



The Scottish Parliament  
Pàrlamaid na h-Alba

Published 28th September 2015

SP Paper 796

3rd Report, 2015 (Session 4)

Web

**Public Audit Committee**

# **Report on Scotland's colleges 2015**



**Published in Scotland by the Scottish Parliamentary Corporate Body.**

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# Public Audit Committee

The remit of the Public Audit Committee is to consider and report on—

- a. any accounts laid before the Parliament;
- b. any report laid before or made to the Parliament by the Auditor General for Scotland; and
- c. any other document laid before the Parliament, or referred to it by the Parliamentary Bureau or by the Auditor General for Scotland, concerning financial control, accounting and auditing in relation to public expenditure.



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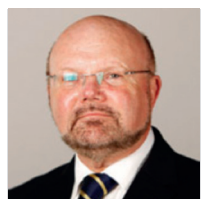
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**Dr Richard Simpson**  
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**Note: The membership of the Committee changed during the period covered by this report, as follows:**

Dr Richard Simpson joined the Committee on 2 September 2015, replacing Drew Smith (Scottish Labour Party, Glasgow region)



# Introduction

1. On 2 April 2015, the Auditor General for Scotland (AGS) laid in the Scottish Parliament a Section 23 report<sup>1</sup> entitled *Scotland's colleges 2015*.<sup>2</sup> In that report the AGS noted that –  
  

” Scotland's colleges have faced significant changes over the last few years that have had implications for funding, the provision of learning and how colleges are run, managed and scrutinised.”<sup>3</sup>
2. The Committee explored the report in evidence with the AGS and Audit Scotland at its meeting on 29 April 2015. The Committee also took oral evidence from the Educational Institute of Scotland (EIS), college principals and representatives of college boards on 10 June 2015 before taking further oral evidence from the Scottish Government and the Scottish Funding Council (SFC) on 24 June 2015. The Committee also received written evidence from the EIS, the Office of the Scottish Charity Regulator (OSCR), Audit Scotland, the Scottish Government and the SFC during the course of its consideration of the report.
3. This report sets out the key observations, conclusions and recommendations of the Committee on the issues identified within the AGS report and during the course of its consideration of the report.
4. The Committee would like to thank all of those who provided evidence, a list of whom is contained in Annexe A to this report.

## Background

5. The Scottish Government has, through its college reform programme, reduced the number of incorporated colleges from 37 in 2011-12 to 20 in 2014-15, with these 20 colleges being governed across 13 different college regions by Regional Boards. Three former colleges have merged with the Scottish Agricultural College to form Scotland's Rural College (SRUC), which sits in the higher education sector.<sup>4</sup>
6. It is anticipated by the Scottish Government that the reform programme will deliver £50 million of efficiency savings each year from 2015-16. As well as the aforementioned mergers, this reform programme included the development of regional outcome agreements for the sector, which reflect the Scottish Government's "strategic aims and national priorities for post-16 education"<sup>5</sup> and "set out what colleges need to deliver in return for SFC funding".<sup>6</sup>
7. Another change introduced to the colleges sector was the creation of Arm's-Length Foundations (ALFs), required for the transfer of college reserves that could no longer be held due to the reclassification of colleges as public bodies by the Office for National Statistics (ONS). Scotland's colleges transferred £99 million to these ALFs in 2013-14, £11 million of which has since been used.<sup>7</sup>
8. In order to support the mergers process, the AGS reported that the SFC and the Scottish Government "provided a range of support to merger colleges"<sup>8</sup> including financial support of over £52 million between 2011-12 and 2013-14. This support was mostly used to fund voluntary severance arrangements.
9. These changes, and the Scottish Government's emphasis on full-time courses and younger students, have been accompanied by changes in the student demographics at Scotland's colleges; between 2008-09 and 2013-14, there has been a reduction of 41% in the number of students aged 25 and over and a reduction of 48% in the number of part-time students.<sup>9</sup> However, due to a 13% increase in full-time students over this period, full-time equivalent (FTE) numbers have only decreased by 2.5% in this period.<sup>10</sup>
10. In oral evidence from Perth College UHI, the Committee heard that:

” There has been no discernible reduction in part-time learners [at Perth College UHI...there has not been the same swing [in balance of full-time and part-time students] that has been displayed in the rest of Scotland.”<sup>11</sup>
11. Both West College Scotland and the City of Glasgow College, who took part in the same evidence session, noted there had been a reduction in part-time learning at their colleges.<sup>12</sup> West College Scotland also noted that:



” the number of courses that we are now offering has increased as a result of the merger and the reform...no student has been forced to leave my college as a result of a reduction in the number of part-time courses, but I have seen a reduction in part-time provision at the college.<sup>13</sup>

12. There has also been a change to the staffing profile at Scotland's colleges, with a 9.3% decrease in staff between 2011-12 and 2013-14.<sup>14</sup> These have mainly been delivered through voluntary severance; although “most severance was managed in accordance with good practice”<sup>15</sup> there have been two instances at North Glasgow College<sup>16</sup> and Coatbridge College<sup>17</sup> where auditors found “significant weaknesses”.<sup>18</sup> Section 22 reports have been laid on both of these occasions<sup>19</sup>.

13. Reforming the college sector was, and remains, a significant logistical challenge. The Committee notes that the reform programme is not yet fully complete, and that it may take some time for a clear picture to emerge of whether the merger process has been, on the whole, a positive or negative step.
14. The Committee therefore welcomes the AGS finding that “planning for mergers was generally good and all of the merged colleges were established on time”.<sup>20</sup>

## Previous work on colleges

15. College finances and governance have been subject to scrutiny by the Committee earlier in Session 4. The Committee has previously published a report<sup>21</sup> on another AGS report entitled *Scotland's colleges 2013*, which examined the financial standing both of individual colleges and the college sector as a whole, and the sector's progress towards structural reforms.<sup>22</sup>
16. In its report, the Committee sought further information from the Scottish Government and the SFC regarding the operation of ALFs, as well as seeking comments from the AGS on “the robustness of expected efficiency savings”.<sup>23</sup> Both of these remain salient issues in the most recent report from the AGS.
17. The AGS also published a report on 18 October 2012 entitled *Scotland's colleges: current finances, future challenges*<sup>24</sup> which assessed the financial standing of individual colleges and the college sector as a whole in advance of anticipated reductions in public expenditure and the impending structural reforms.
18. Another relevant report referred to during the Committee's consideration of *Scotland's colleges 2015* was the 2012 AGS report entitled *Learning the lessons of public body mergers*.<sup>25</sup> This report provided “a good practice guide to help the Scottish Government and public bodies ensure effective planning and implementation of future mergers.”<sup>26</sup>

19. One of the major challenges for mergers identified by *Learning the lessons of public body mergers* was “identifying and reporting expected costs of the merger and expected efficiency savings”.<sup>27</sup> The report also recommended that the Scottish Government should:

” Develop robust cost and savings estimates for future mergers and, with merging bodies, regularly review and revise these as necessary as the merger proceeds.<sup>28</sup>

# College Reform

## Savings

20. At the outset of the merger programme, the Scottish Government estimated that the process would produce savings of approximately £50 million each year from 2015-16. This figure was reiterated in its written submission to the Committee in advance of its oral evidence session on 24 June 2015.<sup>29</sup>
21. The 2012 AGS report entitled *Learning the lessons of public body mergers* states that:
- ” clear, reliable and up-to-date information on costs and savings is important during mergers. It allows public bodies to monitor, control and be accountable for the costs of the merger, to budget and plan future service delivery and identify opportunities to make cost reductions and savings.<sup>30</sup>
22. In evidence to the Committee on 24 June, the SFC clarified what was meant by an efficiency saving, stating that:
- ” The £50 million saving is an efficiency saving that results from the college sector delivering more volume for less money in real terms...in order to deliver the efficiencies that have been required by the change to central funding, the colleges have, through mergers, become more efficient.<sup>31</sup>
23. The SFC also informed the Committee that the estimated £50 million annual efficiency saving was “based on previous experience of mergers” and “the experience of mergers in the higher education sector”.<sup>32</sup>
24. In response to a letter from the Committee seeking “further detail on the projected £50 million of efficiencies to be made by the process of college regionalisation”<sup>33</sup> the Government elaborated on the explanation given by the SFC in their written submission of 27 July:
- ” As a result of the economies of scale created by merger, SFC has been able to agree with colleges reduced unit costs of provision while at the same time asking colleges to deliver increased levels of activity...SFC calculates these changes to price and volume yield real-term efficiencies of around £50m each year from 2015-16 compared to 2012-13.<sup>34</sup>
25. One of the key recommendations for the Scottish Government and the SFC in the AGS report is that they “publish financial information on the costs and savings achieved through the merger process”.<sup>35</sup> This recommendation was examined in evidence from the AGS on 29 April 2015, where the Committee was told that:

” At this stage, the funding council and the Government could not give us [Audit Scotland] the information that we asked for to demonstrate the costs of the merger process.<sup>36</sup>

26. This comment was explored in evidence from the Scottish Government and SFC on 24 June 2015. The Scottish Government stated that 75% of the costs of the merger has been detailed, and that it hoped to provide “absolute detail” on the remaining 25% through the two-year post-merger evaluations which are expected to conclude by the spring of next year.<sup>37</sup>

27. The Committee understands that efficiency savings estimates can be subject to change as challenges emerge, and notes that the SFC is “confident that the [£50 million] figure that we gave in 2012 will be achieved”.<sup>38</sup>
28. The Committee notes the identification of £50 million of efficiency savings every year as part of the college mergers process forms a major part of the Scottish Government’s college reform programme. Although the methodology behind these projected savings has been explained, and notwithstanding the comments made in Paragraph 26, it is disappointing that the Scottish Government and SFC have not yet been able to provide detailed figures to demonstrate these efficiencies.
29. The Committee therefore seeks greater clarity from the Scottish Government and SFC on when these detailed figures can be provided and when these £50 million of savings will be achieved.
30. The Committee considers the provision of detailed information to Parliament to be essential to post-legislative scrutiny.
31. The Committee therefore fully endorses the AGS recommendation, already initially responded to by the SFC in a written submission, regarding the publication of financial information on the costs and savings achieved through the merger process and requests that the Scottish Government provide this to the Committee at the earliest opportunity, as well as the findings of the post-merger evaluations.
32. The Committee also seeks further information from the SFC on what reductions in unit cost provision have been agreed with colleges.

## **Students and staff**

33. The Committee heard in evidence that the Scottish Government’s further education policy has resulted in changes to the college student demography in Scotland. As noted above, there has been a reduction in the number of older and part-time students and an increase in the number of full-time students between

2008-09 and 2013-14, and a concurrent 9.3% reduction in staff numbers between 2011-12 and 2013-14.<sup>39</sup>

34. The AGS report looked at students who are being served by Scotland's colleges and how their experience has been affected by the reform programme, stating that "the changes to date [in the college sector] have had minimal impact on students"<sup>40</sup>. This statement was explored in evidence by Committee members and challenged by the Educational Institute of Scotland (EIS), who described it as "simply wrong".<sup>41</sup>
35. During oral evidence, the Committee explored how the sector sought the views of its students. The Committee heard from West College Scotland that:

” Colleges [within the West College Scotland region] survey students who leave college as part of our post-course destination analysis.<sup>42</sup>

36. The Committee heard from the Scottish Government and SFC of their use of post-merger evaluations carried out by SFC staff to gauge the views of students. The Committee was also informed that no independent evaluation has been carried out.
37. The Committee notes that, in the words of one witness, "it would be technically quite difficult to find those people [who may have taken a course no longer provided due to the sectoral reforms]"<sup>43</sup> and that the drop in numbers has been as a result of individuals finishing courses and those courses ending rather than individual students losing their place.
38. As well as discussing overall numbers, the Committee explored how widening access to further education for students from more deprived areas was affected by the mergers process, particularly given the reduction in part-time courses.
39. In written evidence to the Committee, the SFC confirmed that the percentage of full-time students at Scotland's colleges from the 20% most deprived areas of Scotland has increased slightly from 24.8% in 2009-10 to 25.5%, and that the proportion of activity in Scotland's colleges from the 10% most deprived areas has also increased slightly from 15.6% to 16.3%.<sup>44</sup>
40. Another element considered by the Committee was the impact of the mergers process on college staff, who constitute approximately 60% of college spending.<sup>45</sup> As mentioned above, there has been a 9.3% reduction in FTE staff numbers since 2011-12, which is responsible for 59% of the overall reduction in spending<sup>46</sup>.
41. The AGS report describes college staff as having "expressed concerns about the loss of skills and increased workloads".<sup>47</sup> This was echoed by the EIS in oral evidence to the Committee, who stated that:

” The pressure [to deliver the same quality of learning as before] has fallen on the shoulders of the staff across the sector...the workload has

increased, there are larger classes and fewer hours are being allocated to the delivery of some courses.<sup>48</sup>

42. The Committee also explored the existence of compulsory redundancies within the colleges sector. Although there were a small number of compulsory redundancies within the sector, it was noted by a range of witnesses that the Scottish Government had “made it clear to colleges that they expect them to reflect the public sector pay policy”<sup>49</sup> –in other words, to not undertake any compulsory redundancies. Instead, most of the reduction in staff was achieved through voluntary severance packages.<sup>50</sup>

43. However, the Committee also heard from the EIS that:

” Individuals who have been given those [voluntary severance] deals...have often expressed to EIS representatives that they do not think the process is voluntary...Financially, they had no alternative but to accept the deal because it was better than the contractual deal [of statutory redundancy].<sup>51</sup>

44. In written evidence to the Committee prior to oral evidence on 10 June, the EIS noted that it had not been asked by Audit Scotland for evidence regarding their members’ views on the mergers process<sup>52</sup>. This has previously been discussed at the Committee meeting on 29 April, where Audit Scotland witnesses said that they would “absolutely be happy to reflect”<sup>53</sup> on how to engage with the EIS in future.

45. The Committee concurs with the AGS that “it is appropriate for any Government to set its priorities”<sup>54</sup>, and that the role of the Committee is to scrutinise the expenditure and performance of public bodies rather than Government policy *per se*.

46. Although the Committee notes the finding of the AGS that the reforms to the college sector have had a minimal impact on students to date, and the recommendation that “college boards should monitor student participation and satisfaction to help them plan future learning provision”,<sup>55</sup> it is also of the view that the nature of these reforms can complicate the process of capturing the views of students who are no longer attending college or who no longer had the opportunity to attend.

47. The Committee is therefore of the view that, on this occasion, it is not possible to fully quantify whether the overall impact on both past and current students has been positive or negative. The Committee recommends that the Scottish Government and Scottish Funding Council outline a standard process to be used in future for post-destination analysis of college students to help the sector, Government and Parliament assess the impact of any other reforms or changes in policy.

48. The Committee welcomes the slight overall increase in percentage terms of access for students from more deprived backgrounds. Given the policy shift towards full-time courses and the concurrent impact on the ability for students to work to support their studies, the Committee would welcome further information from the Scottish Government as to what financial and pastoral support is available and publicised to individuals from more deprived backgrounds to encourage them to consider a full-time college education.
49. The Committee acknowledges that the mergers process would lead to some reduction in staff numbers; however, it is also of the view this reduction should be managed carefully in order to preserve the quality of teaching and the student experience.
50. The Committee therefore particularly endorses the AGS recommendation that “colleges should continue to review workforce plans in light of reductions in staff, and as part of curriculum reviews, to identify any gaps in skills, knowledge and resources required to deliver high-quality learning”<sup>56</sup> and requests information from the Scottish Funding Council and Scottish Government as to how they will engage with individual colleges on this recommendation.
51. The Committee welcomes the Government’s expectation that there would be no compulsory redundancies, and that a minimal number were made in the process. However, the Committee acknowledges the point made by the EIS that staff may have felt pressured by circumstances to accept voluntary severance packages.
52. The Committee therefore expresses its disappointment in the evidence it has subsequently received from Audit Scotland which confirms that compulsory redundancies took place at Fife College and North Highland College between 2011-12 and 2013-14, as well as the announcement of compulsory redundancies that have since taken place at Glasgow Kelvin College<sup>5758</sup>.
53. The Committee seeks further information from the Scottish Funding Council and subsequently the Scottish Government on when it was made aware of these compulsory redundancies, how it encouraged the respective colleges to avoid making compulsory redundancies and to set out what guidance on other options was given to colleges during the reform process.
54. In light of concerns about staff and student feedback, the Committee reiterates its request at Paragraph 31 that the Scottish Funding Council supplies with the Committee with the results of its two-year post-merger evaluations once they are available.



55. The Committee welcomes Audit Scotland's commitment to reviewing how it engages with Trades Unions such as the EIS on its overview reports. The Committee therefore seeks further information from Audit Scotland on how it will engage with the relevant Trades Unions on any future overview reports.

## College Finances and Governance

### Use of Arm's-Length Foundations (ALFs)

56. In 2010, the ONS reclassified colleges as public bodies with effect from 1 April 2014. According to the AGS, this change in classification:
- ” “meant that a solution needed to be found to ensure that those reserves could be carried forward without reducing the overall spending available to the Government under the Scottish block [grant]”.<sup>59</sup>
57. In order to ensure that colleges could use these reserves, a number of Arm's-Length Foundations (ALFs) were created. As well as protecting financial reserves built up over previous years, ALFs provide a mechanism for colleges “to manage their money over a slightly longer term”<sup>60</sup> – for example, for long-term capital projects.
58. The Scottish Government commented in 2014 that it did not “expect colleges to transfer significant amounts of public funds into ALFs.”<sup>61</sup> In 2013-14, colleges collectively transferred £99 million into ALFs; this money was a mix of public funding and revenue accrued through commercial activity. Since then, the total amount has reduced to £88 million as a result of transfers to help fund capital projects.<sup>62</sup>
59. Given that the money transferred into ALFs is a mix of public and private money, the Committee questioned witnesses on how transparency and accountability of the use of public money could be assured beyond the legal framework of charity law and company law which would be used to govern them.
60. One potential mechanism for ensuring transparency and accountability which was explored by the Committee was the extension of Freedom of Information (FOI) legislation to cover the operation of ALFs. When questioned on this matter in evidence to the Committee on 24 June 2015, the SFC commented that:
- ” I have not considered how and whether FOI legislation should apply to the [Arm's Length-Foundation] trusts.”<sup>63</sup>



61. During the same evidence session, the Scottish Government stated that:

” I am not aware that such a discussion [whether ALFs should comply with FOI legislation] has taken place.<sup>64</sup>

62. Although the Committee welcomes the commitments from both the SFC and the Scottish Government to consider the issue of FOI compliance, it is concerned that this option had not been considered since the establishment of ALFs.

63. In subsequent written evidence to the Committee, the SFC commented that it considered there “to be no clear case for extending the coverage [of FOI legislation]”<sup>65</sup> to the operation of ALFs.

64. In separate written evidence, the Scottish Government set out its view on the extension of FOI legislation to cover ALFs.

65. The Scottish Government believes that “it is clear that ALFs do not fall within the scope of most of” the determining factors used within its current consultation on extending FOI legislation. These include, among others, the extent of public funding, whether their activity is enmeshed with the relevant public authority, whether its particular functions are derived from or underpinned by statute, and whether coverage would impose a significant administrative burden.<sup>66</sup>

66. The Scottish Government also stated that it believes the extension of FOI legislation to cover leisure trusts did not constitute a precedent as the situation was not comparable, and reiterated that ALFs would be scrutinised and held accountable by the SFC through the use of company and charity law.<sup>67</sup>

67. The Committee understands the reasoning and objectives which led to ALFs being considered to be the most suitable mechanism for the financial situation college reserves were placed in by reclassification.

68. The Committee acknowledges that the Scottish Government does not believe that ALFs meet the tests posed by its current consultation on extending FOI legislation and notes the reasons given for this conclusion.

69. The Committee also notes the range of actions the SFC has undertaken to apply to ALFs to ensure “appropriate accountability”<sup>68</sup> and that the preparation of annual accounts will provide an avenue for scrutiny.

70. However, the Committee is disappointed that, like the Scottish Government, the SFC considers there “to be no clear case for extending the coverage [of FOI legislation]”<sup>69</sup> to the operation of ALFs.

71. The Committee remains of the view that the public origin of a large share of the reserves transferred to ALFs involved and their use to provide public services provide a case to ensure full transparency through the extension of FOI legislation to cover ALFs.

72. Regardless of whether FOI legislation is extended to cover ALFs, it is also clear to the Committee that OSCR will, as the regulator for ALFs, have a significant role to play in monitoring their activity.
73. The Committee therefore seeks information from Audit Scotland on how it plans to engage with OSCR to ensure that future audit work on the college sector is able to take into account the activity and operation of ALFs.

## Severance arrangements

74. A consequence of the merger process has been the reduction of staff numbers, most of which have been delivered through voluntary severance arrangements. These voluntary severance arrangements have been used at a number of colleges where mergers have required senior management teams to be streamlined, and have been supported through funding from the Scottish Government.<sup>70</sup>
75. The Committee accepts the point made by the AGS that:  

” Because one of the reform programme’s objectives was to generate efficiency savings by cutting out duplication, we were not surprised that significant numbers of severance packages were agreed and that money was required to support that.<sup>71</sup>
76. The Committee welcomes that the AGS shares its concern at the number of instances of poor practice regarding severance arrangements. It is concerning that two colleges have had “some quite significant shortcomings”<sup>72</sup> that have resulted in Section 22 reports being laid in Parliament for the Committee’s consideration.
77. The Committee notes that, since their reclassification by the ONS, colleges are now subject to the Scottish Public Finance Manual (SPFM) and as such must now seek approval from the SFC for severance arrangements.<sup>73</sup>
78. In a written submission to the Committee, the SFC confirmed its agreement with the AGS recommendations relating to severance arrangements and its commitment to take them forward.<sup>74</sup> This was also backed by the Scottish Government in its written submission.<sup>75</sup>
79. In correspondence relating to the Section 22 report entitled *The 2012/13 audit of North Glasgow College: Governance and financial stewardship*, the Scottish Government set out the disciplinary options available on occasions where colleges breach the terms and conditions of funding. These include a claw-back of funding from the college or its successors and removal of Board members.<sup>76</sup>

80. In this correspondence, the Scottish Government stated:

” we understand that the SFC will be reviewing the scope, impact and effectiveness of available sanctions and actions and their likely effect in improving governance while ensuring these do not penalise students as a result of the actions of Board members. We support such a review and would consider the SFC’s advice in due course.<sup>77</sup>

81. The Committee is cognisant of the difficulty outlined by the Scottish Government in applying sanctions or disciplinary action to colleges that both carry a significant deterrent and do not indirectly affect the resources for students and staff. The Committee also appreciates that the nature of the merger programme means that, in the case of the Section 22 reports related to severance arrangements, any disciplinary action applied would be to the successor institutions rather than to those institutions who failed to follow best practice and may therefore not apply to those who initially instigated the breach.

82. Although it is welcome that “most severance was managed in line with good practice”<sup>78</sup> the Committee is appalled that two colleges displayed “significant shortcomings”<sup>79</sup> and auditors identified shortcomings in another four colleges with regards to the provision of voluntary severance arrangements to senior members of staff.

83. In light of these difficulties, the Committee welcomed the provision of updated guidance on severance arrangements from the Scottish Government and the SFC in 2014, and their commitment to encouraging Board members to undertake training on severance.<sup>80</sup> The Committee also welcomes the requirement for approval from the SFC for severance arrangements as a result of ONS reclassification, which it believes will reduce the opportunities for poor governance.

84. The Committee seeks further information from the Scottish Government and SFC on what options it would consider for colleges and individuals who fail to follow best practice in providing severance arrangements in the future whilst protecting the student experience.

## Regional Boards

85. The college reform programme has also led to the introduction of 13 Regional Boards. 10 of these Boards correspond to a single college within their region, with the other 3 overseeing multiple colleges.

86. These Boards are responsible for negotiating funding with the SFC, allocating funding, monitoring college performance and achieving the outcomes set out within their regional outcome agreement.<sup>81</sup>

87. This has implications for the operation of every college and the sector as a whole. The AGS report states that:

” Introducing regional bodies has resulted in a complex framework of accountability where regional college boards are directly accountable to the SFC but the boards of colleges in multi-college regions are accountable to their regional body, a separate board.<sup>82</sup>

88. In oral evidence to the Committee, the Scottish Government stated its belief that these arrangements “provide greater accountability and an easier route to engagement” due to the single point of contact. The Scottish Government also reiterated that the Regional Boards are still in “a moment of transition”.<sup>83</sup>

89. However, the Committee heard during oral evidence from one college principal that “our flexibility and autonomy have been restricted by the colleges coming together”.<sup>84</sup>

90. This point echoes the findings of the AGS, who noted that:

” Individual colleges have expressed concerns that regional bodies will affect their autonomy.<sup>85</sup>

91. Another element of the operation of Regional Boards explored by the Committee was their funding. The Scottish Government stated that it expected Boards to cost less than 0.5% of colleges’ budgets, and that their actions would “add value”.<sup>86</sup>

92. The Principal of City of Glasgow College noted in evidence that:

” the funding council stepped in and funded the regional board directly...the funding council continues to provide some of the funding [for the board], recognising that it was always the intention, through the guidance, that the college sector would pay for the regional board.<sup>87</sup>

93. The Committee notes the concern expressed by some witnesses that the regionalisation process has restricted the flexibility and autonomy of individual colleges, and endorses the AGS view that “both regional bodies and individual assigned college boards will need effective leadership, communication and close working to establish good working arrangements”.<sup>88</sup>

94. The Committee therefore seeks further information from the SFC as to how it is supporting Regional Boards and individual colleges, particularly in multi-college regions, to forge positive working relationships and clear lines of communication and accountability.

95. The Committee is keen to ensure that Regional Boards play a constructive role within the colleges sector and do not become an unnecessary, costly or even negative part of the colleges sector.
96. The Committee therefore seeks clarification from the SFC and the Scottish Government on how the costs of operating a Regional Board will be regulated, paid for and monitored to ensure value for money.
97. Given the issues expressed above, the Committee also welcomes that the AGS “will audit the regional arrangements as part of the audit of FE in the future”<sup>89</sup> and requests further information from the AGS on the anticipated timescale for this work.

<sup>1</sup> Section 23 reports are overview reports on how different sectors perform during each financial year.

<sup>2</sup> Audit Scotland (2015) *Scotland's colleges 2015*. Available at: [http://www.audit-scotland.gov.uk/docs/central/2015/nr\\_150402\\_scotlands\\_colleges.pdf](http://www.audit-scotland.gov.uk/docs/central/2015/nr_150402_scotlands_colleges.pdf)

<sup>3</sup> *Scotland's colleges 2015*, Summary

<sup>4</sup> *Scotland's colleges 2015*, paragraph 5

<sup>5</sup> *Scotland's colleges 2015*, paragraph 58

<sup>6</sup> *Scotland's colleges 2015*, paragraph 9

<sup>7</sup> Scottish Parliament Public Audit Committee, *Official Report*, 24 June 2015. Col 8.

<sup>8</sup> *Scotland's colleges 2015*, paragraph 21

<sup>9</sup> *Scotland's colleges 2015*, Summary

<sup>10</sup> *Scotland's colleges 2015*, paragraph 54

<sup>11</sup> Scottish Parliament Public Audit Committee, *Official Report*, 10 June 2015. Col 9

<sup>12</sup> *Ibid*

<sup>13</sup> Scottish Parliament Public Audit Committee, *Official Report*, 10 June 2015. Col 5

<sup>14</sup> *Scotland's colleges 2015*, paragraph 87

<sup>15</sup> *Scotland's colleges 2015*, Summary

<sup>16</sup> Audit Scotland (2014), *The 2012/13 audit of North Glasgow College: Governance and financial stewardship*. Available at: [http://www.audit-scotland.gov.uk/docs/central/2014/s22\\_140507\\_north\\_glasgow\\_college.pdf](http://www.audit-scotland.gov.uk/docs/central/2014/s22_140507_north_glasgow_college.pdf)

<sup>17</sup> Audit Scotland (2015), *The 2013/14 audit of Coatbridge College: Governance of severance arrangements*. Available at: [http://www.audit-scotland.gov.uk/docs/central/2015/s22\\_150626\\_coatridge\\_college.pdf](http://www.audit-scotland.gov.uk/docs/central/2015/s22_150626_coatridge_college.pdf) [sic]

<sup>18</sup> *Scotland's colleges 2015*, Summary

<sup>19</sup> Section 22 reports highlight issues within the audit of accounts of individual public bodies.

<sup>20</sup> *Scotland's colleges 2015*, Summary

<sup>21</sup> Scottish Parliament Public Audit Committee, 14 March 2014. *2<sup>nd</sup> report 2014: Scotland's Colleges 2013*. Available at: [http://www.scottish.parliament.uk/S4\\_PublicAuditCommittee/Reports/paur-14-02w.pdf](http://www.scottish.parliament.uk/S4_PublicAuditCommittee/Reports/paur-14-02w.pdf)

<sup>22</sup> Audit Scotland (2013), *Scotland's colleges 2013*. Available at: [http://www.audit-scotland.gov.uk/docs/central/2013/nr\\_130829\\_scotlands\\_colleges.pdf](http://www.audit-scotland.gov.uk/docs/central/2013/nr_130829_scotlands_colleges.pdf)

<sup>23</sup> *2<sup>nd</sup> report 2014: Scotland's Colleges 2013*, paragraph 25

<sup>24</sup> Audit Scotland (2012), *Scotland's colleges: current finances, future challenges*. Available at: [http://www.audit-scotland.gov.uk/docs/central/2012/nr\\_121018\\_college\\_overview.pdf](http://www.audit-scotland.gov.uk/docs/central/2012/nr_121018_college_overview.pdf)

<sup>25</sup> Audit Scotland (2012), *Learning the lessons of public body mergers: Review of recent mergers*. Available at: [http://www.audit-scotland.gov.uk/docs/central/2012/nr\\_120614\\_public\\_body\\_mergers.pdf](http://www.audit-scotland.gov.uk/docs/central/2012/nr_120614_public_body_mergers.pdf)

<sup>26</sup> *2<sup>nd</sup> report 2014: Scotland's Colleges 2013*, paragraph 11.

<sup>27</sup> *Learning the lessons of public body mergers*, Exhibit 2

<sup>28</sup> *Learning the lessons of public body mergers*, Recommendations (Part 3)

<sup>29</sup> Scottish Government written submission, 10 June 2015

<sup>30</sup> *Learning the lessons of public body mergers*, paragraph 47

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- 31 [Scottish Parliament Public Audit Committee, \*Official Report\*, 24 June 2015. Col 22-23](#)
- 32 [Scottish Parliament Public Audit Committee, \*Official Report\*, 24 June 2015. Col 21](#)
- 33 [Letter from the Public Audit Committee to the Scottish Government, 29 June 2015](#)
- 34 [Scottish Funding Council written submission, 27 July 2015](#)
- 35 [Scotland's colleges 2015, Recommendations](#)
- 36 [Scottish Parliament Public Audit Committee, \*Official Report\*, 29 April 2015. Col 33](#)
- 37 [Scottish Parliament Public Audit Committee, \*Official Report\*, 24 June 2015. Col 21](#)
- 38 [Scottish Parliament Public Audit Committee, \*Official Report\*, 24 June 2015. Col 22](#)
- 39 [Scotland's colleges 2015, paragraph 87](#)
- 40 [Scotland's colleges 2015, Summary](#)
- 41 [EIS written submission, 27 May 2015](#)
- 42 [Scottish Parliament Public Audit Committee, \*Official Report\*, 10 June 2015. Col 5](#)
- 43 [Scottish Parliament Public Audit Committee, \*Official Report\*, 24 June 2015. Col 16](#)
- 44 [SFC written submission, 27 July 2015](#)
- 45 [Scotland's colleges 2015, paragraph 83](#)
- 46 [Scotland's colleges 2015, paragraph 84](#)
- 47 [Scotland's colleges 2015, Key Messages \(Part 2\)](#)
- 48 [Scottish Parliament Public Audit Committee, \*Official Report\*, 10 June 2015. Col 18](#)
- 49 [Scottish Parliament Public Audit Committee, \*Official Report\*, 24 June 2015. Col 17](#)
- 50 [Scottish Parliament Public Audit Committee, \*Official Report\*, 29 April 2015. Col 41](#)
- 51 [Scottish Parliament Public Audit Committee, \*Official Report\*, 10 June 2015. Col 20](#)
- 52 [EIS written submission, 27 May 2015](#)
- 53 [Scottish Parliament Public Audit Committee, \*Official Report\*, 29 April 2015. Col 37](#)
- 54 [Scottish Parliament Public Audit Committee, \*Official Report\*, 29 April 2015. Col 31](#)
- 55 [Scotland's colleges 2015, Summary](#)
- 56 [Ibid](#)
- 57 The compulsory redundancies at Glasgow Kelvin College were of employees of a third party catering company rather than of the College itself.
- 58 [Scottish Parliament, \*Official Report\*, 24 June 2015, Cols 3-4](#)
- 59 [Scottish Parliament Public Audit Committee, \*Official Report\*, 29 April 2015. Col 25](#)
- 60 [Scottish Parliament Public Audit Committee, \*Official Report\*, 24 June 2015. Col 8](#)
- 61 [Scottish Government written submission, 13 May 2014](#)
- 62 [Scottish Parliament Public Audit Committee, \*Official Report\*, 24 June 2015. Col 8](#)
- 63 [Scottish Parliament Public Audit Committee, \*Official Report\*, 24 June 2015. Col 10](#)
- 64 [Scottish Parliament Public Audit Committee, \*Official Report\*, 24 June 2015. Col 11](#)
- 65 [SFC written submission, 27 July 2015](#)
- 66 [Scottish Government written submission, 19 August 2015](#)
- 67 [Ibid](#)
- 68 [SFC written submission, 27 July 2015](#)
- 69 [Ibid](#)
- 70 [Scottish Parliament Public Audit Committee, \*Official Report\*, 29 April 2015. Col 27](#)
- 71 [Ibid](#)
- 72 [SFC written submission, 9 June 2015](#)
- 73 [Ibid](#)
- 74 [Ibid](#)
- 75 [Scottish Government written submission, 10 June 2015](#)
- 76 [Scottish Government written submission, 8 June 2015](#)
- 77 [Ibid](#)
- 78 [Scotland's colleges 2015, Summary](#)
- 79 [Scotland's colleges 2015, paragraph 94](#)
- 80 [SFC written submission, 17 February 2015](#)
- 81 [Scotland's colleges 2015, paragraph 35](#)
- 82 [Scotland's colleges 2015, paragraph 38](#)
- 83 [Scottish Parliament Public Audit Committee, \*Official Report\*, 24 June 2015. Col 5](#)
- 84 [Scottish Parliament Public Audit Committee, \*Official Report\*, 10 June 2015. Col 6](#)
- 85 [Scotland's colleges 2015, paragraph 38](#)
- 86 [Scottish Parliament Public Audit Committee, \*Official Report\*, 24 June 2015. Col 5](#)
- 87 [Scottish Parliament Public Audit Committee, \*Official Report\*, 10 June 2015. Col 8](#)

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<sup>88</sup> [Scotland's colleges 2015, paragraph 38](#)

<sup>89</sup> [Scottish Parliament Public Audit Committee, \*Official Report\*, 29 April 2015. Col 32](#)



## Annexe A

### EXTRACT FROM THE MINUTES OF THE PUBLIC AUDIT COMMITTEE

#### 8<sup>th</sup> Meeting, 2015 (Session 4), Wednesday 29 April 2015

**Section 23 report - Scotland's colleges 2015:** The Committee took evidence on the Auditor General for Scotland report entitled "Scotland's colleges 2015" from—

Caroline Gardner, Auditor General for Scotland;

Fraser McKinlay, Director of Performance Audit and Best Value, Susan Lovatt, Audit Manager, and Martin McLauchlan, Senior Auditor, Audit Scotland.

**Section 23 report - Scotland's colleges 2015:** The Committee agreed its approach to the Auditor General for Scotland report entitled "Scotland's colleges 2015" and took evidence from —

Caroline Gardner, Auditor General for Scotland;

Fraser McKinlay, Director of Performance Audit and Best Value, Audit Scotland.

The Committee agreed to write to the Scottish Charity Regulator (OSCR) on issues raised in discussion. The Committee also agreed to seek oral evidence from colleges, regional boards, the Educational Institute of Scotland, the Scottish Funding Council, and the Scottish Government.

#### 11<sup>th</sup> Meeting, 2015 (Session 4), Wednesday 10 June 2015

**Section 23 report - Scotland's colleges 2015:** The Committee took evidence on the Auditor General for Scotland report entitled "Scotland's colleges 2015" from—

Margaret Munckton, Principal, Perth College UHI;

Paul Little, Principal and Chief Executive, City of Glasgow College;

Audrey Cumberland, Principal and Chief Executive, West College Scotland;

David Belsey, National Officer, Further & Higher Education, Educational Institute of Scotland;

Dr Michael Foxley, Chair, and Mike Devenney, Vice Principal (Further Education), University of the Highlands & Islands Further Education Regional Board;

Ali Jarvis, Interim Chair, Glasgow Colleges' Regional Board;

Keith McKellar, Chair, West College Scotland Regional Board.



The Committee agreed to write to college principals on issues raised in discussion.

**Section 23 report - Scotland's colleges 2015:** The Committee considered the evidence received at agenda item 2 and took evidence from—

Caroline Gardner, Auditor General for Scotland.

#### **12<sup>th</sup> Meeting, 2015 (Session 4), Wednesday 24 June 2015**

**Section 23 report - Scotland's colleges 2015:** The Committee took evidence on the Auditor General for Scotland report entitled "Scotland's colleges 2015" from—

Aileen McKechnie, Director of Advanced Learning and Science, Scottish Government;

Laurence Howells, Chief Executive, and John Kemp, Director of Access, Skills and Outcome Agreements, Scottish Funding Council.

**Section 23 report - Scotland's colleges 2015:** The Committee considered the evidence received at agenda item 2 and took evidence from—

Caroline Gardner, Auditor General for Scotland.

The Committee agreed to seek written evidence from the Scottish Government and the Scottish Funding Council on the issues raised in discussion. The Committee also agreed to consider a draft report, in private, at a future meeting.

#### **13<sup>th</sup> Meeting, 2015 (Session 4), Wednesday 9 September 2015**

**Section 23 report – Scotland's colleges 2015:** The Committee considered written submissions from the Scottish Government, Scottish Funding Council and Audit Scotland on the Auditor General for Scotland report entitled "Scotland's colleges 2015". The Committee agreed to note the written submissions.

**Section 23 report – Scotland's colleges 2015 (in private):** The Committee considered a draft report on the Auditor General for Scotland report entitled "Scotland's colleges 2015". Various changes were proposed and the Committee agreed to consider a revised draft report, in private, at a future meeting.

#### **14<sup>th</sup> Meeting, 2015 (Session 4), Wednesday 23 September 2015**

**Section 23 report – Scotland's colleges 2015 (in private):** The Committee considered and agreed changes to its draft report on the Auditor General for Scotland report entitled "Scotland's colleges 2015". The Committee then agreed the report and delegated to the Convener responsibility for publication arrangements.

## Annexe B

### ORAL EVIDENCE AND ASSOCIATED WRITTEN EVIDENCE

Please note that all oral evidence and associated written evidence is published electronically only, and can be accessed via the Public Audit Committee's webpages, at: <http://www.scottish.parliament.uk/publicaudit>

#### **8<sup>th</sup> Meeting, 2015 (Session 4), Wednesday 29 April 2015**

##### **ORAL EVIDENCE**

Caroline Gardner, Auditor General for Scotland;

Fraser McKinlay, Director of Performance Audit and Best Value, Susan Lovatt, Audit Manager, and Martin McLauchlan, Senior Auditor, Audit Scotland.

#### **11<sup>th</sup> Meeting, 2015 (Session 4), Wednesday 10 June 2015**

##### **ORAL EVIDENCE**

Margaret Munckton, Principal, Perth College UHI;

Paul Little, Principal and Chief Executive, City of Glasgow College;

Audrey Cumberland, Principal and Chief Executive, West College Scotland;

David Belsey, National Officer, Further & Higher Education, Educational Institute of Scotland;

Dr Michael Foxley, Chair, and Mike Devenney, Vice Principal (Further Education), University of the Highlands & Islands Further Education Regional Board;

Ali Jarvis, Interim Chair, Glasgow Colleges' Regional Board;

Keith McKellar, Chair, West College Scotland Regional Board.

#### **12<sup>th</sup> Meeting, 2015 (Session 4), Wednesday 24 June 2015**

##### **ORAL EVIDENCE**

Aileen McKechnie, Director of Advanced Learning and Science, Scottish Government;

Laurence Howells, Chief Executive, and John Kemp, Director of Access, Skills and Outcome Agreements, Scottish Funding Council.

## WRITTEN EVIDENCE

- [Scottish Government to the Public Audit Committee, dated 19 August 2015 \(204KB pdf\)](#)
- [Scottish Funding Council to the Public Audit Committee, dated 27 July 2015 \(145KB pdf\)](#)
- [City of Glasgow College to the Public Audit Committee, dated 7 July 2015 \(1.1MB pdf\)](#)
- [West College Scotland to the Public Audit Committee, dated 22 June 2015 \(773KB pdf\)](#)
- [Perth College UHI to the Public Audit Committee, dated 16 June 2015 \(280KB pdf\)](#)
- [Public Audit Committee to the Scottish Funding Council, dated 29 June 2015 \(82KB pdf\)](#)
- [Public Audit Committee to the Scottish Government, dated 29 June 2015 \(68KB pdf\)](#)
- [Audit Scotland to the Public Audit Committee, dated 17 June 2015 \(63KB pdf\)](#)
- [Scottish Government to the Public Audit Committee, dated 10 June 2015 \(151KB pdf\)](#)
- [Scottish Funding Council to the Public Audit Committee, dated 9 June 2015 \(23KB pdf\)](#)
- [Scottish Charity Regulator \(OSCR\) to the Public Audit Committee, dated 4 June 2015 \(32KB pdf\)](#)
- [Chair of the University of the Highlands and Islands Further Education Regional Board to the Public Audit Committee, dated 1 June 2015 \(18KB pdf\)](#)
- [Educational Institute of Scotland to the Public Audit Committee, dated 27 May 2015 \(68KB pdf\)](#)
- [Public Audit Committee to the Scottish Charity Regulator \(OSCR\), dated 19 May 2015 \(133KB pdf\)](#)

