

Annex A

Our ref: 247946808

28 August 2017

Jackie Baillie MSP
Acting Convener
Public Audit & Post-Legislative Scrutiny Committee
Room T 3.60
The Scottish Parliament
EDINBURGH EH99 1SP

Dear Ms Baillie

Scotland's Colleges 2017

I have pleasure in responding to the Committee's invitation of 6 July 2017, requesting a written submission in advance of the oral evidence session on 14 September 2017.

Our detailed responses are set out in the annex to this letter. In this covering letter I have provided an introduction which I hope will provide a useful context for the Committee.

As reported by Audit Scotland, the college sector has continued to deliver the amount of teaching expected of it. This is a significant achievement in a time of substantial change. I was also pleased to see the report note that progress being made by colleges with student attainment and that students' overall satisfaction was around 90%.

It is the case, though, that there are some major issues that need to be addressed, including: continuing to improve retention; with the implementation of national bargaining; and financial planning and health. We will continue to work closely with the sector, individual colleges and the Scottish Government to seek progress on these matters.

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I hope the foregoing and the attached detailed responses will be helpful to the Committee, and I look forward to exploring these and related matters further on 14 September.

Yours sincerely

A handwritten signature in black ink, appearing to read 'J. Kemp', with a stylized flourish at the end.

John Kemp
Interim Chief Executive

Annex – responses to specific matters in Audit Scotland’s report

Recommendations addressed to SFC

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

SFC routinely considers demography and the ways that changes in cohorts of young people and in their destinations impact on our work. Since last year, we have developed further our demographic model, which we use to align the number of college places to the needs of each region. (The demographic model essentially aims to quantify the number of young people in the region who are not at school or university or are not in a job or training programme. It also takes account of other factors, such as those claiming Job Seekers Allowance (JSA) in the 20 to 24 age-group and older students who have been claiming JSA for more than a year or are from the most deprived areas.) The model has been improved and refreshed with more up-to-date data and improved links to other datasets.

The conclusion from our modelling is that the system is broadly in balance. Looking ahead, the key issues are as follows:

- There is likely to be a decrease in the number of 16-24 year-olds looking to enrol in colleges for the next few years. We view this as an opportunity to extend provision for other age-groups (remembering that around 28.7% of college provision is already for learners aged 25 and above).
- From 2018-19 onwards the number of 16-24 year-olds will begin to increase, and therefore we need to retain the flexibility to adjust the balance of courses if necessary.

As part of the 15-24 Learner Journey Review, an evaluation is being undertaken of the costs and benefits of a learner choices and applications service, which would bring together student support information and the careers, advice and information system on My World of Work with UCAS, the application system for apprenticeships and a new college application process. Although this would not have as a prime purpose the provision of data to aid planning of provision, it is likely that information could be drawn from it to aid such planning. Related to that, we are currently working with the college sector on the collection of consistent application data across Scotland (see page 4).

And as described on page 5, we have also had discussions with the sector about long-term (5 year) plans for activity, and have provided written advice to colleges in that regard.

The Scottish Government and the SFC should complete the national estate condition survey and use this as a basis to prioritise future capital investment

We have now undertaken an estate condition survey across the whole college sector and the survey data is just about to be shared with colleges for validation purposes. Condition surveys evaluate the state of existing buildings using industry-standard classifications and estimate the cost of bringing these buildings up to the standard that represents an acceptable condition for the building's purpose. It should be noted that condition surveys do not provide a cost for the complete replacement of buildings, including where the costs of refurbishment and ongoing maintenance might be deemed uneconomic.

We will use the information gained from this survey in discussions with the Scottish Government for the current and future spending reviews and to inform our decisions on capital funding.

The Scottish Government and the SFC should 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

Clearly, this area of work overlaps with the work on demography discussed earlier in this letter. We are currently collecting information from colleges on full-time applications and related enrolment data for academic years 2016-17 and 2017-18. We have asked for returns for academic year 2016-17 by 28 July 2017 and 1 December 2017 for academic year 2017-18 data. We have received the 28 July returns and they are currently being analysed. However, we are very aware that this information, on its own, has to be handled carefully. There are many reasons for this, the most important being that the way people seek to engage with colleges varies greatly by college, course and over time. One of the biggest challenges is that many students contact a college for the first time immediately prior to the course start date, just after they have received their school exam results and, consequently, they may not be processed through the college's application system. Therefore, while we believe that information on trends in applications over two or more years will provide a helpful input to our demographic modelling, it is unlikely that the absolute numbers of applications on their own will be useful.

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

This work has now concluded. We consulted closely with sector finance representatives and other stakeholders in agreeing adjustments to the reported financial position that are required to reach an underlying financial position. The agreed position is set out in the 2016-17 Accounts Direction and the 2017 Financial Forecast Return.

The SFC should conclude its work to require each college to include, within its accounts, the underlying financial position

This work has now concluded. The 2016-17 accounts direction, issued on 30 June 2017, asks colleges to provide details of the underlying operating position. The direction includes a template for computation of the underlying operating position. The direction also highlights the importance of ensuring that the calculation of the underlying operating position is consistent with other disclosures within the accounts.

The SFC should conclude its work to specify the common assumptions to be used by colleges when developing longer-term financial plans

This work has now concluded. Guidance has been included within the 2017 Financial Forecast Return Call for Information on key long-term planning assumptions that should underpin the forecasts, which cover the six-year period ending Academic Year 2021-22.

Recommendations addressed to colleges

Although the following were addressed to colleges, we have provided comments on the current position from SFC's perspective.

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

The forecast period covered by the 2017 Financial Forecast Return has increased to six years (including Academic Year 2016-17) to address the recommendation made by Audit Scotland in the 2016 report on Scotland's Colleges. Colleges were asked to provide their forecasts to SFC by 18 August 2017. SFC consulted closely with college sector finance representatives and other stakeholders in developing the revised return and associated guidance.

Colleges should calculate the cost of harmonising staff pay, terms and conditions and include these in their financial plans

There remain a number of areas where the financial impact of implementing the National Bargaining framework cannot be fully quantified as at this time; only the direct costs of unpromoted and promoted lecturers' pay have been fully agreed, with talks on other issues continuing. As a result, estimates of costings have been developed around various scenarios and will be taken into account within colleges' 2017 Financial Forecast Returns, which include a sensitivity analysis sheet as a means of assessing the potential impact of positive and negative changes in planning assumptions. The outcome of our analysis of colleges' Financial Forecast Returns will feed into the forthcoming spending review.