



**OFFICIAL REPORT**  
AITHISG OIFIGEIL

# Public Audit Committee

**Thursday 11 January 2024**

**Session 6**



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**PUBLIC AUDIT COMMITTEE**

**1<sup>st</sup> Meeting 2024, Session 6**

**CONVENER**

\*Richard Leonard (Central Scotland) (Lab)

**DEPUTY CONVENER**

\*Sharon Dowey (South Scotland) (Con)

**COMMITTEE MEMBERS**

\*Colin Beattie (Midlothian North and Musselburgh) (SNP)

\*Willie Coffey (Kilmarnock and Irvine Valley) (SNP)

\*Graham Simpson (Central Scotland) (Con)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Stuart Greig (Scottish Government)

Neil Rennick (Scottish Government)

Karen Watt (Scottish Funding Council)

**CLERK TO THE COMMITTEE**

Lynn Russell

**LOCATION**

The James Clerk Maxwell Room (CR4)



## Scottish Parliament

### Public Audit Committee

Thursday 11 January 2024

*[The Convener opened the meeting at 09:00]*

### Decision on Taking Business in Private

**The Convener (Richard Leonard):** Good morning. I welcome everyone to the first meeting of the Public Audit Committee in 2024. The first item on the committee's agenda is for members to consider whether to take agenda items 3 and 4 in private. Do members agree to do so?

**Members** *indicated agreement.*

## “Scotland’s colleges 2023”

09:00

**The Convener:** The main item on our agenda is further consideration of the Auditor General for Scotland's briefing, “Scotland's colleges 2023”. I welcome our witnesses, who have all joined us in Parliament. First, I welcome Neil Rennick, who is the director general for education and justice, and Stuart Greig, who is the deputy director of governance and assurance for post-school education in the Scottish Government.

We are also joined by the chief executive of the Scottish Funding Council, Karen Watt. You are very welcome. Also joining us from the Scottish Funding Council is Lynne Raeside, who is the deputy director of external affairs.

We have a number of questions to put to you this morning, but before we get to those, I invite Neil Rennick, then Karen Watt, to make short opening statements.

**Neil Rennick (Scottish Government):** I welcome this opportunity to provide evidence on behalf of the Scottish Government in relation to Audit Scotland's report on Scotland's colleges. I would particularly like to take this opportunity to recognise the excellent work that has been carried out across the college sector by the dedicated staff who work year in and year out to support our learners, regardless of their backgrounds and previous learning experiences.

The latest data shows that more than 236,000 people enrolled in colleges in Scotland in 2021-22. More than nine out of 10 of those were satisfied with their college experience and got very good outcomes from their time at college, and the vast majority went on to employment or further education.

I am pleased that the Audit Scotland briefing recognises and endorses the high value of the college sector. I am also pleased that the briefing highlights the Scottish Government's role in setting the direction for reform across the education and skills landscape, and recognises the opportunities that that can bring to the college sector.

However, I also fully recognise the financial challenges that are described in the Audit Scotland briefing. We are currently in a very difficult financial climate, and ministers have had to make many tough choices this year and going into the budget next year.

The Audit Scotland briefing sets out important recommendations relating to improving college financial planning processes, and to making the best use of available funding across the sector. The Scottish Government, working with the

Scottish Funding Council, will do everything that we can to support the sector through this period of financial constraint and reform in order to ensure that there are flexibilities and support, including through our tripartite group with the Scottish Funding Council and Colleges Scotland.

I look forward to answering the committee's questions.

**The Convener:** Thank you very much, indeed. I invite Karen Watt to make a short opening statement.

**Karen Watt (Scottish Funding Council):** Thank you very much for the opportunity to give evidence today. I will make a couple of points and then look forward to more detailed discussion.

Colleges are vital to Scotland's prospects. They create a pipeline of skills, develop people from all walks of life, reskill workers for different jobs, enthuse local school pupils about future careers, provide opportunities for local communities and push innovation into local companies. Nothing stands still. There will be significant change and opportunity over the next decade in respect of demography, regional development, digital and artificial intelligence advances and meeting net zero responsibilities.

While we think about financial sustainability in the sector today, it is equally important that we set the right context for colleges in the future, whether that is in our funding distribution, our infrastructure plans or our outcome agreements. That is likely to involve an on-going process of adapting and adjusting now and in the near future, as well as working with the Government on longer-term, more fundamental reform.

Not only is it a challenge for colleges—which have an excellent track record of delivering change over the past decade through regionalisation, Covid, variable funding streams and shifting student needs—but it is a shared challenge, with funding bodies and Government working together to respond to the current and future needs of students, staff, employers and local communities.

**The Convener:** Thank you very much, indeed.

One of the themes that we will pick up this morning is financial sustainability. By way of opening up on that, I note that the evidence that we have taken—both from the Auditor General and from witnesses at a round-table meeting to which we invited the key stakeholders in the sector to give us their perspectives—put across some fairly clear points.

The Audit Scotland report identifies that 8.5 per cent of real-terms cuts have been imposed on the sector over the past two years. A pre-budget submission from Colleges Scotland described the

sector as being “on a burning platform”—echoing the words that James Withers had used.

Colleges Scotland's post-budget analysis suggests that, in its view, revenue funding for Scotland's colleges is to be cut by 8.4 per cent year on year—in cash terms, not in real terms. It is estimated that the capital budget will rise by 3 per cent in cash terms.

Karen Watt's note to the committee says that

“The financial position of colleges continues to deteriorate”.

What is the financial position of colleges, Mr Rennick?

**Neil Rennick:** Over the longer term, there was a period, following colleges' reorganisation and running up to the Covid pandemic, when colleges had an increase in their budget in both cash and real terms. Additional support was provided during the pandemic, for understandable reasons.

During the period since we have emerged from the pandemic, colleges have received flat-cash allocations for two years. In the current year, given the financial context, ministers have had to make difficult decisions, which have been shared with Parliament, about funding that we had hoped to provide to colleges having to be reallocated to other purposes, with savings in the region of £68 million in the current year—2023-24—from a range of budget lines. The budget in 2024-25 carries the majority, but not all, of those savings forward into next year.

Therefore, the budget position is that, after a period of growth, colleges have had a period of real-terms flat-cash budgets and, in the current year, and moving forward into next year, they have a reduction in funding. That has increased the importance of our working with the college sector to deliver reform and to look again at how funding is allocated and used to support the sector.

**The Convener:** However, the budget is not flat in real terms. In real terms, it has gone down, has it not? We have spoken about flat cash; the amount of money that has been given to the sector has been static, although there was an in-year cut in the amount of revenue funding that was available. Again, in the budget that was announced just before Christmas—and after the evidence session that we had with participants on 30 November—it was proposed that there would be an 8.4 per cent cash cut this year, which is, if you like, worse than the situation in the previous two years.

**Neil Rennick:** The 2024-25 budget is a cash reduction compared with the draft budget that was published for 2023-2024. In reality, not all, but the majority of the savings that have been taken in the current year—2023-2024—have been carried

forward into 2024-2025, and that is a cash reduction compared with the previous position.

**The Convener:** Okay. Karen Watt, do you have a perspective on that?

**Karen Watt:** To give a perspective on the budget in the round, I would say that this is a really challenging time for colleges. If you take a step back and look at the long range, you will see that, over the decade, the budgets for learning and teaching have seen a real-terms increase of around 3 per cent. Over the past couple of years, there has been additional funding for the college sector to deal with Covid and post-Covid issues—there have, for example, been uplifts for foundation apprenticeships and so on—but that is not to take away from the fact that, when we look at financial sustainability indicators, we see that the financial health of colleges is deteriorating because of the perfect storm of flat-cash—or smaller—settlements, and the rising costs of staff, pensions and energy bills.

The real challenge for the college sector, in that case, is how it adapts to and manages variable levels of funding when the costs around it are shifting, too. Indeed, that lies at the heart of why colleges are thinking very seriously about future course curriculum provision and how many staff they will have over the next projected period. At the start of the year we published information that is, I hope, available to the committee, because it gives a more in-depth picture of the sector's finances and financial health. I am very happy to pick up any threads from that.

**The Convener:** Okay—that is great. On that note, I invite Graham Simpson to put some questions to you.

**Graham Simpson (Central Scotland) (Con):** Thanks very much, convener. I will ask about that report but, initially, I have a question for Karen Watt to help me to understand the Funding Council's role in respect of individual colleges. How involved are you at that level? Do you, for example, attend board meetings?

**Karen Watt:** Once the Government has decided the budget settlement, the overall envelope and the split between colleges and universities, it is our job to think about how we distribute that funding. Our primary function, as a funder, is to make best use of that public money to fulfil the Government's objectives and the missions that colleges have, and to ensure that people receive the learning and training that they need across their lives.

We also have powers with regard to whether or not an institution is meeting its full duties around good governance, financial sustainability and so on, so we put a number of conditions around distribution of the money that we put in place. Our job is to ensure that that money is well spent and

that institutions are fulfilling their briefs. In doing so, we have a lot of interaction with them: for example, we ask them for returns and information, we set guidance on good standards and we have outcome agreements that we monitor.

Our interactions happen at a range of levels, and we also have statutory powers that allow us to address a board if we feel that there are particular issues. However, we do not regularly attend board meetings because that would interfere with individual institutions' responsibilities and accountabilities—unless it is a high-engagement institution, or one that requires particular attention.

**Graham Simpson:** That was useful. If an individual college came to you and said, "We've got some problems here", you would not so much step in—that is probably the wrong phrase—as help out.

**Karen Watt:** Yes. There is a spectrum of interventions. If the problem was something fairly routine, we might ask for more information or a briefing. If the problem required us to get under the skin of things, we would have a different level of engagement. The answer is yes—we have very regular and routine engagement with a number of institutions.

**Graham Simpson:** I have a quick question about something that has come up in the evidence that we have taken and which I just want to get out of the way. Unions have said that their meetings with you—not you, personally, but the Scottish Funding Council—have, essentially, dried up. Can you address that point?

09:15

**Karen Watt:** Pre-pandemic, we had regular and routine set-piece engagements. Through the Covid period, we were at the table with unions in numerous forums. Since then, the engagement has been much more ad hoc.

We heard the evidence to the committee: we have reached out and are setting up routine engagement, which unions have welcomed. We are responding to that desire. For the avoidance of doubt, I point out that we have had engagement with unions on ad hoc issues over the past couple of years, but we are now re-establishing the routine standing meetings.

**Graham Simpson:** So, those meetings will be put in place.

**Karen Watt:** They will.

**Graham Simpson:** That is good. Some good has come of that session, so I am glad that you watched it.

The report that you referred to, which has just come out, made for an interesting read. It is gloomy reading, to be frank. In it, you say:

“The financial position of  
Scotland’s  
colleges is deteriorating.”

You have said that already. You also say that their position is—this is an interesting phrase—“extremely fluid”. What did you mean by that?

**Karen Watt:** Over the past few years, we have been encouraged by the Auditor General and others to be more transparent and open about the information that we collect, and to publish more of it. The report is us putting more information into the public domain about the kind of material that we get from colleges and universities.

We say that the position is fluid because it is a snapshot in time. When we look at that snapshot, it gives an accurate picture not just of what colleges have in their audited accounts but of what they have projected. The bits that are most fluid and uncertain are the projections, because variables and assumptions change and shift. Sometimes, colleges provide us with projections without giving mitigating actions, because they are considering what those mitigations might be.

The position is fluid also because we have found—there is a section in the report that sets this out in clearer terms—that projections are not always faithful indicators of actual performance and outturns. In fact, we often find that colleges make quite conservative estimates about what might happen, but the actual position is better.

You will see in the report that the projections showed a level of deficit, but the actual annual accounts show a slight or, in some instances, quite significant improvement.

In coming to the committee today, I am conscious that we do not have the most up-to-date actual accounts for 2022-23. Those were due in only at the end of December, so we have literally had only a couple of days to look at them. On your point about fluidity, we have audited accounts for 15 colleges. In their projections, those 15 colleges said that they would have an adjusted operating deficit of well over £13 million. The actual outturn is a deficit of £7.6 million in the audited accounts, and several colleges that had forecast deficits are now in surplus.

That is what I mean by “fluid”. Despite the caveats that we have put in it, our report is still important because it gives us the opportunity to look at what risks the college sector faces. The level of engagement that we have is defined by the kind of information that we get and report.

**Graham Simpson:** I looked at the table that you refer to, which seems to list every college in Scotland. It demonstrates that, sometimes, colleges can make forecasts that do not quite turn out to be accurate at the end of the day. The committee members can look at the report for themselves, but I have had the benefit of seeing it. It is gloomy. On the financial health of the sector, it says:

“Colleges ... operate in an extremely tight fiscal environment”.

It also says:

“The sector is forecasting an ... operating deficit”

and that

“The financial position of colleges is deteriorating.”

In the next section, the report goes on to outline the risks to colleges’ financial health. Staff costs are one of those, and that has come out in evidence as a big risk. There is a whole list of risks, so I will not go through them, but the forecast is pretty dire, is it not?

Maybe that is a question for Mr Rennick rather than Karen Watt.

**Neil Rennick:** That excellent report sets out well the risks and challenges that the sector is facing. To the Funding Council’s credit, in recent years, as the pressures have built up, it has prioritised learning for students in how money is allocated and protected. That has been important to ensure that students continue to get high-quality education.

Many of the risks that are reflected in the report are not unique to the college sector—they apply across much of the public sector. That made me reflect on how useful it is to have the report and on the fact that we do not have something similar in many other parts of the public sector. As Karen Watt says, it is a snapshot, but it provides a clear picture of what the risks are and emphasises the importance of our working with the Funding Council and colleges to find a longer-term future that is sustainable for the college sector, which does important work.

**Graham Simpson:** One section of the report, which we have referred to already, is on staffing. The report says that there is an expected reduction of around 2,300 full-time equivalent staff in the college sector, which is one in five staff. How will colleges be able to continue with that reduced level of staffing?

**Neil Rennick:** I spotted that line in the report, too. Clearly, that is a reflection of the pressures on colleges and what those would feed through to in staffing terms if no mitigating actions are taken. Staffing is by far the largest element of costs for

colleges, so it is by far the largest element where savings pressures might come.

Over the past few years, there have been reductions in staffing in colleges, but they have done a good job of maintaining access to teaching by adjusting how they deliver that. Our expectation would be that, working with colleges, they will continue to do that and to look at different ways in which they provide their offer and deliver. That is about how education is provided, and about looking at the courses that colleges offer and whether all of them meet the needs of learners and the local economy.

There is a lot that we can do with colleges. When I spoke to Colleges Scotland before the festive period, I was heartened to find that it says the same: that there is a lot that we could do to look again at how resources are currently used in the system to help support colleges to ensure that they are prioritising teaching.

I recognise that the figures are stark in that current snapshot but, equally, there is potential for us to work with colleges and with the sector to try to mitigate the impacts and reduce the impact on staffing. Clearly, our priority is to ensure that there is a continuing offer for learners that matches their needs.

**Graham Simpson:** If colleges are having to get rid of that number of people, which, to me, sounds like it could be unsustainable for some colleges, is there any extra support with voluntary severance payments? Are they getting extra money for that?

**Neil Rennick:** There is no direct money in the budget to support that. A number of colleges have confirmed that they have already identified and factored into their budgets funding for voluntary severance schemes in the year ahead or in the next two years. Colleges are already factoring that into the numbers in their budgets and making those voluntary severance schemes available for staff. They are doing that within the resources that they are currently receiving.

**Graham Simpson:** I will switch back to you, Karen Watt. In previous sessions, I have asked about the risk register that the SFC keeps. I could be wrong about this, but my understanding is that five colleges are listed as black, which is the worst position. What is the current position with the risk register?

**Karen Watt:** We have an engagement strategy, which is based on a range of factors. It is not always about the money, but sometimes it is. On an annual basis, and regularly through the year, we monitor financial sustainability, get all the information in and assess the level of engagement that is needed with each institution. We do not talk about a risk register; we talk about the nature of the engagement framework that we have.

We have said in our report that we are working closely with four colleges that have what we would consider to be fairly significant cash-flow issues, and we are focusing on those. We are discussing a range of issues, such as whether that is a fundamental part of their underpinning business plan that needs to be looked at again, whether they simply need us to bring forward some of their learning and teaching grants for the year, and whether it is a simple cash-flow issue or something more significant. We are exploring with each institution what possible strategy might make that easier.

At the minute, a handful of colleges are having significant engagement with us about whether they need to implement a different business plan to get them into a different position, and also what support we might give. For example, at times, in extreme situations, we might give a loan to tide them over a particular period while they look at their operating plans and think about their future situation.

**Graham Simpson:** You are saying that four colleges have significant issues. I do not want to put words in your mouth but, to summarise, the Government might have to bail them out through the SFC.

**Karen Watt:** The position is that we do not have a significant amount of strategic funds at our disposal. Every part of that conversation is not just about a range of options but about what those colleges can do by their own hands. The best supportive strategy is in a mix of different things that we can deploy, whether it is cash-flow support or loans, or whether it is about looking at their relationship with other institutions, to make sure that provision for students and provision in local communities, whether that is in rural areas or metropolitan areas, is still at the level and quality that we would expect. That is part of our engagement with them.

**Graham Simpson:** Are you able to say which four colleges you are talking about?

**Karen Watt:** Would you mind if I did not? The reason that we give sector-wide public information is partly because we are dealing with sensitive staffing issues that might play out in different ways. At this point, it might be difficult for those colleges to maintain the kind of engagement that they are having with us if we put that information into the public domain.

**Graham Simpson:** I did not think that you would tell me, but I had to ask. I want to pursue the point, however, because it is a really serious issue. If those four colleges do not get the extra money that they need, are they at risk of closing?

**Karen Watt:** I would suggest that our job is to ensure that provision continues, that students

continue to be able to get the provision that they need and that staff in those colleges are looked after through fair work, as well as the colleges being able to fulfil those obligations for which they have responsibility.

At this point, I am not concerned about closure. I am more interested in how we construct the strategy with the colleges that will get them into a better position. For a very small number, that might mean that we are thinking about structural options that they might need to consider over the next year.

09:30

**Graham Simpson:** What do you mean by structural options?

**Karen Watt:** I mean thinking about more collaboration, different arrangements for shared services and looking at the cost base in a different way. We find that some colleges do not always understand their cost base. They might be quite small and, therefore, they might not always have the resource and the capability to think about their businesses for the future.

We are also looking at oversight where colleges are part of a regional strategic body. If they are in a region with many other colleges, we are looking at the options for collaboration and sharing. That is what I mean by structural and partnership options.

**Graham Simpson:** Okay. I want to ask quickly about arm's-length foundations. Indeed, this point is mentioned in the recent report. It is really a question for you again, Karen Watt. In a previous evidence session, I mentioned the fact that we saw quite a large transfer of money to the arm's-length foundation in South Lanarkshire in 2022. It was half a million pounds; it was extremely unusual. I do not really want to ask about that particular college, but what can those funds be used for and what can they not be used for?

**Karen Watt:** With regard to the balances in those ALFs, we encourage colleges that have surplus from their commercial activity to put it into those arm's length foundations.

It is interesting that you said that there is an unusualness about one college. We found that about four colleges made donations to ALFs in 2021-22. There was only one in the year before that. Colleges can apply to their ALF for a range of purposes to do with particular buildings or projects. Increasingly, those funds are being used for more day-to-day and revenue support issues. Therefore, we see a mix of uses for the funds.

However, I want to be very clear that ALF balances are going down. It is not an inexhaustible stream of money. It is also quite difficult for colleges that are, in essence, public bodies, to

generate surpluses that can be put into an ALF, and that money has to be spent within a certain timescale.

There is no guarantee that an ALF will give a college that money but, by and large, our experience is that the money is used for educational purposes and that most colleges are successful when they put their requests in to the ALF.

**Graham Simpson:** You could not use it for the employment matters that we have been discussing.

**Karen Watt:** We have seen that occasionally, but that is not the prime purpose of an ALF. The money would generally be for other educational purposes. Very often, it is to support particular projects, such as community projects; sometimes it is for buildings and support for other services around those sorts of things.

**Graham Simpson:** Thanks, convener. I feel that I have hogged things rather. Other members will want to come in.

**The Convener:** No, that is your prerogative.

I will go back to an earlier line of questioning. There is something that I want to understand. I have correspondence in front of me from 2018 when the then Public Audit and Post-Legislative Scrutiny Committee wrote to the then Minister for Further Education, Higher Education and Science to seek clarity about the respective role of the Government, the Scottish Funding Council and the colleges. In the minister's reply, one of the turns of phrase that were used in reference to the financial memorandum at the time struck me. The letter said:

"Importantly, the FM"—

the financial memorandum—

"recognises that colleges are autonomous bodies".

What happens if a college runs out of money before the end of the year? I think that Karen Watt said that the Scottish Funding Council is in a much tougher financial position and that it maybe does not have the strategic funds that it would have had a few years ago to help a college to get over that. What would happen? Would the college become technically insolvent?

**Karen Watt:** We will work with a college before it gets in that sort of situation. It is our job to ensure that we work with the college to get a solution that puts it into balance or to ensure that it at least has a plan to get it into a better position over a number of years.

We have not had a situation in which a college has run out of money or in which we have had an unmanaged failure of a college. Our prime interest

has to be to ensure that provision continues and students are secure, and that the learning and teaching that are so important for local communities continue. It is getting harder to find money, but our job is to make best use of it and to ensure that we have contingencies available to use when we get to such discussions with individual colleges.

**The Convener:** Okay. Thank you.

I will move things along now. I invite Colin Beattie to put some questions to you.

**Colin Beattie (Midlothian North and Musselburgh) (SNP):** Thank you, convener.

I would like to cover a couple of topics, one of which is potential staff reductions, which my colleague Graham Simpson mentioned. It is clear that staff are a college's biggest expense. That is not a surprise, given the nature of the business that colleges are in. However, some colleges know that they need to make—or potentially need to make—significant staffing reductions. Some of those are fairly extreme.

I have a couple of questions to ask. I do not know whether you will have an answer to the first one.

First, part of the increase in staff costs is the result of the cost of living negotiations with the union. Those costs are not insignificant. However, there is also the fixed element of staff increments every year. Unless a person is at the top of their grade, they will receive a certain increment each year. I do not know how much that would be—typically, the figure that I have seen elsewhere is 3 or 5 per cent. What element of the increase in staff costs are the fixed costs that come every year? I realise that there will be a slight difference each year, but roughly what proportion is that increase in comparison with the cost of living increases?

Secondly, I think that trying to maintain a quality curriculum has already been mentioned. Given the sheer depth of some of the potential staff cuts, there will still be an impact on the curriculum even if they are mitigated to an extent. How will you prioritise which part of the curriculum to retain and which part to cease? That is quite a difficult thing to ask. I do not know who wants to come in on that.

**Neil Rennick:** I will deal with your second question first.

Obviously, decisions about the curriculum, staffing and how that is organised are taken by individual colleges. We would not dictate which courses colleges should prioritise over others. It is clear that they will do that in engagement with local businesses, the regional boards and so on. The Scottish Government certainly would not be

involved in taking those decisions on what to prioritise.

Our expectation—I assume that this is Karen Watt's expectation, too—is that each college will have a plan for how it would take those decisions on how to prioritise and arrange its curriculum. I would expect the colleges to do that on all occasions, but particularly now, when budgets are tight.

**Colin Beattie:** On that particular point, you said “each college”. Does that mean that there is no common approach and that there could be differences in the formula, for want of a better word, that colleges use to determine which courses to retain?

**Neil Rennick:** Again, I will bring in Karen Watt, but different colleges provide different curricula and make different offers, so each college needs to ensure that it has a plan for its local area that is different from the plans of other colleges and that reflects local and regional needs in its decisions. Is that fair, Karen?

**Karen Watt:** The mix of provision in a college is particular to that college's region. It will have been based on what a college has provided historically; however, as a college has developed relationships with local employers and schools, it will have shifted some of its provision, to adapt and adjust it to the regional needs that it has found. No course curriculum is set, if you like, across all colleges. Having said that, it is clear that there are kernels of common provision across colleges when it comes to subject areas.

Course provision shifts regularly. We have pathfinders on tertiary education provision in the north-east and the south of Scotland, because we are trying to get under the skin of how a college or university responds to different needs and plans for its courses and curriculum. Some lessons about what we find will come out this year.

Every year, a college will look at its curriculum, amalgamate and change courses, think about what courses have low enrolment levels—they might have fallen out of favour or the modes of teaching them might have become slightly out of date—and change the curriculum regularly. The question that is posed by the Auditor General's report, by us and by the Government is about how that will shift over time to respond not just to the financial sustainability issues in the sector, but to different needs that are coming up through things such as digital and blended learning.

There is a question for us about how well we track how course provision is being affected by the financial situation that colleges face. This year, we would like to change some of our guidance on voluntary and other severance agreements. When a college thinks that it might put in place voluntary

exit schemes for its staff base, it must come to us to discuss those schemes and get approval, and we set conditions and guidance about how a college thinks about that. We would like to work with the college sector to renew our guidance on voluntary severance schemes, to make it clearer that boards and executive teams will have to assure us much more about the effect on course provision of the range of changes that they make in their staff base. That is an important part of our getting closer to how some of the changes in the college sector will affect front-line provision.

You also asked about those staff costs that are fixed and the nature of the other staff costs. I do not have easy figures to give you on that. When we look at the underpinning assumptions that a college puts into its business plans, we look at ballpark staff figures. The biggest variable will be the national bargaining situation and the arrangement that is reached with the unions. In some ways, we look at ballpark figures rather than the dimension of how much is variable and how much is based on the nature and maturity of the staff base, and how that affects where individuals are on a pay spine. I am afraid that we do not get into that level of detail.

**Colin Beattie:** I would have thought that understanding the level of fixed commitment every year would be quite an important element in terms of increases in staff costs.

09:45

**Karen Watt:** We monitor what proportion of colleges' overall income staff costs represent. You will have seen from our figures that that is the biggest cost element for a college, and that has been increasing over time; the proportion of income that equates to staff costs is high. That is why, when a college looks at its future and its ability to balance its books, it looks at staff costs. Of course, having well-paid staff in local communities really matters, so it is a very difficult challenge for a lot of colleges that are trying not only to balance their books, but to have capable, well-paid professional staff who deliver excellence for their students.

**Colin Beattie:** I will come back to the first question to which you responded. On the first portion of your answer, it is quite logical for colleges to continually review their courses and what they offer to the market. However, we are talking about something quite different here—we are talking about a forced reduction in the number of courses that are offered. Do colleges raise the bar so that there is a change in the criteria under which a course might be offered, with the result that not enough people apply for it? Instead of having X number of people applying, which would have been fine previously, the bar is raised and

only the more popular courses are offered. Gradually, we will see shrinkage through that.

**Karen Watt:** I guess that the Auditor General and the SFC—through our reports—and the Government are aware that that is an area that we will need to look at. It is too early to say what the impact might be.

Recently, we have spent some time with the Glasgow colleges looking at the impact of redundancies in that area and how they have been dealing with that. We have been assured that they have looked at course provision in the round. Sometimes, it is not just about an individual college's provision. In a multicollage region, we expect colleges to look across the piece collectively at how provision works. It is part of our outcome agreements with individual colleges that we expect them to ensure that no essential provision is lost. They need to plan together, which, to be fair, is what we are seeing in quite difficult circumstances. However, we need to monitor and look at that situation, and it is too early to say how some of the impacts will play out.

**Colin Beattie:** I will move on to a slightly different aspect. The SFC has introduced a new funding distribution model and new guidance, which are supposed to give colleges better flexibility and greater opportunity to respond to local needs. I believe that the Scottish Government is looking at the possibility of further changes in college funding arrangements. Perhaps you can summarise where you are on that at the moment. Are the Scottish Government and the SFC giving colleges enough clarity on their priorities within the funding that is available to them?

**Neil Rennick:** We try our best to provide clarity and, alongside that, flexibility in how resources are used—at least, we are supporting the Funding Council in providing that flexibility. In the more immediate term, ministers have established a tripartite group involving the Scottish Government, the SFC and Colleges Scotland specifically to look at areas of potential flexibility or adjustment within the existing arrangements.

Over the longer term, the Withers review is helpful in highlighting the potential to look again at how we support skills across the whole education and skills network, how we fund and deliver that, and how decisions are taken on prioritisation at regional and national level. As part of that reform work, there is obviously wider work to consider what we can do differently to support skills, including the vital skills that are delivered by colleges.

When the minister spoke to the Education, Children and Young People Committee about that yesterday, he gave an update on the work that has

been done, and committed to providing a further update by March.

I do not know whether Stuart Greig wants to say any more about that.

**Stuart Greig (Scottish Government):** Absolutely. I will give an example of what that shift in flexibility in funding could look like in practice. Apprenticeships are a good example to think about. We currently have an apprenticeship landscape that is largely delivered through third-party agents. The minister has been looking very carefully—he spoke to the Education, Children and Young People Committee about this yesterday—at whether we can strengthen the role of colleges in that. That is about moving to a position where colleges are the first port of call for the delivery of apprenticeships, rather than just supporting the existing arrangements.

That is the sort of area that we can get into through the tripartite group. If there is to be a new model and a new role for colleges, the group can help us to understand how we adapt the funding system to support that, how we adapt who is responsible for channelling the funding in the right way and how we support the SFC and other organisations to do that. The group works in that space.

There is a mix of things, which I am sure Karen Watt will take us through. There are very immediate things about how to support colleges right now and to provide the right level of flexibility to make the right financial choices, along with strategic matters that will open up new avenues for colleges to explore and get into.

**Karen Watt:** I will say a little about the funding model. We have made some big changes to the way in which we distribute money, which should help colleges. First, we have given colleges more realistic levels of activity to deliver while keeping the same amount of money. We have lowered the activity thresholds—the credit thresholds—but kept the same level of funding for learning and teaching as last year. We have also introduced a buffer so that, if there is underdelivery in a college, there is a 2 per cent tolerance before it has engagement with us about recovering funds.

Our previous model was very much predicated on meeting national activity target levels around having 116,000 full-time equivalent students in college. That meant that we were putting money into the college sector and, where there was underdelivery, recovering it. We now have more realistic activity thresholds, which significantly reduces the amount of recovery that colleges risk. More importantly, it also significantly increases the price per credit that we now pay. That affects how much we are funding for each place at a college. Over the past five years, that has led to a

significant reduction in the differential gap between what we pay for a college place and what we pay for a university place. We have also recognised that colleges have semi-fixed and other fixed costs so, when we recover money, we now only recover 80 per cent of the value of the credits that we have chosen to recover for underdelivery.

The other important change is that we now count differently when a college can claim credits for a student. In the past, a student would need to be on a course for a certain period of time. We have reduced that to five weeks, so that a college has much greater clarity, as it has paid for the curriculum and for that student to start. We have changed the way that we count that, which brings the approach into line with that for universities and is more generous to colleges.

We have also changed our guidance, so that there is now much greater parity in what a college can claim for a part-time student and a full-time student. That is in recognition of the shifts in how students want to study and the growth in the number of part-time students, bite-sized modules and different kinds of learning patterns.

Our funding model is now more realistic about what activity colleges need. It is much better at de-risking recovery for colleges, and it is increasing the price that we pay for college places. Those are significant changes, and they will matter. They help us to get on to a more forward-looking funding distribution pattern.

Our funding model will probably change and evolve again over the next year so that we can take more account of demographic patterns and changes, so that we can be fairer in our distribution across colleges. Those are some of the changes that should help significantly.

**Colin Beattie:** You must have projected what the practical financial implications of that will be for colleges. What is the financial impact going to be?

**Karen Watt:** We are still working within the envelope of the overall budget that we have from Government, so we are still in a position in which colleges have a difficult funding settlement in flat cash terms, or slightly below flat cash terms. This year, we have about 10 weeks to look at the budget that has been settled and distributed in particular ways. It is therefore a little bit early to know how this year's and next academic year's distribution will work.

However, right now, we should see an ability for colleges to plan better. We may therefore see better projections and better business plans coming into us, because there is better certainty about the activity levels that colleges will be funded for. More importantly, colleges will have greater certainty about how much we will recover from them. We will see some of the amounts that

colleges might have set aside for recovery. In this year, colleges will probably be in a better position.

**Colin Beattie:** There must be a practical situation whereby colleges' financial position is going to improve as a result of the changes. That is the purpose of the changes—to give the colleges flexibility and the ability to improve their situation. You must have done a projection as to what the changes will achieve.

**Karen Watt:** We have done some modelling of each of the changes and what they might mean. If I take the example of the change in the way that we count when a full-time equivalent student place can be counted to receive funding, notionally, that change alone is worth about £13 million to the sector. That is one element of that equation.

Each of the other elements will depend on the college's situation. We have done some rough calculations, but—quite frankly—it is all still within the funding envelope, and it will have a different impact on each individual college. I have given you an example of one element of that, and a notional sense of what it might mean for the sector.

**Colin Beattie:** We have talked about potential further changes. Do we have any timescale on that?

**Neil Rennick:** The minister confirmed yesterday that he would provide a further update in March in relation to the wider reforms of the skills landscape. We have already published the purpose and principles of those reforms, but the minister will provide a further update on some more immediate actions in March. In relation to longer-term change—such as looking at how we fund the skills landscape overall—the minister made it clear yesterday that that would take time to deliver and would have to be managed carefully over time, and that it is therefore not a short-term approach. Is that fair, Stuart?

**Stuart Greig:** Yes, absolutely. There will be things that can be built on in the steps that Karen Watt described. Part of the role of the tripartite group is to get those issues and ideas on to the table early and to work through them together. We will continue to do that. It is not the case that we would be in any sense pausing anything that can be done in the short term while we look at the wider strategic choices.

**The Convener:** I will go back to a couple of answers that Karen Watt gave. In particular, I think that you described how big changes had taken place with regard to the funding arrangements. However, when we took evidence from Derek Smeall of the college principals group, this is what he said about the new model of distribution:

“There is no new funding model: there have been adjustments to an existing funding model, and they have been very minor.”—[*Official Report, Public Audit Committee*, 30 November 2023; c 31.]

How do you answer that?

10:00

**Karen Watt:** I was disappointed that the adjustments were seen as minor, but I completely understand it. Every evolution of our funding model has a footprint in the past. Some of the elements that are already there have evolved, but these are big changes and they will make a difference.

We have been working through the tripartite group that the Government has set up, and we have received very positive feedback from the people who have been involved in that work in the tripartite meeting. Colleges are starting to see the differences and to understand the potential—in effect, each college will need to work through what the changes mean for them. For example, the issue of lowering the credit threshold levels while keeping the same level of funding in a college will mean that some colleges will have a choice about whether to use the additional 10 or 20 per cent of funding for additional provision or for other purposes. We have not been directive about how they use it.

We are getting positive feedback from the tripartite group. Colleges have worked with us on the changes and we are comfortable that they will be positive and will make a difference. They are a direction of travel, they are big changes, they will have a positive impact, and colleges are working through what they might mean for them individually.

**The Convener:** We have spoken about a student-centred approach and the importance of the outcomes. It is not just about the inputs, financial and otherwise, is it? Is it not the case that your changes to the rules about the thresholds for non-retention or drop-out rates of students disincentivise attempts by colleges to retain students? If somebody drops out in week 6, as long as they have been there for five weeks, the college still gets the financial payment as if they were there for the whole of that academic year. Will that not lead to an increased level of student drop-out or non-retention?

**Karen Watt:** There are different rules for our funding model and for how we report on performance in colleges and how well they retain and support their students. The adjustment to the funding rule is bringing colleges pretty much into line with universities. For some time, colleges had been asking why they had a different rule. Why did they have to have students in place until 1

November or Christmas, whereas universities had a shorter period after which they could claim a fully funded place? We have brought colleges into line with funding approach for universities, and that feels fairer to colleges.

We gather performance information and report on how well colleges are retaining students over time and the drop-out rates—we have asked for additional information about why students are dropping out from colleges. We report publicly on those performance indicators, so there are real incentives for colleges to do well and to manage them.

No college is trying to do other than its best for its students. They are keen to keep them and to improve their life chances. The way in which we report on performance is still fairly clear about how well colleges are doing in retaining their students.

**The Convener:** The committee would certainly expect that to be carefully scrutinised, because the change could have a negative rather than a positive effect from the student perspective. We may come back to you on that at some point.

I will move on to another element of the report, which is the college estate. I have a topical question on reinforced autoclaved aerated concrete. Do we know the extent of RAAC in Scotland's colleges?

**Neil Rennick:** Yes, and I am grateful for the work that colleges have done to monitor and identify that, and any necessary mitigating action that they have taken in response to it. My understanding of the position is that seven colleges across Scotland have identified buildings with RAAC and that it is in 12 buildings across the college estate. Those are not all teaching facilities. It includes at least a couple of storage facilities and some circulation areas.

Regardless of that, what is important is that staff and students in colleges, in whatever space they are in, are safe and protected. We have been reassured by colleges that they continue to follow the guidance from the Institution of Structural Engineers on any mitigating action.

As I understand it, two buildings have been closed and three have been partially closed because of RAAC, although, as I say, those are not all teaching facilities. Mitigating measures have been put in place for the other buildings to ensure that they are safe to use in the immediate term. Work is continuing on monitoring those buildings and considering their longer-term future in the wider context of infrastructure investment in the college estate.

**The Convener:** The question of the infrastructure of the college estate has been an issue for quite some time. I think that the Auditor

General brought out a report on it in 2018, and I certainly remember raising it in Parliament with the then First Minister as a matter of public interest and concern. Why has it taken so long to address the issue?

**Neil Rennick:** We have some fantastic modern facilities across Scotland that provide the best environment for teaching, but there are other facilities that would clearly benefit from modernisation. Equally, that needs to be looked at in the round. It is not purely about asking, "What is the current estate and how could we modernise it?" It is about the current need and what the future need will be, and about taking account of the different ways that education is being delivered digitally and changes in the demands for different programmes.

There is not a static picture on the estate that we need for the future, which is why I commend the Scottish Funding Council's work on its college infrastructure investment strategy. It set out how it would develop that strategy and engage with colleges and set out the delivery plan for that in December. The council also committed to updating on the current state of the college sector and its future requirements, and to reflecting that in the infrastructure investment plan later in 2024.

Karen Watt can update you on that work.

**Karen Watt:** All colleges receive less funding than they need to maintain and improve their estates, so it is a difficult situation. Our budget is around £31 million for core maintenance work and around £4.7 million for very high-priority maintenance work. As Neil Rennick says, we are no longer looking at like-for-like replacements and nor can we think about the college estate without thinking about digital infrastructure, net zero and a range of other requirements.

We have the estate survey from 2017, which still guides how we think about our investment. By the spring of 2024, we should have a much more comprehensive understanding of the college estate. We are working closely with colleges on the status of their buildings and the suitability of the current estate. That includes the use of buildings, the digital capability and expected estate use for the future. We need an infrastructure investment plan, which we hope to bring together for autumn 2024. That will bring together all those elements and help us to work with colleges on how they envisage their future estates.

Issues such as RAAC, digital and, probably, Covid have made colleges re-evaluate what they need in their estates. Therefore, in our strategy and in our planning with colleges for an investment plan for the next decade, we are trying to look at

those things in the round and bring them into a useful plan for the future.

**The Convener:** I am sorry, Mr Rennick, but I again want to pick you up on your choice of language. You described the issue as being about “current need” and “future need”, but the infrastructure plan talks about there being an “urgent need”. That sense of urgency was spelled out clearly to us by stakeholders in the sector, who told us that there is a huge maintenance backlog and that there are health and safety issues, not just with RAAC but more broadly. In addition, there are the net zero targets, which are an important part of the Scottish Government’s vision for the future. What is being done now, urgently, to address some of those challenges?

**Neil Rennick:** Well over £800 million has been invested in the college estate over the past 15 years, and further capital funding was confirmed in the budget, as you mentioned earlier. Therefore, we are continuing to invest in the estate.

However, the message that we have had from colleges is that, as well as looking at the level of investment and ensuring that it matches their needs, we need to look at the longer-term demands on the sector. Investment is going in but, as Karen Watt said, at the moment, the level of investment does not reflect what colleges say that they need.

The infrastructure investment strategy work will help us to see that picture in the round and help us to make the choices about prioritisation. Capital funding is always about prioritisation and sequencing. We need to look at what the priority areas are, allocate resources to them and ensure that the process is managed over time, and that is the approach that we are taking. However, I do not deny the pressures in the sector to which you refer.

**Stuart Greig:** I would like to add something on the issue of urgency. One area on which we are working closely with the colleges and the SFC relates to buildings and parts of the estate that are available to be disposed of—in other words, buildings that are no longer used and suchlike. That has been a big focus for the tripartite work. At the moment, colleges are bringing together an asset register of all the different buildings and when we can expect those buildings to be released into the market.

As a Government, we are looking to ensure that the money can be distributed in a different way. At the moment, it is centrally prioritised. We want to get to a place where colleges can take more ownership of the funds locally and can manage a different proportion of them strategically.

That is a reflection of the urgent need that exists in the college sector in relation to infrastructure.

That is an active piece of practical work that is on the cards right now to help to free up resource and capital for the college sector.

**The Convener:** Do you have any sense of the timeline for that? When will a decision be taken about the extent to which that can be put in the hands of the autonomous bodies that we are talking about?

**Stuart Greig:** We are at the stage of the sector bringing together a picture of the whole asset base. As soon as we have that—

**The Convener:** Will it be done by the end of the year, say?

**Stuart Greig:** We would certainly be able to work towards doing it by the summer.

**The Convener:** I am not giving you ministerial direction or anything—I do not have that authority. I am just trying to get a sense of how long that process will take.

I will move things on by inviting Willie Coffey to ask some questions.

**Willie Coffey (Kilmarnock and Irvine Valley) (SNP):** Good morning. I have two or three questions about the colleges’ reliance on Scottish Government funding and the overall picture in that regard but, first, I want to follow up on the budget question that the convener opened with, which was about the potential impact of the proposed budget settlement and the reduction in funding for colleges.

We always focus on budget proposals and we rarely give any attention to what happened during the course of a year—the outturn, if you like. Karen, you gave examples of what is actually happening, compared with the predictions and projections that were made at the start of the year about what might happen. Can you give us a wee flavour of what impacts the previous budget cut has actually had and what you are seeing emerging? I know that we have not reached the end of the financial year, but can you give us a clue as to how the outturn is looking in respect of the areas that you mentioned?

10:15

**Karen Watt:** Would it be useful if I say a little about what we are seeing colleges thinking about in terms of strategies that are emerging to deal with the situation? Is that the kind of thing that you are interested in? Will you say a little more about what would be helpful?

**Willie Coffey:** The committee is probably more interested in the impact of the cuts. We are interested in how colleges’ behaviour has changed and what is happening with staffing, programmes, courses, skills and so on. There are always

predictions at the start of the year about what proposed budget cuts would mean, but do they actually mean those things? Do those things happen, in your experience? What outturn is emerging, in your opinion?

**Karen Watt:** There are a couple of things. Sometimes, projected levels of staff reductions do not come to pass. During the year, colleges find other avenues to explore and other income, and their initial predictions on what they will need to do and how can shift and change, although that is not always the case. Some colleges have very clear plans. Because things such as redundancy schemes need to be well planned, managed and executed, colleges will work through their plans for them. However, because those are often voluntary schemes, they will not always result in the outcomes that the college initially predicted. They can be relatively unpredictable unless they are very targeted in terms of where staff changes will lie.

Colleges are looking more radically at the nature of provision. There is a lot of appetite for exploring digital changes, given that modes of learning shifted and changed over the Covid period, with more blended learning. Colleges are looking at how the curriculum has shifted in that regard and how students are coming to learning.

I think that we are in a long tail end of Covid, which affected a certain cohort of school pupils who have now come into colleges. It also affected the nature of the support that colleges have to provide for their student populations. That is very difficult for colleges to plan for. Our student support funds are demand led, so colleges are unable to predict accurately what funding they will need to support their students, although we have the ability to adjust our student support budgets in year if they want to use their discretionary funds in particular ways to support disadvantaged students or those who have lost periods of learning. Colleges are also having to respond differently to mental health issues in their student populations.

In practical terms, colleges are having to think about their discretionary money slightly differently to support their students to succeed.

**Willie Coffey:** You mentioned digital. I visited Ayrshire College recently and spoke to its principal. We shared the view that the digital solutions for training during Covid were really beneficial, but she also said that the students prefer to be in college. I think that the committee is aware of that. Altering the balance between online digital learning and in-person learning by students who are present in college would not be used as a way to reduce costs, would it?

**Karen Watt:** I do not think that it would. We are not seeing that at all. Many college subjects are

practical, such as construction, engineering, STEM subjects and catering, and students on those courses need to be in college settings. Also, many students want to be in community settings. One of the findings from our student satisfaction survey—as Neil Rennick said, many students are extremely satisfied with the education that they get in colleges—was that students want to have a sense of being part of a community. In that regard, we see a distinction between part-time and full-time students. One of the dips in the satisfaction levels comes because part-time students do not always feel connected in the way that students who come through the door on a more regular basis do.

The issue is how to get the right balance and blend. Many students want to be able to study in their own time, but we are still seeing disadvantage in relation to digital access. Students who come from particular communities or families might not have the same access as others. That is an issue for us in relation to the infrastructure strategy. We need to have an understanding that colleges often deal with people who are the furthest from the labour market and people from disadvantaged communities, and they often need to overcome access issues at a quite basic level.

Planning for digital infrastructure could significantly enhance the learning experience, and colleges are extremely keen to look at how they can accelerate the pace of that digital change.

**Willie Coffey:** It is good to hear that.

I want to ask about colleges' ability to pursue non-Scottish Funding Council revenue streams. We all know that colleges used to benefit from European Union funding. Universities can pursue external associations with sponsor companies and so on in order to conduct research, for example. Are there any barriers that prevent colleges from reaching out to local or regional businesses or anyone else—even in Europe—to seek partnerships and working arrangements that will help them to fund the courses that we want to deliver?

**Karen Watt:** We are seeing other income, but it represents a very small proportion of the total. About 8 per cent of colleges' income comes from beyond SFC funds and is generated by ALFs.

There used to be money from the European social fund. That has changed, as the last part of that strand of funding came in 2021-22, but we baked into our mainstream funding the amount that colleges got in that last tranche from the European social fund so that they did not see a drop in funding. We continued the funding, but without the many conditions and practical issues that came with money from the European social fund, if I can put it in that way. There was a lot of

bureaucracy around that funding. We kept the money in the system and continued to provide it. About 4,000 students have benefited from that, and colleges still have that money.

There is a huge appetite in the college sector to be very active in engaging with employers. We have pump-primed some of the ability to do that and get additional income in through the flexible workforce development fund and the apprenticeship programmes. All those things enhance the engagement with employers and the opportunities to open up other funding streams.

There is no prohibition on colleges' looking at other European funding strands—

**Willie Coffey:** Do they do it?

**Karen Watt:** The biggest issue is how competitive a college can be compared with other providers of contract services such as bespoke training providers that employers might work with, which might have lower cost bases and pay their staff less. It is a tricky one. Colleges might not always be well positioned to pursue commercial income. When they get it—this goes back to Stuart Greig's point about the work of the tripartite group—the question is whether they could have other flexibilities to retain some of that income, rather than giving it to ALFs. Could they look at other mechanisms that they could work with if they generate a surplus from that work?

If they are generating a surplus from that activity just now, they are using it for their day-to-day operations, and I think that it is a minimal part of their business.

**Willie Coffey:** I will give a local example. A firm in Ayrshire came to me and said, "Your college doesn't do any roofing courses." I asked the principal about that, and she confirmed that the college does not provide any roofing courses—even though the firm needs them—because the demand has not been there. There were only a few inquiries about such courses over two years. That is bound to be a common story across Scotland—a company saying to a college, "Why don't you do this?"

Can we get better at that? Can we regionalise provision, for example? Can we support employers by putting on the courses that they want? Would we have to ask them to pay? I do not think that we have ever done that. How do we get smarter in that area, where an employer says that they need skills but the college does not deliver them? How do we solve that?

**Neil Rennick:** Among the findings of the Withers report was an acknowledgement of the need to look at skills both nationally and regionally, involving employers to identify what the needs are. That would clearly involve not just

individual employers but groups of employers, who might create a sustainable demand for that training. Stuart Greig might want to say more about that.

**Stuart Greig:** I do not think that there is any significant barrier to that. There is a practical barrier, in that most students in the college sector are from the local catchment area, so setting up something that will require people to travel and find accommodation, for example, will involve a shift.

The college sector is discussing whether different types of specialist institutions, which would be a hybrid between a college and a university, could provide that technical capability to the economy. If the sector brings that to the table, we will absolutely react to it. Such institutions could be geographically tailored to the needs in particular areas and could also draw in students nationally. However, that will need to come forward from the college sector. We will then be able to look at how we will enable that, including consideration of what is needed in legislation or a new policy direction, for example. It is potentially a great model and we are keen to work with the sector on it.

**Willie Coffey:** As things are, it was just not viable to put that course on, and that is where the matter stops. That course is not going to happen. Is there anything that we can do to overcome that gap?

**Karen Watt:** Something that worked very well in the college sector recently was the flexible workforce development fund, which allowed and supported colleges to put in place for particular employers local solutions that were maybe more bespoke. That was very popular with employers as it enabled them to upskill and reskill their workforce. Governments have had to make some difficult decisions in the current budget year, but we are still discussing with the Government whether, even if the flexible workforce development fund is difficult in its current guise, there are other opportunities to look at employer-related schemes that might be useful.

I cannot say at the moment how our budget distribution will work this year, but it is certainly pretty much at the top of our list to look at whether particular aspects of our funding could enable local responsiveness that does not just happen through regular and routine curriculum development but is on-going. We will see how the budget distribution goes, but things such as the flexible workforce development fund were designed exactly to tailor particular courses for particular employers.

**Willie Coffey:** Thank you for that answer.

My final question is about the fact that, as you know, Ayrshire College is the only college in Scotland that continues to pay private finance initiative debts. It pays at a rate of £2 million a year and it has a year to go. Can you give me and colleagues in the college an assurance that there will be no impact on the college's future budget settlement from those payments coming to an end?

**Karen Watt:** I think that you have asked me about that on a number of occasions. The college is well placed to deal with the situation and the contract that it has. I think that it also needs to make a balloon payment at the end in order to own the asset. We are well aware that Ayrshire College is ambitious. It has fabulous opportunities in the Ayrshire growth deal and the Prestwick cluster, with lots of opportunities in the aerospace sector. We are very aware of how our funding distribution can maximise those opportunities for the college.

10:30

**Willie Coffey:** I think that that is the best answer that I will get. Thanks very much for that, Karen.

**The Convener:** Yes. Nice try, Willie.

I invite the deputy convener, Sharon Dowe, to put a final series of questions to the witnesses.

**Sharon Dowe (South Scotland) (Con):** The Scottish Government announced in June 2023 that it planned to

"take over"

national

"responsibility for skills planning"

and that there would be

"A new national model of public funding for all colleges and universities, as well as apprenticeships and training".

Will you tell us more about your plans for that?

**Neil Rennick:** That follows directly from the recommendations in James Withers's review, which provide a helpful description of the skills landscape and the potential for us to look again at how that is delivered to meet the demands that Mr Coffey described.

The minister provided an update on that work to a different committee yesterday morning, which made it clear that a lot of engagement has happened over the past six months, including by the minister himself, to discuss how that might be taken forward. The minister confirmed that the vast majority of James Withers's recommendations will be accepted and will move forward, including consideration of a different model of funding and the balance between

national and regional skills planning to ensure that we get the right balance between what is needed in each region and the national level.

As I said, the minister has said that he will provide a further update on that work in March. The Withers report provides a good basis for us to move forward and work with the Funding Council, colleges and other interested parties, including businesses, to try to strengthen our skills offer across Scotland.

**Sharon Dowe:** The Minister for Higher and Further Education announced on 5 December that

"Arrangements to deliver funding support for learners beyond school"

are

"to be simplified".

He also confirmed that the Scottish Government intends

"to streamline funding for colleges, universities and apprenticeships"

and he announced that an

"independent review of Community Learning & Development ... will run ... until June 2024"

to

"examine the extent to which CLD is delivering positive outcomes for some of Scotland's most vulnerable learners and marginalised groups."

You said in your statement that the minister has accepted everything and is moving forward. There have been lots of reports, but when will we see firm plans on a piece of paper with timelines for when everything will be implemented? We hear about the pressure that the colleges and universities are under. They have to do everything on a yearly basis with budget constraints. What is the Government doing to try to get something on paper so that colleges and universities can move forward and get the reforms that they need in a timely fashion?

**Neil Rennick:** We have always been clear, and James Withers has been clear in his report and comments subsequent to it, that it will take time to deliver that. He was supportive of us taking the time to progress his recommendations in a managed way. As we have described, we are doing some immediate things to provide flexibility. The review of community learning and development will, as you say, run until June this year, so it is a shorter-term piece of work that we are doing. There are other reforms on which we think that we will be able to make progress in the short term, and the minister will confirm those in March.

Developing a new funding model will require consultation and legislation, so that is on a longer-term timescale. Part of the work that we and Stuart Greig and his team are doing just now is about ensuring that we have the timeline to which you refer so that we can match the longer-term reforms that we need to take forward through legislation with the shorter-term actions that we are taking forward.

Stuart, do you want to say any more about that?

**Stuart Greig:** The only thing that it might be helpful for me to add is that, in addition to the report from James Withers, we published “Purpose and Principles for Post-School Education Research and Skills” shortly after the start of the summer last year and we have been making updates to it since then.

There is already a significant response to the Withers review, in which ministers have set out clearly the range of areas that they see as the most urgent priorities, but we will continue to add to that response. It is not something that we can deliver in one year; it has been clear from the off that some changes could be a decade long. However, each will have a set of milestones. As the minister has said, we aim to set that out in around March so that there is clarity across the sector on exactly what the delivery plan looks like.

**Sharon Dowey:** Putting out the response that you accept the recommendations is one thing, but we want to see the timeline for their implementation. To what extent will the various planned changes address the sector’s challenges and their potential impacts on college staff, college students—disadvantaged ones, in particular—and communities, particularly rural communities and those in which there are high levels of deprivation?

**Neil Rennick:** Colleges already have a really good record of providing opportunities and widening access to education to, for example, students with disabilities, students from poorer backgrounds and students with care experience. One of the strengths of our college sector is the breadth of access that it provides to people who might otherwise not benefit from education through other routes. That is already a strength of the sector.

On the future, both Withers and Colleges Scotland have said that there is potential for us to look again at the resources that we currently allocate, and to make better use of them in dealing with some of the issues that you have described around improving access and improving the offer, by ensuring that a greater proportion of resources go toward the offer that colleges make. I take a lot of reassurance from the consistent responses from the sector, and from Mr Withers’ independent review, that there is the potential for us to look

again at how we use the current resources—let alone any additional resources that we are able to secure—and to reallocate them more effectively.

**Sharon Dowey:** On resources, I have just one budget question. The 2023-24 budget was first announced in December 2022, and the budget for higher and further education has now been cut by £102 million. Initially, there was a £20 million cut for universities and a £26 million cut for colleges. More recently, there was a £26 million cut to pay for pay rises for teachers, and there was another £56 million cut from demand-led courses. When we are talking about the fact that we are struggling for money, £56 million is quite a significant figure for an underspend. What are “demand-led courses”? What was the impact on them?

**Neil Rennick:** This links to Mr Coffey’s question about the impact of cuts. The £26 million and £20 million cuts for universities and the £26 million cut for colleges were targeted for transition funding to assist colleges in making some of the changes that we have described today. Because of the nature of the pressures that arose during 2023-24, it was not possible to continue that funding, which had to be reallocated to other purposes. That did not have a direct impact on teaching or capacity, because it was money that had not yet been allocated, but it did take away from us an opportunity that would have existed to invest, as we would have liked to do, in reform in colleges.

As I said earlier, our priority has partly been to try to preserve, as much as possible, funding for core teaching and student support in colleges. Part of the reason why we have had, with regret, to withdraw funding from the flexible workforce development fund—that is another part of the demand-led savings that we have identified—was that we wanted to draw the money from that rather than reduce the core offer that colleges provide. In other circumstances, different decisions would have been made, but because of the nature and scale of the pressures, we have had to withdraw that money in the current year and not continue it into next year. There are other similar individual demand-led budgets from which we have taken savings.

The full detail of that, because some of the budgets are demand led, will be finalised by the end of this year. We are obviously getting very close to that point and have managed to draw resources from other elements of demand-led funding. There is a range of smaller budgets, but those bigger elements—transition funding and flexible workforce development funds—are two examples from which we have drawn that money.

**Sharon Dowey:** I still do not quite understand what “demand-led” programmes are.

**Neil Rennick:** They are a mix of smaller sources of funding for various elements. As I said, that has been partly to try to make sure that we preserve the core college offer as much as possible.

**The Convener:** Graham Simpson has a very short question.

**Graham Simpson:** It is short. We have heard in previous evidence that the problem is the timescales of budgets. The Scottish Government budget runs on the normal financial year, but colleges are funded for the academic year. Is that something that you have looked at, Mr Rennick?

**Neil Rennick:** We are aware of that. Obviously, we recognise that the overall budget process is a much wider process across the Parliament—as you know better than I do. Colleges need assurance that when someone joins a course, or continues with a course, funding for that will be available. For colleges, the benefit is in being funded over the period in which they are teaching and supporting students. We recognise that there must be flexibility and variability between our annual budgets and that we must provide assurance to colleges that they will have the money when someone starts a course, and that they will continue to have that money until the person finishes the course in the summer of the following year.

Would Karen Watt or Lynne Raeside like to add anything?

**Karen Watt:** An academic year bridges two financial years, which is a complexity, but it protects students and their ability to apply for and to be accepted on a course, and to know that there will be funding for that course. It provides the sector with some planning assurance; otherwise, if we had a hard cut-off point at the end of March, we would be offshoring the risk to the college sector. We are bringing stability and certainty to their planning by being able to say, “We are taking these two financial years and projecting them into an academic year; we are converting this into an August to July budget for you.”

At the end of a financial year, that provides us, as a funding council, with a little bit of flexibility to look at elements of funding over that bridge. Some of our programmes, such as our financial transactions, still work on a financial-year basis. We have a complex pot of funding, some of which is based on financial years, but we try to make the bulk span the two financial years so that we protect the interests of students and their continuing studies, and give colleges some planning certainty.

We now have 10 weeks to convert our budget settlement into an academic-year settlement. We will give draft allocations out, I hope, at the end of

March, so that colleges can plan with some certainty for their curriculum for the next academic year.

**The Convener:** I have two very final questions to put to you, which I hope will be fairly straightforward.

First, back in October, when we had the Auditor General before us talking about the briefing, he reminded us of the fact that the Scottish Funding Council’s position is to review the regional boards structure. We have heard concerns about, for example, the Lanarkshire regional board and its usefulness and so on, and I think that the Auditor General also mentioned the arrangements in Glasgow. What is the current thinking on the future and purpose of the regional boards structure?

**Neil Rennick:** The current arrangements are being reviewed, but they fit within the wider context of the reform work, in which it was recommended that there is still a requirement to look at regional structures. We are aware, as part of our on-going work on the longer-term future, that Karen Watt and colleagues are looking at the current arrangements in relation to boards.

**Karen Watt:** Yes we are. There are three multicollge regions. In our review of Lanarkshire, we recommended that the two colleges come apart and have a direct relationship with us. We have made that recommendation to the Government.

There is a more complex situation with the Glasgow colleges. When we were reviewing them, we asked them to look at options for their future. We have subsequently provided advice and recommendations to the Government. I think that the Government is now considering that advice and those recommendations and will, I hope, soon come to a decision that can be implemented thereafter.

The other multicollge region is the University of the Highlands and Islands region. That situation is much more complex and will require more time to work through.

10:45

**The Convener:** Just for the record, and to get a sense of how long the deliberation is taking and when a decision will be made, can you tell us when you made the recommendations to the Scottish Government on the Lanarkshire position and the Glasgow position?

**Karen Watt:** We provided advice on Glasgow to the Government at the end of March last year and advice on Lanarkshire fairly recently, because the two colleges there were going through a range of other issues and wanted time with us to consider the recommendation again. We made our

recommendation about Lanarkshire before the end of last year.

**The Convener:** Thanks. That is helpful.

Mr Rennick, when do you expect a decision to be made?

**Neil Rennick:** Perhaps Stuart Greig can answer that question.

**Stuart Greig:** I think that a decision on that will come reasonably soon—I think that we are talking about a decision being made in the next few months. There will be steps to go through. We are talking about boards with people involved, and there will be significant implications for them if there are changes.

The Glasgow decision is taking more time, partly because there is an interaction between it and the Lanarkshire decision. Geographically, the colleges are reasonably close together, so decisions that are taken on the Lanarkshire colleges could have implications more widely in the area. There is, between the two areas, interaction that we are exploring with our ministers.

**The Convener:** Okay. My final question is about the component parts of that and the mergers, such as in Glasgow, for example. Anniesland College, Cardonald College and Langside College were brought together to create Glasgow Clyde College. I think that, when they were separate, they had almost 40,000 students, but now just 15,000 students are catered for. Are those figures right?

**Neil Rennick:** Unless others here know the answer to that, I would certainly need to double-check it. I know that Parliament has looked at college reorganisation and its what impact. We have seen benefits from reorganisation in how some colleges are organised and what they are able to deliver to students. However, I will commit to getting back to you on that specific question because I do not immediately know the answer to it.

**The Convener:** Okay. Thank you for your time and the evidence that you have given us this morning, which has been very helpful.

As Willie Coffey reminded us, there is no such thing as a job for life any more. Retraining and reskilling are hugely important roles that are fulfilled very well by the college sector in Scotland. I suspect that, in this era of the just transition, they will become even more acutely important.

I note that a paper that we were given in advance of the meeting pointed out the finding from the Sutton Trust that 90 per cent of learners from the most socially deprived backgrounds who went to university did so through colleges. That is

not the only thing that colleges do, but it is a really important thing.

I thank Neil Rennick, Stuart Greig, Karen Watt and Lynne Raeside for their input this morning. As I said, it has been very useful to us.

10:49

*Meeting continued in private until 11:20.*

This is the final edition of the *Official Report* of this meeting. It is part of the Scottish Parliament *Official Report* archive and has been sent for legal deposit.

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