



**OFFICIAL REPORT**  
AITHISG OIFIGEIL

# Public Audit Committee

**Thursday 26 October 2023**

**Session 6**



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**Thursday 26 October 2023**

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**PUBLIC AUDIT COMMITTEE**

**26<sup>th</sup> Meeting 2023, Session 6**

**CONVENER**

\*Richard Leonard (Central Scotland) (Lab)

**DEPUTY CONVENER**

\*Sharon Dowey (South Scotland) (Con)

**COMMITTEE MEMBERS**

\*Colin Beattie (Midlothian North and Musselburgh) (SNP)

\*Willie Coffey (Kilmarnock and Irvine Valley) (SNP)

\*Graham Simpson (Central Scotland) (Con)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Douglas Black (Audit Scotland)

Stephen Boyle (Auditor General for Scotland)

Mark MacPherson (Audit Scotland)

Tricia Meldrum (Audit Scotland)

**CLERK TO THE COMMITTEE**

Lynn Russell

**LOCATION**

The James Clerk Maxwell Room (CR4)



## Scottish Parliament

### Public Audit Committee

Thursday 26 October 2023

*[The Convener opened the meeting at 09:00]*

### Decision on Taking Business in Private

**The Convener (Richard Leonard):** Good morning. I welcome everyone to the 26th meeting in 2023 of the Public Audit Committee. The first item on our agenda is for members of the committee to decide whether to take items 3, 4 and 5 in private. Do members agree to take those items in private?

**Members** *indicated agreement.*

## “Scotland’s colleges 2023”

09:00

**The Convener:** Agenda item 2 is consideration of the Auditor General for Scotland’s briefing paper, “Scotland’s colleges 2023”. I am pleased to welcome our witnesses: the Auditor General, Stephen Boyle, is joined by—from Audit Scotland—Mark MacPherson, audit director; Tricia Meldrum, senior manager; and Douglas Black, audit manager. You are all very welcome.

Auditor General, feel free to field any of our questions to the most appropriate people on your team. Before we get to the questions, I invite you to make a short opening statement.

**Stephen Boyle (Auditor General for Scotland):** Many thanks, convener. Good morning, committee. I am pleased to present our briefing paper on Scotland’s colleges. I know that the committee will be aware that colleges are a valuable resource for students, their local communities and Scotland’s employers.

Audit Scotland has consistently highlighted risks to the financial sustainability of Scotland’s colleges, and those risks have increased further since our report last year. Grant funding from the Scottish Government, through the Scottish Funding Council, accounts for about three quarters of the colleges’ total income. The Scottish Government’s funding for the sector has remained static in cash terms for three consecutive years from 2021-22 to 2023-24. At the same time, Scotland’s colleges’ costs have, like everyone else’s, increased. The flat cash settlement equates to a real-terms reduction in funding of 8.5 per cent over that period.

My report notes that staff costs, which are the largest source of colleges’ expenditure, accounted for more than two thirds of the sector’s expenditure in the academic year 2021-22. As with other public bodies, there is pressure on colleges to give pay rises that recognise high levels of inflation, so those costs are likely to grow further. All that means that colleges face difficult choices about the workforce that they can afford to employ, the curriculum that they can provide and the property estate that they need in order to do so.

Significant changes to how the college sector operates have been recommended by recent national reviews commissioned by the Scottish Government. Those include the review by James Withers on the skills delivery landscape, in which he noted the important role that colleges play and urged the Scottish Government to think creatively about how to secure the sustainability of the post-school skills delivery system. One of his

recommendations was on the establishment of a single national funding body that would have responsibility for administering and overseeing the delivery of all publicly funded post-school learning and training provision.

Other relevant reviews have included the SFC's tertiary education and research review, which recommended to the Scottish Government that there should be more flexibility around how colleges are funded. The Hayward review of qualifications and assessment will have further implications for colleges' staff and students. The Scottish Government has recently announced that there will be a new, national model of public funding for all colleges, universities, apprenticeships and training.

My briefing paper is at a high level. I did not aim to include specific recommendations to the Government or the Funding Council, but it is clear that they urgently need to build on their on-going work to help colleges to plan for change now and make best use of available funding so that they are sustainable in the future. My colleagues in Audit Scotland will continue to track developments through the annual external audit of incorporated colleges, and we will continue our engagement with key stakeholders.

As ever, we look forward to answering the committee's questions.

**The Convener:** Thank you very much indeed. As you said, it is a briefing and not a full report that makes recommendations but, nonetheless, it contains some very stark warnings. You have already used the word "risks". One of the warnings is the view that the risks to the college sector's financial sustainability have increased since 2022. Will you give us an overview of what those risks are, in your view?

**Stephen Boyle:** Yes, I am happy to do that, and I might bring in Douglas Black. As we set out in the paper, at a high level, the risks are increasing. I spoke in my introductory remarks about the nature of colleges' income and expenditure environment, and I said that they are predominantly funded by grant funding from the Scottish Government through the Funding Council. As we have discussed in previous sessions with the committee, other sources of income have become more constrained as colleges' ability to diversify has become tighter, largely as a result of the pandemic.

Exhibit 2 in the paper sets out the scale of risks affecting Scotland's colleges. I will pause for a second to invite Douglas Black to talk to the committee about those and to elaborate on anything else.

**Douglas Black (Audit Scotland):** There are two key issues: staffing and the college sector's

property estate. We know that staffing accounts for such a large proportion of colleges' expenditure. There are on-going negotiations between College Employers Scotland and the trade unions for teaching and non-teaching staff. We are meeting them next week for an update. The issue is about not just salaries, of course; it is also about the pension costs that are geared to salaries.

We have seen a backlog of property maintenance funding over the years, with the Scottish Government allocating less capital funding to that than the college sector probably requires. A few years ago, the Scottish Funding Council published a report indicating that the sector required more than £300 million of capital funding. The funding that the Government has provided is well short of that. As the Auditor General alluded to earlier, colleges need to have a good-quality estate in order to provide a learning environment that is suitable for staff and students and that enables the delivery of the quality curriculum for students that the economy needs.

**The Convener:** In stark terms, is insolvency a risk for any of the colleges in Scotland?

**Stephen Boyle:** In the round, we are not seeing that yet, but you will have seen from the paper that colleges are closely monitoring their financial position. They have adopted what we regard as quite good practice in how they assess their future financial projections. As part of the relationship that they have with the Funding Council, they have to make financial returns, and challenges have been thrown up in relation to the assumptions that they are using. Colleges in Ayrshire and Glasgow have perhaps come closest to setting out the scale of financial challenge that they face, which might result in a significant level of staff reduction through redundancy programmes and potential viability issues, were extreme scenarios to arise. If any public body faces extreme scenarios, there will be viability issues. We have commented on and discussed with the committee the fact that the Scottish Government itself has projected a significant gap in the public finances that it has to deliver. The viability of the college sector is challenged.

In the report, we set out that, in order to address that challenge, the Government and the Funding Council need to have a clear plan for what the future model of provision looks like. I think that we have come closer in the report that we are considering today than we have done in previous reports to identifying colleges that, through their own work, have identified that they are experiencing real viability issues.

**The Convener:** I am looking at exhibit 2, which is an illustration of significant areas of risk for colleges. One thing that is not mentioned in exhibit

2, which a couple of people who work in the sector have mentioned to me, is European social fund money. As I understand it, there are some potential risks to do with the application of European social fund money, which might go back as far as the funding period 2011 to 2014, which I do not think has yet been signed off or audited by the European Commission. It has certainly been pointed out to me that that is a potential risk that is not stated in the report. Do you have a view on that?

**Stephen Boyle:** I might not be able to say a great deal about that. We have not covered that in any depth in the paper, although we are finalising our work on the audit of the Scottish Government's consolidated accounts. Before the end of the year, we will bring to the committee a section 22 report on the consolidated accounts, in which we will provide an update on the long-running theme of the Government's compliance with the European Commission's requirements for the European social fund. The committee will recall that that has resulted in interruption, penalties and so forth. We have not covered in the report how that relates to colleges, which were one of the vehicles through which that funding could be administered.

I turn to colleagues to see whether they have any further information that we can share with the committee. If they do not, we can certainly come back to the committee in writing if we have more detail on that.

**Douglas Black:** I am afraid that we do not have any more information on that. The exhibit was intended to be an illustration of the spectrum of challenges that colleges face rather than an exhaustive list, but we can look further into the ESF issue.

**The Convener:** Thank you. I think that that would be useful and would help the committee in considering its next steps.

The Scottish Funding Council is obviously pivotal here. As I read the briefing, it is the Scottish Funding Council that carries out an assessment of the sector's finances for each academic year. One of the conclusions that you reach in paragraph 10 of the briefing is that the operating surplus for 2021-22 is expected to be "considerably less" than that for the previous year. Will you elaborate on what "considerably less" means?

**Stephen Boyle:** I am happy to do that. I will also bring in colleagues to set out for the committee a bit of the detail behind that.

First, on the SFC's role relative to our own, the committee will recall that Audit Scotland produced annual overviews of Scotland's colleges for many years. In recent years, we have moved to producing briefing papers, recognising that the

SFC, as well as being a funder of colleges, oversees the sector as a whole and has been producing analysis reports. The SFC is due to do another one of those on the back of the 2021-22 financial results of the colleges, but it will also incorporate the results of the financial return data that I mentioned a few minutes ago. That will set out a retrospective and a prospective look at colleges' funding position. We anticipate that that will be published in the next few weeks. I expect that that, in addition to our own work, will lay bare the challenges that Scotland's colleges face.

I will ask Mark MacPherson or Douglas Black to come in on the detail of the operating surplus that is mentioned in paragraph 10.

**Douglas Black:** Some detail that we have that we did not include in the report, because it only became available to us afterwards, is that, in 2021-22, nine of the colleges returned an adjusted operating surplus—or rather, a deficit. Nine colleges returned a deficit in 2021-22, compared with three colleges the year before, which is quite a sharp change in the complexion of the colleges' sustainability.

**The Convener:** Out of how many?

**Douglas Black:** Twenty-four.

**Stephen Boyle:** I think that that reflects the increasing challenge that the sector is facing. You mentioned exhibit 2. The list that it provides of the financial challenges that the sector is facing is not an exhaustive one, but we know that Scotland's colleges are led by people—it is people who provide the services—and that, therefore, staff costs reflect a significant component of their operating expenditure. With the flat cash settlement environment that has been in place for the past three years, the sector has had to fund pay awards over and above the settlement that it has been provided with. It is inevitable that that brings cost pressures and financial challenges.

**The Convener:** Given the rate of increase of the number of colleges that are going into deficit, if that trend was to continue next year, every college would be in deficit, would it not?

**Stephen Boyle:** I will not speculate until we have seen the SFC's analysis of the financial returns, but I think that that will be an important indication of not just the financial health of the sector but, I hope, what comes next—what guidance and support the SFC and the Government will offer colleges to help them to plan for a sustainable future.

**The Convener:** Thank you very much. On a similar theme, and to develop some of those points, Graham Simpson has some questions to put to you.

09:15

**Graham Simpson (Central Scotland) (Con):** I will continue on the same theme, and I have some other questions.

The report presents a pretty bleak picture, and some of what you have said already highlights that. When you were preparing your briefing—I accept that it is just a briefing—did you have discussions with the Scottish Funding Council?

**Stephen Boyle:** Good morning, Mr Simpson. Yes, we engage regularly with the Government and the funding council. Colleagues, perhaps Mark MacPherson, may wish to say a word about the nature of the engagement that we have throughout the year and in the preparation of the paper.

**Mark MacPherson (Audit Scotland):** We tend to have regular engagement, not necessarily scheduled for specific dates but particularly at key stages of the year and particularly if we are preparing a piece of work like this, in which Douglas Black and the team will engage quite extensively on some of the detail and the data. Obviously, it is a briefing and we know that the funding council is doing its own work, so we tend to let it complete its work before we consider it further.

**Graham Simpson:** The reason I ask is that I have been told that the Scottish Funding Council keeps its own risk register. There is basically a list of colleges that are doing well, some that are not doing so well and some that are listed as potentially being at risk of closing. My understanding is that there are five such colleges. Have you heard that?

**Stephen Boyle:** I will ask colleagues for further detail of that, but I think that that feels like the approach you would expect of the funding council, as the funder of colleges.

I note the importance of accountability arrangements—for example, the chief executive of the funding council is the accountable officer for all Scotland's colleges. In terms of governance and accountability, it feels like the right approach that it would have a clear understanding, based on its evaluation of the financial position and the performance issues of Scotland's colleges, of which colleges are performing well, which are experiencing financial health and which are in financial difficulties. That is consistent with its role of providing support and oversight of the college sector.

I have not seen, and I cannot share with the committee, the detail of how many colleges the funding council identifies as experiencing financial challenges or otherwise, but I ask my colleagues whether there is anything further we can add.

**Douglas Black:** Not for 2021-22 yet, because we are still waiting for the funding council's analysis of that, wrapping up its analysis of the financial projections. However, in previous years it has normally issued an annual analysis—a sort of state of the nation report on the college sector.

I can see in my mind's eye an appendix to that report, which has a colour coded list of the colleges that captures the extent to which the funding council considers they may need support. That can be support for a variety of reasons. It may be to do with financial matters or it could be to do with governance issues.

**Graham Simpson:** I am glad that you mentioned colour coding. That is what I had heard as well. I was told that the colleges that are most at risk are coded black and that there are five such colleges.

**Douglas Black:** I do not remember how many of them there were. I remember that the ones that were most at risk, as far as the funding council is concerned, were black, but that is going back to 2020-21. That is a few years ago and it is not necessarily a good indication of where colleges are at now.

**The Convener:** We probably need the current position.

**Stephen Boyle:** I agree. I think that the detail that the funding council has set out in its analysis of the accounts and the forward projections will be important in giving a much more up-to-date picture of where it is targeting its efforts.

**Graham Simpson:** Given the cost pressures, the industrial disputes that are continually going on and are likely to continue, and the wage pressures on colleges, how likely do you think it is that we will see compulsory redundancies in the sector?

**Stephen Boyle:** It is difficult to speculate whether it is or is not likely, but the spectre of compulsory redundancies has been raised within colleges—in Ayrshire College, for example. To set that in context, in the financial returns that the SFC asks colleges to provide, it gives them, based on work that it does with the colleges' finance directors network, a range of assumptions with which to project their future financial health. Ayrshire College has, quite reasonably, gone further than that and has used more challenging assumptions about what that might mean. That college has identified a threat to its financial viability, whether you call that an extreme scenario or a more challenging scenario.

We have seen similar challenges in Glasgow Kelvin College, which has set out that it, too, might be facing real challenges that could require very real changes to its staffing arrangements and the possibility of compulsory redundancies.



I do not think that we are quite at that stage yet. That would be predicated on almost a “do nothing further” environment that stops short of additional funding or reform. Nevertheless, the possibility of it is being discussed within the sector.

**Graham Simpson:** Colleagues will probably want to delve into the situation at Ayrshire College a bit more deeply, so I will not do that.

One of your key messages in the briefing is:

“Effective, affordable workforce planning is now a greater than ever priority and challenge for colleges.”

What does that mean in practice? Given the reduction in college budgets that you have outlined, who is responsible? Is it colleges or the Scottish Government?

**Stephen Boyle:** Put simply, it is a shared endeavour. The colleges work very closely with the funding council—I have mentioned the financial assumption arrangements. Douglas Black might want to elaborate on this.

Colleges need to have a clear financial plan—a business plan and what that means in terms of performance and their curriculum offer to current and prospective students. We have mentioned this morning the estate from which colleges operate, and that is also part of the financial plans. All of those factors have to be considered in the round, but at the heart of that will be how they intend to deliver services for the people who work for Scotland’s colleges.

This morning, we published our briefing paper on the Scottish Government’s workforce arrangements—I look forward to speaking with the committee about it over the next few weeks—and it similarly makes recommendations about the need for effective long-term workforce planning to support good-quality service provision at a time of financial challenge.

I will pause for a minute, and Douglas Black might want to say a bit more about workforce planning in the college sector.

**Douglas Black:** A key factor will be the number of learning credits that each college is expected to deliver. That will be geared to the staffing complement that is required to provide that amount of learning activity across the range of courses, the number of students, the variety of courses and so on. The picture will vary across the college sector, depending on local circumstances and student demand.

A key document for each college is a shared outcome agreement, which is basically the contract between the college and the funding council for the type and quantity of college activity over the course of a year. That is also the basis on which the college’s performance is tracked by the

funding council. The number of credits delivered by the college is monitored very closely by the funding council.

There is a lot of interaction between the funding council and each individual college in planning ahead for the year to come, on what happens during the course of a year and in retrospective tracking of performance, but essentially it all comes down to whether there is enough funding to pay for the number of staff required to deliver the quantity and type of learning activity in the college.

**Graham Simpson:** I have read the report that you published this morning, and it is extremely relevant to what we are discussing.

I have one more question to ask. It is about the arm’s-length trusts—they are called arm’s-length foundations in the college sector—that were set up in 2014. I know that you have done some work on those in the past, but I did not see any mention of them in your briefing. Have you been doing any up-to-date monitoring of the money that is in those foundations and what it is being used for? Is it going from the foundations back to colleges, and are colleges moving money into foundations? Where are we with that?

**Stephen Boyle:** You are right—we did not cover arm’s-length foundations in today’s briefing paper. However, in earlier reports over the past few years, we have provided updates primarily on the extent of the funds still held in arm’s-length foundations. I may need to refresh my memory—or colleagues can help me out—but I think that, in general terms, the extent of the funding has dwindled significantly from what it once was.

You will remember the history of arm’s-length foundations, which were a mechanism by which colleges were able to continue to access the reserves that they had built up before they became central Government bodies. Not all colleges had them. Of those that did, some had quite significant balances, but the trajectory has been—as we probably would have expected—that, over the years, they have been used for the quite clear purposes for which they were intended.

If we have any further detail—I do not think we have any to hand today—we can get back to you, but it was not a feature of this year’s work.

**Graham Simpson:** Do you think that it will be possible to get an up-to-date picture?

**Stephen Boyle:** Yes, very possibly. We might await the SFC’s publication, which will analyse in more detail the annual report and accounts of the college sector. If that does not provide detail when it is published, over the next few weeks, it is something we can look at, and, if we have more information, we can share that with the committee.

**The Convener:** That is very helpful. Just for confirmation, do we expect that report to be produced by the Scottish Funding Council before the end of November?

**Stephen Boyle:** It is due around this time of year, but I do not think that we have a precise date of publication yet.

**The Convener:** Okay. You cannot be held responsible for when the Scottish Funding Council publishes its report. We understand that.

I invite Willie Coffey to ask some questions. Sharon Dowe may drop in and out of this section as well.

**Willie Coffey (Kilmarnock and Irvine Valley) (SNP):** Good morning, Auditor General. I want to open up a bit of discussion on the Ayrshire College commentary that is in your briefing. There is almost a doomsday scenario potential forecast in there that would worry everyone in the sector—it would worry everyone in Ayrshire—but the college principal has subsequently ruled that forecast out and has not adopted that forecasting. She has written to members to clarify that.

Could you give us a flavour of where these forecasts come from and who scrutinises their viability? Do they follow criteria set by the SFC? Why are not all the colleges doing what Ayrshire College and Glasgow Kelvin College have done?

**Stephen Boyle:** I am happy to start, and Tricia Meldrum might want to say a bit more about how realistic or plausible the scenario is.

I do not wish to alarm people—I think that there is a risk of that. I am quite sure that the community of Ayrshire, which the college serves, might well be alarmed by a projection that suggests there are doubts about its viability. However, in setting out what a challenging scenario might be, I think it is important that it is clear and that there is transparency about the scale of the issues that Scotland's colleges are facing.

The assumptions that I mentioned a few minutes ago are base assumptions that the SFC and the college finance directors operate, and they set out how they should be used to inform future financial projections. Some colleges have used more challenging assumptions relating to information that is available for their circumstances, which I think is an appropriate thing to do, because it develops an assumption for local circumstances. This was quite a far-out assumption that would be extremely challenging and perhaps a more unlikely scenario, but, for risk management and future financial projections, it is the kind of thing we would expect all public bodies to be doing. Although it is not operating as a core assumption, the college should have a plan for how to deal with it.

To digress for a second, if we have learned anything from the pandemic, it is that we need to prepare for quite extreme scenarios and how we might deal with them.

That is the general background to that assumption, Mr Coffey. I will pass over to Tricia Meldrum to say a bit more about the use of the assumption and its development and then the college's further view on how applicable that one is.

09:30

**Tricia Meldrum (Audit Scotland):** All colleges prepare their response for the SFC, and their assumptions are based around the Scottish Government's spending review—assumptions that you would take from the information that is available around that.

The Finance Directors Network has also done its own work around different sets of assumptions—things like energy costs and the trends in the costs that you would expect the college sector to potentially be looking at. It is those assumptions that have underpinned the two different analyses. The SFC will be doing further analysis when it sees all its returns, and we expect to see how that looks towards the end of November.

The other thing to say about the Ayrshire College example is that the figure for the potential loss of staff is based not only on that pessimistic set of assumptions but also on all the savings having to come from staffing. If all the savings came from staffing, that is what it would potentially look like. However, there are other options that could be explored, and the college has been doing a lot of work to look at the risks and how it manages and mitigates those risks. The information that we have is that it feels that that is quite an extreme scenario and it is not the position that it is in.

**Willie Coffey:** Thanks for that. What I am trying to get at, I suppose, is whether Ayrshire College is a bit more pessimistic about the future or whether the other colleges would have come up with similar forecasts and projections if they had embraced similar scenarios. I am trying to burrow in to find the answer to that. You said that Ayrshire College and Glasgow Kelvin College did this work but none of the others did. If the others did a similar level of forecasting, do you think that they would arrive at a similar picture?

**Stephen Boyle:** Perhaps all we can offer is a maybe. We think that it is a good thing that Ayrshire College has done that work and shared it with its board of governors, because it means that there is visibility of the scale of the challenges that that college is facing, but also the sector more

widely. Although that extreme scenario might not come to pass, I do not think that it should mask the fact that there are live viability issues for the sector in the round. That needs to result in a clear path, but we do not have that yet.

**Willie Coffey:** When will the Scottish Funding Council review the forecasts? When will we get some clarity or even certainty on the matter?

**Stephen Boyle:** We will be waiting for that publication over the next few weeks, Mr Coffey. It should set out the Funding Council's up-to-date view on the financial health of the sector and the analysis of the accounts. That will be a very important statement of where resources will be targeted and what support the Funding Council can offer individual colleges.

**Willie Coffey:** I have a final question on Ayrshire College. Auditor General, you cite the residual private finance initiative payments that the college is still making. As I understand it, it still pays £2 million a year to pay off the PFI investment from about 23 years ago. Is that still contained in the college's financial projections? Will it be part of the forecast scenario going forward?

**Stephen Boyle:** I will invite colleagues to comment if they have more detail on that, but any PFI payments and forecasts will certainly be captured as part of the annual audit of Ayrshire College. They will be set out in the college's financial forecasts and its annual report and accounts, and they will have been subject to audit this year. I ask my colleagues whether we have more detail on whether there are any more fundamental plans about the management and use of the PFI.

**Douglas Black:** The matter was flagged up in the annual audit report for 2021-22, but we have not looked into capturing the data on that for this briefing, I am afraid.

**Willie Coffey:** It will surely have to form part of the projections if the college faces a £2 million burden up to 2025. I imagine that it will still have to be captured within this scenario as well.

**Stephen Boyle:** You are right. It will have to be captured in this scenario unless there is a specific assumption around the PFI. We have spoken to the committee over the past few weeks about the fact that, as we approach the era of the end of some of the original PFIs, careful management and consideration are required as to how the public sector, including colleges, will plan to use and manage former PFI assets as they are brought back into the public sector estate. It is important for both the college and the SFC to take a view on what that means for future financial projections and health.

**Willie Coffey:** Ayrshire College is the only college in Scotland that still has a live PFI liability.

**Douglas Black:** I am not sure.

**Willie Coffey:** Well, I am.

**Stephen Boyle:** You are right.

**Willie Coffey:** Ayrshire College is the only one that still carries a PFI burden, as I understand it. That has had a substantial impact on the college over many years. Thank you very much for answering those questions.

**The Convener:** Sharon Dowey has a supplementary question on this area.

**Sharon Dowey (South Scotland) (Con):** How accurate have the colleges' forecasts been, where they have followed the Scottish Funding Council guidelines and assumptions, compared with the actual figures? You said that six colleges came back with a deficit. Was Ayrshire College right to do the work on the pessimistic scenario?

**Stephen Boyle:** Good morning, deputy convener. As I said, it was the right thing to do. All colleges and all public bodies should be using a range of scenarios to stress test their financial health and consider how they would cope.

Inevitably, what is created is a forecast. Will it reflect the financial results? Probably not. Given the variables that are set out in exhibit 2, there are a range of factors that will influence a college's eventual financial outturn, over and above what can be quite narrow scenarios. However, that should not detract from the fact that Scotland's colleges are facing real financial pressures. Whether forecasts are marginally consistent with results or wildly out, difficult choices are going to have to be made to deliver sustainable college provision for students, staff and the communities that the colleges serve.

Mapping the forecast against the outturn is something that the SFC and the college should be looking at. Again, if we are inclined to do so, we can have a further look at it to see what the forecast was and then what the outturn was. We would probably need to go back through a number of years of reports to do that, but that information is publicly available.

**Sharon Dowey:** Okay—thanks.

**The Convener:** Before we leave the Ayrshire College doomsday scenario, if it is talking in its pessimistic projection about a potential 70 per cent reduction in staffing over five years and it operates, as I understand it, on three campuses—Kilwinning, Kilmarnock and Ayr—would that suggest that it would just consolidate on one campus?

**Stephen Boyle:** Those would be choices for the board and the SFC to make in considering how the college will organise itself to deliver its service. As we say in our infrastructure briefing paper, the use of the estate really matters. On the college's costs, as Douglas Black mentioned, the estate has many millions of pounds of backlog maintenance, which also needs to be factored in to future plans. However, on the specifics of Ayrshire College and how it delivers its service, it will be up to the board and the SFC to determine how it can best meet service requirements, alongside its financial health.

**The Convener:** It has not developed that picture as part of its scenario in its submissions to the Funding Council, for example.

**Stephen Boyle:** We are not aware of the detail of that, convener. The college is probably best placed to comment on how it would respond to what is, as Tricia Meldrum mentioned, quite a pessimistic scenario. It has said that it is not operating to that scenario with great certainty. Ultimately, it will be for the college to determine its model of service provision.

**The Convener:** In paragraph 14 of the briefing, you describe a 70 per cent cut in staffing over a five-year period at Ayrshire College as

“a scenario in which it could no longer function.”

Is it a scenario in which it could no longer function in its present form or is the full stop after “function”?

**Stephen Boyle:** It could no longer function in its present form. The college has three campuses. If it had to lose 70 per cent of its staff, it would not be able to deliver the model of service for courses that currently exists. To take that scenario to an extreme, there could still be an entity with that name, but not one that you would recognise or that had the ability to serve its students in the way that it currently does.

**The Convener:** Okay—thank you. We have mentioned the college estate a few times. Colin Beattie has some questions on that.

**Colin Beattie (Midlothian North and Musselburgh) (SNP):** Over the years, the college estate has come up repeatedly in your reports, auditor general. In fact, it is not just the college estate; the issues seem to apply across the board in the public sector. Maintenance and so forth has fallen well behind. You say in your briefing that your report “Scotland's Colleges 2022”

“noted that capital funding for the college sector was £321 million short of requirements for lifecycle and backlog maintenance”.

That is a lot of bucks. Given that those issues have been highlighted so often, is there any

progress towards tackling them? Is there any real understanding and management of them?

**Stephen Boyle:** It is a hugely significant issue, Mr Beattie. There is no question about that. I reiterate that we have more than £300 million of backlog maintenance. As we allude to in the report, some of that will be compounded by the reinforced autoclaved aerated concrete deficiencies that have been identified.

**Colin Beattie:** I am going to ask you a question about that, so if you leave it for the moment, that would be great.

**Stephen Boyle:** I will save that thought for a minute, then. However, the scale of backlog maintenance is yet another financial pressure on Scotland's colleges as they work to find a mechanism with which to safely deliver learning for their students.

To look at it from another angle for a second, I note that nine out of 10 students in Scotland say that they are happy with the service that they get from their college. That is very impressive, given the scale of the challenge that is evident in Scotland's colleges. However, they need to have a safe learning environment in which to pursue their studies, and operating with £300 million of maintenance requirements puts at risk the sector's ability to have a safe environment in which to provide people with that. There is much work to be done.

As we mention in the report, the SFC has developed an infrastructure strategy that will look to help the sector to address some of its requirements for infrastructure. We also await the publication over the next few weeks of an infrastructure delivery plan that should set out in more detail how the SFC and Scotland's colleges will work to provide that safe environment.

**Colin Beattie:** You state in your report that the SFC has made available £4.7 million for health and safety but that it has bids of about £20 million. How is that going to work?

**Stephen Boyle:** You are right—there is something of a mismatch. I ask Tricia Meldrum to set out in a bit of detail how that fund is operating and how the SFC is prioritising it.

**Tricia Meldrum:** I do not have a huge amount of detail on that, but the SFC is looking to identify the biggest priorities—the riskiest areas that are most in need of funding. RAAC then appears on top of that as a different issue, but one that is very much part of the pressures. The pot of money is not going to address the scale of the challenges that the college sector faces.

I will add a wee bit on other things that the SFC is doing to support the sector. As part of its infrastructure strategy, it is doing some work with

colleges to look at the baseline condition of the college estate and the infrastructure, and it is hoping to publish that information in the late spring. There are immediate health and safety issues and challenges, but that will be a much broader look at the state of the estate. It will then use that information to build on the strategy to develop the infrastructure investment plan that is due in autumn 2024. It will be a 10-year plan for 2024 to 2034. Part of that is about how the sector will be funded to deliver on the strategy. It will involve potential solutions to ensure that the estate is fit for purpose and address the backlog.

09:45

**Colin Beattie:** It all sounds like a bit of *déjà vu*. Have we not been through all this before, over the years? I have sat on this committee now for 13 years. Every time colleges come up, the maintenance backlog comes up and someone will prioritise doing some assessment for allocating funds for the most urgent work, and all the rest of it. It sounds as if the situation is exactly the same, again.

**Stephen Boyle:** You are right that there is some familiarity with this topic. It is not unique to colleges, I should say; we have reported similarly on another sectors. The national health service, for example, is also facing more than £1 billion-worth of backlog maintenance.

Financial context is everything, here. Your memory stretches back a number of years; looking at the timeframe that we cover in the report, three years' worth of flat-cash settlements plus dealing with above-financial-settlement pay awards inevitably requires colleges to make choices. They have had to fund pay, which means that they have not been able to support backlog maintenance requirements and other pressures. All those require prioritisation and trade-offs.

It is important to recognise that the SFC has set out a strategy and will be setting out a delivery plan for how it will support the sector to address the matter. Yes—there is important work to be done.

**Colin Beattie:** I presume that you will take an interest in what comes out of that.

**Stephen Boyle:** Yes. As you are hearing today, a number of important reports are awaited from the SFC and the Government on how they will assess financial viability and help colleges to prioritise delivery of a sustainable platform for the future. However, there are a lot of risks to be addressed.

**Colin Beattie:** How is the college sector in relation to reinforced autoclaved aerated

concrete? Do we have any knowledge of that? Has an assessment been carried out?

**Stephen Boyle:** We do have such knowledge. I think that I am right in saying—colleagues can keep me right on this—that three colleges in Scotland have identified that they have RAAC in their buildings. They are Dundee and Angus College, Glasgow Clyde College and Edinburgh College. Information on the extent to which that has interrupted learning and plans that the sector has in place will be held by individual colleges. There have been communication and discussion between the minister and the Education, Children and Young People Committee on how the situation is being managed and reported; that work is in progress. This goes back to your earlier point: dealing with £300 million-plus of backlog maintenance and now having potentially to find additional resource to make buildings safe by addressing RAAC is another financial pressure that the sector has to accommodate.

**Colin Beattie:** I will move on to something slightly different. Covid-19 restrictions are, obviously, no longer in place. Is there any evidence that colleges are pursuing non-SFC funding sources, such as generating money from commercial activities and so on? The great cry before Covid was that such sources were going to generate all this money. Has that happened?

**Stephen Boyle:** I will bring in Douglas Black to say a wee bit more about this, but your memory is right. The intention in previous years was that colleges would be able to diversify to bring in other sources of income in order to lessen their reliance on SFC grant funding. However, as we have reported in previous briefing papers on the sector, inevitably Covid-19 was a very significant interruption to that. Some of the diversification of income would have required face-to-face learning to support it. We note in paragraph 22 of the briefing that we are still in a scenario in which grant funding is about three quarters of the sector's income. Other sources, including tuition fees, education contracts and catering, tend to be those through which other income can be generated for colleges.

The extent to which that is returning to pre-pandemic levels is something on which we await detailed analysis in the accounts. I am not sure that such diversification will be the panacea, in that it would be the answer to the colleges' financial pressures. It will help if they are able to pursue that diversification, but the grant funding that they receive from the SFC will be more fundamental in realigning their financial health.

**Colin Beattie:** I will return to something that Graham Simpson touched on, with regard to arm's-length foundations. Are colleges channelling

their commercial income into ALFs? The original intention was to keep it out of the public purse.

**Stephen Boyle:** As Douglas Black said, we do not in today's briefing look in any detail at the transactions that flow through the arm's-length foundations. Again, if we have more detail on that we can share it with the committee, but that is not something that I have to hand today.

**Colin Beattie:** It would just be interesting to know what is anything happening in that respect.

The other big issue, and it is one that everybody has touched on to some extent, is that there has been a real-terms reduction of 8.5 per cent in college funding between 2021-22 and 2023-24. Clearly, that will have a huge impact. You have already highlighted some of the risks that are coming down the line in terms of salaries and so on. What constraints do you think that it will put on the colleges? It is a general question.

**Stephen Boyle:** It will be hard for any organisation to sustain the status quo with current levels of funding reduction while their expenditure is increasing. In that context, what we are already discussed through your line of questioning about backlog maintenance would be one element.

Colleges themselves are already asking, through their viability assessments, what that means for their staffing contingents. There is, in my paper on the Scottish Government's workforce, for example, a telling statistic on that. While staffing numbers in other parts of the devolved public sector have grown, in Scotland's colleges they have not; staff numbers have fallen.

I am reluctant to speculate in much more detail, but I think that it is safe to say that where funding does not match expenditure, that requires difficult choices about curriculum content, the extent of provision, the number of staff, the quality of buildings and so forth. Those are all difficult challenges.

**Colin Beattie:** I like to think that 8.5 per cent reduction figure was not pulled out of a hat and that there was some anticipation that colleges would be able to cope with that decrease in funding and would be able to find efficiencies or other ways of delivering that would accommodate that. Do you have information on that?

**Stephen Boyle:** You are asking me to look to the future a little bit on the extent of colleges' awareness; my colleagues might want to say a bit about the funding environment and the extent to which the SFC supports colleges in their financial planning. We might also want to develop what comes next. I mentioned in my introductory remarks that there have been a number of reviews of the sector looking to the future and how the

sector can develop a sustainable model to make it a sustainable sector that delivers high-quality education, skills and training in the future. One of the changes that we know the SFC has asked for is a new funding distribution model that gives more flexibility to colleges to help them to plan for the future. That would be an early sign of more flexibility in relation to funding.

Until we have wider clarity about the Government's intentions as to what it will do with the variety of recommendations, funding remains a challenge to be addressed. I will pause for a moment to see whether colleagues wish to set out more detail about the financial projection over more than 12 months.

**Douglas Black:** I would expect the Scottish Funding Council's work on colleges' projections to take staffing issues into account. As Stephen Boyle said, more widely there are other things going on. We have been engaging with the council and the Scottish Government, as we usually do, so we know that the Government is thinking very hard about how to address the recommendations of a range of recent national reviews, including the review by James Withers of post-school skills delivery, the review by Professor Hayward of qualifications arrangements, and the council's own review a couple of years ago, which also looked into the sustainability of the college sector. Rather than taking those reviews separately, the Government is trying to look at the whole package of reviews and their implications for the purpose and principles of what the colleges sector and the universities sector are trying to deliver and achieve, and how that will all be managed and organised. It is a work in progress.

**Colin Beattie:** I have a last question. I find that there is a bit of an anomaly in relation to differences between funding years. The Scottish Government has a budget that works on the financial year April to March, while the colleges are funded for the academic year, which is August to July. To what extent does that cause difficulty for colleges? It seems a bit daft, in some ways.

**Stephen Boyle:** I would describe that as a known complexity. It brings further financial challenges because, in effect, funding for an academic year straddles two financial years. Significant changes from one financial year to the next could impinge on the academic year funding environment. I am not sure whether there is any intention to change that. It is a known factor and it is a complexity for which allowances are made. That, too, is potentially an area on which the SFC is better placed to comment than I am.

**Colin Beattie:** Is it just a historical anomaly?

**Stephen Boyle:** I would need to go back and check the timing of it. Scotland's colleges is the

only sector that I am responsible for auditing that does not operate to a financial year end in March. Their financial results—as I think is right—reflect how they deliver their services, running from August to a July year end. It feels to me that that is the right way to present their financial results, but inevitably it is at odds with how the rest of the funding environment operates. I am not sure that I would make too much of it, but it is an additional complexity that the SFC has to manage.

**Colin Beattie:** Surely, it is not a necessary complexity; there could still be an academic year and a financial year. They do not have to coincide.

**Stephen Boyle:** I will ask Mark MacPherson to say a bit more. He has some of the additional history behind that.

**Mark MacPherson:** The financial year for colleges is set in legislation, but I think that it is also tied to what happened before they were public bodies, as such. It is a long-standing historical thing. I think that the SFC and the Government would need to explore with colleges whether it would be beneficial for them to change their financial year, given that all their planning is currently done around the academic year. There could be benefits for the colleges in having a financial settlement that aligns with their own financial years and their own planning.

**Colin Beattie:** Is there any thought of doing that?

**Mark MacPherson:** I have vague recollections of that from several years ago, when we engaged with the college sector, but it is not a subject that I have revisited recently.

**The Convener:** Thank you. We are drawing towards the close of this session, but the deputy convener, Sharon Dowey, has a number of questions to put. Sharon—over to you.

**Sharon Dowey:** Good morning. Paragraph 25 states that the Scottish Government announced in June 2023

“that it plans to take over national responsibility for skills planning, and that there will be a new national model of public funding for all colleges, universities, apprenticeships and training.”

Do you know what timescales the Scottish Government is working to for that?

**Stephen Boyle:** I ask colleagues whether we have any further detail on that.

**Douglas Black:** No, we do not.

**Sharon Dowey:** That is a short and sweet answer.

**Douglas Black:** We have been speaking to the Scottish Government about that, but it has not given us a timescale for how its work will pan out.

**Sharon Dowey:** Okay. Thank you.

**Stephen Boyle:** The committee will recall that in early 2022 or in 2021 we produced a report on skills planning arrangements in Scotland. It identified some areas for improvement in how Scotland’s skills system was operating, and the impact of some of the findings and recommendations. As Douglas Black mentioned, we do not yet know the detail about when all that will come into play. We want to see not just the dates but what that will mean in practice in relation to how it will deliver better outcomes for people who use and rely on the skills system.

10:00

**Sharon Dowey:** Have you had the opportunity to consider the SFC’s new funding distribution model and guidance for the 2023-24 academic year? If so, can you provide us with any further details on that?

**Stephen Boyle:** We will turn our attention to that. We did not consider that in the paper, but it is very clear that that will be part of our work in future reporting that we do on the college sector.

**Sharon Dowey:** Okay. Paragraph 30 of the briefing paper says:

“While recognising the role of college leadership teams in managing their finances, it is also critical for the Scottish Government to work with the SFC during AY 2023-24 to support colleges in planning for change now and making best use of available funding.”

Is there any evidence to demonstrate that the Scottish Government is working with the Scottish Funding Council to support colleges?

**Stephen Boyle:** Yes, I think that there is. There is strong evidence that the funding council is aware of the issues that the college sector faces, and there are a number of components of that. There are well-established arrangements with which the SFC works with and supports colleges. We have seen that through its analysis of the accounts, its performance information, the shared outcome agreements, the financial forecasts and the risk management arrangements that underpin all of that. We think that it is an important development that there will be additional funding distribution models and more intended flexibility around that.

We set out in the paper that there is still work to build on. The SFC and the Government are working with colleges to deliver a sustainable future for the college sector. The scale of financial challenges that the sector faces is significant. Using that underpinning will help, but we are looking to see what will come next in the detail of the plan to deliver the financial health of the sector.

**Sharon Dowey:** Okay. So you feel that they are doing enough to support colleges just now.

**Stephen Boyle:** That seems to be quite a broad question, deputy convener. The scale of risk and challenge that the sector faces is significant. Even allowing for the support that is already in place, some colleges are forecasting that the way that they currently deliver services might not be sustainable. We have talked about that already. The judgment that enough is being done is probably not one that I would make today, given the scale of the challenge that remains to be addressed.

**Sharon Dowey:** At the beginning of the report, it says:

“Nineteen colleges are classed as ‘incorporated’ and are public bodies”

and they

“are not permitted to retain reserves at the end of their financial year.”

Does that put them at a disadvantage in relation to colleges that are unincorporated? Maybe that brings the discussion back to Graham Simpson’s point about ALFs. If those colleges are not able to carry over any excess funding at the end of the year, they risk spending or wasting money at the end of the year on things that they do not need to spend it on. Is that being looked at? Is that something that can be considered to allow them to carry over extra funding?

**Stephen Boyle:** Mark MacPherson might want to say a bit more about that. There is a great deal of history on the colleges’ funding environment and their ability to retain reserves, and there is much discussion about that. Indeed, the committee’s predecessor committee took evidence on colleges’ inability to retain reserves and what that means.

There are a couple of aspects to that. I do not think that the incorporated and unincorporated colleges are in competition. However, as with almost all Scottish Government bodies, those colleges do not hold reserves. The Scottish Government has only recently been in a position in which it can use the Scotland reserve as a vehicle with which to support its financial planning. I do not think that there are any plans to revert to a situation in which colleges can hold reserves. If there are, that would be a matter for the Government and the Scottish Funding Council.

I will stop for a minute. Mark MacPherson might want to say a bit more about some of the history and where things will go next.

**Mark MacPherson:** I do not want to get into too many technicalities. Essentially, that limitation and constraint on colleges led to the creation of the arm’s-length foundations. My recollection—it is a

few years since I was deep in the college sector—is that the funding in the ALFs was dwindling and reducing over time. The Auditor General alluded to that. It is worth bearing in mind that, when funding is in an ALF, there is no guarantee that the college will get it back because the purposes for which those were instigated were not just for colleges; they were educational purposes throughout the year. That was a very important part of how they remained independent and how they could be effectively used as a vehicle if there were funds to be deposited.

**Sharon Dowey:** Okay. I have a final question. To go back to exhibit 2, one of the significant areas of risk for colleges is

“The investment required to achieve public sector net zero targets, especially in relation to the college estate.”

That will not affect just the college estate. Obviously, there are a lot of old and historical buildings. Has the Scottish Government done anything to cost how much it will be to ensure that it gives the required funding to the college estate to get it to net zero?

**Stephen Boyle:** We expect that the imminent infrastructure delivery plan will set out how net zero will be achieved by Scotland’s colleges. That has to be a core plank of the strategy and delivery plan.

**The Convener:** I said that we were in the final approach, but I have an indication from Willie Coffey that he wants to ask a question, so I will bring him back in.

**Willie Coffey:** I want to follow up the questions that Colin Beattie posed about the potential for commercial income. What is the colleges’ relationship—if any—with the European Union now and what will it be going forward? Stephen Boyle will know that they used to benefit from European social fund money and so on. Was that ever replaced in any way, shape or form? What is preventing Scotland’s colleges from continuing to develop even a commercial relationship with the European Union?

**Stephen Boyle:** I am not sure that I have the detail to best answer your question on colleges’ ability to make best arrangements following what will soon be the end of European social funding arrangements. You and I know that the committee is familiar with aspects of the successor arrangements following the United Kingdom’s exit from the European Union in respect of levelling up funding and so on. We would probably need to have a bit more detail about how that relates to colleges and perhaps come back to the committee in writing on that.

**Willie Coffey:** Okay. Fine. Thank you.



**The Convener:** There are two quick final questions from me, one of which is about not something that is in the briefing especially, but a recurring theme in previous briefings and reports, including the section 22 report on South Lanarkshire College. It is about the regional board structure and whether that represents a sensible part of the whole governance landscape or is, frankly, surplus to requirements. Do you have any reflections on that question?

**Stephen Boyle:** Yes. We set out in the paper points that are relevant to that. One is that there have been some changes to the college sector since we previously reported, with some amalgamations in the University of the Highlands and Islands. That was one of the components of the SFC's findings from two or three years ago that related to the general theme of mergers and amalgamations. The other two aspects of that related to the regional structures in Lanarkshire and Glasgow, which, in the SFC's view, needed to change and were not delivering what was originally intended. We have not seen or we are not aware of any timeline or further plans for those regional structures in Glasgow or Lanarkshire. The SFC is probably best placed to provide an update on how it intends to progress that issue.

**The Convener:** Thank you. Part of the committee's considerations of the next steps will be whether we will seek further evidence from organisations, including the Scottish Funding Council.

My final question very much ties in with the final conclusions of the report. You reminded us that the Scottish Government's three missions are equality, opportunity and community. In paragraph 28, you concluded:

"A significant reduction in a college's range of courses, student capacity, or its closure altogether could have an unequal impact on students from more deprived areas".

Could you elaborate on that point a little bit for us?

**Stephen Boyle:** Yes, I am very happy to do so, convener.

There are a couple of threads to that, one of which is the undoubted benefit that Scotland's colleges provide to students and their communities. I am sure that the committee will be familiar with the report that was produced earlier this week by the Fraser of Allander Institute, which set out the economic benefit of £52 billion that Scotland's colleges provide from students who have gone through the college sector over their working lives. We also know from analysis about the relative prevalence of people from disadvantaged backgrounds, who are more likely to go to Scotland's colleges than to other education spheres.

Putting all that together, if there is going to be a disruption based on the financial position of Scotland's colleges and a disruption to the provision of college learning that is on offer, it is clear from the supporting evidence that people from more deprived backgrounds would be more likely to experience disadvantage.

**The Convener:** Thank you. We will conclude the evidence session on that note of sharp realism.

Auditor General, I thank you and your team—Mark MacPherson, Tricia Meldrum and Douglas Black—for the evidence that you have given to us this morning. As I have said, it will be for the committee to consider what its next steps are, but the briefing has been an extremely valuable brief insight into the state of finances in Scotland's colleges especially. I thank you for that.

I will now move the committee into private session.

10:11

*Meeting continued in private until 11:26.*



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