Education, Children and Young People Committee

26th Meeting, 2022 (Session 6), Wednesday 2nd November

College regionalisation

Introduction

The Committee is undertaking an inquiry on college regionalisation. The Committee intends to look at what has been learned from regionalisation over the past decade and how this might inform future change within sector.

The Committee launched a call for views, which closed on 6 May, and has taken oral evidence at its meetings on 1 June, 8 June, 15 June, 21 September and 5 October.

At its 1 June meeting, the Committee took evidence from Audrey Cumberford, Professor Sir Peter Scott and Nora Senior. The papers published for that meeting included a SPICe briefing; submissions from the Chair of the Lanarkshire Regional Strategic Body and New College Lanarkshire and the Chair of Glasgow Colleges' Regional Board; and a SPICe summary of the responses to the Committee's call for views.

On 8 June, the Committee took evidence from trade unions representing teaching and support staff at colleges, and from Student Partnership in Quality Scotland (sparqs), an organisation which supports student engagement in the quality of the learning experience. The papers for that meeting included a SPICe briefing as well as submissions from EIS-FELA and UNISON.

At its meeting on 15 June, the Committee took evidence from Student Association officers, Student Class Representatives and Student Association staff.

On 21 September, the Committee took evidence from Principals and Deputy Principals from colleges in the multi-college regions and Principals from colleges in single college regions. The papers for that meeting included a SPICe briefing as well as submissions from Dumfries & Galloway College and College Employers Scotland.

At its 5 October meeting, the Committee took evidence from Colleges Scotland and the Scottish Funding Council. The papers prepared for that meeting included a SPICe briefing, a submission from the Scottish Funding Council, Colleges Scotland response to the Committee's call for views and a note from an informal engagement session with senior figures from Developing the Young Workforce (DYW).

Committee meeting

At this meeting, the Committee will take evidence from Jamie Hepburn MSP, Minister for Higher and Further Education, Youth Employment and Training.

The Minister will be supported by Scottish Government officials

- Jess Dolan, Head of Colleges and Economic Impact;
- Stephen Pathirana, Director Advanced Learning and Science; and
- Helen Webster, Deputy Director Reform.

Supporting information

A SPICe briefing on the issues being considered at this session is provided at Annexe A.

Colleges Scotland and the Scottish Funding Council have both provided submissions to share additional information. These are provided at Annexe B.

Education, Children and Young People Committee Clerking team
28 October 2022

Annexe A

SPICe The Information Centre
An t-Ionad Fiosrachaidh

Education Children and Young People Committee

Wednesday 2nd November 2022 (Session 6)

College Regionalisation Inquiry- Minister for Further and Higher Education

Introduction

The Committee will take evidence in the final session of its inquiry into college regionalisation. This paper is a summary of a broad range of issues which have been raised throughout the inquiry.

Purpose of Regionalisation

In September 2011, the Scottish Government launched a consultation on the reform of Post-16 education. The Putting Learners at the Centre: Delivering our ambitions for Post-16 Education paper set out plans to make the college sector more learner centred, as well as being focused on jobs and economic growth. It also signalled a move toward a more interconnected tertiary education sector; since the collaboration between the further and higher education sectors continues to develop.

Aims of the reforms around college regionalisation included:

- An ambition for all young people over the age of 16 to stay in learning and achieve qualifications, improving their job prospects and earnings in the long term.

- Remove course duplication and unnecessary competition for students between colleges and universities.

- Reform the college landscape to ensure it can meet current education, employment and skills challenges and respond rapidly to emerging scenarios.

- Deliver a more efficient system of colleges at a regional level, rather than individual institutions with individual overheads serving overlapping areas. The consultation stated that regionalisation could still support local delivery, taking into account transport needs and economic, cultural and social factors.

- Carry out mergers to create “colleges of scale” to secure “coherent, relevant provision on a sustainable basis, including access-level and advanced and specialist provision”.

- In the case of the colleges serving the land-based industries, merging these on the basis of specialism rather than region.

The consultation also stated that all regional groupings of colleges should be able to offer:

- a range of courses to the communities they serve;

- provision responsive to the demography and social and economic needs of the area they serve;

- capacity to deliver on the Scottish Government’s commitment to provide education, employment or training for all 16-19 year olds;

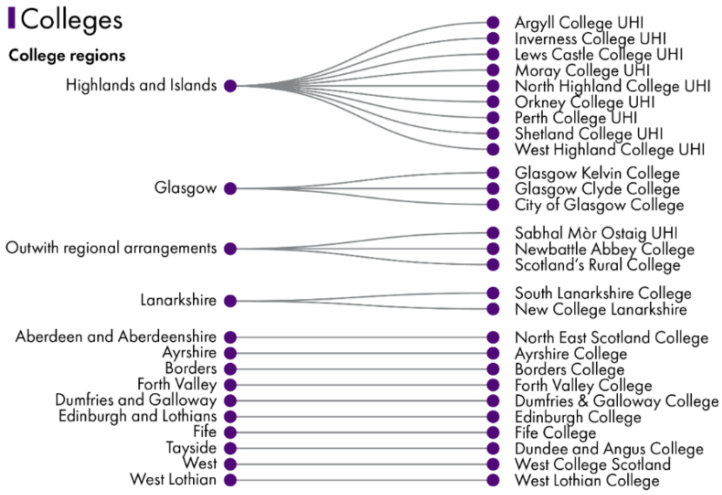
- wide availability of access courses; and

- scope to achieve cost-efficiencies through reducing back office and management costs and reduction in course duplication and provision.

In February 2012, Scottish Ministers announced their intention to introduce structural change to the college sector as part of wider reforms to Post-16 education. The Post-16 Education (Scotland) Act 2013 underpinned college regionalisation, which saw the formation of 13 college regions.

Subsequently, college mergers reduced the number of colleges down from 41 in 2011 to 26 currently. Most of these colleges sit within the 13 regions established by the 2013 Act. **Chart 1** shows Scotland’s colleges and the college regions they fall into following regionalisation. There are three multi-college regions and ten single college regions. As noted on Chart 1, there are also three colleges which fall outwith regional arrangements.

Chart 1: Colleges and college regions



Source: SPICe and Colleges Scotland

Reflecting on the impact of regionalisation the Royal Society of Edinburgh in their written evidence stated:

> "In theory, regionalisation promised colleges greater freedom to set their own strategic agendas and serve the specific and identified needs of their regions. In practice, this independence was heavily undermined by the governance and funding reforms described above. These changes introduced new constraints on finances and decision-making which limited colleges' autonomy to leverage the benefits that regionalisation had originally offered. In other words, the policy and funding context in which regionalisation was implemented had significant implications and curtailed the potential for wider success and impact."

Nora Senior in her evidence to the committee on 1st June 2022 reflected:

> "There have been benefits of scale from regionalisation, through the provision of anchor institutions within local communities. That means that there is perhaps greater access to courses across the region, so there is the benefit of reducing duplication while still allowing access to courses across the region rather than in one institution."

Funding Model

Following the regionalisation of colleges, the Scottish Funding Council developed a demographic funding model, with the aim of providing sufficient college places to meet the needs of each region, while still meeting the Government's overall full time equivalent target. The demographic model uses a range of publicly available data sources to inform a "needs-led approach" to identify people likely to want and benefit from a college education.

The SFC still uses aspects of that model to underpin the formula-based grants it provides. These grants are based on historical funding patterns. In learning and teaching, the main funding model has three core elements: student numbers; subject prices; and premiums that are reviewed on an annual basis.

In 2015 the SFC moved to incorporate a credit based funding system so that colleges would be paid for the activity they deliver and to attempt to create a clearer relationship between credit targets and learning hours.

The One Tertiary System: Agile, Collaborative, Inclusive report, published in February 2020, more often called the Cumberford-Little report, recommended a rebalancing of college and university funding and making supporting business growth a top priority for the sector.

In her evidence to the committee discussing the funding model Audrey Cumberford said:

> "… it is a historical model of funding. There is a recognition in the funding council that although it may have been fit for purpose a number of years ago, it is no longer fit for purpose. One of the main reasons for that is that, through national collective bargaining, all colleges have staff costs that are determined nationally. Our cost base is therefore exactly the same, so why would our funding for doing exactly the same be any different across colleges."

In its evidence to the Committee, the SFC told the committee https://www.parliament.scot/api/sitecore/CustomMedia/OfficialReport?meetingId=13930 that "a range of local, regional and national indicators go into our funding model. I have to say that I think that our model is relatively complex. We are looking at it, and we will consider whether it is right for the future.

Student Places

Each year colleges are set a target of student numbers by the Scottish Government; this is currently 116,000 full time equivalent places. Every year since 2011 this target has been met. This target measures the number of students enrolling and not the number of students completing their course each year.

Figures provided by the Scottish Funding Council show funding per full time equivalent student in 2022/23 was £5,054 at college, compared to £7,558 per place at university. The Improvement Service Benchmarking framework shows the average gross spend per pupil in Scotland in 2020/21. For pre-school education it was £9,273 per child, primary school education on average was £5,916 per place and funding for secondary pupils was £7,657. Table 1 shows the expenditure levels in case terms.

Giving evidence to the inquiry Andrew Witty, of Colleges Scotland. noted that college funding per head is the smallest amount that is provided across the education landscape.

In their written evidence to the committee, Colleges Scotland highlighted that colleges deliver approximately a quarter of all higher education teaching in Scotland, which is approximately 29,000 FTE learners. They highlighted that if the Scottish Government was to increase support for students to have parity for higher education by £2,504 per learner it equates to approximately £73m. In addition, colleges deliver training and skills provision for 116,000 FTE learners each year. Colleges Scotland argued that if colleges received university level HE funding for all college learners then 116,000 learners at a gap of £2,504 per learner equates to £290m.

Table 1: Average expenditure per place for each education level in cash terms

Education level	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Pre-school	£3,957	£4,344	£4,561	£5,190	£6,958	-
Primary School	£4,877	£4,980	£5,169	£5,444	£5,779	-
Secondary School	£6,920	£7,046	£7,127	£7,454	£7,787	-
College	£3,421	£3,527	£3,615	£3,972	£4,064	£4,284
University	£5,655	£5,435	£5,437	£5,560	£5,563	£5,703

Source: Scottish Parliament Question S6W 01165

Completion rates

The SFC's College Performance Indicators 2020-21 were published in April 2022, giving an overview of key college performance indicators from 2008-09 to 2020-21. Further detail is available in the publication itself.

The report states that the COVID-19 pandemic may have impacted students' ability to complete their qualifications in a number of ways. Colleges were unable to delivering in-person learning and teaching activities and deliver in-person student support services. This resulted in a reduction in reported student outcomes in 2020-21. This should be taken into account when comparing figures for 2020-21 with other years.

In 2020-21 at Scottish colleges, 27.7% of further education students and 17.7% of higher education students withdrew from the course before achieving their intended qualification. In 2010-11, 27% of further education students withdrew from their course and 19.9% from higher education courses.

In 2019-20, 84.4% of full-time college leavers went on to positive destinations on completion of their course (down 3.4 percentage points from 2018-19). For Further Education students, 74.5 per cent moved into a positive destination, compared to 90.3% of college leavers who were undertaking Higher Education courses. Fewer college leavers went into work but more went to university, with 15.6% of all college leavers unemployed or unavailable for work, up 3% from 2018-19 when 87.8% of leavers found a positive destination.

Accurate monitoring of completion rates has regularly been highlighted to the committee. On Thursday 22nd September 2022 Audit Scotland gave evidence to the Scottish Parliament's Public Audit committee, they noted:

> "The challenge with gathering specific data about students who are not successfully completing their courses, and understanding the reasons for their failure to complete, is that where students go after they withdraw is not tracked. Therefore, there is not a lot of evidence on which to base our understanding of their reasons for leaving."

The Auditor General also said:

> "Clearly, however, when it comes to public investment and the outcomes for individual students, we can assume that not all of that 15 per cent embarked on a college course with the expectation that they would be unemployed after it, given that we have talked about the vital role of colleges in supporting students in their acquisition of new skills, employability, aspiration or further learning. The number who have embarked on a college course and not completed it feels too high. To go back to our earlier discussion, the colleges need to get better data behind why that is happening. You rightly talked about public investment, but it is also about supporting the individual experience and subsequent life chances of people who have embarked on a college course."

Derek Smeall in his evidence to the committee reflected on some of the data recording, he noted that students who are in programmes but then gain employment are "marked as a failure in the Scottish Funding Council's statistics".

Members may wish to note that completion rates are not included as a measure for achieving widening access targets.

ONS Reclassification

The Office for National Statistics (ONS) is the body responsible for classifying all institutional sectors and their financial transactions into the relevant section of the UK National Accounts so as to report on expenditure, revenues, borrowing and debt in each category.

Reclassification has had significant implications for colleges in Scotland. Fundamental changes to the budgeting, reporting and accounting practices have been needed to align colleges with the accounting practices that apply to non-departmental government departments. For example:

- Resource and capital expenditure is now accounted for through Scottish Government spending. As there is an annual ceiling placed on each area of government expenditure, colleges have to control their expenditure, so it does not exceed pre-set limits.
- Even if expenditure is financed from incorporated colleges' own reserves or borrowing, it is still included as part of overall government expenditure. Any expenditure has to have an equivalent amount allocated from the Scottish

Government budget ("budget cover") - even though the Scottish Government would not have to pay for or fund the expenditure.
- However, where expenditure is financed from colleges' other /commercial income, budget cover is not required.
- From 1 April 2014, colleges can no longer carry forward surplus funds to future years. All reserves at the end of the year would need to be transferred to an arms-length foundation separate from the college.

In England colleges are considered as part of the Non-Profit Institutions Serving Households (NPISH) sector since 1 April 2012. As a result, the UK Government no longer has certain powers in relation to colleges. The ONS is currently reviewing whether to reclassify colleges in England as public sector bodies and recommendations are expected to be made between October and December this year. The number of colleges in England in formal intervention over their finances, is currently more than 30.

In response to the ONS reclassification decision in England, the Scottish Government did not pursue any changes to legislation to the classification of colleges in Scotland. Rather, the view was that the current level of government control over colleges was at an appropriate level:

> "Scottish Ministers are clear that those controls, as enhanced by the [Post-16 Education (Scotland) 2013 Act], are the right solution for Scotland and are appropriate given the very significant public investment in colleges."

The classification of colleges has been raised to members throughout the inquiry, in his evidence to the committee on 21st September, Hugh Hall Principal of Fife College said:

> "For me, the most damaging aspect of regionalisation was the decision to take colleges into public sector control. Our Office for National Statistics classification became that of the public sector, so we suddenly became part of the Scottish Government financial regulations and so on, with all the constraints and bureaucracy that accompany that. Previously, although we did not have freedom to operate or to do whatever we liked—there were all the constraints that you would normally expect with a publicly funded organisation relating to borrowing and so on— there were flexibilities that were removed on regionalisation, and colleges have been suffering as a consequence ever since."

In their evidence, both Colleges Scotland and the SFC highlighted that the decision to reclassify colleges as public sector bodies has placed constraints on the ability of colleges to "speculate business-wise and to seed and grow investment in different international markets and products". Being classified as a public body also means that colleges can no longer hold reserves or borrow, and they must balance their budgets.

The SFC has recommended that the Scottish Government "explore giving colleges more flexibility or that it push the boundaries of those flexibilities where it can" however, noted there is a protection to ONS classification. During the session the

SFC highlighted the possibility of flexibilities around the March financial year end, so that it could support more reprofiling towards the end of July. On 5th October 2022 Karen Watt from the Scottish Funding Council said:

> "The reclassification brings constraints, such as smaller cash reserves and the inability to borrow, which make it harder for colleges to maintain and reinvest in their estate in the long term. However, we should not lose sight of the fact that colleges are also at lower risk, so they are less likely to suffer significant financial losses. They also have access to funds with which to manage their cash flow. We manage that with colleges on an on-going basis."

In their written evidence to the committee Colleges Scotland called for additional flexibilities within the ONS classification:

- To borrow and hold reserves, allowing colleges to put money into building maintenance, make campus and infrastructure improvements, and invest in improving the student experience.

- Ability to reinvest surpluses, allowing colleges to plan with greater flexibility around budgeting and strategic decisions, to help maximise efficiencies.

- Change in rules to allow carry forward of monies between years, which will assist colleges in raising additional commercial income, including from international activity.

College Estate

Colleges are significantly constrained in their ability to borrow or carry cash reserves for new investment in their estates. The COVID-19 pandemic has also resulted in delays and reductions in estates programmes. In contrast, universities spend an estimated 12% to 16% of their income on maintenance and Capital expenditure, making the estate the second-highest area of expenditure after staffing costs, financed largely through cross-subsidisation, and borrowing.

Audit Scotland's report of Scotland's Colleges 2022 highlights that capital funding from the Scottish Government/SFC has consistently fallen short of the level needed for both regular lifecycle maintenance of the college estate and to address the level of backlog maintenance identified in a SFC condition survey in 2017. In 2017 £363m of investment in backlog maintenance was required over 5 years to 2022-23 and £110m in lifecycle maintenance. Since 2018-19, college capital funding has fallen £321m short of the amount required for lifecycle and backlog maintenance. Though this figure is likely to have increased since 2017.

The Scottish Government did not announce any additional capital funding in its multi-year spending review in May 2022. However, the SFC's college sector infrastructure strategy is due to be published in Autumn 2022.

In his evidence to the Committee, Andrew Witty of Colleges Scotland stated that the backlog maintenance identified in 2017 was "to make buildings wind and watertight. It was not to gold plate them; it was simply to bring them to that level." He also explained that life-cycle maintenance “is, in essence, that which is needed to maintain a building in its current condition.”

In his evidence to the Public Audit Committee on 22nd September 2022 Mark McCabe from Audit Scotland stated:

> “Some new campuses have been built, but there is still a shortfall in the capital funding that has been made available to maintain the estate. We hope that the infrastructure strategy that the Auditor General has just referred to, which is due shortly, will set out how the estate will be developed going forward and how it will fit with the ambitions and expectations of the sector and with the models of delivery that will be expected to be in place.”

Staffing

Staff costs make up a high proportion of colleges’ overall costs. In Audit Scotland’s recent report they noted that colleges spend around 70 per cent of their overall budget on staffing and this is increasing, with increases in employer pension contributions and cost of living pay awards driving up staff costs. The committee has also heard that for some individual colleges that is higher, with Derek Smeall noting that Glasgow Kelvin College spends 80 per cent of accessible income or revenue on staffing.

In written evidence to the Committee, the SFC highlighted that the sector is projecting staff restructuring costs and significant staff reductions of around 200-300 FTEs in each of the five years over the planning period. These are expected to arise through a combination of vacancy management, voluntary severance schemes and, in some instances, through compulsory redundancy.

The National Joint Negotiating Committee (NJNC) was established in 2015 to jointly agree terms on issues, such as pay and terms and conditions of employment in Scotland’s colleges in partnership with the trade unions (EIS, GMB, UNISON and UNITE). The NJNC comprises of a Central Committee and two Side Tables – one for Lecturing Staff matters and one for Support Staff.

Over the lifetime of the NJNC there has been a significant amount of industrial action on matters such as pay, staff terms and conditions and in defence of national bargaining itself.

The Scottish Government have conducted three independent ‘lessons learned’ exercises with employers and trade unions following industrial action. The independent report from the final lessons learned exercise makes key recommendations on both structures and processes, as well as on relationships.

College Finances

For Financial Year (FY) 2022-23, SFC’s revenue budget for colleges was over £675m and its capital budget was over £74m. In the recent Spending Review, the Scottish Government set out a flat-cash settlement for the planning period.

Table 2 shows the net college capital and resource budget over the last three years.

Table 3 shows the 2022-23 budget in real terms 2021-22 prices.

Table 2: Net college capital and resource budget - Cash terms (£m)

	2020-21	2021-22	2022-23	Change 2021-22 to 2022-23	% Change 2021-22 to 2022-23
Net College Resource Budget	640	675.7	675.7	0.0	0.0%
Net College Capital	35.7	33.7	74.7	41.0	121.7%

Table 3: Net college capital and resource budget – Real terms 2021-22 prices (£m)

	2021-22	2022-23	Change 2021-22 to 2022-23	% Change 2021-22 to 2022-23
Net College Resource Budget	675.7	657.9	-17.8	-2.6%
Net College Capital Budget	33.7	72.7	39.0	115.7%

Source: SPICe Real Terms calculator

Last year's budget saw colleges receive a flat cash revenue settlement (see **Table 2**, representing a real-terms fall of 2.6% (see **Table 3**). The capital budget increased by £41m. This capital increase reflects additional funding allocated in the February 2021 Capital Spending Review; the Infrastructure Investment Plan published at the same time outlines this will be spent on the new build Dunfermline Learning Campus.

In their written evidence to the committee the SFC provided updated figures on the financial forecasts of colleges. At the end of September 2022, colleges provided five-year financial forecast returns (FFRs) to the SFC, covering the period to 2026-27. The forecasts are based on a set of assumptions agreed with the college finance directors and provides a snapshot in time of the position of colleges, however is likely to have changed with the current rises in inflation and energy prices.

The sector projected Adjusted Operating Position (AOP) and cash reserves over the planning period 2022-23 until 2026-27 and these are set out in the table below. It should be noted that there continues to be significant variation between colleges in terms of their financial performance that is not reflected in the aggregate indicators.

Table 4: Adjusted Operating Position (AOP) and cash reserves, 2022-23 until 2026-27

	2022-23 £m	2023-24 £m	2024-25 £m	2025-26 £m	2026-27 £m
AOP Surplus/(Deficit)	(7.9)	(16.2)	(19.6)	(24.7)	(33.2)
Cash	68.8	48.4	27.3	2.7	(30.9)

Source: Scottish Funding Council

The sector is forecasting an underlying operating deficit in each of the academic years from 2022-23 to 2026-27. The cash position is forecast to decline in in this period with the sector forecasting a negative cash balance by the end of July 2027.

Thirteen colleges are forecasting adjusted operating deficits in 2022-23, increasing to 18 colleges in 2023-24. Between 17 and 19 colleges are forecasting deficits in each year over the remainder of the forecast period.

Articulation

Throughout the inquiry articulation has been raised to members. In Angela Cox's evidence to the committee on Wednesday 21st September 2022, she highlighted that "where there is duplication of higher-level technical skills, such as HNDs and HNCs, there is not the same parity when it comes to funding- universities are paid at a much higher level than colleges are."

Funding is provided per student and does not consider if the student is on an articulation route, or the SCQF level of teaching being delivered. Therefore, a student could be completing a SCQF level 7 course in their first year of university or in their final year of college. Colleges receive £2,504 less funding per full time equivalent student place at university regardless of the level of study or course a student is completing. As mentioned previously in this paper funding per full time equivalent student in 2022/23 was £5,054 at college, compared to £7,558 per place at university.

Articulation has a clear role to play in widening access to university for learners from the least well-off backgrounds. In 2017-18, over 4,000 students articulated with full credit and 26% of all entrants studying their first university degree arrived at university via completion of an HNC or HND.

In his most recent report, the former Commissioner for Fair Access noted:

> "Smooth articulation between (Higher Nationals) HNs and degrees is crucial to achieving fair access because over 40 percent of SIMD20 entrants to university come via the college route. It is also key to building a comprehensive integrated and multi-pathway tertiary education system. Yet progress towards meeting the SFC's target that 75 percent of HN qualifiers

> entering degree programmes should receive advanced standing has been disappointing. A step-change is needed."

Future Reforms

The purpose of the inquiry has been to look at what has been learned from regionalisation over the past decade and how this might inform future change within the sector.

Evidence throughout the inquiry has pointed to opportunities for future reforms to the college sector as part of the Scottish Government's wider strategy for economic transformation, the work they do in the community, and in re-training and re-skilling people. Colleges Scotland highlighted colleges' key role in delivering economic strategy and achieving Scotland's net zero targets. Andrew Witty said:

> "When you think about colleges in the context of the five pillars of the national strategy for economic transformation, your eye obviously gets drawn to the one about the skilled workforce, but the fact is that colleges are needed to deliver each and every one of those pillars, not least the one about the entrepreneurial landscape and the one about the productive businesses. After all, 44 per cent of college learners have an industry link as part of their course, and the college sector is important in delivering that link to business and opening up the new market opportunities that are one of NSET's key elements."

Audit Scotland's report noted that, in February 2021, the college sector published its commitment to tackling the climate emergency. This included an ambition to achieve net zero by 2040, five years earlier than the national target of 2045.

Audit Scotland stated that "individual colleges are taking a range of actions to reduce their environmental impact but achieving net zero will require large and sustained capital investment in the sector over time."

SFC Review

In June 2020, the Scottish Government asked SFC to carry out a review of the college and university landscape to plan future provision and funding.

Many of the final recommendations focus on closer collaboration between colleges and universities and the roles they can play as part of the overall tertiary education system. This builds on the ongoing emphasis on closer working – for example in areas such as articulation (course progression from college to university). The review also raises the prospect of exploring shared support services between institutions.

The summary of the review states its final recommendations intend to:

> "…build logically from years of policy direction and investments that are particular to tertiary education and research in Scotland, to enable the system to evolve to be even more coherent, responsive and effective for the years

ahead, for current and future students, for the skills needs of employers and for wider social and economic goals." – SFC Phase 3 report, p9

Recommendations most relevant to the college sector included:

- A call for the Scottish Government to set out its overall strategic intent for further and higher education and research, along with a national vision and strategy for the college and university estate.
- A call for the Scottish Government to move to multi-year funding assumptions, enabling SFC to give more certainty to institutions on continuation of project funding.
- The creation of a National Impact Framework linked to Scotland's National Performance Framework. SFC will also work with the sector to revise its approach to Outcome Agreements.
- The development of a pilot framework for short 'micro-credential' courses to support skills needs across the economy and identifying ways to support lifelong learning.
- Improved engagement with employers to determine and respond to skills need.
- Increased collaboration between institutions across the HEI and college sectors, including consideration of shared support services and with industry. This should be supported by the Scottish Government.
- A call for the Scottish Government to work with SFC to build on progress made to widen access to university.
- Continuation of work across the sector to promote Scotland as a study destination for international students.
- The development of a single quality assurance and enhancement framework for colleges and universities.
- A call for the Scottish Government to consider exploring the Office for National Statistics (ONS) classification of colleges as public bodies.
- Two proposed Tertiary Provision Pathfinders to test how a more integrated tertiary model might work in practice. The two regions are the South of Scotland and the North East of Scotland.

Responding to the review in October 2021 the Minister for Further and Higher Education said the Scottish Government "broadly accept and agree with the recommendations". The Scottish Government is now consulting on the purpose and principles for the post school education, research and skills development ecosystem. The draft statement of intent on the purpose and principles is due to be published in Winter 2022/23, with the final long-term Purpose and Principles to be set by May 2023.

The SFC Review also recommended the creation of a new national impact framework which is due to be complete by August 2023. The SFC's aim of this framework is to make a more explicit connection with Scotland's National Performance Framework, to enable institutions to demonstrate their impact in the round and over the longer term, across a broad range of outcomes, as well as demonstrating accountability for public expenditure, in terms that are relevant to their particular situation.

A significant amount of research has already been produced in recent years examining the tertiary education system from different angles, including:

- National Strategy for Economic Transformation (2022)
- Coherent Provision and Sustainability: A Review of Tertiary Education and Research Review (2021)
- Cumberford Little Report – One Tertiary System: Agile Collaborative and Inclusive (2020)
- Muscatelli Report – Driving Innovation in Scotland: A National Mission (2019)
- A New Social Contract for Students: Fairness, Parity and Clarity (2017)

Nicole Beattie, Senior Research Further, Higher Education and Children's Services, SPICe Research

28th October 2022

Annexe B

Colleges Scotland

Additional Information to the Education, Children and Young People Committee

An estimate of the additional funding that colleges would receive if the teaching grant for full time HE courses equivalent to year 1 and year 2 of an undergraduate degree was the same, regardless of the setting?

The difference in funding per head between the university and college sector was set out by SPICe in the information paper provided to the Committee for the evidence session held on Wednesday, 5 October 2022, and is summarised below:

Funding per full time equivalent student (FTE) in 2022/23 for university – £7,558

Funding per full time equivalent student in 2022/23 for college - £5,054

Difference of £2,504 per student.
The complexity is around elements such as length of course, different price groups for different courses and not all higher education (HE) courses are delivered in a college.

However, in considering the question in regard to overall funding, we would draw the following to the Committee's attention:

1. Parity for HE

Colleges deliver training and skills provision for 116,000 FTE learners each year.

Colleges deliver approximately a quarter of HE in Scotland, therefore approximately 29,000 FTE learners.

29,000 learners at a gap of £2,504 per learner equates to approximately £73m.

2. Parity with HE

Colleges deliver training and skills provision for 116,000 FTE learners each year.

If colleges received university level HE funding for all college learners then: 116,000 learners at a gap of £2,504 per learner equates to £290m.

Regular lifecycle maintenance of the college estate as well as the level of backlog maintenance were both highlighted during the session, as was the level of college capital funding. The Committee is keen to understand how much of the college estate would currently be deemed as sub-standard. Is it possible to put a percentage figure on this?

The Scottish Funding Council's (SFC) College Estates Conditions Survey published in 2017 details the minimum investment necessary to bring the sector's existing estate up to an acceptable (wind and water-tight) condition. If tackled over a five-year period, the total backlog maintenance figure identified in the Survey was approximately £360m. This work ranged from Very High Priority to Low Priority work.

Work was identified for every college region across Scotland.

Audit Scotland, in its Scotland's colleges 2022 report, highlighted that only 26% (£93m) of this backlog maintenance funding was provided to colleges. This inevitably means the Priority category of the work worsens over time, adding to overall costs.

In addition, only 54% of lifecycle maintenance (required to maintain buildings at current standards) was provided to the college sector. The lack of lifecycle maintenance will inevitably cause more buildings to require backlog maintenance, therefore also increasing the problem.

Some final points in regard to this to draw to the Committee's attention are:

Wind and water-tight buildings are required to enhance the student experience.

Additional to backlog and lifecycle maintenance, colleges, even those with relatively new campuses, still require to update and upgrade digital infrastructure on an ongoing basis.

Colleges, as public sector bodies, are required to be net-zero by 2045.

Colleges Scotland is working with the SFC as it develops a new Infrastructure Investment Plan for the sector which will be published by September 2023. This will follow on from the publication of the College Infrastructure Strategy in autumn 2022, which Colleges Scotland has provided a sector view on.

You had also mentioned the need for flexibility in relation to ONS constraints - if you had any examples of when that might be particularly useful and what that might look like in practice, we would be keen to share this with Members - ideally this could be in the form of a written submission.

Colleges are only around 70% funded through the SFC, with less scope for commercial activity to generate funding since being reclassified as public bodies by the ONS. Colleges can no longer borrow or hold reserves which is stifling colleges' ability to make the fullest contribution to economic recovery. It has also reduced the incentive for commercial and international activity as the monies brought in must be used within the current financial year.

The provision of flexibilities within the ONS classification we are seeking include:

To borrow and hold reserves, allowing colleges to put money into building maintenance, make campus and infrastructure improvements, and invest in improving the student experience.

Ability to reinvest surpluses, allowing colleges to plan with greater flexibility around budgeting and strategic decisions, to help maximise efficiencies.

Change in rules to allow carry forward of monies between years, which will assist colleges in raising additional commercial income, including from international activity. This will also allow colleges a greater ability to create a culture of entrepreneurial activity with businesses and organisations, who often do not wish to be constrained by training provision within a strict academic year.

Colleges Scotland

October 2022

Scottish Parliament - College Regionalisation and Budgets

Additional Information from the Scottish Funding Council

25 OCTOBER 2022

Background

The Scottish Funding Council (SFC) gave evidence to the Committee at its session on 5 October 2022 regarding college regionalisation and college budgets. This paper provides follow-up information requested during that session. This briefing provides:

i. the most recent analysis of colleges' recently submitted Financial Forecast Returns (FFRs);

ii. further information on college estates and capital funding; and

iii. further information regarding funding allocations across the college and university sector.

Financial Sustainability: Financial Forecast Returns (FFR) dated Sep 2022

The Scottish Government provides significant public investment to Scotland's colleges: for Financial Year (FY) 2022-23, SFC's revenue budget for colleges was over £675m and its capital budget was over £72m. In the recent Spending Review, the Scottish Government set out a flat-cash settlement for the planning period. In the context of increased staff costs, inflationary pressures, including high energy costs, and rising interest rates impacting on loan repayments, a flat cash settlement presents challenges for the sector.

At the end of September 2022, colleges provided five-year financial forecast returns (FFRs), covering the period to 2026-27. The forecasts are based on a set of assumptions agreed with the college finance directors and set out in our Guidance which was published in early August. The guidance includes assumptions on pay settlements, inflationary pressures, and a flat cash settlement from the Scottish Government. Since the publication of these assumptions the external environment has changed considerably and therefore the returns, and the subsequent analysis, can only be viewed as a snapshot in time and are highly likely to change over the planning period. Furthermore, while many colleges did identify mitigations as part of their returns, not all colleges did so. This means that the actions we expect colleges to take in order to secure a viable future and to balance their books are absent from some returns and, therefore, at this stage we cannot rely on this material for a fully accurate picture of future viability. What this exercise does allow us to do, however, is to consider at as early a stage as possible what actions might be needed to ensure financial sustainability. We are currently following up various points of clarification with colleges as part of our ongoing analysis. As a result, the following figures are subject to change.

The sector projected Adjusted Operating Position (AOP) and cash reserves over the planning period 2022-23 until 2026-27 and these are set out in the table below. It should be noted that there continues to be significant variation between colleges in terms of their financial performance that is not reflected in the aggregate indicators.

	2022-23 £m	2023-24 £m	2024-25 £m	2025-26 £m	2026-27 £m
AOP Surplus/(Deficit)	(7.9)	(16.2)	(19.6)	(24.7)	(33.2)
Cash	68.8	48.4	27.3	2.7	(30.9)

The sector is forecasting an underlying operating deficit in each of the academic years from 2022-23 to 2026-27. The cash position is forecast to decline in in this period with the sector forecasting a negative cash balance by the end of July 2027.

Thirteen colleges are forecasting adjusted operating deficits in 2022-23, increasing to 18 colleges in 2023-24. Between 17 and 19 colleges are forecasting deficits in each year over the remainder of the forecast period.

One college is forecasting a negative cash position at the end of July 2023, increasing to four by the end of July 2024 and fourteen by the end of the forecast period, reflecting the deteriorating operating position.

Borrowing is forecast at £211.4m at the end of July 2025 and then expected to increase to £236.2m by the end of the forecast period reflecting the deteriorating liquidity position for many colleges.

Staff costs make up a high proportion of colleges' overall costs (around 68% based on 2021/22 and 2022/23 figures). The sector is therefore projecting staff restructuring costs and significant staff reductions of around 200-300 FTEs in each of the five years over the planning period. These are expected to arise through a combination of vacancy management, voluntary severance schemes and, in some instances, through compulsory redundancy.

Our analysis of the financial sustainability of individual colleges and the sector as a whole remains extremely fluid, with assumptions being constantly updated as circumstances change. We continue to work closely with the college sector to determine its needs and what actions will be required to ensure its financial sustainability.

Capital Funding: Available Data and How Funding Is Allocated

SFC's College Sector Estate Condition Survey in 2017 ('2017 survey') provides the most recently available sector-wide data. Despite significant investment, the 2017 survey classified approximately one-third of the college estate as requiring backlog maintenance. Our College Infrastructure Strategy, which is scheduled to be published in November 2022, will set out the approach to a fundamental review of college infrastructure. It will inform our 10-year College Infrastructure Investment Plan, due for publication in Autumn 2023, which will identify investment need for future college infrastructure across Scotland, including investment in net zero and digital, for a sustainable college estate to deliver for students, staff and communities. In the meantime, we use the 2017 survey as a baseline figure for backlog maintenance.

During the period since 2017, demands on the college estate have changed due to certain assets being replaced or renewed, or to deterioration and new priorities for investment coming forward, for example, digital infrastructure. Additionally, the Covid-19 pandemic significantly impacted on the delivery of estates programmes. Colleges routinely monitor the condition of their estates and we engage with them closely on existing and emerging issues. Each college will request to drawdown its capital funding allocation during the Financial Year in line with their planned expenditure on repair and maintenance activities.

SFC has a capital budget from the Scottish Government that we distribute across colleges for essential maintenance. We are committed to a transparent and best-value funding methodology. All SFC capital maintenance funding is allocated to colleges/regions under terms set out by the Financial Memorandum with the sector. In the last five years, backlog maintenance funding has been allocated to individual colleges/regions as a proportion of the total high priority backlog maintenance needs identified in the 2017 survey. Capital funding for lifecycle maintenance is allocated in proportion to a college/region's activity (credit) target. Around 58% of our total maintenance funding is allocated to high priority backlog maintenance while 42% is allocated to lifecycle maintenance costs.

Therefore, for FY 2022-23 we have allocated the £31.2m capital maintenance budget in these proportions, resulting in a total of £18.2m based on high priority backlog maintenance and £13.0m based on each college's share of the sector's volume of activity (credit) target. However, the high estimated cost of backlog maintenance identified in the 2017 survey (£363m) and the current tight fiscal environment means that addressing the maintenance backlog remains a significant challenge for the sector.

Funding Rates for Colleges and Universities

We champion and support universities and colleges and the provision they offer; both sectors play a vital role in the economy and society. However, although there are many similarities between colleges and universities, they are different kinds of institutions. For AY 2022-23 the average level of SFC funding per place at universities is £7,558 and for colleges it is £5,054. The difference in funding per place reflects the different costs of provision, for example, there is no high-cost medical clinical provision in colleges; there are more expensive laboratory facilities at universities; there are larger library collections; and there are smaller class sizes for specialist provision and in the final years of undergraduate and postgraduate courses. Universities also validate their own provision, which incurs a cost. This includes programme development, ensuring the academic viability of a programme and quality assurance.

We are currently undertaking a review of the college funding model and as part of this we will engage about a range of funding issues, including the number of places we fund and the price we pay per place.