

Audit Committee Meeting

Date of Meeting	Tuesday 3 October 2017
Paper Title	Audit Scotland Report – Scotland’s colleges 2017
Agenda Item	11
Paper Number	AC1-G
Responsible Officer	Jim Godfrey, Interim Finance and Resources Director
Status	Disclosable
Action	For noting

1. Report Purpose

1.1. This report is a summary of the Audit Scotland publication ‘Scotland’s colleges 2017’.

2. Recommendations

2.1. The Committee is invited to note this report and the key messages within the Audit Scotland publication ‘Scotland’s colleges 2017’.

3. Report

3.1. The publication is the latest in a series of annual reports by Audit Scotland that provides an overview of the college sector in Scotland. It was published in June 2017 and provides an update on college finances and an analysis of learning activity.

3.2. The key messages, and summary of the Audit Scotland recommendations, are reproduced in the annexes to this report. A copy of the full report is available from: http://www.audit-scotland.gov.uk/uploads/docs/report/2017/nr_170622_scotlands_colleges.pdf

4. Actions for GCRB

4.1. The report provides a steer in terms of actions that GCRB could progress. The following actions will therefore be assimilated within GCRB and regional operational planning:

- Within ongoing work to review the curriculum and develop a revised curriculum plan for the Glasgow College Region, model changes in demography in Glasgow and school leaver destinations (draft curriculum review due to be considered by the Board in December 2017).
- As part of work to develop a regional estates strategy, respond to the national condition survey, future funding priorities and implications for the Glasgow region (draft estates strategy due to be considered by the Board in March 2018).
- Work with the assigned colleges to report the underlying financial position in accordance with the methodology set out by Audit Scotland.
- Continue the work to develop long-term financial plans with the assigned colleges.

- Work with the assigned colleges to evaluate the cost of harmonising staff pay and terms and conditions.

5. Risk Analysis

- 5.1.** Audit Scotland publishes reports on a wide range of matters of public interest. These reports are considered by the Scottish Parliament and/or the Accounts Commission. The reports are also likely to influence the work of GCRB's external and internal auditors. GCRB will embrace the report's recommendations and incorporate them within its own operational plan.
- 5.2.** Consideration of the Audit Scotland report is an example of environment scanning and responding to macro-level changes. It specifically addresses Risk ID 0001.
- 5.3.** The implementation of actions for GCRB (identified in section 4 above) will mitigate other risks identified within the GCRB Risk Register, in particular:
 - A failure to effectively plan/monitor our educational delivery results in the curriculum not meeting regional economic and social needs.
 - Financial sustainability is jeopardised by a reduction in funding and/or an increase in costs.

6. Legal Implications

- 6.1.** There are no specific legal implications arising from this report.

7. Resource Implications

- 7.1.** There are no specific financial implications arising from this report. There are resource implications associated with the actions to be incorporated within the GCRB and regional operational plans. These resourcing requirements will be identified within these plans.

8. Strategic Plan Implications

- 8.1.** The Audit Scotland publication informs our future strategy. The identified actions will complement and support the ambitions set out in the Strategic Plan.

Annex A – Key Messages (Reproduced from the Report)

1. The college sector has continued to exceed the national target for learning but delivered slightly less activity than in 2014-15. Two regions failed to meet their target resulting in a reduction in funding for one college. The Highlands and Islands region met its overall target but two colleges within the region failed to meet their targets. The Scottish Government currently prioritises full-time courses for younger learners, and changes in demography and in school leaver destinations will make it harder for the sector to continue to achieve the national target.
2. Student numbers decreased slightly in 2015-16 and FTE is at its lowest since 2006-07. Both full-time and part-time student numbers fell in 2015-16, with the latter decreasing at a greater rate. Most of the reductions in 2015-16 were in the 16-24 years old age group. Overall demand for college places is still not recorded at a national level, so it is not possible to say whether the decreases reflect a fall in demand.
3. Student attainment improved in 2015-16. The overall percentage of full-time further education students successfully completing their course increased in 2015-16 (from 64 to 65 per cent). Most full-time students continue to be satisfied with their college experience. At least 83 per cent of students who achieve a qualification go on to a positive destination, such as further study, training or employment.
4. The financial health of the college sector remains relatively stable but has deteriorated since 2014-15. The underlying deficit has increased to £8 million (representing one per cent of income) and colleges hold £11 million less cash than in 2014-15. Four colleges face particular challenges to their financial sustainability. Staff costs remain the highest area of expenditure and have increased as a percentage of total spending. The number of people employed by colleges has increased by six per cent over the last two years.
5. Total Scottish Government funding to the college sector will increase by five per cent between 2015/16 and 2017/18, though the bulk of this increase relates to a capital project at a single college. Funding for running costs will increase by one per cent, but colleges face a number of financial challenges. In particular, in June 2016, Colleges Scotland estimated that implementing national bargaining could cost around £80 million (not adjusting for inflation) over three years. The sector has still to develop longer-term financial planning in order to support financial decision-making that takes account of both immediate and future cost pressures.

Annex B – Recommendations (Reproduced from the Report)

The Scottish Government and the SFC should:

- model how changes in demography and school leaver destinations affect the ability of colleges to continue to meet the national learning activity target
- complete the national estate condition survey and use this as a basis to prioritise future capital investment
- work with colleges to assess demand for college courses across Scotland, in accordance with our recommendation last year, in order to plan future education provision.

The SFC should conclude its work to:

- specify the adjustments that should be made to the financial position reported in college accounts, taking account of the approach we have used in this report, in order to reach an ‘underlying financial position’ that reflects the immediate financial health of each college
- require each college to include, within its accounts, the underlying financial position
- specify the common assumptions to be used by colleges when developing longer-term financial plans.

Colleges should:

- prepare longer-term financial plans, as we recommended last year, in order to support financial decision-making that takes account of both immediate and future cost pressures
- calculate the cost of harmonising staff pay, terms and conditions and include these in their financial plans.