



OFFICIAL REPORT
AITHISG OIFIGEIL

DRAFT

Education, Children and Young People Committee

Wednesday 12 June 2024

Session 6



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EDUCATION, CHILDREN AND YOUNG PEOPLE COMMITTEE

19th Meeting 2024, Session 6

CONVENER

*Sue Webber (Lothian) (Con)

DEPUTY CONVENER

*Ruth Maguire (Cunninghame South) (SNP)

COMMITTEE MEMBERS

Stephanie Callaghan (Uddingston and Bellshill) (SNP)

*Pam Duncan-Glancy (Glasgow) (Lab)

*Ross Greer (West Scotland) (Green)

*Liam Kerr (North East Scotland) (Con)

*Bill Kidd (Glasgow Anniesland) (SNP)

*Ben Macpherson (Edinburgh Northern and Leith) (SNP)

*Willie Rennie (North East Fife) (LD)

*Michelle Thomson (Falkirk East) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Professor Iain Gillespie (Universities Scotland)

Richard Maconachie (Scottish Funding Council)

Professor John McKendrick (Commissioner for Fair Access)

Shona Struthers (Colleges Scotland)

Karen Watt (Scottish Funding Council)

Gareth Williams (Prosper)

CLERK TO THE COMMITTEE

Pauline McIntyre

LOCATION

The Robert Burns Room (CR1)

Scottish Parliament

Education, Children and Young People Committee

Wednesday 12 June 2024

[The Convener opened the meeting at 09:05]

Subordinate Legislation

Teachers' Pension Scheme (Scotland) Amendment Regulations 2024 (SSI 2024/147)

The Convener (Sue Webber): Good morning, and welcome to the 19th meeting in 2024 of the Education, Children and Young People Committee. We have apologies from Stephanie Callaghan, and our deputy convener, Ruth Maguire, is joining us online.

Item 1 is consideration of a piece of subordinate legislation under the negative procedure. Do members have any issues that they would like to raise on the Teachers' Pension Scheme (Scotland) Amendment Regulations 2024?

Pam Duncan-Glancy (Glasgow) (Lab): When the University and College Union gave evidence to us last week, it noted that, because the United Kingdom Government was paying for the 5 per cent increase in employers' contributions to the teachers pension scheme in England, additional money was likely to come to the Scottish Government through Barnett consequentials. I understand that the equivalent increase in employers' costs in Scotland is around 3 per cent. Would it be possible for the committee to ask the Scottish Government to confirm whether it intends to pass the consequentials to the Scottish Funding Council for the scheme, and whether it will do so at 3 or 5 per cent?

The Convener: Okay. Thank you, Pam. Does anyone else wish to comment?

Liam Kerr (North East Scotland) (Con): I have a not unrelated point. If the Barnett consequentials do come up for distribution to teachers' employers in order to meet the increase in contributions, that raises the question whether the Scottish Government is required to use the increased Barnett funding in that way or whether it is not mandated to do so. Given the current context of councils, in particular, not having the greatest of means—if I can put it that way—I would like to understand the answer to that question.

The Convener: Ben Macpherson has indicated that he would like to ask a question.

Ben Macpherson (Edinburgh Northern and Leith) (SNP): Thank you, convener. In order to help with the understanding that colleagues are seeking, we should also ask the Government whether the consequentials have indeed been passed to it, in what fashion, and whether they are for one financial year or being allocated as part of a longer process. We need to have a full understanding of the situation.

The Convener: Thank you. Does anyone else want to ask a question?

Michelle Thomson (Falkirk East) (SNP): I have a brief top-up comment that follows on from my colleague Ben Macpherson's fair point about the process of allocation. It might well be worth exploring that issue further, but I would be very surprised if it were otherwise. If the Scottish Government were mandated to flow the consequentials through in exactly the same format, that is exactly what it would have to do; after all, it would be a legal requirement. However, given that this is the education committee, there might well be a misunderstanding about how the financials flow through, the process itself and the point at which money arrives with the Scottish Government. It might be worth exploring that.

The Convener: Given that we are all seeking some understanding and confirmation, I think that it would be wise for us to write to the Scottish Government, asking it to address the points that our members have made this morning, if that is okay. As far as timelines are concerned, we can discuss the deadlines and our response before we proceed with the regulations. Are we all content with that approach?

Members indicated agreement.

The Convener: That is super. Are the clerks content with that? I see that they are—good. I am just checking that they got everything down that they need.

Pre-budget Scrutiny 2025-26

09:09

The Convener: Agenda item 2 is an evidence-taking session on pre-budget scrutiny. In this session, we will focus on the financial sustainability of the university and colleges sector.

In the room today, we have Shona Struthers, chief executive, Colleges Scotland; Gareth Williams, head of policy, Prosper; and Professor Iain Gillespie, convener, Universities Scotland. We are hoping to get Professor John McKendrick, commissioner for fair access, online very shortly, but we are having a number of technical issues. Nonetheless, we shall proceed and move directly to members' questions.

Willie Rennie (North East Fife) (LD): Good morning. We have heard considerable evidence about the financial outlook for further and higher education institutions—that is, colleges and universities. I would like to hear directly from Shona and Iain about what that looks like and how you are coping.

Shona Struthers (Colleges Scotland): Good morning, and thank you for the opportunity to speak to you this morning.

I have never quite seen the college sector as it is now. Many of our institutions are forecasting a deficit position, and cash reserves are definitely on the decline. Some colleges are talking about having no cash of their own by July, although that is not to say that someone cannot come in and help them.

When I look at the college sector and its importance in delivering Scottish Government priorities, it slightly beggars belief that it is not being invested in. Students deserve a good education at college, and the staff deserve to work in good working environments; right now, though, many of our students are not sure whether they will get their qualifications, because of industrial relations. It is a bit of a perfect storm for the college sector in terms of funding and industrial relations. It is such a pity, because part of the role of Colleges Scotland in society is to promote the benefit of a college education, which still exists.

I would like to see a restoration of our funding, and I would like the benefit of a college education to be promoted more, not just in Parliament—indeed, we know that cabinet secretaries are going around colleges now, meeting a commitment from the previous First Minister—but out in society, too. College education sits alongside university education. It is not a zero-sum game; it is not an instead-of, but something that runs alongside. Scotland—by which I mean its

individuals, its economy and its businesses—will benefit from a good college education system.

Willie Rennie: Before I come to Professor Gillespie, can you tell us what the real-life consequences of this situation are for students and staff?

Shona Struthers: For students, they are very obvious. For a lot of them, coming to college is their first opportunity to gain qualifications, confidence and skills, and then they go on to either higher education or a job. If that does not happen, the consequences are very serious and significant. It can also affect full families. Going to college takes people out of poverty, makes them contribute economically and gives them an education. The opportunity cost of not going to college is the potential impact on other services such as social security, the health service, the justice service and so on.

Willie Rennie: Is that happening right now? Are people losing out right now because of this?

Shona Struthers: I hope that a lot of people who want to go to college can get into college—it is difficult for us to measure whether people cannot. I want to see colleges grow; I do not want them to be in the declining position that they are currently in. I want to see them grow, because the more that we develop individuals in our society and give them a college education, the more everyone benefits.

Professor Iain Gillespie (Universities Scotland): The old adage around universities in the United Kingdom is that home students break even, except in Scotland. Research loses money, and international students' income makes up the gap. That has been the case for quite some time; indeed, our funding model is predicated on that, but in the past year, we have seen some movement in that respect.

Scottish students cost money—we need to subsidise them through the funding model. That issue has become more acute in the past year, with a nominal budget cut and a real-terms decline in funding for student education. Research is not getting any cheaper, and our funding for it is falling quite significantly behind that of our English neighbours, which makes us increasingly less competitive for research.

09:15

For us, the most urgent issue is the significant decline in the international student market. It is an average decline of 20-something per cent, depending on how you measure it, but for some institutions, it is as much as 75 per cent. That has had a huge, huge impact on the income of almost all our Scottish universities. After all, not everyone

recruits internationally. There are significant pressures on maintaining high-quality education, undertaking strong research, driving the economy and place making, which is what universities are about. Somehow we need to change that outlook.

As for how we are coping right now, I am delighted to say that our universities in Scotland are actually quite well run, partly because they have somewhat had to be, given the rather squeezed funding model that they have had for a number of years. I should say that that is just an observation. Vice-chancellors, staff, students and the community—all the teams involved—are doubling down on efforts to ensure that provision continues to be strong, and that quality and outputs are strong, too. You will have heard from the press, as well as from conversations that I am sure you will all have had with individuals in your constituencies, that there are some really significant local pressures. As a sector, however, we feel that we can maintain the quality and scope of provision in the very short term.

The huge challenge for us is what happens beyond the short term, by which I mean more than a year from now. When we consider what that future looks like for us, the question is: how long can we continue to be resilient and ensure quality education for students as well as ensuring their welfare? We need more, and we have less to give. That is the challenge for us right now.

Willie Rennie: You just said something interesting there, when you said that you have confidence in the sector as a whole and that provision will continue. Locally, however, there have been reports about individual institutions. I know that you will not want to go into huge detail on some of those issues, but are you indicating that some of those institutions might not survive?

Professor Gillespie: I am not indicating that. For the avoidance of doubt, I do not at the moment see any risk to survival. What there is a risk of is a change in the shape of provision. All institutions must take mitigating measures now to deal with the financial consequences that are coming at us.

I will give a simple example, because I can do it collectively. You have just talked about the Scottish teachers pension scheme. If there is no uplift in support for employers' contributions to the STPS, that, on top of the Scottish Funding Council's necessity to remove, as part of its allocations, support for the pension scheme, will mean a £9.2 million hole in support for the STPS for the post-1992 universities. That was entirely unexpected. The issue of reinforced autoclaved aerated concrete—RAAC—was entirely unexpected, too. In that respect, my own university has a bill of more than £35 million.

On top of all those things, what we will see—indeed, what we are seeing—is our institutions taking mitigating actions to be able to function. We are well-run institutions. Time will be my witness in this, but I personally see no risk to the viability of universities going forward. However, there is a clear and present—and, in the future, increasing—risk to the quality and scope of provision.

Michelle Thomson: Good morning and thank you for joining us. I hear what you are saying very clearly, Professor Gillespie. The probability of that risk occurring—that is, an institution failing due to cash-flow shortages or some other financial issue—is low. I am just putting that on the record. Is that correct?

Professor Gillespie: I cannot speak for individual institutions. To have that discussion for the record and be very clear on that, one would need to have a discussion with each of the individual principals. My—

Michelle Thomson: I am sorry to interrupt but, in that case, how could you be clear in your earlier statement to Willie Rennie, when you said that you did not think that that was likely? I am sorry, but I forget the exact words that you used.

Professor Gillespie: My opinion is that institutions will adapt—they will take mitigating measures that will adapt to the current financial situation. Those will not be cost free and they will have impacts on the provision of education to Scotland-domiciled and non-Scotland-domiciled students. That will impact on the scope of our provision and—let me say it—on jobs, and it will impact on universities' ability to continue to drive the economies that they sit at the core of. My expectation—to be clear, this is an opinion—is that universities will, in one way or another, find ways of adapting to the headwinds, but there will be a cost.

Michelle Thomson: That is exactly what I would expect to happen. The reason why I may appear slightly startled about that is that there have been dire warnings from elsewhere in the UK, particularly from former UK Government ministers, for example, who are proclaiming that, in their opinion, it is likely that some institutions may fail in England. I presume that those institutions are taking the same mitigation steps as other institutions. That therefore begs the question: in your opinion, what is different in Scotland from what is happening elsewhere in the UK, where that is considered to be a higher probability? I am not clear about that.

Professor Gillespie: Our funding model is different—

Michelle Thomson: Yes, of course.

Professor Gillespie: —and our average gearing ratio is different. Scottish universities have a gearing ratio with a debt-to-income figure of a bit less than 30 per cent, whereas institutions south of the border have substantially higher gearing ratios. They are servicing debt, so their immediate problem is a cash-flow or liquidity problem. I am not suggesting that there is no liquidity challenge in Scottish universities, because a number of our universities have debt that they must service—although some do not—and they will take measures to reduce their fixed costs to free up cash to service that debt.

You will appreciate that I will not get into the detail of individual institutions, but some English institutions have grown much more rapidly and have exposed themselves to higher gearing ratios. Let me be clear that, although I am a university principal, I am a microbiologist by background. It is my opinion that Scottish universities are in a situation in which they will be able to adapt. However, I emphasise that it will not be without implications for the education of Scottish students.

Michelle Thomson: That point about gearing and lending to English universities is very well made, and I understand it clearly. Is part of the risk for them that, if they have taken on lending against fixed assets on a commercial basis, the lending institutions could pull in loans, as we have seen in other areas? I take it that that is what you are alluding to—as well as the cash-flow issue, there is the cash-out day idea.

Professor Gillespie: Most of them have taken out long-term bonds, and they did so when interest rates were historically low, but they nevertheless have banking covenants that restrict free operating cash, and they must address those banking covenants. Many of those institutions have grown substantially, partly because of their ability to recruit larger numbers of UK students through the fee model and partly because of a push for international recruitment. They are coming under pressure, and it will be for each of them individually to work with their bankers on how they may, for example, reschedule their debts.

Michelle Thomson: You make a fundamental point about gearing that I do not think has been understood in this legislature from a financial perspective, so thanks for that.

To follow on and finish that thread, perhaps Shona Struthers could comment on the process for monitoring, be that in relation to the SFC or indeed the Scottish Government, if something needs to be highlighted. Will you talk us through the process for risk assessment of financial viability? Can I assume that that is happening on an on-going basis? After all, you are running businesses and you will be applying the usual

measures. If I am not correct on that, please put me right.

Shona Struthers: My understanding is that colleges have boards of management that are responsible for running the colleges and they have risk registers and review their finances. There is also the relationship with the Scottish Funding Council. Colleges Scotland is not always party to them, but those relationships between the Scottish Funding Council and colleges, especially if there are financial challenges, are things that the colleges work with.

One difference compared with the university sector is that colleges are in the public sector, so there is a different set of rules on what they can and cannot do. Of course, we would look to the Funding Council and the Government to assist. Similarly to the universities' story, colleges will keep adapting, bringing their costs down and reducing staffing and curriculum because, being in the public sector, they cannot not balance their books. That does not mean that there are no consequences to that.

Michelle Thomson: Exactly—the financial element has been put across very clearly.

The Convener: Do you want to come back in, Mr Rennie?

Willie Rennie: I will maybe come back in later.

Michelle Thomson: I will move on to my next question. We have talked a lot about finances, and I hear and understand your warnings about the provision in the light of that situation. In both your sectors, what additional support—from both the Scottish Government and the Funding Council—would you ideally like to have at this time? I know that everybody will say, “Well, we want more money.” However, if we imagine that that is not possible given the prevailing fiscal climate, what additional support would you ideally like to have?

Professor Gillespie: Clearly, the budgets that are available to Governments are very restricted at the moment, so I will be as realistic and moderate as I can be. The key message in the very short term is about flexibility and predictability. I will pick up on predictability first.

You will all have seen that a number of so-called Scottish Qualifications Authority places were taken out of funding in the most recent settlement. We have a record number of Scotland-domiciled students in Scottish universities this year, despite the removal of what was a temporary measure. Nevertheless, if there is another assortment of allocations whereby student numbers are placed, we would like to have more predictability about where they will come, so that we can build that into our recruitment cycles. Our colleagues at the Scottish Funding Council are aware of that and we

are in conversation with them about it. That predictability around recruitment cycles is incredibly important, given that students are thinking now about applying for next year.

The second thing is flexibility. As places, however they have been funded, are taken out of the system, our biggest challenge is the amount of resource that we, as institutions, have per funded place, because that is going down at the moment. Our fundamental, number 1 ask would be for resources to be kept in the system as numbers are taken out, so that we can increase the unit of resource.

Some elements of the system are around details, and we would also like to have the opportunity to explore those specifics with the Scottish Funding Council and the Scottish Government. I will give a tangible example of that. There is a somewhat historical transfer of almost £23 million a year from the Scottish Funding Council to the Student Awards Agency Scotland, which was initially designed to pay for improvements to widening access. Widening access is now mainstreamed into the provision of universities, which have been doing quite well on it, but that reallocation is still on the books.

There is a lack of clarity—I will leave it at that—about whether that money is still required to address the initial purpose or whether that purpose has been met from other budgets. In that regard, there is an opportunity for us to look at an amount of money that is not far off the £28.5 million reduction. Flexibility, a little more transparency and predictability would be very sage things that could help us immediately.

09:30

Michelle Thomson: I note with interest that, with that framing around flexibility, transparency and predictability, you are talking in business terms, because that is exactly what businesses would look for.

Shona, do you concur with that in relation to the college sector? As ever with these things, we have arrived at a place without looking back, and people will say, “We would not necessarily have chosen to start from here.” Is that a useful framing for you? I would appreciate your insights.

Shona Struthers: At the end of the day, colleges are also businesses. We are not 100 per cent funded by Government through the Scottish Funding Council, so we have to go out there and bring in other, commercial income streams, but the structure and set-up of colleges in the public sector make that incredibly challenging.

What additional support are we looking for? We are looking for a stable budget, which Iain

Gillespie also mentioned; we need stability, which has been lost; and we want to get on to sustainability. Some funding streams have disappeared, such as the flexible workforce development fund, mental health funding and so on. All those things add to a very difficult situation.

I would like to see some movement on the reviews that we have been doing for the past year or so. There is £3.2 billion in the skills system. Everyone acknowledges that there is duplication, but I do not see activity or changes in that regard, although they may be coming.

I would also like Government to give clear priorities to colleges. We do many things for many markets and many people, and it would be helpful if Government was clearer on what it wants colleges to do.

We are looking for a five-year support plan for the sector to give us that stability and predictability. College students are the least funded students per head of all the education stages from pre-school to primary, secondary and beyond, which feels inherently unfair.

Michelle Thomson: You have given us a lot of content, which other members will pick up on.

The Convener: Liam Kerr will pick up on a specific thread.

Liam Kerr: Shona, you say in your submission that the five-year plan that you mentioned should include

“a repurposing of an element of the overall skills and education resource”.

Has the Government accepted the need for a five-year plan? If so, is it going to develop such a plan? What do you mean by “a repurposing of an element”?

Shona Struthers: Audit Scotland raised that point. It is about looking forward and having clarity and predictability in relation to the funding. If a five-year plan was developed for the sector and we were on a trajectory of reduced funding, we would see the consequences and could make decisions on whether we wanted to change that. I hope that the Government will want to be involved in a five-year plan, alongside the Scottish Funding Council and colleges.

On the point about repurposing, there is definitely duplication in the sector. The Hayward and Withers reviews picked up on many of those issues, but I do not see activity around that. The Withers review has been out for a year. We are not asking for additional money, but we are asking for the money in the system to be used better.

Liam Kerr: I understand. I will ask about a related point. The purpose and principles document came out in June 2023, but some might

say that it has not been extensively referenced since then. What is your view on that? Do you think that colleges are clear on what the Scottish Government's expectations of them are for this year and going forward?

Shona Struthers: The Government came out with the purpose and principles vision and strategy for the sector. Subsequently, chairs and principals in the college sector got together six times over the course of a year and asked, "What does this mean in practice? What specific things can we ask the Government to do in order to help the sector?" We came up with many different solutions and examples. For example, one of our suggestions is to put colleges at the forefront of the delivery of apprenticeships—colleges are in the public sector and there is a structure, so we should use them. Putting colleges first was the ask there.

We have also asked for a funding model that is transparent, clear and fair. We are working with the Funding Council on that and on having flexibilities, such as the reduction in the credit target, embedded in the funding model.

Those are some of the things that we have done. As a sector, we have also been looking at our workforce and at what we want it to look like going forward. We have taken the purpose and principles document and created practical examples and working groups to try to take that vision forward. It is to the credit of the college sector that it is trying to do that and that it is feeding the initiatives back into the Government to give it updates on what we are doing.

The Convener: Gareth, do you have anything to add in this sphere? What is your perspective on things?

Gareth Williams (Prosper): Are you asking about funding specifically, or is there another aspect that you would like me to talk about?

The Convener: I would like to hear your thoughts on the role of industry and how you feel some of the non-financial support might be provided. Would a five-year plan tick the boxes? What do you expect from the college sector?

Gareth Williams: We want to encourage a shift in thinking about how we invest in education and skills over the longer term. We have done a lot of work with employers in the education sector and our members on that theme. We need to shift towards the provision of lifelong learning at all stages of people's lives and careers in order to ensure that people and employers are better able to be ready for significant changes in the economy, such as net zero, which is an obvious change, as well as the impact of digital. We expect that people will have to transition between careers more frequently as they go through their working lives.

We endorse the point that Shona Struthers made about a five-year plan and having a longer-term perspective. In our written submission, we highlight particular areas for reskilling and upskilling as part of that. To some extent, although those themes came through strongly in the Withers review, the Scottish Government's more recent funding decisions have taken a step away from them. We feel that it is time to take stock and look at the longer term, as well as addressing some of the short-term financial pressures that have been outlined.

The Convener: I hope that we will pick up on some of those themes as we move on. I go to Pam Duncan-Glancy for her questions.

Pam Duncan-Glancy: Thank you, convener, and good morning to the witnesses. Thank you for the information that you sent in advance, which is rightly candid and stark in places. It is much appreciated. I also thank you for working in an extremely difficult environment and keeping on keeping on, because the tertiary education sector, as you have all said, is crucial for Scotland.

My question is about the support, or lack of it, that you have had from the Scottish Government and the Scottish Funding Council so far. I go to Shona Struthers first about some of the flexibilities that were given to colleges around credit thresholds. How helpful has that been, and do you need anything further?

Shona Struthers: Good morning, Pam. The sector has worked really closely with the Scottish Funding Council over the past year or so to ask for those flexibilities, which have been very welcome for the colleges that have needed them. To be clear, not every college is in the same situation—some colleges are in a growth scenario and could take on more students—but for those that have required flexibility in delivering the credit target, it has been very welcome, because it has given them a bit of headroom not to deliver the same amount of credits but to still receive the same amount of money. Other work has been done, too, on asset disposal and so on.

Working with the Scottish Funding Council to look for those flexibilities is a fruitful and helpful exchange. However, some of our members think that a more fundamental review of the funding model is required. The model has been around for a long time. It has evolved from SUMs—student units of measurement—to credits, but it is essentially about inputs. A lot of members tell me that they would prefer much more trust and that they want much of the scrutiny to be reduced. That is their perspective; I am sure that, when you hear from it later, the SFC will tell you another reason why scrutiny must happen.

There seems to be a lot of scrutiny on colleges that have multiple funding streams, with many audits around everything that they do and many restrictions on funds for certain things, which constrains them in lots of ways. They just want the ability to run their college well and be audited—as you would expect, because these are public funds—but not to be quite so constrained.

Pam Duncan-Glancy: What specifically would need to change to allow them to do that?

Shona Struthers: Some of the relaxations that we have seen with the Scottish Funding Council's flexibilities go some way towards that, and parallels can be drawn with the university sector around when you would need to return funds if a student were not to carry on with their course. The changes that have happened are welcome. However, most of the funding for a college comes from the SFC. The element of trust is to have the money and then, perhaps, have a lighter touch with the scrutiny. There is quite an industry in colleges around returns—lots of them are done, such as further education statistics returns, quarterly and mid-year returns and so on—but you might want to use resources differently when they become constrained.

Pam Duncan-Glancy: I appreciate that. I ask the same question of Professor Gillespie. [*Interruption.*]

Professor Gillespie: I spend too much time in front of microphones and pressing the buttons; I apologise for that.

Flexibility is a key issue for us, as I have mentioned. Universities inherently have more flexibility than colleges, because we are not public sector organisations, which is a key status for us to maintain. We have been fairly flexible in the way that we have responded to the challenges and opportunities that have come up. The difficulty is when changes are done to us at the last minute.

In relation to our provision—

Pam Duncan-Glancy: Sorry, Professor Gillespie, forgive me for interrupting you.

When you say that the difficulty comes when changes are made at the last minute, can you give us an example of what that could be?

Professor Gillespie: A last-minute change happened when we discussed allocations of funded places to universities in this academic year. The so-called SQA places—the 1,289 that I referred to earlier—were moved from some universities. The predictability of how those places were taken out of the system was, let us say, opaque until the last moment.

As we see the continuing financial pressures on the Government, the sector and budgets in

relation to how any further adjustments are made to allocations—which we fully understand, as we have mentioned before—we need to be able to have a conversation so that we can understand exactly where cash will flow to.

09:45

To go back to the discussion that we had earlier, I note that the more predictability that we have in the system going forward, the better we are able, as a group of organisations, to deal with the demands of students and of the Government's requirements coming forward. Last-minute shocks are always hard to deal with.

Pam Duncan-Glancy: That is really helpful. My next question is for both of you on support for articulation for students and whether the Government and the SFC are giving you the right support to ensure that articulation works the way that it should.

Professor Gillespie: I will start from a university perspective and then pass to Shona Struthers.

Scottish universities and colleges work incredibly closely together, despite the fact that we have different funding arrangements and a different status. Articulation is very much on the up; we have very strong articulation between colleges and universities. To a much lesser extent, there is reverse articulation, where university students have opportunities to get additional skills from colleges.

From a university perspective, the key challenge for us—if I am very honest and candid—rests on the ability of our colleagues in colleges to have the flexibility and resources to deliver education to students who can articulate into universities. Colleges are very constrained. Shona Struthers made the point earlier about the unit of resource that is applied to students in further education and the difficulties in that.

The Convener: We will perhaps move to Shona Struthers on that point, just to keep the pace going, if that is all right, professor.

Shona Struthers: I agree that articulation between colleges and universities is welcome and is the right thing to do. Where I see it working well is when two institutions come together and almost deliberately make sure that the curriculum is developed so that it is a seamless transition. You would have to replicate that more if you wanted to see more articulation. I am not aware that colleges get funding for that, but I could be wrong.

The sectors have worked long and hard together over many years to promote and increase articulation. That a lot of our students come through college and go on to university is credit to

both organisations for making that happen. Colleges in their own right deliver higher education through higher national certificates and higher national diplomas, and a lot of industries see qualifications at those levels as the right ones to go into industry with. For some of our students, articulation is absolutely the right thing.

The Convener: I have a question for Professor McKendrick, who has been waiting patiently online this morning. What concerns do you have about the impact of funding challenges on students coming from college to university?

Professor John McKendrick (Commissioner for Fair Access): There are general issues and challenges that go over and above the current funding challenges for college students progressing into university. Professor Gillespie and Shona Struthers are correct that it is a success story, but it is also a qualified success story. I do not think that articulation is optimised. It works very well, but there is still room for improvement.

I would not necessarily agree with Shona Struthers in the sense that we have to look at curriculum and get the curriculum matched between college and university. We must have an acceptance of competency and that students must have the ability to be accepted into the level that befits them.

There are really interesting models. As has been mentioned, there are different ways in which colleges and universities can work together. Earlier this week, I was at the launch of an undergraduate school, which is a partnership between New College Lanarkshire and the University of the West of Scotland. That is a very different way of working and a much closer relationship.

There is already good practice, and there is an excellent throughput to university from colleges. I agree with Shona that it is not the only thing that is important about colleges. It is not the only higher education that is delivered in colleges, but I still think that there is room for improvement in terms of the acceptance of students' competency to progress at the next level as they progress in their educational journey.

The Convener: Of course, we want every young person to succeed to their very best ability, so that is a helpful contribution.

Pam Duncan-Glancy: May I come in?

The Convener: Only if you follow the line of questioning that we are looking for.

Pam Duncan-Glancy: I absolutely will. Can I ask the panel, and particularly Professor Gillespie, what can be done to help institutions that are impacted by the removal of the Scottish Funding

Council's funding towards the increased cost of employer pension contributions?

The Convener: We touched on this earlier, I think, Professor Gillespie.

Professor Gillespie: Let me be very clear here. There is a £9.2 million gap because of the increase in the Scottish teachers pension scheme. The gap is from a 4.4 per cent increase in costs and a 4.8 per cent drop in support. That is very significant, indeed, in some specific institutions. The candid and bleak answer to the question is: provide support for employers' costs—that is the immediate thing. There is a secondary question about what the future of pension provision is, but that is a much more difficult and longer-term question. By the time that that was answered, were it even addressed, the damage would be done. The short-term answer is to provide support for universities who are exposed to the Scottish teachers pension scheme.

Shona Struthers: It is the same for colleges. It is just one more problem.

The Convener: We understand that.

I have a brief question that I hope that Gareth Williams might be able to come in on, as well. What measures can colleges and universities consider to bring in additional revenue? I know that that is quite a short question and I have not given you much time to ponder, but does someone want to come in first on that?

Professor Gillespie: I am happy to begin. If we look at where funding comes from, do we have an expectation that we will get a significant short-term increase in funding for Scotland-domiciled students? Candidly, because of all the conversation and the economic position at the moment, we do not. Longer term, we need a conversation about that. Do we expect that we will increase our margin—not just money in—on research? Again, fundamentally, we do not, because research is structurally underfunded.

That essentially gives us two main areas for addressing income. One is international student income and the second is so-called other provisions—for example, spin-outs, commercialisation, bringing cash in through knowledge exchange and commercial operations on site. In that latter category, there are some options for us to do a little bit more, but we are not talking about significant inputs.

The model is predicated on international student recruitment and, in one way or another, those universities that can will have to enable the future of international student recruitment. One of the approaches that we are taking to that, as a sector—or as a group of institutions, at the moment—is to look at more provision outside

Scotland and the UK. First, that will take time to deliver; secondly, it is risky; and, thirdly, it is not available to all our institutions. We are all doing what we can, within our individual institutional focus. Some institutions have more scope to do that than others.

The Convener: I know that my colleague will come in specifically on international students later. Does Shona Struthers want to comment on that question?

Shona Struthers: I suppose that all colleges will tell you that they do other funding streams, because they have to balance their books and they are not 100 per cent funded. Many colleges bring in additional income from tuition fees, commercial arrangements or bespoke training, so that is already going on.

The problem when core funding is on the decline is that an organisation's capacity to look for other opportunities becomes constrained. The ability to work with employers and the time that is needed to invest in that is not there. The Office for National Statistics reclassification has brought challenges, because colleges are unable to borrow or hold on to reserves. There is no money to speculate with or to use as seed funding.

A great example, which Gareth Williams can definitely pick up, is the money that we had from the flexible workforce development fund. It took a little while to get off the ground, but colleges certainly put a lot of effort into working directly with employers, running training courses and so on. That took a lot of time, effort and infrastructure inside colleges, and then the funding was just taken away. That was a great example of what we should be doing more of, but then it was just lost. I know that many employers felt the same.

The Convener: That is certainly the feedback that I have had from the college in Edinburgh, which is in my region. Gareth Williams, do you want to pick up on that?

Gareth Williams: Since that decision was taken, we have heard lots of examples of the impact on employers, particularly small and medium-sized enterprises, who do not have the money to invest in such provision without that support from Government. That was a disappointing decision.

If I go back to what was said about predictability, one of the disappointments was the uncertainty before the decision was taken. Ultimately, a decision was taken to end that provision and subsequently to end the upskilling fund. Earlier, I mentioned our concerns about provision of funding for upskilling and reskilling and how that does not connect with economic need.

More generally, there are many good examples of partnerships between universities and colleges and employers. Our concern is that, with fewer resources available, that will be one of the areas that suffers, because institutions will not be able to spend the time with employers and take the risk of developing curricula that is aligned to industry need. We must be mindful of the economic impact of that.

There are potential opportunities for research from the UK's association with horizon Europe. We need to maximise that and ensure that we are in a competitive position. That means making sure that industry and education are working closely together to maximise the opportunity and ensure that that association continues beyond this period.

On spin-outs, it is important that we get a balance between recognising the investment in research that has created that knowledge and potential commercial activity against the risk that seeking too large a share of that might dampen some of the spin-out activity. There are examples of good practice in Scotland and elsewhere that we need to follow to ensure that that does not happen.

The Convener: Going back to the flexible workforce development fund and the length of time that it took for the decision to be made, I knew of the disruption and the uncertainty that it was causing colleges. What was the impact on your members of that protracted wait?

Gareth Williams: Many employers and colleges had training ready to go, with agreements on what was needed, what was in place and how that would be supplied. The long period of uncertainty about last year's funding and the decision whether it would continue into this year had an effect.

In the short term, a number of employers were able to switch to working with colleges and universities by utilising the upskilling fund, but that was withdrawn, too. We are left in a position where that funding is not available, and what we are hearing from many SMEs in particular is that there is no way in which they can self-fund that important training.

10:00

The Convener: What is the risk to those small businesses if they are unable to upskill their workforce? What pressure does that put on them?

Gareth Williams: We know that there is a long-term productivity challenge in Scotland, and that productivity growth is particularly weak among smaller businesses in the economy. If we are to address that and ensure that businesses are successful and sustainable in the long term, we need to ensure that they can upskill their

workforce to take advantage of the opportunities in digitalisation and so on. Without that important funding from Government, that becomes much less likely and harder for them to achieve.

The Convener: Professor McKendrick, do you have any comments? You can shake your head if the answer is no—that is fine. I just wanted to keep you involved, as you are online.

I call Bill Kidd.

Bill Kidd (Glasgow Anniesland) (SNP): I thank the panel members for their helpful responses. If we look forward a wee bit to the Scottish Government's 2025-26 budget, is there a way in which the Scottish Government can use that to begin to address the issue of international student income cross-subsidising the teaching of home students? Is there a way in which the Scottish Government can use that budget to try to influence the money that comes from international students? I know that Professor Gillespie talked about that earlier.

Professor Gillespie: I will try to answer that exam question. Would I be correct in reframing the question as being about whether something could be done with the money that is available in order to help us recruit international students?

Bill Kidd: Yes.

Professor Gillespie: The short answer is yes. When we go around the world to recruitment fairs and speak to university partnerships, Governments and all the rest of it, we find that Scotland always lands well, including comparatively to the UK brand. That sense of brand Scotland is not just something that we Scots sitting here in Scotland believe to be the case—it genuinely is the case among students, agents, Governments and partners. As a group of university principals, we believe that Scotland could do more together to present that brand of Scotland as a welcoming place for international students. We could do some of that with small amounts of support to market Scotland and Scottish higher education as a brand overseas.

We could also do more to align the resources and activities of universities, the Scottish Government and, indeed, third sector members in presenting our position. Of course, some financial support would be required to enable that. I cannot give you an exact figure at the moment, although we could certainly follow up on that if it would be helpful, but the amount of resources that we would require to do that would be very modest indeed. It would be about amplifying our brand as a country, a sector and a receiving environment, and making the point that Scotland is very open to international students coming in.

There is a second point to make. I will not be specific, but we are hearing rhetoric about the health provision for students who come into the UK. There is noise from south of the border about increasing the cost of that provision, which is a straight disincentive to international students coming in. It is a different story in Scotland, so it is important for the Government and us to demonstrate and send the message to international students that Scotland is a different place and that the Scottish Government is in control of devolved powers, which makes life different here. That would be extremely helpful. It is quite a nuanced position, but it will make a difference.

The Convener: Mr Kidd, a number of people want to ask supplementary questions. I will let you ask a follow-up question and then we will see where the discussion goes—I know that this is quite a topic.

Bill Kidd: I know that it is a major issue, but I am just wondering about what I see as the need for universities and possibly colleges to cross-subsidise, so that the money raised from international students helps maintain the funding available to home students from Scottish towns and cities. Is there a way of using that international money to support home students in that way?

Professor Gillespie: I will try to answer that briefly. Do we use money from international student fees to cross-subsidise the provision of support to Scottish domiciled students? Categorically, yes, we do. Is there a way of using that cash to support provision to Scottish students? That is what we are doing.

Bill Kidd: Does anyone else want to add anything?

Shona Struthers: There are some international students in the college sector—in fact, they make up a significant proportion of some colleges' students—and that brings in income. However, going back to the classifications of types of public sector organisations, I would just point out that colleges cannot carry reserves forward. Even though there can be an income stream from those students, there are constraints in that respect that would stop colleges without a big international contingent from developing that approach further.

Gareth Williams: We know the importance of post-study work opportunities to international students, and we hope that those opportunities will be retained by the next UK Government. I think that there is more that universities, colleges and employers could do to take advantage of that opportunity, and we should encourage more employers to give people those post-study work opportunities.

Bill Kidd: Do you think that the number of international students helps ensure fairer access and better opportunities for home-domiciled students?

Professor McKendrick: I am glad that you asked that question. In theory, obviously, it does. As Professor Gillespie noted, it brings more money into the system. However, I do not think that it is an unproblematic resource, because we have a quantum of resource for developing universities and, if that resource has been used to support international students, we have less scope to be innovative and focus on widening access.

International students require support, so I would be interested in finding out—I do not think the intelligence is there at this point—the extent to which supporting international students diverts resources from university students who require a little help with transition and support with their studies to progress and prosper. I absolutely do not want to pit one segment against the other—I need to be 100 per cent clear about that. International students are good for Scotland and good for Scotland's universities, but it is not an unproblematic resource in terms of widening access. It presents challenges.

Bill Kidd: Thank you. I agree that it could be useful to have that information.

The Convener: Yes, that could be helpful. Ben Macpherson and Willie Rennie have supplementary questions.

Ben Macpherson: Appreciating the points that the commissioner has just made, I think that it is important to emphasise that international students not only make a contribution to our universities. Many of them stay in Scotland and are huge contributors to our economy and public services.

I have three follow-up questions. First, Professor Gillespie mentioned a 20 per cent reduction in the number of international students. Can you explain in general terms the causal factors for that reduction?

Secondly, there was some mention of the NHS surcharge. My understanding is that that policy decision is fully reserved under immigration policy. Healthcare itself might be devolved, but the Scottish Government cannot influence the NHS surcharge through devolved powers.

The Convener: This is about education.

Ben Macpherson: I have a third question, convener.

The Convener: Okay.

Ben Macpherson: Lastly, you talked about further co-ordination to promote brand Scotland. My understanding is that, through the Scottish Government external affairs division and its

various connections, significant work is already going on to promote brand Scotland, and our university offer as part of that. Are you acknowledging that? Are you saying that that kind of work could be enhanced and developed, but that we are already in a healthy place?

It would be helpful if you could clarify those three areas.

Professor Gillespie: It might be simplest to take your questions in reverse order.

All those concerned would agree that the conversation about promoting brand Scotland—and the role of universities and Scotland's international education policy in that—has been rather slow in coming, but it has now landed. We all look forward to a stronger partnership to make that a reality, hence my comments on support from the budget to make that reality stronger.

My honest answer to your question, now, would be yes. If I had been asked that question two or three months ago, I would probably have said that we are still waiting for something, but the opportunity is now here.

As for your point about the NHS surcharge, I stand corrected. Thank you for that.

On the causal factors for the downturn in international student enrolments, there are, broadly speaking, three factors, the first of which is visa policy. There have been two significant threats in that respect. First, there was the removal of dependant visas from January this year, which had an impact on students from Africa. It had an impact on students from south Asia, too, but the particular impact was felt by students from Africa.

Fundamentally, the model for supporting students from Africa was that their families would come together and provide support—in other words, their fees—for them, and the students would bring their families with them. The family members would often work in the care sector and support not just the provision of care in Scotland, but their spouse through university. The removal of the dependant visa is associated with a significant decline in the number of students from Nigeria, in particular, but also from elsewhere.

The other threat with regard to visa policy is to the post-study work visa, which you will all be aware of. Indeed, the Migration Advisory Committee advised on that matter a few weeks ago. Changes to the graduate route have not been made—in the short term, at least—and that is very positive. We are waiting to see the impact of that more positive—or, at least, less negative—outcome on student recruitment this year, and we will have to come back to the committee on the matter once the cycle is completed in October.

The threat has had a significant diminishing effect, given that about 70 per cent of international students cite the post-study work visa as an attractive element for coming to study in the UK. In all, visa policy has had a significant impact.

The second factor in the downturn is economic performance in some of the sending nations. That has been a real challenge, particularly in Nigeria, where there have been two devaluations of its currency—the naira—and it has made coming to study in Scotland or elsewhere in the UK less affordable.

The third factor is global shocks. Whether we are talking about the pandemic, the economic downturn or security dimensions, global shocks have been pushing down some of the student flow here.

10:15

The Convener: Thank you. That shows that the situation is very complex and not as straightforward as some people think that it is.

Willie Rennie: This is partly about what the professor has just been talking about. This is not a simple solution. You are being forced down a route of taking on ever greater numbers of international students in order to subsidise domestic provision. You have talked about global shocks in individual countries. That can happen. Let us be blunt: if China invaded Taiwan, the shock to UK universities would be significant, and we would be back to square 1 with the finances.

I am slightly puzzled because the reports that I hear about the financial situation in colleges and universities are much more stark than what you have presented this morning. I am wondering why you are holding back and being more cautious than they are. This is your opportunity to tell the Government that things are stark and that, if we do not take action now, there could be real-life consequences.

We have talked about lost opportunities for the future, but my concern is what students are losing out on now. I am puzzled about why there is caution. The international student market is really important, but we cannot be overdependent on it. Tell me what is going on. I do not quite understand why there is caution.

Professor Gillespie: I am speaking for a sector. If I speak for my own university, I can be much less cautious, but I am speaking for a sector. That is the first point.

Secondly, I have been very precise in answering some very precise questions this morning. I have not said where the financial risks stand if the situation that we are in now continues for another

year or two. If it does, we will see real problems in the sector.

I was asked specifically whether I see a risk of closures of universities now. The answer to that is no, because we have the ability to mitigate the financial pressures right now. If the decline in international student numbers and no change in the funding model continue for the next two or three years, risks will increase, and we will be likely to see universities really struggle to deal with the financial challenges. I cannot comment on whether there will be failures—that is for them—but the problems will accumulate, and they are accumulating.

For us, the question about doing something now involves a conversation about what the future funding model will be and how we will deliver long-term sustainability. Inevitably, that is a conversation that will take time, so we must begin it now in order to head off the difficulties that will come at us two or three years down the road.

The Convener: Before Willie Rennie comes in again, I will bring in Professor McKendrick online.

Professor McKendrick: I have a point that is very similar to the one that Professor Gillespie has just made. Widening access in particular operates on trust and good will. There is a specific funding stream, but a belief in the agenda of universities supports that work and the capacity to do it. If the resource gets strained in the years ahead, that will make it much more difficult for us to continue to make progress in that particular area.

The Convener: I am very conscious of the time and am framing everything in that context.

Shona Struthers: I do not recognise what Willie Rennie said. I think that I have been quite stark and blunt in saying that, if the restoration of college funding does not take place—this will be in our budget submission—and the Government does not invest in colleges, there will be major things that we will not be able to achieve. The First Minister's priorities—eradicating child poverty, addressing net zero and increasing economic activity—have come out in recent weeks. Colleges will deliver on all of them. If the Scottish Government does not invest in colleges, it will not deliver on Scottish Government priorities. I cannot be more blunt than that.

Liam Kerr: I will stick briefly with the points that have just been put to you, Professor Gillespie.

On the issue of cross-subsidising through international students, you said right at the start of the meeting that home students lose money. At the weekend, the vice-convener of Universities Scotland, Sir Paul Grice, said that the Scottish Government had not met its part of the deal on funding its free tuition policy. Given that we are

coming into the budget process—Bill Kidd talked about that—what does the Scottish Government meeting its part of the deal look like? If it did that, would that mitigate the overreliance on international students?

Professor Gillespie: For me, the Scottish Government meeting its part of the deal for funding of domestic students means paying the costs of tuition. We are far away from paying the costs of tuition through Government funding for Scotland-domiciled students. Would that remove the requirement to rely on international students? It would remove neither that requirement nor the desirability of that, because international student income cross-subsidises the provision of tuition for Scotland-domiciled students and research.

If we want to see our universities drive research and the economy, at the moment, because of the structural underfunding of research in the UK, which is particularly acute in Scotland, we remain reliant on international students. As members have commented elsewhere, international students bring considerable benefits to the experience of Scottish students at universities, research capabilities and our contribution to the economy.

Liam Kerr: I will stick with you on that, but I will go to Shona Struthers shortly.

The committee has heard concerns about cuts to funded places having a disproportionate impact on the post-1992 universities. In your view, what are the implications for those institutions and for Scotland-domiciled students? In relation to the point that you have just made, what could the Scottish Government do with the money that it is not using on those funded places?

Professor Gillespie: It could increase the unit of resource for Scotland-domiciled students.

The Convener: That is a concise answer.

Liam Kerr: Thank you very much.

Shona Struthers, the SFC statistics show a significant fall in full-time students at colleges, but there has been a significant increase in enrolments of part-time students. Can you help the committee to understand what might be driving that trend towards more part-time enrolments at colleges? Does that have any implications for the costs of provision of part-time courses for the colleges?

Shona Struthers: Most students used to be full time. It was a Government policy to bring students in full time to address youth unemployment. That was a very successful policy, because we saw the unemployment levels come down.

Over the past eight to 10 years, we have seen a switch from full-time to part-time courses. People

study part time for many reasons. They might have other commitments, and it is quite a commitment to be at a college full time. They might be carers or have jobs. People also want to study in a modular way and do bite-sized qualifications. We have seen a trend of a switch to part-time study. The numbers have stayed the same—people have just moved from full time to part time. The consequence of that for colleges is that it is more expensive to deliver part-time courses.

Liam Kerr: That is very interesting.

The Convener: Could John McKendrick comment on the impact of the move from full-time to part-time study on widening access? What are your views with regard to Mr Kerr's question about the cuts impacting disproportionately on the post-1992 universities and widening access? What concerns do you have, and what actions might be taken to address some of those issues?

Professor McKendrick: It is right that we maintain a focus on widening access. I do not have strong concerns that the cuts will have a negative impact on that agenda, but we should be focused on it, monitor it and ensure that that they do not have a negative impact.

Universities make the decisions about who enters them. It does not necessarily follow that having fewer places affects disadvantaged students more. We talk about disadvantaged students rather than disadvantaged areas—there is a very subtle and important difference between the two. It does not necessarily follow that a restricted funding environment will more adversely affect disadvantaged students, because it is up to universities to make those decisions.

Universities still have to be held to account for their share. I can understand that it becomes more complex and more different, and that there is a context to which university applicants ready themselves for application, but it does not follow that that will have a negative impact on the throughput to university from disadvantaged areas.

The Convener: Shona, I thought that you might want to come in, but you have said that you are all right. Pam Duncan-Glancy has a supplementary question on that theme.

Pam Duncan-Glancy: I want to explore the theme of widening access a little more. My first question is about the post-1992 universities, which have a particular reputation in respect of widening access. What could the impact be of the reduction in the funding of those universities on widening access?

Professor McKendrick: Again, it is really important that we think about individual students. It

is also not just a post-1992 agenda; significant contributions are made by institutions, particularly in west central Scotland, that are not post-1992s. The metric that we currently use—the area-based measure—is very geographically uneven as to where those students reside. That is a particular challenge in west central Scotland. If the resource is squeezed in west central Scotland, it is as much a challenge for the University of Glasgow as it is for the University of the West of Scotland and Glasgow Caledonian University.

I understand the point about the reduction in places, in UWS in particular. We have to monitor that, but I reiterate that it is up to universities who they choose to accept. University entrance policies work the way that they should with contextualised admissions and with an ecosystem of support that provides those opportunities, not just for school students; we must remember adult access to university, largely through articulation and through access schemes, which are very important. If those schemes are working properly, there should not be an adverse impact on the direction of travel for widening access.

Professor Gillespie: For us, there are two big challenges in bringing in students and widening access. One is the attainment gap in schools, which remains stubborn and needs to be addressed. For us, that is probably a bigger challenge than how we decide to apply our funding.

On the specific funding issue, the difficulty sometimes is supporting widening access students with complex needs once they come into universities. Essentially, there is one pot of money, and it is for institutions to decide how to spend that. The bigger challenge is the throughput of students from schools at the moment.

Pam Duncan-Glancy: Have any of the post-1992 universities given an explanation? The SFC said that the reduction was a result of the universities not filling all their places. Have any of those universities explained why that might have been the case?

Professor Gillespie: That would have to be a question that you pick up with the SFC and individual universities, because a relatively small number of universities are affected.

The Convener: I am sure that the member will do so when we get to the second panel.

We will go to Ross Greer. Thank you for your patience, Ross.

Ross Greer (West Scotland) (Green): Thanks, convener. My first question, which is for Shona Struthers, is on the state of industrial relations in colleges. That is a very familiar topic.

It has been quite some time now since the Strathesk Resolutions report was published. We have had the response from employers and the response from unions. We are now waiting for the Government's proposals to take matters forward. In the intervening period, we are locked into another round of national industrial action over a pay dispute. Do you think that there has been any progress in national collective bargaining and industrial relations since that report was published?

Shona Struthers: I know that the minister is holding conversations with employers and trade union representatives who do not perhaps have a lot of experience of being in the room but have a fresh approach. People such as me—I have been involved in national bargaining since the very beginning—have not contributed to that group, but the minister is taking that approach to try to break a deadlock or to get some fresh thinking about how matters can progress and move forward. That is to be welcomed.

Moving into another round of industrial action is regrettable—and no more so than for the students. My worry is that the sector is tarred with that as a reputation and that it impacts on wider society and people who might want to come to college. Therefore, I think that that is regrettable.

10:30

Ross Greer: On the wider issue of fair work, I am interested in your understanding of SFC funding conditions and how it evaluates outcome agreements. From the best I can gather, colleges' commitments to fair work, where they are tied in with conditions around funding, are part of the outcome agreement. Are you aware of how or whether the SFC evaluates whether a college has met its fair work obligations?

Shona Struthers: I am not aware of that. I am sorry. That is probably a better question for the next panel.

Ross Greer: Yes. I have been working my way through everybody who has come in, in advance of the next panel. It is getting a tip-off.

Shona Struthers: I can tell you about the aspects of fair work and all the different things that colleges do to address that. I know that our colleges take the fair work agenda very seriously and that there are lots of great examples in which they demonstrate that. However, the question of how colleges are held to account for funding is probably better put to the SFC.

Ross Greer: On a similar line of questioning, Professor Gillespie, your university funding situation is obviously different. Universities are not in the public sector, so fair work applies a bit

differently. How are universities evaluated for their commitment to fair work in so far as it relates to the public funding that they receive?

Professor Gillespie: Again, that is a conversation for the SFC in respect of how it evaluates the outcome agreements.

Ross Greer: On individual universities' fair work agendas and their relations with trade unions, the major point of dispute in the university sector over recent years has primarily, although not entirely, been about pensions as a UK-wide issue. However, do you think that there are points for improvement in the Scottish sector specifically? Is there a role for the Scottish Government there? I am thinking beyond the obvious point that, if there was more money in the sector, there would probably be less unrest. Is there a role for the Scottish Government in improving industrial relations in the university sector, or should that, in your view, be left up to the institutions and the unions?

Professor Gillespie: Universities Scotland does not have a locus on collective bargaining around pay and conditions. That is done through a different organisation—the Universities and Colleges Employers Association. If you will forgive me, I would defer that to a conversation with UCEA.

Ross Greer: Grand. Thank you very much.

The Convener: Finally, Pam Duncan-Glancy has a supplementary question.

Pam Duncan-Glancy: I will be brief.

The Scottish Funding Council said in its report that there is a risk that 21 per cent of full-time-equivalent staff could be lost in the college sector as a result of the budget and the finances. Will Shona Struthers comment briefly on what the impact of that would be on the sector?

Shona Struthers: It would be catastrophic, including on students. If there are fewer staff running colleges, that would impact on the curriculum offering and the pastoral support that staff give to students. It would also put an extra burden on staff who are there to perhaps try to deliver more with less.

What is really dampening down the ability of colleges is keeping cutting away without clarifying exactly what it is that the Government would like colleges to do. If you are not going to invest, at least be clear about what it is that you do not want to be delivered—there are double negatives in there. I would much rather see investment in colleges and colleges being let to thrive, so that the staff who are in them can thrive and the students can benefit. If you are going to keep cutting the budgets, it is just dire.

The Convener: Thank you very much—that brings our first evidence session of the morning to a close. I thank the witnesses for their time.

We will have a suspension until 10.50 to allow for a change of witnesses. I ask that the gallery be cleared as well.

10:34

Meeting suspended.

10:53

On resuming—

The Convener: Welcome back. We are now going to hear evidence from representatives of the Scottish Funding Council—we had a bit of a preview earlier this morning, as they were namechecked a few times. I welcome Karen Watt, the chief executive officer; Richard Maconachie, director of finance; and Lynne Raeside, deputy director of external affairs.

We go straight to members' questions. I thank the witnesses for their written submission, which we have found particularly helpful in scoping the session. I bring in Liam Kerr to kick off the discussion.

Liam Kerr: Good morning, panel. Karen Watt, I go straight to you. We have heard a great deal this morning, and in general, about the significant financial challenges that our institutions face. It is important to note Professor Gillespie's earlier comments about stewardship, and that the institutions are navigating the situation carefully. Nevertheless, what support is the SFC offering to those institutions to help them to navigate the current financial challenges?

Karen Watt (Scottish Funding Council): It is an extremely difficult funding environment at the minute. As a funding council, we have a number of ways in which we can provide support and help and think about the situation. The first point is about being fair in how we distribute the money. We do not set the overall budget, but we distribute it in ways that are fair, and which will be important to how students and institutions thrive. We have made changes to the way in which we have distributed some of our funding, in particular for colleges, where we have looked at the threshold levels and tolerance levels for underdelivery and overdelivery. We have looked at a more generous and fairer way of going about how we recover funds. We have a range of those types of mechanisms for how we distribute funding, and for how we recover funds when things are not being delivered well.

We also monitor things closely, and when we see institutions getting into difficulty, we work with

them. As the committee will know, we regularly publish material on the financial state of colleges and universities. We are working extremely closely with a small number of colleges because they have quite significant cash-flow difficulties.

We are working on a range of measures; I am happy to talk about that if it would be useful. Perhaps you could tell me whether you would like me to explore some aspects in more detail.

Liam Kerr: It will not surprise you to know that my follow-up question—which I also direct to you, Karen—is that in January, you told the Public Audit Committee that four colleges were facing “fairly significant cash-flow issues”. Can you give the committee an update, first on those four and where they are now, and secondly on the rest of the estate more generally?

Karen Watt: I will go almost in reverse order and set out the general picture. A very high proportion of colleges are actively looking to reduce operating deficits. We are seeing a number of colleges working very hard at that. When we get mid-year review forecasts in, which tell us what is happening in the current academic year, we are seeing a forecast underlying operating deficit of about £70 million. That is actually 7 per cent better than the colleges were forecasting originally, which shows that there are activities in play at colleges to deal with the situation. Nonetheless, it is a big deterioration in the surpluses that were being posted even as recently as 2021-22.

We are seeing a reduction in cash balances across the entire college sector. When we look at the specific small number of colleges that are having cash-flow issues, therefore, we will support recovery plans. We want students to keep studying, and we will stabilise things with the college sector and with those four institutions. We work with them closely to get to the heart of the issues; we dedicate time and energy to that. We engage directly with the board and with the senior team, including the finance directors.

There are practical things that we can do. We can bring forward and reschedule grant, which helps a lot with cash flow. We can provide repayable grants as temporary cash funding, if there is a significant liquidity issue. We can do all that in order to stabilise an organisation sufficiently that they can develop a recovery plan and look to their future and put plans in place.

We can consider funding voluntary exit schemes if colleges do not have the cash immediately in hand to do that. We can defer loan repayments, and we can sometimes put in specialists where we feel that colleges may not have, at their own hand, the type of expertise that they might need.

All of that is also to say that institutions themselves need to do some things. They need to

engage with us and give us the information that we are looking for, and they need to help to put a costed plan together. The four colleges that we are currently working with are looking across the base at where their costs lie and where the underpinning cost drivers are. They are making conscious choices about those costs and about value, including wider social value, because a lot of colleges are helping people who are furthest from the labour market.

It is not a purely commercial issue; it is about how colleges want to manage their curriculum offer over time. We look at all that and work with colleges to put a recovery plan in place. We have quite practical measures on cash flow that we are actively working with colleges on. Is that helpful?

11:00

Liam Kerr: I understand. For the avoidance of doubt, I presume that the measures that you have outlined are available to all colleges, not just the four that you are working closely with.

Karen Watt: Some of them, yes. For example, we can support a number of colleges with the rearrangement of cash-flow repayments and how we schedule grants. However, I am talking about a specific package of measures that are concentrated if colleges are in particular difficulties.

Liam Kerr: I understand. I am very grateful.

Willie Rennie: You have focused on the finances, but we have not really talked about what getting the finances under control means. I presume that you measure that and the impact of the reduction in the curriculum offer. What is your assessment of the consequences of implementing the financial measures?

Karen Watt: We will look at the picture in the round. For some colleges, it is too early to say what the impact will be, because we are stabilising the situation and they will need to put longer-term plans in place. Some of the institutions have started curriculum reviews. We expect them to look at the ways in which they can put some courses together and at which courses have fewer student numbers; they can still support students on those courses, but they could provide the curriculum in a different way. We are also looking at opportunities for possibly consolidating of some curriculum areas and at whether, looking at regional need, a college that is in a particular situation has maximised its regional and local opportunities. We also expect colleges to review their estates.

When we are looking at the issues in colleges, we are trying to get a balanced picture. We want colleges to still be able to meet regional need and

look at opportunities, but do so from a more stable position so that they can manage the opportunities and challenges. For some of the institutions that are in difficulty, it is about a broader business planning opportunity for the future.

Willie Rennie: I have an immediate concern on two fronts. First, if more courses go online, that might not always work for a cohort of vulnerable people who are getting into educational establishments and looking for future careers. Secondly, when the regionalisation programme was introduced, we were told that that was not just about centralising course provision, because younger people who go to colleges are less likely to travel from their communities. On both fronts, have you got concerns about more courses going online and about centralisation, even if it is at a regional level?

Karen Watt: The way in which colleges and universities dealt with the Covid pandemic showed that we can have a blend. You are right that it needs to be the right blend and the right mix. For some students and some subject areas, online learning simply does not work, but for others, it can be a possibility. It is about exploring what works for particular subjects and student cohorts. Colleges are in the business of supporting people to succeed, so they are mindful of that when they are looking at provision. We would be worried if we were seeing wholesale online provision, but that is not what we are seeing. There is a blend in ways of learning and there is an opportunity to look at different ways to do that.

We are not seeing so much centralisation, but there are opportunities for curriculum development in some areas. You will be well aware, and we have said ourselves, that we are looking very closely at the colleges in the Highlands and Islands region and we have done and a fundamental review of multicollege regions. We are working closely with the University of the Highlands and Islands and its partner colleges. There are opportunities in that kind of set-up to develop the curriculum in particular ways that can still keep delivery local but might be more cost effective.

Willie Rennie: My final question is about how you feed back to Government on all of this. I am not sure that Government fully understands the effects on students of what I would describe as cuts. How do you feed that back?

Karen Watt: In the run-up to budget settlements, we have a role in providing information. We model options, and we are explicit about the implications of each of them. We provide information at a national level about the college and university sectors. Over the past three or four years, we have probably published much more than we have ever published before on the state of

the nation, what is happening with those fundamental flows of financial sustainability, the impacts on students and a range of other risk factors. Where institutions are facing significant issues that may require a broader form of intervention, we will make those known to the Government.

Willie Rennie: I have one final question, if that is okay, convener.

Ms Watt, do you agree with Shona Struthers when she said that she has never seen a situation like this before?

Karen Watt: It is very difficult. Looking at the long term, the budgets for colleges over a 10-year period have declined in real terms by about 3 per cent. For universities, there has been a longer and deeper decline in the real value of the budget settlement, by about 14 per cent. It is a really difficult situation. Many college principals would strongly agree with Shona Struthers that this is a very difficult time. Educators did not come into education to make the kind of difficult decisions that they are making now. They are trying to balance a range of factors, including the fact that almost 75 per cent of their income comes from one source, in the SFC, and that, as public bodies, they cannot really generate an increased level of commercial activity.

This is an extremely difficult time. The issue is how quickly some institutions can adapt to a change in funding circumstances. Sometimes, adaptation requires funding but, at the minute, we do not have funding for transformation or change, which makes the transition to a different operating environment more complex.

Willie Rennie: Okay. Apologies for that, convener.

The Convener: That is okay. I suppose that a mechanism for how the SFC feeds back some of its concerns to the Scottish Government is the committee's responsibility, and you have got some of those points on the record.

I will hand over to Michelle Thomson.

Michelle Thomson: Good morning, and thank you for joining us. I want to follow up on what was a slightly technical discussion earlier with Professor Iain Gillespie. The framing was that some people have said that institutions in Scotland are at risk of failure. My colleague Willie Rennie and I asked Professor Gillespie a number of questions, and he explained that he thought that—this is in my words—the probability of that was low because of the prudent nature of their gearing or debt to fee income ratio, which is set to 30 per cent.

My first question is a quick one. Is that limit set by you, or is it in the universities' articles of

association? Why is there such a prudent regime in Scotland compared with what is happening with universities in the rest of the UK?

Karen Watt: That is a good question. We keep very close to lenders and we monitor loans and loan repayments carefully. I agree with Iain Gillespie that the sector is careful and well managed. It is financially adept at looking at all of this. In our experience, the sector is not particularly overexposed on debt at this time.

The funding model is completely different, so it is quite difficult to make a comparison with England and elsewhere, because they are dealing with a different financial environment. It might be helpful for me to say that, in our examination of lending and private placements, we are seeing an increase in more flexible lending covenants coming through and an increase in revolving credit facilities.

Some of the private placements that we have are not due yet. The sector is very aware that its set of financial arrangements with lenders means that it has big bullet repayments to make at particular points. As far as we are concerned, those payments are on track to be made. To summarise the view of lenders based on our engagement with them, they see the sector as going through choppy waters, but they remain fairly confident that it is resilient, and they are extremely confident in the sector compared with other sectors that they lend to.

We track some of the same issues that lenders track. In our engagement, there continues to be a high degree of confidence in the sector, which really matters. That does not mean that there are no risks and that there are no emerging issues. Clearly, we and lenders are tracking the downturn in international recruitment, which institutions are acutely aware of. That will have an impact. When we look at recruitment in the autumn and into January 2025—

Michelle Thomson: If you do not mind, I will come in before we move on to that issue. I want to be clear in my mind about the prudent regime that Iain Gillespie outlined. Is that set by the Scottish Funding Council? If we leave aside the risk profiling that commercial lenders undertake, do you set that prudent regime?

Karen Watt: We do not set the kind of parameters that—

Michelle Thomson: Where is that set, then? Is that set in articles of association?

Karen Watt: Each institution sets its own appetite for risk.

Richard Maconachie (Scottish Funding Council): That is set by the university court. We have a role in reviewing renewals or applications

for revolving credit facilities, so we look at the business case for that and the covenant.

Michelle Thomson: I am labouring the point because, until the issue came up this morning, I had heard a narrative that was about the UK university sector. If you look at the question from a financial perspective and consider Scotland's level of average gearing, which I did after the first session, the risk in Scotland is utterly and fundamentally different from that in the rest of the UK. It is therefore not true to say that the risks to institutions in Scotland are the same.

Thank you for clarifying the role of university courts. Does the Scottish Funding Council set fiscal rules for colleges in respect of the attitude to debt and deficit? I want to understand that point, too.

Karen Watt: Yes, we are more involved in that, because they are public bodies and they must balance their books. The rules are possibly set less by us and more by their status—

Michelle Thomson: As public sector institutions.

Karen Watt: —as public bodies. They can generate a surplus, but they either have to spend it or donate it to an arm's-length foundation in the year in which they generate it. They cannot carry over huge amounts of surplus or debt. They need to be very careful about balancing their books as they go.

Michelle Thomson: That leads to my next question, which is on what I would term fiscal flexibilities for colleges. We have heard a lot of talk about our being stuck in a trap as more money is needed at a time when we know that the wider financial environment is challenging. What is your thinking in relation to fiscal flexibilities, particularly for colleges, especially given that they are public sector bodies? Are you discussing and considering those issues?

Karen Watt: We are, and Richard Maconachie is part of a tripartite group that is looking at that with the Government. Do you want to say more about that, Richard?

11:15

Richard Maconachie: Yes. We are very much aware of the fiscal pressure on colleges. Nobody could ignore that, and we recognise the constraints that come with being in the public sector. It also has some advantages, because there is a degree of protection, which the colleges can rely on.

Through the tripartite group, the SFC brought forward the idea of incentivising colleges to dispose of assets through making lighter disposal

rules, so that colleges can keep some of the proceeds of disposal. We are looking at other ways to get round some of the constraints of being in the public sector, but we understand that the pie is the pie—that is not controlled by us.

Michelle Thomson: Yes—that is part of the issue. What sort of non-financial support would you benefit from getting from the Scottish Government? As this is a pre-budget session, we are terribly focused on the finance, but are there areas where you would like to see more non-financial support? I perhaps alluded to that by mentioning fiscal flexibilities, but there could be other areas as well.

Karen Watt: When we talk to the Government, what we are most interested in is maximising flexibility wherever we can. For example, as Richard Maconachie said, can colleges retain more of the receipts, rather than putting them into a big pot that goes into a number of other priorities? That is hugely important. We would also like to see multiyear funding settlements. That is not exactly a flexibility, but it is about how you plan and it is about that whole issue of stability.

There are flexibilities around activity targets, for example, which actually constrain, as well as incentivising—the Government could look at that. One of the issues, which I think was raised in your previous session, is less about fiscal flexibility and more about flexibility in general in relation to different funding pots. We are a funding council; we get £2 billion to distribute. Some of that comes as discrete and distinct pots of money, with architecture and rules that are made elsewhere. There is a role for the Government to think about what rules and restrictions it puts on particular funding and whether they could be more flexible. On the multiple funding pots, we need to look at that from the perspective of a college that is receiving lots of different funding streams with lots of different requirements attached. It is on us and on the Government to look at that differently.

Michelle Thomson: You have been very clear, thank you. I have one last wee question to finish off this section. We have heard a lot of chat in recent months about possibly encouraging Scotland to move to a fee model for universities, similar to what applies elsewhere. However, purely from a business perspective, I was staggered when I went away this morning and looked at the perilous state of some English universities—despite the fee model—because of the gearing ratios. The situation does not seem quite as simple when we start to look at the financial provisioning of education.

How actively are you having conversations with the Government to almost look afresh at how we all get a bit of something that we want, such as flexibility? I appreciate that you have mentioned

multiyear funding, which is, rightly, a common refrain. How active are the discussions, not just in your tripartite group? Is there the same sense of urgency?

Karen Watt: I make it clear that we are not actively working on a tuition fee model. We are a funding body, and we are part of the Scottish Government family, so that is not part of our discourse. However, in a no-fees situation, we are actively talking about what can be done within the envelope that we have in Scotland.

I think that, particularly for colleges and universities, we need to look at the funding model. For example, we need to look at where we distribute funded places. We have a historical pattern, but there is a question to ask about patterns of underdelivery and of reduced or increased demand. Have we got the funded places in the right place? For universities, another question is about how we pay and how much we pay for those places.

It is fair to say that we have more funded places in the university system than we had before Covid or than we have had for quite some time. Some universities are struggling to fill those places, partly because, in 2021, we had 15,000 students from the European Union filling our funded places. People from that cohort have graduated every year since then, and those funded places remain in the system. The question might be, what do you want to do with the funding that is in those funded places? Do you want to redistribute it? Do you want to think more imaginatively about that unit of resource? That might be important, because there has been a real-terms decline in that resource over the past 10 years.

We are asking such questions in the active conversations that we are having. Where do we put the funded places? How are they being used? Do we want them to be used purely for undergraduates? How much do we want for postgraduate taught students? How much do we want to expand the graduate apprenticeship schemes using those funded places? The critical questions for the future and for the next few years concern how we use the money, where we put the funded places and what we are willing to pay for some of the funded places.

The Convener: How do you make the decisions about how to allocate your £2 billion? I note that Robert Gordon University is getting 4.3 per cent less than before, which is the third-deepest cut of all. How did you decide to do that? How are you making those decisions on an institution basis?

Karen Watt: Every year, we model different options for how we distribute the places. To start with, we agree principles about what we are trying to do with those funded places, such as

maximising opportunities for new students coming into further and higher education.

Specifically with regard to the university sector, we do a fair and transparent look across the evidence and the policy parameters that we have. This year, we were asked to make sure that no more than the 1,289 additional places in total came out of the system and to protect widening access, so none of the premiums that we put into our funding model for widening access were to be removed, and we were clear that, where there was underdelivery in places, we would take that into account.

We model across all the different options—maintaining opportunities for fair access, keeping vulnerable learners in place and making sure that we protect the unit of resource. We also protect some of our small specialist institutions, and we model how many places we have and how that should be distributed across the piece.

This year, for universities, we needed to make a cut and find savings of £28.5 million. When we were looking at this year's distribution, we modelled how that saving would fall across not only individual institutions but types of institutions. To make those savings, we needed to take out the 1,289 places, we needed to take out the pensions uplift and we needed to remove the upskilling fund and a couple of other pots.

However, in every case, we look at the financial viability of an institution, its ability to maintain its intake targets and the balance between the main teaching grant and the research and innovation funding, because some institutions are getting an increase in research funding that mitigates some of the loss of the teaching grant. We look at all of that in the round, do lots of modelling and test the impact on different institutions.

The Convener: At the outset, you said that the process involves a review every year. You have spoken about a number of parameters and said that the process is fair and transparent across the centres.

Earlier this morning, we heard that institutions are looking for budget stability and certainty. If you are modelling different things year on year, that is counterintuitive from the point of view of stability. If your modelling is different every year, that is not particularly transparent for institutions. How can they have any idea of what they will be judged on or even have a concept of what funding might be coming the next year if you are continually shifting the goalposts?

Karen Watt: First, we spend a lot of time discussing the issue with the representative bodies and the individual institutions when the budget settlement is clear. In the two or three

months after the budget settlement, we engage in negotiations and discussions about the options.

We have stability in that we are keeping a certain number of funded places in the system. That is not a surprise. What was different this year was that we had to make a budget cut of £28.5 million. That was the significant issue that affected the distribution.

However, the starting point for every funding distribution is the previous year's distribution, so it is not as though we completely revisit the funding model every time. We start from the premise that we are trying to keep stability, and we proceed on the basis of the footprint that the university had in the previous year.

The Convener: We might dig into that more as this thread of the discussion goes on.

I will now bring in Pam Duncan-Glancy. I am sorry, Pam—I got a bit tongue-tied there.

Pam Duncan-Glancy: That is no problem at all, convener—the double barrel is annoying.

Thank you very much for the answers that you have given so far. I want to ask a bit more about some of the allocations. As a starter, I will ask about the allocations to the post-1992 universities. The committee has heard concern about the fact that the cuts have, arguably, fallen disproportionately on those universities, which have quite a history of widening access. A moment ago, you said that widening access is one of the things that you were asked to protect. You have cut the student support budget and you have significantly cut the number of funded places for those institutions. How did you consider the impact on those institutions?

Karen Watt: The student support funding is for colleges rather than universities. In relation to the university funding, it is important to say that some—not all, but some—of the post-1992 universities were not filling their funded places.

Pam Duncan-Glancy: Did you ask them why that was?

Karen Watt: Yes. For some of them, the biggest issue will have been the drop in the articulation that some colleges were feeding in. Another reason is the fact that we have a large number of funded places in the system. As we are guardians of public money, we need to make sure that we are investing in the right places; otherwise, that funding could go to other things. Where institutions have unfilled places, that public money could be used in alternative ways.

Therefore, we have removed a small portion of the unfilled places from those institutions—we have probably removed no more than about a quarter of those unfilled places. We have left the

rest, and institutions are looking at options for filling those over the course of their academic year. As they will have a number of intakes, we have left enough headroom for growth, if they can manage their recruitment in that way.

If we take out those unfilled places, we find that the impact of the cuts is actually fairly fair across the post-1992 universities, the chartered institutions and the four ancients. We have modelled all of that. Once the issue of those unfilled places is taken out, we are not seeing a significant impact on the post-1992 institutions.

Pam Duncan-Glancy: Okay. I am not sure that that is what those organisations have said in the representations that they have made to us. In its submission, Universities Scotland said:

“The SQA places have been removed from the system in a different pattern to the way they were allocated in 2020 and 2021, meaning that some institutions—

the post-1992 institutions—

“were more negatively impacted than others.”

What is your response to that?

11:30

Karen Watt: We looked at two main scenarios when we were looking at the funding distribution, and in both, we were very clear with universities that we would take places out of institutions that were finding it difficult to fill them. In the first scenario, we assumed that we could take the 1,289 places out as they went in but, given that we were dealing with a second scenario, we needed to take those 1,300 or so places out of institutions that were not delivering their funded places. That was the choice that we made, and it was late. Universities are quite right: we had a late policy articulation from Government that it wanted no more than 1,289 places in total taken out of the system. That is why the second model was developed.

Pam Duncan-Glancy: Did you look at whether that would have an impact on widening access?

Karen Watt: Yes. None of the cuts that we made have taken out the widening access premiums. Many of those have been protected, because we recognise and accept that students from disadvantaged areas require additional support to succeed. Those premiums are being delivered largely through the post-1992 universities. We have taken out a small proportion of their unfilled places. That does not affect their intakes, and it should not affect their widening access targets.

Pam Duncan-Glancy: Do I have time to ask one more question, convener?

The Convener: At the moment, not really. Perhaps you can pick it up later when you ask your other questions.

We now circle back to Bill Kidd.

Bill Kidd: Ms Watt, you mentioned that the Scottish Funding Council previously called for multiyear funding. You do not have that at the moment. What further action do you believe that the Scottish Government can take now to enable the SFC to provide more support for institutions? You have talked about multiyear funding as one element. Is there anything else?

Karen Watt: There are probably a few bits in the recipe that would help. It is undoubtedly true that multiyear funding settlements help, because they allow institutions to plan over the long term rather than having to deal with short-term issues. We think that there is merit in transformation funding, and we were disappointed when that was no longer available, because it enables institutions to adapt. Whether they are looking at collaborations or a different curriculum, that funding matters.

We are very clear that research funding needs to be protected and we are pleased that the Government is investing in that. There has been a 7 per cent increase in research funding over the past few years, although you will have heard from others that it is the comparison with the other parts of the research system across the UK where funding has increased that is at play.

As I said, the fragmentation of funding streams should be addressed and the Government should look at things across the piece. It is important that the Government thinks again about funds such as the flexible workforce development fund, which was useful for colleges engaging with business and industry. It enabled them to have an infrastructure and capacity in the college to manage their relationship with employers to best effect.

We would also like financial transactions to come back, because they were low-cost loans that helped us to deliver a lot of net zero commitments. They could have been useful not just for universities but across the college sector as well.

The other aspect is to get on with the reform agenda. The Government has been clear that it wants to bring apprenticeship and funding provision together, which might deal with some of the duplication issues. It has also talked about getting more involved in national and regional skills planning so that we are clear on what issues and skills might be required across Scotland and, therefore, how the university and college system can respond effectively to that. Those issues will already be on the Government's agenda.

Bill Kidd: What level of urgency do you perceive on the part of the Scottish Government regarding support for further and higher education just now?

Karen Watt: It is clear that the Government takes the situation seriously. It has protected—and we have been enabled to protect—front-line teaching in colleges. They have received a flat cash settlement. That is a real-terms cut, of course, but the ability to have flat cash settlements in the college sector over the past couple of years has been hugely important, and that is understood.

It is clear from our conversations that the Government is considering potential flexibility, including through the tripartite group. It is clearly giving considerable thought to the issue.

Bill Kidd: Thank you for that response. Outwith Government and SFC money, what measures can colleges and universities consider in order to bring in additional revenue?

Karen Watt: You will have heard from the first panel that it is quite difficult for colleges to generate other income. About 7 per cent of their income comes from tuition courses, catering and other things, but that is not huge. Some of the bigger colleges have international contracts but, by and large—I refer to the issues that we have already discussed—the reason why the situation is challenging is to do with how to keep surpluses in play and what can be done with them. Also, it is sometimes hard for colleges to price commercially and sensitively when they have competitors with lower, fixed prices.

What can we do? Colleges can use their arm's-length foundations and put any additional commercial income into them. We would like the Government to reinstate programmes such as the flexible workforce development fund, which enabled colleges to generate other activity. Colleges need infrastructure and economies of scale in order to develop other income streams. Some colleges are very smart in their engagement with employers; they get employers to donate high-tech equipment, for example. We can see that they are working hard in those ways.

The position in the university sector is very different. Given the funding model there, universities are much better placed to develop other income. You will know that their reliance on our income is down to about 27 or 28 per cent overall. International activities, work with charities to generate research revenue and partnerships with industry and business are all happening. Universities are also very good at spin-outs, which are incredibly important for generating additional income.

Bill Kidd: That is very useful. Colleges exist in order to provide education and life chances for their students. That is something that we always talk about. However, college buildings can fall into disrepair, and funding for urgent maintenance can become important. We are told that demand for that has outstripped the funding that is available at the moment. Can the SFC help colleges with that side of things?

Karen Watt: We have a budget of about £85 million for college capital. A fair chunk of that is going into the new Dunfermline learning campus.

The Convener: What proportion is that? I ask that question so that we will know what is left for the rest.

Karen Watt: It is about £52 million.

We have £30 million for capital maintenance in the round, and we have held back a certain amount—about £2.5 million—for very high-priority, on-going issues or emergencies that arise. It is absolutely true that, currently, all colleges will receive less funding than they need to completely maintain and improve their estates. That being said, we are investing in maintenance now with our £30 million and the £2.5 million of additional, urgent moneys that we have.

We are in the middle of a fundamental look at college infrastructure, which will report by the end of this year with both a costed infrastructure plan and a more significant look at a baseline across individual colleges and the entire sector. We have brought in consultants to help with the work on that. It is not a traditional stock survey, because we are not trying to replace like with like. We are trying to look more fundamentally at infrastructure across the piece—at digital as well as the estate and the fabric.

That baseline report will be a fundamental way of looking again at investment needs. We are looking at the status of buildings and their suitability, and at what students and staff might need for the future. We are trying to future-proof by looking at digital infrastructure and how we expect buildings to be used over time. That is a very significant piece of work, and it will be fundamental to looking at the investment requirements of the sector going forward.

Bill Kidd: That is very helpful.

Richard Maconachie: I will flesh some of that out. Looking at our inquiry, I note that one important thing that we have done is to combine our backlog and cyclical maintenance budgets so that colleges have more flexibility in how they can use them. We have said that they can also use them for capital digital investment. We recognise that modern colleges have significant investment needs in digital, so we are trying to free that up.

We would always recognise that it is not enough, but we are trying to make it as flexible as possible.

It is also worth mentioning that we provide funding to support advanced procurement for universities and colleges and Jisc, which provide efficiencies and economies of scale to the college sector. APUC is the procurement vehicle and Jisc is about digital technology.

Lastly, we are introducing what we call SCIM—the Scottish capital investment manual—which will require colleges to bring forward outline plans so that we look earlier at what they are proposing to do in their estate. There are seven work packages in the college infrastructure strategy, and one of them, which Karen Watt mentioned, is about trying to get a baseline on the current state of the estate. We will get that in a digitalised fashion so that we can chop and dice it to look at what the requirements are across the whole of Scotland. It will be less about what a given college has and what it needs and more about what a given area wants and what it needs.

Bill Kidd: So it is about being positive and addressing the issue ahead of time.

Richard Maconachie: It is a major investment of our time and effort.

The Convener: I am glad to hear that. I am looking at our report from 2023 and I note that, in paragraph 384, we asked

“that the SFC do all it can to accelerate work to develop and implement its Infrastructure Investment Plan”,

given our grave concerns about

“the significant level of back log and life cycle maintenance required”

for the estate.

You said that there is £30 million, with £2 million for really urgent things. Do you have a sense of the cost of the backlog maintenance? I am sure that it will be far higher than that.

Karen Watt: We will get a much better picture through the work that we are conducting at the moment.

The Convener: Do you know when you will have that? We made that recommendation in 2023. I am sure that each college is aware of its individual challenges, and I would have thought that it would be—I am choosing these words carefully—relatively easy to pull that information together from the various institutions in order to give us a number.

Karen Watt: We shall see. That is a fundamental part of the work. Although we have worked with the colleges to bring in experts to help to look at that, it is about understanding what fresh data colleges have, whether we can rely on it and

whether we can support them in how they get that information. A lot of that work will depend on the questions about what data colleges have and what they can share with us.

We work very closely with the estates teams. Last year, we had a budget for maintenance emergencies, and we had a bidding process so that we could prioritise applications for that very small amount of money. We spent quite a lot of time with institutions working through whether maintenance was routine or urgent. However, we will get a much better handle on all of that through the work that we are doing just now.

11:45

The Convener: That work in itself sounds quite resource intensive for the institutions, as it will incur costs and pressures. Can you give us an indication of when might we see the report that will lay bare the extent of the crisis in our college estate with regard to capital, maintenance and what will be required? In our report, we linked that back to the net zero targets and ambitions. It is important to note that our buildings across the public sector are a key contributor to those, so I am framing the question around that timeline and area, too.

Richard Maconachie: Part of the premise behind the infrastructure strategy is to try to think about what the sector will need tomorrow. It would not be a prudent use of public money to refurbish buildings that will not be required next year. The big challenge is that, although we could, I think, quite quickly go to the colleges and say, “What do you require to make this good?”, many colleges will not want those estates. RAAC, which I am sure we will discuss, has added to that burden. We are talking to some colleges that have really exciting and ambitious plans but have big problems with their estates at the moment. Their solution is not to repair the estate but to propose a new campus.

The Convener: Perhaps you can provide us with something on RAAC after this session, if we do not get the opportunity to delve into that in more detail.

I would like to pick up some questions about the review of teacher funding that the Scottish Government has recently announced. What information can you give us about that?

Karen Watt: We have introduced a quite different and revised college funding model, which we are continuing to evolve. The review is building on the new funding model that we introduced, which lowered credit thresholds, looked at the buffer intolerance around underdelivery and overdelivery, and rebased the price per credit,

which is the currency that we use—one credit is about 40 hours of learning.

The review has three or four elements. The first element is looking at whether our funding model can take more account of changing demographics and demand, which is basically checking that our credits and our distribution are being allocated in the right place. We are looking at and modelling where our senior phase students are coming from; what our school leaver projections are; what the population trends between the 15 and 19-year-old population and school leavers look like; what the regional skills assessment is telling us; where we believe that some colleges have more demand; and whether we can shift our credits around. The issue with all that is that, given a fixed pot, we have to find the funding from somewhere. The review is a more evidence-based look at where changing demographics and demand patterns are leading us to think differently about funding.

The second element is about pulling out some of the components. For example, we have a mix of subjects in price groups and we are looking again at whether we have the right price for those subject mixes. We are also looking at the way we pay premiums. We pay premiums to the college sector for widening access and for remoteness—provision in rural areas is more expensive but we need it there. We need to ensure that those premiums are fair because they have been embedded in the model for some time.

The third element is looking at what our tertiary education budget should be spent on. That is a huge conversation, not just with colleges but with the Government. For example, we are paying for and using our investment for senior phase activities. That is hugely important because it brings a thread of students through from schools to colleges, but it is a case of asking some basic questions. We fund half of all foundation apprenticeships in the senior phase. Reviews, such as the James Withers review, suggested that that could be looked at again to consider whether it is right for tertiary education to fund that, so we will be working with the Government on that.

The fourth element is the review of apprenticeships and apprenticeship funding, which the Government is leading but which might have implications for how we look at our reforms.

Those are some of the elements of the college funding model that we are looking at, and we are in the process of working through how best to organise that review so that we can take all stakeholders with us over the next few months.

The Convener: The committee has spoken at length about the importance of the apprenticeship review. Can you give us any further information on that at this stage or is it still far too early?

Karen Watt: The Government has said that it is looking at three big areas of reform. One is bringing funding provision together, including apprenticeships. I understand that some working groups are starting to look at graduate, modern and foundation apprenticeships. Clearly, we will be involved in all those areas, but the Government is leading on them at this time.

The Convener: I know that you listened to the evidence session with the first panel of witnesses, when we had a lengthy discussion about international student income cross-subsidising, as some might say, home students' fees. What are your thoughts on that and on how the 2025-26 budget might begin to address that issue, which is clearly so embedded now in Scottish institutions?

Karen Watt: The sector undoubtedly relies very heavily on international income, which does cross-subsidise teaching and research activity. I have to say that that is a hugely common business model in most universities across the world. That is not unusual or peculiar to Scotland. Certainly, the issues that we see in Scotland are rippling right across the UK and all universities are looking at that issue in particular.

Scotland is still a hugely attractive destination, largely because students receive a hugely important high-quality education. It is also important to say—because this is sometimes part of the discourse—that international students do not displace Scottish domestic students. The funded places are there for Scottish students. However, some courses run only because international students are there, so that situation hugely benefits domestic students and enriches not only all our lives but the student experience as well.

From a funder's perspective, we are seeing a big downturn in international income, and that is clearly a risk. Our mid-year review estimates are the most up-to-date information that anyone will have at this time, and we are seeing a reduction of around £40 million from last year in terms of international student income. The biggest decline is in postgraduate students, so undergraduate international student demand is holding up fairly well.

The issue for us as a funder is the concentration. Over half of the international students who come to Scotland come from about five countries: China, India, the USA, Nigeria and Pakistan. Therefore, what changes happen in those countries or what competition happens, particularly in Australia and Canada, massively affects the flow of international students to Scotland. It is fair to say that there are huge variations across the university sector in Scotland. More than 40 per cent of international students are studying at Edinburgh and Glasgow, so this is a

concentrated and a different kind of issue across the sector.

There is one thing that we are keeping a weather eye on. It is not that we are unbothered by cross-subsidisation. We are clear about the benefits and risks that come from volatile international markets, and we have seen that those markets can drop very quickly. Universities are hugely adaptable, but when we talk about, for example, the post-1992 universities, we see an accumulation of issues: there is a potential drop in domestic demand and some of the post-1992s are operating in more volatile international markets and are more exposed. They all deal with that really well, but it is a challenge.

You will have heard the first panel talk about an interest in transnational education and Scottish educators either having campuses or arrangements with other partner organisations overseas. That takes time and a lot of up-front investment. It can offer a huge amount of opportunity and we are seeing more interest in that; I think that we will track that over time.

The other factor that I would like to put on the committee's radar is that quality and quality assurance really matter. We have taken a decision with the Scottish Government that we will maintain European quality benchmarks and independent cyclical reviews. That matters because other Governments look at not just league tables but quality assurance. By maintaining those European quality benchmarks, we will maintain the right environment for Scottish universities not only to continue to attract Scottish students but potentially to work further overseas.

The Convener: In the past few weeks, we have also heard—it has been widely covered in the press—about some courses being cut based on financial considerations alone. The case that comes to mind is languages in the north-east. Does the SFC recognise those concerns? What support can be offered to institutions that find themselves in that situation?

Karen Watt: We have a couple of pathfinders looking at curriculum development at the minute. One of those is in the north-east. We are looking at collaboration and how institutions plan for their curriculum and we are finding that institutions change their curriculum pretty regularly. As part of the quality process, they look regularly at demand, employer needs and where students are thriving.

It is always difficult when an institution cuts provision and language is a particularly difficult issue, partly because we think that it is hugely important to have a range of subjects and that Scottish students should have choice, not only across Scottish universities but in institutions that they can attend locally. It is also very difficult if

fewer students are coming out of school with language skills. It is therefore inevitable that some of these courses will be reviewed in particular ways.

It is for institutions themselves to think carefully about choice and the nature of the provision that they are making. We know that institutions, particularly in the north-east, are looking at their provision. Not all institutions are cutting courses. Some are amalgamating joint honours and are looking at their curriculum in particular ways. We are tracking that. We are not seeing particular problems with course provision at the moment. There is still choice, but we are tracking it. We are acutely aware of the situation and as funding changes in the next few years, we will want to keep a weather eye on that.

The Convener: That is helpful; thank you. We come to questions from Ross Greer.

Ross Greer: You will have heard the questions that I asked the first panel—they are similar to those that I asked the panellists last week. I am interested, in particular, in what the SFC's role is in ensuring that colleges are fulfilling their fair work commitments. Correct me if I am wrong, but my understanding is that the primary way in which the SFC would be involved in that is through the college outcome agreements. If there are commitments to fair work in an outcome agreement, the SFC would have a role in checking that those have been fulfilled. Can you outline how that works in practice?

12:00

Karen Watt: On the issue of fair work, our role is threefold. We promote good practice. All of our outcome agreements, which are all published, will have information about fair work in them. It is a condition of grant. Increasingly, for reasons that I might touch on, we have strengthened the accounts directions for colleges and universities for this year.

The second issue is that we are requiring better reporting from institutions. We did an internal assessment of the outcome agreements and found that the information in them was very variable. As a result, we have strengthened and changed the accounts direction. We have also set out more clearly the issues that we would like auditors to scrutinise more carefully. We expect that to come through for this year. We are also going to be talking to Audit Scotland about our expectation that auditors will consider those fair work statements and provide a more thorough look at that issue, because we have had a variety of responses through our outcome agreement process.

The third area that I would touch on briefly is that, where there are particular issues in particular situations, we may well need to get more involved, in order to explore what is going on. Fair work intersects with a lot of other issues in industrial relations, and guidance on things such as severance and redundancy, so quite often fair work issues can become part of those discussions.

We need to be very careful that we are not stepping into the legitimate business of running a college, but we have a responsibility to promote fair work and ensure that it is in place. Therefore, we will become involved if we see issues emerging or if we see patterns and particular hot spots that may require further scrutiny from us.

Ross Greer: That is really useful. I would like to come back to what it looks like in practice if there is a problem and you need to get involved.

First, though, when an outcome agreement is being drafted, is each college allowed to take a bespoke approach to fair work, with quite a lot of flexibility, or do you approach them all with a minimum set of standards based on Scottish Government fair work policy? What are the baseline criteria? Do you say, "You cannot have a fair work agreement that does not at least meet X, Y and Z standards"?

Karen Watt: We expect well-established fair work criteria, including criteria that have extended recently from the Scottish Government, to be the bedrock standards that apply. It is for institutions to ensure that they are conducting themselves in line with those criteria. When I said that we were seeing variable reports, that was more about the reporting. There was variability in how institutions were describing fair work criteria and reporting back to us on how well they were complying with those criteria. That is why we have strengthened other channels. We were simply not seeing that reporting coming back to us in the way that we would like. It is early days. This is the second year that we have been doing this, so we simply need it to be better.

Ross Greer: Is your ability to take action if a point of fair work conditionality is not met confined purely to what is in existing Scottish Government fair work policy? If a college had come to you on the basis of a local agreement with its trade unions and said, "This is one of our fair work policies and we want it to be part of our outcome agreement" and then, for whatever reason, it did not meet that or was unable to do so, would you still be able to take action? Would you have any role in that or is your role in ensuring that fair work conditionality is delivered confined to existing Scottish Government fair work policy?

Karen Watt: I feel that you may have a case in mind there. We take the Scottish Government's general fair work criteria as our main approach. It is absolutely right that there is an effective employer voice and effective industrial relations, so we would expect local agreements to happen where that is appropriate. However, it is not necessarily the Funding Council's role to mediate on those local bespoke arrangements, although we would be concerned if the fundamental principles of fair work were being breached in particular ways.

Ross Greer: If there were a breach, what options would be available to you? Would it simply be a case of clawing back money that was provided on the condition of the fair work agreement being met, or are other mechanisms available to you?

Karen Watt: It is always extremely difficult for a funder to place financial penalties on a college where that might affect students and front-line service delivery. There is a conundrum for a funder about what penalties to put in place, and we are extremely reluctant to have that kind of funding clawback as a penalty.

That said, when we publish information, it has results, let us say. We can publish material that ensures that colleges improve and do things differently, which is quite a powerful mechanism. Looking to the future and at what the funding body might be, whether the Government reforms the SFC or looks at the issue more generally, it might be worth considering the levers and powers that a funding body might have around those fundamental but broader issues.

Our powers lie in an act from 2005. Although we have upgraded and kept in step with all the policies, there is a role for the Government to look at what powers might be most useful in such circumstances for a funding body, or a successor to the SFC if that happens. We have proposed a range of alternatives that we might want over time to strengthen our powers. That involves not just the extreme powers of recovering money or triggering a statutory investigation, but powers in between, which could be helpful.

Very briefly, another aspect is to do with other organisations. We rely a lot on organisations such as Education Scotland, the Quality Assurance Agency for Higher Education and the financial auditors, for financial scrutiny of the bodies that we fund. There will be aspects of organisations' powers that we can use as well in that area, whether it is the Office of the Scottish Charity Regulator or auditors through Audit Scotland making comments.

Ross Greer: That is useful. Forgive me, as I should know this, but are the proposals that you

just mentioned—on the powers that a future funding body or a reformed SFC might have—in the public domain, or have you submitted them directly to the Government?

Karen Watt: We have not put that in the public domain. The Government asked us for our views specifically on what should happen if there was a reform agenda for the landscape. As you know, the Withers review and others have made proposals relating to duplication in the funding landscape and bringing funding together. Obviously, we have proposed that the SFC should be the foundational body, but its powers could be reformed, and we have suggested what some of those powers might look like. The last thing that Scotland needs at the minute is another stand-alone regulator, but a funding council with slightly different levers and slightly different powers of intervention could be extremely powerful.

Pam Duncan-Glancy: I found that exchange really helpful—thank you. Some of my questions have already been answered, so I will put just one question. What are your expectations of colleges with regard to voluntary severance?

Karen Watt: We have put out our guidance on voluntary severance. I should say up front that we are reviewing that guidance and that we will develop new guidance.

At the minute, most of our guidance on severance deals with value for money and aspects such as following rules on conditions of payment. That has to be in line with the Scottish public finance manual, and we work in that context.

We are reviewing the guidance because we expect colleges to be looking not just at value for money but at the broader issues that we have been talking about this morning, such as the impact on staff, on the curriculum and on students and their choice. We are broadening our guidance formally to require different and further information from colleges about how voluntary severance schemes work, and consent by us to those schemes.

Pam Duncan-Glancy: The Minister for Higher and Further Education; and Minister for Veterans said that the outcome agreement “includes ... requirements” on colleges to get

“approvals for voluntary severance schemes”

from the SFC. Is that the case?

Karen Watt: Yes, that is right.

Pam Duncan-Glancy: Have all colleges that have put such schemes in place sought that approval?

Karen Watt: Most colleges will come to us; we are not aware of any that have not done so. We

are aware of all the voluntary severance schemes that are in place across Scotland’s colleges.

Liam Kerr: The SFC had to make some very difficult choices, following the last budget, to save £28.5 million from the university resource budget. One of those choices was to remove the contribution of several million pounds to the employers’ contribution to the Scottish teachers superannuation scheme.

Karen Watt: Yes.

Liam Kerr: My understanding is that such a decision has a much greater impact on Scotland’s modern universities, given the rules on the STSS pension scheme and the enrolment. I know that that has been raised with the Government and with the SFC. Just for the record, however, what can the Government and/or the SFC do to mitigate or ameliorate—or perhaps even, in future, to reverse—that hit to modern universities’ resource budgets?

Karen Watt: Very specifically, the contribution that we made was £4.8 million. We signalled a couple of years ago that we would not be making that contribution into the long term. The last contribution was due to be in the academic year 2022-23, but we were able to find money for a further year. We had already signalled that we would not be paying that contribution for the long term as our funding could not maintain it. That should not, therefore, be a surprise to the university sector and institutions should have been planning with that in mind.

That being said, we completely understand the difficulty, in particular as pensions can go up and down and there has been a rise in that regard. We are acutely aware of that. It is worth noting that other pension schemes have gone up in more difficult ways, and we have not made any contribution to those, nor does any other funding body across the UK make a contribution to funding those schemes. That was a very helpful amount of money, but we had already signalled that it was going to stop.

The biggest issue for us is taking a step back and looking at the funding across the piece. We were very careful, in the post-1992 institutions, to maintain other premiums that were not available to other institutions, such as the widening access and retention fund, which has a significant impact in supporting widening access for students.

This is a difficult comparison to make, but in addition, when we were looking at savings, we were trying to balance the position. For example, we phased out some of the compensation that we make for strategically expensive subjects, and the impact of that fell more squarely on the older institutions. In all this, therefore, we have been trying to balance where those cuts fell and where

we had already signalled that we were making a change, difficult though that might be. We will keep an eye on that, but it will depend very much on the overall funding envelope that we get for 2025-26 and beyond.

At this point, I would say that it is unlikely that that element will come back into play, but we will keep a very strong eye on it.

Liam Kerr: I understand.

The Convener: I thank the panellists for their time this afternoon. The public part of today's meeting is at an end and we will consider our final agenda item in private.

12:15

Meeting continued in private until 12:32.

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