Scotland's colleges 2018

AUDIT SCOTLAND

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Contents

Key Facts

26 colleges in Scotland

235,737 students studying at college in 2016-17

90.2 per cent overall student satisfaction in 2016-17

£693 million spent by the 20 incorporated colleges in 2016-17

10.4 per cent real-terms increase in Scottish Government funding between 2016/17 and 2018/19

£50 million estimated annual cost of national pay bargaining for teaching staff

£360 million estimated total cost of backlog of repairs and maintenance in the college sector

Summary

Key messages

1. The college sector's underlying financial position improved in 2016-17, but several colleges face significant financial challenges. Scotland's 20 incorporated colleges reported an overall underlying financial surplus for 2016-17 of £0.7 million. This compares to an underlying deficit of £8 million in 2015-16. Across the sector, the cash held by colleges increased by 13 per cent in 2016-17 and the net value of their assets - such as land and property, compared against financial liabilities such as pension costs - by ten per cent. However, these sector-wide increases mask significant variations between colleges.

2. Staff costs remain the highest area of spending and are forecast to increase, mainly as a result of pay harmonisation for teaching staff. Colleges' representative body, Colleges Scotland, has estimated the total cost of harmonisation as £50 million a year. This would cancel out the Scottish Government's projected savings from college reform. The Scottish Government is providing funding to cover the additional costs in 2016-17 and 2017-18. But it has not yet specified funding for 2018-19, when the costs will increase most significantly.

3. The Scottish Funding Council's (SFC's) 2017 estates condition survey indicates that college buildings require urgent and significant investment. The survey estimates a backlog of repairs and maintenance over the next five years of up to £360 million. The cost of priority repairs and maintenance over the next year exceeds the relevant capital funding provided by the Scottish Government.

4. Several factors pose a risk to colleges' financial sustainability in the medium to longer term, including: the future impact of national pay bargaining for support staff; uncertainties around long-term funding of pay agreements; the cost of maintaining buildings and land; and the potential impact of leaving the European Union. Colleges have not built many of these factors into their financial forecasts in June 2017. The Scottish Funding Council (SFC) and colleges are working to address this from 2018.

5. Colleges exceeded the Scottish Government's learning activity target by 4.2 per cent in 2016-17. Student numbers increased by around four per cent, with most of the increase being students in part-time learning and those under 16 years of age. The percentage of full-time college leavers entering positive destinations, such as training, employment and higher education, remained largely unchanged at 82.7 per cent. Student satisfaction remains high at over 90 per cent and improved slightly compared to last year.

6. The proportion of credits (units of learning) delivered to students from deprived areas, from ethnic minorities, with care backgrounds or with disabilities all continue to increase. But the gap in attainment between students from deprived areas and the student population overall is growing.

7. Colleges have made progress in addressing the large gender imbalance on engineering courses but have had less success in other courses. The SFC shares good practice as part of its gender action plan and expects to see more progress from 2017-18 onwards. Some college boards also continue to have significant gender imbalances in their membership that would fall short of the new statutory gender representation objective.

8. The regional strategic bodies (RSBs) in the three multi-college regions are fulfilling their core statutory duties, but their progress in meeting the wider aims of regionalisation varies. The University of Highland and Islands (UHI) Court has made good progress and is now exploring the possibility of integrating four of its five incorporated colleges. The Glasgow Colleges Regional Board (GCRB) is making progress in coordinating collaborative regional activity, but needs greater stability to deliver cultural change and improve its effectiveness. The Lanarkshire Board shows little signs of progress against the aims of regionalisation. The existing regional arrangement is not delivering any clear benefits.

Key recommendations

The Scottish Government and the SFC should:

- develop criteria for prioritising capital investment in the college sector. (paragraph 37)
- work with colleges to examine why the average attainment gap between students from deprived areas and the wider student population is growing and identify actions to reduce the gap. (paragraph 65)
- assess and report publicly on the extent to which the regional strategic bodies are meeting the aims of regionalisation in multi-college regions. (paragraphs 80-96)

The SFC should:

- revise its accounts direction to ensure colleges calculate their 'underlying financial position' consistently. (paragraph 20).
- work with colleges to agree common assumptions for future financial forecasting returns, including clarifying when departing from the assumptions would be justified. (paragraph 42)
- determine what other actions are required to tackle the greatest gender imbalances in subjects to deliver its gender action plan. (paragraph 72)
- agree with regional strategic bodies in multi college regions the most appropriate way of collecting information on college activities and clarify both why and when it needs to engage with, or collect information from, assigned colleges. (paragraph 97)

Colleges should:

- where appropriate, examine opportunities for getting a better gender balance on their boards to meet new statutory targets. (paragraph 73)

GCRB should:

- work with senior staff and board members in its assigned colleges to address concerns about its role and to provide it with oversight and influence over all regional activities. (paragraph 94)

The Lanarkshire Board should:

- Develop a clear plan for improving collaborative working across the region. (paragraph 94)

Background

9. This report provides an overview of the college sector in Scotland. It gives an update on college finances and analyses learning activity. We have set out our methodology in Appendix 1. Our previous reports have commented on:

- the sector's ability to meet the national target for learning
- the changes that have taken place in the sector in recent years including regionalisation, college mergers and reclassifying colleges as public bodies.[1]

10. Scotland's colleges play an important role in helping to achieve sustainable economic growth by developing a highly educated and skilled workforce. In 2016-17, there were 235,737 students. Colleges are the main providers of further education (FE) in Scotland. They also provide a significant amount of higher education (HE), with around 47,937 students (around 20 per cent) studying at HE level at college in 2016-17.

11. The college sector in Scotland comprises 20 incorporated colleges and six non-incorporated colleges, organised into 13 college regions.[2] Ten of these regions consist of one college. The three remaining regions (Glasgow, Highlands and Islands, and Lanarkshire) have more than one college. The individual colleges in these regions are assigned to a regional strategic body. The regional strategic bodies for the three multi-college regions are:

- Glasgow Colleges' Regional Board (GCRB)
- University of Highlands and Islands (UHI)
- the Lanarkshire Board.

12. In this report we look at all colleges in the sector and SRUC, to present a comprehensive picture of the sector and its performance. In Part 1 of this report, How Scotland's colleges are managing their finances, we focus on incorporated colleges, as the accounts for non-incorporated colleges are developed on a different basis. In Part 2, How Scotland's colleges are performing, the participation data used excludes information about students studying higher education through UHI or SRUC.

13. Colleges prepare their accounts based on the academic year (1 August to 31 July). This differs from the Scottish Government's financial year, which runs from 1 April to 31 March. We use the following conventions in this report:

[1] *Scotland's colleges 2017*, Audit Scotland, June 2017; *Scotland's colleges 2016*, Audit Scotland, August 2016; *Scotland's colleges 2015*, Audit Scotland, April 2015

[2] Until 1992, all publicly funded colleges were run by local authorities. Under the Further and Higher Education (Scotland) Act 1992, most of these colleges established their own corporate body and boards of management. The boards of management took over responsibility for the financial and strategic management of the colleges. These colleges are referred to as incorporated colleges and produce accounts subject to audit by the Auditor General for Scotland. The remaining six colleges are generally referred to as non-incorporated colleges. Scotland's Rural College (SRUC) is classed as a higher education institution but counts towards the achievement of the national target for colleges.

- 2016-17 when referring to figures from colleges' accounts, or figures relating to the academic year
- 2016/17 when referring to funding allocations made in the Scottish Government's financial year.

14. Unless we state otherwise, all financial figures in this report are in real terms, adjusted for inflation. The base year for this report is 2016-17. The GDP deflator provides a measure of general inflation in the domestic economy. We have used the GDP deflator from December 2017 to calculate the real-terms figures for other years.[3]

15. Where appropriate, our report draws on separate reports by the Auditor General for Scotland (section 22 reports) on Edinburgh College and New College Lanarkshire that were published in April 2018.

Audit team

The core audit team consisted of:

[redacted], [redacted], [redacted], [redacted] [redacted] and [redacted] with support from other colleagues and under the direction of [redacted].

[3] These are produced by HM Treasury and published on the gov.uk website.

How Scotland's colleges are managing their finances

Key messages

- **The overall financial position of the college sector has improved since last year. The 20 incorporated colleges reported an overall underlying financial surplus of £0.7 million for 2016-17. This compares to an underlying deficit of £8 million in 2015-16. Individual college financial positions varied. Eight incorporated colleges had an underlying deficit in 2016-17, compared with 11 in 2015-16. Scotland's six non-incorporated colleges reported an overall underlying surplus of £249,000 in 2016-17, with no college having an underlying deficit.**
- **The Scottish Funding Council (SFC) first required colleges to include their underlying financial position in their accounts in 2016-17. Individual colleges have interpreted the SFC’s accounts direction differently, making it difficult to compare the financial positions of different colleges. The SFC's calculation of the underlying position also differs from the approach we have used in our last two reports.**
- **Net assets increased by ten per cent (to £230 million). The level of cash held across the sector increased by 13 per cent (to £49 million). Despite the overall increase in cash held, nine colleges held less cash than last year. This means they have less flexibility to meet unanticipated changes in income or expenditure. Some colleges still face particular financial challenges.**
- **The Scottish Government has indicated total funding to the college sector of £665 million in 2018/19, a real-terms increase of 10.4 per cent on 2016/17. Most of this is to meet increased teaching salaries agreed through national bargaining. Colleges Scotland has estimated the total cost of pay harmonisation as £50 million a year. This would cancel out the Scottish Government's projected savings from college reform.**
- **Colleges' financial forecasts do not provide a reliable picture of future financial sustainability. The SFC and colleges are working to address this from 2018.**
- **The SFC's 2017 estates condition survey indicates that college buildings require urgent and significant investment. The survey estimates a backlog of repairs and maintenance over the next five years of up to £360 million. The cost of priority repairs and maintenance over the next year exceeds the relevant capital funding provided by the Scottish Government.**

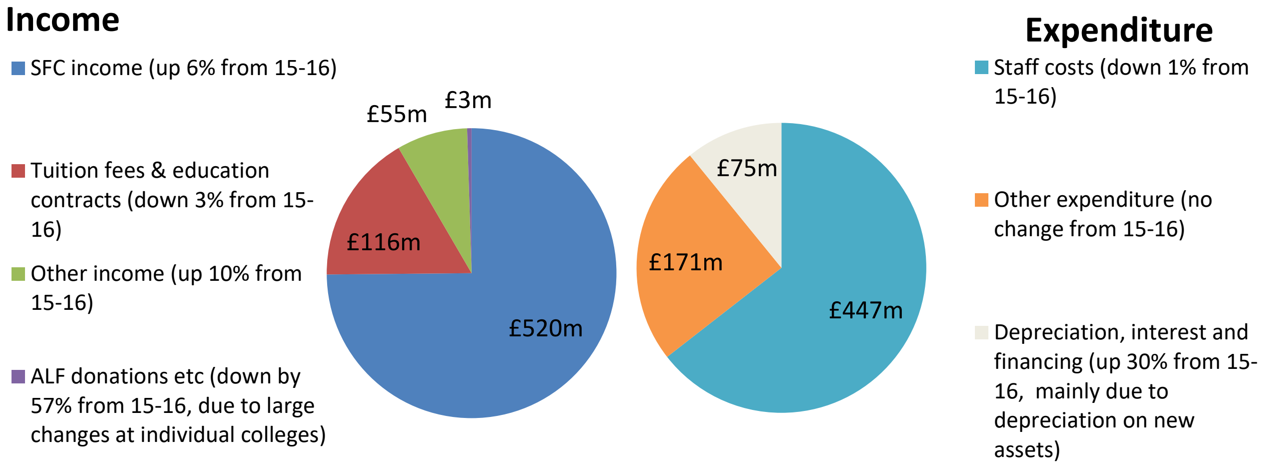
Colleges' underlying financial position improved in 2016-17

16. Incorporated colleges had income of £694 million, and expenditure of £693 million, in 2016-17. The main areas of income and expenditure (and changes from 2015-16) are presented in Exhibit 1.

Exhibit 1

Income and expenditure for incorporated colleges, 2016-17

Colleges had income of £694 million and expenditure of £693 million



Source: College accounts

Note: 'Staff costs' here include exceptional staff costs, such as severance payments. 'Other expenditure' includes exceptional items, such as income from selling assets.

17. Exhibit 2 shows that the underlying financial position of incorporated colleges is a surplus of £0.7 million in 2016-17, compared to an £8 million deficit in 2015-16. This surplus is calculated by adjusting colleges' accounts as we outline in Appendix 1 and is in line with adjustments made in previous years.

18. The six non-incorporated colleges recorded an underlying surplus of £249,000 in 2016-17, compared to £69,000 in 2015-16. Information for incorporated and non-incorporated colleges is not directly comparable.

Exhibit 2

College sector financial performance 2014-15 to 2016-17

Incorporated colleges reported an underlying financial surplus in 2016-17

	2014-15	2015-16	2016-17
Sector underlying surplus or deficit (in brackets)	£1 m	(£8 m)	£0.7 m
Number of colleges with an underlying deficit	7	11	8

Note: Analysis does not include Scotland's six non-incorporated colleges

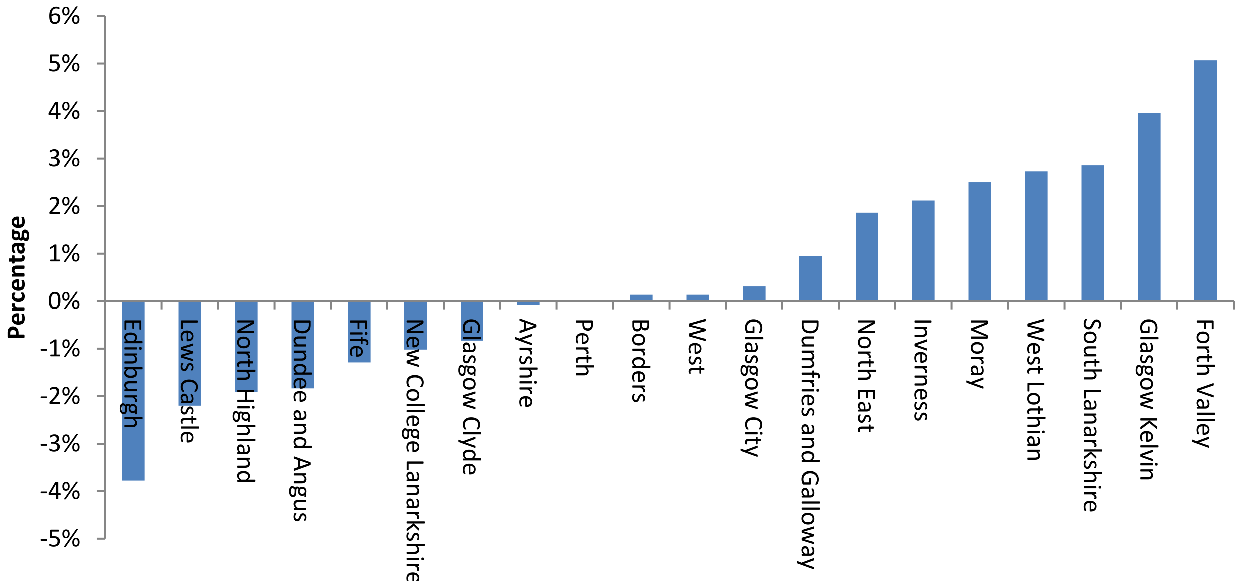
Source: College accounts

19. Eight incorporated colleges had an underlying deficit in 2016-17, compared with 11 in 2015-16. Financial positions varied from a surplus of £1.6 million at Forth Valley College to a deficit of £2.5 million at Edinburgh College. Exhibit 3 shows individual college underlying deficits and surpluses as a percentage of their annual expenditure.

Exhibit 3

Underlying deficits and surpluses as a percentage of expenditure, 2016-17

The underlying financial position of incorporated colleges varies



Source: College accounts

20. In response to our recommendation in *Scotland's colleges 2017*, the SFC required each college to include an underlying financial position within their 2016-17 accounts.

However, not all colleges interpreted the SFC's direction as it intended. This has required further work by both Audit Scotland and the SFC to calculate an underlying financial position. The SFC's calculation differs from the approach we have used in our last two reports. This has resulted in some variation, albeit relatively small, between our reported figure, that calculated by the SFC and that reported in college accounts. The SFC's accounts direction is insufficiently specific and it is working to improve the direction for 2017-18.

Total cash held in the sector increased in 2016-17 but almost half of all colleges held less cash

21. Incorporated colleges held £49.2 million in cash in 2016-17, an increase of £5.5 million (13 per cent) from 2015-16 (Exhibit 4). While the overall cash held by the sector increased, the amounts each college held varies significantly:

- Eleven colleges increased their cash balances by a total of £11.2 million in 2016-17. Four colleges accounted for £8.5 million (76 per cent) of this increase: City of Glasgow, Edinburgh, Forth Valley and North East Scotland colleges. The SFC has indicated that some colleges are holding cash to repay loans in future.
- Cash balances decreased in nine colleges, by a total of £5.7 million. This means these colleges have less flexibility to meet unanticipated future expenditure or reductions in income.

Net assets increased by around ten per cent in 2016-17

22. Comparing the value of the assets an organisation holds against its financial liabilities - its net asset position - provides an indicator of financial health. The sector's net asset position has improved by around ten per cent compared to 2015-16 (Exhibit 4). However, this does not reflect the significant variation across colleges:

- Glasgow Clyde College accounts for the vast majority of the sector-wide increase in the net value of assets. Its net surplus increased by around £20 million to £58 million. This was the result of the value of its land and buildings significantly increasing.
- Five colleges reported a net liability position in 2016-17: Borders, Forth Valley, Inverness, North Highland and West Lothian. These colleges also reported a net liability position in 2015-16. In 2016-17 the level of liability remained relatively unchanged in three of these colleges. North Highland College's liability more than halved, from £5.5 million to £2.4 million as a result of asset revaluations. Forth Valley College's liability increased significantly to £17 million due to a significant devaluations of its existing assets. This will change as the college builds its new Falkirk campus.

Exhibit 4

College sector financial performance 2014-15 to 2016-17

Cash balances and net assets across the sector both increased in 2016-17

	2014-15	2015-16	2016-17
Cash balances	£55m	£43.7m	£49.2m
Net assets	£255m	£209m	£230m
Number of colleges in a net liabilities position	3	5	5

Source: College accounts

The funds held by arm's-length foundations (ALFs) fell again in 2016-17

23. Colleges can apply for funds from arm's-length foundations (ALFs). These are independent, charitable bodies that were set up when colleges were reclassified as public bodies and could no longer retain significant cash reserves. Colleges transfer money into ALFs and can also apply to ALFs for funding. Other organisations can also donate to, and apply for funding from, ALFs. ALFs held £57 million in 2016 and £52.5 million in 2017.

24. Two colleges transferred a total of £3.4 million into ALFs in 2016-17. Eleven colleges received grants totalling £7.8 million from ALFs in 2016-17, mainly to improve their buildings and other parts of their estate. Nine colleges propose to apply for around £8 million of ALF funding in 2017-18. The biggest planned use of ALF funding is at Glasgow Clyde College. The college plans to use over £10 million over the next five years, mainly for estate improvements. The other two Glasgow colleges plan to use ALF funding for estates projects in 2017-18. Glasgow Kelvin College plans to spend £2 million and City of Glasgow College £1.1 million. Some ALFs have very little funds left.

25. The Scottish Government is considering how the sector might best continue to use ALFs to help with long-term financial planning and future investment decisions.

There was little change in staff costs and numbers in 2016-17

26. Colleges continue to spend most of their money on staff. Staff costs remained relatively unchanged in 2016-17 at £441 million[4] (

27. Exhibit 5):

[4] Incorporated colleges only

- Total full-time equivalent (FTE) staff numbers decreased by 75 (0.7 per cent) to 10,850 in 2016-17
- Teaching staff decreased by 56 (0.8 per cent)
- Non-teaching staff decreased by 19 (0.5 per cent).

28. In 2016-17, 162 staff left incorporated colleges through voluntary severance at a total cost of £3.6 million. Of these, 81 were from Edinburgh College. Auditors reported that severances were subject to appropriate approval and in line with the existing severance schemes approved by the SFC.

Exhibit 5

Staff costs and numbers 2013-14 to 2016-17

Staff costs reduced in 2016-17

	2013-14	2014-15	2015-16	2016-17
Staff numbers (FTE)	10,238	10,719	10,925	10,850
Staff costs	£287m	£536m	£442m	£441m
Total expenditure	£484m[1]	£866m	£692m	£686m
Staff costs as % of total spend	59%	62%	64%	64%
Exceptional staff costs[2]	£16m	£15m	£7m	£6m
Exceptional staff costs as % of staff costs	6%	3%	2%	1%

[1] This figure excludes cash donated to ALFs in year.

[2] Exceptional staff costs include severance costs.

Source: College accounts

The Scottish Government has announced further real-terms increases in revenue funding in 2018/19

29. The Scottish Government's revenue funding for the college sector for 2018/19 is £570.7 million. This represents a real-terms increase of £28 million (five per cent) in the revenue budget from 2016-17 (Exhibit 6). This is the highest real-terms settlement in the last five years.

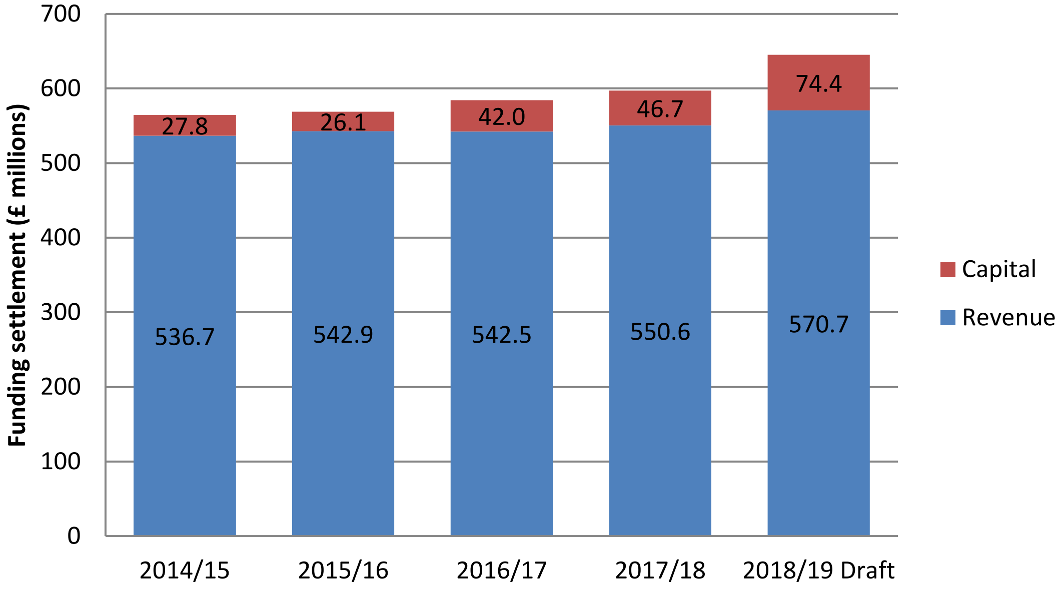
30. The Scottish Government has agreed to pay for the additional costs of the national pay bargaining agreement for lecturers in 2018-19 and 2019-20, excluding cost-of-living increases. This accounts for most of the increased funding for 2018-19. The Scottish Government has yet to indicate how costs associated with national bargaining will be funded. Colleges Scotland estimates that national pay bargaining for teaching staff will cost about £50 million each year. This would cancel out the £50 million of financial savings that the Scottish Government and SFC expected the reform programme to

deliver from 2015-16. It does not include any additional future costs from national pay bargaining for support staff, or the impact of associated cost-of-living increases over time.

Exhibit 6

Scottish Government funding to college sector (real-terms analysis) 2014/15 – 2018/19

The Scottish Government has increased funding for colleges in real terms increase each year



Note: (1) The above allocations do not include additional amounts provided to the college sector to support NPD unitary charges (£6 million in 2015/16; £24 million in 2016/17; £29 million in 2017/18; and £28 million in 2018/19, all in real terms)

(2) Between 2014/15 and 2016/17 the Scottish Government has made in-year adjustments to transfer an element of the capital allocation to revenue (£12 million in 2014/15; £10 million in 2015/16; £17 million in 2016/17, all in real terms). We have not incorporated these changes in the exhibit.

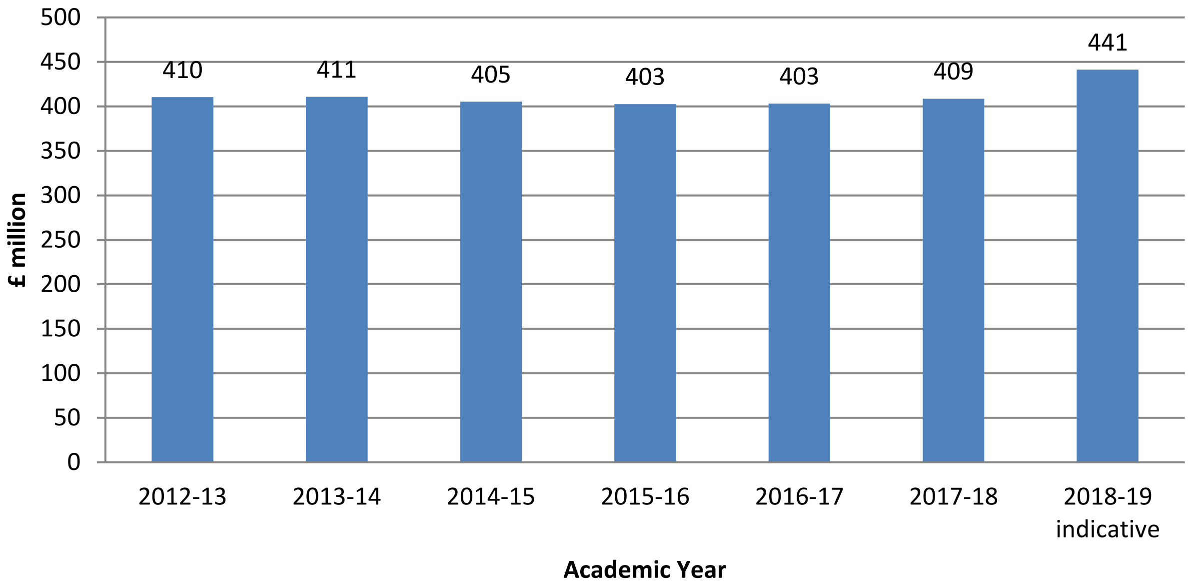
Source: Scottish Government

31. The SFC allocated £409 million to colleges for teaching in 2017-18. It plans to allocate £441 million in 2018-19, an increase of £32 million (eight per cent) (Exhibit 7). This increase reflects additional teaching costs as a result national pay bargaining.

Exhibit 7

College sector teaching allocation (real-terms), 2012/13 – 2017/18

Real-terms funding for teaching is increasing as a result of the additional costs resulting from national pay bargaining



Source: SFC

Despite the improved financial position in 2016-17, colleges continue to face significant financial challenges

32. Several colleges currently face significant financial challenges:

New College Lanarkshire

- Last year we reported that New College Lanarkshire had experienced cash flow difficulties during 2015-16. Those difficulties continued into 2016-17 and the Auditor General published a separate report, under section 22 of the Public Finance and Accountability (Scotland) Act 2000, in April 2018. The report noted that college received an advance of £1.9 million from the SFC in July 2017 (subsequently deducted from its 2017-18 funding allocation), as well as specific, one-off funding of £1.1 million to run a voluntary severance scheme (not repayable). The college made savings of £2 million during 2016-17 and reported an underlying deficit of £560,000 (equivalent to one per cent of income). It is working with the SFC to deliver a plan intended to return it to financial sustainability. The latest draft of the plan indicates the college will report a small surplus in 2019/20.

Edinburgh College

- Edinburgh College received £2.9 million of financial support from the SFC in 2016-17 that it will have to repay. It had an underlying deficit of £2.5 million in 2016-17 (equivalent to around four per cent of income). While the college still needs to deliver some aspects of its plan to return to financial stability, it has made good progress and its deficit for 2016-17 was below its original estimate of £3.8 million. The Auditor General published a separate statutory report on progress at Edinburgh College in April 2018.

Ayrshire College

- As part of the merger that created Ayrshire College, the college inherited a Private Finance Initiative (PFI) scheme from the former James Watt College for its Kilwinning campus. The 25-year PFI scheme started in 1999-2000, with annual payments of £2.1 million until 2024-25. Unlike subsequent Non-Profit Distributing (NPD) schemes, the SFC has not provided specific funding for the Kilwinning PFI scheme, and the college is required to fund the payments from its total income. The PFI costs equate to around four per cent of the college's annual income.
- Ayrshire College identified that making the annual payments was a financial risk at the point of merger. The college had forecast a net surplus each year between 2013-14 and 2017-18. However, increased staff costs have resulted in the college experiencing financial deficits, which it has covered to date by using cash reserves. The college has indicated that it will find it difficult to meet the ongoing PFI costs - if it continues to use cash reserves, these will reduce to zero over the next three years. While the Scottish Government agreed that the college could use money raised from selling land towards the PFI costs in 2018-19, there is currently no further funding commitment from the Scottish Government or the SFC. The college is considering other options for meeting the PFI costs.

UHI incorporated colleges

- Last year, we reported that Lews Castle College had not met its learning activity targets over an extended period. This could have resulted in both a reduced level of funding and the SFC recovering funding for activity the college did not deliver. UHI, as the regional strategic body, has since agreed a reduced target with the college, while providing broadly similar levels of funding to previous years. Despite this change, at June 2017, the college was still forecasting deficits for the next five years. As explained in paragraph 42 below, colleges' most recent forecasts in July 2017 do not reliably reflect current financial positions or the challenges now facing the sector.
- Last year Moray College had to urgently draw down an advance on its funding allocation from UHI as it did not have enough money to meet its operational costs in 2015-16. The auditor concluded that the current financial position was not sustainable and that the college needed to take action to achieve financial balance. The college reported an improving financial position in 2016-17:
  - a lower operating deficit
  - an underlying surplus
  - increased cash

  - lower net current liabilities.
- The appointed auditor concluded that achieving financial sustainability represents a significant challenge for North Highland College. It reported a £523,000 deficit in 2016-17and is forecasting a deficit of £857,000 for 2017-18. College management is of the view that the current arrangements will become unsustainable without significant changes, and has recommended that the college board considers steps to ensure it remains financially sustainable. The college will continue to require financial support from UHI to manage its ongoing financial pressures.

33. UHI has started to look at the potential for integrating four of its five incorporated colleges during 2018 (excluding Perth College). The aim is to improve joint working, education and the sustainability of their financial positions in the medium to longer term.

College estates require urgent and significant investment

34. In 2018/19, the Scottish Government has allocated colleges £74.4 million of capital funding to spend on things like improving buildings and buying new equipment. This represents a real-terms increase of £32 million (77 per cent) on 2016-17. Of the 2018/19 capital allocation, almost £41 million is funding for Forth Valley College's new campus at Falkirk.

35. In December 2017, the SFC published its *College sector estates condition survey*. This identified a backlog of repairs and maintenance of £163 million over the next five years across the sector. Once fees, inflation and other costs associated with these works are included, the repairs and maintenance could cost £360 million. These figures exclude the six campuses that have been financed in recent years through public-private partnerships - Ayrshire College's Kilmarnock and Kilwinning campuses; City of Glasgow College's Riverside and Cathedral Street campuses; and Inverness College's main campus and the School of Forestry. West College has the biggest repairs and maintenance backlog of £21 million over the next five years. This is equivalent to almost a fifth of its the value of all its assets in 2016-17. A further five colleges have backlogs of over £10 million: North East Scotland, Dundee and Angus, Edinburgh, Fife and Scotland's Rural College (SRUC).

36. The SFC has included £27 million for priority backlog maintenance in its funding for 2018-19. The estate condition survey, completed in July 2017 estimated that repairs and maintenance requiring attention within one year (by July 2018) would cost £16 million, rising to £36 million by July 2019.

37. In our report *Scotland's colleges 2017*, we recommended that the Scottish Government and the SFC complete the national estate condition survey and use the results to prioritise future capital investment. Based on the estate condition survey, the SFC intends to produce criteria for managing the competing demands for major capital investment. It has not set a timeframe for this.

Colleges' current financial forecasts do not provide a reliable picture of future financial sustainability.

38. Having longer-term financial plans in place will allow colleges to better prepare for future challenges. In response to recommendations we made in our report *Scotland's colleges 2016*, the SFC now requires colleges to prepare six-year financial plans. The current plans run from 2016-17 to 2021-22). Colleges are forecasting that their annual expenditure will increase faster than their annual income and that the financial deficit across the sector will grow to £21 million by 2021-22. Only South Lanarkshire College is not forecasting to be in deficit at any point over this six-year period.

39. In line with our recommendations last year, the SFC worked with sector representatives to develop a set of common assumptions that colleges should use for longer-term financial forecasting. For example:

- Colleges should plan that their teaching grant will stay the same in 2018-19 and 2019-20, then increase by two per cent for 2020-21 and 2021-22.
- Colleges should assume that capital maintenance funding will be held at 2017-18 levels over the forecast period.
- Colleges should assume the costs of national bargaining will be supported by specific grants in 2018-19 and 2019-20 that will reflect the costs in particular colleges. They should also assume that the 2019-20 specific grant reduces to 67 per cent in 2020-21, 33 per cent in 2021-22 and then to nil in 2022-23.
- Colleges should factor in a one per cent increase for pay awards for support staff for all years and for lecturing staff from 2020-21 onwards, based on public sector pay policy. In September 2017, the Scottish Government announced its intention to remove the public sector pay cap from 2018, so this assumption is no longer realistic.

40. However, some colleges used different assumptions. For example:

- New College Lanarkshire and South Lanarkshire College assumed no additional specific grants from the SFC to cover national bargaining until 2020-21.
- Fife College assumed that support staff would receive a 1.5 per cent increase in pay awards from 2017-18 onwards.

41. The differences in the assumptions that colleges used mean that the forecasts they submitted in August 2017 are not fully comparable across the sector. It is important that colleges are basing their financial forecasts on realistic and consistent assumptions to inform SFC funding decisions.

42. Colleges' most recent financial forecasts include financial information for the academic year 2016-17. Although colleges completed their forecasts only one month before the 2016-17 financial year-end, their forecast income and expenditure did not match the final figures in audited accounts. The weaknesses of current financial forecasts mean that they do not provide a reliable picture of the financial sustainability of the sector. The

SFC recognises these weaknesses. At the time of this audit, the SFC was working with colleges to significantly strengthen financial forecasts from 2018 onwards.

Withdrawing from the European Union will have implications for colleges

43. The SFC administers two significant programmes funded by the European Social Fund

- Developing the Young Workforce (DYW). Funding for this totalled £7 million in 2016-17, £10 million in 2017-18 and £20 million in 2018-19. This programme is scheduled to run until 2020-21.
- Youth Employment Initiative (YEI). Funding for this was £14 million in 2016-17 and £15 million in 2017-18, which will be the final year of the initiative. In 2016-17, the three colleges in the Glasgow region received around 30 per cent of the funding available, and the two colleges in the Lanarkshire region received around 20 per cent.

44. The decision to leave the EU should not affect these programmes, and colleges should plan for when they come to an end.

45. The sector has also been able to draw on money from the European Regional Development Fund (ERDF) to support capital programmes. Colleges Scotland estimates ERDF funding of £200-250 million has been provided for capital projects in the sector over the last ten years.

46. Colleges Scotland research suggests around three per cent of teaching staff are from the EU, and it expects that figure to be higher for support staff. Colleges Scotland and the SFC are working to analyse and model the impact of Brexit on the college sector.[5]

[5] Written evidence submitted by Colleges Scotland to the Scottish Affairs Committee, March 2018.

How Scotland's colleges are performing

Key messages

- **Student numbers increased slightly, by around four per cent, in 2016-17. Colleges delivered 117,502 full-time equivalent (FTE) funded places in 2016-17. This exceeded the Scottish Government's target of 116,269. Colleges overall also exceeded the national learning target by 4.2 per cent, compared to 3.7 per cent last year. The increase in part-time learners is the main reason for this increase.**
- **In 2016-17, attainment rates dipped slightly for higher education courses and full-time further education (FE) courses but increased for part-time FE courses. The percentage of students who complete their course was broadly static across all categories. Latest data covering 2015-16 shows that 82.7 per cent of qualifiers entered a positive destination such as training or employment. Student satisfaction across the sector remains high and increased slightly in 2016-17. Response rates also improved. Attainment, retention, positive destinations and student satisfaction all vary widely by college.**
- **There is evidence that colleges are widening access to learning. Across the sector, the proportion of credits delivered to students from deprived areas, from ethnic minorities, who have been in care or who have disabilities all continue to increase. Despite this, the attainment gap for students from deprived areas is increasing.**
- **The gender balance across students in the sector has remained broadly even. However, more work is required to tackle the most significant gender imbalances on some courses and on many college boards.**

Colleges exceeded the Scottish Government's learning target in 2016-17

47. The volume of learning that colleges deliver is measured in full-time equivalent (FTE) student places, or in units of learning known as credits. Each credit broadly equates to 40 hours of learning. Since 2012-13, the Scottish Government has set a national target for the college sector to deliver 116,269 FTE student places. The SFC set a core equivalent target for 2016-17 of 1,690,618 credits. The college sector exceeded its credit target by four per cent in 2016-17, delivering 1,762,026 credits. This represents an increase in credits delivered of 0.5 per cent compared to 2015-16. This means that 2016-17 was the first year that activity has increased since 2013-14.

48. To meet the national target, the SFC agrees targets with the college regions, Newbattle Abbey College, Sabhal Mòr Ostaig and SRUC.[6] In 2016-17, all the colleges met their credit target except Newbattle Abbey College, which delivered 833 credits compared with its target of 926 credits. Newbattle Abbey College accounts for 0.5 per cent of Scotland's college activity.

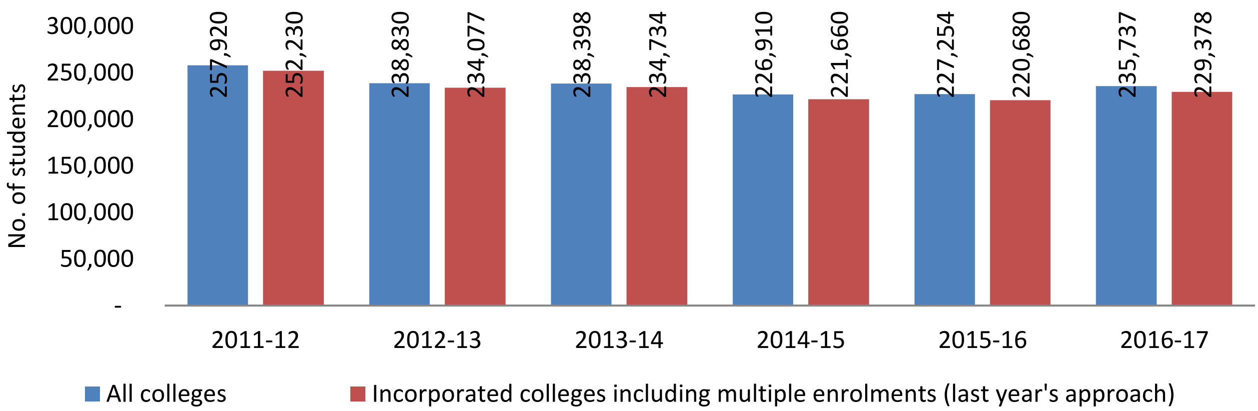
Student numbers increased by around four per cent in 2016-17

49. The number of college students increased by four per cent (8,483) in 2016-17, to 235,737 (by headcount. This is the largest number of students to attend Scotland's colleges since 2013-14. Student numbers are 8.6 per cent lower than in 2011-12 (Exhibit 8). Student numbers can also be measured by total enrolments and by full-time equivalents (FTEs). In 2016-17, enrolments increased by four per cent compared to the previous year, and FTEs increased by two per cent. For more information on how we present student numbers in this report, please see Appendix 1.

Exhibit 8

Student population analysed by headcount

The college student population in 2016-17 was the highest since 2013-14



Source: SFC's Infact database

Changes in Scottish Government policy mean colleges no longer need to prioritise full-time courses for 16-24 year olds

50. In our report *Scotland's colleges 2017*, we reported that decreasing numbers of young people and more school leavers going on to work and university would make it harder for colleges to continue to achieve the national target. At that time, the Scottish Government's focus was on full-time courses and students aged 16-24.

[6] The other non-incorporated colleges (Orkney, Shetland, West Highland and Argyll) are part of the Highlands and Islands region.

In October 2017, the Further Education Minister confirmed that colleges no longer need to prioritise full-time education for 16-24 year olds.

The largest increases in student numbers were in those taking part-time courses and those aged under 16

51. In previous years, the Scottish Government directed colleges to focus on providing education to full-time students aged 18-24. This led to significant decreases in part-time and older students. It is clear that colleges have now changed their focus. Full-time student numbers remained almost unchanged in 2016-17 at 78,311. Enrolments to part-time courses increased for the first-time since 2013-14:

- Part-time student numbers increased in 14 colleges, by a total of 13,464 students. Fife College accounts for more than half of this increase (7,066).
- Part-time student numbers decreased in 12 colleges, by a total of 5,536. The most significant decreases were in Ayrshire College (part-time students fell by 1,390) and North East (part-time students fell by 1,433)
- Overall the number of part-time students increased by 7,452 (five per cent) to 166,520.

52. More school-age students are attending college. The Developing the Young Workforce (DYW) programme means colleges are now offering more vocational courses to school pupils from S4-S6. The number of students aged under 16 attending college increased by 6,495, making up over 70 per cent of the total increase. Over two-thirds of students aged under-16 were taking courses not leading to a recognised qualification. This was the second year the number of these students increased, following a trend of decreases since 2011-12. Of students aged under 16:

- more now study at college than in 2011-12 (28,334 in 2016-17 compared to 24,976 in 2011-12)
- most attend college part time, with only 391 under-16 students studying full time in 2016-17.

Exhibit 9 summarises the trends in attendance by age group.

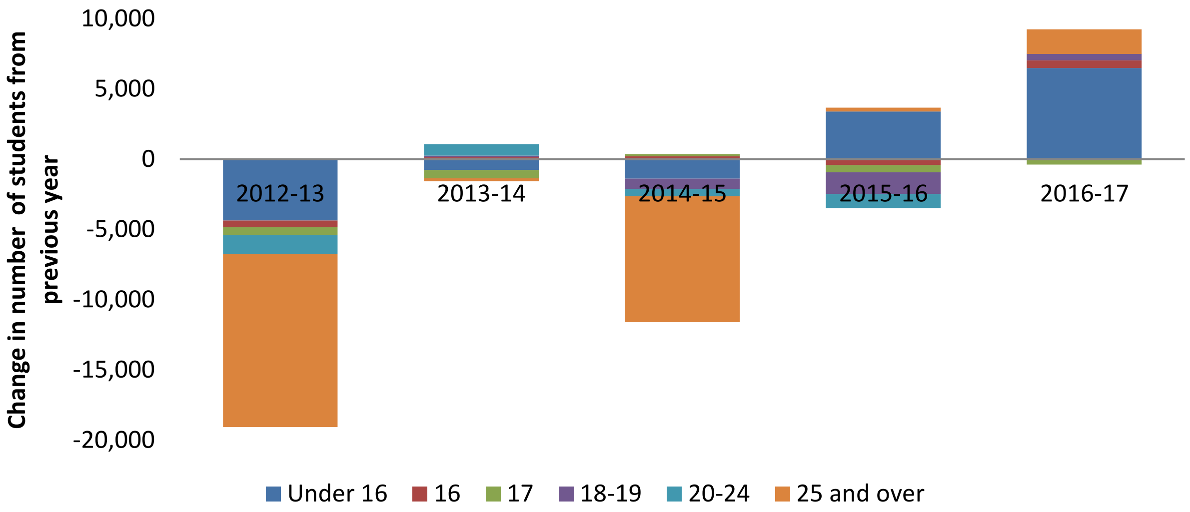
Attainment and retention, positive destinations, and student satisfaction rates were similar to the previous year

53. Attainment rates measure how many students successfully completed their course and gained the appropriate qualification. In 2016-17, attainment rates dipped slightly, that is, by less than one per cent, for HE courses and full-time FE courses. But they increased for part-time FE courses, from 74 per cent in 2015-16 to 77 per cent in 2016-17.

Exhibit 9

Change in number of students from the previous year, by age

The number of students aged under 16 has increased for the second year in a row



Source: SFC Infact database

54. Retention measures the percentage of students who complete their course. In 2016-17, retention stayed remained relatively static, changing by less than one per cent across all courses.

55. The SFC tracks college leavers after they qualify, and publishes this information in its College Leaver Destination report. The most recent data available is for students who gained a qualification in 2015-16. The SFC data shows 87 per cent of leavers' destinations (86 per cent in 2014-15). The data shows the following:

- Of all qualifiers, 82.7 per cent went into positive destinations (for example, work or further learning) compared to 82.6 per cent in 2014-15
- Of all qualifiers, 66 per cent stayed in education or training. This is down from 69 per cent in 2014-15. For those remaining in education, 85 per cent progressed to a higher level of study, 11 per cent stayed at the same level, and four per cent dropped level.[7]
- At least 17 per cent of all qualifiers went into employment. This is up from 14 percent in 2014-15. Over two-thirds were in a job related to their course.
- Of all qualifiers, 4.4 per cent were unemployed or unable to work. This was a slight increase from 3.8 per cent in 2014-15.

56. Over the past two years, the SFC has coordinated a Student Satisfaction and Engagement Survey. This asks college students about their experience. Overall, satisfaction remains high:

- 90.2 per cent for full-time students (90.1 per cent in 2015-16)

[7] Based on SCQF level. SCQF level progression information was available for 87 per cent of college leavers.

- 94.6 per cent for part-time students (93.1 per cent in 2015-16)
- 92.7 per cent for distance learners (88.1 per cent in 2015-16).

57. The SFC is aiming for a 50 per cent response rate for the survey. While it did not achieve this in 2016-17, the response rate improved on the previous year. The response rate for full-time students was 41 per cent, compared to 16 per cent for part-time students and nine per cent for distance learning.

Outcomes for students vary significantly by college

58. Changes in attainment, retention, satisfaction and destinations have been relatively small for the sector as a whole, but the variation across colleges is significant. For full-time students in further education:

- Attainment rates in 2016-17 ranged from 78.7 per cent (Orkney College) to 57.4 per cent (Fife College).
- Retention rates ranged from 86 per cent (Orkney College) to 65.6 per cent (New College Lanarkshire)
- Satisfaction ranged from nearly 100 per cent (at several of the small, rural colleges) to 81 per cent at Fife College. Response rates to the satisfaction survey often varied widely by college. Response rates varied from 80 per cent at Lews Castle College to eight per cent at North Highland.
- Positive destinations for all full-time leavers ranged from 95 per cent at Orkney College, to 71.2 per cent at Fife College. The proportion of leavers whose destination could not be confirmed also varies. The unconfirmed rate ranges from 1.3 per cent (North Highland College) to 21 per cent (Fife College).

59. Most colleges seem to be stronger on some performance indicators for full-time further education courses than on others, although a few colleges stand out. Orkney has the highest rates across all of the indicators. Fife and New College Lanarkshire sit at the lower end for most (Exhibit 10)

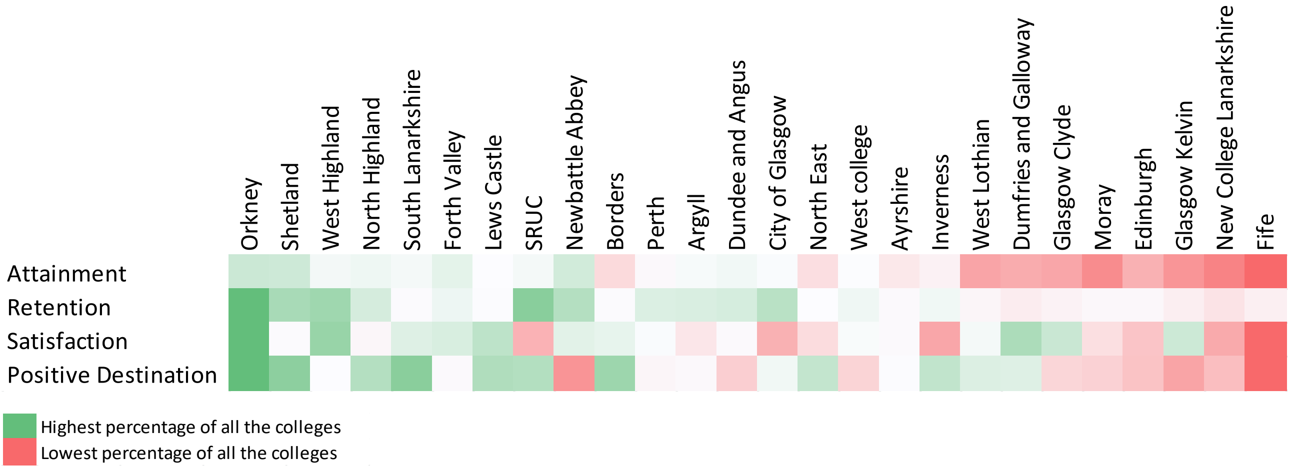
60. Another potential performance measure would be articulation rates, that is, the number of students who progress from college to university. Up-to-date information is not currently available on this, though the SFC is developing a national articulation database.

61. The SFC does not identify the factors that contribute to these trends or whether there are any significant relationships between the published measures. The Scottish Government is working on a project to improve retention at colleges. This may provide an opportunity to further investigate relationships within the data.

Exhibit 10

Performance measure for full-time FE courses, by college

Outcomes for students vary significantly by college



Note: positive destinations are for all full-time students, including both HE and FE. Sabhal Mòr Ostaig does not have FE full-time students.

Colleges have been sorted based on their average across all four measures

Source: SFC data

Students from a wider range of backgrounds are going to college

62. Colleges play an important role in widening access to education for those in deprived communities or with additional needs by:

- increasing their career prospects
- helping them to achieve their individual potential.

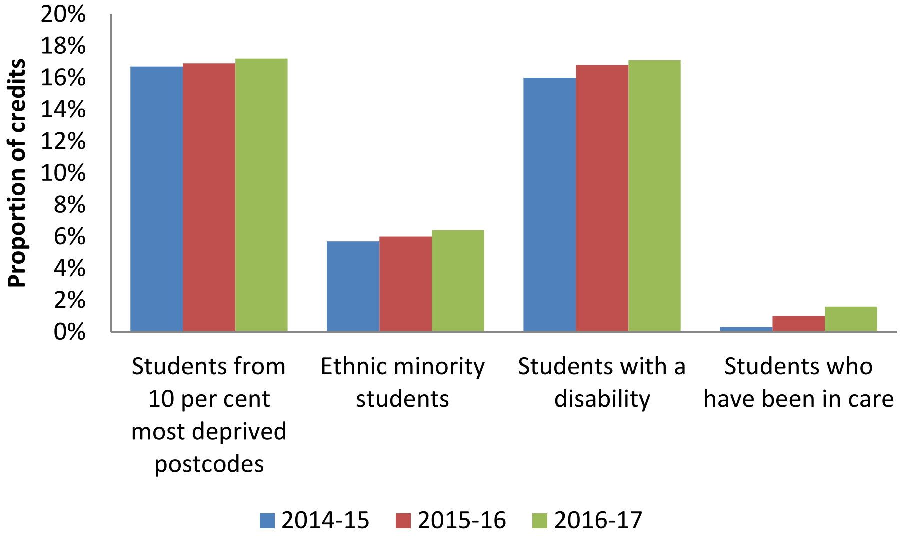
Working in partnership with schools, universities and employers, colleges offer an important route to gaining skills, improving employability or achieving a higher education.

63. The SFC has national priorities to increase the proportion of credits delivered to students from deprived areas, from ethnic minorities, who have a disability or who have been in care. Exhibit 11 shows the SFC's progress. The number of students from these groups has increased since 2011-12, despite large drops in overall student numbers.

Exhibit 11

Proportion of credits delivered to students from selected groups

The proportion of credits to students from these groups have been increasing



Source: SFC

64. Colleges play a key part in encouraging students from a wider range of backgrounds to stay on in education, particularly in providing higher education (HE) courses. Higher education courses taught in Scotland range from HNC and HND courses to post-graduate qualifications. 68 per cent of college HE entrants were on HNC or HND programmes. In 2016-17, around 1,000 students at Scottish colleges (excluding UHI) were studying at degree level. Students entering HE courses at college are more likely to be from deprived areas than those entering courses at HE institutions such as universities. Students from the 20 per cent most deprived areas account for 23 per cent (over 8,000 students) of HE entrants to Scotland's colleges. This compares to 12 per cent at Higher Education Institutions. In 2016-17, HE entrants at colleges accounted for 28 per cent (38,495 students) of all HE entrants in Scotland.

Students from the most deprived areas tend to have lower levels of attainment

65. In general students from the least deprived areas do better than those from the most deprived areas. This gap has increased since 2011-12:

- For further education students, the gap in attainment between the ten per cent least deprived and ten per cent most deprived areas has increased from five per cent in 2011-12 to seven per cent in 2016-17. In 2016-17, attainment for students from the ten per cent most deprived areas was 62 per cent, compared to 70 per cent for students from the ten per cent least deprived.
- For HE students, the gap in attainment between these groups increased from 7.5 percentage points in 2011-12 to 7.7 percentage points in 2016-17. The attainment gap

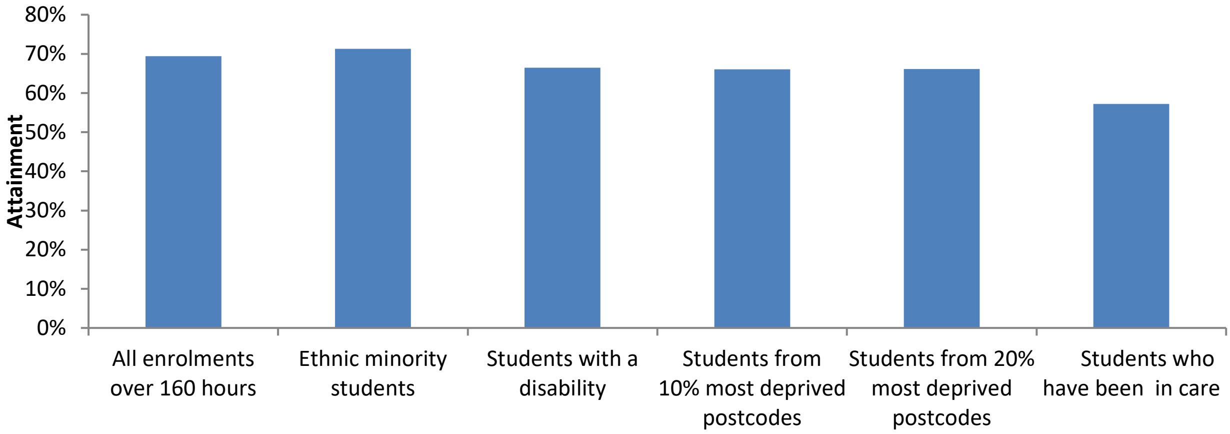
narrowed between 2015-16 and 2016-17. In 2016-17, attainment for students from the 10 per cent most deprived areas was 68.5 percent, compared to 76.2 per cent for students from the 10 per cent least deprived.

66. The SFC reports that, for all courses over 160 hours, 69 per cent of students achieved their qualification in 2016-17. Attainment was higher for ethnic minority students, but lower for students with a disability or who have been in care (Exhibit 12). Students from all of the groups identified in Exhibit 12 are also less likely to move into work once they leave college.

Exhibit 12

Attainment on courses over 160 hours for student from selected groups

There is an attainment gap for students from deprived areas, with a disability or who have been in care



Source: SFC

67. Students from deprived areas are more likely to face barriers to attending college; for example, they might struggle to cover the transport costs, or struggle to afford food. Colleges have developed new approaches to tackle these problems. For example: Glasgow Kelvin has dedicated staff to provide support for disadvantaged students; Dumfries and Galloway College provides transport to students from remote areas; and South Lanarkshire College has been providing free sanitary products to all female students.

68. An independent review of the student support system in Scotland published its findings in November 2017.[8] This review proposed:

- changing the structure of student support funding for college students
- moving to one common funding system across both further and higher education
- operating at a national level with local face-to-face support.

[8] *A New Social Contract for Students: Fairness, Parity and Clarity*, Student Support Review in Scotland, Autumn 2017

69. The Scottish Government, SFC and Student Awards Agency for Scotland (SAAS) are currently considering how to implement the review's recommendations.

Colleges have made limited progress in reducing gender imbalance in certain courses

70. The gender balance across students in the sector has remained broadly even, as was the case last year. Female students represent 51 per cent of the student population (120,187), and males 49 per cent (115,320).

71. Both male and female part-time students increased in 2016-17. The number of male students increased by eight per cent to 83,817 and the number of female students by two per cent to 82,529. Since 2011-12, female part-time student numbers have dropped by 35 per cent (45,074 students), compared to 24 per cent for males (26,405 students). Part-time students are now split almost evenly between male and female for the first time.

72. There continue to be large gender imbalances across subject groups (Exhibit 13). The SFC is committed to increasing the minority gender share in the most imbalanced subjects through sharing identified good practice and its gender action plan. It has made good progress in attracting female students to engineering, and some progress attracting male students into social work. But it needs to do more to improve gender imbalance in other subjects. Child care courses are particularly imbalanced. The SFC expects to see more progress from 2017-18 onwards.

Exhibit 13

Changes in subjects with the greatest gender imbalances

Changes in the gender balance of some courses is relatively small

	Male students 2016-17 (%)	Female students 2016-17 (%)	Percentage point change in minority gender from 2015-16
Engineering	78	22	7
Transport	93	7	-4
Construction	89	11	0
Health	24	76	-1
Social Work	14	87	1

Source: SFC

Colleges are trying to improve gender balance on college boards

73. In January 2018, the Scottish Parliament passed the Gender Representation on Public Boards (Scotland) Act 2018 to improve the gender representation on boards of Scottish

public authorities. Sixteen colleges have more men on their boards than women. Six college boards have twice as many men as women, with the greatest gender imbalance at Orkney College (16 men to three women).[9,10] Seven colleges have more women than men on their boards, with the largest gender imbalance being Borders College, with ten women and six men. Three colleges have an equal balance: New College Lanarkshire, Edinburgh College and Moray College.

74. UHI has taken steps to improve the gender balance of their members (Case Study 1).

Case study 1

UHI had difficulty attracting female candidates to its government body. Its recruitment process in late 2017 saw 70 per cent of applicants being men. One female governor was recruited through this process, but to supplement this UHI ran another recruitment process using a different approach. This included:

- **changing the role description and person specification significantly to make it accessible to a much wider audience, for example removing the requirement that applicants must have served on boards before, and focusing on the skills needed for the role**
- **specifying that candidates should be able to demonstrate a commitment to equality and diversity**
- **encouraging appropriate candidates by sharing the vacancy with local women's groups, for example the Highland Business Women's Club.**

This resulted in better quality applicants, a greater number of female applicants and, ultimately, to three further female appointments to the UHI Court. When all three new governors have joined, the Court membership will be 11 men and eight women.

Source: Audit Scotland

[9] North East College Scotland, City of Glasgow College, Glasgow Kelvin College, North Highland College, Orkney College and Shetland College.

[10] Orkney College is run by Orkney Islands Council, so its equivalent to other college boards is the Orkney College Management Council, which has elected councillors, council officers, members of the college and members of the local business community as members. The Accounts Commission's recent Best Value report identified a gender imbalance across councillors for Orkney Islands Council. (*Best Value Assurance Report: Orkney Islands Council*, Accounts Commission, December 2017)

Progress in the multi-college regions

Key messages

- **The three multi-college regional strategic bodies (RSBs) are fulfilling their statutory duties by setting targets for individual colleges and distributing funding. But the extent to which they are delivering the anticipated benefits of regionalisation varies.**
- **The University of Highland and Islands (UHI) Court has made good progress in delivering the anticipated benefits of regionalisation. Since it became the RSB in 2014, it has focused on changing cultures and developing effective relationships among its assigned colleges. The RSB is helping colleges to balance income and expenditure over the medium-to-long term in a more sustainable way by re-allocating learning activity and funding in the region. It is now planning more effective shared working and is exploring the possibility of integrating four of its five incorporated colleges.**
- **After a difficult start, the Glasgow Colleges Regional Board (GCRB) is making progress on coordinating collaborative regional activity. Both GCRB and its assigned colleges recognise that they need to do more work to deliver a fully effective regional partnership. More time and stability is needed to deliver cultural change, particularly with the regional arrangements following significant merger activity in Glasgow.**
- **The Lanarkshire Board shows little signs of progress against the aims of regionalisation. Both assigned colleges are working together to meet core statutory requirements, but the Board is not delivering any clear, regional benefits.**

The regional strategic bodies (RSBs) in the three multi-college regions are fulfilling their statutory duties

76. As part of it reform of post-16 education, the Scottish Government established a regional approach to further education. The aim was to make the sector more efficient and responsive to the needs of students and local economies. Across Scotland, 13 regions were created. Three of these contain more than one college: Glasgow, Highlands and Islands and Lanarkshire. In these three multi-college regions, regional strategic boards (RSBs) oversee the assigned colleges[11]. They are responsible for:

- strategically planning college education across the region
- allocating funding to assigned colleges

[11] Under the Further and Higher Education (Scotland) Act 2005 every incorporated college is either designated as a regional college or assigned to a regional strategic body.

- monitoring how their assigned colleges perform
- overseeing the delivery of the regional outcome agreement, which sets out what colleges in a region will deliver in exchange for funding.

77. All three RSBs in the three multi-college regions are structured and operate differently:

- The Court of the University of Highlands and Islands (UHI) existed before regionalisation, but was established as the RSB in August 2014. It secured operational fundable body status in April 2015. To carry out its regional body role, UHI established a committee of its Court, called the Further Education Regional Board (FERB). The RSB employs a small number of staff and its operating budget in 2017-18 is around £325,000. Nine colleges are assigned colleges of UHI:
  - five incorporated colleges: Inverness, Lews Castle, Moray, North Highland and Perth.
  - four non-incorporated colleges: Argyll, Orkney, Shetland and West Highland.

  Uniquely to UHI, assigned colleges are also academic partners of UHI for delivering higher education.
- Glasgow Colleges' Regional Board (GCRB) was established in May 2014. GCRB has three assigned colleges: City of Glasgow, Glasgow Kelvin and Glasgow Clyde. It employs three staff and its operating budget for RSB activities in 2017-18 is around £430,000. After some problems which were highlighted in a statutory report by the Auditor General, it achieved operational fundable body status in April 2017.[12]
- The board of New College Lanarkshire acts as the Lanarkshire RSB. It secured operational fundable body status in August 2016. With no separate regional governance arrangements or additional staff, the RSB incurs relatively little additional cost. This is estimated to be in the region of £50,000 a year.

78. To operate fully, RSBs in multi-college regions had to meet the SFC's requirements to be 'fundable bodies'. The creation of multi-college RSBs has led to a change in the financial and accountability relationships between the SFC and the assigned colleges in these regions.

79. In *Scotland's Colleges 2016*, we reported that none of the three multi-college RSBs was operating as intended. The regional arrangements are still relatively new. As they have been established alongside significant reform in college mergers, we expect that it will take some time for RSBs to be operating fully effectively. We are seeing the culture in assigned colleges is beginning to change.

Progress in meeting the aims of regionalisation varies

80. All three multi-college RSBs now fulfil their core statutory duties. But the extent of their progress in meeting the wider aims of regionalisation varies. The remainder of this section considers what each RSB has done since it was created.

[12] The 2014/15 audit of Glasgow Colleges' Regional Board, Auditor General for Scotland, March 2016

UHI

81. UHI has made good progress in meeting the wider aims of regionalisation. It has invested a lot of time and effort in building relationships between the assigned colleges, and establishing a more collaborative culture. Colleges are now more willing to share best practice and services to generate greater efficiency. For example, Inverness College recently appointed a Director of Finance on the basis of her becoming the joint Director of Finance at both Inverness and Moray colleges.

82. UHI has been developing clear sense of purpose, with a regional strategy for further education. It has invested in staff and revised structures to reflect its wider responsibilities and deliver its aims. This has included appointing a Vice-Principal of further education and other dedicated staff. It has also been developing regional policies and management information systems. For example, it has:

- developed a single set of policies for further education, covering admissions, the content of courses and student procedures; and
- started to use data better to help it report more effectively against its plans.

83. UHI has been strengthening the accountability of its assigned colleges by developing more effective performance monitoring arrangements. This has been prompted by the learned lessons from previous financial difficulties in Moray College. Its audit committee and financial and general purposes committee now both look in detail at the performance of all individual colleges across a range of measures. As a result, committee members better informed about long and short-term performance issues and about the colleges' financial sustainability. UHI recognises though that is scope for further improvement, particularly in securing timely information from assigned colleges.

84. Over the past two years, some of UHI's more rural and remote colleges have found it difficult to meet their activity targets. This has presented a risk to their ability to continue to balance their income and expenditure in the medium to long term. In November 2017, UHI agreed a funding model for allocating further education credits between colleges in a way that maintains financial stability at individual colleges and meets the regional targets agreed with the SFC.

85. UHI is also working towards integrating four of its five colleges. Its aims are to simplify UHI's structure and governance arrangements, deal more effectively with future financial pressures, and deliver benefits for staff and students. The integration agenda is at an early stage, with UHI yet to consult colleges on what the benefits may be or its proposed structure.

GCRB

86. GCRB experienced instability in its leadership and weaknesses in governance arrangements during the first three years of its existence. This contributed to it taking three years to achieve fundable body status. It has had five chairs in four years, with its current chair being appointed in January 2018. GCRB is now benefiting from greater

collaboration and integration in the areas outlined below. However, the current chair acknowledges that greater stability is needed to make GCRB more effective than it has been, and she is working with the three assigned colleges and their boards to agree a joint vision.

87. GCRB reviewed the region's curriculum in 2014 and produced the *Glasgow College Region Curriculum and Estates Plan 2015-2020*.This led to changes in the number and content of courses, the closure of a campus that was no longer fit for purpose and a transfer of credits between colleges.

88. GCRB launched Glasgow's Regional Strategy for College Education in October 2017, which sets out the regional priorities for 2017-22. This strategy sets an overarching ambition of building an inclusive, responsive and effective regional college system. To deliver this, GCRB is taking forward a number of regional initiatives:

- Coordinating the way school students move into further education across the Glasgow region and developing ways for students to move easily from the three colleges to Glasgow University.
- Coordinating curriculum hubs that jointly plan the courses colleges provide, to match economic and employer needs. This approach gives learners a better chance of getting a job when they leave college. The hospitality hub, for example, is run by operational managers across the colleges and shares teaching materials, assessments and students.
- Supporting Glasgow’s colleges to develop individual college and regional science, technology, engineering and mathematics (STEM) strategies. The colleges now work together with employers and higher education partners through STEM to develop effective ways for school pupils to go to college and university and into jobs.
- Establishing regional leads, in the form of senior college staff, for curriculum planning, organisational development, student experience, developing the young workforce (DYW) and student data systems. It Individual colleges fund this work, with senior staff concentrating on regional work, on average, for one day a week.
- Distributing capital funding to college against an agreed set of criteria, linked to regional priorities.
- Monitoring and scrutinising colleges’ finances and performance on an ongoing basis.

89. Despite these regional initiatives, there are still regional activities that are not overseen by GCRB. For example, before the GCRB was set up, the colleges in Glasgow cooperated through the Glasgow Colleges Group. This group still exists for the three colleges to develop and monitor the Regional Outcome Agreement and liaise with local and national stakeholders on a city-wide basis. However, this group is not part of the GCRB structure.

90. Senior staff and board members we spoke to from GCRB's assigned colleges also expressed mixed views about the benefits of the regional body. The majority acknowledge the benefits of having a regional body to support collaborative working, but

some see it as an unnecessary additional cost and layer of bureaucracy. If GCRB is going to become more stable and add more value, it needs to address these concerns.

Lanarkshire

91. The benefits of regionalisation are least evident in Lanarkshire. The Lanarkshire Board's strategic planning of college provision across the region is not well developed. Both colleges see very limited opportunity for curriculum review and moving courses across the region.

92. Most members of the RSB that we spoke to recognise that the current arrangement is not delivering benefits. But they have concerns about making further efforts to create a regional approach to learning. Board members from South Lanarkshire College want to see the college continue to operate as it did before regionalisation. The college performs well, has a relatively healthy financial position and members see no additional benefit to be gained from any changes across the region. New College Lanarkshire has been through a difficult period in merging its three predecessor colleges and is focusing on addressing its current financial difficulties (paragraph 33).

93. The colleges have indicated that demographics and infrastructure are also viewed as a barrier to change. Distances between New College Lanarkshire's campuses and South Lanarkshire College are greater than the distance to campuses in Glasgow. There are also relatively poor transport links across Lanarkshire compared with good transport links to Glasgow. Both colleges share concerns that shifting courses between the colleges could potentially encourage local students to look at courses in Glasgow than within the region.

94. There is little evidence that the Lanarkshire Board has sought to address the issues described above or that it and its assigned colleges have explored opportunities for more effective regional working. For example, since 2015/16, the Board and its Finance Committee have been committed explore developing a 5-year plan for the region to "form strategies to minimise negative impact and maximise opportunities which arise". The Board has yet to confirm when this will be developed and approved.

95. The Board has a Regional Outcome Agreement as required by the SFC. Beyond this it has not led or facilitated any significant cooperation and integration between the colleges to date.

96. Although the New College Lanarkshire board fulfils a dual purpose in also acting as the RSB, it does not receive any regional reports. The Lanarkshire RSB receives separate reports from both colleges on all issues. This does not encourage collaborative working or a regional identity.

Despite the regional arrangements, assigned colleges must also report to the SFC

97. Assigned colleges are accountable to their RSB for the local delivery of further education and meeting locally agreed targets. Each RSB is accountable to the SFC for delivering further education across the region. Despite the introduction of regional strategic bodies, the SFC still requires assigned colleges in multi college regions to submit a number of specific data requests directly to them. It has required college-level responses to new initiatives, such as gender action plans and to its condition survey, rather than asking for regional responses. Assigned colleges tell us that this not only creates confusion around accountability, but that the requirement to provide data to both their RSB and the SFC can place an additional burden on them.

Appendix 1

Audit methodology

Our audit involved the following:

- Analysing relevant Scottish Government budget documentation, colleges' audited accounts and auditors' reports covering the financial periods ending July 2016.
- Analysing information held by the SFC, including performance and activity data
- Interviewing a wide range of stakeholders. These included college principals, senior college staff, regional chairs, Colleges Scotland, staff and student unions, trade unions, the SFC and the Scottish Government.
- data we requested from colleges' local external auditors.

This report focuses on incorporated colleges. We state clearly where we include data relating to non-incorporated colleges.

Detailed methodology for specific sections in the report:

Accounting adjustments to audited accounts (paragraph 17)

Incorporated colleges reported an overall deficit of £20.5 million in their 2016-17 audited accounts. This compares with an overall deficit of £19.4 million in 2015-16 audited accounts. In line with our 2017 report, we have calculated the sector's financial position by making adjustments to college accounts. We do this as the accounts include technical accounting adjustments that do not reflect actions taken by colleges and are outside their immediate control. These include property asset valuation reductions and pension adjustments. We have made adjustments totalling £24 million in 2016-17 for colleges spending 'net depreciation cash'. Part of a college's allocation is for depreciation, reflecting the loss of value over time of assets such as equipment. But as this does not involve spending money, this is available for other purposes.

We also made adjustments for donations to arm's-length foundations (ALFs) as these do not indicate any concerns about financial sustainability. The Office for National Statistics (ONS) reclassified colleges as public bodies from April 2014. Following reclassification, colleges are no longer permitted to build up cash or take out new borrowing as this would count towards the Scottish Government's total spending. Colleges can therefore donate any surplus to an ALF. Since 2013-14 we have adjusted the deficit position to take account of donations to an ALF. Colleges can apply for and have received funding from ALFs, generally for capital purposes, for example spending on buildings. Two colleges donated to an ALF in 2016-17 and the sector expects the funds held by ALFs to reduce over time. The overall level of funds held by ALFs has reduced from £99 million in 2014 to £52.5 million in 2017.

We have also adjusted for capital grants and deferred grant releases from non-government bodies including ALFs.

Calculating student numbers (paragraph 49)

In this report we present student numbers as calculated by headcount, drawn from the SFC's Infact database. Where possible, this headcount excludes any multiple enrolments, meaning if a student had been enrolled at two colleges in 2016-17 they would only be counted once. We use headcount to measure student numbers throughout this report, unless otherwise stated.

In previous college overview reports, we have presented student numbers for incorporated colleges only. For *Scotland's colleges 2018*, we have expanded our analysis to include non-incorporated colleges and SRUC to give a comprehensive picture of performance against the Scottish Government's national target for learning activity. If we analyse only the incorporated colleges in line with our approach last year, we see that headcount has increased by four per cent, and the trend is the same as for the whole sector.