

20 November 2023

By email

Richard Leonard MSP
Convener
Public Audit Committee
Scottish Parliament

Dear Convener

Scotland's Colleges 2023

I welcomed the opportunity to participate in the committee's consideration on 26 October 2023 of my briefing paper [Scotland's Colleges 2023](#).

During the meeting, I committed to provide further information on several topics relating to the college sector:

- Willie Coffey and you asked for further information on how risks associated with the **European Social Fund** are affecting colleges.
- Graham Simpson and Sharon Dowe asked about colleges' use of **arm's length foundations**.
- Willie Coffey asked how **Ayrshire College's PFI project** may affect its financial sustainability.
- Colin Beattie asked whether colleges' **August-July financial year**, to align with their academic year, causes difficulty.
- Colin Beattie asked how **reinforced autoclaved aerated concrete (RAAC)** affects colleges.
- You also asked for a **timeline of anticipated developments**.

European Social Fund

The Scottish Funding Council (SFC) managed and jointly funded programmes of European Social Fund (ESF) activity in colleges and universities across Scotland between the academic years (AY) 2015-16 and AY 2022-23. We have no further details on ESF as it affects the college sector. The SFC should be able to support the committee's interest in this area.

Arm's length foundations

Prior to becoming public bodies in 2014, Scotland's colleges could build up reserves. This ended when they were reclassified by the Office for National Statistics (ONS) as public sector bodies.

Colleges were permitted to establish arms-length foundations (ALFs) as independent, charitable bodies with their own objectives, and they can donate money into ALFs from their operating surplus.¹ SFC capital grants to colleges cannot be transferred to an ALF. Colleges can apply to ALFs for funding to support investment in education. However, there is no guarantee that these applications will be successful. Other organisations that can also donate to, and apply for funding from, ALFs include schools, voluntary sector organisations, and private sector educational providers.

Over time, ALFs have become a reducing source of income. For [Scotland's Colleges 2022](#), Audit Scotland ran a survey to collect data on ALFs. The report noted that in AY 2020-21, just under £19 million was held across 14 ALFs, including £12 million within ALFs linked to the three Glasgow colleges. The figure of £19 million is equivalent to around two per cent of the sector's overall income of £792 million in AY 2020-21.

In May 2023, the SFC issued a [Call for Information](#), requesting colleges to complete a financial forecast return (FFR) for the period AY 2022-23 to 2025-26, by 30 June 2023. It said:

- *Colleges are encouraged to maximise ALF funding to support their financial position, where appropriate. Any donations to ALFs should only be made where budget cover is available from net surpluses arising from commercial activity during the financial year to 31 March. Government funds cannot be donated in this way. Please contact SFC if your college is considering an ALF donation.*

Audit Scotland did not repeat its survey in 2023, and so we do not have current information on the funds held by ALFs. The SFC has not yet published an analysis of colleges' FFRs but may be able to assist the committee.

Ayrshire College

As part of the merger that created Ayrshire College in 2013, it inherited a Private Finance Initiative (PFI) scheme from the former James Watt College for its Kilwinning campus. The 25-year PFI scheme started in 1999-2000, with annual payments due until 2024-25. The college is the only one in Scotland to make PFI payments.

The college's independent external auditor covered the PFI contract in their [annual audit report](#) on the college's AY 2021-22, noting:

- *The PFI contract for the Kilwinning Campus is due to expire on 14 August 2025... the college obtained legal advice to understand any obligations and actions that should be taken in relation to the expiry. The legal advice sets out that the college has three options at the end of the contract – make a final payment to purchase the campus, extend the term of the PFI contract or exit the contract with no asset.*
- *A decision was made by the college's Business, Risk and Infrastructure Committee, endorsed by the board in December 2022, that the college's preferred option is to make a final payment and purchase the campus, subject to a business case for the expenditure at the appropriate point.*
- *As such, a £1.3 million final payment will be required to be paid at this point (25 August 2025). The college are highly likely to have to fund this from their own funds and this should be factored into future financial plans. This will either be through additional SFC funding or further cost-cutting measures than have already been planned.*

The college's auditor is currently preparing their annual report on AY 2022-23. Meantime, the college and the SFC would be best placed to provide an update on the college's financial position and Kilwinning Campus.

Colleges' financial year

A significant issue arising from colleges' reclassification as public bodies was uncertainty about the period that financial statements would have to cover. HM Treasury confirmed to the Scottish Government in May 2012 that retaining a 31 July year-end for colleges was not possible and recommended that colleges would need to move to a March financial year-end to align their financial year with the rest of the public sector. The SFC informed colleges in May 2013 that their financial year-end would be changing to March from 2014. In November 2013, HM Treasury offered the option for colleges to retain the academic year for financial reporting. However, this required additional negotiations between HM Treasury and the Scottish Government, and consultations between the SFC and colleges, which were not concluded until June 2014. As a result, colleges were required to prepare accounts covering differing time periods during 2013 to 2014. Colleges reverted to a 31 July year-end from 2015.

The current arrangement sees the SFC source its funding for the colleges' academic year from across two Scottish Government years. The SFC and colleges would be best placed to comment on how any changes to colleges' accounting period may affect the sector.

RAAC

As I stated on 26 October, three colleges have already said publicly that they have RAAC – Dundee and Angus College, Glasgow Clyde College and Edinburgh College. However, we do not yet know the full extent of RAAC across the college sector. The SFC's report on the baseline condition of the college estate and infrastructure in late Spring 2024 will take account of RAAC.

Anticipated developments

Exhibit 3 in my briefing paper [Scotland's Colleges 2023](#) shows some significant recent developments, including national reviews. During the committee's meeting on 26 October, the audit team and I referred to further developments. Their detail and timelines, where known to us, are as follows:

- 24 November 2022 – the SFC published the [College Infrastructure Strategy](#), which describes the SFC's approach to determining future investment in the college estate and other college infrastructure.
- By the end of 2023 – the SFC is writing a report on the college sector's financial sustainability, combining its analysis of colleges' accounts for AY 2021-22 and colleges' recent financial forecasts. The SFC also expects to publish a Delivery Plan for the College Infrastructure Strategy.
- Late Spring 2024 – the SFC plans to report on the baseline condition of the college estate and infrastructure.
- Autumn 2024 – the SFC plans to publish the final phase of the Infrastructure Investment Plan.
- In June 2023, the Scottish Government [announced](#) two significant matters for which we await a timeline:

- *A new national model of public funding for all colleges and universities, as well as apprenticeships and training, will be developed as part of widespread reforms across the education and skills sector.*
- *The Scottish Government will also take over responsibility for skills planning, with the new national qualifications body overseeing all publicly funded post school qualifications, except degrees.*
- The Scottish Government is considering the implications of a range of recent national reviews for its reform programme. On 7 November 2023, the Scottish Government [announced](#) that legislation will be introduced to Parliament in 2024 to implement its commitment to replace the Scottish Qualifications Authority with a new organisation. It is also consulting on a new approach to education inspection.

The Scottish Government and the SFC are best placed to provide additional detail on their plans.

I hope that committee members find this additional information helpful.

Yours sincerely

Stephen Boyle
Auditor General for Scotland

¹ Bullet 1 and paragraphs 165-174, from page 71 (as printed) [Financial Guidance on Reclassification for Incorporated Colleges](#), Scottish Funding Council.