

Agenda

Finance Committee

Monday 18th September 2023 – 5.30 pm at Coatbridge Campus and via Zoom

1. Chair's welcome
2. Apologies for Absence
3. Declarations of Interest
4. Minutes of Meetings **(FA)** Papers Posted
 - 4.1 Minute of Meeting 15th May 2023
 - 4.2 Minute of special joint meeting with ARC 15th May
5. Matters Arising from the minute
6. RSB and Assigned College Update **(FI)** Verbal update: RS

SLC Business

7. Head of Finance Report to RSB Finance Committee **# (FI)** Verbal Report: KMCA

NCL Regional College Business

8. FFR submissions ~
 - 8.1 NCL **(FR)** Papers Posted –LM/KMcA
 - 8.2 SLC **(FI)**
9. Horizon scanning – College Sector Financial Positions **(FI)** Papers Posted–AB/KMcA
 - 9.1 Audit Scotland Colleges 2023 Briefing Paper
 - 9.2 Colleges Scotland Briefing Paper

FI = For Information FA = For Approval FR = For Recommendation

***= non disclosable # = published on SLC website ~=Future Publication .**

Name Abbreviations: AB= Ann Baxter IC = Iain Clark, CM = Christopher NCL Principal ; BS/DMcG = Board Secretary RS= Ronnie Smith : MS = Matthew Smith; KMCA= Keith McAllister; Stella McManus SLC Principal PB = Paula Blackadder BP = Barbara Philiben; DC=Dugald Craig; LM= Lynn McKenzie NCL Finance Team;PN=Penny Neish

NCL Business

Finance Reports

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| 10. NCL Management Accounts Report (FI)* | Papers Posted- LM |
| 11. NCL Update on financial strategy approved by the Board | Verbal Report – AB |
| 12. NCL Educational Foundation Update (FI) | Paper Posted - LM/ CM |

RGP Committee Papers **(FI)**

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| 13. Update from RGP Committee on ICT Estate at NCL * | Paper emailed: BS |
| 14. Update from RGP Committee on NCL Estate* | Paper Emailed - BS |

General Committee Business

- | | |
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| 15. Committee Evaluation and Terms of Reference (FR) | Papers Emailed: PN/BS |
| 16. Approval of publication of committee papers from this meeting (FA) | BS |
| 17. AOB | |
| 18. Date of Next Meeting: The next scheduled meeting of the committee is the 20 th November September 2023. | |

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The Lanarkshire Board

Self – Evaluation Report 2022-23 and Board Development Plan 2023-25

“The Board must keep its effectiveness under annual review and have in place a robust self-evaluation process. There should also be an externally facilitated evaluation of its effectiveness every three to five years.”

Extract from the Code of Good Governance for Scotland’s Colleges

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Self-Evaluation Review

Over a 3-month period in 2022-23 the Lanarkshire Board undertook a self-evaluation exercise on its effectiveness as the Regional Strategic Body for Lanarkshire as required by the Code of Good Governance for Scotland's Colleges.

The assessment is based on the principles contained in the sector's Code of Good Governance; the Board Effectiveness questionnaire ([Appendix 3](#)) reflects the various sections in the Code. The sections take on board the principles of the Code but are adapted to the position of The Lanarkshire Board as a multi college region.

Background

The Lanarkshire Board is the Regional Strategic Body (RSB) for Lanarkshire comprising New College Lanarkshire and South Lanarkshire College. South Lanarkshire College undertakes a separate evaluation of its own Board and retains responsibility for staffing and estates (The Lanarkshire Order 2014). The gathering of information from RSB members was an iterative process undertaken over a number of weeks.

The **1:1 sessions with the Chair** were initiated in March 2023 and 99% completed by the end of May 2023. The two missing sessions being because of the work commitments of the Board members concerned and are scheduled to take place as soon as their availability allows. [Update: one of the outlying 1:1 sessions was completed in early July 2023.] The outline questionnaire for 1:1 discussions and Personal Development Plans, is attached for information at [Appendix 2](#).

The survey of the **RSB Committees**, together with the relevant remits, was circulated in May 2023 separately to all committee members and the chairs of the respective committees. The questionnaire is attached at [Appendix 3](#) and the feedback from the committees is summarised in section 3 of this report.

The **Board operational effectiveness** survey, was distributed later with members being asked to provide comment on specific aspects of Board operation as well as offering the opportunity for Board members to reflect on Board activity over the previous 12 months and identify their ambition for the Board in the coming 12 months. The questionnaire is at [Appendix 4](#)

The comments and suggestions gathered in the 1:1 sessions, the Committee survey and the Board Effectiveness questionnaire, together with feedback from college senior management, are collated into the **Board Development Plan** at [Appendix 6](#).

The Senior Independent Board Member carried out an **appraisal of the Regional Chair** and contacted all members of the Board for their views. His report is at [Appendix 5](#).

This report covers:

1. The Board self-evaluation process undertaken during 2022-23;
2. Feedback from the 1:1 discussions with the Regional Chair;
3. Feedback on the effectiveness of the 4 main RSB committees;
4. Analysis and findings of the Board Effectiveness survey, section by section, including general comment on the structure of the Committees;
5. Appraisal of the Regional Chair (Confidential);
6. The Board Development Plan for 2023-25;
7. Next steps;
8. List of appendices:

- Appendix 1 The Lanarkshire Board self-evaluation process 2022-23;
- Appendix 2 Outline questionnaire for 1:1 interviews and Personal Development Plans;
- Appendix 3 The Committee operation and structure questionnaire;
- Appendix 4 The Board Operating effectiveness questionnaire;
- Appendix 5 Appraisal of the Regional Chair (Confidential)
- Appendix 6 Board Development Plan 2023-2025

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1. Self- evaluation process: Appendix 1

The stages of the self- evaluation process are described in more detail in [Appendix 1](#).

We have included the following broad areas which we believe meet the requirements of the Code of Good Governance for Scotland's Colleges:

- Personal Development Plans for Board members following 1:1 discussions with the Regional Chair;
- A separate evaluation of the effectiveness and operation of the 4 main RSB Committees;
- A full Board operational effectiveness review including a general question on the Committee structure covering:
 - leadership;
 - quality of student experience;
 - accountability and staff governance;
 - overall effectiveness;
 - relationships and collaboration.
- An evaluation of the Board Chair carried out by the Senior Independent Member;
- Next steps to address the issues and ideas generated in the different sections of the evaluation.

The full Board operational effectiveness questionnaire elicited responses from **12** members of The Lanarkshire Board and one from the senior management team. At the time of the survey there were 2 vacancies on the RSB, reducing the full complement of Board members to 20; 3 of the 5 Board members from SLC elected not to respond to the questionnaire. At the time of the evaluation a recruitment exercise was in process as the terms of 5 RSB Board members were due to finish over the summer period 2023. In addition, the dissolution of the Region, as recommended by SFC in its report 'Coherence and Sustainability: A review of Scotland's Colleges and Universities Phase One Report: Insights to Develop Further', published in October 2020, had still not been advanced. The Region Transformation Group, chaired by the Scottish Government and run by SFC, has not met since before COVID. Both colleges continue to press for the group to be re-energised to enable NCL and SLC to progress independently while collaborating for the benefit of the learners in Lanarkshire.

2. Feedback on the 1:1s and Personal Development Plans

Questionnaire/outline for discussion at Appendix 2

Post COVID return to face to face meetings were welcomed, although the convenience of Zoom meetings was acknowledged. Remote meetings were considered particularly counterproductive for newer members of the Board for which this format did not provide the opportunity for informal discussion with longer serving members which would normally have taken place around face to face meetings. This had proved to be considerable drawback to their understanding of some of the more complex issues discussed by the Board and therefore their development as major contributors to meetings.

Follow up actions to address the points raised in the discussion sessions:

Information sessions:

There was particular Interest in information sessions on:

- finances in the college sector and how they are organised, specifically income streams;
- the organisation of the college sector in Scotland and the roles of partner agencies;
- sector jargon and acronyms;
- regional strategic planning;
- cyber security;
- risk appetite.

Additional actions:

- Reintroduction of the buddy/mentor scheme;
- In addition to sessions organised by the Board Secretary of the RSB, ensure members have the opportunity to attend development modules such as those offered by the College Development Network on governance, and relevant modules provided by the NCL Staff Development Academy;
- Investigate how to improve the presentation of papers for meetings and ensure that a context/summary is always provided;
- Follow up with the Principal and his senior team on the development of more regular strategy sessions with the Board;
- Develop closer links with the NCL senior team to gain better insight into potential strategic issues requiring Board decisions;
- Improve updating members on key issues between Board meetings, especially around decisions taken in the Chairs' Committee where time constraints had not enabled full Board discussion prior to the event.

3. Feedback on the Committee structure Questionnaire at Appendix 3

There are 4 main RSB Committees which meet quarterly before regular Board meetings:

- Audit and Risk Committee (ARC)
- Curriculum, Student Affairs and Outcome Committee (CSAO)
- Finance Committee
- Resource and General Purposes Committee (RGP)

There are also 3 ad hoc committees which meet as necessary:

- Chairs' Committee
- Nomination and Search Committee
- Remuneration Committee

i) Audit and Risk Committee (ARC)

Overall members are happy with the way this committee is chaired and how it operates, responses being mainly “1”s.

Comments include:

What we have done well over the last 12 months:

- The ARC has been very successful in supporting the review and corrective actions around the SLC governance challenges. Particularly, the engagement of the Chair of the ARC in supporting the Board and the Board Chair in resolving the complex issues;
- Provision of clear and straightforward navigation of the various challenges associated with the SLC position and the impact upon the RSB/NCL. Strong and sensible guidance on matters relevant to college risk;
- Partnership working with the assigned college, much of which has taken place out with the committee meetings. Very refreshing to see such collaborative working;
- Risk Management controls, understanding of Risks and actions;
- Excellent transparency;
- External auditor’s management and control of internal audits and follow-up;
- The Audit committee and the especially the Chair has held individuals, groups, responsible areas to account.

Development I would like to see in the next year:

- Perhaps an opportunity for joint meeting/working with the finance committee in order to ensure a more joined-approach to the development of a clear financial strategy for NCL;
- When a review of a college service has an overall conclusion of weak/unacceptable it might be useful to include the manager of the service when the report is discussed.

ii). Curriculum, Student Affairs and Outcomes Committee (CSAO)

Members’ responses are mainly “1”s. Where members recorded “2”s they were against the questions relating to the CSAO being forward looking and whether members have sufficient knowledge to contribute to discussion. These points will be addressed in the proposed next steps to work more closely with the Principal and senior team to identify strategic developments and provide the appropriate briefings.

Comments include:

What we have done well in the last 12 months:

- Engagement with student representatives, but perhaps we should encourage them to not only update CSAO on their activities, but also what students want from us;
- Excellent engagement of Student representatives from SLC and NCL;
- The CSAO Committee was actively involved in the development of the enhanced curriculum through the partnership with UWS. There should be more partnership working for the benefit of the learners in Lanarkshire;
- I think that the Committee has provided good focus upon examining, challenging and enhancing the performance characteristics of the College. I think, too, it has provided an excellent mechanism by which the student voice can be expressed;

- Despite the extraordinary difficulties over the last 12 months with funding cuts, COVID recovery, cost of living crisis to name a few, our committee members have remained professional, focused, and dedicated to doing the best we can for our students and college. It has been an absolute pleasure to serve on the board and committees;
- Sharing student initiatives across the region;
- The CSAO has successfully been inclusive and welcoming to South Lanarkshire College colleagues. The group has worked well discussing challenges faced by the college sector and has highlighted good practice achieved by both colleges;
- The committee has been proactive in addressing the current SFC funding deficit and the funding issue going forward.

Development I would like to see in the next year:

- More regular updates on funds such as bursaries, and how hardship funds and access funds are used;
- Enhanced scrutiny of targets linked to with an overview of budget implications regularly considered;
- I think it may be worthwhile looking at the performance successes of SLC in relation to their Education Scotland performance – with a view to determining benefits to be gained for NCL;
- To develop a Board and committee space on Teams to negate the distribution of papers by email.

iii). Finance Committee

Committee members' responses were very broadly in the "1"s category 'strongly agree', however there were some "2"s mainly in relation to 'is the committee forward looking', and 'do members have sufficient knowledge to contribute'. The comments on this were helpful. As for the CSAO Committee above these points will be picked up with the Principal and Senior Team. A particular concern was raised about the lack of development of a regional approach to planning and monitoring of financial matters. This has become entangled with the SFC decision to dissolve the Regional Strategic Body (see section 1 of this report) and the lack of progress being made by the suspension of the activities of the Region Transition Group

Comments include:

What we have done well in the last 12 months:

- Chair of committee brings useful challenge and reflect to those attending the committee

Development I would like to see in the next year:

- Further financial challenge of senior executive to ensure we provide clear and sufficient information to the committee to enable wider participation in the discussions and decisions;
- Longer term planning/visioning which reflects the financial situation within the sector.

iv). Resources and General Purposes Committee (RGP)

Responses were mainly "1"s and "2"s though there were a couple of "3"s in relation to being forward looking and around engagement with strategic partners. These points were also reflected in the responses of one of the senior team who has recently started attending the RGP.

What have we done well in the last 12 months

- Overall estates review

- Developed and utilised not only an ongoing and improved understanding of the College's and Region's business, but also a greater awareness of the environments they operate in – the relationships and partnerships that affect and impact upon engagement and delivery overall;
- Being as informed as is possible, but also demonstrating a willingness to listen, to be pragmatic and to be as adaptable as possible whenever a situation demands it.
- Level of detail on what can be complex issues is always good. We have done well with what we can control.

Development I would like to see in the next year:

- Issues relating to cladding often take a lot of time, perhaps given the very specialist aspect a separate meeting should be held and only an update at RGP;
- The FE Sector is facing numerous challenges with its colleges bearing the brunt of these. The impact upon learners, staff and management is likely to be significant. From a Lanarkshire perspective, it will be crucial for the improved operating arrangements with South Lanarkshire College to continue and, as a result, for the Region to be in a much better position to respond far more effectively and efficiently than would otherwise have been the case.
- Additionally, I would like to see a continuing return to more “face to face” environment where, to my mind, the benefits over online meetings are fundamental and offer:-
 - An improved ability to gauge others' reactions during discussions and to work in a more positive way to address concerns;
 - An increased opportunity to judge and spark new thoughts and ideas; and
 - More generally, an opportunity to create improved prospects of a more engaging Board and Committee structure where individual characteristics and personalities are better known and can be better utilised.

4. The findings of the Board operational effectiveness survey

A copy of the questionnaire is attached at **Appendix 4**

Summary: The overall feedback on the Board's operational effectiveness was positive; by far the responses were “1”s and “2”s (strongly agree/agree) with a smattering of “3”s and one “5” (strongly disagree). Alongside the “3”s, the comments made by some Board members indicate the areas we need to focus on in order to improve Board performance and at the same time encourage informed participation in discussion by a wide range of Board members. The one “5” in the survey is in connection with Staff Governance and clearly this response cannot be overlooked.

SECTION 1 of the questionnaire: THE BOARD'S LEADERSHIP AND STRATEGY ROLE

This section was subdivided into:

- ethical leadership
- strategic leadership and
- corporate social responsibility

The majority of Board members scored “1” or “2” (strongly agree/agree); two scored “3” in the 3 subdivisions in this section but there were no scores “4” or “5”. In addition to being asked to rate Board performance, Board members were invited to give their comments on “what we did well in the last 12 months” and “developments I would like to see in the next 12 months”.

Among the comments on the leadership section of the survey some examples are:

What we have done well over the last 12 months:

- Working with College senior management to help provide strong focus and direction on the tasks in hand; this during an ongoing period of stress & strain on different fronts. The social elements were not forgotten either, with the continuing provision of meals to learners and, subsequently, the launch of the [NCL Education] Foundation;
- Board being aware timeously of issues;
- We have focused on the student experience;
- The Board is always thoughtful regarding the impact of any decision on students, staff and the wider community;
- Having witnessed some issues that have occurred in other FE colleges, I believe that our board operates collegiately but with the correct amount of challenge when required.

Developments I would like to see in the next 12 months:

- Strategy to address the financial challenges ahead;
- Increased opportunities to focus on forward looking strategic considerations;
- The key issue is effective use of resource. As resource is a challenge that may impact the leadership we can provide. Lack of resource also means time being allocated to mitigate that as opposed to providing leadership;
- Constant financial monitoring will be required;
- To continue developing initiatives that improve outcomes for the students, the staff and the local community.

SECTION 2 of the questionnaire: QUALITY OF THE STUDENT EXPERIENCE

The subsections covered here are:

- student engagement
- relevant and high-quality learning
- quality monitoring and oversight.

At each of its meetings the Board is updated on student projects and activities by the Students' Association Presidents from both colleges; the Board has maintained its strong relationship with both Students' Associations. The Chair has an open access policy to all Board members, especially the Student Presidents, should they wish to raise any issues with him outwith regular Board and Board Committee meetings.

Feedback in the questionnaire from Board members was very positive in relation to the Student Associations' contributions with some constructive ideas for further development. All questionnaire respondees marked this section with "1" and "2" ("1" = strongly agree/agree) with one "3" in the section on 'student engagement'.

Comments in relation to the quality of the student experience section include:

What we have done well over the last 12 months:

- The continuing development of Student Association/Board interactions has been very positive and, in my opinion, is now light years ahead of where we were previously. I believe that this view is shared by the SA Presidents. With changes to the Board and SA positions imminent, it is my fervent hope that these improvements continue offering a better learning environment for all concerned;

- I think there are challenges in terms of working with external agencies who are also suffering from the current economic position;
- There is a focus on the student learner;
- In terms of student voice, I believe students have a strong voice at the table through the student reps;
- SA reports have developed and become very informative.

Developments I would like to see in the next 12 months:

- Board should interact more with staff – in the past the Board were assigned to different departments;
- While we have mechanisms in place, what are the outcomes? Can we evaluate the impact of cuts on the college student experience?
- We need to be even more closely linked in with the Lanarkshire region to ensure that the college is providing the right courses;
- It is increasingly difficult to improve, or indeed maintain, the student experience with an ever-decreasing budget.

SECTION 3 of the questionnaire: ACCOUNTABILITY

This section has subsections:

- Accountability and Delegation arrangements
- Risk Management
- Committee Structure

Predominant responses in the 3 subsections are “1”s and “2”s, (strongly agree/agree) however there are several “3”s in the first two subsections given by 2 individual Board members. These could be interpreted be as ‘don’t knows’ as they came from newer or less experienced members of the Board, or that the Board’s performance in these areas is perceived as average and needs to be tightened up. Further information is required before appropriate action can be decided.

One member felt that the ‘scoping and monitoring sources of evidence (internal and external to the region) to ensure that risks and potential new risks, are understood and controlled’ should be strengthened while another commented that some of the decision making could be more transparent. Neither of these concerns were reflected more widely but they remain points to be followed up.

The **Committee structure** was supported by all respondees. Please see section 3 of this report for the detailed feedback on the 4 main RSB committees.

Comments in relation to Accountability include:

What we have done well over the last 12 months:

- Continued to deliver professionally and appropriately despite the difficulties and barriers eg credit delivery, finances and the governance situation at South Lanarkshire College that persisted for much of the year;
- We have maintained focus on the financial performance of the College;
- Committees from NCL and SLC have formed stronger working relationships;
- Majority of papers issued with adequate time for Board members to have meaningful discussions/debates.

Developments I would like to see over the next 12 months:

- Increased opportunities to better include all Board Members into College life. The benefits of doing so should enable improved awareness and understanding of the “working” college, thus allowing more knowledgeable and informed contributions across a wider range of matters for the benefit of the Lanarkshire Colleges;
- Less “regular” use of the Chairs’ Committee;
- Resourcing committees (increasing committee member numbers perhaps) so that they remain quorate for all sessions;
- Now COVID is away is there a requirement for a Chairs’ Committee?

Staff Governance

All responses in this section were either “1” or “2” with one exception which was a “5”.

Comments include:

What we have done well over the last 12 months

- Albeit with well identified and conveyed concerns about the process, handled the governance situation at South Lanarkshire College in as good and appropriate manner as was possible;
- I feel like the board treats and listens to everyone equally.

Developments I would like to see over the next 12 months:

- The effective and positive conclusion of the dissolution of the current Regional College/Assigned College structure in Lanarkshire;
- We are able to work within the parameters that we can in terms of management of staff;
- Unions having access to the Board to assist in resolving the poor unions/management relationship.

SECTION 4 of the questionnaire: EFFECTIVENESS

Sections in this part of the survey were:

- The Regional Chair
- Board members
- Board Secretary
- Board member recruitment, induction and development
- Board evaluation and Development Plan

Feedback on the role of the Regional Chair was overwhelmingly positive with “1”s and “2”s, as were the comments on the knowledge and skills of Board members and the role and effectiveness of the Board Secretary. Three Board members gave “3”s in their responses on the induction process and the ‘regular review and updating of the Board Development Plan’ and on ‘Board members keeping their own development requirements under review’.

From the responses and the comments to this section it is important to ensure that these issues are taken forward with the Chair and Board Secretary and to put improved arrangements in place to address the concerns raised. Board members need to be confident that they are well briefed and can confidently contribute to Board discussion and its overall effectiveness. It was also suggested that a

more manageable self-evaluation process both for the annual Board performance review and for the appraisal of the Chair should be found.

Comments include:

What we have done well over the last 12 months

- Clerk to the Board's knowledge is invaluable, Chair makes himself available to all Board members, the Independent member is very caring;
- The Chair and secretary have shown great leadership;
- Worked together! (Although would like to see a return to face to face meetings as opposed to the Zoom/Hybrid models used – of necessity – over the last period);
- I think the board operates relatively efficiently and effectively. I know who to contact for any issue or for developmental support, and the chair is very responsive and can be called on at any time.

Developments I would like to see over the next 12 months

- For the benefit of the two colleges and the region as a whole, it will be imperative for the dissolution of the current operating arrangements – the regional and assigned college structure – is dealt with as sensitively, but as timely as is possible. We are now some considerable time from when it was decided these arrangements would be curtailed and, even considering the impact COVID had on the process, real progress is required.
- Also, in keeping with comments elsewhere and especially considering the number of new Board Members that will be recruited in the new term, renewed attention to such as supporting and developing the Board – individuals and as a whole – be given and applied.
- I think there should be a more structured training program for board members. The initial training is helpful but I think there should be training given that is tailored to specific committees and also on specific topics.
- I would like to receive board papers as one PDF to make it easier to digest as a recipient.

SECTION 5 of the questionnaire: RELATIONSHIPS AND COLLABORATION

This responses to this section were very positive, all "1"s and "2"s.

Comments include:

What we have done well over the last 12 months

- We have continued to build on the internal and external relationships required to help deliver an effective education platform for staff and learners alike;
- We have strengthened relationships with SLC and associated committee structures. That said the assigned college has consumed a lot of time and attention;
- Staff rep invited to meeting with SFC for transparency and allowed to feed into process;
- SLC reports made available and presented well.

Developments I would like to see over the next 12 months

- Whatever the eventual dissolution agreement looks like, the impact upon the colleges, the region, staff and learners should not be a negative one;
- Whilst outside of our immediate control, it would be good to reach a resolution with the assigned college. Whilst SLC have their own board, we are the board of NCL AND the assigned college and NCL deserve more of our focus and attention.

5. Chair's review: Appendix 5

This was undertaken by the Senior Independent Member. His full report is at [Appendix 5](#).

Summary

There is no question that the last year has been a particularly challenging one and that there remain a number of difficulties which will continue for some time yet – financial concerns, regional needs and the dissolution of The Lanarkshire Order etc. However, it is clear also that the Regional Chair is regarded as being an effective leader of the Board, that he communicates confidence in his leadership and in his guidance around/navigation of issues. While work remains to be done, he has advanced the environment in which Board Members contribute - noteworthy in itself because of COVID and the Assigned College challenges - as well as, in robust conjunction with the College's Senior Management Team, strengthened the relationship it enjoys with Board Members, the benefits of which are then evident at all levels within the College.

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6. Board Development Plan

Arising from the questionnaires (Appendices 2, 3 and 4) a number of constructive suggestions were put forward by Board members:

- To strengthen the Induction programme for new Board members;
- To revise and reintroduce the mentoring/buddying programme;
- To have Information sessions on:
 - Partner agencies, their structure and how they interact with colleges;
 - Sector jargon and acronyms;
 - Sector finances and how they are constructed;
 - Cyber security;
 - Risk appetite;
- To work with the senior team at NCL to ensure members have sufficient and appropriate information to enable them to participate in discussions at the Board and in committees;
- To consider better interaction between the Board Committees on key issues especially in relation to finance and risk where crossover meetings between the Finance and Audit and Risk Committees could be beneficial;
- How to involve more Board members in important matters;
- Having strategy sessions outwith the regular Board meetings which of necessity are heavily laden with process issues leaving little time for discussion and the generation of new ideas;
- Closer collaboration between the Lanarkshire colleges and the region's agencies;
- Setting a defined annual meeting date for the Remuneration Committee;
- To review how papers are presented to the Board and to ensure there is a cover sheet setting out the context with clear direction for the Board on the action needed.

7. Next steps following approval by the RSB and submission to SFC:

1. To put in place regular information sessions as noted in the section above, and to advise members of forthcoming events run by third parties;
2. To research and implement additional methods of induction for new Board and Committee members;
3. To work with the Principal and his senior team on future strategy events with Board members;
4. To investigate ways to improve the presentation of papers at Board and Committee meetings;
5. To consider how to we engage the wider board members in a more active and participative manner;
6. To continue to engage closely with, and give support to, the students through the Students Association;
7. To find more timely ways to keep Board members informed of developments, especially when decisions have been taken in the Chairs' Committee because of the need for speedy action.

8. Appendices:

- Appendix 1 The Lanarkshire Board self-evaluation process 2022-23
- Appendix 2 Outline questionnaire for 1:1 interviews and Personal Development Plans
- Appendix 3 The Committee operation and structure questionnaire
- Appendix 4 The Board Operating effectiveness questionnaire
- Appendix 5 Chair's appraisal undertaken by the Senior Independent Board Member
- Appendix 6 Board Development Plan 2023-25

Minute

Finance Committee

Monday 22nd May 2023 5 pm Blended – Face to Face in the Boardroom at the Motherwell Campus and via Zoom

Present Face to Face: Barbara Philliben, Christopher Moore

In Attendance: Ann Baxter, Diane McGill and Penny Neish

Via Zoom: Paula Blackadder, Iain Clark, Moira Jarvie, Keith McAllister, Stella McManus

- 1. Chair's welcome:** Paula Blackadder welcomed all to the meeting
- 2. Apologies for Absence:** There were apologies from Clare Gibb.
- 3. Declarations of Interest:** There were no Declarations of Interest.
- 4. Minutes of Meeting:** The minutes of the meeting on the 27th February were approved.

5. Matters Arising from the minutes:

5.1 The Committee noted that there had been a presentation to the Board on the 15th May 2023 by the Principal and Executive Board which covered the action re Executive Board scenario planning. The Board took a number of decisions to mitigate the current financial position at NCL.

5.2 The Board Secretary had liaised with Mazars and SLC to set meetings to approve the accounts. She also checked the minute for the Education Foundation and had discussed this with the Chair.

6. RSB and Assigned College Update: The Board Secretary informed the Committee that the Chair of the Board had written to the Scottish Government in February 2023 about re-establishing the Lanarkshire Transition Group and he had also raised this with the SFC. There had as yet been no response and the regional arrangements remained in place for the time being as they were established in the Lanarkshire order.

7. SLC Head of Finance Report to RSB Finance Committee: Keith McAllister presented his report to the SLC Finance Committee as follows:

- **Accounting Policies:** SLC Committee Members approved the principal accounting policies for the preparation of the 2022/23 financial statements, noting that there were no proposed changes from the prior year.
- **Report and Financial Statements for the year to 31 July 2022:** It was noted that the Consolidated financial statements had been approved by the Regional Board on 15th May. It was also reported that work had commenced on the audit of the 2022/23 accounts, with the new auditors, Audit Scotland, having made an interim visit.

- **Management Forecast – 12 months to July 2023:** SLC Committee Members noted that the College had submitted a deficit budget to SFC for the year. The forecast presented to the meeting showed a slight decrease in that deficit. As had already been noted, forecast income was proving to be more of an issue than anticipated, with the same problems around the areas of full time HN fees, reflecting the continuing downturn in recruitment in that area that had been reported throughout the college sector and that no agreement yet on potential funding from the Shared Prosperity Fund, which the College had assumed would have been available to it in 2022/23. It was noted though, that the College had been able to increase its prior year ESF income through being able to release a clawback reserve and that negotiations on the Modern Apprenticeship contract had resulted in an increase in activity. It was noted that whilst the Budget had incorporated a 3.0% increase (from 1st September 2022) for all staff, there had been no agreement with the relevant trades' unions. SLC Committee Members noted that a 1.0% increase over this figure would cost the College approximately £130k. Members noted that further investigation costs had been incurred in the quarter, largely as a result of enquiries from the external auditors. It was to be hoped that this would be the final costs to be incurred.
- **Cashflow 2022/23.** SLC Committee Members noted the cashflow position both at the end of April and the forecast as at July 2023, noting that funds were sufficient for working capital purposes through the period.
- **Facilities Update:** SLC Committee Members noted the work being undertaken on surveying the building, including the intrusive external survey, and on internal space utilisation. The results of both would help to inform the Value for Money Group where the funds earmarked for capital and estates work should be focussed.
- **Indicative Grant in Aid Allocation for 2023/24:** SLC Committee Members noted that the indicative allocation of grant in aid had been issued by SFC. As expected, funded activity was reduced across the sector by 10.00%. However, Lanarkshire was one of the regions which had suffered a further decrease, that being 0.75%. The Principal had sought reasons behind this further decrease from SFC and was informed that this was due primarily to New College Lanarkshire not meeting its funding targets over the past few years. It was reported that whilst the activity target had been reduced, SFC would be distributed the same level of funding to the sector as 2022/23. It was reported that College representatives had met with representatives of NCL to discuss the split of the indicative allocation. Whilst SLC representatives felt that the 0.75% decrease should not affect the College as the previous year's activity target had, once again, been met. NCL representatives felt that the decrease should be split as per the existing split of activity (i.e., SLC 27.1%, NCL 72.9%). The Lanarkshire Regional Strategic Body make the ultimate decision. It was agreed that the Capital allocation, which incorporated an allowance for backlog maintenance, and student support funds would be split on the basis of 27.1% / 72.9%, which was the first time that this had happened and was appreciated by South Lanarkshire colleagues. It was also noted that NCL wished to retain the top slicing for Access and Inclusion; SLC representatives asked for a methodology behind the top slicing. It was noted that the allocation for the support staff Job Evaluation exercise would be retained by SFC until the exercise had been completed, although management and members expressed concern about the length of time that the project was taking to complete. Noting that funds being held by the Scottish Government were to address the evaluation of jobs as at 1st September 2018, it was reported to members that there was a proposal to allocate the held funds on a pro- tem basis and to rethink the process due to the lack of meaningful progress and a fear that the funds could be taken back by the Scottish Government and lost to the sector. The final grant in aid allocation would be announced towards the end of May although there was no

expectation that there would be any changes. There would, it was hoped, be an announcement on the smaller ring-fenced allocations such as Digital Poverty.

- Management informed SLC Committee Members that work was well under way on preparing a draft budget which incorporated the decrease in activity.
- **Capital Expenditure Plan:** As already noted, the SFC allocation for Capital and Estates was increased significantly but, counter this, there was no allocation for backlog maintenance. Management was meeting within the fortnight to discuss the implications of the relevant surveys and funding with a view to reassessing priorities for the years ahead. Members were assured that the College was taking on board concerns about longer term plans.

8. Update SLC 2021/22 Accounts and Financial Statements: Keith McAllister had noted that the SLC accounts had been approved, signed and submitted at Item 7 para 2 above.

9. Update RSB Consolidated Accounts 2020/21: The NCL Annual Audit Report and the Financial Statements had been approved at special meetings of the ARC and Finance Committees and the Board on the 15th May 2023. Iain Clark informed the committee that they had been signed and the year-end returns were submitted to the SFC. They had also been sent to OSCR although OSCR agreed not to publish them until they had Parliamentary clearance and were in the public domain.

10. Mid- Year Return

10.1 Iain Clark presented the mid-year return as follows:

- The underlying operating deficit for the College at this stage is forecast at £3,079k for the College, offset by £190k Amcol surplus, totalling **£-2,889k (-4.9% of Total Income)**. It was noted that this deficit is before any potential SFC recovery of funds in relation to a possible under-delivery of Credits, currently estimated at £1,970k giving a revised deficit of £4,859k (-8.2% of Total Income).
- The original FFR/Budget predicted a small surplus of £16k and a movement of £-2,905k is forecast. The main variance can be quantified as:
 - ❖ £2,101k lower income: £923k lower SAAS (HE fees), £208k lower MA, £212k lower Catering sales (offset in part by reduced expenditure) and other income streams. £869k is lower Childcare Income cancelled by Childcare Expenditure.
 - ❖ £3,040k higher than budgeted Staffing being principally:- £1,128k forecast pay increase above original budgeted Public Sector Pay Policy.
 - ❖ Increased temporary requirement of £145k in term 2.
 - ❖ Collective overall planned efficiency savings within Professional Services and Academic departments not achieved along with underlying operating staffing adverse variance of c1.8% - cumulative c£1,642k .
 - ❖ Offset by savings in Operating Expenses (£2,416k, 16.5%) due to lower than budgeted delivery, offsetting of certain income streams and careful monitoring and controlling of costs.

10.2 There are ongoing discussions with the SFC. They may enforce clawback for not meeting credit targets and this is causing sector concern. On top of the September 2022 pay increase being outstanding, there is also another pay rise due in September and this could be 5%. NCL is working with SFC to smooth cash flow and ESF repayments have been re-scheduled. The SFC is aware of the perilous cash flow problems which will lead to cash being exhausted and necessary SFC intervention in March 2014 based upon current profile. Paula Blackadder had raised the issue of clawback from the SFC and was informed

that the direction of travel was clawback and also commented on the cost of energy. Iain Clark said that there was some comfort there due to large scale advance purchases being made by APUC which would provide some cushion, however substantial increases were still likely.

11. Horizon scanning –

11.1 NCL Financial Position and Regional Allocation Update. The Committee considered the Regional Allocation presented and noted that there was less funding to the region. Funded activity was reduced across the sector by 10.00%. However, Lanarkshire was one of the regions which had suffered a further decrease, that being 0.75%. The Committee had been informed at Item 7 point 6 above about the indicative allocation as follows:

- Whilst SLC representatives felt that the 0.75% decrease should not affect the College as the previous year's activity target had, once again, been met. NCL representatives felt that the decrease should be split as per the existing split of activity (i.e., SLC 27.1%, NCL 72.9%). The Lanarkshire Regional Strategic Body make the ultimate decision. It was agreed that the Capital allocation, which incorporated an allowance for backlog maintenance, and student support funds would be split on the basis of 27.1% / 72.9%, which was the first time that this had happened and was appreciated by South Lanarkshire colleagues. It was also noted that NCL wished to retain the top slicing for Access and Inclusion; SLC representatives asked for a methodology behind the top slicing. It was noted that the allocation for the support staff Job Evaluation exercise would be retained by SFC until the exercise had been completed, although management and members expressed concern about the length of time that the project was taking to complete and whether these funds would ultimately be released.

11.2 The Committee agreed to recommend the indicative allocation which would require Board approval at the next Board meeting.

12. Update from RGP Committee on ICT Estate at NCL: this paper was for noting. The impact that being able to fund ICT infrastructure through the Very High Maintenance Fund was clear and this had been transformational for students and staff. It would improve the student experience and enhance digital working. Paula Blackadder commended the activity which was a major positive for the college given the problems set out to the committee previously in the ICT survey report.

13. Update from RGP Committee on NCL Estate: this paper was for noting including the separate paper on the Coatbridge Nursery.

13.1 The netting is secure at the Motherwell Campus. There is an adjournment of the legal activity until the 28th June 2023. On agreement with Mazars, and after discussion with BTO, there is a note rather than a contingent liability on the accounts for this as the risk liability is still uncertain as to where it falls, and the potential liability cannot be quantified at this stage.

13.2 The lease at the Hamilton Campus is being terminated. There is a meeting with the council re the dilapidations. It seems counter intuitive to have to take down partitions etc when these may well have to be re-instated by the new landlord. It is hoped to arrive at an arrangement that will keep costs down.

14. NCL Educational Foundation Update: This paper sets out the very successful launch of the Foundation with Elaine C Smith performing her one woman show at the Coatbridge Campus and the very successful

fund raising to date. The paper sets out that the current remaining balance in Foundation funds is £23,951.63, and the spend in the academic year to date is £19,623.93 providing 26,165 breakfasts. The college registrar is working on payroll donations as an additional means to fund raise in the future.

15. NCL Management Accounts Report: Iain Clark informed the committee that the focus is now more on the year-end forecast than the YTD position, and there was nothing of materiality coming out in the Management Accounts that would dramatically move the mid- year return forecast. Core SFC funding income is guaranteed to the extent of 2% tolerance in relation to any core Credit under-delivery this year but there may be clawback if this is exceeded. Unfunded pay settlements would have a significant detrimental impact. The cash flow position is fragile. Christopher Moore confirmed that he had approved the Management Accounts for March 2023 at the weekend.

16. Procurement Strategy: A new public procurement strategy for Scotland was published in April 2023 and the NCL procurement strategy and action plan had been updated in line with this document. Iain Clark informed the committee that there were small changes but nothing significant. The timing of the submission of the procurement strategies to the Committee would be reviewed and it may be that it needs to be moved from Nov/Dec to this cycle May/June. The Committee noted the revised strategy and plan.

17. Committee Evaluation and Terms of Reference: Committee members were asked to complete the evaluation of the committee form and to return it to Diane McGill and Penny Neish by the end of the week.

17. Approval of publication of committee papers from this meeting: The committee approved the publication of the agenda, the approved minute from the 27th February 2023, the procurement strategy for Scotland and the updated NCL strategy and plan and the committee evaluation form and Terms of Reference.

18. AOB: There was no other business.

19. Date of Next Meeting: The next scheduled meeting of the committee is the 11th September 2023.

Scotland's colleges 2023

A briefing paper



AUDITOR GENERAL 

Prepared by Audit Scotland
September 2023



Key messages

- 1** Scotland's colleges are vital to learners and local communities. Risks to the college sector's financial sustainability have increased since we reported in 2022. Rising staffing costs are colleges' biggest financial pressure.
- 2** The Scottish Government's funding for the sector has reduced by 8.5 per cent in real terms between 2021/22 and 2023/24, while the sector's costs have increased. Effective, affordable workforce planning is now a greater than ever priority and challenge for colleges.
- 3** Significant changes to how the college sector operates have been recommended by recent reviews. However, the Scottish Government and the Scottish Funding Council urgently need to build on their ongoing work to help colleges plan for change now, and make best use of available funding so that they are sustainable for the future.

Accessibility

You can find out more and read this report using assistive technology on our [website](#).

For information on our accessibility principles, please visit: www.audit-scotland.gov.uk/accessibility.

Scotland's colleges have a vital role

Colleges provide valuable learning and facilities, support economic growth and help people achieve wider outcomes

1. Scotland's colleges offer academic and vocational courses to develop people's skills and knowledge for work, continued study or general interest. Students can choose to study full-time, day release, evenings, block release or on an open learning basis. The courses that college students undertake contribute not only to their own development but also to Scotland's sustainable economic growth. Colleges are valuable hubs whose facilities may also be used for local community purposes, including as meeting spaces and sports venues.

There are different types of colleges

2. Of the 24 colleges in Scotland, 22 sit in college regions that have one or more colleges. Nineteen colleges are classed as 'incorporated' and are public bodies that are subject to audit by the Auditor General for Scotland (AGS). As public bodies, incorporated colleges are not permitted to retain reserves at the end of their financial year. The five unincorporated colleges (**shown in bold in Exhibit 1 (page 4)**) are not audited by the AGS and have a range of constitutional arrangements. Two establishments are outside colleges' regional arrangements. **Sabhal Mòr Ostaig** offers further and higher education opportunities through the medium of Scottish Gaelic. **Newbattle Abbey College** is an unincorporated residential college that caters largely for students returning to education in adulthood. In addition, **Scotland's Rural College** is a higher education institution that contributes to the national target for colleges.

3. On 1 August 2023, UHI North Highland and UHI Lews Castle, both of which were incorporated, merged with each other and with UHI West Highland, which was previously unincorporated. The new, merged college is known as UHI North, West and Hebrides. It is expected to be assigned to the University of the Highlands and Islands (UHI) and incorporated. This merger is designed to create an institution of scale which will improve sustainability and create benefits for students, staff and stakeholders across a wide region of Scotland.

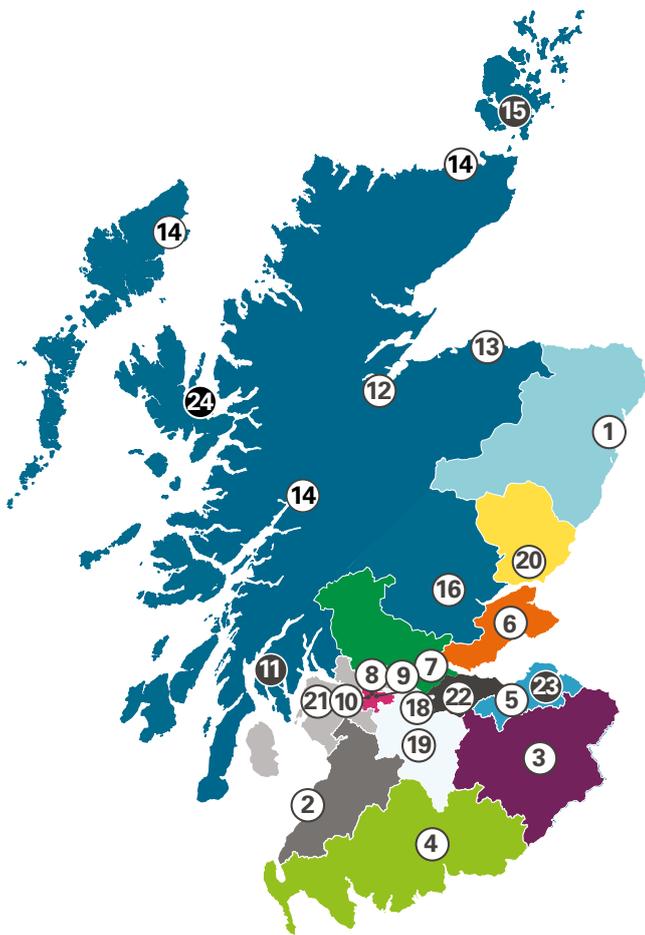
4. This briefing paper draws on our analysis of auditors' annual audit reports (AARs) about incorporated colleges.

Exhibit 1.

Scotland's colleges as at 1 August 2023

The colleges not listed in bold are subject to audit by the Auditor General.

- College – incorporated, audited by AGS
- **College – unincorporated, not audited by AGS**



Region	College
Aberdeen and Aberdeenshire	1 North East Scotland College
Ayrshire	2 Ayrshire College
Borders	3 Borders College
Dumfries and Galloway	4 Dumfries & Galloway College
Edinburgh and Lothians	5 Edinburgh College
Fife	6 Fife College
Central	7 Forth Valley College
Glasgow	8 City of Glasgow College
	9 Glasgow Clyde College
	10 Glasgow Kelvin College
Highlands and Islands	11 UHI Argyll
	12 UHI Inverness
	13 UHI Moray
	14 UHI North, West and Hebrides
	15 UHI Orkney
	16 UHI Perth
	17 UHI Shetland
Lanarkshire	18 New College Lanarkshire
	19 South Lanarkshire College
Tayside	20 Dundee and Angus College
West	21 West College Scotland
West Lothian	22 West Lothian College
n/a	23 Newbattle Abbey College
n/a	24 Sabhal Mòr Ostaig

Source: Audit Scotland

The Scottish Government has a central role in setting policy and funding the college sector

5. The Scottish Government sets national policies for learning and provides over three quarters of the college sector's funding, through its financing of the Scottish Funding Council (SFC). It does this in financial years (FY) that run from April to March.

6. The SFC works with colleges to set thresholds for the amount of course provision that colleges should deliver and provides the funding to each college, or regional strategic body in multi-college regions. It does this to fit with the college sector's academic year (AY) from August to July. A regional strategic body allocates funding to the colleges within its area. The SFC holds colleges and regions to account for what they deliver through Outcome Agreements. These set out what colleges plan to deliver in return for their funding from the SFC. Its Outcome Agreement Managers work with each college to develop their individual Outcome Agreement.

Risks to the college sector's financial sustainability have increased

In 2022, we reported that change was needed to ensure the sector's financial sustainability in the long term

7. [Scotland's colleges 2022](#) drew on colleges' accounts for AY 2020-21 and concluded that it will be difficult for colleges to balance delivering high-quality learning at the volume expected while contributing to other Scottish Government priorities. We said change was needed to ensure more students are successful; and also that the Scottish Government and the SFC should support colleges to plan for change now to make best use of available funding and ensure the sector is financially sustainable in the long term.

Risks to the sector's financial sustainability have increased since then

8. Auditors' AARs on incorporated colleges for AY 2021-22 highlighted sustained risks to colleges' financial sustainability, and an increased level of risk in most of them.

9. The SFC requires a college to report its adjusted operating position (AOP), to reflect its underlying operating performance after allowing for material one-off or distorting matters outside its control. This helps to assess a college's underlying financial strength and to provide figures which are readily comparable among colleges.

10. The sector reported an adjusted operating surplus of around £8 million in AY 2021-22. The SFC has not yet concluded its assessment of the sector's finances for AY 2021-22. While early analysis indicates that the sector's adjusted operating surplus is slightly better than forecast, the surplus for AY 2021-22 is likely to be considerably less than its surplus of £19.3 million for the previous year.

11. The anticipated reduction in the surplus is partly due to increases in staff costs, reflecting the impact of the sector's pay award in AY 2021-22 and some additional recruitment as well as rising inflation, fuel costs and other pressures. Other operating costs increased by around £10 million (six per cent) on AY 2020-21 levels. The return to campus activity – following

the impact of the Covid-19 pandemic – saw an increase in teaching, teaching support and administration costs plus increased catering, student residence and utilities costs. More colleges reported an adjusted operating deficit in AY 2021-22 than in AY 2020-21.

Rising staffing costs are colleges' biggest financial pressure

12. Staff costs accounted for more than two thirds (around 70 per cent) of the sector's expenditure in AY 2021-22. Changes to their staffing are one of the main levers for colleges to manage their costs. Staff pay awards remain a pressure on college finances. Trade unions are continuing to pursue their pay claim for AY 2022-23. Employers' pension contribution costs are increasing. The outcome of a job evaluation exercise for support staff will also increase staff costs when completed.

13. Colleges have already sought voluntary redundancies to reduce their staff costs. While final figures for the sector are not yet available, we know that many colleges have spent money on staff restructuring costs – that mainly involve voluntary redundancies – to help save money in the longer term. The SFC reported that there were no compulsory redundancies during AY 2021-22. Some colleges anticipate the need for further, significant staffing reductions which could severely erode their ability to deliver a viable curriculum.

14. Glasgow Kelvin College has indicated that it may need to reduce its workforce by 21 per cent from AY 2022-23 to AY 2024-25. Ayrshire College, in preparing its 2022 financial forecast, also calculated a set of financial projections using an alternative, more pessimistic planning scenario (compared to the planning assumptions provided by the SFC). This scenario found the college may need to lose 70 per cent of its staff over a five-year period – a scenario in which it could no longer function.

15. All colleges provided updated financial forecasts to the SFC at the end of June 2023 along with additional planning scenarios that they considered appropriate for their operating environment and circumstances. The updated forecasts and additional planning scenarios supersede the 2022 equivalents. These are currently being reviewed by the SFC.

16. The strategic workforce pressures facing the college sector are more challenging than before, as colleges seek to reduce their costs. Some colleges have said that they are considering implementing compulsory redundancies. In June 2023, the Minister for Higher and Further Education and Minister for Veterans [informed](#) the Scottish Parliament's Education, Children and Young People Committee that he had written to all college principals to '[reiterate the importance the Scottish Government places on the use of fair work practices in the college sector ... My officials are engaging with the SFC to build a picture of the scale of redundancies facing the sector and whether there is any impact on provision.](#)' In July 2023, the Minister [wrote](#) to the Committee, indicating that colleges should only seek compulsory redundancies as a last resort and should notify the SFC of such intentions.

Colleges also have other pressures

17. Without investing in maintenance, colleges risk their estate becoming a worsening environment for learning. [Scotland's colleges 2022](#) noted that capital funding for the college sector was £321 million short of requirements for lifecycle and backlog maintenance, and that capital funding from the Scottish Government, administered through the SFC, had consistently fallen short of the level colleges have needed.

18. The SFC developed the [College infrastructure strategy](#) for 2023-33 in consultation with the sector and it recognises the urgent need for significant investment in the college estate. The Scottish Government increased the sector's capital funding from £74.7 million in FY 2022/23 to £82.4 million in FY 2023/24. After taking account of inflation, this represented an increase of 7.6 per cent in real terms. Recognising the increasing number of urgent calls for assistance on repairs/works of a health and safety or business continuity nature, the SFC set aside £4.7 million in AY 2023-24 to support the sector. The SFC received expressions of interest to a value of approximately £20 million and is currently triaging these to a shortlist to fit the budget. Emerging issues around Reinforced Autoclaved Aerated Concrete will only add to this pressure.

19. Numerous colleges have highlighted impacts from the Covid-19 pandemic on their financial position and sustainability. These include reductions in their non-SFC income sources in AY 2021-22 due to pandemic-related restrictions, such as constraints on pursuing commercial opportunities. Other risks are summarised in [Exhibit 2](#).

Exhibit 2.

Significant areas of risk for colleges

This is a cross-section of the numerous risks affecting colleges.

- Inflation, interest rates and energy costs.
- The investment required to achieve public sector net zero targets, especially in relation to the college estate.
- Investment required to invest in digital.
- Difficulties in attracting and retaining students and staff.
- The requirement for colleges to self-fund staff restructuring and voluntary severance package costs.
- Competition from private sector training providers.
- Competition from some universities.
- The challenges of raising income from non-teaching activities.
- The impact of cost efficiencies on staff wellbeing and the student experience.



Colleges rely heavily on Scottish Government funding

20. The Scottish Government's budget works in financial years (FY) that run from April to March, such as April 2022 to March 2023. The Scottish Government has budgeted revenue funding for the college sector comprising £675.7 million in each of 2021/22, 2022/23 and 2023/24. After taking account of inflation, this represents a reduction in real terms of 8.5 per cent from 2021/22 to 2023/24.

21. The SFC uses the Scottish Government's funding to provide grants to colleges within their academic year (AY) that runs from August to July. This means that a college year spans two years of the Scottish Government's budget. For example, the college sector's AY 2022-23 year spanned the Scottish Government's financial years FY 2022/23 and FY 2023/24. The SFC has set a college revenue budget for AY 2022-23 of £675.3 million, a reduction of £36.5 million (5.1 per cent) from AY 2021-22.

22. Grant funding provided via the SFC accounted for around three quarters of the college sector's total income in AY 2021-22. One college relied on the SFC for less than half its income (Sabhal Mor Ostaig). All other colleges relied on the SFC for more than half their income, including seven that obtained over three quarters of their income from the SFC. Colleges' main source of non-SFC income was tuition fees and education contract income, with other income-generating activities, including catering, making up the bulk of the balance.

Significant changes lie ahead

The Scottish Government recognises that changes are needed

23. Several national reviews have recently recommended major changes that would affect the college sector, and these sit alongside other significant developments ([Exhibit 3](#)). They all bring both challenges and opportunities for the Scottish Government. There are questions about what can realistically be achieved in the short term and what may require a longer timescale, possibly involving new legislation.

Exhibit 3. Recent major developments affecting the college sector These bring challenges and opportunities.



**29 June
2021**

The SFC's [review of tertiary education and research](#) included a recommendation to the Scottish Government that there should be more flexibility in how colleges are funded.



**7 June
2023**

The Withers [review of the post-school learning system](#) urged the Scottish Government to think creatively about how to secure the sustainability of the post-school skills delivery system. It included a recommendation that the Scottish Government should redesign the process for how funding of all learning and training provision, including apprenticeships, is allocated to ensure it is prioritised to deliver strategic outcomes and best value for public investment. It also recommended the establishment of a single funding body and parity of esteem between colleges and universities.



**22 June
2023**

The Hayward [review of qualifications and assessment](#) will have implications for the qualifications that colleges consider when selecting students and employees, and for the courses that colleges provide.



**28 June
2023**

The Scottish Government's [Purpose and Principles for post-school education, research and skills](#) includes a target outcome that the system is 'financially and environmentally resilient; trusted to deliver, and subject to effective governance'. The programme of reform, signalled through the Scottish Government's [Initial priorities for implementation](#) and the Purpose and Principles, outlines the key actions that the Scottish Government will be taking forward to deliver on the vision and outcomes it has set for the system.

24. In May 2023, the Scottish Parliament's Education, Children and Young People (ECYP) Committee **concluded** that 'If additional funding is unavailable, and flexibility within current funding arrangements is also not forthcoming, then the Scottish Government and the Scottish Funding Council need to provide colleges with a clear steer on what they should be prioritising.'

25. In June 2023, the Scottish Government took some initial steps in response to these developments:

- It **advised** the Scottish Parliament's ECYP Committee that it had 'heard loud and clear the calls for reform and won't shy away from decisions which will deliver better services for learners and employers and simplify the operating environment for our colleges, universities and training providers.'
- It **advised** the ECYP Committee that it is considering ways to give colleges more financial flexibility. It also **asked** the SFC to play an active role in helping colleges to use their funding allocations more flexibly; and to intervene in the sector where necessary.
- It **announced** that it plans to take over national responsibility for skills planning, and that there will be a new national model of public funding for all colleges, universities, apprenticeships and training.

26. The SFC has introduced a new funding distribution model and associated guidance for AY 2023-24. This is to provide colleges with enhanced flexibility and greater opportunity to decide how best to respond to local, regional and national needs. The Scottish Government is exploring the potential for further changes in colleges' funding arrangements.

The Scottish Government and the SFC urgently need to build on their ongoing work with colleges and help them become sustainable now, while structural arrangements at a national level evolve

27. Overall, 25.5 per cent of school leavers went into further education at college in AY 2021-22, compared to 35.6 per cent from the most deprived areas (Scottish Government **statistics**, February 2023). These figures exclude school leavers undertaking a higher education course in a college. Colleges therefore play a vital role in providing people, particularly those from more disadvantaged areas, with the training, qualifications and life-skills that can help them to succeed in life and make a valuable contribution to society. More widely, colleges also contribute to achieving the Scottish Government's three national 'missions':

The Scottish Government's three missions

- 1 Equality:** tackling poverty and protecting people from harm.
- 2 Opportunity:** a fair, green and growing economy.
- 3 Community:** prioritising our public services.

28. A significant reduction in a college's range of courses, student capacity, or its closure altogether could have an unequal impact on students from more deprived areas, plus ramifications for the wider community. In many rural, remote and island communities, there is no alternative college nearby.

29. Policy and structural changes by the Scottish Government have the potential to improve colleges' operating environment but colleges face daunting challenges now to their business models and finances. For example, colleges need to maintain and, if possible, enhance the learning they provide and improve outcomes for their students. At the same time, they are managing complex change across the college sector and considerable strain on their finances.

30. Addressing the challenges facing the college sector cannot be avoided or postponed. While recognising the role of college leadership teams in managing their finances, it is also critical for the Scottish Government to work with the SFC during AY 2023-24 to support colleges in planning for change now and making best use of available funding. This should help to secure colleges' future while the Scottish Government considers its response to the reviews featured in [Exhibit 3 \(page 10\)](#), and the funding it allocates to the sector.

Next steps

31. We report annually on the audits of Scotland's incorporated colleges. We will continue to monitor and report on developments across the sector as their impacts become clearer.

Scotland's colleges 2023

A briefing paper



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Audit Scotland – Scotland’s Colleges 2023 Analysis – September 2023

Audit Scotland published its [annual report](#) on the college sector in Scotland on Thursday 7 September 2023.

Key Messages

- Scotland’s colleges are vital to learners and local communities. Risks to the college sector’s financial sustainability have increased since we reported in 2022. Rising staffing costs are colleges’ biggest financial pressure.
- The Scottish Government’s funding for the sector has reduced by 8.5 per cent in real terms between 2021/22 and 2023/24, while the sector’s costs have increased. Effective, affordable workforce planning is now a greater than ever priority and challenge for colleges.
- Significant changes to how the college sector operates have been recommended by recent reviews. However, the Scottish Government and the Scottish Funding Council (SFC) urgently need to build on their ongoing work to help colleges plan for change now, and make best use of available funding so that they are sustainable for the future.

Financial Sustainability

- Audit Scotland has identified that the risks to the college sector’s financial sustainability have increased since their previous report in 2022, in which they reported that change was needed to ensure the sector’s financial sustainability in the long term.
- It is advised that the sector reported an adjusted operating surplus of around £8 million in AY 2021/22, considerably less than its surplus of £19.3 million for the previous year.
- Audit Scotland is of the view that the anticipated reduction in the surplus is partly due to increases in staff costs, reflecting the impact of the sector’s pay award in AY 2021/22 and some additional recruitment as well as rising inflation, fuel costs and other pressures.
- With regards to Scottish Government funding, Audit Scotland has noted the revenue funding for the college sector comprising £675.7 million in each of 2021/22, 2022/23, and 2023/24, and has advised that “After taking account of inflation, this represents a reduction in real terms of 8.5 per cent from 2021/22 to 2023/24”.
- Grant funding provided via the SFC accounted for around three quarters of the college sector’s total income in AY 2021/22. One college relied on the SFC for less than half its income, whilst all other colleges relied on the SFC for more than half their income, including seven that obtained over three quarters of their income from the SFC.

Staff Costs

- It is noted that rising staff costs are colleges’ biggest financial pressure, with staff costs accounting for more than two-thirds (around 70%) of the sector’s expenditure in AY 2021/22, whilst staff pay awards remain a pressure on college finances.

Infrastructure

- The report makes clear that “Without investing in maintenance, colleges risk their estate becoming a worsening environment for learning” and that “Emerging issues around Reinforced Autoclaved Aerated Concrete will only add to this pressure”.

Significant Areas of Risk for Colleges

Audit Scotland also articulate a cross-section of the numerous risks affecting colleges, composed of the following:

- Inflation, interest rates and energy costs
- The investment required to achieve public sector net zero targets, especially in relation to the college estate
- Investment required to invest in digital
- Difficulties in attracting and retaining students and staff
- The requirement for colleges to self-fund staff restructuring and voluntary severance package costs
- Competition from private sector training providers
- Competition from some universities
- The challenges of raising income from non-teaching activities
- The impact of cost efficiencies on staff wellbeing and the student experience.

Education Reform Agenda

- Audit Scotland is of the view that the recent reviews associated with the Education Reform Agenda bring both challenges and opportunities for the Scottish Government, and advises that there are questions about what can realistically be achieved in the short term and what may require a longer timescale, possibly involving new legislation.
- Against the context of reform, Audit Scotland has recommended that “The Scottish Government and the SFC urgently need to build on their ongoing work with colleges and help them become sustainable now, while structural arrangements at a national level evolve”.
- In particular, Audit Scotland is clear that it is “critical for the Scottish Government to work with the SFC during AY 2023-24 to support colleges in planning for change now and making best use of available funding”.
- The role of colleges in delivering the Scottish Government ambitions of Equality, Opportunity and Community is also touched on, with it being noted that “A significant reduction in a college’s range of courses, student capacity, or its closure altogether could have an unequal impact on students from more deprived areas, plus ramifications for the wider community”
- Audit Scotland believes that “Policy and structural changes by the Scottish Government have the potential to improve colleges’ operating environment but colleges face daunting challenges now to their business models and finances” and that “Addressing the challenges facing the college sector cannot be avoided or postponed”.

Colleges Scotland
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