

Item: 10

Education, Leisure and Housing Committee: 12 September 2018.

National Audit Report: Scotland's Colleges 2018.

Report by Executive Director of Education, Leisure and Housing.

1. Purpose of Report

To present the national audit report, Scotland's Colleges 2018, prepared by Audit Scotland.

2. Recommendations

The Committee is invited to note:

2.1.

The national audit report, Scotland's Colleges 2018, issued in June 2018 by Audit Scotland, attached as Appendix 1 to this report.

2.2.

The key messages contained within the national audit report, a summary of which is detailed in section 4 of this report.

2.3.

That the national audit report makes specific reference to Orkney College with regards to student outcomes noting that students on full time further education courses had the highest attainment, retention, satisfaction and positive destinations of all of the colleges in Scotland.

2.4.

That the national audit report makes reference to the need for colleges to develop long term financial strategies which is currently part of Orkney College's work plan.

3. Background

3.1.

Attached as Appendix 1 to this report is the national audit report, Scotland's Colleges 2018, prepared by Audit Scotland, which provides an update on various changes taking place in the college sector and, where possible, assesses the impact. It also comments on the financial standing of the sector and looks at student participation and outcomes.

3.2.

The national audit report intimates that colleges prepare accounts based on the academic year (1 August to 31 July). In the case of Orkney College, however, the accounts are prepared by financial year 1 April to 31 March in accordance with the practice of the Council.

3.3.

The national audit report sets out recommendations for the Scottish Government, the Scottish Funding Council and Scotland's colleges.

3.4.

The key messages and recommendations arising from the national audit report were considered by the College Management Council Sub-committee on 3 September 2018.

4. Key Messages

The key messages highlighted in the national audit report are as follows:

4.1.

The college sector's underlying financial position improved in 2016 to 2017, but several colleges face significant financial challenges. Scotland's 20 incorporated colleges reported an overall underlying financial surplus for 2016 to 2017 of £300,000. This compares to an underlying deficit of £8,000,000 in 2015 to 2016. Across the sector, the cash held by colleges increased by 13% in 2016 to 2017 and the net value of their assets – such as land and property, compared against financial liabilities such as pension costs – grew by 10%. However, these sector-wide increases mask significant variations between colleges.

4.2.

Staff costs remain the highest area of spending and are forecast to increase, mainly as a result of the costs associated with harmonising staff pay and other conditions. Colleges' representative body, Colleges Scotland, has estimated the total cost of harmonisation as £50,000,000 a year from 2019 to 2020. This would absorb all of the Scottish Government's projected savings from college reform. The Scottish Government is providing funding to cover the additional costs up to the end of academic year 2018-19. But it has not yet specified funding for academic year 2019 to 2020, when the costs will increase most significantly.

4.3.

The Scottish Funding Council's 2017 estates condition survey indicates that college buildings require urgent and significant investment. The survey estimates a backlog of repairs and maintenance over the next five years of up to £360,000,000. The Scottish Funding Council is providing £27,000,000 of capital funding to colleges in 2018 to 2019 to cover the very high priority needs identified in the condition survey.

4.4.

Several factors pose a risk to colleges' financial sustainability, including: the future impact of national bargaining for support staff; uncertainties around long-term funding of improved employment terms; the cost of maintaining buildings and land; and the potential impact of leaving the European Union. Differences in the assumptions colleges use for their forecasts mean they do not provide a reliable picture of future financial sustainability for the sector. The Scottish Funding Council and colleges are working to address this from 2018.

4.5.

The college sector exceeded its targets for learning activity and full-time equivalent student places in 2016 to 2017. Student numbers increased by around four percent, with most of the increase being students in part-time learning, particularly those under 16 years of age. At least 82.7% of all successful full-time college leavers entered positive destinations, such as training, employment and higher education. This is largely unchanged from last year. Student satisfaction remains high at over 90% and improved slightly compared to last year.

4.6.

The proportion of credits (units of learning) delivered to students from deprived areas, from ethnic minorities, with care backgrounds or with disabilities all continue to increase. Despite this, the gap in attainment between students from the least and most deprived areas is growing.

4.7.

Colleges have made notable progress in addressing the large gender imbalance on engineering courses but have had less success in other courses. The Scottish Funding Council shares good practice as part of its gender action plan and expects to see more progress from 2017 to 2018 onwards. Some college boards also continue to have significant gender imbalances in their membership that would fall short of the new statutory gender representation objective.

4.8.

The regional strategic bodies in the three multi-college regions are fulfilling their core statutory duties, but their progress in meeting the wider aims of regionalisation varies. The University of Highland and Islands Court has made good progress and is now working with four of its incorporated colleges to explore opportunities for greater integration. The Glasgow Colleges' Regional Board is making progress in coordinating collaborative regional activity but needs to do more work with its assigned colleges, to deliver all of the intended benefits of regionalisation. The current regional arrangements in Lanarkshire add little to the aims of regionalisation.

5. Implications for Orkney Islands Council

5.1.

Arising from the three recommendations set out by Audit Scotland the following implications for Orkney College and the Council have been identified.

5.2.

Action 1: Colleges should work with the Scottish Funding Council to further develop their long-term financial forecasting:

- The outturn financial figures for Orkney College for the 2017 to 2018 financial year indicated a small surplus of circa. £40,00. This followed a similar small surplus of circa £60,000 in 2016 to 2017 financial year.
- The decision by the Council to shadow the national pay bargaining arrangements for college lecturers was accompanied by a condition that a robust business plan to ensure survival and sustainability is developed.
- The development of this business plan is being taken forward as a priority matter and is part of the Orkney College work plan.

5.3.

Action 2: Colleges should focus on reducing the attainment gap and improving student performance:

- Specific reference to Orkney College is made on page 23, section 46 and page 24, section 47, of the national audit report relating to the outcomes of students.
- Exhibit 10 on page 24 of the national audit report indicates that Orkney College achieved the highest percentage in Scotland for all four performance indicators:
 - Attainment.
 - Retention.
 - Satisfaction.
 - Positive Destination.

5.4.

Action 3: Colleges should, where appropriate, examine opportunities for getting a better gender balance on their boards to meet new statutory targets:

- Section 61 on page 27 of the national audit report states that Orkney College has the greatest gender imbalance of 'board' members with the membership being predominantly male. Voting membership of the College Management Council comprises:
 - Five Councillors.
 - Four Community/Third Sector representatives.
 - Four Business Community representatives.

- There is currently a vacancy for one Business Community representative and the intention is to encourage applications from those who could help redress the gender imbalance. The profile of Councillors that make up the Council is determined by the electorate and in a council where the majority of candidates for election are independent, as opposed to being nominated by political parties, achieving a gender balance can be more difficult.

6. Human Resource Implications

There are no immediate, direct HR implications arising out of this report. However, as staffing is the single largest cost for Orkney College the robust (medium to long term) business plan for Orkney College will inevitably have the potential for there to be Human Resource implications.

7. Links to Council Plan

The proposals in this report support and contribute to improved outcomes for communities as outlined in the Council Plan strategic priority of Thriving Communities.

8. Links to Local Outcomes Improvement Plan

The proposals in this report support and contribute to improved outcomes for communities as outlined in the Local Outcomes Improvement Plan priority of A Vibrant Economy.

9. Financial Implications

There are no significant financial implications for the Council arising from the recommendation in this noting report.

10. Legal Aspects

Responding to national audit reports helps the Council meet its statutory obligations to secure best value.

11. Contact Officers

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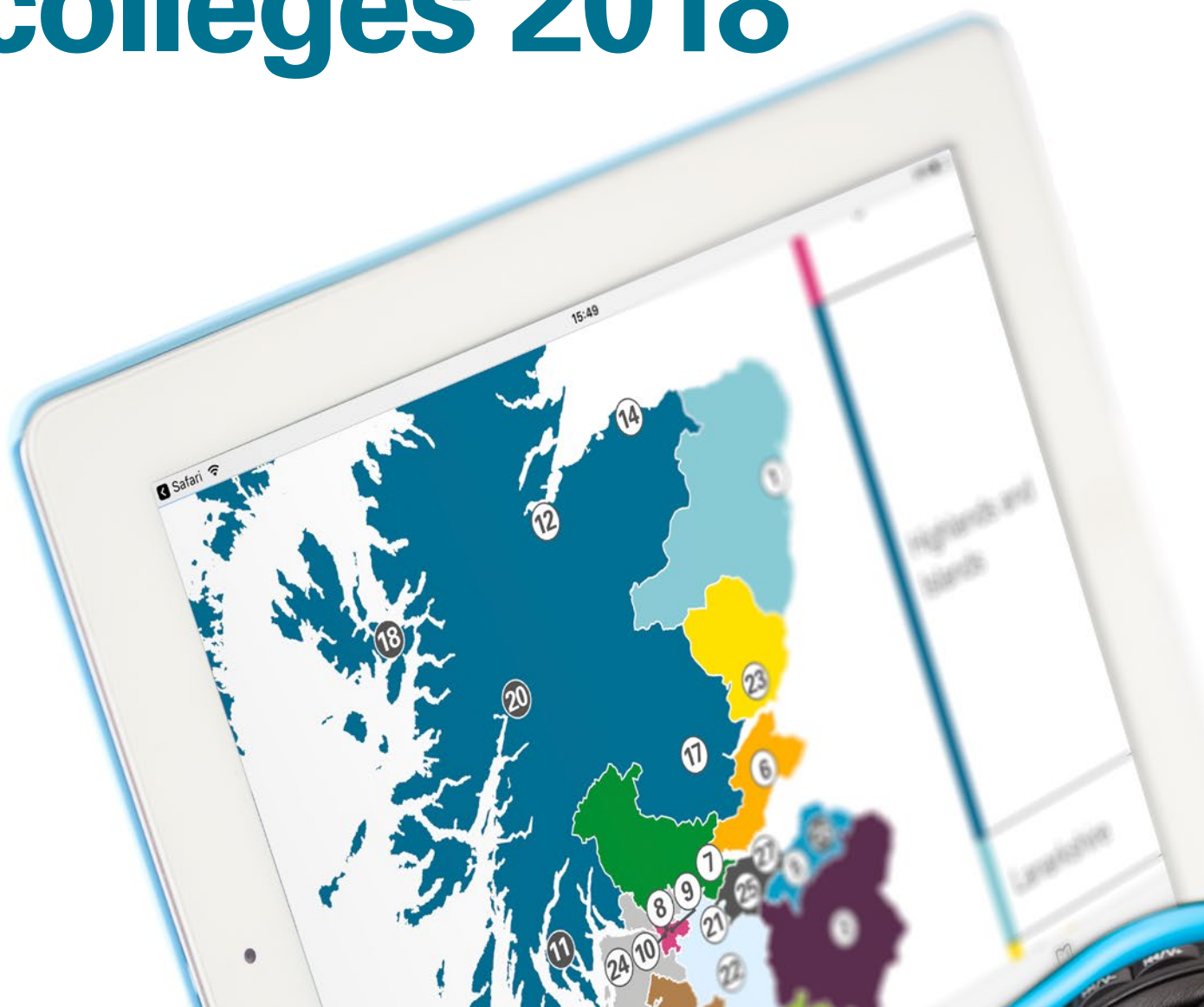
James Wylie, Head of Education (Curriculum and Community Learning), extension 2401, Email james.wylie@orkney.gov.uk.

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12. Appendix

Appendix 1: Scotland's Colleges 2018 – Prepared by Audit Scotland – June 2018.

Scotland's colleges 2018



AUDITOR GENERAL 

Prepared by Audit Scotland
June 2018

Auditor General for Scotland

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- Scottish Water
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Audit team

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

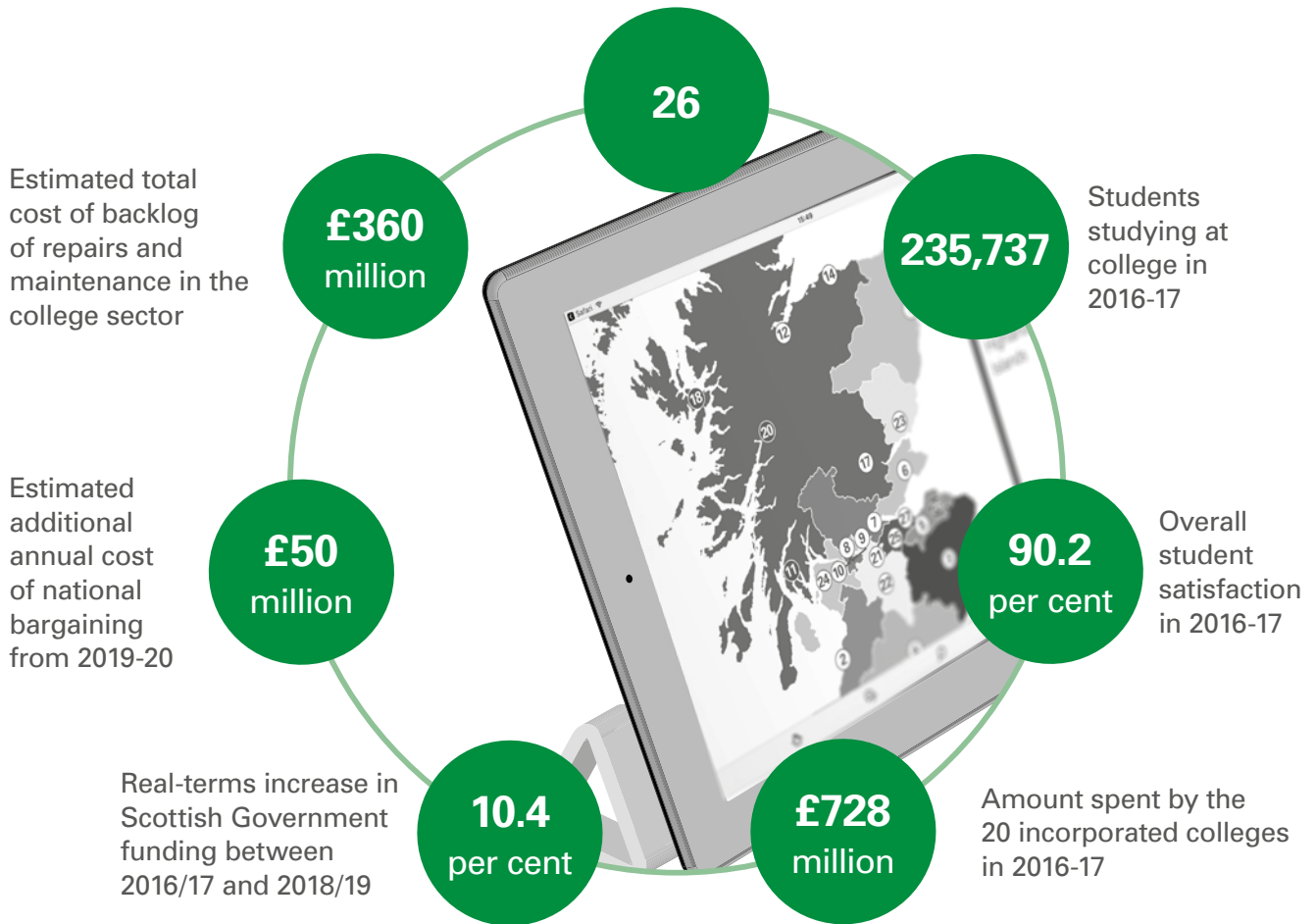
Links

-  PDF download
-  Web link

Key facts



Colleges in Scotland



Summary



Key messages

- 1 The college sector's underlying financial position improved in 2016-17, but several colleges face significant financial challenges. Scotland's 20 incorporated colleges reported an overall underlying financial surplus for 2016-17 of £0.3 million. This compares to an underlying deficit of £8 million in 2015-16. Across the sector, the cash held by colleges increased by 13 per cent in 2016-17 and the net value of their assets – such as land and property, compared against financial liabilities such as pension costs – grew by ten per cent. However, these sector-wide increases mask significant variations between colleges.
- 2 Staff costs remain the highest area of spending and are forecast to increase, mainly as a result of the costs associated with harmonising staff pay and other conditions. Colleges' representative body, Colleges Scotland, has estimated the total cost of harmonisation as £50 million a year from 2019-20. This would absorb all of the Scottish Government's projected savings from college reform. The Scottish Government is providing funding to cover the additional costs up to the end of academic year 2018-19. But it has not yet specified funding for academic year 2019-20, when the costs will increase most significantly.
- 3 The Scottish Funding Council's (SFC's) 2017 estates condition survey indicates that college buildings require urgent and significant investment. The survey estimates a backlog of repairs and maintenance over the next five years of up to £360 million. The SFC is providing £27 million of capital funding to colleges in 2018-19 to cover the very high priority needs identified in the condition survey.
- 4 Several factors pose a risk to colleges' financial sustainability, including: the future impact of national bargaining for support staff; uncertainties around long-term funding of improved employment terms; the cost of maintaining buildings and land; and the potential impact of leaving the European Union. Differences in the assumptions colleges use for their forecasts mean they do not provide a reliable picture of future financial sustainability for the sector. The SFC and colleges are working to address this from 2018.
- 5 The college sector exceeded its targets for learning activity and full-time equivalent student places in 2016-17. Student numbers increased by around four per cent, with most of the increase being students in part-time learning, particularly those under 16 years of age. At least 82.7 per cent of all successful full-time college leavers entered positive

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destinations, such as training, employment and higher education. This is largely unchanged from last year. Student satisfaction remains high at over 90 per cent and improved slightly compared to last year.

- 6** The proportion of credits (units of learning) delivered to students from deprived areas, from ethnic minorities, with care backgrounds or with disabilities all continue to increase. Despite this, the gap in attainment between students from the least and most deprived areas is growing.
- 7** Colleges have made notable progress in addressing the large gender imbalance on engineering courses but have had less success in other courses. The SFC shares good practice as part of its gender action plan and expects to see more progress from 2017-18 onwards. Some college boards also continue to have significant gender imbalances in their membership that would fall short of the new statutory gender representation objective.
- 8** The regional strategic bodies (RSBs) in the three multi-college regions are fulfilling their core statutory duties, but their progress in meeting the wider aims of regionalisation varies. The University of Highland and Islands (UHI) Court has made good progress and is now working with four of its incorporated colleges to explore opportunities for greater integration. The Glasgow Colleges' Regional Board (GCRB) is making progress in coordinating collaborative regional activity, but needs to do more work with its assigned colleges, to deliver all of the intended benefits of regionalisation. The current regional arrangements in Lanarkshire add little to the aims of regionalisation.

Key recommendations

The Scottish Government and the SFC should:

- publish the criteria within the Infrastructure Strategy for prioritising capital investment in the college sector ([paragraph 27](#))
- work with colleges to examine why the attainment gap between students from deprived areas and the wider student population is growing and identify actions to reduce the gap ([paragraph 53](#))
- assess and report publicly on the extent to which the regional strategic bodies are meeting the aims of regionalisation in multi-college regions ([paragraphs 69–83](#)).

The SFC should:

- revise its accounts direction to ensure colleges calculate their underlying financial position consistently ([paragraph 9](#))
- progress its work with colleges to improve common assumptions for future financial forecasting returns, including clarifying when departing from the assumptions would be justified ([paragraph 31](#))

- determine what other actions are required to tackle the greatest gender imbalances in subjects to deliver its gender action plan ([paragraph 60](#))
- agree with regional strategic bodies in multi-college regions the most appropriate way of collecting information on college activities and clarify both why and when it needs to engage with, or collect information from, assigned colleges ([paragraph 84](#)).

Colleges should:

- work with the SFC to further develop their approach to long-term financial forecasting ([paragraph 31](#))
- focus on reducing the attainment gap and improving student performance ([paragraph 53](#))
- where appropriate, examine opportunities for getting a better gender balance on their boards to meet new statutory targets ([paragraph 61](#)).

GCRB and its assigned colleges should:

- address concerns among senior staff and college board members about its role to further improve collaborative working across the region ([paragraph 78](#)).

The Lanarkshire Board should:

- develop a clear plan for improving collaborative working across the region ([paragraph 83](#)).

Background

1. This report provides an overview of the college sector in Scotland. It gives an update on college finances and analyses learning activity. We have set out our methodology in [Appendix 1](#). Our previous reports have commented on:¹

- the sector's ability to meet the national target for learning
- the changes that have taken place in the sector in recent years including regionalisation, college mergers and reclassifying colleges as public bodies.

2. Scotland's colleges play an important role in helping to achieve sustainable economic growth by developing a highly educated and skilled workforce. In 2016-17, there were 235,737 students. Colleges are the main providers of further education (FE) in Scotland. They also provide a significant amount of higher education (HE), with around 47,937 students (around 20 per cent) studying at HE level at college in 2016-17.

3. The college sector in Scotland comprises 20 incorporated colleges and six non-incorporated colleges, organised into 13 college regions ([Appendix 2](#)).² 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.

4. In this report we look at all colleges in the sector and Scotland's Rural College (SRUC), to present a comprehensive picture of the sector and its performance. In [Part 1](#) of this report, How Scotland's colleges are managing their finances, we focus on incorporated colleges, as non-incorporated colleges are not subject to the same requirements as incorporated colleges (as public bodies). In [Part 2](#), How Scotland's colleges are performing, the participation data used excludes information about students studying higher education through UHI or SRUC.

5. Colleges prepare their accounts based on the academic year (1 August to 31 July).³ 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:

- 2016-17 when referring to figures from colleges' accounts, or figures relating to the academic year
- 2016/17 when referring to funding allocations made in the Scottish Government's financial year.

6. Financial figures in real terms are adjusted for inflation. The base year for this report is 2016-17. The GDP deflator provides a measure of general inflation in the domestic economy. We have used the GDP deflator from December 2017 to calculate the real-terms figures for other years.⁴

7. Where appropriate, our report draws on separate reports by the Auditor General for Scotland (section 22 reports) on [Edinburgh College](#)  and [New College Lanarkshire](#)  that were published in April 2018.

Part 1

How Scotland's colleges are managing their finances



Key messages

- 1 The overall financial position of the college sector has improved since last year. The 20 incorporated colleges reported an overall underlying financial surplus of £0.3 million for 2016-17. This compares to an underlying deficit of £8 million in 2015-16. Individual college financial positions varied. Five incorporated colleges had an underlying deficit in 2016-17, compared with 11 in 2015-16. Scotland's six non-incorporated colleges reported an overall underlying surplus of £249,000 in 2016-17, with no college having an underlying deficit.
- 2 The Scottish Funding Council (SFC) first required colleges to include their underlying financial position in their accounts in 2016-17. Individual colleges have interpreted the SFC's accounts direction differently, making it difficult to compare the financial positions of different colleges.
- 3 Net assets increased by ten per cent (to £230 million). The level of cash held across the sector increased by 13 per cent (to £49 million). Despite the overall increase in cash held, nine colleges held less cash than last year. This means they have less flexibility to meet unanticipated changes in income or expenditure. Some colleges face particular financial challenges.
- 4 The Scottish Government has provided revenue funding to the college sector of £570.7 million in 2018/19, a real-terms increase of five per cent on 2016/17. Most of this is to meet increased costs associated with national bargaining. Colleges Scotland has estimated the total cost of harmonisation as £50 million a year from 2019/20. This would absorb all the Scottish Government's projected savings from college reform.
- 5 Colleges now prepare six-year financial forecasts. Differences in the assumptions colleges use for their forecasts mean they do not provide a reliable picture of future financial sustainability for the sector. The SFC and colleges are working to address this from 2018.
- 6 The SFC's 2017 estates condition survey indicates that college buildings require urgent and significant investment. The survey estimates a backlog of repairs and maintenance over the next five years of up to £360 million. The SFC is providing £27 million of capital funding in 2018-19 to address very high priority repairs and maintenance.

the estimated additional annual cost of harmonising pay and other conditions would absorb the projected savings from college reform

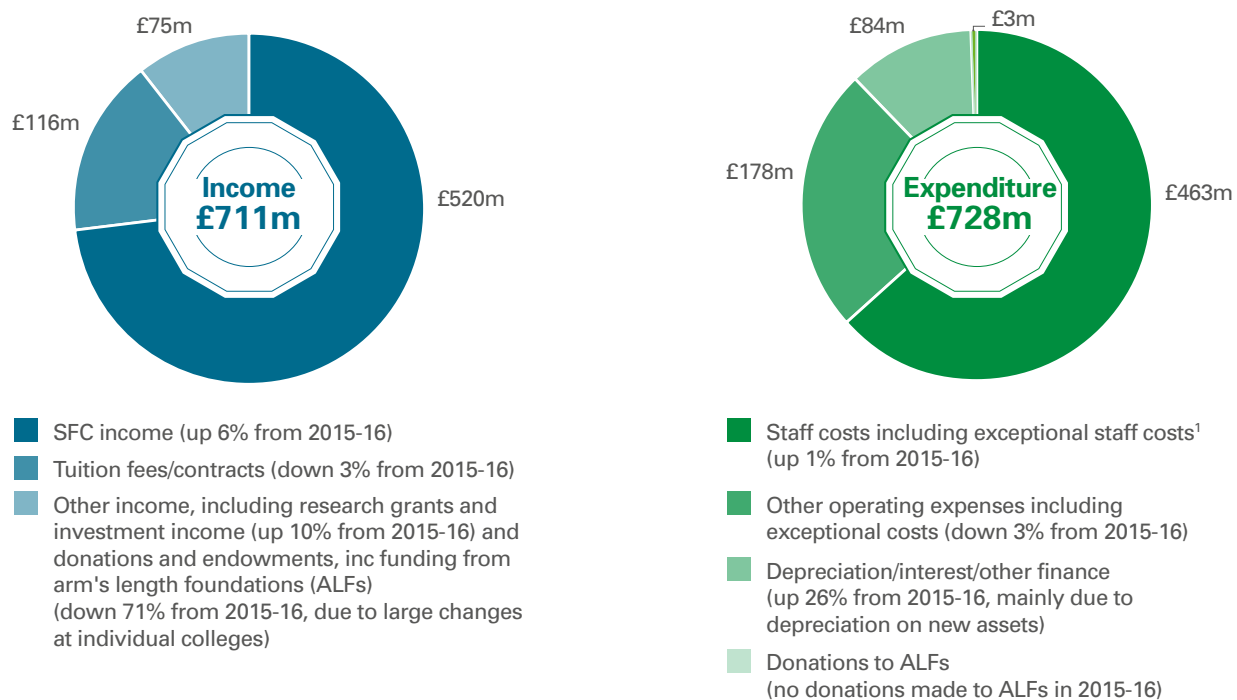
Colleges' underlying financial position improved in 2016-17

8. Incorporated colleges had income of £711 million, and expenditure of £728 million, in 2016-17. The main areas of income and expenditure (and changes from 2015-16) are presented in [Exhibit 1](#).

Exhibit 1

Income and expenditure for incorporated colleges 2016-17

Colleges had income of £711 million and expenditure of £728 million.



Note: 1. Exceptional staff costs include severance payments.

Source: College accounts

9. For 2016-17, the SFC required incorporated colleges to include a calculation of their underlying financial position in their accounts. Colleges did not all interpret the SFC's guidance consistently. This required further work by the SFC to calculate an underlying financial position. The SFC is working to improve the direction for 2017-18.

10. Incorporated colleges had an underlying surplus of £0.3 million in 2016-17. This is an improvement on the £8 million underlying deficit we reported for 2015-16 ([Exhibit 2, page 11](#)).

11. The six non-incorporated colleges recorded an underlying surplus of £249,000 in 2016-17, compared to £69,000 in 2015-16. Information for incorporated and non-incorporated colleges is not directly comparable.

Exhibit 2

College sector financial performance 2014-15 to 2016-17

Incorporated colleges reported an underlying financial surplus in 2016-17.

	2014-15 (£m)	2015-16 (£m)	2016-17 (£m)
Sector underlying surplus or (deficit)	1	(8)	0.3
Number of colleges with an underlying deficit	7	11	5

Note: Analysis does not include Scotland's six non-incorporated colleges.

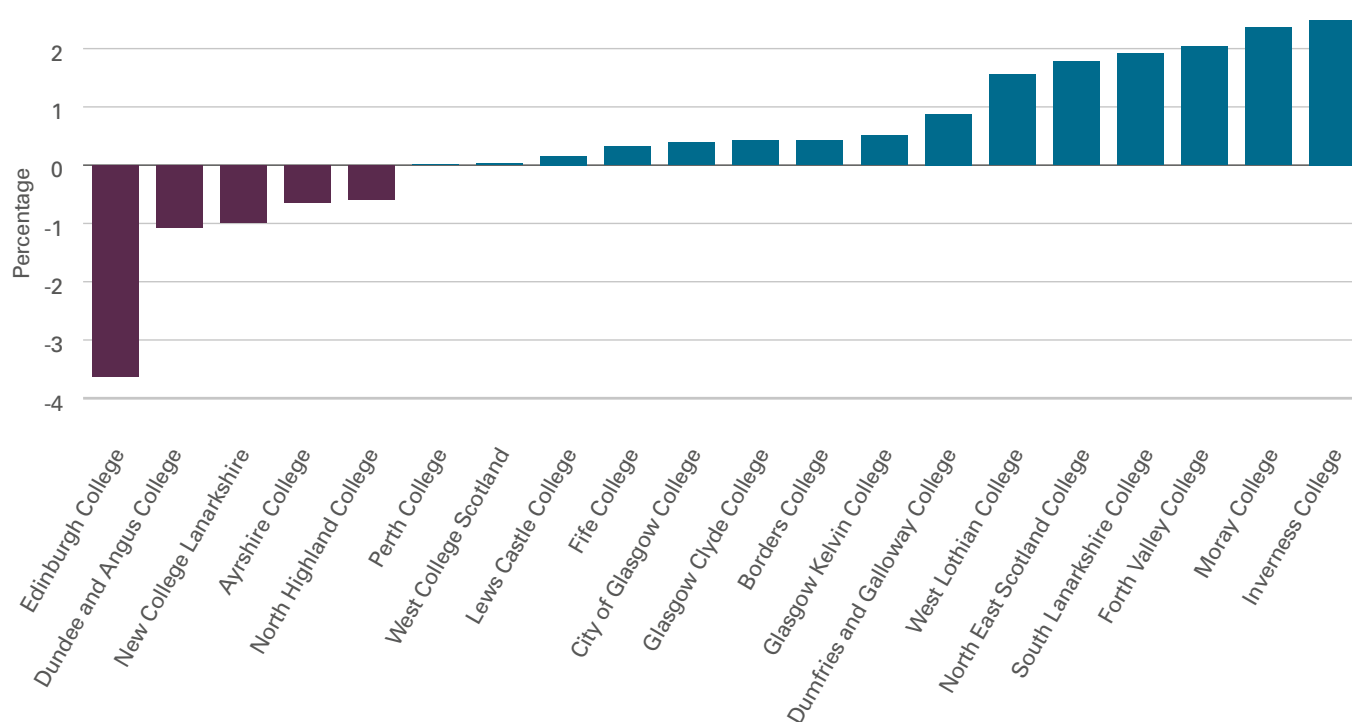
Source: College accounts

12. Five incorporated colleges had an underlying deficit in 2016-17, compared with 11 in 2015-16. Financial positions varied from a surplus of £0.9 million at North East Scotland College to a deficit of £2.5 million at Edinburgh College. [Exhibit 3](#) shows individual college underlying deficits and surpluses as a percentage of their annual expenditure.

Exhibit 3

Underlying deficits and surpluses as a percentage of expenditure, 2016-17

The underlying financial position of incorporated colleges varies.



Source: College accounts and SFC

Total cash held in the sector increased in 2016-17 but almost half of all colleges held less cash


13. Incorporated colleges held £49.2 million in cash in 2016-17, an increase of £5.5 million (13 per cent) from 2015-16 ([Exhibit 4](#)). While the overall cash held by the sector increased, the amounts each college held vary significantly:

- Eleven colleges increased their cash balances by a total of £11.2 million in 2016-17. Four colleges accounted for £8.5 million (76 per cent) of this increase: City of Glasgow, Edinburgh, Forth Valley and North East Scotland colleges. The SFC has indicated that some colleges are holding cash to repay loans in future.
- Cash balances decreased in nine colleges, by a total of £5.7 million. This means these colleges have less flexibility to meet unanticipated future expenditure or reductions in income.

Exhibit 4

College sector financial performance 2014-15 to 2016-17

Cash balances and net assets across the sector both increased in 2016-17.

	2014-15 (£m)	2015-16 (£m)	2016-17 (£m)
Cash balances	55	43.7	49.2
Net assets	255	209	230
Number of colleges in a net liabilities position	3	5	5

Source: College accounts

Net assets increased by around ten per cent in 2016-17

14. Comparing the value of the assets an organisation holds against its financial liabilities – its net asset or liabilities position – provides an indicator of financial health. The sector's net asset position has improved by around ten per cent compared to 2015-16 ([Exhibit 4](#)). However, this does not reflect the significant variation across colleges:

- Glasgow Clyde College accounts for the vast majority of the sector-wide increase in the net value of assets. Its net asset position increased by around £20 million to £58 million. This was the result of the value of its land and buildings significantly increasing.
- Five colleges reported a net liability position in 2016-17: Borders, Forth Valley, Inverness, North Highland and West Lothian. These colleges also reported a net liability position in 2015-16. In 2016-17, the level of liability remained relatively unchanged in three of these colleges. North Highland College's liability more than halved, from £5.5 million to £2.4 million as a result of asset revaluations. Forth Valley College's liability increased

significantly to £17 million due to significant devaluations of its existing assets. This will change as the college builds its new Falkirk campus.

The funds held by arm's-length foundations (ALFs) fell again in 2016-17

15. Colleges can apply for funds from arm's-length foundations (ALFs). These are independent, charitable bodies that were set up when colleges were reclassified as public bodies and could no longer retain significant cash reserves. Colleges donate money into ALFs and can also apply to ALFs for funding. Other organisations can also donate to, and apply for funding from, ALFs. ALFs held £57 million in 2016 and £50 million in 2017.

16. Two colleges transferred a total of £3.4 million into ALFs in 2016-17. Eight colleges received grants totalling £15.1 million from ALFs in 2016-17, mainly to improve their buildings and other parts of their estate. Nine colleges propose to apply for around £8 million of ALF funding in 2017-18. The biggest planned use of ALF funding is at Glasgow Clyde College. The college plans to use over £10 million over the next five years, mainly for estate improvements. The other two Glasgow colleges plan to use ALF funding for estates projects in 2017-18. Glasgow Kelvin College plans to spend £2 million and City of Glasgow College £1.1 million. Some ALFs have very little funds left and others have never had significant funds donated to them.

17. The Scottish Government is considering how the sector might best continue to use ALFs to help with long-term financial planning and future investment decisions.

There was little change in staff costs and numbers in 2016-17

18. Colleges continue to spend most of their money on staff. Staff costs and numbers remained relatively unchanged in 2016-17. Staff costs rose by £14 million to £457 million ([Exhibit 5, page 14](#)).⁵ Total full-time equivalent (FTE) staff numbers decreased by 75 (0.7 per cent) to 10,850:

- Teaching staff decreased by 56 (0.8 per cent)
- Non-teaching staff decreased by 19 (0.5 per cent).

19. In 2016-17, 162 staff left incorporated colleges through voluntary severance at a total cost of £3.6 million. Of these, 81 were from Edinburgh College. Auditors reported that severances were subject to appropriate approval and in line with the existing severance schemes approved by the SFC.

The Scottish Government has announced further real-terms increases in revenue funding in 2018/19

20. The Scottish Government's revenue funding for the college sector for 2018/19 is £570.7 million. This represents a real-terms increase of £28 million (five per cent) in the revenue budget from 2016/17 ([Exhibit 6, page 14](#)). This is the highest real-terms settlement in the last five years.

Exhibit 5

Staff costs and numbers 2015-16 to 2016-17

Staff numbers fell slightly and staff costs increased slightly in 2016-17.

	2015-16	2016-17
Staff numbers (FTE)	10,925	10,850
Staff costs (£m)	442	457
Total expenditure (£m)	692	728
Staff costs as percentage of total spend	64	63
Exceptional staff costs (£m) ¹	7	6
Exceptional staff costs as percentage of staff costs	2	1

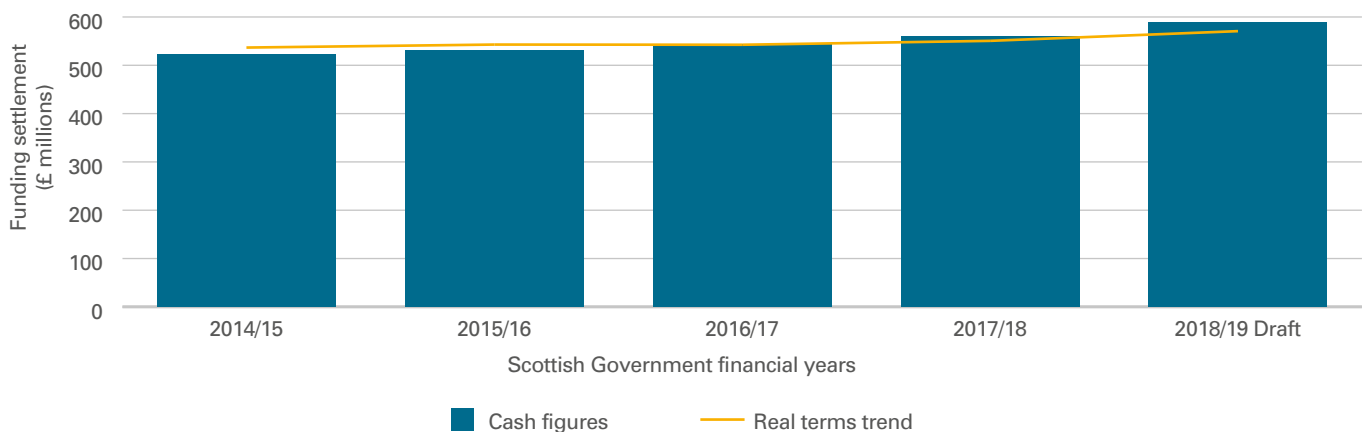
Note: 1. Exceptional staff costs include severance costs.

Source: College accounts

Exhibit 6

Scottish Government revenue funding to the college sector 2014/15 to 2018/19

The Scottish Government has increased funding for colleges in real terms each year.



Notes:

- The above allocations do not include additional amounts provided to the college sector to support NPD unitary charges (£6 million in 2015/16; £24 million in 2016/17; £29 million in 2017/18; and £28 million in 2018/19, all in real terms).
- Between 2014/15 and 2016/17, the Scottish Government has made in-year adjustments to transfer an element of the capital allocation to revenue (£12 million in 2014/15; £10 million in 2015/16; £17 million in 2016/17, all in real terms). We have not incorporated these changes in the exhibit.

Source: Scottish Government

21. The Scottish Government has agreed to pay for the additional costs of the national bargaining agreement up to the end of 2018-19. This excludes cost-of-living increases. This accounts for most of the increased funding for 2018-19. The Scottish Government has yet to indicate how costs associated with national bargaining will be funded beyond 2018-19. Colleges Scotland estimates that changes to pay and terms and conditions from national bargaining will cost about £50 million each year from 2019-20. This would absorb all the £50 million of annual financial savings that the Scottish Government and SFC expected the reform programme to deliver from 2015-16.

22. The SFC allocated £409 million to colleges for teaching in 2017-18. It is also allocating £455 million in 2018-19, an increase of £46 million (ten per cent). This increase reflects additional teaching costs and associated funding as a result of national bargaining.

Despite the improved financial position in 2016-17, colleges continue to face significant financial challenges

23. Several colleges currently face significant financial challenges:

New College Lanarkshire

- Last year, we reported that New College Lanarkshire (NCL) had experienced cash flow difficulties during 2015-16. Those difficulties continued into 2016-17 and the Auditor General published a separate report, under section 22 of the Public Finance and Accountability (Scotland) Act 2000, in April 2018. The report noted that the college received an advance of £1.9 million from the SFC in July 2017 (subsequently deducted from its 2017-18 funding allocation), as well as specific, one-off funding of £1.1 million between November 2017 and February 2018 to run a voluntary severance scheme (not repayable). The college made savings of £2 million during 2016-17 and reported an underlying deficit of £560,000 (equivalent to one per cent of income). It is working with the SFC to deliver a plan intended to return it to financial sustainability. The latest draft of the plan indicates the college will report an underlying operating surplus in 2019-20.

Edinburgh College

- Edinburgh College received £2.9 million of financial support from the SFC in 2016-17 that it will have to repay. It had an underlying deficit of £2.5 million in 2016-17 (equivalent to around four per cent of income). While the college still needs to deliver some aspects of its plan to return to financial stability, it has made good progress and its deficit for 2016-17 was below its original estimate of £3.8 million. The Auditor General published a separate statutory report on progress at Edinburgh College in April 2018.

Ayrshire College

- The college had forecast a net surplus each year between 2013-14 and 2017-18. However, increased staff costs have resulted in the college experiencing financial deficits, which it has covered to date by using cash reserves.
- The college has indicated that ongoing PFI costs are contributing to its financial challenges. As part of the merger that created Ayrshire College, the college inherited a Private Finance Initiative (PFI) scheme from the former James Watt College for its Kilwinning campus. The 25-year PFI scheme started in 1999-2000, with annual payments of £2.1 million until 2024-25. The PFI costs equate to around four per cent of the college's annual expenditure.

- Ayrshire College identified that making the annual payments was a financial risk at the point of merger. The college has indicated that it will find it difficult to meet the ongoing PFI costs. While the Scottish Government agreed that the college could use money raised from selling land towards the PFI costs in 2018-19, there is currently no further funding commitment from the Scottish Government or the SFC.
- The college is considering other options for meeting the PFI costs as part of its overall expenditure.

UHI incorporated colleges

- Last year, we reported that Lews Castle College had not met its learning activity targets over an extended period. This could have resulted in both a reduced level of funding and the SFC recovering funding for activity the college did not deliver. UHI, as the regional strategic body, has since agreed a reduced target and funding with the college. Despite this change, at June 2017, the college was still forecasting deficits for the next five years. As explained in [paragraph 30](#), colleges' most recent forecasts in July 2017 do not reliably reflect current financial positions or the challenges now facing the sector.
- Last year, Moray College had to urgently draw down an advance on its funding allocation from UHI as it did not have enough money to meet its operational costs in 2015-16. The auditor concluded that the current financial position was not sustainable and that the college needed to take action to achieve financial balance. The college implemented an improvement plan and reported an improving financial position in 2016-17 with:
 - a lower operating deficit
 - an underlying surplus
 - increased cash
 - lower net current liabilities.
- The appointed auditor concluded that achieving financial sustainability represents a significant challenge for North Highland College. It reported a £523,000 deficit in 2016-17 and is forecasting a deficit of £857,000 for 2017-18. College management is of the view that the current arrangements will become unsustainable without significant changes, and has recommended that the college board considers steps to ensure it remains financially sustainable. The college will continue to require financial support from UHI to manage its ongoing financial pressures.
- UHI has started to look at the potential for greater integration between four of its five incorporated colleges during 2018 (not currently including Perth College). The aim is to improve joint working, education and the sustainability of their financial positions in the medium to longer term.

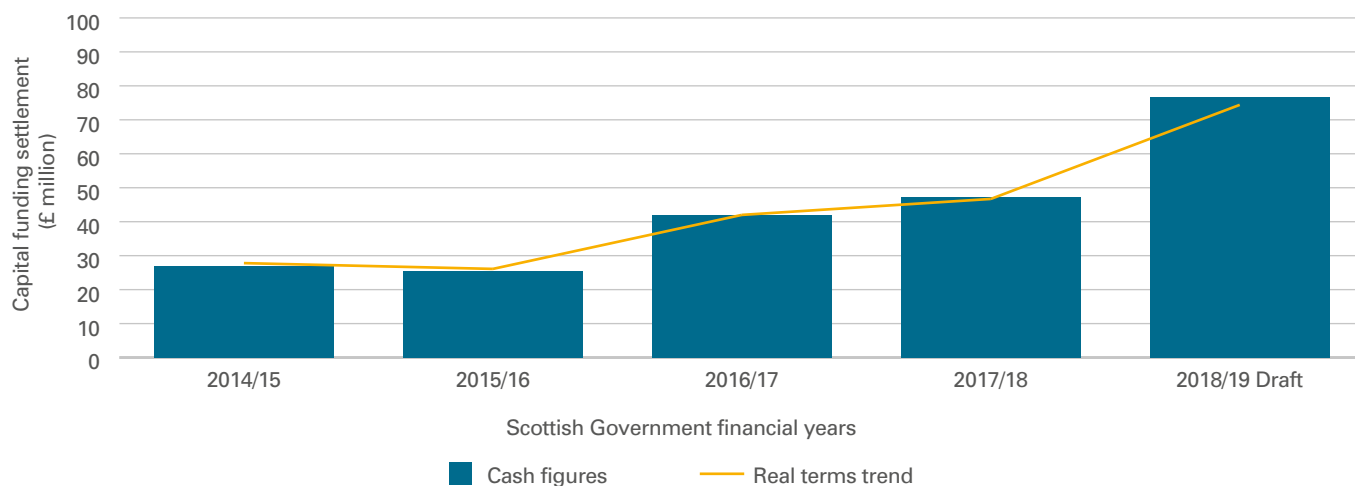
College estates require urgent and significant investment

24. In 2018/19, the Scottish Government has allocated colleges £74.4 million of capital funding to spend on things such as improving buildings and buying new equipment ([Exhibit 7, page 17](#)). This represents a real-terms increase of £32 million (77 per cent) on 2016/17. Of the 2018/19 capital allocation, almost £42 million is funding for Forth Valley College's new campus at Falkirk. The remainder has been allocated to meet lifecycle maintenance costs and high-priority backlog repairs.

Exhibit 7

Scottish Government capital funding to the college sector 2014/15 to 2018/19

The Scottish Government has increased capital funding for colleges in real terms.



Source: Scottish Government

25. In December 2017, the SFC published its college sector estates condition survey. This identified a backlog of repairs and maintenance of £163 million over the next five years across the sector. Once fees, inflation and other costs associated with these works are included, the repairs and maintenance could cost up to £360 million. These figures exclude the six campuses that have been financed in recent years through public-private partnerships: Ayrshire College's Kilmarnock and Kilwinning campuses; City of Glasgow College's Riverside and Cathedral Street campuses; and Inverness College's main campus and the School of Forestry. West College Scotland has the biggest repairs and maintenance backlog of £49 million over the next five years. This is equivalent to almost a fifth of the value of all its assets in 2016-17. A further five colleges have backlogs of over £20 million: North East Scotland, Dundee and Angus, Edinburgh, Fife and Scotland's Rural College (SRUC).

26. Of the £360 million total backlog, £31 million was identified as very high priority work needing to be addressed within one year, and a further £77 million as high priority within two years. The SFC identified two colleges where the very high backlog had been overstated, which reduced the 'very high' need to £27 million. The SFC is allocating £27 million to the sector in 2018-19 to allow it to address those very high needs.

27. In our report [Scotland's colleges 2017](#), we recommended that the Scottish Government and the SFC complete the national estate condition survey and use the results to prioritise future capital investment. Based on the estate condition survey, the SFC produced criteria for managing the competing demands for major capital investment as part of its Infrastructure Strategy in December 2017. It has yet to publish these criteria.

The SFC is working with colleges to improve financial forecasting across the sector

28. Having longer-term financial plans in place will allow colleges to better prepare for future challenges. In response to recommendations we made in our report [Scotland's colleges 2016](#), the SFC now requires colleges to prepare six-year financial forecasts. The current forecasts run from 2016-17 to 2021-22. Colleges are forecasting that their annual expenditure will increase faster than their annual income and that the financial deficit across the sector will grow to £21 million by 2021-22. Only South Lanarkshire College is not forecasting to be in deficit at any point over this six-year period.

29. In line with our recommendations last year, the SFC worked with sector representatives to develop a set of common assumptions that colleges should use for longer-term financial forecasting. For example:

- Colleges should plan that their teaching grant will stay the same in 2018-19 and 2019-20, then increase by two per cent for 2020-21 and 2021-22.
- Colleges should assume that capital maintenance funding will be held at 2017-18 levels over the forecast period.
- Colleges should assume the costs of national bargaining will be supported by specific grants in 2018-19 and 2019-20 that will reflect the costs in particular colleges. They should also assume that the 2019-20 specific grant reduces to 67 per cent in 2020-21, 33 per cent in 2021-22 and then to nil in 2022-23.
- Colleges should factor in a one per cent increase for pay awards for support staff for all years and for lecturing staff from 2020-21 onwards, based on public sector pay policy. In September 2017, the Scottish Government announced its intention to remove the public sector pay cap from 2018, so this assumption is no longer realistic.

30. Despite the SFC providing these assumptions, some colleges used different assumptions, for example, for funding levels and pay awards, believing them to be more realistic. The differences in the assumptions used by colleges mean that their financial forecasts, submitted to the SFC in June 2017, are not fully comparable and do not provide a reliable picture of the sector's future financial sustainability.

31. It is important that colleges are basing their financial forecasts on realistic and consistent assumptions to help them make informed decisions about their operations. Reliable forecasts will also support effective SFC funding decisions. At the time of this audit, the SFC was working with colleges to significantly strengthen financial forecasts from 2018 onwards.

Withdrawing from the European Union will have implications for colleges

32. The SFC administers and part funds the Developing Scotland's Workforce (DSW) Programme funded by the European Social Fund. Funding for this totalled £4.8 million in both 2016-17 and in 2017-18. This programme is scheduled to run until 2022-23. The decision to leave the EU should not affect this programme, and colleges should work with the SFC to plan for when it comes to an end.

33. The sector has also been able to draw on money from the European Regional Development Fund (ERDF) to support capital programmes. The European Investment Bank (EIB) has also been a major funder of the Scottish Government's Non-Profit Distributing (NPD) programme, including college campuses in Glasgow, Ayrshire and Inverness. It is not clear to what extent EIB funds will be available post Brexit.

34. Colleges Scotland research suggests around three per cent of teaching staff are from the EU, and it expects that figure to be higher for support staff.⁶ Colleges Scotland and the SFC are working to analyse and model the impact of Brexit on the college sector.

Part 2

How Scotland's colleges are performing



Key messages

- 1** Student numbers increased by around four per cent in 2016-17. This is mainly due to an increase in part-time learners, particularly those under 16 years of age. Colleges exceeded the Scottish Government's learning target in 2016-17. They delivered 117,502 full-time equivalent (FTE) places against the Scottish Government's target of 116,269. Colleges overall also exceeded the SFC's activity target and delivered more credits than in 2015-16.
- 2** In 2016-17, attainment rates dipped slightly for higher education courses and full-time further education (FE) courses but increased for part-time FE courses. The percentage of students who complete their course was broadly static across all categories. Latest data covering 2015-16 shows that at least 82.7 per cent of successful full-time leavers entered a positive destination such as training or employment. Student satisfaction across the sector remains high and increased slightly in 2016-17. Attainment, retention, positive destinations and student satisfaction all vary widely by college.
- 3** There is evidence that colleges are widening access to learning. Across the sector, the proportion of credits delivered to students from deprived areas, from ethnic minorities, who have been in care or who have disabilities all continue to increase. Despite this, the gap in attainment between students from the least and most deprived areas is growing.
- 4** The gender balance across students in the sector has remained broadly even. However, more work is required to tackle the most significant gender imbalances on some courses and on some college boards.

in October 2017, the minister confirmed that colleges no longer need to prioritise full-time education for 16-24 year olds

Colleges exceeded the Scottish Government's learning target in 2016-17

35. The volume of learning that colleges deliver is measured in full-time equivalent (FTE) student places, or in units of learning known as credits. Each credit broadly equates to 40 hours of learning. Since 2012-13, the Scottish Government has set a national target for the college sector to deliver 116,269 FTE student places. Colleges delivered 117,502 FTE places against this target in 2016-17. The SFC set colleges a core activity target of 1,690,618 credits in 2016-17. Colleges delivered 1,699,760 credits against this target. They also delivered additional European Structural Fund (ESF) credits, giving a total of 1,762,032. This represents an increase in credits delivered of 0.5 per cent compared to 2015-16. This means that 2016-17 was the first year that activity has increased since 2013-14.

36. To meet the national target, the SFC agrees targets with the college regions, Newbattle Abbey College, Sabhal Mòr Ostaig and SRUC.⁷ In 2016-17, all the colleges met their credit target except Newbattle Abbey College, which delivered 833 credits compared with its target of 926 credits. Newbattle Abbey College accounts for 0.05 per cent of Scotland's college activity.

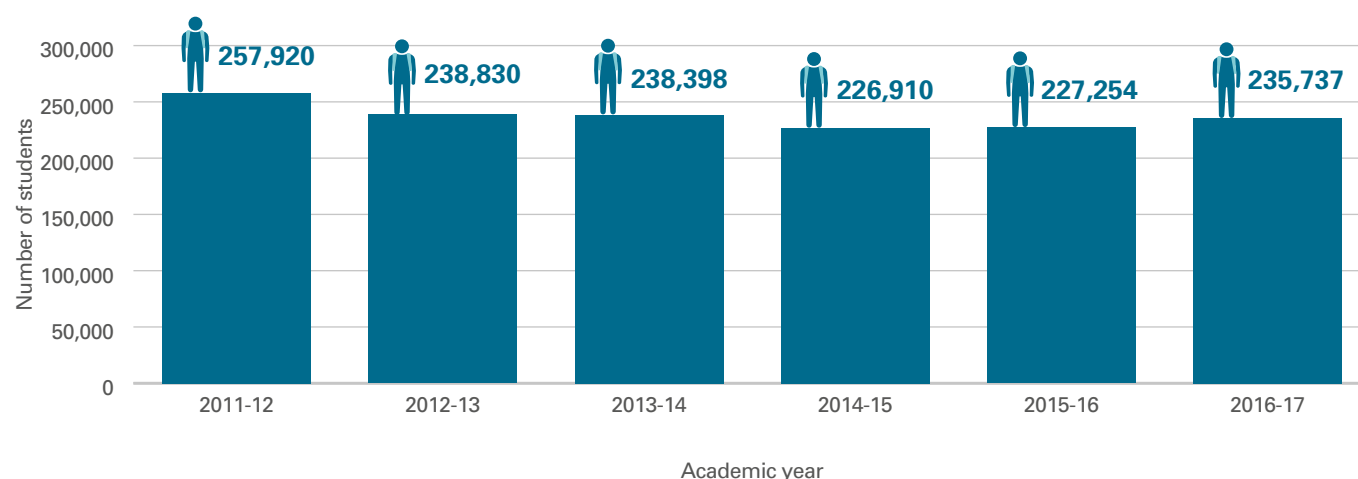
Student numbers increased by around four per cent in 2016-17

37. The number of college students increased by four per cent (8,483) in 2016-17, to 235,737 (by headcount). This is the largest number of students to attend Scotland's colleges since 2013-14 ([Exhibit 8](#)). For more information on how we present student numbers in this report, please see [Appendix 1](#).

Exhibit 8


Student population analysed by headcount 2011-12 to 2016-17

The college student population in 2016-17 was the highest since 2013-14.



Source: SFC's Infact database

The largest increases in student numbers were in those taking part-time courses, particularly those aged under 16

38. In our report [Scotland's colleges 2017](#) , we reported that decreasing numbers of young people and more school leavers going on to work and university would make it harder for colleges to continue to achieve the national target. At that time, the Scottish Government's focus was on full-time courses and students aged 16-24. This had led to significant decreases in part-time and older students.

39. It is clear that colleges have now changed their focus and in October 2017, the Minister for Further Education, High Education and Science confirmed that colleges no longer need to prioritise full-time education for 16-24 year olds. Full-time student numbers remained almost unchanged in 2016-17 at 78,311. Enrolments to part-time courses increased for the first-time since 2013-14:

- Part-time student numbers increased in 13 colleges, by a total of 13,464 students. Fife College accounts for more than half of this increase (7,066).

- Part-time student numbers decreased in 12 colleges, by a total of 5,536. The most significant decreases were in Ayrshire College (part-time students fell by 1,390) and North East Scotland College (part-time students fell by 1,433).
- Overall the number of part-time students increased by 7,452 (five per cent) to 166,520.

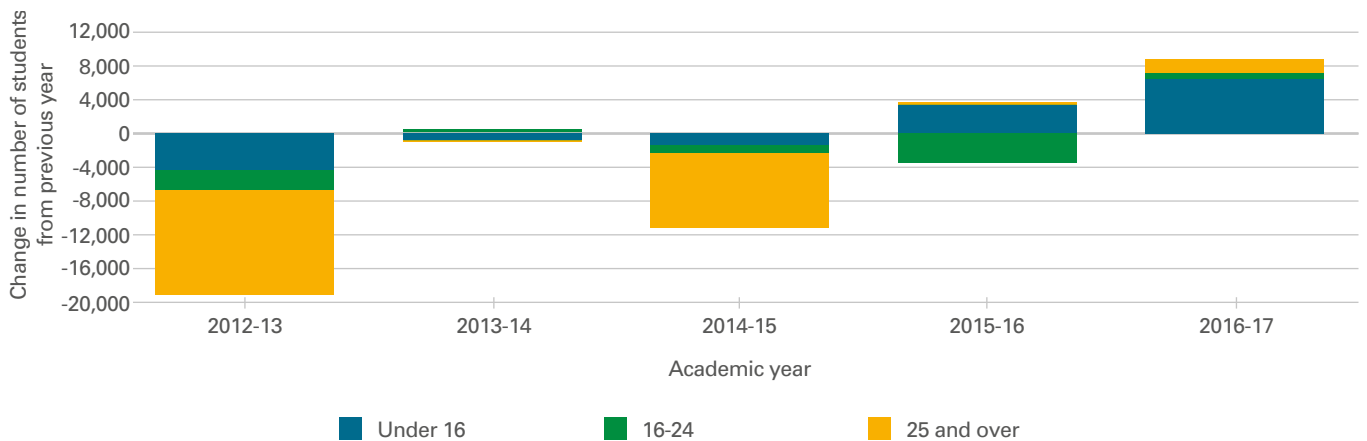
40. More school-age students are attending college (**Exhibit 9**). The Developing the Young Workforce (DYW) programme means colleges are now offering more vocational courses to school pupils from S4-S6. The number of students aged under 16 attending college increased by 6,495, making up over 70 per cent of the total increase. Over two-thirds of students aged under 16 were taking courses not leading to a recognised qualification. This was the second year that the number of students aged under 16 increased, following a trend of decreases since 2011-12. Of students aged under 16:

- more now study at college than in 2011-12 (28,334 in 2016-17 compared to 24,976 in 2011-12)
- most attend college part time, with only 391 under-16 students studying full time in 2016-17.

Exhibit 9

Change in number of students from the previous year, by age

The number of students aged under 16 has increased for the second year in a row.



Source: SFC Infact database

Attainment and retention, positive destinations, and student satisfaction rates were similar to the previous year

41. Attainment rates measure how many students successfully completed their course and gained the appropriate qualification. In 2016-17, attainment rates dipped slightly, that is, by less than one per cent, for HE courses and full-time FE courses. But they increased for part-time FE courses, from 74 per cent in 2015-16 to 77 per cent in 2016-17.⁸

42. Retention measures the percentage of students who complete their course. In 2016-17, retention remained relatively static, changing by less than one per cent across all courses.

43. The SFC tracks successful full-time college leavers after they qualify, and publishes this information in its College Leaver Destination report. The most recent data shows the following:⁹

- For those qualifiers whose destinations could be confirmed, 94.9 per cent went into positive destinations (for example, work or further learning). Of all qualifiers, 82.7 per cent went into positive destinations compared to 82.6 per cent in 2014-15.
- Of all qualifiers, 66 per cent stayed in education or training. This is down from 69 per cent in 2014-15. For those remaining in education, 85 per cent progressed to a higher level of study, 11 per cent stayed at the same level, and four per cent dropped a level.¹⁰
- At least 17 per cent of all qualifiers went into employment. This is up from 14 per cent in 2014-15. Over two-thirds were in a job related to their course.
- Of all qualifiers, 4.4 per cent were unemployed or unable to work. This was a slight increase from 3.8 per cent in 2014-15.

44. Over the past two years, the SFC has coordinated a Student Satisfaction and Engagement Survey. This asks college students about their experience. Overall, satisfaction remains high:

- 90.2 per cent for full-time students (90.1 per cent in 2015-16).
- 94.6 per cent for part-time students (93.1 per cent in 2015-16).
- 92.7 per cent for distance learners (88.1 per cent in 2015-16).

45. The SFC is aiming for a 50 per cent response rate for the survey. While it did not achieve this in 2016-17, the response rate improved on the previous year. The response rate for full-time students was 41 per cent, compared to 16 per cent for part-time students and nine per cent for distance learning.

Outcomes for students vary significantly by college

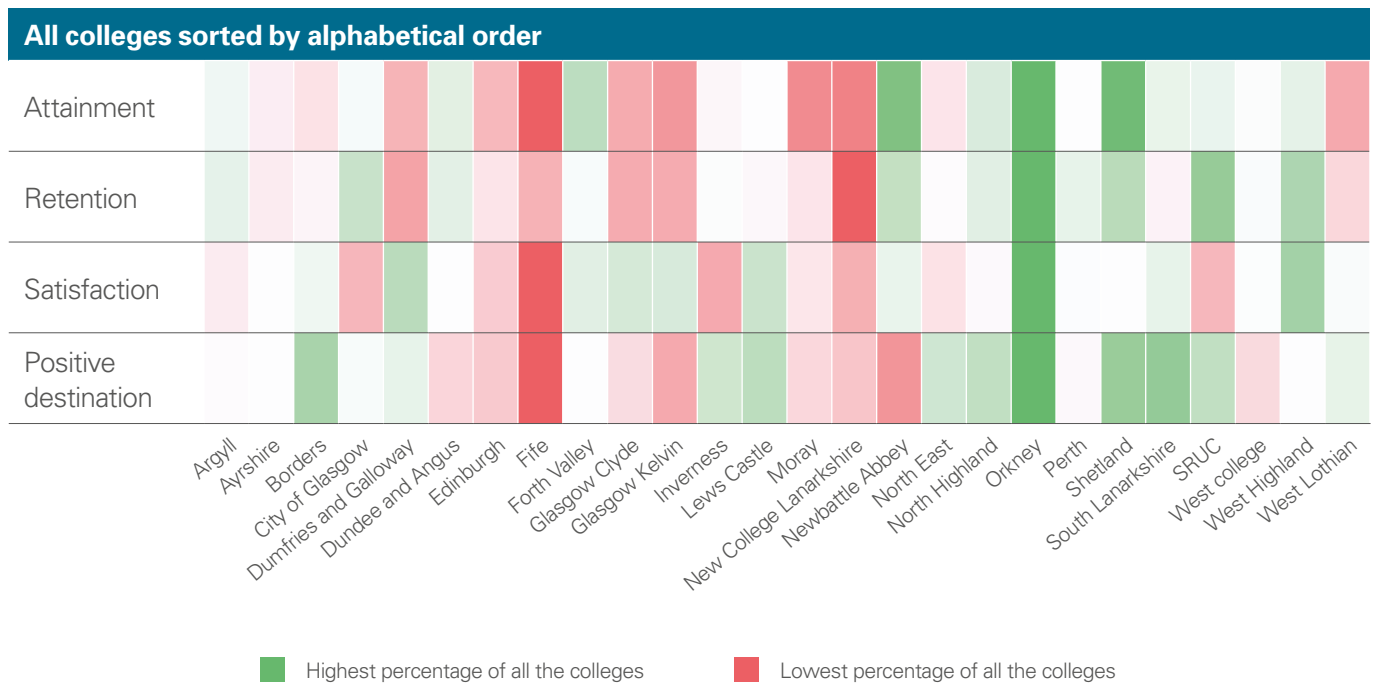
46. Changes in attainment, retention, satisfaction and destinations have been relatively small for the sector as a whole, but the variation across colleges is significant. For full-time students in further education:¹¹

- Attainment rates in 2016-17 ranged from 78.7 per cent (Orkney College) to 57.4 per cent (Fife College).
- Retention rates ranged from 86 per cent (Orkney College) to 65.6 per cent (New College Lanarkshire).
- Overall satisfaction ranged from nearly 100 per cent to 81 per cent at Fife College.¹² Response rates to the satisfaction survey varied widely, from 80 per cent at Lews Castle College to eight per cent at North Highland.

- Positive destinations for all full-time leavers ranged from 95 per cent at Orkney College, to 71.2 per cent at Fife College. The proportion of leavers whose destination could not be confirmed also varies. The unconfirmed rate ranges from 1.3 per cent (North Highland College) to 21 per cent (Fife College).

47. Most colleges seem to be stronger on some performance indicators for full-time FE courses than on others (Exhibit 10). The reasons for the variation in performance outcomes are complex and will be influenced by factors such as local deprivation levels in the communities served, ever more flexible learner pathways – influencing increasing numbers of early withdrawals – and improved employment opportunities, particularly for young learners.

Exhibit 10
Performance measure for full-time FE courses, by college
 Outcomes for students vary significantly by college.



Note: Sabhal Mòr Ostaig does not have FE full-time students.

Source: SFC data

48. The SFC does not currently identify the factors that contribute to the trends identified or whether there are any significant relationships between the published measures. The Scottish Government is working on a project to improve attainment and retention at colleges. This may provide an opportunity to further investigate relationships within the data.

49. Another potential performance measure would be articulation rates, that is, the number of students who progress from college to university. Up-to-date information is not currently available on this, though the SFC is developing a national articulation database.

Students from a wider range of backgrounds are going to college

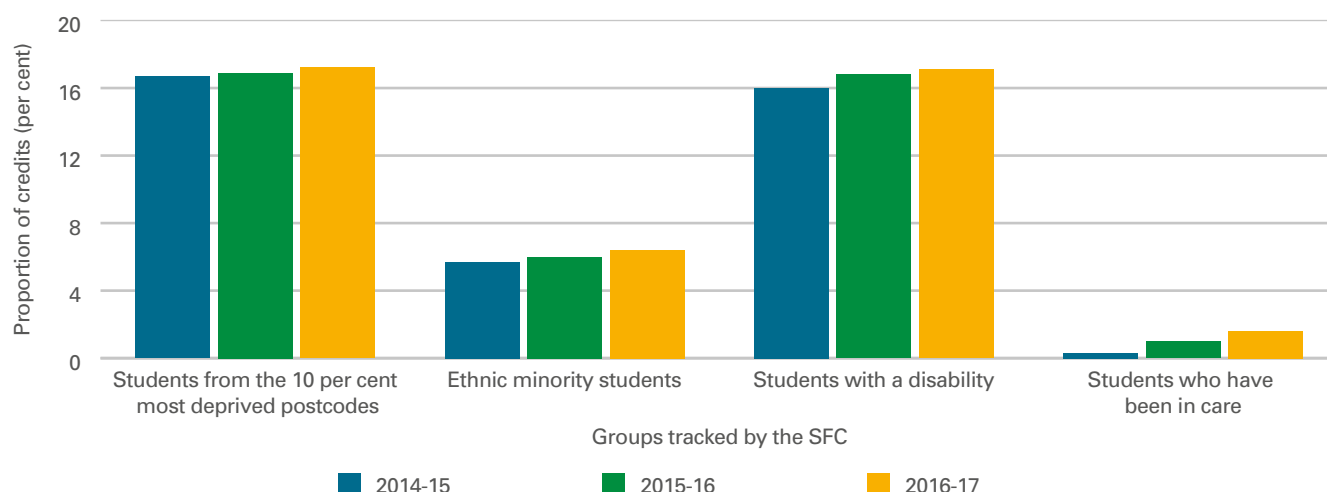
50. Working in partnership with schools, universities and employers, colleges offer an important route to gaining skills, improving employability or going into higher education. Colleges play an important role in widening access to education for those in deprived communities or with additional needs by increasing their career prospects and helping them to achieve their individual potential.

51. The SFC has national priorities to increase the proportion of credits delivered to students from deprived areas or who have been in care. They also track progress on the proportion of credits delivered to students from ethnic minorities or who have a disability. [Exhibit 11](#) shows progress by the sector. The number of students from these groups has increased since 2011-12, despite large drops in overall student numbers.

Exhibit 11

Proportions of credits delivered to students from selected groups

The proportions of credits to students from these groups have been increasing.



Source: SFC

52. Colleges play a key part in encouraging students from a wider range of backgrounds to stay on in education, particularly in providing HE courses. Higher education courses taught in Scotland range from HNC and HND courses to post-graduate qualifications: 68 per cent of college HE entrants were on HNC or HND programmes. In 2016-17, around 1,000 students at Scottish colleges (excluding UHI) were studying at degree level. Students entering HE courses at college are more likely to be from deprived areas than those entering courses at HE institutions such as universities. Students from the 20 per cent most deprived areas account for 23 per cent (over 8,000 students) of HE entrants to Scotland's colleges. This compares to 12 per cent at HE institutions. In 2016-17, HE entrants at colleges accounted for 28 per cent (38,495 students) of all HE entrants in Scotland.

Students from the most deprived areas tend to have lower levels of attainment

53. In general, students from the least deprived areas do better than those from the most deprived areas. This gap has increased since 2011-12:

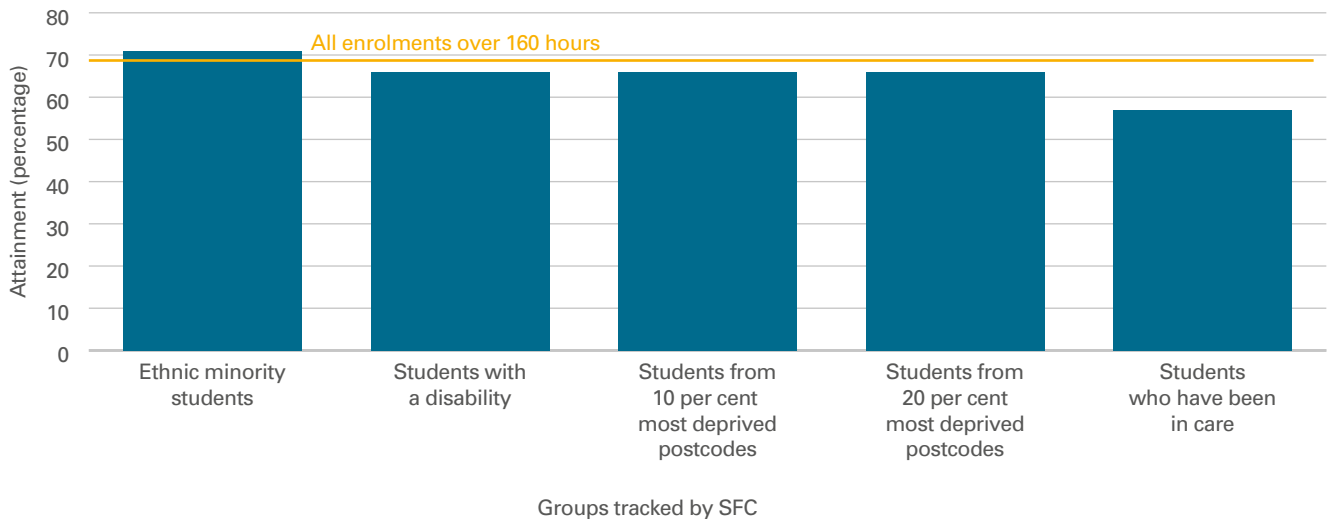
- For FE students, the gap in attainment between the ten per cent least deprived and ten per cent most deprived areas has increased from five percentage points in 2011-12 to seven percentage points in 2016-17. In 2016-17, attainment for students from the ten per cent most deprived areas was 62 per cent, compared to 70 per cent for students from the ten per cent least deprived.
- For HE students, the gap in attainment between these groups increased from 7.5 percentage points in 2011-12 to 7.7 percentage points in 2016-17. The attainment gap narrowed between 2015-16 and 2016-17. In 2016-17, attainment for students from the ten per cent most deprived areas was 68.5 percent, compared to 76.2 per cent for students from the ten per cent least deprived.

54. The SFC reports that, for all courses over 160 hours, 69 per cent of students achieved their qualification in 2016-17. Attainment was higher for ethnic minority students, but lower for students with a disability or who have been in care. Students from all of the groups identified in [Exhibit 12](#) are also less likely to move into work once they leave college.

Exhibit 12

Attainment on courses over 160 hours for students from selected groups 2016-17

There is an attainment gap for students from deprived areas, with a disability or who have been in care.



Source: SFC

55. Students from deprived areas are more likely to face barriers to attending college; for example, they might struggle to cover the transport costs, or struggle to afford food. Colleges have developed new approaches to tackle these problems. For example: Glasgow Kelvin College has dedicated staff to provide support for disadvantaged students; Dumfries and Galloway College provides transport to students from remote areas; and South Lanarkshire College has been providing free counselling for students and free sanitary products to all female students.

56. An independent review of the student support system in Scotland published its findings in November 2017.¹³ This review proposed:

- changing the structure of student support funding for college students
- moving to one common funding system across both further and higher education with local face-to-face support.

57. The Scottish Government, SFC and Student Awards Agency for Scotland (SAAS) are currently considering the review's recommendations.

Colleges have made limited progress in reducing gender imbalance in certain courses

58. The gender balance across students in the sector has remained broadly even, as was the case last year. Female students represent 51 per cent of the student population (120,187), and males 49 per cent (115,320).¹⁴

59. Both male and female part-time students increased in 2016-17. The number of male students increased by eight per cent to 83,817 and the number of female students by two per cent to 82,529. Since 2011-12, female part-time student numbers have dropped by 35 per cent (45,074 students), compared to 24 per cent for males (26,405 students). Part-time students are now split almost evenly between male and female for the first time.

60. There continue to be large gender imbalances across subject groups ([Exhibit 13, page 28](#)). The SFC is committed to increasing the minority gender share in the most imbalanced subjects through sharing identified good practice and its gender action plan. It has made good progress in attracting female students to engineering, and some progress attracting male students into social work. But it needs to do more to improve gender imbalance in other subjects. Childcare courses are particularly imbalanced. The SFC expects to see more progress from 2017-18 onwards.

Colleges are trying to improve gender balance on college boards







61. In January 2018, the Scottish Parliament passed the [Gender Representation on Public Boards \(Scotland\) Act 2018](#)  to improve the gender representation on boards of Scottish public authorities. At February 2018, 16 colleges had more men on their boards than women. Six college boards had twice as many men as women, with the greatest gender imbalance at Orkney College (16 men to three women).^{15, 16} Seven colleges had more women than men on their boards, with the largest gender imbalance being Borders College, with ten women and six men. Three colleges had an equal balance: New College Lanarkshire, Edinburgh College and Moray College.

Exhibit 13

Subjects with greatest gender imbalances

Changes in the gender balance of some courses is relatively small.

Subject	Male students in 2016-17 %	Female students in 2016-17 %	Percentage point change in minority gender from 2015-16
 Engineering	78	22	▲ 7
 Transport	93	7	▼ -4
 Construction	89	11	— 0
 Health	24	76	▼ -1
 Social Work	14	87	▲ 1

Source: SFC

62. We recognise that the gender balance of members of college boards is not entirely under the control of colleges as some members are elected to their position.

63. UHI has taken steps to improve the gender balance in the members of its governing body ([Case study 1, page 29](#)).

Case study 1



UHI is addressing its gender balance

UHI had difficulty attracting female candidates to its governing body. Its recruitment process in late 2017 saw 70 per cent of applicants being men. One female governor was recruited through this process, but to supplement this UHI ran another recruitment process using a different approach. This included:

- changing the role description and person specification significantly to make it accessible to a much wider audience, for example removing the requirement that applicants must have served on boards before, and focusing on the skills needed for the role
- specifying that candidates should be able to demonstrate a commitment to equality and diversity
- encouraging appropriate candidates by sharing the vacancy with local women's groups, for example the Highland Business Women's Club.

This resulted in better quality applicants, a greater number of female applicants and, ultimately, to three further female appointments to the UHI Court. When all three new governors have joined, the Court membership will be 11 men and eight women.

Source: Audit Scotland

Part 3

Progress in the multi-college regions



Key messages

- 1** The three multi-college regional strategic bodies (RSBs) are fulfilling their statutory duties by setting targets for individual colleges and distributing funding. But the extent to which they are delivering the anticipated benefits of regionalisation varies.
- 2** The University of Highland and Islands (UHI) Court has made good progress in delivering the anticipated benefits of regionalisation. Since it became the RSB in 2014, it has focused on changing cultures and developing effective relationships among its assigned colleges. The RSB is helping colleges to balance income and expenditure over the medium-to-long term in a more sustainable way by re-allocating learning activity and funding in the region. It is now planning more effective shared working and is working with four of its incorporated colleges to explore opportunities for greater integration.
- 3** After a difficult start, the Glasgow Colleges' Regional Board (GCRB) is making progress on coordinating collaborative regional activity. Both GCRB and its assigned colleges recognise that they need to do more work to deliver a fully effective regional partnership. It will benefit from longer-term leadership stability to be more effective, particularly with the regional arrangements following significant merger activity in Glasgow.
- 4** The benefits of regionalisation in Lanarkshire have come about mainly through the merger of colleges to create New College Lanarkshire. Under the regional structure, New College Lanarkshire and South Lanarkshire College are working together to meet core statutory requirements, but the regional arrangements are not delivering any significant regional benefits.

regional strategic bodies are fulfilling statutory duties but regional benefits vary

The regional strategic bodies (RSBs) in the three multi-college regions are fulfilling their statutory duties

64. As part of its reform of post-16 education, the Scottish Government established a regional approach to further education. The aim was to make the sector more efficient and responsive to the needs of students and local economies. Across Scotland, 13 regions were created. Three of these contain more than one college: Glasgow, Highlands and Islands, and Lanarkshire. In these three multi-college regions, RSBs oversee the assigned colleges.¹⁷ They are responsible for:

- strategically planning college education across the region
- allocating funding to assigned colleges
- monitoring how their assigned colleges perform
- overseeing the delivery of the regional outcome agreement, which sets out what colleges in a region will deliver in exchange for funding.

65. All three RSBs in the three multi-college regions are structured and operate differently:

- The Court of the University of Highlands and Islands (UHI) existed before regionalisation, but was established as the RSB in August 2014. It secured operational fundable body status in April 2015. To carry out its regional body role, UHI established a committee of its Court, called the Further Education Regional Board (FERB). The RSB function within the university requires a small number of dedicated staff and its operating budget in 2017-18 is around £325,000. Nine colleges are assigned colleges of UHI:
 - five incorporated colleges: Inverness, Lews Castle, Moray, North Highland and Perth.
 - four non-incorporated colleges: Argyll, Orkney, Shetland and West Highland.

Uniquely to UHI, assigned colleges are also academic partners of UHI for delivering higher education.

- Glasgow Colleges' Regional Board (GCRB) was established in May 2014. GCRB has three assigned colleges: City of Glasgow, Glasgow Kelvin and Glasgow Clyde Colleges. It employs three staff and its operating budget for RSB activities in 2017-18 is around £430,000. After some problems which were highlighted in a statutory report by the Auditor General, it achieved operational fundable body status in April 2017.¹⁸
- The Lanarkshire Board is the board of the New College Lanarkshire (NCL) as well as the RSB. It secured operational fundable body status in August 2016. With no separate regional governance arrangements or additional staff, the RSB incurs relatively little additional cost. This is estimated to be in the region of £50,000 a year and is shared between the two colleges, with NCL funding 60 per cent and South Lanarkshire College 40 per cent.

66. To operate fully, RSBs in multi-college regions had to meet the SFC's requirements to be 'fundable bodies'. The creation of multi-college RSBs has led to a change in the financial and accountability relationships between the SFC and the assigned colleges in these regions.

67. In [Scotland's Colleges 2016](#) , we reported that none of the three multi-college RSBs was operating as intended. The regional arrangements are still relatively new. As they have been established alongside significant reform in college mergers, we expect that it will take some time for RSBs to be operating fully effectively. We are seeing the culture in assigned colleges is beginning to change.

Progress in meeting the aims of regionalisation varies

68. All three multi-college RSBs now fulfil their core statutory duties. But the extent of their progress in meeting the wider aims of regionalisation varies. The remainder of this section considers what each RSB has done since it was created.

UHI

69. UHI has made good progress in meeting the wider aims of regionalisation. It has invested a lot of time and effort in building relationships between the assigned colleges, and establishing a more collaborative culture. Colleges are now more willing to share best practice and services to generate greater efficiency. For example, Inverness College recently appointed a Director of Finance on the basis of her becoming the joint Director of Finance at both Inverness and Moray colleges.

70. UHI has been developing a clear sense of purpose, with a regional strategy for further education. It has invested in staff and revised structures to reflect its wider responsibilities and deliver its aims. This has included appointing a Vice-Principal of further education and other dedicated staff. It has also been developing regional policies and management information systems. For example, it is:

- making progress in developing a single set of policies for further education, covering admissions, the content of courses and student procedures
- delivering significant increases in foundation apprenticeships and pilot graduate apprenticeships by planning and delivering apprenticeships on a regional basis through its work-based learning hub
- using data better to help it report more effectively against its plans.

71. UHI has been strengthening the accountability of its assigned colleges by developing more effective performance monitoring arrangements. This has been prompted by the lessons learned from previous financial difficulties in Moray College. Its audit committee and financial and general purposes committee now both look in detail at the performance of all individual colleges across a range of measures. As a result, committee members are better informed about long-and short-term performance issues and about the colleges' financial sustainability. UHI recognises though that there is scope for further improvement, particularly in securing timely information from assigned colleges to form a more joined-up approach to risk and performance management.

72. Over the past two years, some of UHI's colleges have found it difficult to meet their activity targets. This has presented a risk to their ability to continue to balance their income and expenditure in the medium to long term. In November 2017, UHI agreed a funding model for allocating further education credits between colleges in a way that maintains financial stability at individual colleges and meets the regional targets agreed with the SFC.

73. UHI is working with four of its five colleges to explore options for greater integration. Its aims are to simplify UHI's structure and governance arrangements, deal more effectively with future financial pressures, and deliver benefits for staff and students. The agenda is at an early stage, with UHI yet to consult colleges on specific proposals or the potential benefits from greater integration.

GCRB

74. Following its creation, GCRB had weaknesses in governance arrangements, highlighted in a statutory report in 2014/15. This contributed to it taking three years to achieve fundable body status. GCRB has also experienced instability in its leadership, with three permanent and two interim chairs in four years, with its current chair being appointed in January 2018. GCRB is now benefiting from greater collaboration and integration in the areas outlined below. However, the current chair acknowledges that greater stability is needed to make GCRB more effective than it has been, and she is working with the three assigned colleges and their boards to agree a joint vision.

75. GCRB reviewed the region's curriculum in 2014 prior to publication of the *Glasgow College Region Curriculum and Estates Plan 2015-2020*. This led to changes in the number and content of courses, the closure of a campus that was no longer fit for purpose and a transfer of credits between colleges.

76. GCRB launched Glasgow's Regional Strategy for College Education in October 2017, which sets out the regional priorities for 2017-22. This strategy sets an overarching ambition of building an inclusive, responsive and effective regional college system. To deliver this, GCRB and its assigned colleges are taking forward a number of regional initiatives:

- Coordinating the way school students move into further education across the Glasgow region and developing ways for students to move easily from the three colleges to Glasgow University.
- Coordinating curriculum hubs that jointly plan the courses colleges provide, to match economic and employer needs. This approach gives learners a better chance of getting a job when they leave college. The hospitality hub, for example, is run by operational managers across the colleges and shares teaching materials, assessments and students.
- Supporting Glasgow's colleges to develop individual college and regional science, technology, engineering and mathematics (STEM) strategies. The colleges now work together with employers and higher education partners to develop effective ways for school pupils to go to college and university and into jobs.
- Establishing regional leads, in the form of senior college staff, for curriculum planning, organisational development, student experience, developing the young workforce (DYW) and student data systems. Individual colleges fund this work, with senior staff concentrating on regional work, on average, for one day a week.
- Distributing capital funding to colleges against an agreed set of criteria, linked to regional priorities.
- Monitoring and scrutinising colleges' finances and performance on an ongoing basis.

77. Prior to the creation of GCRB, the colleges in Glasgow established the Glasgow Colleges Group in response to the regionalisation agenda. This group still exists for the three colleges to take forward operational issues on a city-wide basis. GCRB staff are members of this group and contribute to the work of the group. GCRB staff membership also provides a link back to the regional board.

78. Senior staff and board members we spoke to from GCRB's assigned colleges expressed mixed views about the additional benefits the regional body brings. The majority acknowledge the benefits of having a regional body to support collaborative working, but some see it as an unnecessary additional cost and layer of bureaucracy. If GCRB is going to become more stable and add more value, it needs to address these concerns.

Lanarkshire

79. The benefits of regionalisation in Lanarkshire have come about mainly through the merger of three of the four Lanarkshire colleges (Coatbridge, Cumbernauld and Motherwell colleges) to create New College Lanarkshire. For example, it has been able to review and rationalise the courses provided by its predecessor colleges and harmonise policies and ways of working. New College Lanarkshire provides courses across the Lanarkshire region, including in South Lanarkshire.

80. The current regional structure, with South Lanarkshire College being assigned to New College Lanarkshire, adds very little value to regional college provision. Both colleges are working together to meet core statutory requirements, such as having a Regional Outcome Agreement (ROA), but, beyond this, significant cooperation or integration between the colleges has been limited.

81. Most members of the RSB that we spoke to recognise that the current arrangement is not ideal, creating duplication without delivering any benefits. They also share concerns about making further efforts to create a regional approach to learning. South Lanarkshire College performs well, has a relatively healthy financial position and its board members see no additional benefit to be gained from any changes across the region. New College Lanarkshire has been through a difficult period in merging its three predecessor colleges and is focusing on addressing its current financial difficulties [page 15](#).

82. The colleges have indicated that demographics and infrastructure are also a barrier to greater cross-Lanarkshire course rationalisation. Distances between New College Lanarkshire's campuses and South Lanarkshire College are greater than the distance to colleges in Glasgow. There are also relatively poor transport links across Lanarkshire compared with good transport links to Glasgow. Both colleges share concerns that shifting courses between the colleges could potentially encourage more local students to look at courses in Glasgow than within the region.






83. There is limited evidence that the Lanarkshire Board has sought to address the issues described above or that its colleges have explored opportunities for more effective regional working. Since 2015-16, the board and its finance committee have been committed to developing a five-year plan for the region to 'form strategies to minimise negative impact and maximise opportunities which arise'. The board has yet to confirm when this will be developed and approved. There is some evidence that the colleges are beginning to look at other ways of working together more efficiently. For example, the remit for a review of regional finance structures will be taken to the regional finance committee in June 2018. However, these developments are still at an early stage.

Despite the regional arrangements, assigned colleges must also report to the SFC

84. Assigned colleges are accountable to their RSB for the local delivery of further education and meeting locally agreed targets. Each RSB is accountable to the SFC for delivering further education across the region. Despite the introduction of RSBs, the SFC still requires assigned colleges in multi-college regions to submit a number of specific data requests directly to them. It has required college-level responses to new initiatives, such as gender action plans and to its condition survey, rather than asking for regional responses. Assigned colleges tell us that this not only creates confusion around accountability, but that the requirement to provide data to both their RSB and the SFC can place an additional burden on them.

Endnotes



- 1 [Scotland's colleges 2017](#) , Audit Scotland, June 2017; [Scotland's colleges 2016](#) , Audit Scotland, August 2016; [Scotland's colleges 2015](#) , Audit Scotland, April 2015.
- 2 Until 1992, all publicly funded colleges were run by local authorities. 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 subject to audit by the Auditor General for Scotland. The remaining six colleges are generally referred to as non-incorporated colleges. Scotland's Rural College (SRUC) is classed as a higher education institution but counts towards the achievement of the national target for colleges.
- 3 Orkney College and Shetland College are controlled by the respective local authority, and prepare their accounts for the same financial year end as the local authority.
- 4 These are produced by HM Treasury and published on the www.gov.uk website.
- 5 Incorporated colleges only.
- 6 Written evidence submitted by Colleges Scotland to the Scottish Affairs Committee, March 2018.
- 7 The other non-incorporated colleges (Orkney, Shetland, West Highland and Argyll) are part of the Highlands and Islands region.
- 8 Attainment and retention figures are derived from the SFC's Performance Indicators for 2016-17.
- 9 Positive destinations are from the most recent data available (2015-16), and represent only known destinations. The destination data is for all full-time students (including both HE and FE), except for UHI and SRUC where the HE data is not available. 87 per cent of leavers' destinations could be confirmed (86 per cent in 2014-15).
- 10 Based on SCQF level. SCQF level progression information was available for 87 per cent of college leavers.
- 11 HE figures have been excluded here as HE data for UHI colleges and SRUC is reported differently.
- 12 2016-17 was only the second year that the SFC has collected satisfaction data across all colleges and modes of study. The SFC publishes student satisfaction results on a sector-wide basis but not currently for individual colleges due to the variation in response rates to college surveys. It is working with colleges to improve their survey response rates.
- 13 *A New Social Contract for Students: Fairness, Parity and Clarity*, Student Support Review in Scotland, Autumn 2017.
- 14 230 students did not give their gender or described it as 'other'.
- 15 North East College Scotland, City of Glasgow College, Glasgow Kelvin College, North Highland College, Orkney College and Shetland College.
- 16 Orkney College is one of two colleges run by the local council (the other being Shetland). The college board members are determined by the council. The Accounts Commission's recent Best Value report identified a gender imbalance across councillors for Orkney Islands Council. ([Best Value Assurance Report: Orkney Islands Council](#) , Accounts Commission, December 2017).
- 17 Under the Further and Higher Education (Scotland) Act 2005 every incorporated college is either designated as a regional college or assigned to a regional strategic body.
- 18 [The 2014/15 audit of Glasgow Colleges' Regional Board](#) , Auditor General, March 2016.

Appendix 1

Audit methodology



Our audit involved the following:

- Analysing relevant Scottish Government budget documentation, colleges' audited accounts and auditors' reports covering the financial periods ending July 2017.
- Analysing information held by the SFC, including performance and activity data.
- Interviewing a wide range of stakeholders. These included college principals, senior college staff, regional chairs, Colleges Scotland, staff and student unions, trade unions, the SFC and the Scottish Government.
- Data we requested from colleges' local external auditors.

This report focuses on incorporated colleges. We state clearly where we include data relating to non-incorporated colleges.

Detailed methodology for specific sections in the report:

Underlying financial position ([paragraph 10](#))

Incorporated colleges reported an overall deficit of £20.5 million in their 2016-17 audited accounts. This compares with an overall deficit of £19.4 million in 2015-16 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 2017.

Calculating student numbers ([paragraph 37](#))

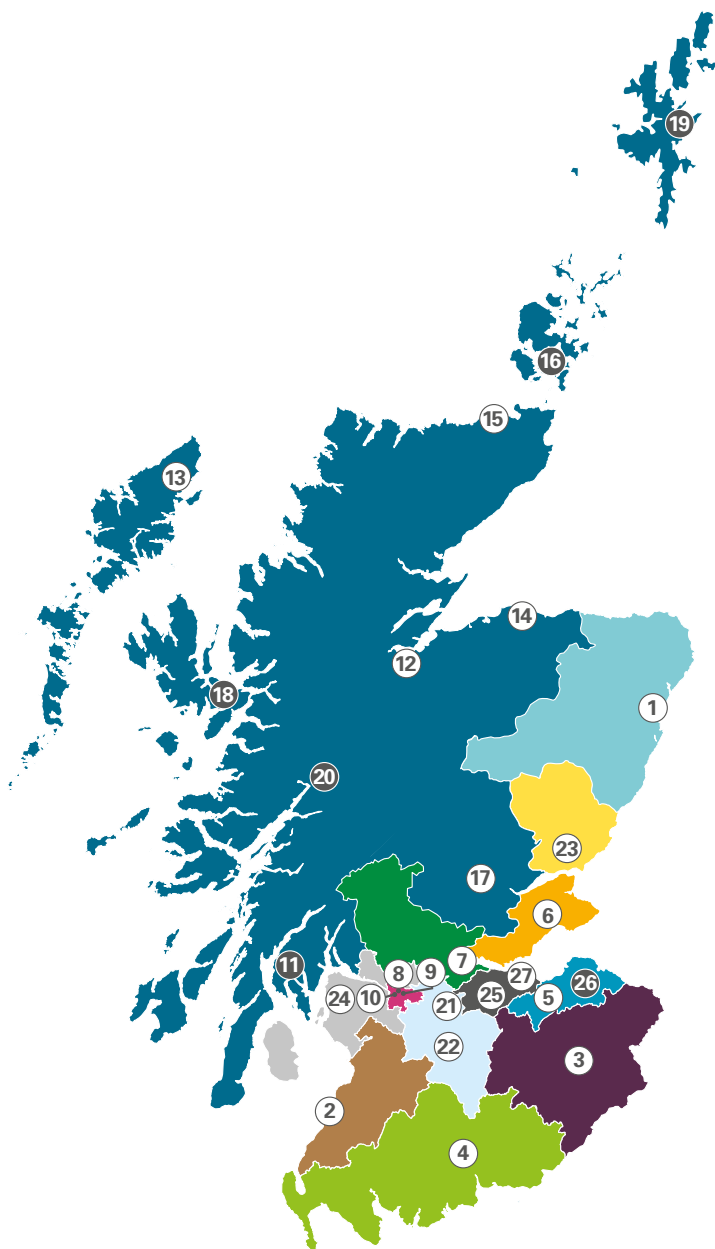
In this report we present student numbers by headcount, drawn from the SFC's Infact database. Where possible, this headcount excludes any multiple enrolments, meaning if a student had been enrolled at two colleges in 2016-17 they would only be counted once. Where we show full-time and part-time student numbers this will include multiple enrolments.

In previous college overview reports, we have presented student numbers for incorporated colleges only. For Scotland's colleges 2018, we have expanded our analysis to include non-incorporated colleges and SRUC to give a comprehensive picture of performance against the Scottish Government's national target for learning activity. If we analyse only the incorporated colleges in line with our approach last year, we see that headcount has increased by four per cent, and the trend is the same as for the whole sector.

The student population data from the SFC's Infact database includes the data for Argyll and West Highland Colleges within the figures for North Highland College, so we are unable to identify trends in the student numbers data for these colleges separately.

Appendix 2

Scotland's college landscape 2018



Region	College
Aberdeen and Aberdeenshire	1 North East Scotland College
Ayrshire	2 Ayrshire College
Borders	3 Borders College
Dumfries and Galloway	4 Dumfries & Galloway College
Edinburgh and Lothians	5 Edinburgh College
Fife	6 Fife College
Central	7 Forth Valley College
Glasgow	8 City of Glasgow College
	9 Glasgow Clyde College
	10 Glasgow Kelvin College
Highlands and Islands	11 Argyll College
	12 Inverness College
	13 Lews Castle College
	14 Moray College
	15 North Highland College
	16 Orkney College
	17 Perth College
	18 Sabhal Mòr Ostaig
	19 Shetland College
Lanarkshire	20 West Highland College
	21 New College Lanarkshire
Tayside	22 South Lanarkshire College
	23 Dundee and Angus College
West	24 West College Scotland
West Lothian	25 West Lothian College
n/a	26 Newbattle Abbey College
n/a	27 SRUC

Note: The map shows the 20 incorporated colleges, the six non-incorporated colleges in Scotland (in bold) and Scotland's Rural College (SRUC) which is classed as a higher education institution but counts towards the achievement of the national target for colleges.

Source: Audit Scotland

Scotland's colleges 2018

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along with a podcast summary at:

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