Public Audit Committee

4th Meeting, 2021 (Session 6), Thursday, 23 September

Scotland's colleges 2020

Introduction

1. At its meeting today, the Public Audit Committee will take evidence in a round table format from witnesses on Scotland's colleges.

2. In May 2021, the Auditor General for Scotland (AGS) published a blog on Scotland's colleges 2020. The purpose of this evidence session is to reflect on the information in this blog as well as the AGS's previous report on Scotland's colleges 2019, to establish the current challenges facing the colleges sector. A copy of both publications can be found in **Annexe A.**

3. Since the AGS's blog was published, two reports have been published relevant to this session as follows—

    - Coherence and Sustainability: A Review of Tertiary Education and Research, published by the Scottish Funding Council in June 2021.

    - Remote learning in Scotland's Colleges – National overview, published by Education Scotland HM Inspectors in June 2021.

4. The evidence session will therefore also draw on these reports to inform the Committee's consideration.

5. In advance of the evidence session, written submissions have been received from Colleges Scotland, the EIS and the Scottish Funding Council (SFC) and can be found at **Annexe C**.

6. The session is intended to encourage discussion amongst witnesses. It is more informal than usual in that MSPs and witnesses attending the meeting in person will be interspersed around the meeting table. Witnesses attending virtually will have the opportunity to highlight when they wish to contribute to the discussion.

7. Those attending are—

    - Audit Scotland – Stephen Boyle, Auditor General for Scotland

- College Principals' Group - Audrey Cumberford, Interim Chair
- Colleges Scotland – Shona Struthers, Chief Executive
- Education Scotland – Gill Ritchie, Strategic Director, Scrutiny (Interim)
- EIS – David Belsey, Assistant Secretary
- National Union of Students – Matt Crilly, President
- Scottish Funding Council – Karen Watt, Chief Executive

8. The key themes for discussion for the session today are as follows—

    - Financial health and sustainability - 40 mins (approx.)
    - Responding to the Covid-19 pandemic - 30 mins (approx.)
    - College performance – 20 mins (approx.)

9. A summary of the suggested areas for discussion can be found at **Annexe B**.

Clerks to the Committee
20 September 2021

Annexe A

AUDITOR GENERAL

Online blog

Scotland's colleges 2020

20 May 2021 by Auditor General
View online: www.audit-scotland.gov.uk/report/scotlands-colleges-2020

Full effects of pandemic still to be felt by colleges

1. Scotland's colleges play a vital role in helping people learn new skills and fulfil their potential. Colleges also make significant contributions in supporting the country's social and economic recovery from Covid-19 – but college audits for 2019-20 show that many continue to face significant financial challenges.

2. As we reported pre-pandemic, colleges were facing rising cost pressures – particularly around staffing and maintaining their buildings. Most institutions were forecasting future deficits while also trying to increase the proportion of students completing their courses.

3. Then Covid-19 changed the way learning is delivered. Teaching moved largely online and campuses closed – hitting revenue streams further.

4. Students have had to adapt to a new way of learning, which has been particularly difficult for those suffering financial hardship and digital poverty. The Scottish Government responded by providing additional funding to support students. And Education Scotland HM Inspectors will publish a report shortly on how colleges have adapted to digital learning. Covid-19 has also increased the need for colleges to determine what buildings and equipment are needed to deliver future learning.

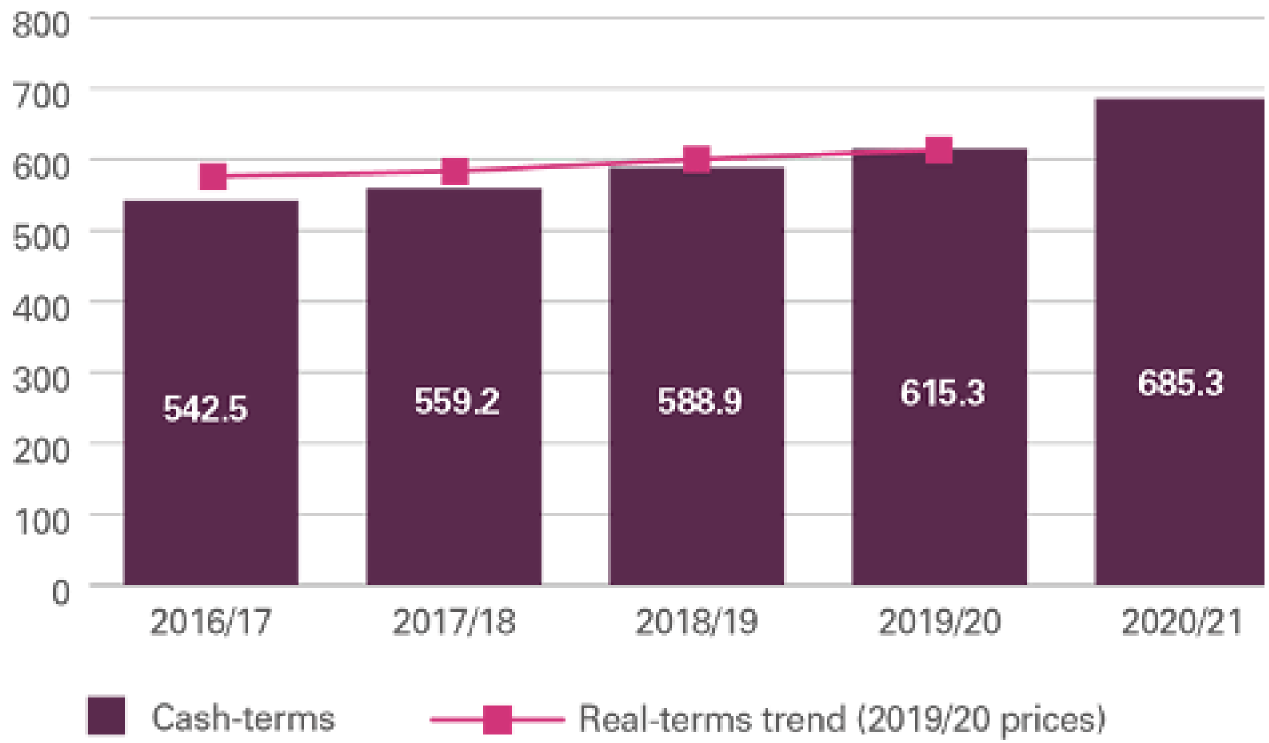
5. Overall, the sector has responded well to the challenges of the pandemic so far, with governance and financial management arrangements continuing to operate effectively.

Colleges ended 2019-20 in a better financial position than initially forecast

6. Significantly, the full financial effects of Covid-19 were not felt during academic year 2019-20. Management teams have been able to furlough staff, which has resulted in some colleges delaying difficult decisions around severance.

7. Scottish Government funding continues to rise – the sector received over £615 million of revenue funding in financial year 2019/20, a 2% real terms increase. But pre-Covid increases in funding have primarily covered additional costs from harmonising staff terms and conditions.

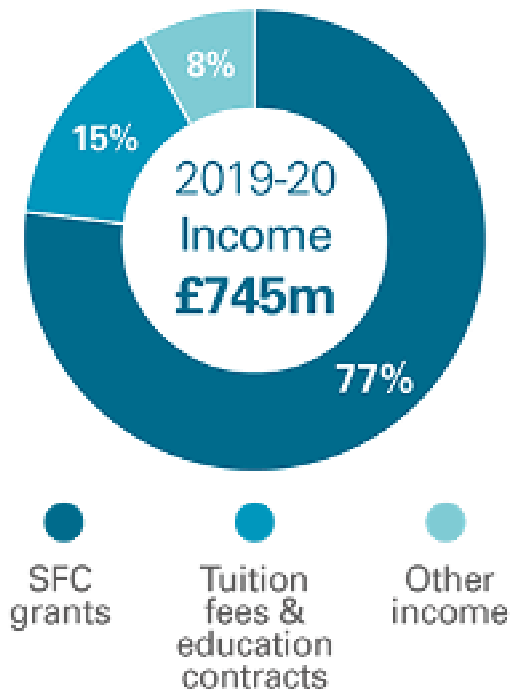
Exhibit 1
Scottish Government revenue funding for colleges since 2016/17



8. The gap between colleges' total income and expenditure has grown to £54 million. And it's forecast to continue because of costs outwith the sector's immediate control, such as pensions and depreciation of assets. After stripping out these costs, the sector's underlying financial position (adjusted operating position) was a surplus of over £3 million in 2019-20 (see here for more detail for each college). This was a far healthier position than the £9 million deficit colleges had forecasted in June 2020. Colleges will provide the Scottish Funding Council (SFC) with updated medium-term financial forecasts in June 2021.

Exhibit 2

Sources of income and areas of expenditure for incorporated colleges in 2019-20



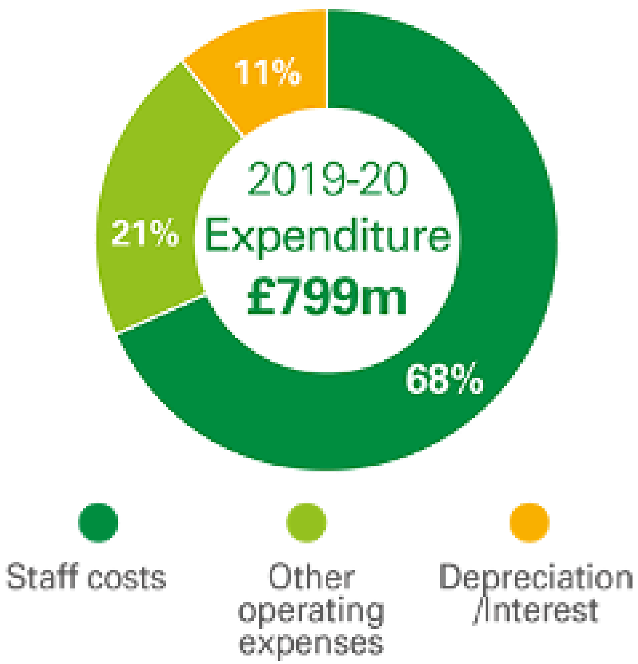
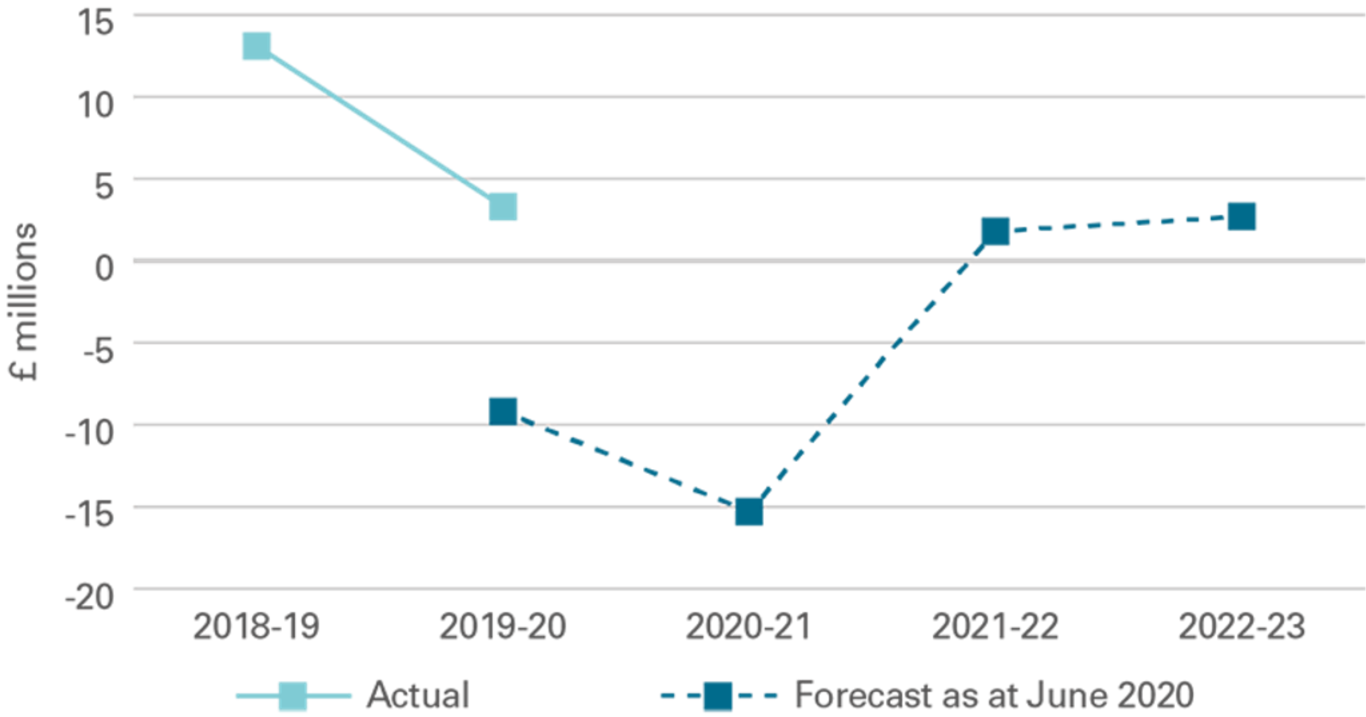


Exhibit 3
Underlying financial position of the college sector in 2018-19 and 2019-20 and forecast underlying position from 2019-20



Forecast data source: SFC

Responding to the longer-term impact of Covid-19 will require change in the college sector

9. The Scottish Government provided the sector with £70 million more revenue funding in 2020/21. This included money to support students and boost skills through training in response to the economic impact of Covid-19. The SFC website includes details of how the funding was distributed.

10. Robust long-term financial planning by colleges will be critical to achieving financial sustainability. Auditors have highlighted a significant number of colleges that need increased funding, cost cutting – or both – to deliver balanced budgets in the future.

11. Significant changes to the wider sector are also likely. The SFC is currently carrying out a review of the college and university sectors in response to Covid-19, including the role colleges can play in supporting Scotland's economic recovery. Work to review and revise arrangements for the regional strategic college bodies in Glasgow, the Highlands and Islands, and Lanarkshire is also ongoing.

12. The effects of the Covid-19 pandemic are likely to be felt in colleges for years to come. This includes longer-term implications for colleges' financial sustainability, the experience of students and staff, the college estate and the role of the sector in supporting Scotland's recovery and renewal. Responding to this will be challenging, but also offers opportunities to learn from what is working well to enable future change.

13. I will continue to monitor and report on the financial health, governance and performance of Scotland's colleges each year through annual audit reports. And over the coming year I will be watching closely the outcome of the SFC's review, and how colleges respond.

Data Visualisation: College financial position, 2019-20

About the data

This data presents colleges' financial position for 2019-20 (the year ending 31 July 2020), based on individual colleges' audited accounts. It includes 20 incorporated colleges and Glasgow Colleges' Regional Board (GCRB) which we audit. The GCRB oversees three assigned colleges (City of Glasgow, Glasgow Kelvin and Glasgow Clyde), allocating funding and monitoring performance. For more details on incorporated colleges and college regional structures, please refer to the Appendix of our Scotland's colleges 2019 report.

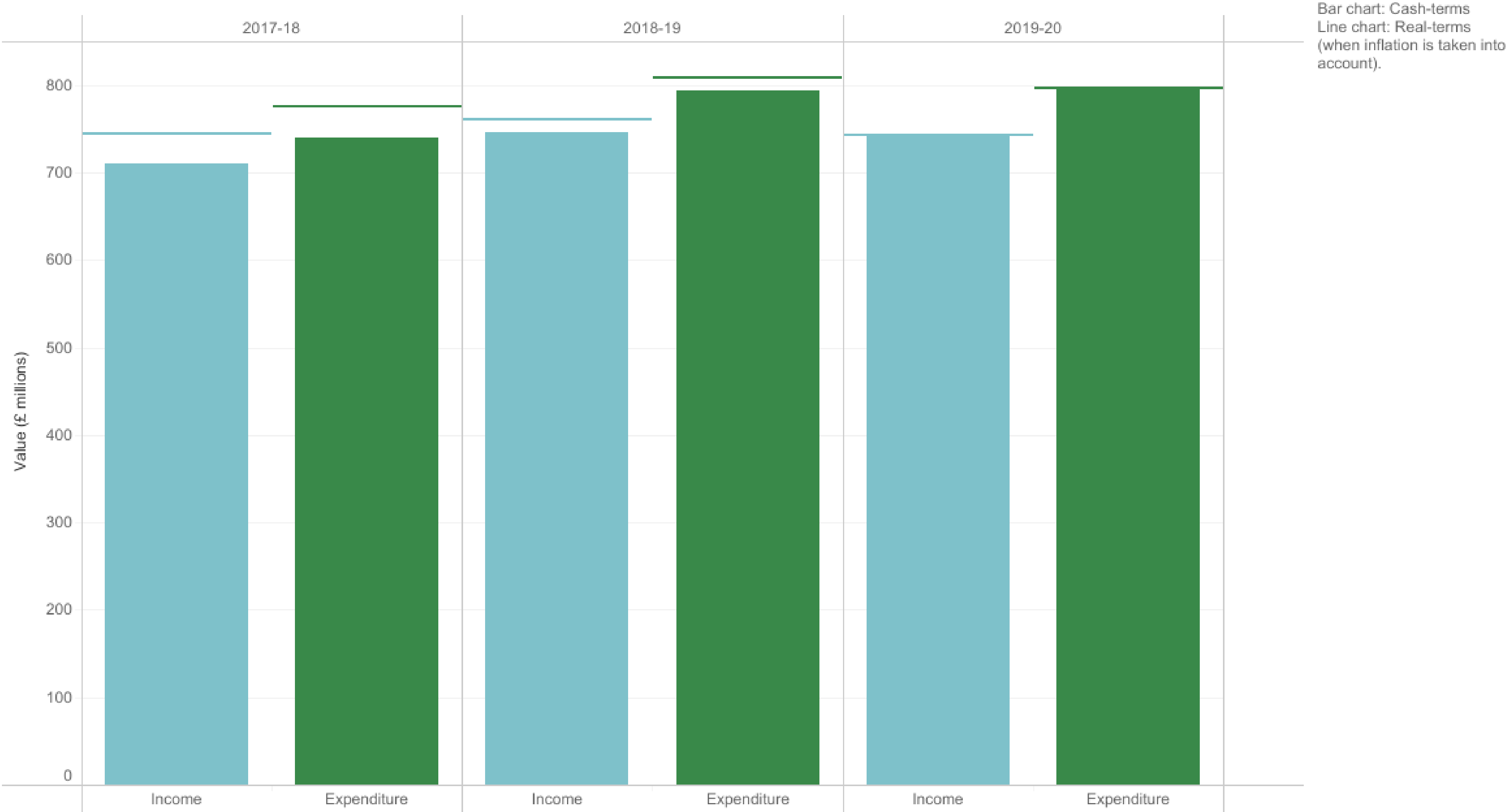
Figures are adjusted for inflation. The base year for the data is 2019/20. The GDP deflator from March 2021 was used to calculate the real-term figures for other years.

View and interact with data visualisation online.

Slide 1: Total income and expenditure

Total income and expenditure

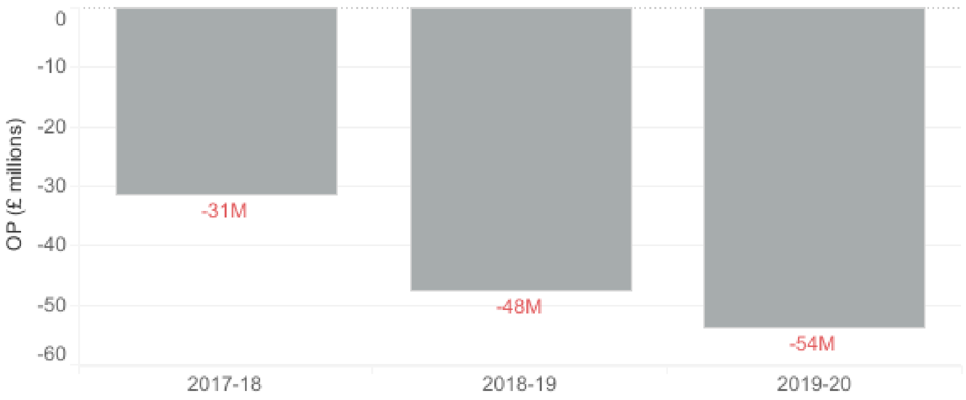
Colleges had income of £745m and expenditure of £799m in 2019-20. Both income and expenditure fell by 2.2 per cent and 1.3 per cent respectively when inflation is taken into account.

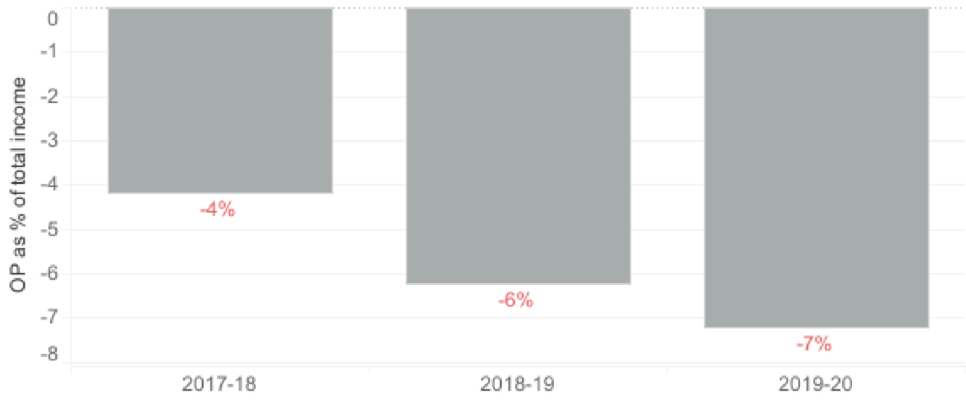


Slide 2: Operating positions

Operating position (OP)

The sector reported an overall deficit of £54m. The gap between total income and expenditure has increased over the last three years. By 2019-20, this gap represented seven per cent of colleges' total income.

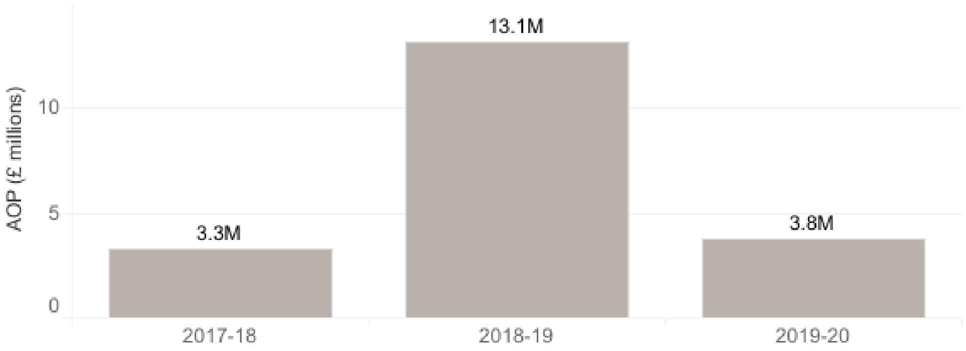


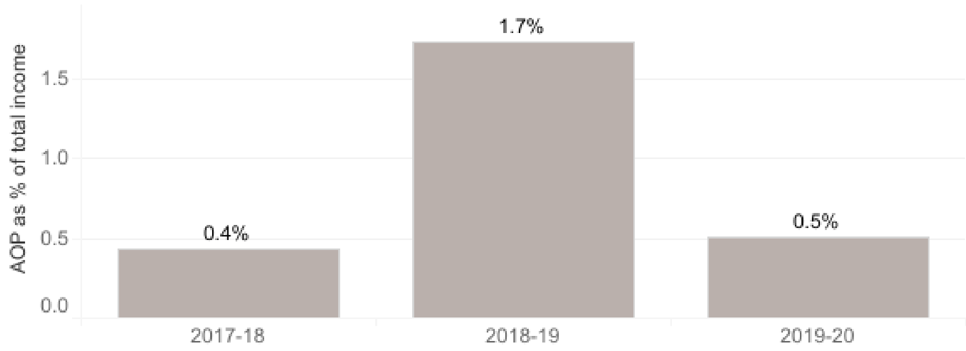


Adjusted operating position (AOP)

Adjusted operating position shows a college's short-term financial health. The adjustments are made to the operating position for technical accounting factors that are beyond a college's immediate control, such as pensions and net depreciation.

After these adjustments, the sector reported an underlying surplus of £3.8m, representing 0.5 per cent of the total income (£745m). While this was a deterioration from 2018-19, the position was better than its forcast deficit of £9m in June 2020.

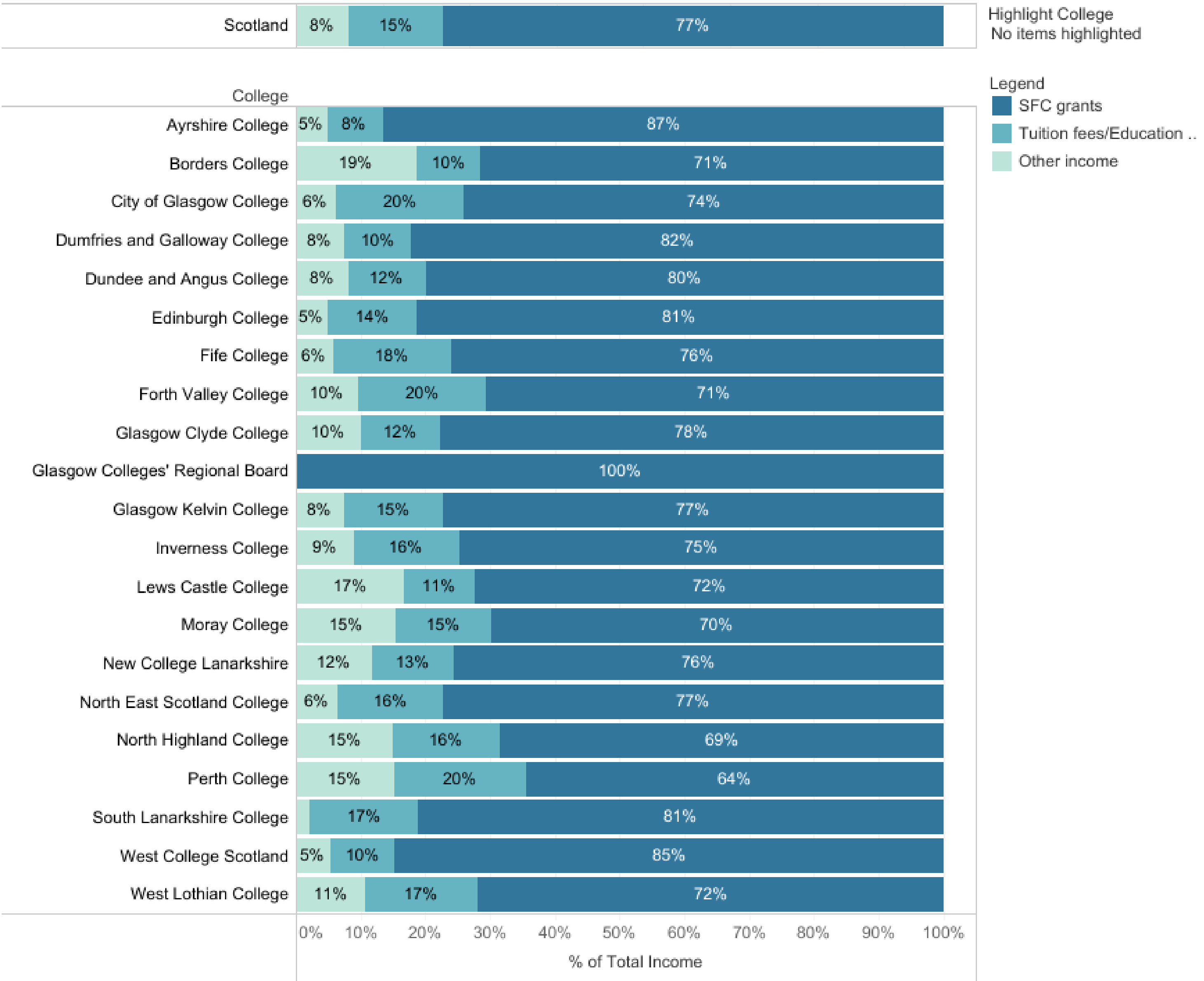




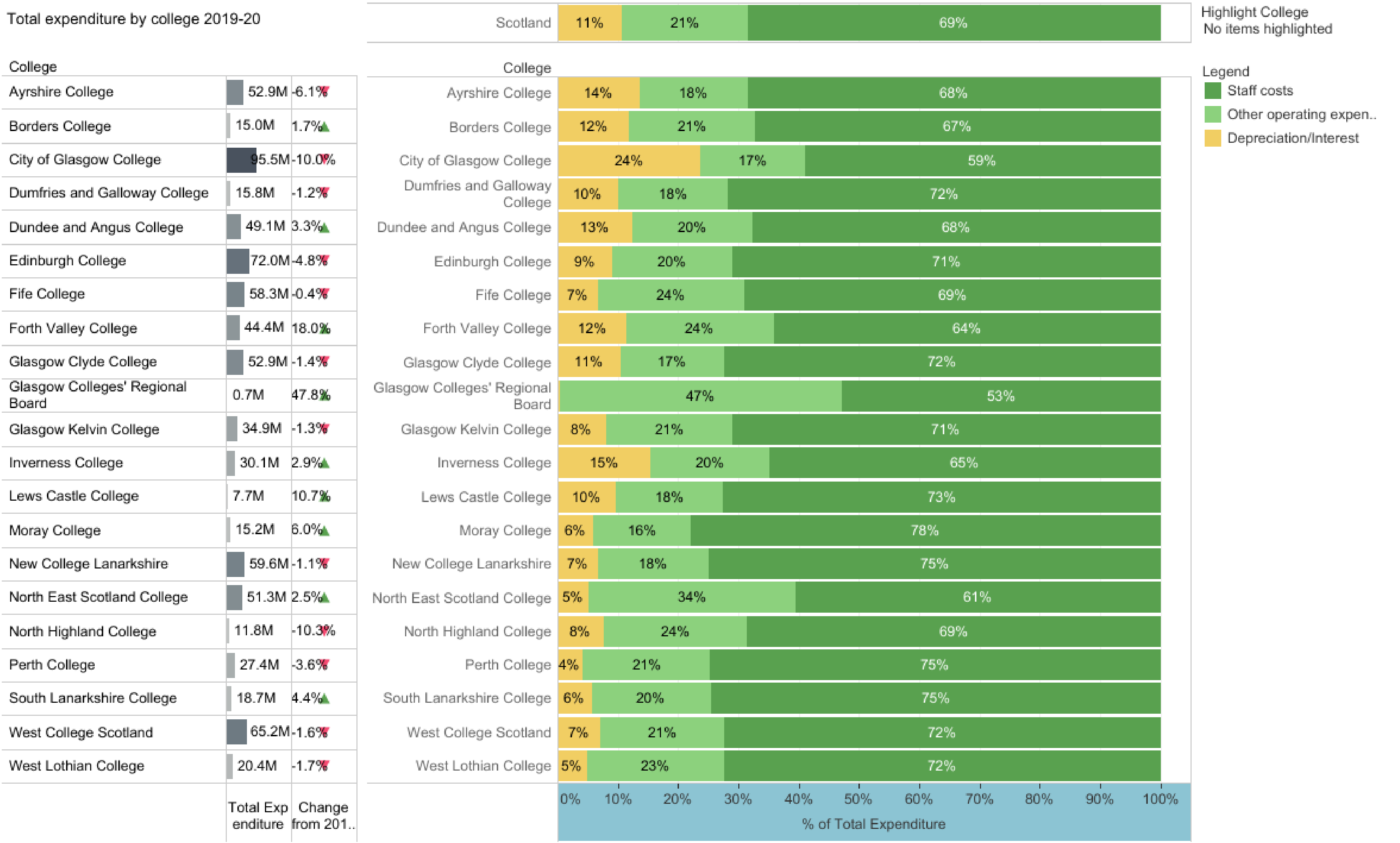
Slide 3: Income by college

Total income by college 2019-20

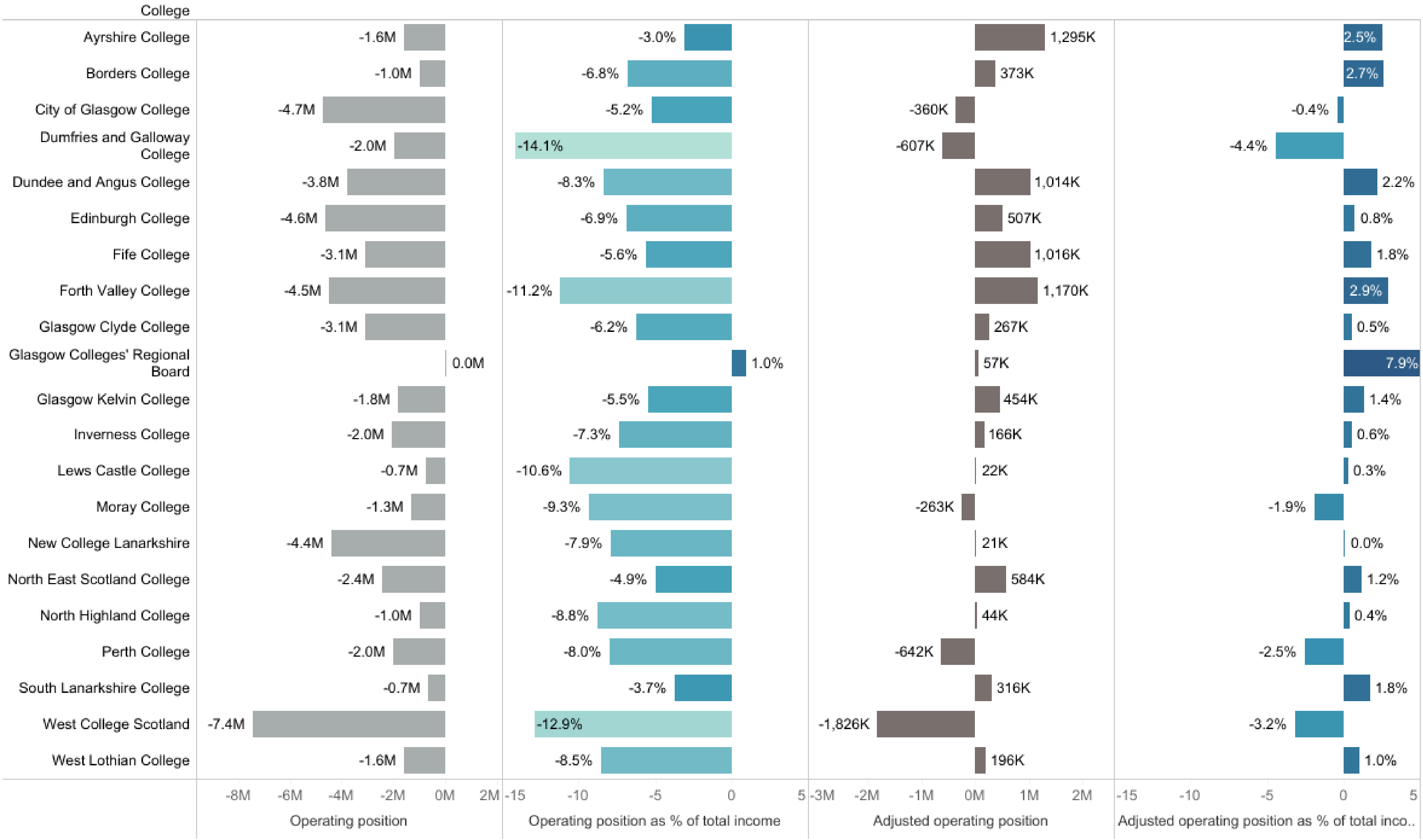
College	Total Income	Change from 201..
Ayrshire College	51.4M	-6.6%
Borders College	14.0M	2.6%
City of Glasgow College	90.8M	-2.9%
Dumfries and Galloway College	13.8M	-4.1%
Dundee and Angus College	45.3M	0.5%
Edinburgh College	67.4M	-2.7%
Fife College	55.3M	0.2%
Forth Valley College	40.0M	11.5%
Glasgow Clyde College	49.8M	-0.4%
Glasgow Colleges' Regional Board	0.7M	58.6%
Glasgow Kelvin College	33.1M	-0.3%
Inverness College	28.1M	-3.0%
Lews Castle College	7.0M	7.5%
Moray College	13.9M	1.9%
New College Lanarkshire	55.2M	-6.1%
North East Scotland College	48.9M	-3.1%
North Highland College	10.9M	-9.6%
Perth College	25.4M	-9.9%
South Lanarkshire College	18.0M	-0.5%
West College Scotland	57.7M	-4.0%
West Lothian College	18.8M	-3.0%



Slide 4: Expenditure by college



Slide 5: Operating position/Adjusted operating position by college



Online blog

Scotland's colleges 2020

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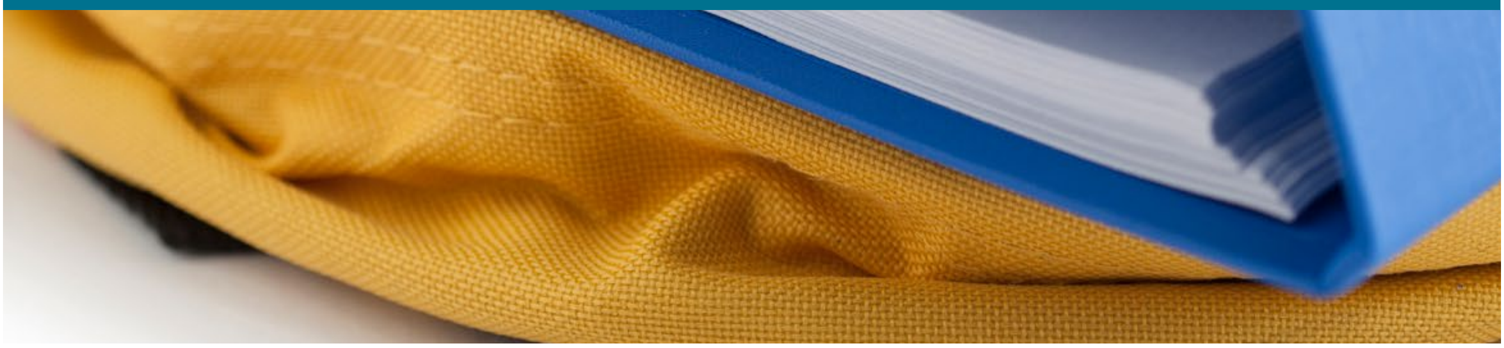
Scotland's colleges 2019

AUDITOR GENERAL

Prepared by Audit Scotland
June 2019



Auditor General for Scotland

The Auditor General's role is to:

- appoint auditors to Scotland's central government and NHS bodies
- examine how public bodies spend public money
- help them to manage their finances to the highest standards
- check whether they achieve value for money.

The Auditor General is independent and reports to the Scottish Parliament on the performance of:

- directorates of the Scottish Government
- government agencies, eg the Scottish Prison Service, Historic Environment Scotland
- NHS bodies
- further education colleges
- Scottish Water
- NDPBs and others, eg Scottish Police Authority, Scottish Fire and Rescue Service.

You can find out more about the work of the Auditor General on our website: www.audit-scotland.gov.uk/about-us/auditor-general

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

Contents

Audit team

The core audit team consisted of: Mark MacPherson, Mark McCabe, Yoshiko Gibo, Angus Brown and Sanya Ahmed, with support from other colleagues and under the direction of Angela Canning.

Links

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Web link

Key messages

1. The college sector reported a small, but improved, underlying financial surplus in 2017-18. Colleges are operating within an increasingly tight financial environment and the sector-wide position masks particular financial challenges for some colleges. The gap between colleges' income and expenditure is widening and this is forecast to continue, with 12 incorporated colleges forecasting recurring financial deficits by 2022-23.

2. Colleges face increasing cost pressures. The increase in Scottish Government revenue funding for 2019/20 covers only the additional costs of harmonising pay and conditions across the sector (excluding cost of living increases and increases in employers' pension contributions). Current Scottish Government capital funding falls short of the estimated costs of maintaining the college estate. The proportion of non-government income that colleges generate has reduced over time, and cash balances and money held by arm's-length foundations fell.

3. Student numbers increased, and the sector exceeded its learning activity targets. Over the past three years, colleges have been providing less learning to students aged 16-24 and more to students aged 25 and over. Colleges are widening access to disabled, ethnic minority and care-experienced students. After several years of increasing learning delivered to students from deprived areas, the proportion of learning delivered to this group fell slightly in 2017-18.

4. There is considerable variation across colleges in terms of student attainment and retention and those going on to positive destinations. Average attainment rates for students in full-time education have remained relatively static in recent years. The attainment rate for full-time further education, at 66 per cent, is some distance from the Scottish Funding Council's (SFC) target of 75 per cent by 2020-21. Attainment gaps still exist for students from the most deprived areas, students with disabilities and for care-experienced students.

5. There is scope for the SFC to work with individual colleges and their boards to improve financial planning and to achieve greater transparency in the sector's financial position. The SFC can also be more transparent in how it reports colleges' performance against outcome agreements and student satisfaction data. The SFC has agreed aspirational and stretching targets with colleges in their latest outcome agreements. Based on recent performance trends, achieving some of these targets will be very challenging for colleges.

Recommendations

Colleges should:

- agree their underlying financial position with the SFC prior to finalising their accounts (paragraph 5)
- improve data collection and response rates for student satisfaction and publish results (paragraphs 52–53)
- use *How good is our college?* effectively to drive improved performance and enhance the quality of service provision (paragraphs 55–57).

College boards and regional bodies should:

- agree medium-term financial plans that set out the mitigating actions to ensure their college's financial sustainability (paragraphs 17–19)
- submit agreed medium-term financial plans to the SFC along with financial forecast returns (FFRs) (paragraphs 17–19).

The SFC should:

- work with colleges to agree their underlying financial position prior to finalising their accounts (paragraph 5)
- require colleges to submit medium-term financial plans to support FFRs in assessing financial sustainability across the sector (paragraphs 17–19)
- publish college region performance against all outcome agreement measures (paragraph 44)
- publish good-quality student satisfaction data for every college (paragraph 52).

The SFC and Scottish Government should:

- agree and publish a medium-term capital investment strategy that sets out sector-wide priorities (paragraph 24)
- review whether targets for college provision and student outcomes, including for students from deprived areas, remain relevant and realistic, based on current performance trends (paragraph 31) (paragraphs 41–42)
- work with colleges to deliver the necessary improvements in performance to meet agreed outcome agreement targets (paragraph 45).

Part 1

Financial health

Key messages

1 The college sector reported a small, but improved, underlying financial surplus in 2017-18. Colleges are operating within an increasingly tight financial environment and the sector-wide position masks particular financial challenges for some colleges.

2 The Scottish Government has been providing colleges with real-terms increases in revenue funding since 2016/17. The most recent increase for 2019/20 covers only the additional cost of harmonising staff terms and conditions. Colleges also need to fund cost of living pay increases and any unfunded element of increases in employers' pension contributions. The proportion of non-government income, such as education contracts and other commercial income, has reduced. Colleges' ability to access other sources of funding, such as cash and arm's-length foundation (ALF) balances, is also reducing.

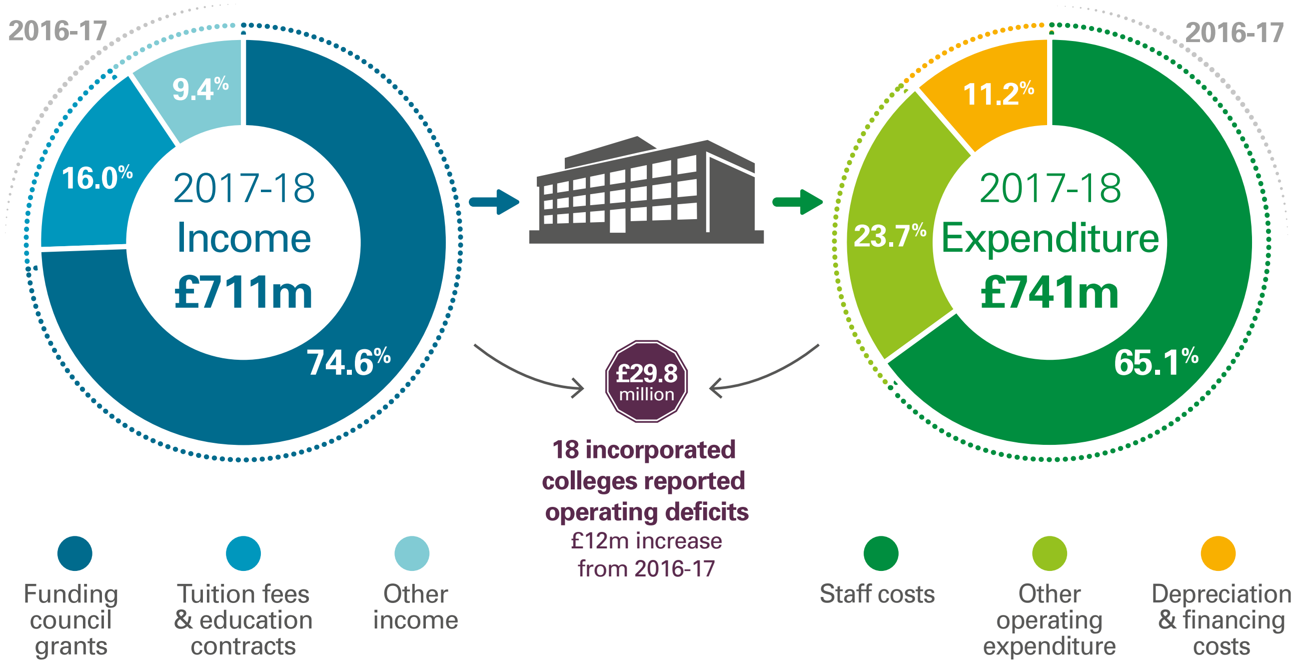
3 The gap between colleges' income and expenditure is widening. Twelve incorporated colleges were forecasting recurring financial deficits by 2022-23. At the time of their annual audits, ten of these were still to determine the specific actions needed to achieve financial sustainability.

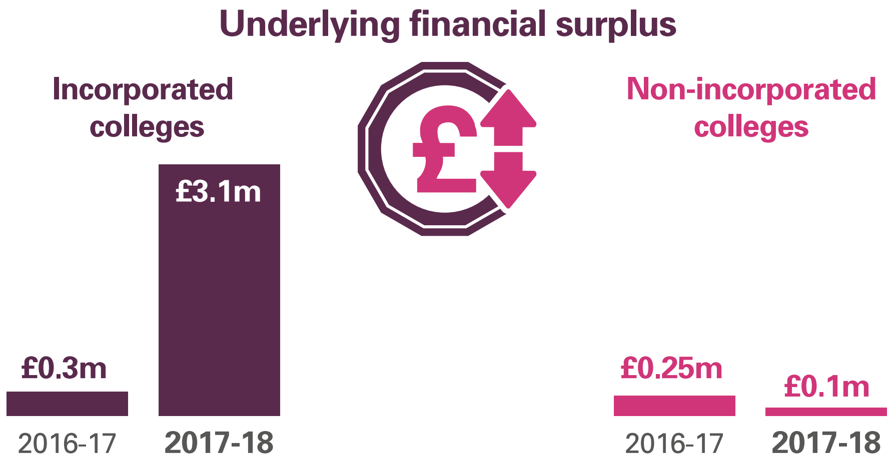
4 Scottish Government capital funding falls short of what is needed to meet the estimated costs of maintaining the college estate. The Scottish Government is working with the Scottish Futures Trust and SFC to identify an appropriate revenue funding model for future investment in the college estate.

The underlying financial position for the college sector improved slightly in 2017-18, but the gap between income and expenditure is widening

1. Income remained unchanged across the sector in 2017-18 at £711 million. This represents a 1.9 per cent reduction in real terms from 2016-17. Scottish Government funding (provided through grants from the Scottish Funding Council) increased by 1.0 per cent in real terms. The proportion of income from other sources, such as education contracts and other commercial income, fell, meaning that colleges are increasingly dependent on Scottish Government funding (Exhibit 1, page 7).

Exhibit 1
Colleges have achieved an underlying surplus but the gap between income and expenditure is widening





Source: College accounts/SFC

2. Colleges' expenditure increased by £11.8 million (0.3 per cent in real terms) to £741 million in 2017-18, widening the gap between income and expenditure. As a result, the sector's operating deficit increased to £29.8 million. Eighteen of the 20 incorporated colleges reported operating deficits.

3. Adjusting the operating position for technical accounting factors that are beyond a college's immediate control, such as pensions and net depreciation, helps to provide a clearer picture of a college's short-term financial health. After such adjustments, incorporated colleges reported an underlying surplus of £3.1 million. While the underlying surplus is £2.8 million higher than in 2016-17, it represents a very small percentage of sector expenditure (0.4 per cent).

4. The overall underlying surplus for the six non-incorporated colleges is £0.1 million, equivalent to 0.4 per cent of their expenditure of £25.6 million and less than half the surplus in 2016-17 (£0.25 million).

5. In calculating and reporting their underlying operating positions, colleges continue to interpret the SFC's accounts direction inconsistently. While the differences between colleges' and the SFC's calculations are small overall (around £1.4 million), differences in individual college figures can be significant.

6. As public bodies, colleges are expected to operate with balanced budgets, but they are operating within an increasingly tight financial environment. The underlying positions of individual colleges are shown on (Exhibit 6, page 12), together with other indicators of financial health.

The latest increase in Scottish Government revenue funding is only enough to cover the costs of harmonising staff terms and conditions

7. Scottish Government revenue funding to the sector reduced in the period leading up to college reorganisation. Revenue funding for the sector has increased year-on-year since 2016/17 in real terms, mainly due to the Scottish Government funding the costs of harmonising staff terms and conditions. All of the increase in funding in 2019/20 is to fund these costs (Exhibit 2, page 9).

8. The SFC and Colleges Scotland have calculated the additional cost from harmonising staff terms and conditions at £50 million per annum from 2019-20. This includes £12 million allocated over the next two years to fund the harmonisation of terms and conditions for support staff. Colleges and the Educational Institute of Scotland (EIS) are in dispute over the cost of living pay claim for lecturers, over and above the harmonisation of pay, terms and conditions. This has resulted in several periods of industrial action and they have yet to reach agreement. The additional costs of the settlement will have further implications for colleges' costs and financial sustainability.

9. There is no additional Scottish Government revenue funding to cover other cost increases over this period, such as cost of living increases and increases in employer pension contributions. Scottish ministers have committed to pass on any specific UK funding made available to help meet planned increased employer pension contributions to the Scottish Teachers Superannuation Scheme. There still may be a significant element that remains unfunded for colleges (Exhibit 3, page 9).

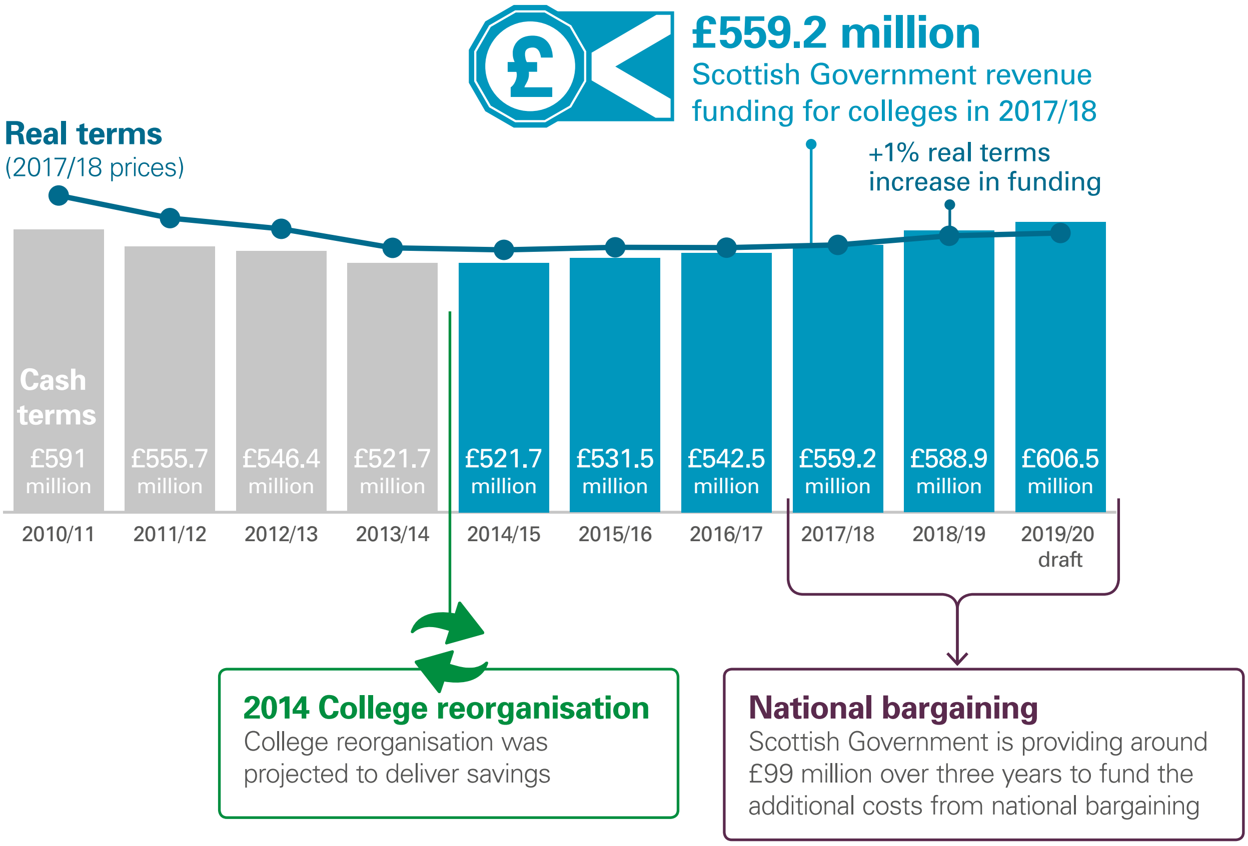
Staffing changes will affect SFC funding for harmonising terms and conditions

10. Total staffing numbers across the sector in 2017-18 remained unchanged, but the staffing profile across the sector has changed.[1] The number of non-teaching staff fell, while the number of teaching staff increased by the same proportion. The proportion of full-time permanent teaching staff with a recognised teaching qualification fell by one percentage point to 87.9 per cent.

11. Small changes at sector level mask noticeable changes within some colleges:

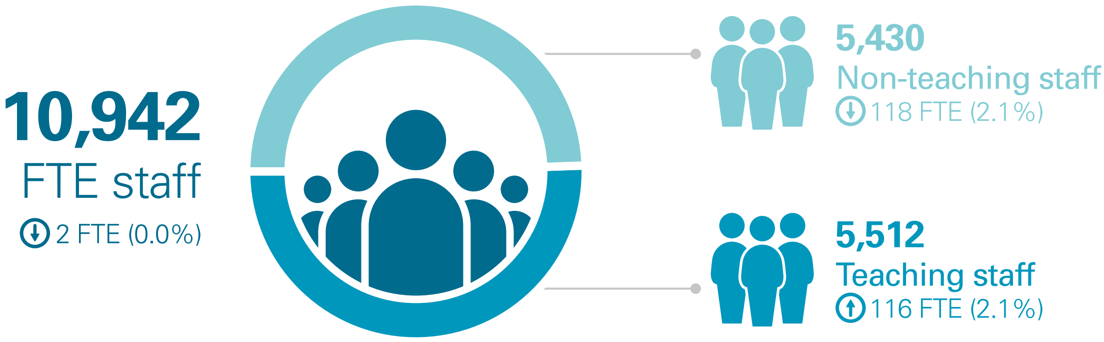
- Twelve incorporated colleges increased their teaching staff numbers. Of these, seven reduced their non-teaching staff.
- Seven incorporated colleges reduced teaching staff. Of these, three increased their non-teaching staff.
- Three incorporated colleges increased both teaching and non-teaching staff numbers, while four reduced both teaching and non-teaching staff.

Exhibit 2
Scottish Government revenue funding for colleges



Source: Scottish Government

Exhibit 3
Colleges staffing 2017-18



Note: Staffing numbers fluctuate depending at the point in the year they are recorded.

Source: College staffing returns to the SFC

12. Current funding allocations for harmonisation of terms and conditions are based on the number of staff in April 2018. The SFC will consider changes in staff numbers when determining future funding allocations.

Some sector-level financial health indicators improved in 2017-18 but the ability to draw on cash balances and ALF income has reduced for most colleges

13. Performance across the sector varied against financial health indicators. The sector's access to cash reduced. Its current net asset/liabilities position improved (ie, the sector's ability to pay its debts), with a reduction in net liabilities. Net assets more than doubled in 2017-18, mainly due to factors outside colleges' direct control. (Exhibit 4).

Exhibit 4
College sector financial health indicators

	2016-17	2017-18	
Cash	£49.2m	£42.1m	Cash held by colleges fell by 16 per cent in 2017-18. Twelve colleges had a reduction in cash, totalling £12.5 million. Eight colleges increased cash balances by almost £5.9 million. Cash balances will fluctuate throughout the year and some cash will already be committed to planned expenditure.
Net assets	£230m	£484m	Comparing the value of the assets an organisation holds against its financial liabilities – its net asset or liabilities position – gives an indication of its financial health. Net assets increased by £254 million, more than doubling the £230 million we reported in 2016-17. But £240 million of the increase was as a result of favourable revaluations of pensions and buildings.
Net current assets (liabilities)	(£33.9m)	(£31.3m)	Current net assets/liabilities are an indication of colleges' ability to pay off current debts. Net liabilities across the sector have reduced. In only five colleges are current assets greater than current liabilities.

Source: Incorporated college 2017-18 accounts

Arm's-length foundations continue to be a reducing source of funds for colleges

14. Fifteen colleges received funding from arm's-length foundations (ALFs) in 2017-18. Around 80 per cent (£8.4 million) of the total sector income from ALFs was provided to Ayrshire, City of Glasgow, Glasgow Clyde and Glasgow Kelvin colleges. ALFs are independent, charitable bodies that were set up when colleges were reclassified as public bodies and could no longer retain significant cash reserves. Colleges can donate money into ALFs and can apply to ALFs for funding. Colleges have typically used income from ALFs to fund voluntary severance, capital works and investment in equipment and digital infrastructure.

15. Balances held by ALFs are reducing, with colleges planning to apply to use a further £6.25 million of ALF funding in 2018-19. ALF balances vary significantly, with some colleges having little or no scope to access any ALF income. For the remainder of colleges, the ability to apply for income from ALFs is becoming increasingly limited as balances reduce (Exhibit 5).

Exhibit 5
The balances of arm's-length foundations (ALFs) are reducing

Source: College accounts and ALF accounts or SFC – ALF balances not in college accounts

There is significant variation in the financial positions of individual colleges

16. There is significant variation in the financial indicators at individual college level. Taken on their own, each indicator is not a reliable measure of financial health. But, taken together, the indicators provide a broad indication of the extent to which each college is exposed to financial risk (Exhibit 6, page 12).

Exhibit 6
Financial indicators

Colleges	Underlying surplus/deficit	Operating surplus/deficit	Cash	Net assets	Net current assets/liabilities
Ayrshire College	-1.9%	-4.9%	3.3%	78.5%	-8.1%
Borders College	1.6%	-0.6%	19.9%	0.5%	10.5%
City of Glasgow College	0.7%	-2.5%	7.6%	29.7%	-4.8%
Dumfries and Galloway College	-0.5%	-8.1%	5.5%	82.7%	-6.7%
Dundee and Angus College	0.3%	-4.6%	2.7%	77.7%	-6.3%
Edinburgh College	0.6%	-3.4%	1.4%	111.5%	-8.7%
Fife College	0.2%	-6.6%	4.2%	61.3%	-3.1%
Forth Valley College	1.9%	-2.3%	15.6%	-14.0%	1.6%
Glasgow Clyde College	0.3%	-1.0%	5.3%	138.8%	-5.0%
Glasgow Kelvin College	1.5%	1.0%	4.6%	41.9%	-10.3%
Inverness College	1.4%	-5.2%	14.6%	-10.2%	-5.0%
Lews Castle College	1.9%	-5.1%	2.7%	48.0%	-4.9%
Moray College	1.2%	-3.5%	5.9%	90.6%	-5.9%
New College Lanarkshire	0.9%	-4.3%	1.8%	53.9%	-8.7%
North East Scotland College	-2.2%	-8.1%	4.9%	85.0%	5.5%
North Highland College	0.4%	-6.0%	3.0%	22.1%	2.3%
Perth College	0.0%	-5.7%	8.6%	103.0%	-8.4%
South Lanarkshire College	4.0%	0.2%	3.9%	56.0%	-5.5%
West College Scotland	0.0%	-4.7%	6.2%	101.9%	0.0%
West Lothian College	0.9%	-5.0%	3.9%	-16.6%	-4.4%
Scotland	0.4%	-4.0%	5.7%	65.2%	-4.2%

Quartile: Highest 1 2 3 4 Lowest

Notes:
1. Financial indicators are shown as of the proportion of each college's expenditure
2. For each indicator, we have shown colleges' performance broken down into quartiles, with the highest performance shown in Quartile 1 and the lowest performance in Quartile 4.

Source: College accounts

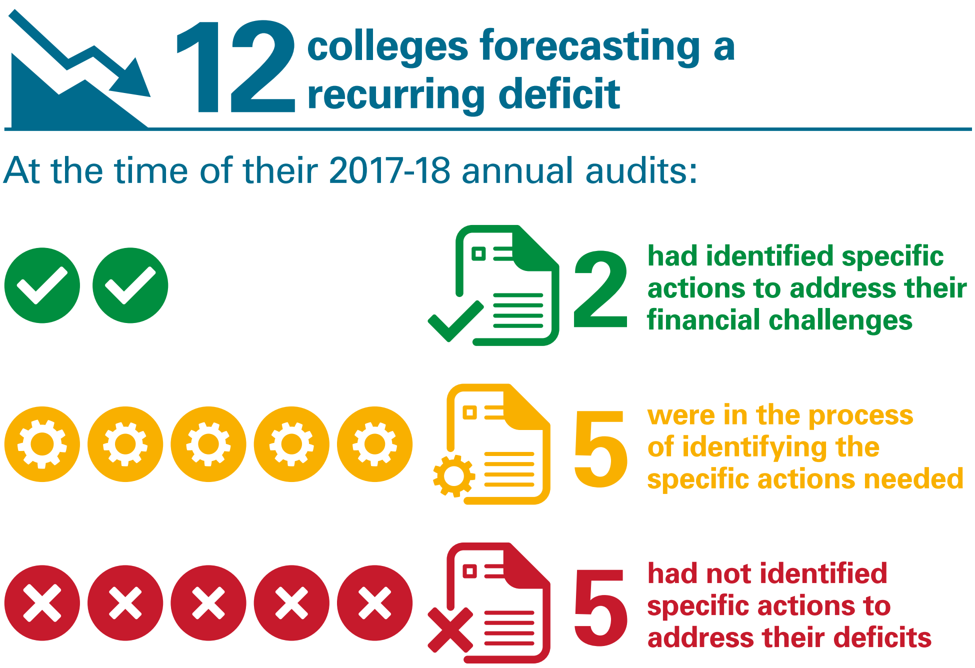
Twelve incorporated colleges are forecasting recurring deficits during the next five years

17. The SFC requires colleges to submit five-year financial forecast returns every year, and provides colleges with common financial planning assumptions to use when preparing their forecasts. Although colleges did apply the SFC's common assumptions, the SFC identified that colleges had not been consistent in compiling their most recent financial forecasts.[2] Colleges had broadly adopted one of two approaches: making forecasts that incorporated actions to address potential deficits; or forecasting their future financial position based on how they currently operate. Twelve colleges are forecasting recurring deficits during the next five years. Of the six non-incorporated colleges, only Orkney College is not projecting a recurring deficit during the next five years.

Only two of the 12 incorporated colleges forecasting recurring deficits had identified specific actions to address their financial challenges

18. At the time of their annual audit, only two of the 12 colleges forecasting a recurring deficit had identified the specific actions needed to address their financial challenges. A further five colleges were in the process of developing specific actions. Of the ten colleges still to determine agreed actions to address recurring deficits, six are forecasting a deficit position by the end of the next academic year: Inverness, North Highland and West Lothian colleges are forecasting deficits from 2018-19; and Forth Valley, Glasgow Clyde and Glasgow Kelvin colleges are forecasting deficits from 2019-20 (Exhibit 7).

Exhibit 7
Status of colleges' responses to forecasted recurring deficits



Source: SFC/colleges' external auditors

19. The SFC asked colleges that are projecting deficits to identify the actions needed to achieve financial sustainability. Additional financial pressures have emerged since colleges prepared their financial forecasts, including reduced capital funding and additional employer pension contributions. Unless funding increases, or colleges change how they operate, these are likely to result in future forecasts showing a worsening financial picture.

Three colleges face particular challenges to their financial sustainability

20. Auditors have highlighted that increasing operating deficits present challenges to financial sustainability in many colleges. Three colleges face particular challenges.

Ayrshire College

Ayrshire College reported an underlying deficit of £1 million in 2017-18 and was forecasting increasing deficits over the next five years, with a cumulative deficit of around £12 million (equivalent to 23 per cent of its current expenditure) by 2022-23. The college faces a number of cost pressures. It has identified annual PFI payments of £1.4 million until 2024-25 as its highest risk.

In February 2019, the SFC agreed the college's two-year financial sustainability plan. The SFC will provide the college with an additional £1.3 million in 2018-19 to fund a voluntary severance scheme and additional revenue funding support of £0.7 million in both 2019-20 and 2020-21.

The college anticipates its severance scheme will contribute to financial sustainability by generating savings of £1.66 million a year, reducing its projected cumulative deficit by 2022-23 to £5 million. Like other colleges, Ayrshire will need to continue to manage its costs, and to develop the necessary actions to balance its operating position from 2021-22 onwards.

New College Lanarkshire

Last year, the Auditor General for Scotland prepared a statutory report on the college, which highlighted the financial challenges facing the college and the potential impact on its longer-term financial sustainability. The college reported an underlying surplus of £0.6 million for 2017-18.

During the year, the SFC provided the college with £1.1 million for voluntary severance and a short-term cash advance of £1.3 million to address cash-flow difficulties.

The Lanarkshire Regional Board has agreed a five-year regional business plan with the SFC. This forecasts an underlying surplus for the college by 2019/20. The college anticipates receiving a further repayable advance of £2.6 million from the SFC in 2018-19, subject to maintaining progress and achieving the milestones in its plan.

To achieve financial sustainability, the college is reducing staffing costs. The SFC will provide £645,000 for the next voluntary severance scheme proposed in the plan. The college also intends to increase non-SFC income and to pursue opportunities for shared services with South Lanarkshire College.

North Highland College

The college reported a small underlying surplus of £0.1 million in 2017-18 but faces several key risks to its financial sustainability.

The college has previously required cash advances from its regional body, the University of the Highlands and Islands (UHI). It is forecasting a cumulative underlying deficit of £2.5 million by 2022-23 (equivalent to around 16 per cent of current costs) and a negative cash-flow position from 2019-20 onwards.

The college has loans of £1.3 million and in 2017-18 relied on waivers from its bank to avoid breaching loan covenants. At the time of the annual audit, the college did not have an agreed financial plan in place to achieve the required savings in both the short and longer term.

The auditor highlighted the need for more detailed interaction between the college and UHI as savings plans are developed. The college has since began a curriculum review, with a view to achieving savings for the 2019-20 budget. However, the college anticipates that it may require financial support from UHI, in the form of cash advances, for 2019-20.

21. Staff costs are the largest area of college expenditure and those colleges that have produced financial plans to address their underlying financial deficits are planning or currently implementing voluntary severance schemes as part of their plans.

Scottish Government capital funding is insufficient to address colleges' maintenance requirements

22. Capital funding is needed for the maintenance and improvement of buildings and investing in digital infrastructure. The Scottish Government provided £76.7 million of capital funding for the sector in 2018/19. Of this, £43.1 million related to existing capital commitments, including Forth Valley College's new campus project, £27 million was allocated for very high-priority backlog maintenance identified in the SFC's estates survey in 2017.[3] The SFC is monitoring whether funding for backlog maintenance has been spent as planned.

23. In 2019/20, capital funding for the sector has fallen to £47.6 million. Of this, £22.7 million is for Forth Valley College's new campus. After other specific capital commitments,[4] the SFC is allocating £21 million to address lifecycle and backlog maintenance needs.[5] Colleges and the SFC have calculated annual lifecycle maintenance costs to be around £22 million, over and above the £77 million high-priority backlog maintenance costs previously identified in the SFC's 2017 estates survey.

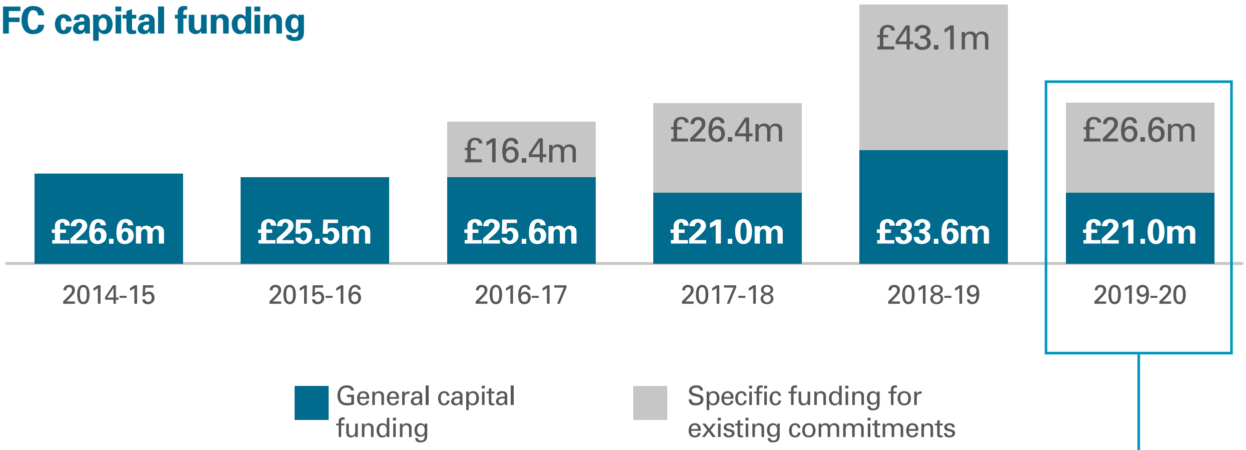
24. Reduced capital spending creates a risk that the cost of urgently needed backlog maintenance increases. This in turn poses a potential risk to some colleges' ability to continue to deliver their core services in a safe environment, and to invest in new digital infrastructure to generate efficiencies and enhance the student experience. The Scottish Government is working with the Scottish Futures Trust and the SFC to identify an appropriate revenue funding model for future investment in the college estate (Exhibit 8, page 16).

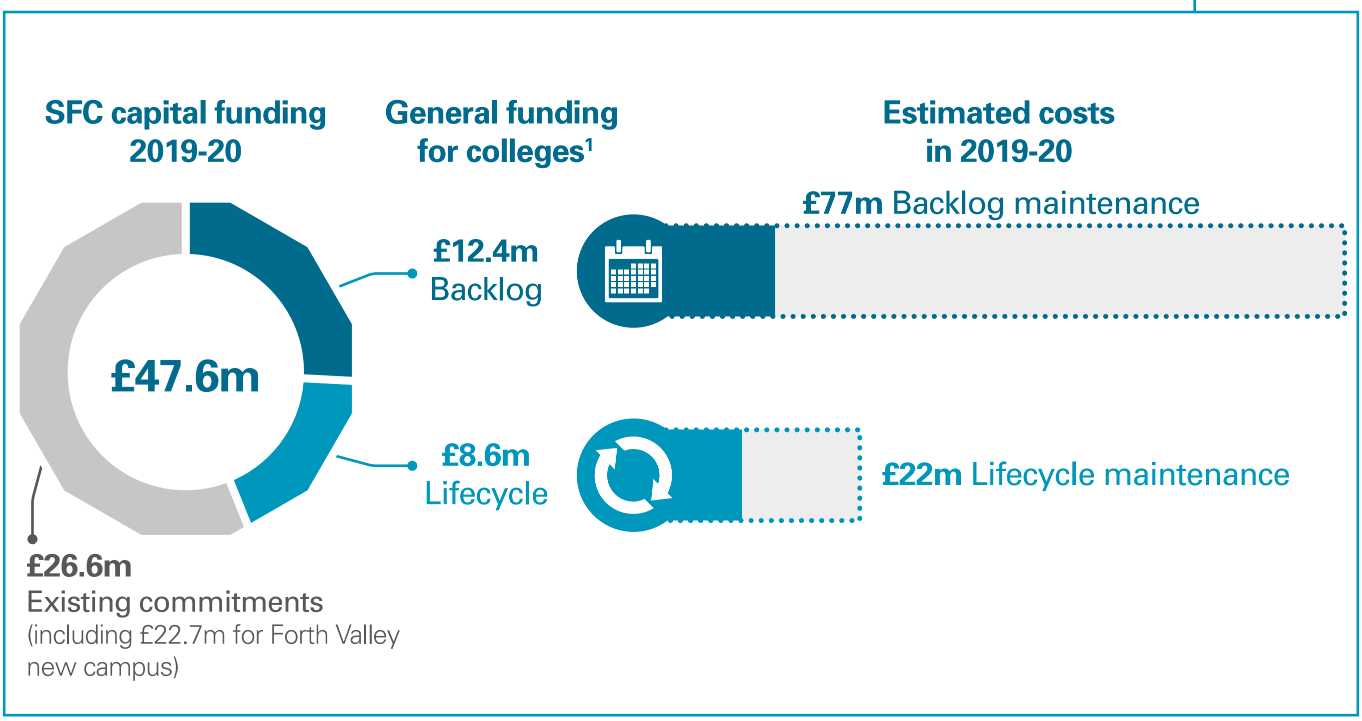
Exhibit 8
Capital funding

£47.6 million
Capital funding in 2019-20

Typically, capital funding is used for the maintenance and improvement of buildings but is becoming increasingly important for investing in and developing digital infrastructure.

SFC capital funding





Note: 1. Excluding Forth Valley

Source: Scottish Government/SFC

The potential implications of the UK's withdrawal from the EU remain unclear

25. The college sector is examining the potential implications surrounding the UK's planned withdrawal from the EU. The main areas that are likely to be affected are students, staff and funding. Data shows that:

- 7.3 per cent of credits are delivered to non-UK EU nationals (2016-17).
- Colleges' representative body, Colleges Scotland, estimates that non-UK EU nationals make up around three per cent of current staff in the sector. There will however be variation across colleges, with potentially the most significant impact being in Edinburgh and Glasgow.
- The SFC is allocating around £13 million to colleges to deliver European Social Fund (ESF) activity in 2019-20. This includes an assumed ESF contribution from the European Commission of around £5 million (around 0.7 per cent of current total sector income), subject to the submission of successful claims to the Scottish Government. College accounts for 2017-18 show that an additional £2.6 million of European income was received across the sector (0.4 per cent of total sector income). This was predominantly for ERASMUS+ placements.[6]

26. The wider potential implications of EU withdrawal remain unclear. While the direct impact on colleges is likely to be relatively small compared to some other parts of the public sector, colleges anticipate that the indirect effects could be much more significant. This includes potential reductions in EU funding that colleges receive through students funded by other organisations.

Part 2

Performance

Key messages

1 Student numbers increased, and the sector exceeded its learning activity targets. Over the past three years, colleges have been providing less learning to students aged 16-24 and more to students aged 25 and over.

2 Colleges are widening access to learning for disabled, ethnic minority and care-experienced students but the proportion of learning delivered provided to students from deprived areas fell slightly in 2017-18. Attainment rates for students in most of these categories continue to be below those of the student population overall.

3 Fewer students are completing their courses but a slightly higher proportion of students gaining a qualification are going on to positive destinations. Average attainment rates for students in full-time education have remained relatively static in recent years. The attainment rate for full-time further education, at 66 per cent, is some distance from the SFC target of 75 per cent by 2020-21.

4 There continues to be considerable variation across colleges in terms of student outcomes. The SFC has agreed aspirational and stretching targets with colleges in their latest outcome agreements. Based on recent performance trends, achieving some of these targets will be very challenging for colleges.

Student numbers increased, and the sector exceeded both the Scottish Government's learning target and the SFC's national activity target

27. In return for their funding from the SFC, college regions agree a range of outcomes they aim to deliver each year. Outcome Agreements contain ten measures to assess colleges' progress. Within these ten measures there are national priority measures based around learning credits delivered, the achievement of qualifications (attainment) and successful students going on to positive destinations.

Exhibit 9
Number of students and amount of learning delivered 2017-18

242,485
Students
(an increase of 6,748)

118,684
Full-time equivalent
(FTE) student places
(an increase of 1,182)
against the Scottish
Government's target of
116,269 FTE

1,778,466
Credits delivered
(an increase of 16,434)
against the SFC's national
target of 1,765,439

Source: SFC

28. Colleges delivered 16,434 more credits than in 2016-17 and exceeded the SFC's national activity target by 0.7 per cent. Five colleges missed their individual target (by a very small percentage in two instances):[7]

- Fife College (by 0.1 per cent)
- New College Lanarkshire College (by 0.2 per cent)
- North East Scotland College (by 1.4 per cent)
- Lews Castle College (by 4.7 per cent)
- Orkney College (by 4.5 per cent).

29. Where regions miss their credit target, the SFC – or the regional body, in a multi-college region – can decide to recover funding. Where the SFC or regional body is aware that a college may miss its target, it can look to redistribute both the activity and the funding to another college or region.

30. UHI is committed to providing access to learning across the region, and to avoid centralising delivery in urban areas. Where colleges in the Highlands and Islands region have not met their targets, UHI is working closely with the colleges to understand, support them and, where necessary, review targets to reflect circumstances. For example, Lews Castle College faces particular challenges due to a declining population in the Outer Hebrides, and UHI is working with the college to assess the effects of this change, and to support the college to adjust its focus to deliver a financially sustainable operating model.

31. Colleges also exceeded the Scottish Government's target of delivering 116,269 FTE places[8], delivering 118,684 FTE places, an increase of 1,182 (one per cent) on 2016-17 (Exhibit 9). The Scottish Government's target has remained constant since 2012-13 though the context in which colleges operate has been changing:

- The young Scottish population has been reducing and is projected to reduce further over the next few years. This is resulting in fewer young students (16-24) at college, and more school-aged and older students.

- The Scottish Government continues to promote widening access to further and higher education. Its aim is for 20 per cent of students entering university to be from the 20 per cent most deprived areas by 2030. While colleges play an important role in supporting a learner's whole journey, this may reduce the number of students that will consider studying at college in future.

Over the past three years, colleges have been providing fewer credits to students aged 16-24 and more to students aged 25 and over

32. In October 2017, the Minister for Further Education, Higher Education and Science confirmed that colleges no longer needed to prioritise full-time education for 16-24 year olds.[9] It is clear that college provision was changing before this announcement. Between 2014-15 and 2017-18, the number of students aged 16-24 fell by 6,887 (or by six per cent). There was a corresponding increase in the number of students aged 25 and over by 6,664 (or by seven per cent). Over the same period, the proportion of learning credits delivered by colleges shifted from students aged 16-24 to students aged 25 and over by four percentage points (Exhibit 10, page 21).

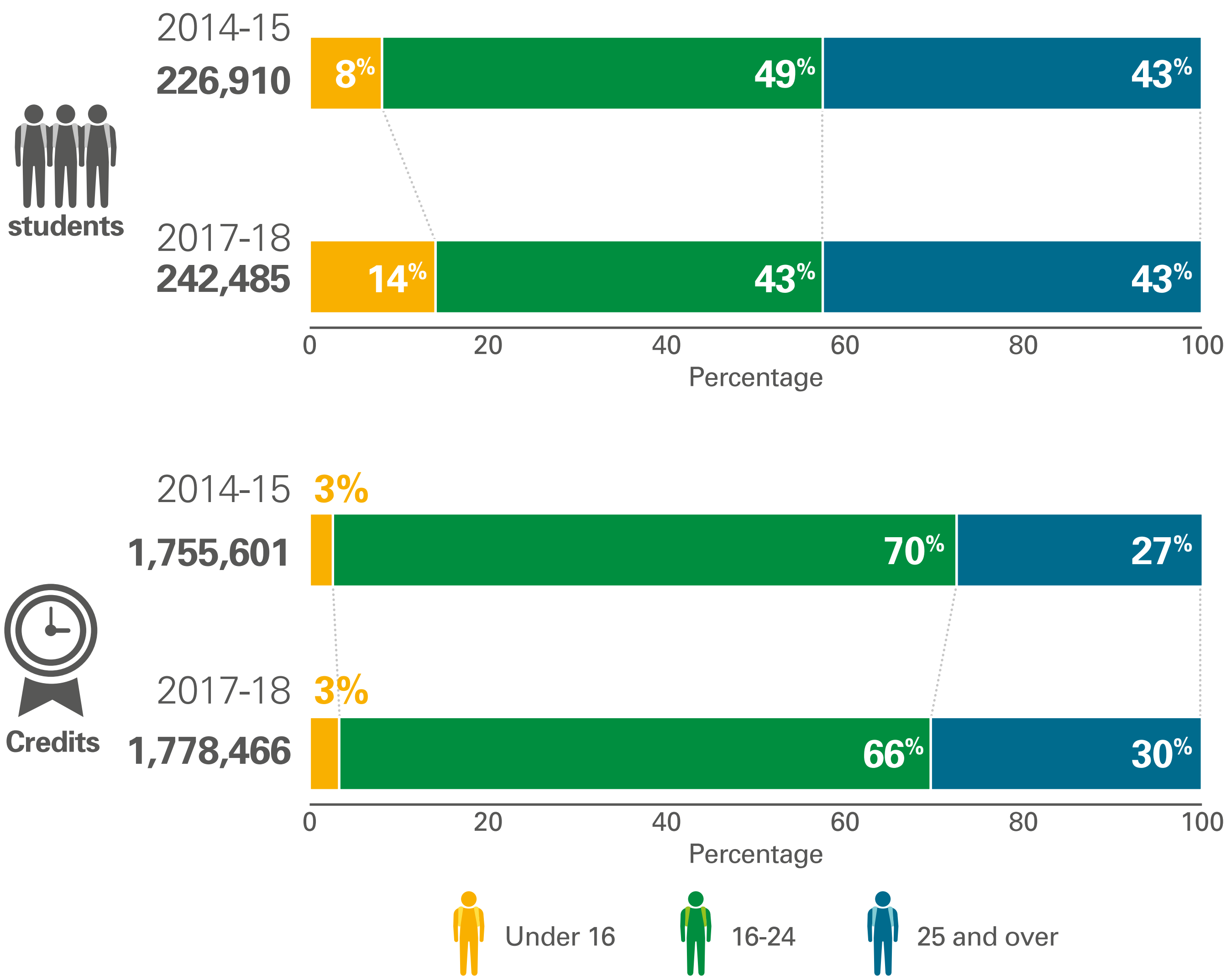
33. Between 2014-15 and 2017-18, there was an increase of 86 per cent (15,815) in the number of school pupils under 16 years of age attending college. Students aged under 16 now make up an additional six per cent of the student population compared to 2014-15. Despite this, credits delivered to under 16 years old have remained very small at only around three per cent. Under the Scottish Government's Developing the Young Workforce programmes, colleges work closely with schools and councils, offering more vocational courses to school pupils. Most courses will not be graded but aim to expand pupils' curriculum choices and help them develop a career path. In 2017-18, all colleges except Newbattle Abbey College delivered credits to students under 16 years of age.[10]

More change is needed to achieve gender balance across important subject areas

34. Female students represent 52 per cent of the student population (125,899) and males 48 per cent (115,945).[11] The number of female students increased by more than the number of male students in 2017-18 (increasing the proportion from 51 per cent last year).

35. In 2016, the SFC committed to increasing the minority gender share in the most imbalanced subjects.[12] Its aim is for the gender balance of students enrolling on important subject areas to be no greater than 75:25 per cent by 2030. Progress towards addressing the long-standing gender imbalances has been limited and will require a concerted effort from schools, colleges and wider society in making sustainable change (Exhibit 11, page 22).

Exhibit 10
Change in the number of students and learning credits delivered across the sector over the past three years



Note: The proportion of credits for 2017-18 doesn't add up to 100 per cent due to rounding.
Source: SFC

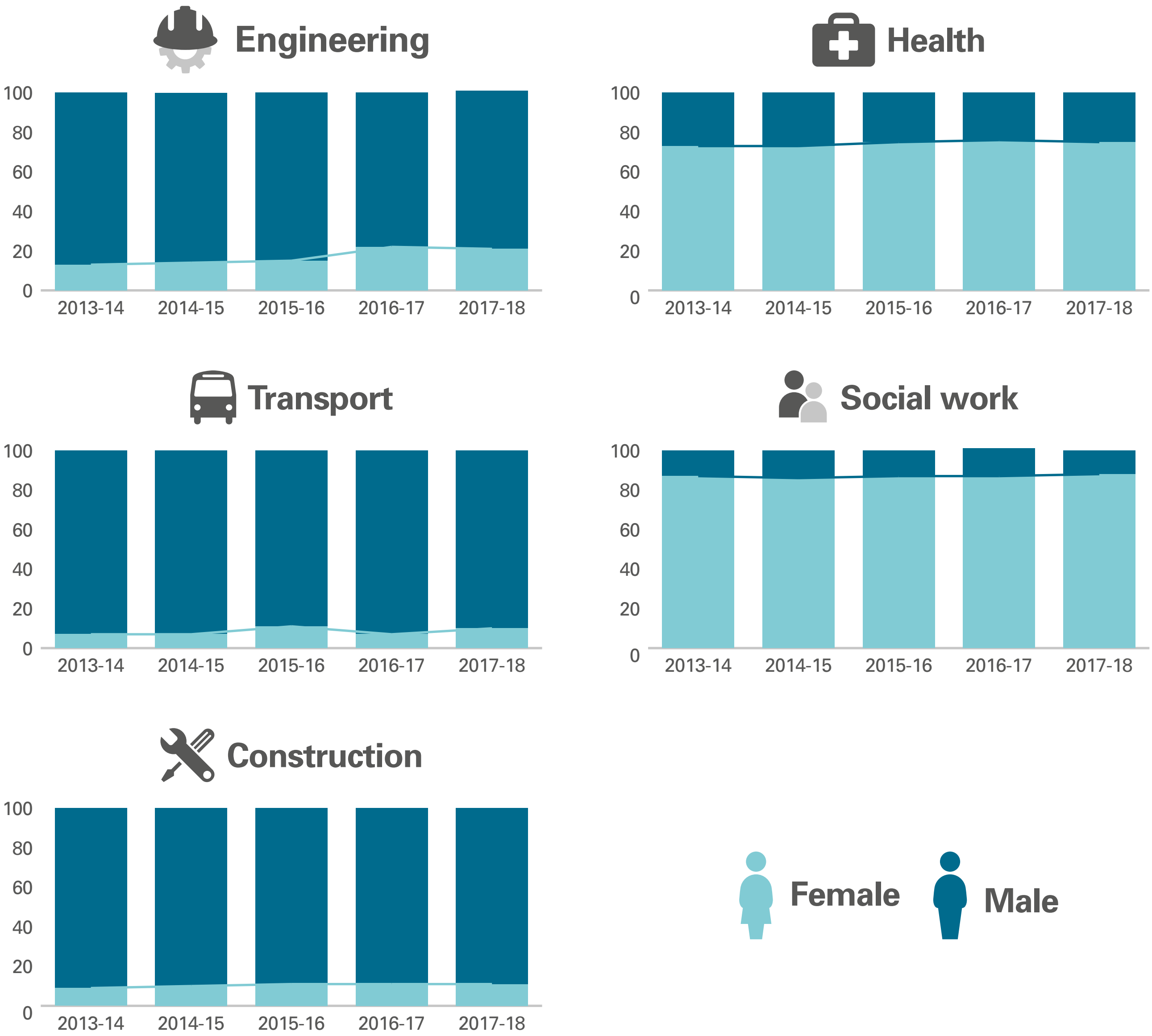
Eighteen college boards have more men than women

36. In February 2019, 246 board members across the sector were men (57 per cent of the total members) and 187 were women (43 per cent of the total members). The number of men increased by 12, while the number of women decreased by four.

37. Four college boards have more women members than men and five have an equal gender split. Orkney College Board has the most uneven gender balance with 19 men and three women.

38. The Gender Representation on Public Boards (Scotland) Act 2018 requires 50 per cent of non-executive members on public boards to be women by 2022. The gender balance of college boards is not entirely under the control of colleges as some members are elected to their position.

Exhibit 11
Proportion of students on each course by gender (headcount)



Source: SFC

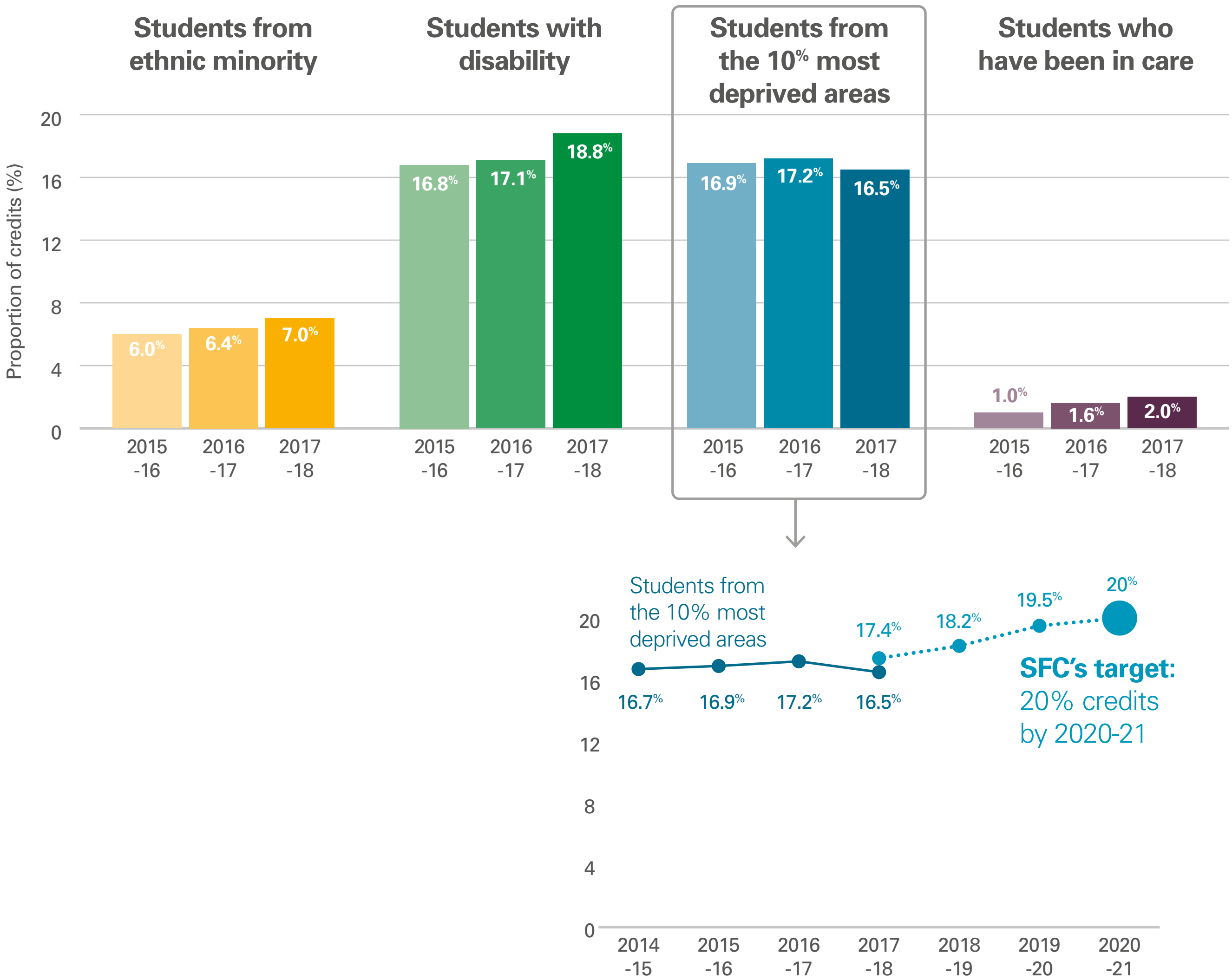
Colleges are widening access to students from a range of backgrounds, but are not meeting targets for students from the most deprived areas

39. Colleges are committed to widening access to learning for all, particularly those who may have found it more difficult to enter further and/or higher education. Across the sector, the proportion of credits colleges deliver to students from an ethnic minority, who have been in care or who have disabilities has increased in recent years.[13]

40. The proportion of credits that colleges deliver to students from the ten per cent most deprived areas had also been increasing, but this trend reversed in 2017-18.[14] The proportion of credits delivered to these students, at 16.5 per cent, was below the SFC's national target of 17.4 per cent.[15] The reasons for this decrease are likely to be complex. For example, the trend is for school pupils to stay on longer at school. Also, in line with the Scottish Government's aim of widening access to higher education, there has been an increase in the proportion of students from deprived areas going to university. Increasing the proportion of credits to students from the most deprived areas will require a coordinated effort from schools, colleges, universities and other relevant stakeholders (Exhibit 12).

41. Based on recent trends, the SFC's target of delivering 20 per cent of credits to students from the ten per cent most deprived areas by 2020-21 looks difficult to achieve.

Exhibit 12
Proportions of credits delivered to students from selected groups



Source: SFC

Exhibit 13

National performance summary, 2017-18

The proportion of students completing their courses is falling, but the proportion of full-time students going on to positive destinations is improving.

Further education	Attainment rates	Retention rates	Positive destinations	Satisfaction
Full-time	66.1 ↑ (0.8%)	74.9 ⇄ (0.0%)	86.0 ↑ (1.9%)	93.1 ↑ (0.3%)
Part-time	78.2 ↑ (1.1%)	89.8 ↓ (0.2%)	–	–
Higher education				
Full-time	71.3 ↓ (0.3%)	81.6 ↓ (1.2%)	81.6 ↑ (1.4%)	83.2 ↓ (4.2%)
Part-time	80.4 ↑ (1.8%)	91.6 ↓ (0.3%)	–	–

(%) – Percentage change from the previous year

Note: The latest positive destinations data available is for 2016-17. Percentage change is from 2015-16.

Source: *College Performance Indicators 2017-18*, Scottish Funding Council, 2019; *College Leaver Destinations 2016-17*, Scottish Funding Council, 2018; and *Student Satisfaction and Engagement 2017-18*, Scottish Funding Council, 2018

Student attainment has remained relatively static in recent years and further work is required to address the attainment gap

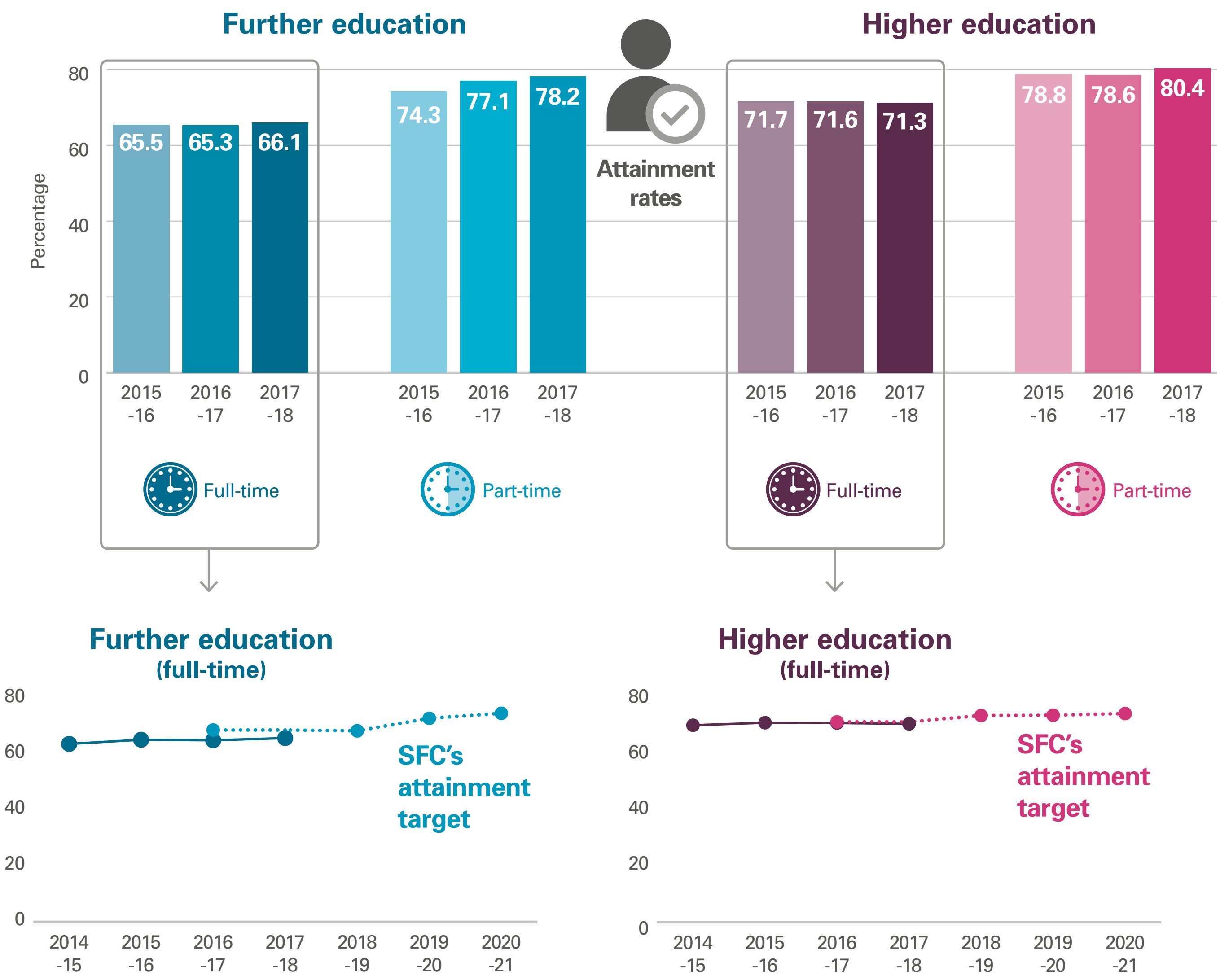
42. The SFC aims to improve attainment rates (the proportion of students completing their course successfully) in full-time further education and higher education to 75 per cent by 2020-21. The average attainment rate for full-time further education improved in 2017-18. In contrast, the average attainment rate in full-time higher education fell slightly. Both remain below the SFC's long-term target, with a significant improvement needed in further education over the next three years. The SFC has set intermediate national attainment targets for full-time students, although it did not set a target for 2017-18. It does not set national targets for part-time students (Exhibit 14, page 25).

Only two regions met all of their agreed overall attainment targets

43. There is wide variation in regional performance against attainment targets (Exhibit 15, page 26):

- West College Scotland region met all four targets. Highlands and Islands region met both targets for further education.
- Two regions missed all four targets (Dumfries and Galloway and North East Scotland colleges).

Exhibit 14
Attainment rates



Source: SFC

44. The SFC does not report the performance of college regions against regionally agreed attainment targets in its Summary of Progress and Ambitions report.[16]

45. In 2018-19, the SFC plans to improve its use of Outcome Agreements to achieve its desired outcomes for learners, for skills development and ultimately for inclusive economic growth in Scotland. This includes agreeing more ambitious targets with college regions to deliver Scottish Government priorities. Based on performance to date, some existing targets will be very challenging for colleges. It is important for the SFC and colleges to be clear on what will be needed to deliver the more ambitious targets.

Exhibit 15
Attainment rates: progress towards outcome agreement targets

	Attainment target met in 2017-18		
Further education	No of college regions providing this type of study[1]	No of college regions	Percentage
Full-time	15	6	40%
Part-time	13	9	69%
Higher education			
Full-time	13	2	15%
Part-time	11	5	45%

Note: 1. Total numbers are based on 13 college regions plus SRUC and Newbattle Abbey College, with the exceptions being: Part-time further and higher education: Ayrshire and Newbattle Abbey colleges did not set 2017-18 targets for these measures in their Outcome Agreement; and Higher education: College outcome agreement measures are not applicable to Highlands and Islands region or SRUC at this level.

Source: SFC

More work is required to close the attainment gap for certain groups of students

46. Students from an ethnic minority, on average, achieve better results than the overall student population, but more work is required to close the attainment gap for the rest of the identified student groups.[17] Students who have been in care have the lowest attainment rates, and were the only group where attainment decreased in 2017-18 (Exhibit 16, page 27).

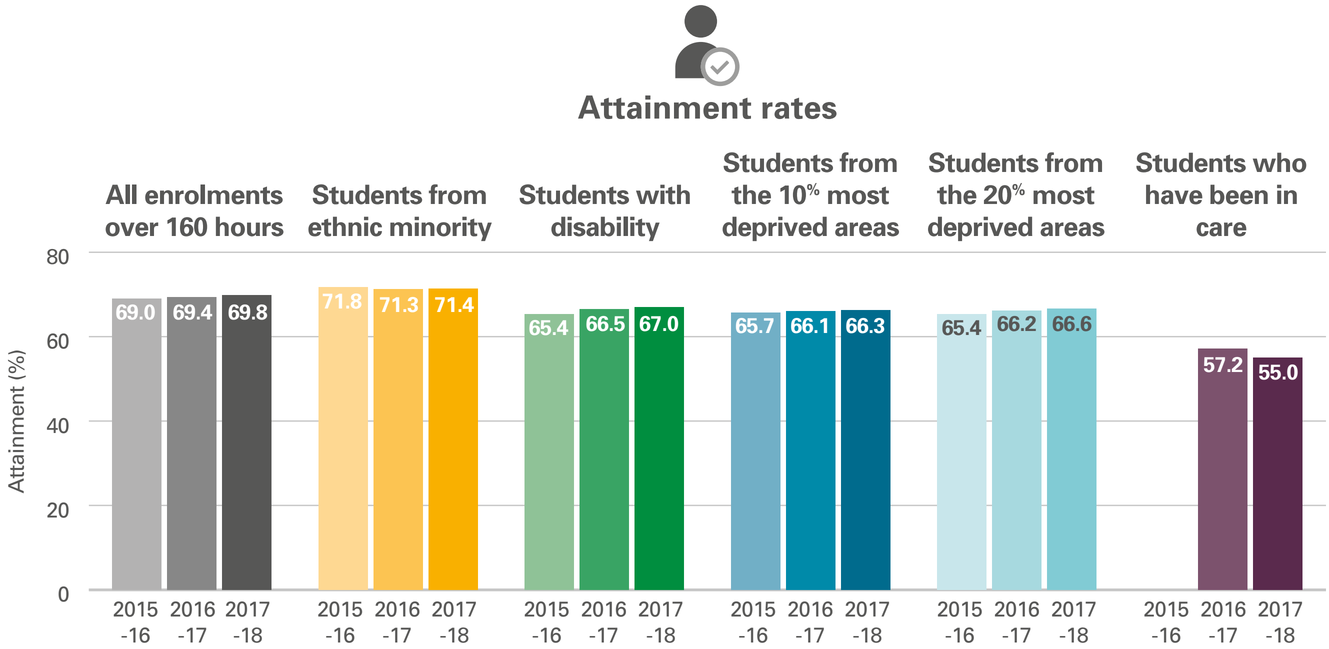
47. The SFC is committed to raising the attainment rates for students from the most deprived areas to achieve overall attainment rates of 75 per cent by 2027-28.[18] In *Scotland's colleges 2018*, we reported that the attainment gap between students from the least and most deprived areas had increased between 2011-12 and 2016-17.

48. Last year, we reported that the attainment gap in 2016-17 increased between those students from the least and most deprived areas. In 2017-18, the attainment gap for those in further education closed slightly, from 7.4 to 6.5 percentage points (69.7 per cent compared to 63.2 per cent). The attainment gap for those in higher education was 7.7 percentage points, the same as in 2016-17 (74.4 per cent compared to 66.7 per cent).

Fewer students completed their course in 2017-18

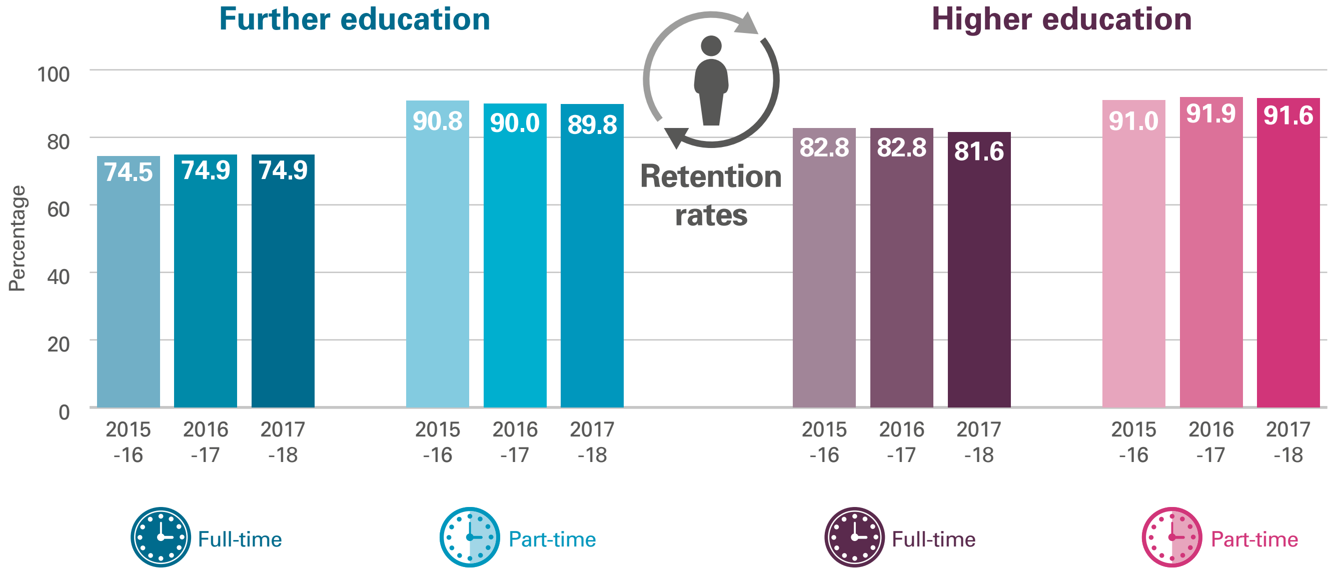
49. Challenges still exist in improving student retention (the proportion of students completing their course, either successfully or partially). The proportion of full-time further education students that completed their course remained unchanged in 2017-18 but the proportions fell for all other types of study (Exhibit 17, page 27).

Exhibit 16
Attainment on courses over 160 hours for students from selected groups



Source: SFC

Exhibit 17
Proportion of students completing their course



Source: SFC

50. Since 2017, the Scottish Government has been running a College Improvement Project (CIP) to raise attainment and retention. It has worked with five colleges through the CIP, trying to identify what improvement can be shared across the sector.[19] The project is scheduled to finish in 2019. While it is too early to assess the impact of the project, more work is required to improve retention. The Scottish Government plans to monitor changes in retention as improvement actions are scaled up and spread to different courses within the colleges and across the sector.

A greater proportion of students who qualify are going on to positive destinations

51. Latest data (covering 2016-17) shows that 95 per cent of full-time student qualifiers with destinations confirmed entered a positive destination, such as employment or continued education (2015-16, 94.9 per cent).[20] Of all qualifiers, 84.5 per cent moved into a positive destination (2015-16, 82.7 per cent). Around two-thirds of all qualifiers went on to further study or training (up by one percentage point from 2015-16). 17.7 per cent of all qualifiers entered work (up by 0.7 percentage point).

The SFC does not publish college-level student satisfaction data

52. Student satisfaction is a performance measure in college Outcome Agreements. For 2017-18, the SFC reported student satisfaction for the sector, but only using data from those colleges that received at least a 50 per cent response rate to their survey (15 of 26 colleges for full-time further education and five of 15 colleges for full-time higher education). It does not publish student satisfaction data for individual colleges or results for part-time and distance or flexible learning students. Publishing good-quality information on student satisfaction for individual colleges would allow students, and potential students, to determine whether a college provides a good experience for students. It also means that colleges can be effectively held to account by other stakeholders.

53. The SFC has been working with the college sector to conduct the Student Satisfaction and Engagement Survey (SSES) since 2015-16. However, over the past three years, response rates to the SSES have varied noticeably across colleges and the SFC does not yet believe that all colleges are conducting the survey in a way that allows either it or individual colleges to place reliance on the survey results. The SFC held an event for colleges in February 2019 to explore ways to improve response rates.

College performance varies widely for student outcomes

54. Taken together indicators on student attainment, retention, destinations and satisfaction provide a broad indication of a college's performance. There was significant variation in performance across colleges; the proportion of students from deprived areas can influence performance, but it is clearly not the only factor (Exhibit 18, page 29).

Exhibit 18

Performance indicators for full-time further education in colleges

Colleges	% credits for FT	Attainment rates	Retention rates	Positive destinations	Satisfaction	College's self-evaluation for 'Outcome and Impact'
Glasgow Kelvin College	45.5	60.2 ↓	69.0 ↓	82.9 ↑	-	Good
West College Scotland	58.5	69.2 ↑	78.1 ↑	80.6 ↓	-	Good
Glasgow Clyde College	67.1	66.1 ↑	74.9 ↑	82.8 ↑	96.7 ↑	Good
Ayrshire College	74.4	66.9 ⇄	73.9 ↓	82.6 ↓	-	Good
City of Glasgow College	58.9	67.9 ↓	76.3 ↓	91.2 ↑	84.5 ↓	Very Good
New College Lanarkshire	75.4	61.4 ↑	68.3 ↑	89.9 ↑	89.0 ↑	Satisfactory
Dundee and Angus College	70.0	75.4 ↑	81.4 ↑	81.7 ↑	95.4 ↑	Very Good
Fife College	61.8	59.1 ↑	73.4 ↑	71.7 ↑	91.9 ↑	Satisfactory
South Lanarkshire College	74.5	69.7 ↓	76.2 ↑	89.1 ↓	98.5 ↑	Very Good
West Lothian College	67.9	65.5 ↑	75.3 ↑	89.7 ↑	-	Good
Forth Valley College	51.8	71.4 ↓	77.2 ↓	75.6 ↓	95.1 ↓	Very Good
Edinburgh College	62.9	60.7 ↓	70.6 ↓	85.9 ↑	-	Good
Newbattle Abbey College	100.0	52.1 ↓	69.9 ↓	81.3 ↑	100 ↑	Good
Dumfries and Galloway College	70.6	59.6 ↓	70.6 ↑	88.3 ↑	-	Satisfactory
Perth College	78.4	70.0 ↑	77.2 ↓	85.2 ↑	96.2 ↑	Good
Borders College	78.0	68.7 ↑	77.1 ↑	86.9 ↓	-	Very Good
SRUC Land based	63.9	68.3 ↓	82.3 ↓	87.8 ↓	-	-
North Highland College	55.7	71.8 ↑	83.2 ↑	90.0 ↑	-	Very Good
Argyll College	47.4	76.0 ↑	82.0 ↑	80.9 ↓	94.3 ↑	Very Good
West Highland College	48.1	69.8 ↓	77.8 ↓	87.4 ↓	100 ↑	Very Good
Inverness College	69.5	70.6 ↑	77.7 ↑	87.3 ↓	94.7 ↑	Very Good
North East Scotland College	72.6	66.6 ↑	77.0 ↑	87.2 ↓	94.0 ↑	Good
Lews Castle College	46.5	60.8 ↓	71.6 ↓	90.3 ↑	100 ↑	Satisfactory
Moray College	74.2	69.0 ↑	75.5 ↑	84.2 ↑	94.0 ↑	Good
Orkney College	33.1	75.0 ↓	80.3 ↓	84.3 ↓	-	Very Good
Shetland College of Further Education	32.0	77.8 ↓	85.6 ↑	97.2 ↑	-	Very Good
Number of colleges where performance increased in 2017-18 ↑		13	15	16	13	
Proportion of total number of colleges %		50%	58%	62%	87%	

Quartile: Highest 1 2 3 4 Lowest

Notes:
1. Colleges are listed according to the proportion of students from the most deprived areas (Glasgow Kelvin College having the highest proportion).
2. Percentage point changes are from 2016-17 (For leaver's destination data, from 2015-16. See Note 3).
3. The latest leaver's destination data available is for 2016-17. The figures are across further and higher education study. College-level figures published are not broken down by the two.
4. The overall student satisfaction rates are included only for colleges with a response rate of 50 per cent or more, in line with the SFC publication.
5. For each indicator, we have shown colleges' performance broken down into quartiles, with the highest performance shown in Quartile 1 and the lowest performance in Quartile 4.

Source: *College Performance Indicators 2017-18*, Scottish Funding Council, 2019; *College Leaver Destinations 2016-17*, Scottish Funding Council, 2018; *Student Satisfaction and Engagement 2017-18*, Scottish Funding Council, 2018; Colleges' self-evaluation reports, 2019; and SFC's Infact database

Colleges have published enhancement plans to improve their performance

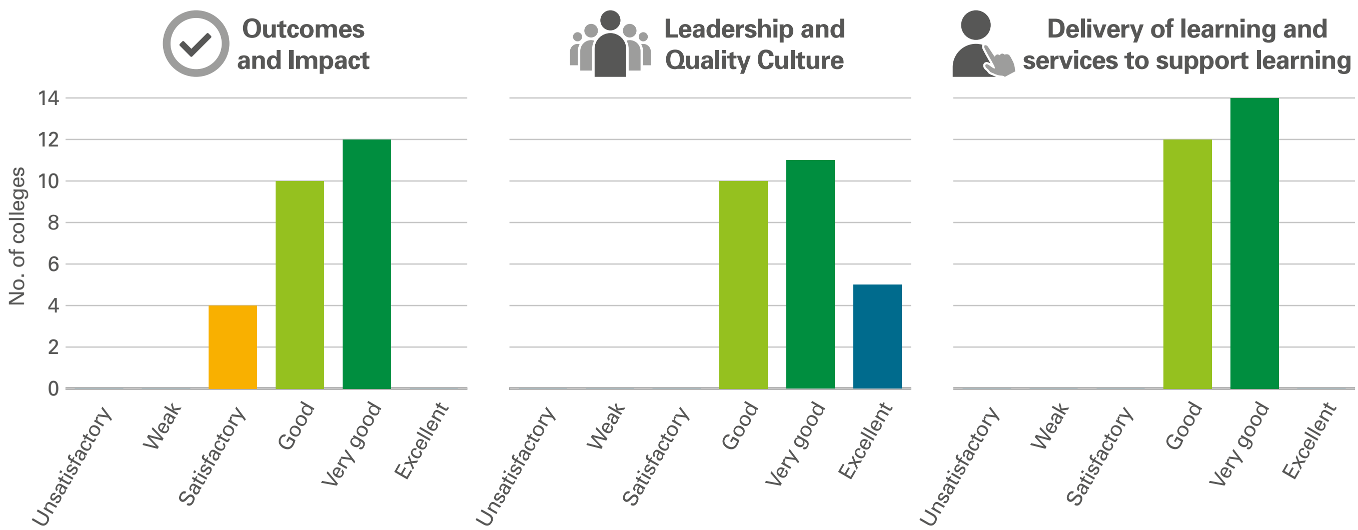
55. The SFC and Education Scotland, the national body for supporting quality and improvement in learning and teaching, introduced a new quality assessment evaluation framework for colleges, *How good is our college?* in 2016.[21] The new quality framework is based on a validated self-evaluation and is intended to enable colleges to assess progress and develop an improvement plan.

56. In January 2019, individual college results were published for the first time with grades in three categories: Outcomes and impact; Leadership and quality culture; and Delivery of learning and services to support learning. All colleges graded themselves as 'Good' or above for two of the three categories. In general, colleges assessed their leadership most highly and the outcomes and impact for students least highly (Exhibit 19).

57. The factors considered in relation to 'Outcomes and impact' map closely to attainment and retention but not to positive destinations and student satisfaction. Some colleges which consider their performance to be 'Good' or better have relatively low levels of attainment (in the bottom half of the quartiles). It is not clear how colleges' own assessment of performance fits with the views of their students and staff.

Exhibit 19

College's self-evaluation grades



Source: Education Scotland

Endnotes

1 *College Staffing Data 2017-18*, Scottish Funding Council, 2019.

2 Financial forecast returns submitted by colleges to the SFC in September 2018 and covering the period to 2022-23.

3 College sector estates condition survey, Scottish Funding Council, December 2017.

4 This includes £1.5 million to support business cases for the highest priority campuses and £1.4 million for very high priority maintenance at Fife College.

5 *Outcome agreement funding for colleges*, Scottish Funding Council, 2019.

6 Erasmus+ is the European Union programme for education, training, youth and sport. It runs for seven years, from 2014 to 2020. Erasmus+ aims to modernise education, training and youth work across Europe. It is open to education, training, youth and sport organisations across all sectors of lifelong learning, including school education, further and higher education, adult education and the youth sector.

7 Lanarkshire region and the Highlands and Islands region both met their regional targets.

8 *College Statistics 2017-18*, Scottish Funding Council, 2019.

9 2018-19 Outcome Agreement Guidance, Letter from Minister for Further Education, Higher Education and Science to Chair of Scottish Funding Council, 2017.

10 SFC's Infact database.

11 According to the SFC's Infact database, 641 students did not give their gender or described it as 'Other'.

12 Gender Action Plan, Scottish Funding Council, 2016.

13 *College Statistics 2017-18*, Scottish Funding Council, 2019.

14 The level of deprivation is calculated using the Scottish Index of Multiple Deprivation (SIMD) 2016. In the previous two years, it is based on the SIMD 2012.

15 *College Region Outcome Agreements: Summary of Progress and Ambitions*, Scottish Funding Council, September 2017.

16 *College Region Outcome Agreements Summary of Progress and Ambitions report 2018*, Scottish Funding Council October 2018, summarises performance for the sector from colleges regions' Outcome Agreements.

17 *College Performance Indicators 2017-18, Scottish Funding Council*, 2019. Attainment on courses over 160 hours.

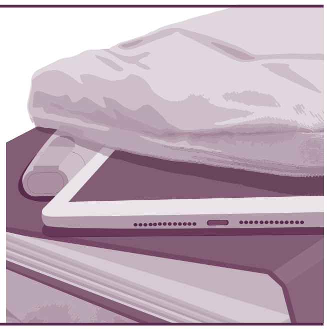
18 *Guidance for the development of College Outcome Agreements: 2017-18 to 2019-20*, Scottish Funding Council, 2016.

19 Dundee and Angus College, Edinburgh College, Inverness College UHI, New College Lanarkshire and West College Scotland.

20 *College Leaver Destinations 2016-17*, Scottish Funding Council, 2018. The data available is for full-time students only across further and higher education.

21 *How good is our college?*, Education Scotland, 2016.

Appendix
Audit methodology



What the report covers

This report looks at all colleges in the sector and Scotland's Rural College (SRUC), to present a comprehensive picture of the sector and its performance.

Until 1992, Scottish councils ran all publicly funded colleges in Scotland. Under the Further and Higher Education (Scotland) Act 1992, most of these colleges established their own corporate body and boards of management. The boards of management took over responsibility for the financial and strategic management of the colleges. These colleges are referred to as incorporated colleges and produce accounts which are subject to audit by the Auditor General for Scotland. The remaining six colleges are generally referred to as non-incorporated colleges. SRUC is classed as a higher education institution but counts towards the achievement of the national target for colleges. The report primarily focuses on incorporated colleges. However, we state clearly where we include data relating to non-incorporated colleges.

The college sector in Scotland comprises the 20 incorporated colleges and six non-incorporated colleges, organised into 13 college regions (as shown in Appendix 2 of *Scotland's colleges 2018*). Ten of these regions consist of one college. The three remaining regions (Glasgow, Highlands and Islands, and Lanarkshire) have more than one college. The individual colleges in Glasgow and in Highlands and Islands are assigned to the relevant regional strategic body, ie Glasgow Colleges' Regional Board (GCRB) or University of Highlands and Islands (UHI). In Lanarkshire, New College Lanarkshire is the regional body and South Lanarkshire College is assigned to the Lanarkshire Board.

Financial commentary

Incorporated colleges prepare their accounts based on the academic year, which runs from 1 August to 31 July. This differs from the Scottish Government's financial year, which runs from 1 April to 31 March. We use the following conventions in this report:

- 2017-18 when referring to figures from colleges' accounts, or figures relating to the academic year
- 2017/18 when referring to funding allocations made in the Scottish Government's financial year.

Financial figures in real terms are adjusted for inflation. The base year for this report is 2017-18. The GDP deflator provides a measure of general inflation in the domestic economy. We have used the GDP deflator from March 2019 to calculate the real-terms figures for other years.

Our audit involved

- Analysing relevant Scottish Government budget documentation, colleges' audited accounts and auditors' reports covering the financial periods ending July 2018.
- Analysing information held by the SFC, including financial, performance and activity data.
- Interviewing Colleges Scotland, student unions, trade unions, the SFC and the Scottish Government.
- Analysing data that we requested from colleges' external auditors.

Detailed methodology for specific sections in the report

Underlying financial position (page 7)
Incorporated colleges reported an overall deficit of £29.8 million in their 2017-18 audited accounts. In reporting the underlying financial position, we have used the SFC's data for each college based on the accounts direction it issued in 2018.

Calculating student numbers (page 19)
In this report we present student numbers by headcount, drawn from the SFC's Infact database. Where possible, this headcount excludes any multiple enrolments, meaning if a student had been enrolled at two colleges in 2017-18 they would only be counted once. Where we show full-time and part-time student numbers this will include multiple enrolments.

In line with last year's report, we have included non-incorporated colleges and SRUC to give a comprehensive picture of performance against the Scottish Government's national target for learning activity.

Scotland's colleges 2019

This report is available in PDF and RTF formats, along with a podcast summary at:
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Annexe B

Key themes for discussion

Financial health and sustainability

Key points for discussion

10. Participants may wish to consider the following points for discussion during the roundtable—
    - the financial challenges facing the colleges sector in the short, medium and longer term;
    - the approach to long-term financial planning to achieve financial sustainability;
    - the college estate strategy and how the maintenance backlog is being addressed;
    - the impact of the UK's withdrawal from the EU on Scotland's colleges.

Background information

Current financial position

11. The AGS's Scotland's Colleges 2020 blog reports that many colleges continue to face significant financial challenges. He also states that the full financial effects of Covid-19 were not felt during 2019-20. As such, difficult decisions around severance have been delayed.

12. The SFC's Coherence and Sustainability: A Review of Tertiary Education and Research report outlines the range of financial challenges colleges were facing before the impact of the Covid-19 pandemic. This included increasing cost pressures from cost of living pay awards, employers' pension contributions, maintaining the college estate and the UK's exit from the European Union.

13. The SFC confirms that additional government and SFC funding in 2020-21, coupled with a good budget settlement and final allocations for AY 2021-22 have significantly stabilised college finances in the immediate term. However, the report raises concerns that there is no guarantee these levels of public investment will be maintained, and recovery funding streams remain disparate, short-term and focused on delivery within a March year-end. The SFC therefore state that that college finances will remain vulnerable.

14. Indeed, the SFC outlines the most significant risk areas for colleges that could negatively impact on their financial health and sustainability—

> "relate to their ability to maintain short-term liquidity, sudden changes in public funding, additional staff costs arising from both cost of living pay awards and

the outcome of the National Bargaining job evaluation exercise for support staff, and increases in employer contributions to the Scottish Teachers Superannuation Scheme and Local Government Pension Schemes".

15. The Scottish Government's [Programme for Government 2021-22] makes a commitment to respond to the SFC's review of university and college provision "shortly", and "start work on implementation to ensure that colleges and universities are enabled to support future learners and the economy".

16. In terms of funding, Paragraph 7 of the AGS's blog on Scotland's colleges 2020 confirms that Scottish Government funding to colleges has continued to rise, year on year. However, he cautions that this funding will only cover the costs of making staff pay and conditions consistent across the sector.

17. As regards sources of college funding in 2019/20—
    - 77% came from Scottish Government funding through SFC grants (a 2.4% increase from 2017-18)
    - 15% came from tuition fees (a 1% decrease from 2017-18)
    - 8% came from education contracts (a 1.4% decrease from 2017-18).

18. The gap between colleges' total income and expenditure continues to widen. The Scotland's colleges 2020 blog confirms that the gap is set to widen further because of costs out with the sector's immediate control. For example, pensions and depreciation of assets.

19. The AGS's Scotland's Colleges 2020 blog explains that if pension and depreciation of asset costs are removed from the sector's underlying financial position, there was a surplus of over £3 million in 2019-20, which is a significantly healthier position than the £9 million deficit colleges had forecasted in June 2020. Colleges were asked to provide the Scottish Funding Council (SFC) with updated medium-term financial forecasts in June 2021.

20. The SFC's written submission states that as a result of additional funding received from the Scottish Government as well as income from the Coronavirus Job Retention Scheme and college's own mitigation actions, "the most recent financial forecasts from colleges project an underlying surplus for 2020-21 of £7.6 million and a cash position of £85.1 million.

21. The AGS's blog states that "robust long-term financial planning by colleges will be critical to achieving financial sustainability". The AGS highlights that this will require colleges to increase their funding, cut costs or a combination of both to deliver balanced budgets in the future.

Additional sources of funding

22. During the Session 5 Public Audit and Post-Legislative Scrutiny Committee's consideration of the Scotland's colleges 2019 report, the Committee asked Audit Scotland how colleges were able to generate alternative sources of funding.

23. In response, Audit Scotland explained that "education contracts tend to be where colleges bid for contracts to provide education or training to large employers, groups of employers or other bodies. For example, Fife College won the contract to provide education to the Scottish Prison Service". Other sources of funding outlined to the Committee included catering contracts and renting college facilities to local communities or businesses.

24. However, the AGS's Scotland's colleges 2019 report confirmed that the proportion of this non-government income has reduced. The report also highlighted that colleges' ability to access other sources of funding, such as cash and arm's-length foundation (ALF) balances is also reducing.

25. ALFs are independent, charitable bodies that were set up when colleges were reclassified as public bodies and could no longer retain significant cash reserves. Colleges can donate money into ALFs and can apply to ALFs for funding. Colleges have typically used income from ALFs to fund voluntary severance, capital works and investment in equipment and digital infrastructure.

26. The Scotland's colleges 2019 report confirmed that ALF balances vary significantly between colleges, and the ability to apply for income from ALFs is becoming increasingly limited as balances reduce

College estate

27. The AGS's Scotland's colleges 2019 report, highlighted that Scottish Government capital funding fell short of the estimated costs of maintaining the college estate. Additionally, the report raised concerns about the significant backlog of very high priority repairs as well as the considerable backlog of more general repairs.

28. The report also highlights that while capital funding has typically been used for the maintenance and improvement of buildings, investment and the development of digital infrastructure was becoming increasingly important. The report states that the Scottish Government was working with the Scottish Futures Trust and the SFC to identify an appropriate revenue funding model for future investment in the college estate.

29. The Scottish Government's Programme for Government 2021-22 commits to working with the SFC to develop an estates strategy for Scotland's colleges, establishing priorities for investment.

Impact of Brexit

30. The AGS's report on Scotland's colleges 2019 stated that the implications of the UK's withdrawal from the EU remained unclear. While it was forecasted that the direct impact of the withdrawal would be more limited compared with other parts of the public sector, concern was raised around the indirect effect which could be more significant. This included reductions in EU funding that colleges historically received through students funded by other organisations.

31. Colleges previously received funding under European Social Fund programmes. Following Brexit, the UK Government has stated that it will provide successor funding to EU Structural and Investment Funds through its proposed UK Shared Prosperity Fund. In its written submission, Colleges Scotland states—

    "The replacement Shared Prosperity Fund as currently presented will not provide similar levels of funding in comparison to previous European Union funding, however it is key for the sector that the Shared Prosperity Fund (SPF) ensures the continuation of previously EU funded programmes and our learners are not disadvantaged by new funding arrangements, and that the importance of the SPF to the sector is not underestimated".

32. A further example of successor funding following Brexit is the Turing Scheme. The scheme is the UK government's programme to provide funding for international opportunities in education and training. It replaces the UK's participation in the Erasmus+ student mobility programme following Brexit. Concerns have been raised however that the Turing Scheme allocates lesser levels of funding for students as compared to the financial support package that was available through the Erasmus+ scheme. For example, living costs and travel costs aren't funded to the same extent.

33. Colleges Scotland have highlighted that the new scheme will impact more on students from deprived and rural backgrounds more.

Responding to the Covid-19 pandemic

Key points for discussion

34. Participants may wish to consider the following points for discussion during the roundtable—
    - how colleges have responded to delivering learning and teaching remotely;
    - the experiences and support available to students and staff;
    - the role colleges can play to support Scotland's economic recovery;

Background

35. The Auditor General confirms in his Scotland's colleges 2020 blog that overall, the colleges sector "has responded well to the challenges of the pandemic so far, with governance and financial management arrangements continuing to operate effectively".

36. Education Scotland HM Inspectors also confirm that colleges have responded positively and "at pace" to the challenges presented by moving curriculums online and delivering learning and teaching remotely. The following common issues however have been identified as impacting on the quality and consistency of remote learning—

    - digital poverty and unreliable connectivity;
    - the wellbeing and particularly mental health of staff and learners;
    - the demands of developing learning, teaching and assessment approaches for remote learning;
    - digital skills of staff and learners, including skills for digital pedagogy, and;
    - engagement of learners.

37. In terms of its financial position, the SFC highlights in its recent review of tertiary education and research that the Covid-19 pandemic has heightened the challenges colleges were previously facing, particularly for colleges with high levels of commercial and international income. However, while it reports that college finances have been stabilised in the immediate term due to additional public investment and recovery funding streams, there is no guarantee this will be maintained in the longer term.

38. The AGS's Scotland's colleges 2020 blog refers to the additional £70 million revenue funding the Scottish Government provided to the sector in 2020/21 to support students and boost skills through training in response to the economic impact of Covid-19.

39. The SFC's written submission outlines how it distributed revenue funding provided by the Scottish Government in 2020/21. This includes—

    - £40 million to contribute to economic recovery;
    - £10 million to meet the needs of students who were unable to complete their studies as a result of the Covid-19 pandemic;
    - £15 million to address the deficit projected by the college sector.

40. Colleges Scotland's written submission raised concerns that that additional funding over the last 18 months has been one off funds liked to the UK Government Covid related Barnett consequentials. It goes on to state that there are no guarantees that this funding will continue, and the sector has been advised to assume no additional funding will be provided, for planning purposes.

41. The AGS's Scotland's colleges 2020 blog states that colleges "make significant contributions in supporting the country's social and economic recovery from Covid-19".

42. The Scottish Government's Programme for Government 2021-22 confirms that colleges and universities are a significant driver of Scotland's economic success.

It states that it will support these institutions to remain at the forefront of Scotland's economic recovery. This includes commitments—

- To invest £5 million a year over the course of this Parliament for universities, colleges, and community learning providers to purchase digital equipment and provide access to Wi-Fi to enable students who, owing to low incomes, are unable to access online learning.

- deliver an additional 80 counsellors in universities and colleges in the next two years, backed by £4.2 million this year.

43. In terms of financial support available to students, the Programme for Government 2021-22 commits to "a range of substantial reforms to student support". This includes a commitment that the total student support package reaches the equivalent of the Living Wage over the next three years, including for estranged students. It also states that the Scottish Government will introduce a special support payment so that students on benefits do not lose out because they are in receipt of, or entitled to, student support.

44. The Programme for Government 2021-22 also refers to the work currently underway to move the role of inspection out of Education Scotland and replace the Scottish Qualifications Authority. Consideration is currently being given to create a new, specialist agency to take responsibility for both the curriculum and assessment so that the two are fully aligned. The work is intended to result in recommendations designed to ensure that schools and learners are provided with the best possible support in early 2022.

45. SQA qualifications currently form the majority of the provision for education and training in Scotland's colleges. The SQA currently works in partnership with colleges across Scotland to meet the needs of learners, local communities and the wider economy.

College performance

Key points for discussion

46. Participants may wish to consider the following points for discussion during the roundtable—
    - Any changes to performance since the AGS's Scotland's colleges 2019 report;
    - The impact of the Covid-19 pandemic on college performance.
47. The AGS's Scotland's Colleges 2020 blog does not include specific performance information on areas such as student numbers, widening access to learning for disabled, ethnic minority and care experienced students as well as those from deprived areas, completition and attainment rates.

48. The AGS's Scotland's Colleges 2019 report however provided a range of key messages on the performance of colleges as follows—

- Student numbers increased, and the sector exceeded its learning activity targets. Over the past three years, colleges have been providing less learning to students aged 16-24 and more to students aged 25 and over.

- Colleges are widening access to learning for disabled, ethnic minority and care-experienced students but the proportion of learning delivered provided to students from deprived areas fell slightly in 2017-18. Attainment rates for students in most of these categories continue to be below those of the student population overall.

- Fewer students are completing their courses but a slightly higher proportion of students gaining a qualification are going on to positive destinations. Average attainment rates for students in fulltime education have remained relatively static in recent years. The attainment rate for full-time further education, at 66 per cent, is some distance from the SFC target of 75 per cent by 2020-21.

- There continues to be considerable variation across colleges in terms of student outcomes. The SFC has agreed aspirational and stretching targets with colleges in their latest outcome agreements. Based on recent performance trends, achieving some of these targets will be very challenging for colleges.

Submission to the Public Audit Committee – The College Sector in Scotland – September 2021

Introduction

Colleges Scotland is the collective voice for the college sector in Scotland, representing its interests and ensuring that colleges are at the heart of a word-class education sector that is recognised, valued and available to all. Colleges Scotland, as the membership body, represents all 26 colleges in Scotland, which deliver both further education and around a quarter (24%) of all higher education provision in Scotland.

Impact of Covid-19

The pandemic has undoubtably presented significant challenges for colleges however the sector has responded well under the ever-changing circumstances, ensuring that learners remain front and centre throughout.

Colleges quickly enhanced digital provision and pivoted to online and remote delivery during lockdown periods, and prioritised vulnerable students and practical subjects for essential on-campus learning as restrictions started to ease. The sector has begun this academic year with a mix of blended learning with more students on-campus as per Scottish Government and public health guidelines.

Throughout the pandemic, college leaders and staff have worked incredibly hard to ensure that safety, high quality education, and student welfare have all been protected. However, the transition to online learning has also brought the issue of digital poverty into greater focus and going forward the college sector will require continued resource to mitigate its impact, which could take the form of a student package for all students at the beginning of the new academic year.

Whilst the sector has been successful in delivering learning and teaching for the vast majority of learners, enabling them to achieve their qualifications allowing them to progress into work or further study, there is still an outstanding number of deferred learners who require additional catch-up time to complete their qualifications however colleges have prioritised these learners.

Sustainable Funding

Before the Covid-19 pandemic there was a need for increased sustainable funding for colleges, as Audit Scotland's regular annual reports confirm, and that need has not gone away.

The figure of a multi-million pound funding gap as highlighted in this year's Audit Scotland report – because of costs outwith the direct control of colleges, like pensions and depreciation of assets – is familiar to colleges and every year we work incredibly hard to find efficiencies. Colleges have been recognised as being very good value for money, operating in tight margins, and without the ability to borrow or carry forward any surpluses. To be financially sustainable, colleges have either had to cut costs or become more reliant on generating additional other income to cross-subsidise their publicly funded teaching requirements, this latter option being significantly impacted during the pandemic lockdowns.

Much of the additional funding over the last 18 months to the college sector has been one-off funds linked to UK Government Covid-related Barnett Consequentials. The college sector has not been given any guarantees that this will continue, indeed it has been instructed for planning purposes to assume it will not be. Therefore the underlying unsustainable financial position of the sector remains.

There are significant concerns about the financial position of colleges for 2022/23. As such there is a need for these increases seen to be incorporated into the core budget, so as to be maintained in order to place the sector on a stable financial footing and to fully enable it to contribute to social and economic recovery. As a sector, we are also asking Scottish Government for multi-year funding. This will allow for better planning and use of resources and provide a more stable basis for colleges and regions to plan provision and to invest in both the curriculum and infrastructure. Multi-year funding reduces risk and builds commercial and operational resilience.

As well as the impact of Covid-19, Brexit has also presented challenges for the sector. The European Structural Fund programmes have been extremely valuable for college and have been instrumental in helping colleges deliver against regional outcome agreements and Scottish Government priorities regarding skills development and the economic development of regions across Scotland. The replacement Shared Prosperity Fund as currently presented will not provide similar levels of funding in comparison to previous European Union funding, however it is key for the sector that the Shared Prosperity Fund (SPF) ensures the continuation of previously EU funded programmes and our learners are not disadvantaged by new funding arrangements, and that the importance of the SPF to the sector is not underestimated.

College Sector Infrastructure (Estates, ICT and Net Zero)

In 2017, SFC commissioned a condition survey of the college estate. That survey identified a backlog of maintenance needs equivalent to £360 million. Approximately 25% of the total college estate in Scotland was found to require significant capital investment. This was identified as being significantly greater than other parts of the public sector.

On the basis of the evidence in relation to the current condition of college estates, there is a need for significant strategic investment to meet the infrastructure needs of the sector, both to maintain college estates at “wind and watertight” standards and to also future proof to existing estates so as to safeguard their future viability. This has been identified as a pressing issue that requires immediate action.

Such investment would also act as a crucial aid in supporting colleges to reduce emissions by 2045 in their capacity as public sector bodies, under the terms of The Climate Change (Emissions Reduction Targets) (Scotland) Act 2019.

The particular need for increased digital infrastructure investment funding has also been raised through sector engagement, given the expectation that colleges will continue a hybrid delivery model for learning and teaching, with the development of enhanced cloud-based solutions, and the further expectations of future learners given the investment being made for school learners in terms of digital equipment provision.

Scottish Funding Council (SFC) Review

The review provides an opportunity to maximise the opportunities for colleges to service their regions for economic recovery and growth as required and generate an environment that is agile, flexible, and responsive. Priorities from the review that we have recommend Scottish Government and SFC take forward first are:

- The longer-term intent and commitment of Scottish Government to be clearly articulated, setting its own vision for the future and commitment to change that will truly benefit learners and the future of college education in Scotland.
- To deliver financial sustainability, including multi-year funding, which would allow colleges to strategically plan and invest for the healthy future of the college sector. These would include:
  - Scottish Government rolls forward the extraordinary measures and funding from AY 2021-22 into AY 2022-23.
  - Scottish Government sets out multi-year funding assumptions and commitments.
  - Scottish Government provides additional year-end flexibility to assist financial management in colleges and considers the benefits and risks of a different classification of colleges.
- Mainstreaming the previously received covid response funding, including for Foundation Apprenticeships, Digital and Mental Health.
- Address the inequality of funding between each student at college as opposed to those at school or university. The Scottish Government needs to provide equality of funding across the whole educational system. (Whilst this is not a specific recommendation in the SFC Review, this ask is fundamental to provide a stable and sustainable college sector.)
- Agreement with the recommendation on overall flexibility and ask that this is remembered and applied consistently for this year and coming years as a core way of working between the sector, SFC and Scottish Government. Our first asks for areas where flexibility could and should be delivered are:
  - On delivery, i.e., around the current FTE target
  - To enable bespoke provision of business support in the regions
  - Response to demographic changes
  - Scottish Government provides additional year-end flexibility to assist financial management in colleges and considers the benefits and risks of a different classification of colleges.
- Agreement with the recommendations to assist and support the sector in regional planning, including recognition of the role of colleges and involvement in Inward Investment and the importance of regional economies.
- Agreement with the recommendations on Learning Throughout Life and micro-credential development.
- Agreement on the recommendations to ensure a digital learning opportunity for all and to address future digital requirements, as well as tackle digital poverty, ensure equity of connectivity and support the development of digital skills of educators.

Supporting Inclusive Economic Recovery

The college sector will have a critical role in supporting social and economic recovery and renewal across all regions of Scotland as we emerge from the Covid-19 pandemic. This will include upskilling and reskilling; tackling skills gap; supporting key growth sectors; investing in employability skills, including in the more rural parts of Scotland to ensure inclusivity is at the heart of all our endeavours; and supporting Partnership Action for Continuing Employment (PACE) activity in response to redundancy and company closure, in addition to other Scottish Government initiatives such as the Young Person's Guarantee and the National Transition Training Fund.

The college sector's network and flexibility will be pivotal in driving regional economic development priorities across Scotland, and colleges' capacity to quickly deliver short, full-time courses and provide people with desirable skills will be hugely advantageous to Scotland small and medium-sized enterprises (SMEs), and the economy generally. Colleges are ideally placed to support all of the nation's employers to rebuild their businesses and their confidence. This will be achieved not only through what colleges already do well but also through innovation, as new sectors and technologies emerge in the coming years, with colleges increasingly engaging in innovation-based activity with employers and SMEs.

The Cumberford-Little Report, published in February 2020, provides an extremely useful template for how colleges could do even more to help improve businesses' performance and productivity and outlines a roadmap to help revamp the sector, as does the Commission on the College of the Future Scotland report which was published in December 2020.

It was also recommended within the Cumberford-Little report that the SQA should investigate (with SFC) how to enhance the use of college certified qualifications, and more use of micro-credentials. There is potential here for the new system, post review, to support an agile approach to qualifications development and one that moves at pace in doing so.

Simultaneously, there is an opportunity through the Reform of the SQA to explore the increasing demand for micro-credentials and bite-sized/stackable qualifications, meta skills, and holistic assessment.

National Bargaining

Colleges play a vital role in society, and as significant employers within their regions, they are great places to work. We value our staff, and this is reflected in the excellent terms and conditions colleges offer to recruit, reward, and retain staff. For example, lecturing staff in Scotland are the highest paid anywhere in the UK with 23 hours class contact time and 62 days holiday per annum. All lecturers are also being supported to register with the General Teaching Council for Scotland and enhance their professionalism and continuous development. For support staff in colleges, a job evaluation project is well underway to ensure equal pay at individual college level.

Negotiations have commenced for the 2021/22 annual cost of living award. The colleges – as public bodies and charitable organisations – have made an offer to lecturing staff (through the EIS-FELA, and support staff (through Unison, Unite and GMB) in line with public sector pay policy. Any pay claims require to be considered alongside the sector’s financial settlement for 2021-22 and funding gap as highlighted by Audit Scotland.

We will continue to engage with all the trade unions with the aim of reaching a swift and sustainable agreement.

Colleges Scotland
September 2021

EIS Submission to Public Accounts Committee

1. The Educational Institute of Scotland (EIS), Scotland's largest teacher union representing over 60,000 teachers and lecturers, is pleased to submit this short paper to the Public Audit Committee of the Scottish Parliament in advance of the forthcoming session on college accounts. The EIS is the sole trade union recognised for representing lecturers in Scotland's colleges and has over 5,000 college lecturers in membership.

Scottish Government Funding

2. In the financial years, 2016-17 through 2019-20, the further education sector in Scotland has seen annual increases in revenue funding, both in cash terms and in real terms, from the Scottish Government.

	Scottish Government revenue funding for colleges (£m)
2016-17	542.5
2017-18	559.9
2018-19	588.9
2019-20	615.3

Table 1 Scottish Government Revenue Funding to College Sector (Cash Terms)

3. Data published by Audit Scotland (https://www.audit-scotland.gov.uk/report/scotlands-colleges-2020) clearly shows that all colleges are predominantly publicly funded via the Scottish Funding Council (SFC). Across individual colleges, SFC grants make up upwards of 70% of total income and in some cases, this rises above 80%. According to the SFC Phase 3 Review Report, some college principals would prefer colleges to be privatised by moving outwith the public sector to form companies limited by guarantees. The financial figures, however, show that Scottish colleges are bodies that are primarily funded by the public purse to deliver activity specified by the Scottish Government. It is difficult to see how some of these bodies could sustain such large deficits were they to be private entities.

4. The 2019-20 and 2018-19 surpluses/deficits of all Scottish Colleges are copied overleaf and are harvested from each college's reported "Statement of Comprehensive Income", in each college's published accounts.

5. College accounts are highly technical and how a surplus is defined with the public sector accounts is complex. The EIS has also harvested the 'adjusted operating surpluses' (aka underlying operating surplus) from each college from each colleges financial report. The following note is taken from the Edinburgh College Financial Report for 2019-20:

"The Statement of Comprehensive Income shows a deficit for 2019-20 of £3.8m. However, this includes non-cash items such as depreciation and pension adjustments and, if these are excluded, there was a surplus of £1.0m. After working capital movements, this resulted in a net cash inflow from operating activities of £2.2m, along with investing and financing cash outflows totalling £0.6m. The total net cash inflow of £1.6m resulted in a closing position of £3.7m."

6. The Surplus/(deficit) before other gains/(losses), harvested by the EIS from college financial accounts, and adjusted operating surpluses are shown below.

	Surplus/ (deficit) before other gains/ (losses) 2019-20 (£k)	Surplus/(deficit) before other gains/(losses) 2018-19 (£k)	Adjusted Operating Surplus 2019-20 (£k)	Adjusted Operating Surplus 2018-19 (£k)
Argyll College	1,208	(37)	1,205	400
Ayrshire College	(1,567)	(1,352)	1,294	1,790
Borders College	(955)	(1,038)	(373)	214
City of Glasgow	(4,720)	(6,576)	(360)	1,201
Dumfries & Galloway	(1,950)	(1,509)	607	54
Dundee & Angus	(3,777)	(2,344)	1,014	2,249
Edinburgh College	(4,625)	(6,227)	507	708
Fife* College	(3,080)	(3,319)	507	708
Forth Valley College	(6,476)	(1,779)	1,170	1,268
Glasgow Clyde College	(3,101)	(3,577)	267	107
Glasgow Kelvin College	(1,804)	(2,121)	238	(333)
Inverness College	(2,049)	(334)	165	329
Lews Castle College	(737)	(470)	(431)	(343)
Moray College	(1,29)0	(679)	(166)	195
New College Lanarkshire	(4,523)	(1,316)	(162)	375
Newbattle Abbey	(49)	(251)	(246)	(137)
North East Scotland	(2,439)	(1,799)	584	643
North Highland College	(957)	(1,307)	45	-420
Orkney College#	641	621	641	621
Perth College	(2,024)	(241)	(642)	1,274
Sabhal Mor Ostaig	(66)	(178)	1	(110)
Shetland College#	N/A	N/A	N/A	N/A
South Lanarkshire	(661)	219	316	1,170
West College Scotland	(7,434)	(5,960)	(1,826)	26
West Highland College	307	372	307	373
West Lothian College	(1,599)	(1,351)	196	140

Table 2 6. The Surplus/(deficit) before other gains/(losses) from college financial accounts and adjusted operating surpluses for 2018-19 and 2019-2020.

7. The EIS recognises that the "*Surplus/(deficit) before other gains/(losses) 2019-20 (£k)*" is complex and may be heavily affected by several factors, especially pension adjustments, that may give a misleading picture of an institution's accounts. The EIS prefers to use the "adjusted operating surplus" (aka underlying operating surplus), therefore, as a better metric of an institution's financial health.

8. It is clear to the EIS that the college financial reports for 2019-20 show eight colleges having an underlying operating deficit, an increase from five in 2018-19. Furthermore, the size of the underlying operating deficits is larger in 2019-20 than previously and indicate a worsening financial situation for many colleges. The EIS acknowledges Audit Scotland analysis work in this area.

9. The College's operating surpluses/deficits seem to be getting worse, despite Scottish Government revenue funding rising in real terms. This would suggest a structural funding issue.

10. Colleges expenditure has been analysed by Audit Scotland, and it may be found: https://www.audit-scotland.gov.uk/report/scotlands-colleges-2020 Most colleges have staffing costs of between 65-75% which is consistent with the fact that these are labour intensive institutions with staff skills driving outputs. One factor that seems to vary considerably, is that the newly rebuilt/refurbished colleges have high depreciation/interest costs – with one college that has an underlying operating deficit showing 24% of its expenditure as such. This would seem to be the legacy of how the Scottish Government has funded capital expenditure via a private finance initiative (PFI) known as the non-profit distribution (NPD) model.

11. The number of senior staff within the FE sector (those earning £70k or more per annum) has increased marginally to 116 in 2019/20 according to an EIS analysis of the latest financial reports when compared to the previous year's number of senior staff (115). However, there seems some variation in how many senior staff are employed by individual colleges; there are four colleges that employ over ten individuals in this category.

12. The average pay of college principals over 2019-20 is circa £118,000 according to an EIS analysis of the latest financial accounts. The highest-paid principal earns £164,000 per annum, around £30,000 more than that received by the First Minister (which is voluntarily pegged at 2008 levels).

13. The EIS can only speculate as to any structural reason as to why the college sector is running increasing underlying deficits despite increased revenue funding. Possible reasons are set out below and it is suggested that these may act in concert in some colleges:

i. Colleges are funded by a measure of activity called "student credits" where each credit represents 40 hours of student learning. Each college has an annual credit target set by the SFC that must be achieved relative to the funding it receives. If the SFC FE funding model is structurally flawed or biased in some way then some colleges will not receive sufficient funding to deliver their required student credits.

ii. Scottish Government capital funding has reduced in recent years, and it is possible that revenue funding is being used by colleges to offset that reduction.

iii. Three of the eight colleges that have an underlying operating deficit sit within the UHI. There has historically been a tension within the UHI between the proportion of funding kept by the UHI Court for central operations and that kept by the UHI Academic Partner Colleges for local operations.

iv. Newly rebuilt/refurbished colleges have high depreciation/interest costs.

14 The increased use of support staff to teach/train students is an ongoing matter of concern since it may lead to lower teaching standards since support staff (eg instructors) are not subject to meeting GTCS Professional Standards or have FE teaching qualifications as lecturers are required to. There has been a national collective agreement at the NJNC to ensure that support staff are not used to carry out work that is done by lecturing staff. The EIS is clear that is no financial rationale or saving to be made by undermining the role of lecturing staff or risking teaching quality in the college sector.

15 The role of the FE sector is unique. Colleges provide an access point for local learners of all ages to engage or re-engage with education and can take learners on a pathway to new jobs, university or self-fulfilment. Colleges serve their local communities but are also important for local employers such as businesses and other public services such as the NHS as they can re-skill or upskill workers. The Government has acknowledged the importance of the college sector in rebuilding the economy post-covid. To that end, its increasingly fraught financial position must be addressed by the Scottish Government by additional funding.

Scottish Funding Council
Promoting further and higher education

Comhairle Maoineachaidh na h-Alba
A' brosnachadh foghlam adhartach agus àrd ìre

14 September 2021

Richard Leonard
Convener
Public Audit Committee
The Scottish Parliament
Edinburgh
EH99 1SP

Dear Mr Leonard

Evidence session to explore the issues facing the college sector in Scotland

I am looking forward to appearing before the Public Audit Committee on Thursday 23 September 2021 to discuss the issues facing the college sector in Scotland. In advance of this meeting, I thought it would be helpful to provide a written summary about how revenue funding provided by the Scottish Government in 2020-21 has been distributed by the Scottish Funding Council.

Funding in 2020-21

The college sector is playing a key role in economic recovery and we have provided in the region of £40m of additional funding in 2020-21, a mix of capital and revenue funding. We have also allocated £10m of additional funding for AY 2021-22 to take account of the additional costs for colleges in meeting the needs of those students who were unable to complete their studies as a result of the Covid-19 pandemic.

To address the deficit projected by the college sector, of £15.3m in academic year 2020-21, we allocated the college sector £15m of additional revenue funding in March 2021. As a result of this additional revenue funding, along with income from the Coronavirus Job Retention Scheme and colleges' own mitigating actions, the most recent financial forecasts from colleges (received at the end of July) project an underlying surplus for 2020-21 of £7.6m and a cash position of £85.1m.

In addition to the revenue funding mentioned above, we provided a range of additional funding over the course of 2020-21, including funding to address digital poverty (£2.3m), additional student support funding (£3m), additional estates maintenance funding to

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support economic recovery (£6.5m), funding to address mental health (£0.7m) as well as funding to support economic recovery initiatives - £7.5m of Young Person's Guarantee funding and £2.5m of National Training Transition Fund funding.

Turning to this year, SFC's Revenue budget for colleges for AY 2021-22 has increased by 10.8% (£70.2m) from AY 2020-21. Within this total:

- Teaching funding has increased by 8.2% (£40m)
- Student support funding has increased by 1.9% (£2.6m) and we have also set aside some additional student support contingency funding
- Other programme funding has increased by £13m.

A breakdown of the funding for 2022-22 is summarised in the table below:

Funding	**£'000**
Total Teaching	527,052
Student Support	144,367
Total Other Funding (incl ESF, FWDF, YPG)	61,403
TOTAL REVENUE FUNDING	**732,822**
TOTAL CAPITAL FUNDING	**33,700**

Looking to the future, our review made a number of funding recommendations including the setting up of a working group to consider a fairer distribution of investment across the college sector and the establishment of two tertiary funding pathfinders to provide an opportunity to test and model how a more integrated tertiary funding model might work in practice. We await a response from Scottish Government Ministers.

Further details on our allocations for the Academic Year 2021-22 can be found here on our website.

I hope the information above is useful for members and I look forward to discussing these points at the Committee meeting.

Yours sincerely

Karen Watt
Chief Executive