences awaiting those with global ambitions";

sets out a vision for

"a very substantial increase in investment";

and refers to

"a greater volume of high-quality Scottish programming",

the "development of opportunities" and

"the chance to take risks and innovate".

I have to say, though, that what emerges later in the report contradicts a lot of the ambition that is shown at the start.

Funding is critical to some of the issues that are raised in the report. In paragraph 34 of the executive summary, with which I am sure you are very familiar, you said:

"Recently the BBC has quantified the additional sums that will be spent in Scotland on network television programmes. In 2007/08 the total spent on original production in the UK was around £850 million. A share of that budget equivalent to Scotland's population share of about 8.6% would be between £70 and £75 million".

However, the BBC spends money in other areas. Can you give me an idea of the total amount that the BBC spends in Scotland? I understand that the licence fee is £139 and that there are about 2.3 million households, so by my rough calculations about £320 million is generated in Scotland through the licence fee. However, we are talking about increasing spending on production from £30 million or £50 million—depending on whether we take the BBC's figures or other figures—to only £75 million.

**Blair Jenkins:** The figure that you gave for the revenue from licence fees in Scotland is broadly correct. I do not know the exact figure for this year, but it is about £300 million. As I recall, the most recent figure from last year for direct expenditure in Scotland was in the region of £140 million. Of course, that figure will go up in light of the new commitments on network production. If your broad point is that there is no absolute correlation between the licence revenue that is collected in Scotland and direct spending in Scotland, then you are right: that is true. The explanation for the difference lies in the fact that Scotland benefits from many United Kingdom-wide services. The key point is not whether there is a direct correlation but whether Scotland secures a fair and appropriate share of production spending.

**Kenneth Gibson:** I agree. Under the current structure, it would not be realistic to think that the amount that is spent in Scotland should be the same as the amount that is generated by the licence fee. However, the gap between £140 million and £320 million is big, and must represent several thousand jobs in the creative fields. People who want a career in the media and related professions might have to go south of the border or elsewhere.

The BBC envisages an increase of a mere £20 million in its expenditure in Scotland by 2016. Is that not somewhat timid of the BBC? You said in your report that 2012 should remain the deadline for hitting the target, but should we be more ambitious about the amount of programming that comes to Scotland, so that the lofty ambitions that I mentioned can be achieved?

**Blair Jenkins:** The key point is that, as I think the director general said about a year ago, the 8.6 per cent share of the budget that is envisaged,

which would be £70 million to £75 million, is very much a floor and not a ceiling. The proposed 8.6 per cent share represents a guaranteed underpinning of the creative production sector in Scotland. It is certainly not the summit of my ambition, and I do not think that it is the summit of ambition of anyone else in the industry.

We made the broad point that the BBC is in the process of trying to reinvent or reimagine itself as a genuinely UK-wide broadcaster. In the report we sought to encourage the BBC further in that direction. One of our recommendations, which would partly address points that you made, is that there is a good case for relocating the management of one of the four main UK-wide BBC television channels to Scotland. That would be an important symbol—symbols are important—that would enable the BBC to demonstrate that it had got the message about the need to disperse influence, power and budgets around the UK. That is one of our key recommendations.

**Kenneth Gibson:** I endorse that recommendation, although I understand that you would be happy for control to remain in London.

I understand that S4C in Wales gets £95 million. Wales is a country of three million people and Scotland is a country of five million people. Even under the approach that you describe in the report, which is not desperately ambitious, Scotland would still get less money than the Welsh channel gets.

In paragraph 39 of the executive summary, on the future model for Channel 4, you said that it is envisaged that only a pitiful 2 per cent of the budget will be spent in Scotland—I accept that you expressed disappointment about that. Will you comment on those issues?

**Blair Jenkins:** We thought that it was worth including the S4C figure as a benchmark and a comparator, but we were not necessarily trying to draw a direct comparison. For one thing, S4C has been around for a long time—as long as Channel 4—and was launched with a budget and level of expectation that reflected the age in which it was launched. Some television costs have probably gone down since then, which would allow the figure to be pitched a little lower.

In proposing the figure of £75 million, we were concerned with trying to do something that is high quality and not necessarily with populating an entire schedule with original productions. Sometimes, if money is spread too thinly, we do not get the quality that attracts audiences, so we felt that the key issue is to strike a balance between quality and quantity. I am confident that, with £75 million, an attractive schedule of programmes for Scotland could be put together that would attract high audiences.

As I said, the reaction to our work has been generally positive—it has been welcomed within the industry and by all political parties. One interesting point about the reaction is the balance between people who say that we have pitched the figure too high and those who say that we have pitched it too low. Initially, some people thought that the figure was much bigger or more audacious—or whatever the appropriate adjective is—than they had imagined, but others have now said that we could do more with more. A correlation always exists between the amount of money that is spent on a network or television channel—I include in that the important online dimension—and how good it is.

If we launch a channel that is well received and high quality and is seen as providing a valuable and important public service, a case can be made to augment or add to the service in future. We did not go into this level of detail in the report, which is pitched at a more strategic level, but there would be opportunity to earn revenues outside the country. That would be an additional source of revenue for the new service. As we said in the report, the service would lend itself naturally to co-production opportunities with other countries and broadcasters, so any material on the new service would not necessarily be funded 100 per cent from the core budget. On that issue, as on others, we tried to strike a balance.

**Kenneth Gibson:** We would like to have co-production so that we get more bang for our buck, but there is a bit of a chicken-and-egg situation. If we do not start with a high-quality, fully funded service, it will not make the high-quality programmes that will attract further funding. That is an issue.

I have a final, slightly different, point on funding. Paragraph 10 of the executive summary states:

“Importantly, a channel which is not pursuing advertising revenue would not be competing for the main source of income of Scotland’s existing commercial media”.

Surely if the service took viewers away from the commercial channels and their viewing figures fell, that would impact on the revenue that they brought in from advertising.

**Blair Jenkins:** That is true. There would be an impact on commercial media as a result of taking viewers away from them. We tried to outline a proportionate impact. We think that there are compelling public service reasons for having a Scottish network, which justifies intervention in the market to secure certain public policy outcomes that the market, left to its own devices, would not deliver. The main reason why our model does not envisage advertising revenue as an income source for the channel is the potential impact on the main revenue source for the commercial media.

I have a further brief point on funding. At the level at which we have pitched the funding, the cost per hour for the Scottish network would be a little less than the current cost per hour of BBC Scotland's programmes that are made for Scotland and considerably more than the average cost per hour that STV currently spends on its programmes in the Scottish service. I am in no doubt that, for the price that we have outlined, an attractive schedule could be put together.

**Aileen Campbell (South of Scotland) (SNP):** Kenny Gibson mentioned that the BBC trust has extended the deadline to hit Scottish targets from 2012 to 2016. Your report states that you have not heard a convincing argument to explain why that should be the case. Will you say a bit more about those arguments and why the commission did not find them convincing?

10:15

**Blair Jenkins:** To some extent, I am making the BBC's case—although it might feel that it would do so better than I can—but its main argument is that it wants there to be a sustainable switch in resources and that it will take time to develop the sector in Scotland to a point where the BBC can deliver that level of production. However, I think that the BBC's view is unduly conservative. One thing about television is that you can move pretty quickly. Once the money is moving, everything else can be put in place fairly quickly. With the level of talent that we have in Scotland, the sector as it is currently constructed and the injection of additional resources, I am in no doubt that the BBC could hit the target within four years, so it is being unduly conservative.

The BBC has gone through a lot of internal and structural change in the past couple of years, so maybe it would rather avoid going through the additional internal change that would result from moving faster than it wishes to go. So my interpretation is that the reasons behind extending the deadline were largely internal to the BBC, and were not to do with the state of the production sector in Scotland.

**Aileen Campbell:** Paragraph 36 of the report says that £20 million per year will be lost. Was the BBC not encouraged to see that if it moved faster, it might help the process of improving broadcasting in Scotland?

**Blair Jenkins:** The BBC accepts the point that it has to get to a proportionate 8.6 per cent share of network television production spend in Scotland. The only issue is with the timing.

One thing that the commission did not go into but which is worth saying is that the sector in Scotland has suffered for many years because it has not been accepted that there ought to be a

population share of spending in Scotland. We have not got into the debate about compensating for the deficits of the past. Rather than focusing on that, we have said, "Let's fix the future as quickly as we can." I believe that, collectively, across the political parties, within the industry and with public opinion, we ought to try to persuade the BBC to move a bit faster.

**Aileen Campbell:** Kenny Gibson mentioned Channel 4, but there are reports in today's news about Channel 4 shedding jobs. How damaging will that be for Channel 4 in reaching its mandatory targets for Scottish output?

**Blair Jenkins:** It should not have any impact. Tomorrow, the Office of Communications will publish an outline of its latest thinking on the future of public service broadcasting, and Channel 4 is pinning its hopes on a favourable response and treatment from Ofcom. I interpret yesterday's announcement as Channel 4 demonstrating publicly that it is doing all that it can to help itself by achieving efficiencies in the organisation. It is not simply looking for additional public funding; it is trying to reduce its cost base. However, in itself, that should not have any impact on where Channel 4 spends money on programmes. It is spending a certain amount of money on programmes around the UK, and whether it spends it in one part or another does not have any financial impact on the channel. It should therefore be able to match the BBC's commitment and get to a similar level within the timeframe that the commission has outlined.

**The Convener:** The commission recommends that creative Scotland should have a vital leading role. Why does the commission think that that is important?

**Blair Jenkins:** On a previous occasion when I came to talk to the committee, I mentioned that one of the emerging key issues was that it was hard to see who would get everyone in the room. The industry has suffered from the lack of a collaborative approach to many of the issues. Although it is not always possible for different broadcasters or production companies to collaborate, there is and ought to be shared objectives and a shared direction, which is good for the industry as a whole. No one seemed to be holding the ring in that way, and almost everyone whom we spoke to seemed to back off from the idea of taking a leadership role and moving things forward. As our investigations progressed, we were always conscious of trying to identify who would bring all the parties together and move us forward.

Our report goes into detail on the key role that Scottish Enterprise will play in the economic development of the broadcasting industry. That will be Scottish Enterprise's focus, but there is

much more to the industry than just that, vital though it is. It seems to us that creative Scotland is the natural choice to bring together the broadcasters, the production companies, the development agencies and the skills agencies, to ensure that a coherent and integrated approach is taken.

The role of creative Scotland will be different from the role of Scottish Enterprise, because Scottish Enterprise wants to look at a spreadsheet, not a script. Different agencies will have different roles, but creative Scotland will have what we describe as a “muscular” role in ensuring that ideas are driven forward.

This committee will have a role in driving forward many of our recommendations—we might come on to discuss that. I also foresee, for example, creative Scotland taking on some of the work that the broadcasting commission has been doing, to ensure that recommendations do not fall by the wayside.

**The Convener:** It appears that the Government is still committed to the establishment of creative Scotland, but it has been delayed. Are you concerned that a leadership vacuum could be damaging for the industry? Nobody is bringing all the parties into one room and showing leadership.

**Blair Jenkins:** There could be a gap between now and the spring of next year. Collectively, we will have to ensure that that is not a problem. However, it is not that everyone will simply wait around and that no progress will be made, because it is clear that matters will progress in this forum. Broadcasters obviously are in dialogue and are taking things forward, and Scottish Enterprise—as we suggested that it should—is developing its strategy for the sector, which will be completed by the end of the year.

You are right to suggest that there could be a gap in implementation while we wait for the launch of creative Scotland. The most likely outcome is that the creative Scotland transition team will work on some of the implementation issues.

**The Convener:** When this committee scrutinised the Creative Scotland Bill, we were concerned about a lack of detail and certainty. We wanted to know exactly what the role of Scottish Enterprise would be in relation to the creative industries and broadcasting in particular. What is the commission’s view of Scottish Enterprise’s role?

**Blair Jenkins:** Scottish Enterprise should have the economic role for the sector. Some issues relating to sector development and business development are generic, and Scottish Enterprise’s generic skills could be applied to them. However, a degree of specialist knowledge of the creative industries is required, so we

suggested in our report that Scottish Enterprise might have to add to its skills set so that it can engage properly with the creative sector.

Great opportunities will arise. Scottish Enterprise must define the sector properly, ensuring that it includes creative content and is not just about information technology and technology-based companies. It must take a flexible approach, bearing in mind that the sector includes a large number of small and diverse businesses that will not all follow classic models for business growth. It must also take a sector-wide view of how to develop the industry. Scottish Enterprise will have a central role in the economic development of the sector. No one should be in any doubt that it will have that role.

**Ted Brocklebank (Mid Scotland and Fife)**

**(Con):** Congratulations, Blair, on your report and its recommendations—not least because so many of them were contained in the proposals that were put to you in a Conservative document. Our proposals included, of course, the new digital channel, and my questions this morning will relate specifically to it and to your proposed funding method. You rightly said that the proposed new digital channel should be run on a public service model. Is there any reason why that should exclude commercial funding or partial commercial funding?

**Blair Jenkins:** To respond to Ted Brocklebank in similar spirit, I am grateful to him for the way in which he and his colleagues have engaged in the commission’s work, which was positive from the start. We have turned up on many of the same platforms in the past year, and I have heard him talking about a Scottish digital channel more than anyone else, so I acknowledge his point.

For us, the point of principle is not whether the channel should take advertising revenue. If the model that was settled on included an element of advertising revenue, that would be perfectly compatible with the vision that we outline for the Scottish network. We took a pragmatic view, partly because, as I said in response to an earlier question, commercial media in Scotland are under severe pressure on revenue and costs, so if we introduced a new Scottish network that not only was substantially funded with public moneys but was going after the commercial media’s advertising revenue, it would be tough to sell it to the current media market in Scotland. It would also raise issues at European level about state aid and proportionate impact on the market, although those are not insuperable.

The core point is the public service ethos. The most important point of principle is that the channel be set up—as we believe it ought to be—as a not-for-profit broadcaster with a clear set of public service values and with a public service



mission and ethos. The other model that we have in the United Kingdom is a not-for-profit public service broadcaster that derives its income from advertising revenue. The channel that is run on that model is Channel 4. It would be fair to say that, over its history—particularly in the past 10 years—there has been a great deal of concern about the fact that it has deviated from its remit in pursuit of larger and larger audiences. One concern that I would have about a public service channel that also sought advertising revenue is that it would inevitably be drawn to doing things for bigger ratings rather than because of its core values. We came to the view that, on balance, it was best to propose a model that did not include advertising revenue as an income source. However, if the network went ahead and the political decision was that it should be partly funded by advertising revenue, our view would not be a fundamental obstacle or point of principle.

**Ted Brocklebank:** Your first argument was that, in an already rocky commercial situation, you did not want to add to the problems of the commercial companies in Scotland, so it is surprising that STV itself has expressed some disappointment that you decided to go for the publicly funded model that you have outlined rather than allow the commercial companies some kind of access to the new channel.

**Blair Jenkins:** I certainly envisage STV being a supplier of programming to the channel. I would be surprised if it was not one of the leading bidders for a news contract for the new channel, for instance, and I am sure that it would be keen to supply other forms of programming.

In thinking about who would run the channel and how it would be set up, we thought that it was highly important to establish it from the start as something new that was imbued with a clear public service mission. For perfectly understandable reasons, STV is a commercially driven broadcaster and is likely to become even more so under the various pressures that it faces. STV's role in the Scottish network would almost certainly be as a supplier of programmes and, possibly, of the transmission service as well. I imagine that one would not set up a separate transmission operation but would invite offers from the BBC, STV and whoever else was interested in supplying a transmission service to the new network. STV could be a supplier, but it is not the right organisation to run the new network.

**Ted Brocklebank:** You could have gone for a hybrid model, such as there is in Ireland and Spain, where there are channels that are partially commercially funded and partially state funded. In the same way as the Gaelic channel takes a certain amount of funding from the Scottish Government's culture budget, part of the Scottish

network's budget could come from the Scottish Government and the remainder could come from commercial interests. In that way, not only would you have direct control of your public service ethos but you would have opened up the market to other players, such as STV or the city TV concept that I have gone on about quite a bit.

10:30

**Blair Jenkins:** I have touched on some of the practical difficulties of a model that takes public funding and is competing for advertising revenue. Structurally, that is becoming a more difficult model to launch and to get public support for. I suspect that such a model might run into legal challenge from some of the commercial media operators in Scotland on the basis that it would look like an unfair competitor in the market. Scotland has a limited advertising market, and one of the things that make it more difficult to launch, for instance, a new commercial television venture is the very existence of the UK public service broadcasters that take advertising revenue. I do not have the exact figure, but I estimate that Channel 4 must take about £50 million in advertising revenue out of the Scottish market, and I think that Channel 5 is not terribly far behind.

There are people who are more specialist in advertising than I am—obviously, I know a bit about the market, particularly as it affects broadcasting—but I do not hear anyone saying that it is possible to grow the market for television advertising revenue in Scotland significantly, so if you introduce something new that is also after that revenue stream, you are talking about the cake being sliced ever more thinly. It is a pragmatic calculation. From my point of view, and from the point of view of the commission, if the model that is favoured at the end of the process in the Parliament, at Westminster and in public debate includes an element of advertising revenue, that would be acceptable. However, we said that, on balance, we did not think that that was the right way to go.

We make the point in the report that the Scottish network could pursue advertising and sponsorship revenue outside the UK. Distribution within the UK ought to be on a public service model, without advertising, but with regard to the online dimension and marketing to the Scottish diaspora and other interested parties overseas, it would be possible to earn advertising, subscription and sponsorship revenues.

**Ted Brocklebank:** You say that there is not much room to expand Scottish advertising revenue, yet a number of players think that it could be expanded, particularly if you went down the route of having a core schedule that was run as a new digital channel, and allowed for city TV or

local TV to take part in that new channel by taking opt-outs for news and current affairs programmes in local areas. There is a view that there is a substantial television market if you take television back to its very local origins. As we know, regionality is starting to go in ITV, and the new channel would have been an opportunity—it might still be an opportunity, depending on who decides whether it will go ahead—for television to go the way it is in America, Canada, Australia and elsewhere.

**Blair Jenkins:** You are probably right that potentially there are advertisers at a very local level who are not using television as an advertising medium. If a model was developed that allowed lower-cost entry to city-based or more localised television than we are accustomed to in this country, I am sure that new revenue would be created, although one would have to be slightly sceptical about how much genuine additional revenue would be available.

As the debate goes on, it will be interesting to involve other commercial operators, and not just from within television, because advertising is substitutable and big advertisers often use different media for advertising and switch from one to another depending on the strategy, the brand and what they are trying to achieve. The big change at the moment is the shift of advertising revenue away from linear broadcasting and towards the internet. In common with most other people who examine the industry, I think that that is a structural change, not a cyclical one—it is an almost permanent and on-going change in the industry. I do not have a closed mind on advertising revenue, but on balance it seemed to us that it was right to recommend a model that was derived only from public funding.

**Ted Brocklebank:** How sure are you about the finance from the cleared digital spectrum, which you describe in your report? You claim that it will raise billions of pounds for HM Treasury. How did you reach the conclusion that billions of pounds could be raised from the sale of cleared digital spectrum?

**Blair Jenkins:** You cannot come up with an exact figure until the auction is held so, by definition, you cannot know what sum will be raised. Everyone who comes up with a figure comes up with a speculative one. I have heard no one suggest that less than billions of pounds would be raised from the auction. Ofcom describes it as the best spectrum that it has ever auctioned—it is prime spectrum, universally accessible and of high quality. When it sold off spectrum to the phone companies some years ago, correct me if I am wrong, but I think that about £30 billion was raised.

It is true that market conditions have changed, and it looks likely that the impending auction might take place in the midst of an economic downturn, so it is hard to say what sum will be raised. The point that we made in the report is that, whatever sum is raised, there is about to be a huge windfall to the Treasury from the sale of a UK asset. There is at least an arguable case that part of the windfall should be used to address what is a clear public service deficit in Scotland.

**Christina McKelvie (Central Scotland) (SNP):**

I welcome you back to the committee and congratulate you on a robust report with excellent recommendations that seem to have been received well across the sector. That is certainly the impression that I have from the people to whom I have spoken in the past week. Unless I am much mistaken, you will agree that the majority of the submissions, including the SNP's submission and the Conservatives' submission, called for a digital channel.

My specific question is about the long-running debate on a "Scottish Six". It is really important to have quality news production in Scotland that looks at Scottish, UK and global news from a Scottish perspective. Will you give us a wee insight into some of your experiences of running a news network in Scotland? How would you use that experience as good practice?

**Blair Jenkins:** I will resist the temptation to wander too far down memory lane. One of the key things that have happened in the past year is that the BBC did two things once the Scottish Broadcasting Commission was set up: first, it moved quickly to try to promise increases in network television production, which we have touched on; secondly, it launched a major inquiry into how well or otherwise the BBC reports the increasingly devolved and evolving UK.

The report that came out a few months ago, of which members are aware and that you have probably read, is a landmark report. For the first time at an official and corporate level, the BBC acknowledged what many practitioners in television news and current affairs have known for years, which is that it is becoming very difficult to make single news programmes that work for the whole of the UK—it is a real challenge. There has been a division in the BBC between the people who had always acknowledged that challenge and the people who were willing to say, "Actually, everything's fine, we're doing a fantastic job so what's the problem?"

It is encouraging that the report commissioned and published by the BBC Trust lays out in blunt terms just how difficult it is to make single news programmes that work for the whole of the UK and some of the problems that have been encountered. The view that we have taken is that

the BBC Trust and executive are now engaged in the process. Having admitted the scale of the problem, they have come up with a long list of actions that they are implementing over the next months and year.

Drawing on my experience of being involved in debates and discussions over the years about network television news and how well, or otherwise, it serves Scotland, I would say that the response from the BBC is the most substantial response that I have ever seen from the organisation. To reduce it to simple terms, the BBC has got it now that a large part of the audience, not just in Scotland but in other parts of the UK, find that network television news programmes do not work for them in terms of how well they report our part of the UK or events in England to the rest of the UK. Those are all issues of which committee members are aware.

It is important that in the coming year the BBC completes the process, tries to remedy the problems in the existing service and comes back to have an honest look at the options.

**Christina McKelvie:** Given the huge amount of evidence that came to the commission—including from the BBC Trust, as you just mentioned—that was in favour of a “Scottish Six”, how can we progress that issue?

**Blair Jenkins:** My personal view is that we should drop the name “Scottish Six” as it hinders rather than progresses debate. In my experience, as soon as the phrase is used everyone puts on their tin hats and gets in the trenches. Everyone has a fixed view on it. In his report, Professor King came up with the handy phrase “parallel programming”. He discussed the need for the BBC to engage with whether the smaller nations of the UK might welcome parallel programming, which would provide additional choice by giving them a UK and international news programme as well as their own national news.

When the BBC comes to discuss the issue next year—in what it has said will be a very open and transparent way—it will need to examine a number of factors. A key factor is choice, because digital television offers greater choice. As our report shows, the news on all five main UK television networks is presented from London—there is a uniform service for the whole of the UK on those five channels. There are also two 24-hour news channels that, similarly, present a uniform news service for the whole of the UK. There is an argument for the consideration of choice: for the BBC, as a public service broadcaster, to consider whether to offer something different.

We have set out the arguments and the evidence that we have collected—including the fact that a small majority of people in Scotland are

in favour of structural change to the early evening news—and we have urged the BBC to keep thinking about the issue and to complete that process next year. One of the reasons we have done that is that it is important that the BBC makes its own decisions. There are important reasons why the BBC is set up to be independent of pressure from Governments or political parties—or, indeed, from broadcasting commissions—but the BBC trust and the BBC executive have a clear responsibility to discharge their duties and provide the best possible service to viewers in Scotland. I certainly do not want to prejudge the outcome of their deliberations. We have urged them to come at the issue with fresh eyes and open minds. One could come up with models other than the status quo or the “Scottish Six”, and that is what we hope the BBC will do next year.

**Christina McKelvie:** Your report stops short of calling for full devolution of broadcasting to Scotland. You say in the report that there may come a time when devolution would be essential. What would be the tipping point?

**Blair Jenkins:** We have taken quite a pragmatic approach. The important thing was to outline what we feel is required in Scotland in terms of programmes and services and what needs to change in terms of the economic, cultural and democratic importance of broadcasting, so that we can consider the issue honestly and ask whether those things can be accommodated and achieved within the existing framework or whether the framework needs to change.

We have gone through the existing framework in—I hope—a detailed and methodical way. We have considered what needs to be changed to make it work better for Scotland, and what it is sensible to leave at a UK level. We have argued that there are good reasons why the legislative powers over broadcasting should remain at a UK level. It is equally clear, however, that there is a need for greater accountability and greater influence over policy and programmes in Scotland to ensure that people get the services they want.

We have tried to strike a balance and provide a model of joint accountability that captures the aspiration in Scotland. It is primarily concerned with programmes and services—not many people said that they want telecoms to be regulated in Scotland, spectrum allocation to be determined completely at a Scottish level or, at this stage within a UK model, a separate BBC charter for Scotland.

We have suggested quite a major shift in emphasis in where broadcasting is discussed, and described a much more prominent and active role for this Parliament in broadcasting matters. We suggest what we think are the best possible set of

recommendations for broadcasting in Scotland within the existing model. As we say in the report, if it turns out that we cannot get a satisfactory solution for Scotland within the existing model, the devolution of legislative powers will come back on to the table and the debate will move on and take on a different shape.

10:45

**Christina McKelvie:** What specifically would tip it over the edge?

**Blair Jenkins:** I have not thought it through to that level of detail. With good will and good faith, and with everybody in this part of the UK pushing pretty hard, what we have outlined in our report is deliverable and I think that it will happen. I take an optimistic and positive view of that. Nevertheless, I imagine that if, four or five years down the road, the UK broadcasters had not delivered their network commitments and there was a glaring public service broadcasting deficit in Scotland and general unhappiness with the services, the Parliament would want to bring the issues back to the table.

**Aileen Campbell:** You say that although we have at least got it, the broadcast news in Scotland must be improved. I read recently that "Reporting Scotland" will have only one presenter from 29 September. How does that stack up? Could it be seen as a further downgrading of the service? We can talk about the spectrum, but the average person in their house watching the news will see one presenter where they used to see two, which is what the news output has when it comes from London. What do you think about that?

**Blair Jenkins:** I would not want to express a strong opinion on whether news programmes are best presented by one presenter or two. There are different opinions on that. For the 6.30 programmes on the BBC, some parts of the UK have always had one presenter whereas others prefer to have two. I incline towards a two-presenter approach, but I would not pretend that there is unanimity in the industry on the matter—people have different preferences. I would hate to say that broadcasting is susceptible to the flavour-of-the-month approach, but it is a bit like whether presenters should sit down or stand; fashions change, and I would not want to comment on that in detail.

As we say in the report, there are legitimate concerns about the level of funding of BBC Scotland programmes. We think that that is connected to the perceived lack of ambition or aspiration of some programmes. Therefore, one of our recommendations is that the BBC should review the funding of its television programmes for Scotland.

**Kenneth Gibson:** Paragraph 5 of the executive summary of the report states that

"Scotland has undoubtedly benefited from being part of the overall broadcasting ecology of the UK",

but it goes on to say:

"However, Scotland has always been rather marginalised within this generally successful UK framework and that needs to change."

Paragraph 32 states that

"the levels of television production from Scotland had been in steep decline. Most of the difficulties seemed to stem from the heavily centralised nature of broadcasting in the UK. All of the UK network channels and all of the key decision-makers are based in London."

Paragraph 37 adds:

"The metropolitan culture is firmly entrenched, as is the notion that London is the natural centre of things and the proper location for positions of power in broadcasting."

The summary goes on to say that only 2 per cent of Channel 4's budget is spent in Scotland, although you have just mentioned that £50 million comes from Scotland in revenue.

When I started to read the report I thought it was great and that it was heading towards what we, or at least SNP members of the committee, believe should happen—the devolution of broadcasting powers to Scotland—but we come up against a brick wall because you stop at the last moment and say, "Oh, well, right enough. We do not really want to go as far as giving the Scottish Parliament control over broadcasting." The reasons for that are fairly feeble and timid. For example, you state:

"We do not believe, at the present time, that broadcasting should be devolved. Convergence of platforms and new technology developments intrinsically link broadcasting to telecommunications where there also appears merit in a UK approach."

That is gobbledygook. Denmark has a population of 5 million and is half the size of Scotland. Finland has the same population as Scotland but is three and a half times the size. I am not aware that those countries have any difficulties with such technological issues. I do not see the telecommunications in Denmark feeling the need to be run from Berlin or the telecommunications in Finland feeling the need to be run from Moscow.

Given the arguments that the commission made throughout the document—until the last moment—surely we should devolve broadcasting to Scotland if we are to see an increase in employment in the media in Scotland and better programming and if the global ambitions that you talked about are to be achieved.

Some months ago, I attended a reception that Ted Brocklebank hosted on behalf of STV. I spoke to a number of executives who said that there is absolutely no way that Scotland will be able to

compete in the global marketplace unless there is real control over programming in Scotland, rather than the metropolitan bias that we have at present.

**Blair Jenkins:** You asked quite a lot of questions. If I may say so, I think that you are missing the point on the issue of devolved powers. The European examples that you cite are of independent countries.

**Kenneth Gibson:** Indeed.

**Blair Jenkins:** As I am sure the committee understands, we were not asked to consider what broadcasting would look like in an independent Scotland; that was not part of our remit, so we did not consider such a model. It is much easier to construct a model for broadcasting in an independent Scotland than it is to construct a model of devolved broadcasting that is fully consistent. In good faith, and with a degree of thoroughness, we considered how to get the existing framework to work best for Scotland.

Very few members of the public come through the door talking about devolved broadcasting; they talk about the improvement of programmes and services. That is where the interest lies. Almost everything that we heard was about those issues.

The framework has worked well for Scotland. If you talk to people up and down the country—which we did endlessly—you find that the existing system has delivered very good programmes and services at a UK level, from which Scottish viewers have benefited, such as fantastic drama, comedy, documentaries and all the rest of it. However, there is no doubt that, for historical and technological reasons, the industry has been overconcentrated in London. Many of those reasons are now disappearing and it is important that broadcasting reflects that. The publicly funded broadcasters such as the BBC and Channel 4 should move to a much more dispersed model of power, influence and programme commissioning than they have had hitherto.

The approach that we took was honest and pragmatic. We looked at how to get the best outcomes for Scotland in terms of the programmes and services that are available to viewers here.

I was not party to the conversation that you had with people at the STV event, but I am not sure that devolved regulation of broadcasting would have any impact on the international appeal or success of Scottish programmes or on the ability to grow that part of the creative economy. The key thing is to get a fair share of the UK spend on network television programmes and to do things to grow our indigenous sector. Our main recommendation was the creation of a Scottish network. If we can make those two significant public interventions—to have that additional UK network production and to have the underpinning

from the Scottish network of the production sector—I am in absolutely no doubt that we can have an internationally successful production sector in Scotland.

**Kenneth Gibson:** But without the devolution of budgets and decision making to Scotland, you will always be at the whim of the metropolis in terms of future decision-making processes. I realise that other members want to speak, so I will ask one last question. How many people are employed by the BBC and, of those, how many are employed in Scotland?

**Blair Jenkins:** I do not have an absolutely up-to-date figure on that. The last time I looked—I am pleased to be corrected if I am wrong—there were about 24,000 BBC employees, although that might have decreased, because the BBC has gone through a lot of cost cutting. I think that BBC Scotland employs in the region of 1,100 or 1,200 people.

**The Convener:** Perhaps the questions about the BBC can be put to its representatives when they come before the committee. They have already indicated their willingness to do so.

**Mary Mulligan (Linlithgow) (Lab):** You have referred to the talents that we have in Scotland. The commission identified the need to develop skills and training further. What are the gaps and how should we address them?

**Blair Jenkins:** One consequence of the steep decline in network television production in Scotland in recent years is that a great many people have relocated—not just people on the creative side, such as directors and writers, but people with technical skills, such as those who work in post-production or make-up for drama. Understandably, people have moved to other parts of the UK where they can make a career and a living. We need to plug the gaps in traditional production skills.

A large part of the growth opportunity lies in the growing and emerging digital media sector, which includes design agencies, advertising agencies, companies that design websites and so on. We need more people to come through with skills in new media as well as skills in traditional media. One reason why we say in the report that there is a co-ordinating role for creative Scotland is that, in the next five to 10 years, we need to start shaping up the demand profile and what we think the industry will achieve. We can then start to ensure that we match our skills profile to that demand. We have discussed that with people in the industry and they agree.

In the short term, because we expect—indeed, we are insisting on—a pretty fast acceleration in the level of network television spend, some

production talent will be bought in from other parts of the UK. We hope that, in time, we will develop the indigenous talent base to the point at which we can do things within Scotland.

**Mary Mulligan:** What discussions have taken place with the education sector to address those needs?

**Blair Jenkins:** Skillset would say that it is in pretty constant dialogue with further and higher education. I am not suggesting that such discussions do not happen, because they do, but we envisage a pretty substantial expansion of activity, even if we simply consider the BBC commitment in isolation. It is important that we start to shape up the sector properly to cope with the new level of demand. As well as the BBC commitment, we hope to get a similar commitment from Channel 4. I hope that there is support from the committee and others for that. It would be unpardonable if, having secured major new commitments from the network broadcasters, we were unable to deliver.

**Mary Mulligan:** Is the education sector gearing up for that appropriately? Will it be able to meet what we hope will be the increasing demand?

**Blair Jenkins:** It is keen to be involved and it has a key role to play. Some of the most impressive and best informed people about where media, communications and digital content are going are people in our higher education sector. I have no doubt that they are key partners. We identified further and higher education as a key partner for the Scottish network. Apart from all the economic benefits that we think would flow from the initiative, major economic benefits will also result from it.

**Mary Mulligan:** You and the commission also recognised that things are changing even as we speak. How can we ensure that we continually develop the necessary skills in a way that supports the industry as it changes?

**Blair Jenkins:** The key thing for the sector and everyone who is involved in supporting it is to be fast and flexible. You are right—things will change quickly. Organisations such as Scottish Enterprise must be geared up to respond quickly to opportunities that arise suddenly and could be lost quickly. It is important that people across the piece are fast and flexible in how they respond.

To maintain an optimistic note, I believe that this year marks a turning point in the debate. I sense that there is now a collective determination. We let things slip, and things went backwards rather badly. In the industry and among people who gravitate towards it, there is a general determination that that will not happen again. I believe that everyone will play their part and that we will have a co-ordinated and thorough

approach to developing the sector in the way that it should be developed.

11:00

**Christina McKelvie:** In your response to Mary Mulligan, you touched on the issue that I want to raise. A few weeks ago, I visited Skillset, where people were very excited because they were about to publish the sector skills agreement. How will the agreement and Skillset's professional ability and experience support the higher education system in delivering what we need for the future?

**Blair Jenkins:** Skillset's role is crucial. I now have a copy of the new sector skills agreement; it is 84 pages long, so I will not pretend that I have digested it completely. There is no doubt that Skillset and Skills Development Scotland have a key role. Skillset focuses largely on the freelance part of the industry; increasingly, the industry's workforce is constituted on a freelance basis. It is important that Skillset works with creative Scotland, Scottish Enterprise and the broadcasters to ensure that we do not have skills gaps. As well as skills gaps, there is the issue of leakage, which was highlighted earlier. If a great deal more money is to be spent on building up the sector in Scotland, we do not want to have to fly in too many people to fill jobs. We would much rather develop an indigenous skills base.

**The Convener:** The commission has published its final report. Where do we go now? What would the commission like to see happen as a result of its report?

**Blair Jenkins:** To some extent, the reaction for which we hoped is already under way. There has been a heartening, positive response to the report, which is good to see. In part, it is for the committee to take forward some of the measures that we have discussed and recommended. For example, the suggestion that the main broadcasters and Ofcom report at least on an annual basis on performance and what they are doing for the industry and audiences in Scotland is important. It will also be important for us to influence positively the Ofcom public service review, which has run more or less in parallel with the commission's work and will be very important in shaping the debate and outcomes. As I mentioned, it will issue a publication tomorrow, which will go out to consultation. It is important that as many people as possible in Scotland make clear to Ofcom what Scotland expects from broadcasting in this country in the future.

We identify to some extent who is responsible for taking forward each of our recommendations. The debate has moved on to a new level of ambition and engagement, and it is important that

it does not slip back. As we say in the report, the Parliament should become the primary forum in which Scottish broadcasting issues are pursued and discussed. To that extent, responsibility rests here, across the parties; I believe that a high degree of consensus is achievable. It is important that these matters are progressed.

**The Convener:** I am sure that the committee will take its role seriously and will have various people appear before it. Aileen Campbell has a constituency question.

**Aileen Campbell:** I am one of the MSPs for the South of Scotland, which is mentioned in your report. How potentially damaging are the proposals to merge Border Television and Tyne Tees Television? Is there any merit in the suggestion that the boundary of the STV area should follow the Scottish border?

**Blair Jenkins:** Effectively, the suggestion is that there should be a local opt-out for the south of Scotland. In our report, we suggest that the area would sit more naturally in the “Scotland Today” programme, as most of the domestic policy and legislation that affects viewers in that part of Scotland is determined at Scotland level. We are aware that Ofcom has carried out a lot of consultation and audience research in the region and is building up a picture of what people there want. I think that it will have more to say about the matter in the publication that will appear tomorrow. I understand that the latest ITV proposal is that there should be a guarantee, more or less, of six minutes a day of news from the south of Scotland in the new merged programme. Tomorrow we will hear what Ofcom has to say about that.

You are right to say that having the licence boundary reflect the national boundary at some point seems to be a logical outcome. I am not sure what is in tomorrow’s report; like the committee, I await it with interest.

**Aileen Campbell:** Did you pick up any anecdotal evidence on the issue in your research, which was carried out prior to the publication of the Ofcom report? There are other areas in the south of Scotland that do not receive Scottish news; Ulster Television broadcasts to parts of Galloway, for example.

**Blair Jenkins:** From years of BBC public meetings in the south of Scotland, I know that transmission and reception have always been a big issue in that area. Other parts of Scotland have difficulties, but the issue arises more often in the south of Scotland than elsewhere. Strictly speaking, transmission and reception issues were not part of our remit, so we did not go into them in detail. It is fair to say that viewers in the south of Scotland—like viewers in the north of Scotland, where I come from—are concerned that their part

of the country is overlooked and is not fully reflected in broadcasting. One key part of the Scottish network’s remit should be to reflect the geographical diversity of Scotland more than existing broadcasters have done. We should show our country more fully than is sometimes the case at present.

**The Convener:** That concludes the committee’s questions to you today. Thank you for your attendance. All members are grateful to the commission for its willingness to engage with us at various stages during its work.

I suspend the meeting until 11.15, to allow a changeover of witnesses.

11:07

*Meeting suspended.*

11:15

*On resuming—*

## Budget Process 2009-10

**The Convener:** Item 2 is the committee's consideration of the draft budget for 2009-10. The committee will take evidence on further and higher education issues as they relate to the draft budget, for which I am pleased to welcome Professor Anton Muscatelli, who is the convener of Universities Scotland; Howard McKenzie, who is acting chief executive of the Association of Scotland's Colleges; and, from the Scottish Further and Higher Education Funding Council, Mark Batho, who is the chief executive, and Laurence Howells, who is the director of learning policy and strategy. I congratulate Mr Batho on his appointment to the Scottish funding council.

Thank you for providing written submissions on the budget before today's meeting. The committee will go straight to questions. I ask Mr Gibson to kick off.

**Kenneth Gibson:** I have no questions at this time. You will remember that I want to speak at the end. I apologise for that.

**Margaret Smith (Edinburgh West) (LD):** Good morning, gentlemen. Universities vary in their ability to generate income from sources other than Government grants. The University of Edinburgh and the University of St Andrews, for example, can generate income from elsewhere. My questions are about the SFC, but any witness should feel happy to comment. The distribution of SFC funds is driven largely by a formula. Does that remain fair? Would the new approach that "New Horizons: responding to the challenges of the 21<sup>st</sup> century" proposes shift the position? Would placing the focus on individual institutions' ability to raise funds from a range of sources benefit smaller specialist institutions that rely on the money from central Government?

**Mark Batho (Scottish Further and Higher Education Funding Council):** You are right that the significant majority of resource into universities is formula driven. Using a formula has an advantage for institutions, because it provides stability and allows for planning and a significant amount of innovation. The formula is not a dead hand.

That said, "New Horizons" considers whether the balance is right. I can say only that discussions on that continue. However, the report reflects the fact that it has been acknowledged around the table that opportunities exist for incentives in the funding arrangements. Such measures exist already and operate in several areas—a good example is that research pooling has been incentivised by particular funding.

The funding of specialist institutions has undoubtedly been a challenge and they have expressed concern that, under the formula, they have not had a fair crack of the whip. At this stage, I will leave it at saying that that was part of the consideration of "New Horizons", which talks about the diverse missions of different institutions. As we move forward, there will be opportunities to consider whether an adjustment of formula response is necessary or whether we can take action on the suggestion that there could be a more differentiated stream of funding within the overall map—Professor Muscatelli might want to comment on that.

The key message is that formula has an important part to play, but it is important that dialogue continues, as the three parties involved—the universities, the funding council and the Government—recognise. It is important that we continue to consider the appropriateness of formula levels.

The universities' capacity to raise resource from other areas has always proved to be quite a difficult nut to crack. Everyone looks at America and says, "They can Hoover up vast sums of money. Why can't we?" There are undoubtedly cultural differences. The other week, I read a newspaper report that said that a number of American fundraisers who have come over to UK institutions have not done as well as everyone expected because of those cultural differences. I will hand over to Professor Muscatelli to talk about that because he knows far more about it than I do. That said, there are opportunities, which a number of our institutions are exploiting. Significant increases have been achieved in funding streams from a range of alternative sources, including business and charities, as well as alumni.

In November, I think, the Council for Industry and Higher Education, which is a UK body, will produce a report on its findings on how some of what we might call the non-usual-suspect American universities—not the Yales and Harvards, but the state universities—are doing in that territory. It is incumbent on all of us to look at that to find out whether lessons can be learned in our different cultural context.

**Professor Anton Muscatelli (Universities Scotland):** I echo everything that Mark Batho said; I will add just one or two remarks.

We must be careful in drawing any correlation between the proportion of funding that comes directly from the SFC and what that might imply for formula funding. I echo what Mark Batho said about formula funding. In general, universities have welcomed it because it ensures a degree of stability and predictability. As "New Horizons" makes clear, it is likely to be an important feature of any future landscape.



Some universities draw a smaller proportion of their turnover from SFC funding. You mentioned the University of Edinburgh and the University of St Andrews; Heriot-Watt University is another example. SFC funding tends to account for between 30 and 35 per cent of their turnover. In general, that is because they tend to be more research intensive, which means that they draw much of their income from UK research councils and European funding, for example. It is difficult to conclude that one should adjust formula funding to reflect that. Those are two quite separate areas.

I echo what Mark Batho said about alternative sources of funding. We must not jump to conclusions when we consider other sources of funding, whether philanthropic or from commercialisation. Even the best fundraising institutions in the UK—if one puts Oxford and Cambridge to one side—will generally not raise much more than 2 or 3 per cent of their turnover from philanthropic funding. That 2 or 3 per cent is important, of course, because 2 or 3 per cent in turnover gives an institution a strategic adaptive capacity, but we must not think that it is a substitute for other sources of funding.

It is interesting to look at comparisons between what Scottish universities are doing as regards commercialisation and what happens in the rest of the world. The University of Edinburgh publishes a regular report comparing the commercialisation performance of the top eight Scottish universities with that in the top US universities.

On a variety of indicators—except one, I think, which might have been licensing—Scottish universities do better than some of the top universities in the United States. In cash terms, of course, the US universities look as if they are doing a lot, but they are much larger institutions. Proportionally, Scottish universities do extremely well on commercialisation.

**Howard McKenzie (Association of Scotland's Colleges):** Colleges are different from universities in that our ability to raise money from alternative sources is very much more restricted. A quarter of our students are drawn from the poorest 10 per cent of the population, so getting a cash yield from them is difficult.

Like the universities, we are funded through a funding formula. My colleague principals would probably say that it is the worst system that we could have except for all the other systems. The formula is extremely complicated, but it is well administered by the funding council—that is a compliment. The system is clever: I deliver 2.8 per cent of all further education in Scotland and I get 2.8 per cent of the money that is available, in various ways. It is a good system and it has given to the further education sector the stability that Anton Muscatelli was talking about in relation to the universities.

**Elizabeth Smith (Mid Scotland and Fife) (Con):** I accept that the universities and colleges do good work on a tight budget. I want to ask about the wider picture. It strikes me, particularly given the evidence that the witnesses submitted, that there is a major issue with our continuing to widen access to higher education. Under the current set-up, we cannot continue to finance more and more people to go to college or university, which is a fundamental problem. It is clear from your submissions that that is what you think.

I agree that the funding formula is important, but should we be taking a much wider perspective and considering how we can fund universities in the long term, not only by working hard to secure alternative sources of funding but by ensuring that students who enter the system make some payment at some stage?

**Professor Muscatelli:** If we consider the international scene, we encounter very different patterns of funding as well as different patterns of provision. Universities Scotland has always taken the position that this is a political judgment. It is not for us to tell the country how it should fund higher education.

In some countries, including Nordic countries such as Finland and Sweden, a higher proportion of young people enter higher education, which is funded largely out of the public purse. Those countries spend a higher proportion of their gross domestic product on higher education. Other countries, such as England, have introduced an element of student contribution. In the United States, there is a mixed system, although in the US the public contribution to universities as a percentage of GDP is higher than the contribution in Scotland.

Our view is about the amount of funding that goes into higher education and we do not want to comment on issues to do with political economy and society's choices about whether we spend money on higher education or expect individuals to contribute. "New Horizons" made a clear statement on that. That is the Government's position, which we accept. We simply say that if that is the way to go, the money must come from public funding.

**Mark Batho:** In my new role, I am not in a position to comment on that. However, I make the point that widening access remains on the agenda even though in effect we currently have a capped HE and FE system. It is about broadening the base of people who have the capacity to enter HE or FE on the basis of their ability to learn rather than their ability to pay—as the mantra goes. That will remain an important agenda, as is highlighted in "New Horizons". It is a critical part of the role of colleges.

11:30

**Elizabeth Smith:** I accept that you cannot force politicians' hands in political decision making, but we are talking about an issue that is important to the future of our universities and colleges. The nub of the problem is that we are trying to maintain high standards in Scotland while allowing more and more people to enter the tertiary sector, and you tell us that we simply cannot do that under the existing funding settlement.

Either we have to spend a greater proportion of GDP on improving the situation, as Professor Muscatelli has said, or we have to change the whole structure. In other words, perhaps too many people are going into college and university. That is a very contentious issue, however, because we obviously wish to improve educational opportunities for everyone.

Would you accept that we have a responsibility to do more for youngsters who are coming out of school and who might not wish to go to college or university, and that one way to solve the potential problem and to alleviate some of the huge strain on resources is to provide more opportunities through apprenticeships and other skills-based training?

**Professor Muscatelli:** Universities Scotland has made it clear that we should join what is normally regarded as the race to the top in international competitiveness, not the race to the bottom. We feel strongly that, over time—not over one year or two, but over the next 20 years—we will need to increase the number of graduates in the economy.

One considers what is happening in our competitor economies. They already have higher participation rates. China, India and the other emerging economies are growing the graduate proportion of their workforce. Increasingly over time, the jobs that will be created in sectors that we think are important for the future of the Scottish economy, such as biotech and electronics, will be jobs for graduates rather than non-graduates.

There is sometimes a false dichotomy between vocational training and graduate skills. One is about short-term needs in the economy; the other is about trying to grow a long-term trend in graduate education. I am not going to tell you that there are no shortages of vocational skills in some sectors—of course there are—but Universities Scotland is discussing where we want to be in 20 years' time. Over time, we must shift the proportion of people with graduate skills in our economy. I do not wish to comment on short-term vocational or skills mismatches.

That is where we would put the emphasis. We do not think that the answer for Scotland is to reduce access to university, to reduce the number

or proportion of graduates or to focus on other things. It is not an either/or question. Of course we need to address short-term vocational issues, but we also need to increase the number of graduates coming out of the system in the next 20 years.

**Elizabeth Smith:** I wish to clarify that it is the view of Universities Scotland that, just as you sum it up in the three conclusions that you have presented, you would like us to spend a higher proportion of GDP on education.

**Professor Muscatelli:** Absolutely. We should achieve at least the top quartile of Organisation for Economic Co-operation and Development countries. At the moment, we believe that we are spending below average. If one includes the proportion of higher education funding that is spent on colleges, the figure might come to around the OECD average, although there are some issues about how it is measured. In any case, we need to achieve a level of 1.4 or 1.5 per cent, which would take us into the top quartile.

**Howard McKenzie:** Your previous witness, Blair Jenkins, was talking about the need for digital media people. In general, those people will be taught in colleges. That work will be on a self-employed basis, with people setting up and running their own small businesses. We have heard a clear statement about where skills are needed, both in the short term and in the long term. In the colleges' view, the HN route—higher national diplomas and certificates—is a good route for people to start their higher education and to go on to university and get degrees at that level if they are capable of doing so, if they wish to do so and if they can afford to do so.

**Laurence Howells (Scottish Further and Higher Education Funding Council):** Another important role for colleges is in giving students and people who did not do so well at school a second chance. The mc<sup>2</sup> group has been mentioned, and there is a particular role in relation to looked-after children, which we are working on. Our view is of a seamless stream of activity and education, where people can start at school, progress to college and then make the connection from college on to university. That is how we can organise our education system more effectively.

**Mary Mulligan:** On the point that Elizabeth Smith made, Universities Scotland referred in its submission to the challenge to the Government that

"by not later than 2028 Scotland should be in the top OECD quartile for proportion of GDP invested in higher education".

To many of us, 2028 seems a long way off. Are we currently making the right spending decisions to enable us to meet that target?

**Professor Muscatelli:** That is a good question. The current spending review settlement involves a 2.9 per cent real increase across the period of the settlement—that assumes an inflation rate at the GDP deflator of 2.7 per cent, but of course inflation has been rising a lot recently.

On the basis of GDP projections for the next 10 years—even projections of the Scottish average—it is unlikely that we will reach the top OECD quartile, where we want to be, unless we begin to make progress towards achieving that increase in the proportion of GDP spend from the next spending review. If we do not make progress from the next spending review, life will be difficult and large real-terms increases will be required in subsequent reviews. We feel strongly that the first steps must be taken from the next spending review.

**The Convener:** Mr McKenzie, in your written submission you mentioned the current financial climate and the budgetary pressures that further education establishments face in relation to wage increases. You said:

“These pressures are amplified by the statutory requirements for colleges to carry out job evaluations and equal pay audits.”

You suggest that budgetary pressures will increase. Does the current budget allow you effectively to address the challenges that you face?

**Howard McKenzie:** The difficulty with the current budget is that, as Anton Muscatelli said, inflation is rising faster than the 2.5 or 3 per cent rate that has been allowed for. There is industrial unrest throughout the college sector and four colleges are currently balloting on strike action on pay. Most of us can offer about 2.5 per cent but, because of the university settlement, demands are being made for at least 5 per cent and usually for double figures.

We have to carry out job evaluation and equal pay audits by 2010, which add between 6 per cent and 30 per cent to the wages bill, depending on the college and how it approached the issue. Much of that is to do with the legacy that colleges had from local authorities. Some colleges have roots in four different local authorities, with four different pay and bonus structures. Pulling all that together is immensely difficult and complicated.

Under the current settlement, we will struggle and experience unrest. The general levels of employment that we can offer will reduce, to make things fit. It is a heck of a challenge, but in the past we have shown that we can rise to meet such challenges and we will find ways of meeting this one—we have to.

**The Convener:** Are you saying that you can meet the aspirations of employees in the sector

within the budgetary constraints in which you are operating?

**Howard McKenzie:** No, I am saying that I think that we can manage the disappointment that people will feel when their aspirations are not met.

**The Convener:** In the draft budget, there is an intention to transfer £20 million to the health and wellbeing portfolio in 2009-10, which will be repaid in 2010-11. Are you happy about that? Was the approach discussed with you?

**Howard McKenzie:** We are not unhappy. When a capital project is undertaken—believe me, I know this—the profile of spend changes. The funding council is running about 17 projects across the country. The principals were delighted that the £20 million would be used for affordable housing, because that is where most of our students come from. We thought that there would be a nice virtuous circle. We have been seeking a cast-iron guarantee that the money will come back, because it is committed. It was not being spent only because things had changed—perhaps as a result of the weather or because there was a six-month delay in appointing a contractor or a delay in planning applications. Numbers are bound to shift, as all sorts of things get in the way when one is running projects. Prudent management by the sector and the funding council has enabled £20 million to be released for another purpose. We are quite proud of that, but we are a bit worried about whether it will ever come back, as we have worked with politicians for a while.

**The Convener:** Does that mean that you do not have the cast-iron guarantee that you would have liked?

**Howard McKenzie:** This is quite a new concept. We have not received a cast-iron guarantee. The committee may want to ask ministers about that.

**Mark Batho:** It is partly about managing projects, as Howard McKenzie described. It is also about having the capacity to exploit the fact that the funding council funds institutions on an academic-year basis, whereas funding comes to the funding council on a financial-year basis. Management across two different six-month periods gives additional licence. We are satisfied that the combination of the management of expenditure profiles across a number of capital projects—I will not use the term slippage, because it is derogatory—and the flexibility that is built into the system because of the mismatch between the academic and financial years will ensure that there is no need for reprofiling of any of the projects that are in the pipeline at the moment.

**The Convener:** You can make a case for that. The test will be whether the money is returned to allow the capital projects to which the sector is committed to proceed. I am sure that the committee will return to that issue.

**Claire Baker (Mid Scotland and Fife) (Lab):** I would be thankful if we could be reassured that the £20 million will be returned. Does the £20 million that has been transferred come from the £30 million that the Government has guaranteed for student support in the 2010-11 budget?

**Mark Batho:** The £20 million that has been brought forward for housing comes from the FE capital budget within the funding council's overall resources. As the convener indicated, I am not in a position to talk about guarantees. A clear assurance has been given that the resources have been moved between financial years. All our planning will proceed on that basis.

**Claire Baker:** My main question relates to the 2009-10 budget. Do you believe that the budget is sufficient, especially for the university sector? You have already touched on that issue. We know that, in its submission to the comprehensive spending review last year, Universities Scotland judged that an increase of £168 million was sufficient for universities over the three-year period of the review. The universities argued that they were able to match that figure, but the amount that they received was considerably smaller.

We have touched on the inflationary pressures that universities are experiencing. This morning we heard that Queen Margaret University will lose 35 members of staff. At the weekend, it was reported that there is pressure on pay deals. Howard McKenzie suggested that the further education sector will be able to manage such pressures. Should the Government help universities and further education colleges through this period?

11:45

**Howard McKenzie:** We are well supported through the funding council. Colleges and universities are independent institutions. It is for the management of each institution to work out its own way of doing things.

It is a big challenge and a lot of colleges will look at expensive provision and decide whether to continue with it. Many issues must be considered. Some provision is a lot cheaper. Clearly, teaching in a classroom is a lot cheaper than teaching in a workshop. If you are teaching someone at a higher national level, that is a lot easier than it is to teach someone at access 1. If you are teaching someone who does not have dyslexia or other learning difficulties, it is cheaper than teaching someone who has. Colleges will have to consider those options in the near future to balance their books.

**Professor Muscatelli:** It is clear that the universities will find the period challenging. As Claire Baker said, some universities are already

facing severe pressures. Nobody could have forecast at the time of the spending review submissions what would happen to inflation this year—even the Bank of England did not forecast what has happened to inflation this year.

Universities Scotland is not taking the position that because the economic climate has changed, we will come back for more, but we must recognise that there are cost pressures. We reckon that the shortfall in the sector relative to what we had estimated for cost pressures will be of the order of £40 million, if the retail prices index stays above 5 per cent.

Government has come back since the spending review with additional tranches of money—£20 million in recurring spending. That is welcome and any additional allocations made through the funding council to universities would also be extremely welcome. However, as a sector we are sensible and we realise that such funding has to be planned in the spending review and that it is unlikely that there will be major reallocations between spending reviews. As Howard McKenzie said, we face cost pressures. We will have to deal with them and colleges will have to deal with them, but it is important that people out there recognise the extent of the pressures that we face.

People sometimes say that the universities pay deal is substantial and that it could not be forecast two years ago what an RPI-linked pay deal would lead to. However, we have to compete internationally for our staff. Given that our academic staff are hired not only from within Scotland but from around the world, it would be difficult for us to start offering pay and conditions that are very different from what other countries offer. We face a competitive scenario.

**Mark Batho:** The funding council's planning is not proceeding on the basis that a large cheque will come our way from Government in the middle of a spending review process. That does not mean that we do not engage with HE and FE at institutional level and at sector level to listen to concerns and help to address them. We have a number of mechanisms, short of writing large cheques, that are designed to help to alleviate particular pressures as they emerge. We are not ostriches and we see those pressures when they emerge.

**Claire Baker:** I will ask some questions about the joint future thinking task force report. I appreciate that the final meeting of the task force was held yesterday and that it has not yet produced anything in addition to the interim report that it published a few months ago. Can you give us any information on the horizon fund and the timescales for implementation? Today, we are considering the 2009-10 budget. Is it the intention that the outcomes of the task force will apply to the 2009-10 budget?

**Mark Batho:** The matter lies between Anton Muscatelli and myself. Does Anton want to lead off?

**Professor Muscatelli:** I am happy to lead off. I echo Mark Batho's earlier comment that discussions are continuing. Those are obviously important discussions on the allocation of the various funds and it would not be appropriate to comment at this point. It is unlikely that in the short run the discussions will lead to anything different. None of us anticipate receiving large cheques, because matters are dealt with on the basis of spending reviews. The discussions are about setting a framework and getting it right in preparation for the next spending review.

**Mark Batho:** I support those comments. There has been tripartite engagement and the position that we have now reached is that the interim report is out there and there needs to be significant discussion between Government, the funding council and the sector around implementation as we move forward. None of us is currently in a position to put timescales on the process or provide more details.

**Claire Baker:** I think that the committee's intention is to consider the task force's report once it is finally published and to take evidence at that stage. There are still issues around the horizon fund—whether there will be additional funding to support that or whether we will be in a top-slicing situation. However, I appreciate the fact that, if the discussions were not concluded until yesterday, it is difficult for you to comment further.

**Mary Mulligan:** I have asked my OECD question, so I take the opportunity to ask another question specifically for Mr McKenzie. Your written submission refers to several cost pressures, some of which we have heard about this morning. What discussions have you had with the Scottish Government about developing the curriculum for excellence and the proposed baccalaureate, given the need for additional training and provision within the colleges? How will that be dealt with?

**Howard McKenzie:** Colleges have just joined the management board of the curriculum for excellence. Although we have been kept informed, it is the first time that we have been involved. There are lots of committees and things, and we are now being pulled into those. A colleges group is about to be formed to consider the interface between the curriculum and excellence.

Colleges are already running the theory behind the curriculum for excellence. As you know, it is normal in colleges for the lecturer to determine what is taught and how it is taught and for course teams to develop their own courses; however, the situation is completely different in schools. We are involved in that.

We are aware that neither the schools nor the colleges are set up to do the project work that is involved in the two baccalaureates in languages and science. Very few of us still have working science laboratories, and the new builds have only specialised laboratories. For instance, the laboratory in my new-build college is more about human anatomy for beauty therapy and massage than it is about chemistry and physics. We do not do higher in chemistry and physics in my college; neither do we teach languages any more, although other colleges do.

So, some of the skills are not available because we do not need them. Industry has moved on to different things and is doing things in a different way, and we are responsive to that. The previous witness talked about how the education institutes have responded to the changes in digital media in the past three or four years. Such skills come and go, and that is how we have changed.

We are just becoming aware of the requirements of taking sixth formers for the first time. We take them for higher, but to take them to do specific things is new to us. That will put quite a lot of strain on colleges. Our budgets have been capped for nearly 10 years, and the previous witness talked about a big increase in the number of students. I am not sure how colleges will respond to that, as we are not capable of dealing with big increases in the number of students. If there is such an increase, I will have to cut something. In order to run a course for people to undertake curriculum for excellence activity in a college—be that at secondary 2, S1 or S6 level—I must cut something else to make space for it.

**Mary Mulligan:** I am a little concerned to hear that you have only just joined the discussions on the curriculum for excellence—although I am pleased that you have. I hope that the resources will be available to enable you to play a full part in the curriculum for excellence. You say that you may have to make substitutions. In the discussions that you have had, has there been any suggestion that additional resources will be made available for something that you were not already committed to taking on?

**Howard McKenzie:** No, but that is not what the discussions have been about. They have been about what is going to be done rather than how it will be done. The discussions are now moving on to the implementation phase, which is why we have been brought in. Additional resources have not been discussed but, to be fair, that is because the discussions have not got that far. They are just getting there now.

**Mary Mulligan:** It seems rather late in the day.

**Laurence Howells:** There are, of course, a long-standing set of developments in that area in

relation to schools and colleges. A lot of work has been carried out, and has been a great success. We are also discussing the reform of the national certificate with the colleges and the Scottish Qualifications Authority, which will become part of the seamless web of activity. We are seeking, with the SQA, the colleges and the Government, to build those bridges and connections, and to support the colleges collectively to make those changes.

**Howard McKenzie:** One of the biggest things that will impact on us is the decision, as part of the curriculum for excellence—before we were involved in the process—to stop offering intermediate 1 and intermediate 2 qualifications. Our colleges have between about 60,000 and 100,000 adults who are studying for those qualifications, so if the Government gets rid of them we will have to replace them with something else. That will cost a lot of money, and we are now starting to put that forward, but the decision was made without any consultation or any input from the college sector. A greater number of people are taking the qualifications in colleges than in schools.

**Mary Mulligan:** I thought that the discussion around intermediate 1 and intermediate 2 was part of the consultation on the exam system and so no decision had been taken on it.

The committee has heard teaching staff in schools in Scotland complain that they are concerned about professional development to allow them to take on the curriculum for excellence and any proposed baccalaureate. That needs to be explored further. I have concerns about what you say about how we will enable college lecturers to take on that extra responsibility. You say that they already structure their classes in a different way, but there is still a need to ensure that they feel fully confident about what they are taking on. We thought that the curriculum for excellence was perhaps further down the line than you are suggesting.

**Howard McKenzie:** We have just joined the party, so that is only our impression of the point that it has reached. It might be much further along. Several of the committees that we have been asked to attend have not met yet. We are joining a room where the party has been in swing for a couple of years already.

**Mary Mulligan:** I suspect that that is a discussion for another place, rather than the budget process debate. However, the committee might wish to pursue with the minister the provision of sufficient budget resources—which we thought would be the case—to enable the curriculum for excellence to happen.

**Aileen Campbell:** On the OECD comparison, we all agree that we want Scottish institutions to be competitive on the world stage. However, the Universities Scotland submission states:

“direct comparisons between the OECD and Scotland are not easy to make”.

Is that because the other nations do not have to rely on a grant from another Government to run their affairs, as is the case with devolution, or are there other reasons why it is difficult? If it is the former, how useful is it to draw comparisons with other OECD nations?

**Professor Muscatelli:** The statistical comparisons are sometimes difficult because of the need to calculate Scottish GDP as a proportion of UK GDP. We know pretty well how much is spent on higher education in different countries, so there are no problems with comparability. The issues are often about how one measures GDP. I want to correct any indication I may have given that there might be problems.

There might be marginal issues in making comparisons, because of issues around GDP measurement, but the broad indicators clearly show that we do not spend as much as the OECD average—indeed, we are nowhere near our ambition of moving into the top quartile of OECD countries in relation to such spending. Any discrepancies will be small, relative to that bold statement.

12:00

**Aileen Campbell:** Do you accept that the different countries are starting from different places?

**Professor Muscatelli:** They are indeed starting from different places. The dynamic is interesting. Over the past two or three years, countries have been increasing the proportion of their GDP spend on higher education. Last year, the average proportion was 1.2 per cent; I gather that the latest data show an average of 1.3 per cent. The target is therefore a moving one, and catching up with it will be difficult unless we start investing soon.

**Elizabeth Smith:** I would like Professor Muscatelli and Mr McKenzie to confirm something. Will you be making submissions on behalf of your respective institutions on the Scottish Qualifications Authority consultation proposals, which will potentially have a major impact on entry into your respective institutions?

**Professor Muscatelli:** I expect that we will be making a submission.

**Howard McKenzie:** We will be, yes.

**Kenneth Gibson:** I am pleased to hear that you are not looking for a large cheque. Unless the Treasury gives one to the Scottish Government, it

is unlikely that there will be any resources to pass on.

I like paragraph 16 of the submission from the ASC. It says:

"Despite these pressures ASC believes that the strength of college governance and management combined with financial stewardship of the SFC and a sympathetic Scottish Government means that Scotland's Colleges can continue to offer excellent further and higher education opportunities for Scotland."

What monitoring is there of expenditure in individual colleges? I am well aware of what the levels of autonomy are. In particular, I know of at least one college in the west of Scotland that has had severe difficulties over recent years. I am pleased to say that it now has a new management, and appears to be making significant progress in addressing some of the issues, but I have heard some horrendous tales from that college about how money was chronically mismanaged, with a lack of professional development among staff. Some courses are archaic, and staff have been allowed to ossify over many years.

What steps are being taken in the college sector—and, I suppose, in the university sector—to ensure that the courses that are being taught provide value for money and effective outcomes for Scotland?

**Laurence Howells:** We monitor the provision of courses through the activities of Her Majesty's Inspectorate of Education, which provides quality assurance and an overall judgment of what colleges provide. The funding council considers patterns of provision and take-up across the country, both at the geographical level and in terms of type of student. We engage with individual colleges on their provision, and we rely to an extent on colleges' own local intelligence and engagement with their communities in adjusting what they provide to meet needs flexibly.

The key tests in the area to which you refer indeed concerned a college that allowed its curriculum to get out of date, to be frank. We are in close discussions with that college about its recovery and about how to transform that aspect of its provision. We are confident that we and the college will together make some significant changes pretty soon. There are lessons to learn that will apply in other parts of the country, and we are working with other colleges. We can all do better, and we share the ambition to do so.

One of the most exciting things to have come out of the college sector in recent years is college principals' continuing professional development activity. College principals are working together to improve their leadership and management. I note the extent to which different groups of principals act as critical friends of one another and learn

from one another. That helps us to spread excellent practice across the system. Howard McKenzie might wish to comment on that, too.

There is a balance to be struck. First, we need our colleges to respond to the needs of local communities, of schools and of schoolchildren. We expect them to engage with local authorities in doing so. Secondly, we expect colleges to meet the needs of local employers and industries and to engage with local government and the enterprise agencies to do that effectively. Thirdly, we expect some of them to have specialisms and to focus on things that only they do or that only they do in their region.

We would like those three elements to be strengthened in institutions so that, as in the Lothians, there is a general expectation among all colleges in an area that if one college has particular strengths, the others will agree not to pursue them. Howard McKenzie gave an example of that earlier when he said that they do not do higher in certain subjects at his college. We are confident that that is okay because we know that that is sorted at Stevenson College down the road.

**Howard McKenzie:** On the subject of principals' CPD, the new principal of the college to which Kenny Gibson referred held a session with the other principals to explain her findings and we discussed strategy. We have learned from that example.

I refer the committee to the curriculum for excellence. As in schools, what should happen in colleges is that the people who determine what is taught are the lecturers. They are in daily contact with the industries that they serve, usually because they see the students and the employers. They are the best people to tell me which unit to teach, how to teach it and how the industry trends are changing.

HMIE has encouraged colleges to put in place self-evaluation, which, I might add, did not happen in the college to which Kenny Gibson referred. In that way, the course teams review what they do, tell us what we should teach and how we should respond. It is remarkably clever and very much like the school curriculum for excellence model. Such an approach might highlight some of the problems for the schools and the distance between what society expects of them and what some of them provide. As there are good schools and poorer schools, there are good colleges and less good ones. I mention principals' CPD, but also HMIE holds a series of best-practice events at which the colleges present what they are doing.

A hidden part of the system is the verification and moderation system, which is run by the SQA. It is probable that none of you has ever heard of it, although one or two members might have been

involved with it. Verifiers from different colleges check the marking—for want of a better phrase—of lecturers in another college to ensure that the standard of a unit in Thurso is the same as it is in Kelso. It is an effective method of achieving best practice. If a college is doing the wrong units, it is not awfully helpful.

Part of the approach is about invigorating staff so that they take part in the process and use their professional judgment. That is the direction in which the curriculum for excellence is moving. It is incredibly motivating and satisfying for the staff and principal to take part in that process and to turn around a college that has the kind of issues that Kenny Gibson spoke about. It is also a bit of a challenge.

**Kenneth Gibson:** In its submission, Universities Scotland highlights the fact that the proportion of funding for higher education in Scotland since devolution has fallen from 3.63 per cent to 3.16 per cent of the Scottish block. How was that situation allowed to develop? I understand that the proportion has now levelled out or slightly increased.

We spoke about OECD comparisons and percentages of GDP, but surely GDP is different in different countries. For example, 5 per cent of GDP in a country in the developing world is very little, whereas 1 per cent in a prosperous country is a lot of money. Surely it is not just the shares that we spoke about that are important but the absolute moneys that are injected into the higher education sector.

**Professor Muscatelli:** On the proportion of the budget, I agree that, as members will see in our submission, our comparison largely reflects the trend from 1999 to now, during which time the proportion in cash terms has declined. Over the past few years, the proportion has been flat. That is not surprising when you look at our most recent spending review settlement, which was 2.9 per cent in real terms, and at how the budget was allocated across different sectors in Scotland. Higher education was placed around the middle of those sectors and did not increase its share of the overall budget. That is where we are.

On OECD comparisons, there are difficulties when comparing deliveries in an emerging economy and an advanced economy. That is why we compare ourselves with OECD countries, which are similar to ours. Also, we look at percentages because we cannot compare the absolute amounts that are spent by large and small countries. We would expect to scale spending by GDP. It could also be scaled by the number of students who are taught. Of course, that misses the point that I made earlier—in our view, the percentage of people who participate in higher education is strongly predictive of the

dynamic of an economy. We think that the comparison is valid. We are comparing investment in Scotland not with investment in China or Zambia, but with investment in countries such as Norway and Sweden. The Scottish Government makes that comparison as part of its economic framework.

**Kenneth Gibson:** I used the figures of 1 and 5 per cent to emphasise the point that I was making. Is 1 per cent of GDP in Norway or Switzerland not much more than 1 per cent of GDP in Scotland? Surely the emphasis must be on the number of people in higher education, rather than the share of spending. We cannot make direct comparisons between spending on higher education in different OECD countries, because universities in those countries are structured differently and have different courses. The length of degrees is different in different countries. Ultimately, is the issue not the proportion of people who go through the university system and reach a certain standard?

**Professor Muscatelli:** I agree that such comparisons are important. Our participation rate lags behind that of many other OECD countries, which is why we have argued recently that we should increase participation. We think that there is a causal link between better performance on investment and the number of people who go through higher education. We compare participation rates as part of our campaign to ensure that there is more investment in higher education.

**Kenneth Gibson:** Do you think that the social structure of Scotland—I refer to wealth distribution—is a factor? In some of the Scandinavian countries that have been mentioned, there are fewer people in poverty than there are in Scotland. There is a direct correlation between social background and access to university. Is wealth distribution a major contributor to access issues? Is the problem one of demand from potential students, rather than just the money that is available to universities?

**Professor Muscatelli:** That is an interesting question. I will wear my economist's hat, rather than the hat that I wear as convener of Universities Scotland, to address it. Recently, Universities UK has carried out studies on how to improve access. It is important not just to increase provision, but to ensure that people take it up. The problem relates to the whole education system. At school, we must encourage people from an early age to have greater ambition, to raise their sights and to think about higher education. Our remit is to focus on universities—to ensure that the necessary funds are there and that places are available for people to take up—but this is an holistic problem. We must consider how we can



raise ambitions and ensure that students are able to access the places that are available. I agree with the member on that point.

**Howard McKenzie:** About 25 per cent of all higher education in Scotland is delivered through colleges. The biggest factor that influences people to decide not to grasp that potential is debt. Another issue is the interface between the student support system and the benefits system, which is quite good in some instances but remarkably unhelpful in general. That is what really stops people taking advantage of the opportunity to enter higher education.

The demographic to which Kenneth Gibson referred consists of adults, who usually start at a college and move on to university. A good chunk of people at university in Scotland take that route. I hope to appear before the committee again fairly soon to discuss how student support operates. One of the biggest issues that we must try to sort out is how the system interfaces with the benefits system, to encourage people who are perfectly capable of participating in higher education to do so. At the moment, they are thwarted by the system, rather than the education that is available or their intellect, which leaves them disappointed.

12:15

**Mary Mulligan:** Recent figures indicate that although there has been an increase in the number of young people entering further and higher education, the number of young people who do so from poorer backgrounds is not increasing at the same rate. What action should we take that would encourage young people from such backgrounds to take up places? How can we address the matter in a more targeted way?

**Laurence Howells:** As Howard McKenzie said, there is evidence that the pattern of participation in the college sector among different social groups is pretty even—in fact, it is astonishingly close to what we would expect it to be. He said, however, that better links between colleges and universities could create routes for young people from poorer backgrounds, who might start at college but move on to university. We are trying to create stronger regional groupings in different parts of the country in order to improve those connections.

There is an issue about part-time students who want to progress from higher national level. We need to work on that and improve the situation.

**Mark Batho:** The task force addressed the demographic changes that are taking place, which mean that fewer young people will come forward in the future. There is an oft trotted out statistic that 70 per cent of the workforce of 2020 are already in work, so if we are going to increase the skill levels of Scotland by 2020 we must educate

many people who are already in the workforce. That points to a situation in which the supply side genuinely addresses lifelong learning and people enter education in colleges and universities at different stages in their lives—outwith the 17 to 21 paradigm that has been heavily weighted until now.

We are already witnessing that effect in a number of institutions. For example, 50 per cent of students at the University of the West of Scotland are part time. The task force is addressing that important issue, which must be taken forward. Because of the way things are going, we will witness a shift in what colleges and universities do to meet the requirements of the economy. Colleges are ahead of the curve in that regard.

**Mary Mulligan:** The concern is that if we have not been able to address lower participation rates among 17 to 21-year-olds from poorer backgrounds, who are probably easier to reach than older people are because they are less likely to have other responsibilities, how will we meet the challenge in relation to people who have family and other responsibilities? We need to get that right but we do not seem to be focusing on the issue.

**Mark Batho:** As part of the review of student support, which Howard McKenzie mentioned, consideration is being given to support for part-time study. Student support is part of the issue; the nature of provision is another part. It is much harder for someone who is married with two children to leave work and do a full-time degree, which involves four years of higher education.

There are already offerings that allow articulation, through the Scottish credit and qualifications framework, from qualifications that people gained at an earlier stage, for example at HN level. There are also opportunities to do modular study, which is much more flexible provision. The funding council will consider the system on the back of the task force's work and we will work with colleges on how we can encourage and support changes in the nature of provision in order to meet the requirements of a falling demographic and the increasing need for graduate-level skills, which Anton Muscatelli mentioned.

**Howard McKenzie:** It is difficult for people on low incomes to study part time because the whole system is designed for people being either in work or out of work. The benefits system militates against part-time study; for instance, council tax relief is available only to full-time students.

In one of our papers, we mention the fact that, although a further education bursary is seen as discretionary and does not affect a person's benefits, a loan is a right—an entitlement—and is

taken off their benefits. That has the effect of making it quite difficult for people on low incomes to go part time. If you look at our HN numbers in colleges, you will see that the headage figure has gone down, although the figure for the activity has gone up. A lot of that is down to the benefits system. It makes a substantial difference. We can get up to 30 per cent subsidy for somebody whose household income is less than £15,000 a year—that is an awful lot of money. We must get that part right to encourage people to go on to study. Such people strive to go to university, but we keep putting barriers up. We need to take all the barriers down. Nevertheless, our system is a lot better than the system that is used further south, which has a lot more barriers and problems. We get a lot more youngsters and adults involved in higher and further education than is the case elsewhere.

**Elizabeth Smith:** One of the budgetary restraints that you face is the result of students dropping out. How well furnished are you with information about why students drop out of courses? We could improve things if we knew why because those who drop out take funding away from the people whom you have just described, and who might relish the prospect of higher education more than these drop-outs.

**Howard McKenzie:** Each time a student withdraws, we record the reason why, according to the categories that the funding council gives us. Sometimes, the reason is “personal reasons” and we want to find out what those are, or it may be “financial reasons”. We need to dig down, underneath those categories, which we are often able to do. We examine the trends of why people withdraw from colleges, and I am pretty sure that the universities do exactly the same. We really want to know why people withdraw. I want to ensure that it is not because we are boring them or because the experience is not good enough, and I want to be able to make interventions. The majority of people who withdrew from my college last year left for reasons of illness or finance—they had to go back to work because they could not make the numbers stack up.

**Laurence Howells:** The same investigation is undertaken in the universities, and we have focused resources on the universities that face the most difficult challenges in that respect. Those resources have been used to identify the problems and what the universities can do about them—the same kind of analysis that Howard McKenzie has done. One of the universities reported the other day that it is starting to see the trend moving in the other direction, so I hope that things are improving. We will monitor the initiative that we have taken with the universities so that others can learn from the successes and so that the system as a whole can improve.

**The Convener:** Claire, do you have a supplementary question?

**Claire Baker:** No—my question is on a different subject.

**Christina McKelvie:** I draw the panel’s attention to the issue of charitable status, as discussed in Howard McKenzie’s written submission. It gives a helpful countdown to the loss of charitable status. That sounds a bit like my son already counting down the days to Christmas: he keeps reminding me about it, which is a bit scary. The first Scottish statutory instrument on the subject that came before the committee came into effect at the end of June. A second statutory instrument is due to come before us in the near future. Is the issue still causing concern? If so, how can we remedy that?

**Howard McKenzie:** Thank you for giving me the opportunity to tell you that there are only 311 days until colleges lose their charitable status, which is causing concern because there were, at one stage, 790 days. We have not yet seen the second statutory instrument—there is a process that it must go through, which took 180 days for the previous instrument. I am not that good at maths, but it is starting to get a bit neat. I am sorry: I should perhaps not have used the word “neat”—or NEET. Rather, we are getting very close to the date when we might lose that status, which is 31 July next year.

**Christina McKelvie:** So you think that having the Scottish statutory instrument in place will remedy the situation and will alleviate concern.

**Howard McKenzie:** Once the SSI has come through, the check must be redone by the Office of the Scottish Charity Regulator. We have 311 days to do the whole lot. If, at the end of that time, the Office of the Scottish Charities Regulator says “Oi, wait a minute, you’ve forgotten this bit”—pointing out that we have written “but” where there should be an “and”, for instance—we could well lose charitable status. There is a lot of concern about it. Until it is done, it is not done. The impact on us would make things quite difficult, as you know.

**Christina McKelvie:** The point is well made, and it is noted.

**The Convener:** The second SSI will come before the committee. Would I be right in assuming that you are still in discussion with the Scottish Government on that? Have you not been kept informed of what stage it is at in its preparation of the second SSI?

**Howard McKenzie:** We do not know, and we have not been in discussions about it.

**The Convener:** Is that regrettable? Would you have liked to have been kept informed?

**Howard McKenzie:** It is a technical point. The provision is about two sentences long, I think. We do not know anything about the instrument. The Scottish funding council might know more—it has been involved directly in the consultation, whereas we came in later in the system.

**Mark Batho:** We are not in that loop.

**Claire Baker:** I return to funding and the adequacy of the 2009-10 budget. We all know that universities have been working within a very tight settlement. Universities Scotland's submission for today calculates that there will actually be a 0.2 per cent cut this year, largely due to inflationary pressures. I appreciate that other organisations are having to cope with that factor as well. Where, to borrow a phrase from Christina McKelvie, might the tipping point be as regards how well we fund Scottish universities? I appreciate that we will always have Scottish universities, but where is the point at which it becomes too difficult for them to compete internationally and in the UK? Is it when there is a poor comprehensive spending review settlement the next time round?

**Professor Muscatelli:** That would be my view. Scottish universities have been competing extremely well internationally. The number of our universities that are in the top 200 in the world is very large compared with similarly sized countries. I have already mentioned commercialisation. If we consider the top eight according to many other indicators, Scottish universities compete extremely well. However, if it is not possible to keep up in what is a very competitive environment, it does not take long before key staff are lost. Many of our universities employ staff from all over the world. The next spending review settlement will be absolutely critical for retaining our competitiveness.

**Margaret Smith:** I have a question about one of the other cost pressures that you are having to bear. Many of the development plans of universities and colleges are based on an ability to sell assets—predominantly buildings and land—and to make use of the proceeds. Can you give us any evidence on the impact of changes in the property market on the value of assets that are held by the sector? What about the timing issues that come with that? It might be supposed that institutions will get less money for their assets now, and that that will have an impact on decisions as to whether or not assets are sold at all at this point. The timing simply might not be right because of the market situation.

**Professor Muscatelli:** I can speak only in general terms, because we have not carried out an assessment within our sector. However, the committee will appreciate that the sector is diverse in respect of land-based assets: some universities are campus-based, which means that land

disposal is often limited because of planning regulations. That is also a consideration for our city-based institutions.

12:30

There will be an effect on the value of property on the balance sheet, and a reduction—I hope—in inflationary pressures in building. I cannot give you a detailed reply; we will have to examine the issue over the next year or two to judge the impact.

**Howard McKenzie:** There is—thank you very much—a large capital rebuilding programme throughout the college sector, and the selling of land is a key aspect of the funding mix. I will give a specific example, which I am already discussing with the funding council. In my own build, missives have been concluded for land sales, but the developers might not be able to fulfil them because they cannot get the money from the bank.

The current conditions will have an impact across the college sector, as they will on the university sector. In the college sector, we get a dollop of money from capital, we raise some money in loans—which is not easy now, even for colleges—and we sell some land or assets off in order to get the package together to enable the building to take place. The current situation will raise a lot of issues for colleges.

It is not easy to get a loan now, because the banks have no money even for fairly secure processes. Land market values have reduced by something like 14 or 15 per cent, if the land sells at all—it is a bit like housing—and that will cause difficulties for colleges. The funding council is well aware, from those of us who are currently building, that we are talking to the financiers and the property developers about our situation. It is a live and running issue.

**Margaret Smith:** What flexibility is there for the funding council to take on board the specific difficulties that particular institutions might face?

**Laurence Howells:** We respond on a case-by-case basis. The most pointed cases are happening right now, in which planning has been done on one basis but the market has changed—although different institutions are, of course, in different positions. We cannot contemplate leaving an institution unable to function because it has been caught in that position. The solution varies, depending on the individual institutions, where they are in the cycle and to what extent it is a matter of saying that we will wait until the market picks up and the assets get sold.

More generally, we are considering the impact that the current situation has on our whole programme and our ambitions for the whole

sector. We have to adjust to the reality of what that will mean for us, and for the colleges and the universities.

**Margaret Smith:** Is it fair to say, from what you are hearing throughout the sectors, that the market is currently having an impact throughout Scotland, and that there will be impact on many institutions in terms of things such as the timing of a programme?

**Laurence Howells:** The situation will also have an impact on the extent of ambitions for those programmes.

**Margaret Smith:** With regard to the funding issue, we have heard the word “challenging” a number of times today. It is a nice word, as it covers quite a lot of things. Queen Margaret University is close to my heart, because it has left my constituency and gone to Musselburgh and because one of my sons is there, and we have heard today that there are already job losses there. Is that what “challenging” really means?

We have heard from Howard McKenzie about the practical impact that job losses will have in colleges, with regard to the loss of courses and that sort of thing. Anton Muscatelli used the word “challenging”. I wonder if he can tell us what the reality will be in the universities. In particular, I want to consider potential job losses. You said that if you do not get a decent settlement in the next spending review you will lose staff. However, we have also heard that jobs will probably be lost two years before the next spending review. Is that a short-term impact of the cost pressures that you face and the current settlement?

**Professor Muscatelli:** I cannot comment on individual institutions; I can talk only about the sector as a whole. It is difficult to come up with a global picture, because institutions are at different points in their strategic planning cycles. Universities would have been planning, restructuring and strategically reshaping what they do and their staffing needs regardless of current cost pressures.

Six months ago, when inflation was thought to be unlikely to reach the levels that we are experiencing, my institution unveiled a strategic plan. The plan involved some voluntary severance in the short term but it also included an investment plan and envisaged net growth in jobs during the next 10 years. Other institutions are at different points in their planning cycles, so it is difficult to disentangle what is happening and I cannot speak for the whole sector. Different institutions will be able to link the current inflationary shock with particular job losses, but I cannot give you a figure for job losses across the sector.

It is perhaps trivial to make this point, but two years ago we were planning on the basis of an

envisaged pay settlement of a 2.5 per cent pay rise this October, on top of other pay increases, but now, because the pay rise will be linked to the RPI, we envisage a rise of at least 4.7 per cent and perhaps higher—depending on what happens during the next month. That indicates the cost pressures in the sector, but it is impossible to link that to a precise number of job losses, because so many other factors are involved.

**Howard McKenzie:** A difference between the colleges and the universities is that colleges negotiate individually, whereas the universities do so nationally. Therefore, the particular challenge of making pay rises and pay processes fit the institution that is being managed is much easier for colleges than it is for universities. Colleges have far more levers than the universities have in that regard.

**The Convener:** That concludes the committee’s questions. I thank the witnesses for coming. I am sure that we will revisit a number of the issues that have been raised as we continue to scrutinise the budget.

*Meeting closed at 12:38.*

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