OFFICIAL REPORT
AITHISG OIFIGEIL

Public Audit and Post-legislative Scrutiny Committee

Thursday 13 June 2019

Session 5

The Scottish Parliament
Pàrlamaid na h-Alba

Thursday 13 June 2019

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PUBLIC AUDIT AND POST-LEGISLATIVE SCRUTINY COMMITTEE
15th Meeting 2019, Session 5

CONVENER

*Jenny Marra (North East Scotland) (Lab)

DEPUTY CONVENER

*Liam Kerr (North East Scotland) (Con)

COMMITTEE MEMBERS

*Colin Beattie (Midlothian North and Musselburgh) (SNP)
*Bill Bowman (North East Scotland) (Con)
*Willie Coffey (Kilmarnock and Irvine Valley) (SNP)
*Alex Neil (Airdrie and Shotts) (SNP)
Anas Sarwar (Glasgow) (Lab)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Caroline Gardner (Auditor General for Scotland)
Mark MacPherson (Audit Scotland)
Mark McCabe (Audit Scotland)
David Stewart (Highlands and Islands) (Lab) (Committee Substitute)

CLERK TO THE COMMITTEE

Lucy Scharbert

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Public Audit and Post-legislative Scrutiny Committee

Thursday 13 June 2019

[The Convener opened the meeting at 10:00]

Decisions on Taking Business in Private

The Convener (Jenny Marra): Good morning and welcome to the 15th meeting in 2019 of the Public Audit and Post-legislative Scrutiny Committee. I ask everyone in the public gallery to switch off their mobile devices or turn them to silent.

We have received apologies from Anas Sarwar. I welcome David Stewart, who is attending in his place.

Under agenda item 1, does the committee agree to take items 4, 5 and 6 in private?

Members *indicated agreement.*

The Convener: Item 2 is another decision on taking business in private. Do members agree to take in private at future meetings consideration of a draft report on key audit themes?

Members *indicated agreement.*

The Convener: Thank you.

Section 23 Report

"Scotland's colleges 2019"

10:01

The Convener: Agenda item 3 is consideration of a section 23 report, "Scotland's colleges 2019". I welcome our witnesses—Caroline Gardner, Auditor General for Scotland; Mark MacPherson, senior manager at Audit Scotland; and Mark McCabe, audit manager at Audit Scotland.

I ask the Auditor General to make an opening statement.

Caroline Gardner (Auditor General for Scotland): Thank you, convener. Today's report provides an overview of the college sector in Scotland, looking in particular at college finances and the learning outcomes for college students.

There was a small improvement in the overall financial position of Scotland's 20 incorporated colleges in 2017-18. However, colleges are operating in an increasingly tight financial environment, and that sector-wide improvement masks significant variations between colleges, with several facing particular financial challenges. The gap between colleges' income and expenditure is widening, and 12 incorporated colleges are forecasting recurring financial deficits by 2022-23. Only two of those colleges had identified the actions that are needed to achieve financial sustainability. With the financial pressures on colleges, it is essential that they improve their financial planning.

The Scottish Government has been increasing revenue funding for colleges over the past few years, mainly to cover additional staff costs arising from national bargaining. The latest funding allocation for 2019-20 will cover the additional costs of harmonising pay and conditions across the sector. However, colleges face additional pressures in paying for cost-of-living increases and increases in employers' pension contributions. Also, Scottish Government capital funding falls short of the estimated costs of maintaining the college estate.

Despite those financial challenges, the sector has continued to exceed targets for learning activity and student places. A high proportion of college leavers go on to other education, employment or training. Colleges are widening access for disabled, ethnic minority and care-experienced students, but, after several years of increases in the learning delivered to students from deprived areas, the proportion fell slightly in 2017-18.

There is considerable variation between colleges on student outcomes. Attainment gaps still exist for students from the most deprived areas, students with disabilities and care-experienced students. Average attainment rates for students in full-time education have remained relatively static in recent years and remain some distance from the Scottish Further and Higher Education Funding Council's targets. We think that achieving some of those targets will be very challenging.

The funding council could do more to work with colleges and their boards to improve financial planning and transparency in the reporting of performance information, including student satisfaction data.

As always, we are happy to answer the committee's questions.

The Convener: Thank you, Auditor General. I ask David Stewart to open questioning for the committee.

David Stewart (Highlands and Islands) (Lab): Good morning, Auditor General, and thank you for coming before the committee again.

I am interested in how we can get more young people—and, indeed, people of any age—from disadvantaged areas into colleges. In your report, you make it clear that colleges are not meeting the Scottish funding council's target of 17.4 per cent of students coming from the 10 per cent most disadvantaged areas. Why have colleges failed to meet that target? Will they meet the 20 per cent target for 2020-21?

Caroline Gardner: It is important to say that we think that colleges are doing a lot to try to meet that target and widen access. I will ask the team to give you more of a sense of what is happening across Scotland and how colleges are learning from it. However, you are right. We say in our report that we think that it will be hard for colleges to meet the target of 20 per cent by 2021, for a couple of reasons.

First, the demographic pattern of Scotland overall means that fewer young people in that age group are available to fill the college places that are available. Secondly, the Scottish Government has a wider policy of increasing their participation in higher education, so more young people who might previously have remained in further education are going on to university with support to do that. Therefore, there is a real contextual picture that makes the target harder for colleges to meet.

Does Mark MacPherson want to say a bit more about what colleges are doing to help?

Mark MacPherson (Audit Scotland): Predominantly, it is about ensuring that an appropriate package of support is available for students from more difficult backgrounds or deprived areas. The examples that we give in the report include helping with travel to get to college. That has always been a bit of a barrier for people from low-income backgrounds. Practical steps such as that can be taken.

David Stewart: Why has the trend reversed? We were going in the right direction in earlier years. You have mentioned some possible reasons why the trend has reversed, but why has it gone backwards in the most recent year that you are reporting on?

Caroline Gardner: The short answer to that question is that the reasons are not absolutely clear. We show the trend in exhibit 12 on page 23 of the report. There was a slowly increasing trend over the preceding three years and a very slight dip in 2017-18. That leaves quite a big gap of 3.5 per cent up to the 20 per cent target in three years' time. The funding council is considering the reasons with colleges, but it is not possible for us to give the committee a clear answer on that picture.

David Stewart: This is not a zero-sum game in the sense that higher education is good and further education is bad. It is clear that we are not making naive comments about that, but you suggest that there might be a little bit of squeezing going on because there are targets for higher education that might affect the demand for further education. Is there anything in that? I know that funding issues have been raised before.

Caroline Gardner: You are absolutely right. It is not that higher education is better than further education or vice versa; the question is what is right for the individual young person and their skills, talents and aspirations, and how that is best supported by our wider education and skills system. We say in the report that the funding council should review whether its targets are achievable in the context that we have just described. There is a bit of a risk of competition between higher education institutions and further education colleges for the same young people, and that runs the risk that those people's needs are not front and centre of what is being put forward. More joining up is therefore required.

Mark MacPherson might want to add a little to that.

Mark MacPherson: I have a point of clarification. Colleges will, of course, be absolutely clear that they provide both further and higher education. A distinction between the institutions in respect of college versus university, which the Auditor General highlighted, might be having an effect.

David Stewart: The general point, of course, is that, although we have mentioned young people, it is clear that we all believe that lifelong learning is important. We want to encourage into further education adults and people of any age, particularly people from the bottom 10 per cent of our most disadvantaged areas.

Caroline Gardner: We say in the report—I am fumbling through its pages; the team will keep me straight—that we have seen a reversal of the pattern of there being many fewer older learners and part-time learners in further education that we saw five or so years ago because of the Government's priority of encouraging young people to study for qualifications that will lead to employment. We are now seeing that shift reverse again. However, David Stewart is right. The further education system is very important to older learners, particularly as we enter a world of much longer working lives and rapid technological change, which means that we all need to stay up to date and reskill from time to time.

The Convener: I have a question that follows on from David Stewart's questions. Students who have been in care have the lowest attainment rates, but they were the only group whose attainment fell. Are you aware of any support that the colleges provide for those students?

Caroline Gardner: You are absolutely right about the figures. Exhibit 16 sets out all the groups of students with particular characteristics for whom increasing their attainment levels is a priority. Students who have been in care have lower attainment levels on average, and the level dipped slightly in 2017-18.

Can Mark MacPherson say something about what colleges are doing to close the attainment gap?

Mark MacPherson: What I will say will be similar to what I said about people from more deprived areas. There are packages of support, but it is inevitable that sometimes much more complex support is needed. It is probably worth noting that students who have been in care represent a relatively small proportion of the student population. However, that should not detract from an impetus to try to improve the outcomes for those students. I know that the funding council and colleges are definitely aware of that issue.

The Convener: Do you have any evidence that colleges are finding it more difficult to provide those packages of support, given the squeeze on their funding?

Mark MacPherson: We do not have any specific evidence on that, but you are right that there is a squeeze on funding, and the financial pressures that are coming will require colleges to make very difficult decisions about how and what they provide.

The Convener: That may be a question for a future session.

Colin Beattie (Midlothian North and Musselburgh) (SNP): I want to run through three main areas, but first I make the general comment that the report seems remarkably like the previous one, with the same pressures and issues arising. Do you agree?

Caroline Gardner: I think so. The committee will know that, for the college sector and the national health service sector, we produce reports every year that pull together the results of the audits of all the bodies in those sectors. In some ways, it would be surprising if we saw a massive shift from one year to another, but we try to give you a sense of the trends that we see. In broad terms, the trends with colleges are that the financial pressures are increasing and that colleges are still doing a pretty good job of delivering what they are expected to deliver in that context, with some exceptions, which we have pulled out.

Colin Beattie: Page 11 of your report refers to arm's-length foundations, or ALFs. When the ALFs were set up, it was accepted that much of the money that went into them was already earmarked, so it is not surprising that the total value of the ALFs has gone down. I am a little concerned—maybe you can help me with this, Auditor General—that it looks as though the income that colleges are getting from sources other than the SFC has reduced. Is that so?

Caroline Gardner: That is correct.

Colin Beattie: Is there any indication as to why? Are colleges moving their focus away from developing alternative sources of funding and becoming more reliant on the SFC? You say that there are financial pressures, so one would think that colleges would be trying to maintain alternative sources of income.

Caroline Gardner: Exhibit 1 in the report gives a picture of where colleges' income came from in 2017-18. Almost 75 per cent of it came from the Scottish funding council, which is an increasing proportion. About 16 per cent came from tuition fees and education contracts that colleges bid for, and just under 10 per cent came from a range of other sources. You are right that the other sources are reducing. We think that colleges are finding it harder to generate income in those ways. That is partly because, as Mark MacPherson said a moment ago, the pressures on resources in general makes it harder to identify and follow-up those opportunities, and partly because the slow growth of the economy overall means that there are fewer of those opportunities around for colleges to seek. That is obviously a sector-wide pattern, but there will be variation for individual colleges. That is one of the things that we would like the funding council to take clear account of as it looks at the long-term forecast for individual colleges and the sector as a whole.

Colin Beattie: Leaving aside tuition fees, what was the main source of alternative funding for colleges?

Caroline Gardner: Tuition fees and education contracts make up 16 per cent of income. Education contracts tend to be where colleges bid for contracts to provide education or training to large employers, groups of employers or other bodies. For example, Fife College won the contract to provide education to the Scottish Prison Service. It can be a range of things, but those are the kinds of contracts that we are talking about.

Colin Beattie: Are such contracts their only other source of income?

Caroline Gardner: Mark MacPherson is looking to come in.

Mark MacPherson: They might have other sources, such as releasing facilities for what one would hope would be low-cost community use or for other businesses or services to use when the college is not using them. Catering contracts in a college could be another source of income.

Colin Beattie: As you have highlighted, Auditor General, the report indicates that the college sector has a small but improved underlying financial surplus. However, the report says:

> "Colleges are operating within an increasingly tight financial environment and the sector-wide position masks particular financial challenges for some colleges."

Will you expand a little on the challenges that are being faced?

Caroline Gardner: I will pull out two elements—the team may want to add to this.

First, for the sector as a whole, the Scottish Government has been providing real-terms increases in funding over the past three years—since 2016-17, I think—but those are small increases and, in the latest budget that has been agreed, the increase is sufficient only to cover the additional costs of harmonising pay and conditions. At the same time, we know that colleges face additional pressures from the cost-of-living agreement that is being finalised, increased employers' contributions to the pension schemes and maintenance costs, which are not fully covered by the available capital budget. Those pressures are baked in for the sector as a whole.

Beneath that, individual colleges face different financial pressures and are in different financial positions. We try to give you a picture of that in exhibit 6, which summarises a range of financial indicators for all 20 colleges.

We highlight three colleges that are facing particular challenges. It is fair to say that the more remote and rural colleges tend to find it harder than those in more urban areas.

10:15

Colin Beattie: The question of rural colleges—for want of a better term—has come up before, particularly with regard to the Highlands. Is there any sign of improvement there? Is there any indication that anyone has come up with a magic formula that will fix this?

Caroline Gardner: I do not think that we have a magic formula. The University of the Highlands and Islands is still working to agree how the work will be carried out and shared across the region. The report highlights particular pressures facing North Highland College. Mark McCabe can give you a bit more of a flavour of what we are seeing within the region in relation to those colleges.

Mark McCabe (Audit Scotland): The regional body—UHI—provides support for those colleges. It is trying to minimise the problems that are caused to any individual institution by sharing funding across the various colleges to support their sustainability, because they all have localised challenges. Some progress seems to be being made on that, as we highlighted in our report last year.

Colin Beattie: We have moved neatly to the issue of financial challenges, which is the subject of my next question. At the time of the audits, only two of the 12 colleges forecasting recurring financial deficits had identified specific actions to deal with the financial challenges. Has there been any improvement on that, or are we still in a situation in which most of them have not come up with a formula?

Caroline Gardner: Our report is a snapshot at a particular point in time. Perhaps Mark McCabe can give you more information that we have picked up as the report has been finalised.

Mark McCabe: The funding council has been working with colleges and has asked them to identify some of the mitigating actions that will help them address the forecast deficits that they have in place. We have seen, at a high level, some of the actions that colleges are starting to take or are thinking about taking. However, it will not be until we conduct annual audits later this year that we will see how much progress has been made on agreeing those actions and implementing them to make a difference.

Colin Beattie: Are we confident that the remaining 10 colleges are taking initial steps towards addressing the issue? Have they understood their situation, and are they moving down the road of coming up with some sort of plan?

Mark McCabe: They seem to be, from the reports that the funding council has been producing.

Colin Beattie: In all cases?

Mark McCabe: They have all identified some mitigating actions, but only when we do the audits this year will we get a sense of how well developed those actions are and how much progress has been made.

Colin Beattie: Taking mitigating actions is not the same as initiating an action plan to address the problems, is it?

Mark McCabe: No. In the report, we stress that, as well as getting the forecasts from colleges, we are asking the SFC to also get the medium-term financial plans to back them up. That will give us greater assurance that, as well as identifying the position that they will be in, the colleges will have a much more robust process in place to address those deficits.

Colin Beattie: Has the SFC agreed that recommendation?

Mark McCabe: Yes.

David Stewart: I would like to return to Colin Beattie's point about UHI, which, as you know, is in my region—I am a strong supporter of UHI. Another factor that is perhaps on the risk register is UHI's reliance on European structural funds. For example, the European social fund has been really important in the area.

I am reluctant to mention Brexit but, clearly, if we exit the European Union, that funding programme will end, probably in around 2021. Given that it is an important factor with regard to the raising of external funding in the network in the Highlands, have you considered the issue in relation to UHI in particular?

Caroline Gardner: We say a little bit in the report about the potential impact of Brexit on the college sector as a whole—as you know, the impact will vary across Scotland.

You might also know that the funding council prepared a paper at the end of last month that looked at the impact on colleges in more detail than we have been able to do. We will feed that back into next year's audit.

From our experience, the University of the Highlands and Islands and some of the colleges in the west of Scotland have benefited from that funding in the past. It is in everybody's interests to know as soon as possible what the impact might be and how far the Scottish Government will be able to replace that funding, depending on agreements with the United Kingdom Government.

David Stewart: I am obviously aware that the UK Government is looking at a future shared prosperity fund, which, in theory, will back up the current funding. Much I would love to see that happen, I cannot envisage the total package of structural funds being replaced in its entirety by UK funding. If that happens, I will be happy to say that I was wrong, but I think that it is a major financial risk for the sector post-2021.

Caroline Gardner: I completely recognise the concern. There is not much more we can say at this stage, but the issue is on our radar.

Bill Bowman (North East Scotland) (Con): Auditor General, you probably know that we have spoken previously about the need for reliable data. Last year, we raised the concern that different colleges were using different assumptions when preparing their financial forecasts. In its evidence to the committee, the Scottish funding council said that it was addressing the issue, but your report indicates that, although colleges applied the funding council's common assumptions, they interpreted its accounts direction inconsistently.

Did the colleges just not know what they were doing, or did they know what they were doing in trying to achieve an outcome? Did the funding council know what was going on and did it do something about it? Did the colleges think that they would pull the wool over your eyes?

Caroline Gardner: There are two different things in that question. I will try to unpick them and then let the team come in.

Last year, the committee's attention was very much on the question whether the forecasts were being prepared with common assumptions. We think that there has been good progress there. All the colleges used the common assumptions in preparing their forecasts, with one difference at the end, which goes back to the answer that Mark McCabe gave to Mr Stewart a moment ago.

Some of the colleges included the effect of the mitigating actions that they were planning, so their forecast came out with the net position that they expected to achieve. Other colleges prepared their assumptions without the mitigating action, that is, on the basis that nothing would change from the status quo. We understand that the funding council is dealing with that for the next time around, but it is progress that the forecasts are all being prepared on a common basis to start with.

I think that you referred at the end of your question to our comment in paragraph 5 of the report, about calculating the underlying financial position at the end of the financial year. You are right; in that case, the accounts direction was applied inconsistently across the country. We have recommended that, in future, that process should be completed before the annual audit is done, so that the figures can be adjusted, if necessary, to make sure that they are consistent, and that the annual outturn will be shown consistently across Scotland.

Bill Bowman: Do we know what the correct position is now? Has somebody gone back to look at it?

Caroline Gardner: We looked at it, and I will ask Mark McCabe to talk you through it.

Mark McCabe: This is the second year that the calculation for the underlying position has been in the accounts direction. Last year, we highlighted that there were difficulties, which is to be expected when a new calculation is being introduced.

The funding council revised the guidance to make it clearer for completing in 2017-18, but we still saw colleges interpreting that guidance slightly differently. In some cases, what should be in and what should be out is quite complex, and it is down to how colleges account for things like depreciation and interest on pensions. When the funding council has been validating that, it has made some adjustments across a number of colleges.

We suggest that, next year, before that figure is finalised, the funding council should work much more closely with colleges to make sure that that issue does not arise again and that the figure is agreed before the accounts are finalised.

Bill Bowman: That is useful. Does the funding council have a compliance approach to make sure that people are doing what it expects them to do?

Mark McCabe: It certainly sets the direction, and then validates how that direction is being followed.

Bill Bowman: That validation means, in effect, that the funding council checks that the colleges are complying.

Mark McCabe: Yes.

Liam Kerr (North East Scotland) (Con): I will turn to capital funding, which is an issue that I recall raising last year, when the committee raised concerns about the £27 million backlog of very high priority repairs. If I recall rightly, those repairs had to be done within one year of the survey report. We know that £27 million was allocated to address that work, but has that amount been spent? Has that work been done?

Caroline Gardner: I can tell you that £27 million was allocated for those repairs and that the funding council is monitoring whether the money was spent as planned. We cannot yet give you an assurance that it was spent on exactly the projects and the needs that were agreed to, but the SFC is monitoring the situation and we should have the information for next year.

Liam Kerr: Grand. I will move on from the high priority work to the general backlog of repairs, which was considerable last year. Your report indicates that reduced capital spending creates a risk that the cost of urgently needed backlog maintenance increases, which, in turn, poses a challenge to colleges' ability to deliver their services in a safe environment. How great a risk is that? What would happen in practice if that maintenance was not addressed?

Caroline Gardner: Exhibit 8 on page 16 of the report aims to capture the scale of the challenge graphically and give you a sense of it. At the top half of the page, the blue box for each year is the amount of capital allocation for general capital funding, as opposed to big new projects such as the Forth Valley campus. You can see that the allocation is relatively small—it is about £20 million to £25 million a year. Last year, the allocation jumped up to focus, as you said, on the very high priority backlog maintenance. For 2019-20, the allocation goes back down to £21 million.

The bottom half of the page gives a sense of the estimated costs of the backlog maintenance—£77 million for backlog maintenance and £22 million for life-cycle maintenance. In 2019-20, about £20 million of that total is covered by the available capital, which is only a small element.

It is worth noting that those estimated costs are for maintaining the quality of the estate only and do not take account of the need to invest in infrastructure, particularly digital infrastructure, that will be needed for colleges to continue delivering and keep up to date the learning and teaching for which they are responsible as we move into a world that is much more reliant on digital skills and technology.

Liam Kerr: Your report goes on to say that various bodies—the Scottish Government, the Scottish Futures Trust and the SFC—are looking

"to identify an appropriate revenue funding model for future investment".

Presumably that is to cover those costs of £77 million and the digital transformation and so on. What stage is that work at? Why—this is one of my daft laddie questions—is that revenue funding and not capital funding?

Caroline Gardner: I will ask the team in a moment to update you on where they have got to with that work. As you know, the Scottish Government's ability to spend capital is limited. It has always had a capital allocation within the block grant from the UK Government that it can spend on capital investment and it now has new borrowing powers for capital under the Scotland Act 2016. However, both are limited and have to be used for everything for which the Scottish Government is responsible.

Over a long period, Governments of all colours have been looking at ways of spreading the costs of capital investment through the revenue budget—that was originally through the private finance initiative, then later through the Scottish Government's non-profit distributing model and the hub company models that work through the Scottish Futures Trust. Those are all variations on mortgages that you or I might take out, in which you can make payments over a long period but you get the capital asset up front.

The NPD model has been used widely in the health service and in schools. The Government has asked the funding council and the Scottish Futures Trust to look at whether they can develop an appropriate model to achieve the same thing for colleges.

Mark MacPherson may be in a position to update you on the progress between the funding council and the Scottish Futures Trust.

Mark MacPherson: All that I can say is that the work is still in its early stages. It is clearly a difficult topic for them to wrestle with, but they are in discussion.

10:30

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): I have three questions: one is on your broad recommendations; another is on the asset position—the colleges seem to have doubled their assets in the recent period; and the third is on Ayrshire College.

When I read your recommendations, it was almost as though I was reading recommendations that were published some time ago. Are the colleges not delivering on the recommendations, or are they making some progress? The recommendations are on financial planning, data collection for student satisfaction, performance reporting and outcomes for students from the least favoured areas, shall we say. Where are we in terms of progress with those issues and recommendations?

Caroline Gardner: We are seeing progress. Most of this year's recommendations are about taking the next step or fine tuning. For example, Mark McCabe answered Mr Bowman's question a moment ago about how colleges calculate and publish their underlying financial position. That information is now in the accounts and common assumptions are being used. The recommendation this year is about doing that earlier, so that the accounts are audited after that has been done, rather than before, and the verification process can happen then.

The same is true for the information about satisfaction and college performance. Information is now available that was not available before, but there is room to make it more useful and transparent. We need to continue to nudge improvement in that way over time.

Willie Coffey: Do you get a sense from the funding council, the Scottish Government and the colleges that they are responding positively to the recommendations, or do they take a bit of time to digest them and come back to you and—we hope—to us?

Caroline Gardner: It is a bit of both. We are genuinely seeing progress, but some things have taken a bit longer than we might perhaps have expected. However, they are definitely moving in the right direction.

Willie Coffey: Thank you. My next question concerns page 10 of your report, which shows that the net asset value has more than doubled in the past year from £230 million to £484 million. Can you help the committee by explaining, either now or later, where that additional money has come from, broken down by college?

Caroline Gardner: In headline terms, it is probably not quite such good news as it might appear to be from just looking at the graph. It is mainly accounting revaluations. We say in the text on the right-hand side that £240 million of the £254 million increase

"was as a result of ... revaluations of pensions and buildings",

which are simply paper transactions to put the figures into the accounts. Mark McCabe can probably give you more information about the picture behind that and what is happening for individual colleges.

Mark McCabe: As the Auditor General says, pension revaluations account for the increase, in the main. A full revaluation was done across the board. A small amount was due to the revaluation of buildings in a couple of colleges, which stood out. As the Auditor General said, it is very much an accounting increase in terms of the net asset position. It is only one indicator of the wider financial health; we present a range of financial health indicators.

Willie Coffey: So it is not really disposable; it is notional.

Mark McCabe: Correct.

Willie Coffey: My third question is on the situation of Ayrshire College, outlined on page 14 of the report. You mention that it still has the millstone of PFI round its neck; I think is the only college in Scotland that still has that liability. Your figures show that a payment of £1.4 million is required each year until 2024-25. Your commentary says that the college had to introduce a voluntary severance scheme with almost the same value—£1.3 million. I know that a severance scheme is a one-off cost, but it has a recurring impact. What is the value in spending money on severance rather than investing in the staff and services for students at a college?

Caroline Gardner: We can give you a broad answer, but, if you want to explore the matter further, that is clearly a question for the funding council and the college. You are right to say that, as our report says, the college faces a number of cost pressures, the most significant of which is the cost of its PFI contract, which is £1.4 million a year for the next six years. That is a significant element of its budget. The college is working closely with the funding council to try to resolve that matter. The funding council has agreed to a two-year financial sustainability plan, with additional funding to help to address the issue.

Part of the plan is about funding a voluntary severance scheme. I am not sure that it is possible to make a direct link between the need for voluntary severance and the PFI scheme. Earlier in our report, we say that most of the colleges that have action plans to address their deficits are considering voluntary severance schemes. That is due, in part, to changes in the way in which colleges deliver learning and teaching and to the mix of subjects that they teach and the students whom they serve. From time to time, colleges will look to change the make-up of their staff in that way. Willie Coffey is absolutely right to say that funding the scheme is a particular pressure on Ayrshire College, which is working closely with the funding council to take account of the issue.

Willie Coffey: We might have mentioned this at one of our previous meetings, but I think that West Lothian College had perhaps the second last PFI contract, which was bought out by the previous executive, as I understand it. Circumstances might change, but it seems odd to me that that contract was bought out—with, I presume, the agreement of the funding council at the time—whereas Ayrshire College's contract sticks as a millstone around its neck.

Caroline Gardner: My understanding is that you are right to say that West Lothian College's contract was bought out, with support from the funding council. I do not know the reasons why that is not possible or appropriate for Ayrshire College, but the committee might want to explore that matter with the funding council.

Willie Coffey: The head of Ayrshire College said to me that the college is quite confident that it has financial plans in place and that it would be able to meet the savings that are identified. It seems that only Ayrshire College is facing that really difficult situation, which is very unfortunate.

Caroline Gardner: That is correct, factually.

The Convener: As we discussed in relation to your section 23 report last year, the real-terms increase in college funding goes only as far as to cover the staff harmonisation costs. Are the finances of colleges sustainable, given that the money covers only those staffing costs?

Caroline Gardner: Colleges produce five-year financial forecasts, which we consider as covering the medium term. As we say in the report, 12 colleges are forecasting recurring deficits over that period and, at the time that we reported, only two colleges had firm plans in place to deal with those recurring deficits.

Over a longer period, the challenges might well become more difficult, depending on what the overall level of Scottish Government funding looks like. The Government's latest fiscal outlook recognises the pressures on the overall Scottish budget, and it is not unreasonable to make a link between those pressures and the finances of the college sector. Again, the committee might want to explore that with the funding council.

The Convener: I turn to female representation on the colleges' governing boards. Your report shows that the number of female students has increased—I think that there are now more female students than male students in our colleges. However, the number of women on boards has fallen—I think that we have lost four female board members across the country. Will you comment on that?

Caroline Gardner: You are correct. Paragraph 36 of the report says that 43 per cent of board members across the country are women, and that the number of women fell by four during the year and the number of men increased by 12. That accounts for the difference.

The backdrop to that situation is the Government's statutory commitment to have a 50:50 gender split by 2022. It is important to note that the make-up of college boards is not a matter only for colleges; as well as the members who are appointed to the boards, there are elected representatives—particularly those who represent staff and students—which is something that colleges cannot control directly. The convener is right to say that the trend has started to go in the wrong, rather than the right, direction.

The Convener: Are colleges doing enough to address the issue? Does there need to be more support from elsewhere to improve the situation?

Caroline Gardner: I am not sure that I am in a position to give you an answer at the moment. The matter is made more complicated in the college sector because of the election of representatives. You know as well as I do that the problem reflects society more generally, rather than only the college sector. The funding council is aware of the issue, and it has a range of priorities on which it is trying to make progress.

The Convener: Members have no further questions on the report for the Auditor General and her team. I thank the witnesses very much for their evidence.

10:40

Meeting continued in private until 11:02.

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