



26 November 2015

Alexandra Balcan  
Committee Assistant  
Public Audit Committee  
Room T3.60  
Scottish Parliament  
Edinburgh  
EH99 1SP

Dear Ms Balcan

In reply to your email of 25 September, please find SFC's responses to the information requested as part of the recommendations of the Public Audit Committee's Report on *Scotland's Colleges 2015*.

**Para 29 (efficiency savings) - the Committee seeks greater clarity from SFC on when these detailed figures can be provided and when these £50 million of savings will be achieved**

The £50m expected real terms efficiency savings will be realised at an aggregate level, from 2015-16; that is, through reduced real terms unit costs of provision across the sector, while colleges deliver increased levels of activity.

SFC will gather information at college-level, of the individual savings made as a result of merger, which have enabled colleges to increase activity at a lower cost. The eight current post-merger evaluations will complete by July 2016 and a sector level report will be provided by autumn 2016 which will include further information on the source of savings.

Consistent with the systemic nature of these changes, we are also measuring the benefits of the merger programme by looking at the outputs of the sector, in particular how merged colleges are better serving students.

**Para 31 and 32 - SFC to provide information regarding the publication of financial information on the costs and savings achieved through the merger process as well as the findings of the post-merger evaluations. The Committee also seeks further information from SFC on what reductions in unit cost provision have been agreed with the colleges**

In our written submission to the PAC of 9 June, SFC committed to working with both the Scottish Government and Audit Scotland, to publish financial information on both the costs and savings achieved through the merger process. This detailed information will become available as a result of the SFC's post-merger evaluation programme.

SFC confirms that the eight post-merger evaluations are scheduled between October 2015 and July 2016. SFC will prepare a post-merger evaluation for each individual merger and then a sector level report by autumn 2016. This will include both the financial information and the wider evaluation.

The reductions in the real terms unit costs of provision are as described in the table on the next page. Funding on this basis has been agreed each year as part of the process of agreeing an outcome agreement with each institution.

	2012-13	2013-14	2014-15	2015-16
teaching and fee waiver funding	£386,499,292	£394,807,637	£394,170,076	£393,532,515
student support	£99,506,372	£102,848,353	£102,848,353	£102,848,353
capital	£18,675,207	£27,000,001	£27,000,001	£27,000,001
total	£504,680,871	£524,655,991	£524,018,430	£524,018,430
WSUMs target	2,111,770	2,263,060	2,263,060	2,263,060
Teaching grant price per WSUM	£183	£174	£174	£174
cumulative cost of living from 2012-13		<b>1.025</b>	<b>1.051</b>	<b>1.077</b>
real terms price per WSUM	£183	£170	£166	£161.48
real terms reduction in price per WSUM		£13	£17	£21.54
number of WSUMs to be delivered		2,263,060	2,263,060	2,263,060
overall efficiency		£29,010,430.94	£39,011,860.49	£48,754,551.76

The way that this applied to each college depended to some extent on how SFC had adjusted funding levels in particular regions in response to guidance from the government in 2012 (amended in early 2013 when the additional funding announced in the February 2013 budget allowed these to be mitigated). In AY13-14 SFC reduced funding to colleges at different rates in different types of region (as shown in the table). The greatest reductions were in the areas where the greatest efficiencies of scale were possible. These changes were maintained for future years and so influenced the way that the efficiencies referred to above affected particular regions.

	Efficiency
<b>Large colleges</b>	-3%
<b>Medium</b>	-1.5%
<b>Land-based and UHI</b>	-1%
<b>Small rural colleges (D&amp;G and Borders)</b>	0%

**Para 47 - SFC to outline a standard process to be used for post-destination analysis of college students**

In December 2015 SFC will publish the first annual publication on College Leaver Destinations (CLD) for Scotland's colleges that covers the 2013-14 academic year.

This publication will, in time, provide information on destinations of college leavers in Scotland, specifically reporting on the proportion of full-time college leavers going into a positive destination year-on-year at college, regional and national level. It will enable the national performance measure on Destination and Employment to be established and the sub-measure KPI 4 on Destination and Employment for Developing Scotland's Young Workforce. In future, once the baseline measures have been established and the survey is mainstreamed, we will expect to discuss with college regions ambitions with respect to learner destinations as part of the outcome agreement process, and we will monitor progress on an annual basis in the same way that we do for other key measures.

**Para 50 (college reviews of workforce plans) – SFC response**

SFC outcome agreement guidance for 2016-17 makes specific provision for SFC to discuss with each college/region the shape of its curriculum in response to evidenced regional and national needs. The staffing arrangements to support this are primarily a matter for the colleges rather than SFC.

During our post-merger evaluations in 2015-16 of the eight colleges merged in 2013-14 we will be discussing directly with the SMT and the Board the impact of the merger on their staffing capacity and the steps that the college has taken to respond to any emerging issues. This will be reported in the individual evaluations and in the overarching report to Scottish Government.

Education Scotland assess how well colleges are designing and resourcing their curriculum to meet the needs of learners and employers through cyclical external reviews and annual visits to colleges. This would include looking at how well a college plans and delivers teaching and support staff input, in conjunction with other learning resources. It also assesses/discusses with colleges their plans to improve learning and teaching and develop staff.

**Para 53 (compulsory redundancies) - further information from SFC on when we were made aware of these comp redundancies (Fife, NHC, Kelvin), how we encouraged the colleges to avoid and what guidance was given on other options during the reform process**

*Fife*

Fife College was formed from the merger of Adam Smith College and Carnegie College on 1 August 2013; we are not aware of any compulsory redundancies since the merger. The staff that left the College's two former colleges under compulsory redundancy were: four staff whose posts were made redundant as part of a restructure (three at Carnegie College and one at Adam Smith College); two staff made redundant at Adam Smith College when the European Funding Unit was closed; and one at Carnegie College whose post was made redundant due to diminished workload.

The College did consider whether suitable alternative employment could be offered prior to making the staff redundant.

SFC was not aware of these compulsory redundancies until after the event as they happened prior to the implementation of the ONS reclassification of colleges. They were highlighted by the Auditor General for Scotland to the PAC.

#### *NHC*

This College has a number of campuses that are located at long distances from each other, making redeployment difficult, if not impossible. Financial constraints also mean that the College cannot afford to offer enhanced terms to staff, and the College does not have a voluntary severance scheme.

The staff that left the College under compulsory redundancy were: nine on fixed term contracts; twelve teaching staff where demand had reduced or funding ceased; and two others surplus to requirements.

In all these cases, the College considered whether there were viable options for redeployment. Where such an option was available, the member of staff concerned was offered that option as an alternative to redundancy, and only where that was refused was the member of staff subject to compulsory redundancy.

We were aware that the College was planning some of these compulsory redundancies at the time. SFC engaged with the College and Scottish Government to explore options, but no viable alternatives were found.

#### *Glasgow Kelvin College*

The compulsory redundancies linked to *Glasgow Kelvin College* were staff of a private catering contractor, Elmor, not college staff. The Legacy Stow College had appointed Elmor, a private catering contractor, to operate their canteen facilities at their main campus building (subsequently Glasgow Kelvin's College's City Campus) and their Maryhill Campus building in 2012. This arrangement involved the TUPE transfer of staff who had been previously employed by Stow College to the private company.

As a consequence the issue of redundancy was an issue for the private contractor. However, a clause in the contract required that the College meet the costs related to the compulsory redundancies. The College was not required to offer any enhanced redundancy package to the staff, and such an extraordinary payment would not have been a proper use of public funds. The College senior management team made the Scottish Funding Council aware of the decision to cancel the catering contract in mid-April 2015. We were then briefed regularly by the College on the issue as it continued to attract high levels of political and media interest.



**Para 84 - seek info from SFC on options it would consider for colleges and individuals who fail to follow best practice in providing severance arrangements in the future**

Clearly the section 22 reports on North Glasgow and Coatbridge Colleges have indicated the importance of this issue. The arrangements for agreeing severances have changed considerably since incorporated colleges became part of public sector accounting in a way that makes poor practice much less likely. However, there is always a possibility that individuals attempt actions that do not follow best practice.

In such cases we would consider the scope for clawback of any grant that was misused – though we would need to be clear on the potential impact on students. As we have noted in our response to your Committee on Coatbridge College, we were frustrated that we were not able to recover funding from those who had taken decisions that were clearly against our guidance. We have also committed to exploring options with OSCR and the Commission on Ethical Standards. Another option – where appropriate - is to use the powers that the Government had to remove boards that are mismanaging their college. We hope to work with the Cabinet Secretary's College Governance Task Group on how we take these options forward.

We agree with the Committee that sanctions available must be meaningful and effective. We consider that the ability to withhold or clawback funding from institutions remains an option, however we would need to take full account of the impact on the students and staff and also on the ongoing operations of the college prior to taking any such action.

The recently convened College Governance Task Group (first meeting on 16 November) will provide a useful forum for the Scottish Government, and the Scottish Funding Council, to explore a wider range of sanctions that may be available. In addition, through appropriate engagement and communication with both OSCR and the Ethical Standards Commission, we have made a commitment to exploring other possible actions that could be taken. We will write formally to the Ethical Standards Commission before the end of the year setting out the circumstances around governance weaknesses and the Commissioner will then consider what further action is appropriate. A meeting is to be arranged between OSCR, SFC and Scottish Government to take forward a discussion about our collective roles and responsibilities in relation to FE and HE governance generally. This discussion will include consideration of OSCR's role as regulator in the event of issues with the behaviour of Board members as charity trustees. We will be happy to update the Committee on the outcome of these discussions early in the New Year.

The Post-16 Education (Scotland) Act 2013 introduced a new power for Ministers in the event of mismanagement by the boards of incorporated colleges. Where Ministers have evidence of mismanagement by the board collectively, they may remove any or all board members, other than the Principal.

**Para 94 - seek clarification from SFC on how it is supporting Regional Boards and individual colleges in multi-college regions to develop positive workings relationships**

In the Glasgow Region SFC has been working with the Regional Board (GCRB) since May 2014 to ensure their progress to full fundable body status. A good governance checklist was established

in August 2014. Good progress has been made on this since May 2015 when SFC supported the secondment of its Senior Director, Martin Fairbairn, to the position of Interim Chief Officer. The staffing structure being progressed is to have minimal directly employed staff and for the assigned colleges to collaboratively provide the executive support required. Good progress has been reported from GCRB on taking this forward.

In addition SFC's outcome manager has been working with the GCRB and the assigned colleges on the delivery of the 2015-16 and 2016-17 Glasgow Region Outcome Agreement.

In Lanarkshire SFC has provided financial support for a member of staff to provide support for the Regional Strategic Body and Regional Chair in the development of Regional Governance Arrangements. This support will ensure that the Regional Strategic Body meets SFC requirements for fundable body status. This process has involved engagement of Boards and Senior Management Teams from both Colleges and the SFC's Regional Outcome Agreement Manager to develop the policies and processes necessary to ensure effective working relationships. A strategic development day is scheduled for January 2016 involving all partners listed above to form the Lanarkshire Strategic Plan.

In addition SFC's outcome agreement manager has been working with the Regional Strategic Body and its assigned College on the delivery of the 2015-16 and 2016-17 Lanarkshire Regional Outcome Agreement.

In Highlands and Islands SFC's Regional Outcome Agreement Manager (ROAM) has worked very closely with the University of the Highlands and Islands and its Academic Partners since 2012 providing guidance and support in the development and formation of the UHI as the Regional Strategic Body. The ROAM and SFC also provided guidance and support on legislation to assist in the development of the Further Education Regional Board (a committee of the University Court) with responsibility for provision of Further Education in the Highland and Islands.

The ROAM has also been working with the University and its Academic Partners to deliver the 2015-16 Outcome Agreement and develop the 2016-17 Outcome Agreement.

#### **Para 96 - clarification from SFC on how costs of operating a RB will be regulated, paid for and monitored to ensure VfM**

The costs of a regional strategic body's operations are met from that college region's funding allocation. In the case of Glasgow Colleges Regional Board for AY2015-16 SFC has top-sliced funding for the operation of the Regional Board from the regional allocation in agreement with the three assigned colleges and the Regional Board.

The Further and Higher Education (Scotland) Act 2005 ("the 2005 Act") has a number of key safeguards. These include:

- Section 23F places a duty on regional strategic bodies to have regard to the importance of ensuring that the funds it receives from the SFC are used economically, efficiently and effectively.

- SFC can give the Glasgow Colleges' Regional Board direction under paragraph 10(4) of schedule 2B in relation to Regional Board employee appointments (its likely largest cost). The Glasgow regional strategic body is the only one that is a Regional Board. In this case the proposed staffing structure for the Regional Board is to have minimal directly employed staff and for the assigned colleges to collaboratively provide the executive support required.
- Section 13A places a duty on SFC to secure that provision is made for assessing and enhancing the performance of regional strategic bodies. The SFC is currently developing specific monitoring processes for this purpose. This exercise will be completed by 31 December 2015.

Regional strategic bodies are also subject to the SFC Financial Memorandum with Fundable Bodies in the College Sector and the sector's good governance code. Compliance with them is a term and condition of SFC's grant to the regional strategic body.

In addition, Audit Scotland has its responsibilities arising from the accounts of two of the three regional strategic bodies (in Glasgow and Lanarkshire) being audited by the Auditor General for Scotland.

I hope the responses provide you with the information you require. Should you require any clarification or further information please do not hesitate to contact me.

Yours sincerely



**Laurence Howells**  
Chief Executive