



**OFFICIAL REPORT**  
AITHISG OIFIGEIL

# Public Audit and Post-legislative Scrutiny Committee

**Thursday 7 June 2018**

**Session 5**



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**Thursday 7 June 2018**

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**PUBLIC AUDIT AND POST-LEGISLATIVE SCRUTINY COMMITTEE**

**16<sup>th</sup> Meeting 2018, Session 5**

**CONVENER**

\*Jenny Marra (North East Scotland) (Lab)

**DEPUTY CONVENER**

\*Liam Kerr (North East Scotland) (Con)

**COMMITTEE MEMBERS**

\*Colin Beattie (Midlothian North and Musselburgh) (SNP)

\*Bill Bowman (North East Scotland) (Con)

\*Willie Coffey (Kilmarnock and Irvine Valley) (SNP)

\*Iain Gray (East Lothian) (Lab)

\*Alex Neil (Airdrie and Shotts) (SNP)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Roseanna Cunningham (Cabinet Secretary for Environment, Climate Change and Land Reform)

Caroline Gardner (Auditor General for Scotland)

Mark MacPherson (Audit Scotland)

Lucy Nutley (Mazars)

Helen Russell (Audit Scotland)

Sally Thomas (Scottish Natural Heritage)

**CLERK TO THE COMMITTEE**

Lucy Scharbert

**LOCATION**

The James Clerk Maxwell Room (CR4)



**Scottish Parliament**  
**Public Audit and Post-legislative**  
**Scrutiny Committee**

*Thursday 7 June 2018*

*[The Convener opened the meeting at 09:04]*

**Decision on Taking Business in**  
**Private**

**The Convener (Jenny Marra):** Good morning and welcome to the 16th meeting in 2018 of the Public Audit and Post-legislative Scrutiny Committee. I ask everyone in the public gallery to switch off their electronic devices, or to switch them to silent, so that they do not affect the committee's work this morning.

Under agenda item 1, does the committee agree to take items 4, 5 and 6 in private and to consider a draft report on post-legislative scrutiny of the biodiversity and biodiversity reporting duties in private at future meetings?

**Members** *indicated agreement.*

**Biodiversity and Biodiversity**  
**Reporting Duties: Post-legislative**  
**Scrutiny**

09:04

**The Convener:** Agenda item 2 is post-legislative scrutiny of the biodiversity and biodiversity reporting duties. I welcome our witnesses: Roseanna Cunningham is the Cabinet Secretary for Environment, Climate Change and Land Reform; Hugh Dignon is the head of wildlife management and protected areas in the Scottish Government; and Sally Thomas is the director of policy and advice at Scottish Natural Heritage. I understand that the cabinet secretary will not be making an opening statement, so we will move straight to questions.

Cabinet secretary, do you feel that the reporting duty on biodiversity is working?

**The Cabinet Secretary for Environment, Climate Change and Land Reform (Roseanna Cunningham):** I think that there is room for immense progress. We are in only the second round of the reporting duty being live—the first round was in 2015, of course—and it is fair to say that it is taking a while for public bodies to become alive to it. I would say that the reporting duty is working, but I suspect that we are nowhere near what the movers of the original amendment to the Wildlife and Natural Environment (Scotland) Bill wanted to see. It is work in progress.

**Colin Beattie (Midlothian North and Musselburgh) (SNP):** Following on from that point, in the first reporting cycle there was a 44 per cent compliance rate with the reporting requirement. The second reporting cycle finished in January. What was the figure for that? Has there been an improvement?

**Roseanna Cunningham:** It is still being compiled. At this point, we are at 41 per cent, so the expectation is that, by the end of the year, the figure will be higher than it was in 2015, but there are still a lot of public bodies that are not engaged in the reporting process.

I pulled down a long list of the public bodies that are covered by the duty, and I suspect that those bodies that are quite far away from this area in their functions and what they do are probably finding it difficult to engage. It might be more understandable why the Accountant in Bankruptcy, for example, might have a challenge there. I have no idea whether the Accountant in Bankruptcy has reported, but I use that example to make the point that, of that enormous list of public bodies, there are some that are quite a long way away from biodiversity in their jobs and functions.

It is clearly a task to engage them all in understanding that, no matter how far away they are from biodiversity in what they do, there is still a duty on them. As members will understand, SNH is not going to have a difficulty in making such a report, but some of the other bodies might not have registered at this stage that they have a duty to do so.

That said, we write out to every one of the public bodies when we are coming up to the reporting date to remind them of the duty. We are trying to engender that understanding, but it is still the case that there are a number of the public bodies that are not really getting it or perhaps do not quite understand what it is that they are being asked to do.

**Colin Beattie:** When we took evidence on the issue previously, there seemed to be a consensus that more guidance was needed to provide more clarity on the duties that required to be met and even on the reporting format. Is it recognised that there might be some room for improvement on that?

**Roseanna Cunningham:** There is quite a lot of guidance. One of the questions that I might have of public bodies is whether they are availing themselves of what information is already available. There are three different template forms, which are tailored to the size or nature of an organisation. There is already some nuancing, and quite a lot of guidance is available. I am not sure what extra information could be provided. The problem might be that organisations are not finding what is there in the first place rather than it not being sufficient when they find it.

**The Convener:** Do you feel that that is perhaps because many of the public bodies are stretched financially and are under a lot of pressure to deliver their core services? Is the biodiversity reporting duty just a step too far for organisations for which biodiversity is outwith their core functions, which you mentioned in one of your responses?

**Roseanna Cunningham:** The duty has been legislated for in terms of function. When I talked about it being outwith organisations' core functions, I was talking about those public bodies whose activities, by definition, do not relate to nature or biodiversity. Given that the issue is perhaps not at the forefront of their minds, it might be quite hard for them to envisage how to achieve what is required.

The original legislative provision on the duty to have regard to biodiversity dates back to 2004. I am guessing, because of what happened with the Wildlife and Natural Environment (Scotland) Bill in 2010, that there was a feeling that that did not really achieve anything and that having to report

on it might help to achieve more. Perhaps it has done that to some extent.

Our view is that the reporting function is not a huge resource issue. It might be the case that different public bodies are prepared to expend more of their time and resource on the function, but we find it difficult to see that the reporting part of the process is resource intensive per se. To be honest, I am not sure that that is what the problem is with the reporting.

**The Convener:** That is useful—thank you.

**Bill Bowman (North East Scotland) (Con):** On the issue of resource and data, one of the organisations that gave evidence last week talked about the information that was available to it in a condensed urban area. Because it is part of a larger region, it was difficult to put its report in context because there was no form of hub that collected information for the whole area. Could the Scottish biodiversity information forum get more support from the Government to encourage the holding of information in a form that would be searchable, which would give individual preparers more localised data?

**Roseanna Cunningham:** The SBIF is in the middle of undertaking a piece of work that may or may not include recommendations that relate to that, so perhaps we should wait and see what it has to say. The SBIF was formed at the same time as the provision in question was incorporated in the bill, and it is currently doing a costed business case. I expect that some more concrete suggestions and proposals will be made on the area that Mr Bowman asked about. As I understand it, the SBIF is looking for support to build a better recording infrastructure.

The difficulty with all of this is that we are talking about the reporting and recording bit of the process, not the doing part of it. My feeling is that I would want there to be some focus on the doing part, not just the reporting part. I am a bit wary of putting an enormous amount of time and effort into a reporting infrastructure, which might run the risk of becoming slightly top heavy and becoming more of a resource issue, thereby detracting from the activity of having regard to biodiversity.

The regional reporting idea was interesting, but we think that that would become very difficult to manage. Apart from anything else, there are national bodies, the information from which would have to somehow be disaggregated into regional figures. If a regional hub were created, how would that get hosted and run? We would be ramping up the infrastructure of reporting, and I am not sure that bodies that are not reporting now would necessarily report any more frequently to a regional hub. I am not certain that the regional hub idea would really solve the issue here.

09:15

**Bill Bowman:** I think that the idea was partly to give bodies information to help them to decide how to deal with biodiversity; it was not just to help with reporting.

**Roseanna Cunningham:** That is interesting, because that is not what the provision in question is about. It is about the reporting. That is why I made the distinction between the two aspects in my earlier answer. I think that there is perhaps more of an issue with bodies fulfilling the function of having regard to biodiversity. It will undoubtedly be tougher for some bodies to identify how they can do that than it will be for others. For organisations other than the landholding agencies, there are not the obvious opportunities that there might be. It sounds a bit nursery to talk about the doing part, but I want to distinguish between the activity that was legislated for in 2004 and the reporting part, which was legislated for in 2010. If the reporting part is—

**The Convener:** You have been very clear about that, which is useful.

**Bill Bowman:** It would be nice if the two aspects were joined up.

**Roseanna Cunningham:** In a sense, they are meant to be, but the reporting is about the doing. If a body is not engaged in the doing, it might feel that there is nothing to report, if it is even aware that it should be reporting.

**Willie Coffey (Kilmarnock and Irvine Valley) (SNP):** That leads me nicely on to the subject of my question—I want to scratch below the surface of the reporting and see who is doing what. We had some good examples last week, particularly from the East Ayrshire Leisure Trust submission. It embeds its duties in a number of the engagements that it carries out in East Ayrshire. For example, it has a species survey that it creates when it is thinking about maintenance of buildings and capital programmes; it has a local records centre; and it has enhanced species protection when it is thinking about planning and building standards. Despite the fact that we have heard about a lack of reporting, when we looked below that to see who was doing what, we found that quite a lot of good work was being done.

Have you had any similar evidence from the other public bodies that have a land interest about whether they are actually doing the doing, as you said?

**Roseanna Cunningham:** There will be a lot of public bodies in that position. I would hazard a guess and say that most local authorities are having regard to that function. There is a lot that can be done. It can be easier for organisations that are landholders. For example, health boards

are beginning to look much more closely at what is happening on their estates. A number of other public bodies work very hard at this; Scottish Water would probably have an incredibly good story to tell about everything that it is doing. It is true that there are some extremely good examples.

The lack of reporting does not mean that there is a lack of action or that good work is not being done. The question is about our ability to gather that information in and to show it in one place across the whole of Scotland, and that is the bit that we are finding difficult.

**Willie Coffey:** We also asked about how such processes embrace and engage the wider public. They tend to happen anyway in places such as East Ayrshire. For example, as I understand it, there is no formal requirement to engage the public in a new plan from a biodiversity perspective, but it does happen. At last week's meeting, we tested the water on that, and the picture seemed to be piecemeal when it came to whether the public bodies proactively engage with the public when they consider any new piece of work in their area. How could we strengthen the engagement process with the public in this area?

**Roseanna Cunningham:** Public engagement is really important. In some cases, it is simply a question of bodies being clear and explaining why they are doing what they are doing, although, in some cases, it is a question of local authorities explaining why they are not doing something. There is a big debate about things such as road verges and roundabouts. Local authorities are taking decisions about what the planting looks like, whether to mow, when to do it and all the rest of it. Members of the public can be mystified about why something that used to happen is not happening, but there might be a very good reason for that. That is about communication. Each public body will have its own way of operating, and some public bodies will be a lot better than others at such direct communication.

When it comes to local authorities, my experience is that there is quite a lot of engagement with people, because a lot of the activity that goes on in the area of delivering the biodiversity function involves vast numbers of volunteers. I think that we are still in volunteers week. A huge amount of the activity that public bodies undertake will involve volunteers, and I would be amazed if East Ayrshire Council was not harnessing an army of volunteers to do that. There is a very strong level of engagement in that regard.

Again, we are talking about performing the function part of the duty rather than the reporting part. The question is how we make sure that we get all those public bodies that are doing such

work to report it—I would be surprised if they are not doing so—and how we get those that do not have the issue at the forefront of their minds to understand that they should be thinking about it in the course of their business. That was what was asked of them. The aim was not to turn them all into mini-SNHs. We asked them to have regard to biodiversity in the course of their normal functions and, some years later, we asked them to report on what that looked like. I suspect that there might be a bit of confusion about what exactly public bodies are supposed to be doing, and in some cases I suspect that they do not have much of a notion.

**Liam Kerr (North East Scotland) (Con):** On exactly that line of questioning, I am not aware of there being any sanction if a report does not come in. Is that correct?

**Roseanna Cunningham:** There are no sanctions if a report does not come in. I indicated that we write out to all the public bodies in the run-up to a reporting deadline. Somewhere on somebody's desk in every single one of those public bodies there will be a letter saying, "By the way, you need to think about this." However, there are not sanctions. That was not part of the debate in 2010.

To be honest, there is not always a relationship between sanctions and more effective reporting. With public bodies, it is difficult to see how we would build in a sanctions regime. That would be a curious conversation to be required to have. For example, there are no sanctions for a failure to report on climate change duties, but we get 100 per cent reporting on those. The issue is more about people's understanding of the importance or relevance of reporting, rather than that people are deliberately setting their face against it. I am not sure that sanctions would necessarily help. I am just trying to be honest about that. It is more about getting public bodies to understand what the 2004 duty is and how they have to report on it.

Given that we wrote out to all the public bodies in the run-up to the deadline, perhaps we could now undertake an exercise of writing out to them again, flagging up that we are now halfway through the year and pointing out that there is now parliamentary interest in the lack of reporting. That might generate a bit more engagement.

**Liam Kerr:** That makes perfect sense to me. I was wondering whether we could end up in a situation where a public body does not have sufficient resource or knowledge, but I suppose that you would say, "We are writing out to them, so they are going to comply."

**Roseanna Cunningham:** In every single public body, there is a letter sitting on somebody's desk. One could ask why that does not trigger at least some response, and I do not know the answer to

that. As far as I am aware, meeting the reporting duty is a matter of going on to the website and downloading some templates. I do not think that there is a resource issue with the reporting part. I suspect that what is happening is that public bodies that have not really paid any attention to the original 2004 duty do not report because they have nothing to report. I am looking at officials for confirmation, but I suspect that people see the letter and think, "We do not really have anything to say."

**The Convener:** Would Hugh Dignon or Sally Thomas like to come in on that? Sally, you heard some of the evidence last week. Would you like to add to that?

**Sally Thomas (Scottish Natural Heritage):** As the cabinet secretary said, there is a lot of really good and detailed guidance. It is about raising awareness either through that guidance or maybe through a more tailored approach with some of the public bodies that find it difficult to report. The guidance includes a number of case studies that were worked up in conjunction with public bodies after the 2015 round of reporting to illustrate to public bodies of different sizes and with different ranges of functions what they could do to fulfil their duty. Those case studies show that bodies do not need to have large areas of land at their disposal to comply with the duty and that even small activities in the way that a body exercises its functions can contribute. The case studies are very useful, and we can recirculate them to add to the general levels of awareness.

**Liam Kerr:** Is there any value in that? From what we heard last week, it was clear that, as the cabinet secretary rightly pointed out, different bodies have different levels of engagement and requirements to engage. Should we make the duties to comply and to report proportionate to the size and the core business of the public body in question?

**Roseanna Cunningham:** Proportionality is important, and we all have to understand that. As I indicated, the guidance on the SNH website already builds in a level of proportionality. Clearly, for a landholding public body, there is a greater expectation in relation to the function and potentially the reporting, because it ought to have far more to report. There is a different level of engagement. A public body whose main responsibilities have a direct link to or involve biodiversity is in a different position from public bodies that are a long way from that in their functions and capacity to do anything. In some cases, we would be talking about simply getting folk to put in window boxes or something. If all a body has is a building and not much else, it may simply be looking at something like that. However,



I am not sure whether folk are thinking along those lines.

Proportionality is really important, but the guidance already recognises that. There are three levels, with three different templates, so public bodies ought to be able to find something that fits their core function, size and all the rest of it. We have very small public bodies as well as large ones but, if they have a look at what is available, they will find that there is inbuilt variation. I suspect that they are not even getting as far as looking. It is not as if they are looking and saying, "I don't know what that all means, so I'm not going to do anything." I am not sure that they are finding it in the first place.

**Liam Kerr:** I have a quick final question. I am going to stay on reporting, although I accept your point that that is actually the second stage. We heard last week that the publication date for reporting on the previous three years is 1 January, and a concern was raised that the timing is not ideal, given the holidays. We end up producing a report that does not take us right up to 1 January. In light of those facts, would you support a change to the timing of the reporting cycle?

09:30

**Roseanna Cunningham:** I personally do not have incredibly strong views about that. My suspicion is that there will be similar issues with almost any reporting date. There will always be a bit of a time lag and issues with that. From the point of view of this conversation, the important thing is that we would need to amend the primary legislation to change the reporting date. That is quite a big hammer to crack what is perhaps not a very big nut.

We can certainly consider the issue, if it really seems to be an issue. As I said, I do not have a strong view about it, but it is not clear that it is an issue. We accept late reporting. It is not as if we say, "Get it in by the deadline or forever hold your peace." As reports come in, we will take them. The reporting deadline is not as big an issue as it might be. I note that the evaluation of the 2015 reporting round did not say anything about the reporting date, so the issue was not flagged up in that first round. However, the key thing from our perspective is that changing the date would require amending primary legislation.

**Alex Neil (Airdrie and Shotts) (SNP):** At the evidence session last week, one of the key issues was the absence of information on outcomes. Is there any evidence that all this reporting activity is actually adding any value to biodiversity?

**Roseanna Cunningham:** I suppose that that is a fair question. I suspect that all of the public bodies that are actively furthering biodiversity

would be doing so whether or not there was a reporting duty. Slightly ramping up the communication on the reporting duty and trying to be more proactive with the public bodies that are not reporting may engender increased activity, even if it is quite small. Some public bodies will not really have a huge opportunity to do so. That would make a difference, but we would have to ensure that we pulled in not just those who are not reporting but those who are not carrying out any of the function, which would be a huge undertaking.

I downloaded a list of all the public bodies—we are at about 180 at the moment. There is an enormous range, so it would be a huge undertaking to ensure that each and every one of them was actively doing something on biodiversity and then actively reporting it. That is not to say that it cannot be done; it is just taking a while to get that out there. It is a three-year cycle, and we are only in the second reporting cycle.

**Alex Neil:** I have to say that the mind boggles at what the Accountant in Bankruptcy could do to add any real value to biodiversity.

**Roseanna Cunningham:** I am not saying that there is not something that can be done. I spoke about biodiversity at a completely different event yesterday, and I said that it is for all of us to ensure that people understand that biodiversity is not something sitting up so high that they have no part in it. There could be a vision of having a window box in every window in every tenement in Edinburgh, which would create a massive plus for biodiversity in the city. That could also apply to offices, including those of public bodies, as much as to everybody else. There is always something that people can do. The issue is that, because of the small scale, it simply may not register in people's minds as something valuable that they could do.

These things often have multiple functions. I do not want to sound trite, but it is a lot better to have window boxes in a workplace environment than it is not to have them, so there is a plus for the working environment and for biodiversity, and we begin to get engagement. It is still very much a work in progress.

**The Convener:** As members have no more questions, I will ask a final one. Does the provision in the legislation need to change, or is there perhaps a wee bit of a challenge for your department in raising awareness among public bodies about complying with the duty?

**Roseanna Cunningham:** The challenge is in trying to increase the level of compliance on reporting. Behind that challenge is the challenge of getting a number of public bodies to understand that, however little can be done, it is still valuable and contributes. That is where the gap is, but that

applies not just to public bodies. I suspect that, right across society, there is an issue with people understanding that even a small amount multiplied by a huge number makes a big difference.

**The Convener:** Thank you very much for your evidence, cabinet secretary. I suspend the meeting briefly to allow a changeover of witnesses.

09:36

*Meeting suspended.*

09:37

*On resuming—*

## Section 22 Reports

### “The 2016/17 audit of Edinburgh College”

#### “The 2016/17 audit of New College Lanarkshire”

**The Convener:** Item 3 is on section 22 reports on colleges. I welcome our witnesses. Caroline Gardner is the Auditor General for Scotland; Helen Russell is a senior audit manager and Mark MacPherson is a senior manager at Audit Scotland; and Lucy Nutley is director of public services audit at Mazars. Have I pronounced that correctly?

**Lucy Nutley (Mazars):** Yes.

**Alex Neil:** Good morning, Auditor General. We will discuss both colleges together, rather than separately. I think that there are aspects of the reports that pose more questions than they answer. For example, “The 2016/17 audit of New College Lanarkshire” says under “The auditor’s opinion” that the audit

“has highlighted concerns about the college’s financial sustainability.”

However, we do not get the reasons behind that or what needs to be done to address it.

Later on, in paragraph 9 the report says that

“there were unexpected costs associated with Coatbridge College.”

What were they, when did they occur, why did they occur and why did nobody do anything about them timeously?

In paragraph 11, in relation to national bargaining, the report says that the college

“did not include any cost in its budget and the final additional cost was £400,000.”

Why was no provision made?

In paragraph 12, there is a very serious statement about not paying people on time in order to improve the college’s cash flow, which is totally contradictory to Government policy right across the board. Paragraph 13 mentions “financial reporting concerns”. What were they?

Those examples are from the report. There are other concerns that I know of about New College Lanarkshire to do with staffing and the relationship between it and the number of people at senior level. The same is true of Edinburgh College: there is concern about the number of highly paid people at senior level, when people who are delivering lectures are being made redundant.

There are loads of concerns there, but the reports do not bring any of that out.

**Caroline Gardner (Auditor General for Scotland):** It is worth reminding the committee that section 22 reports are a separate category of reporting from the normal performance audit reports that come to the committee, which are generally more detailed and more focused on the underlying causes and the bigger picture.

In the report on New College Lanarkshire, which Alex Neil focused on, we have given our view of what were the causes of some of the problems that have been identified. I will summarise that view in relation to New College Lanarkshire: we think that there was poor financial planning.

We can answer more detailed questions, if that would be useful, but in broad terms I reported in the "Scotland's colleges 2017" report last year about the cash-flow problems that New College Lanarkshire had experienced, and reported then that the college was working with the Scottish Further and Higher Education Funding Council to resolve the cash-flow issues and to plan ahead. As it did that, some of the underlying causes became more visible, which is what we are focusing on here.

New College Lanarkshire set a very tight budget for 2016-17 because of the cash-flow problems that it had experienced previously. In our view, as we say in the report, its target for income was too high; its actual income was almost £1 million less than the target that had been included in its budget. On the expenditure side, the college failed to account for the full costs of implementing national bargaining. It is fair to say that when it prepared its budget, like all colleges, New College Lanarkshire would not have known the exact cost, but it included no provision at all, and the actual costs were £400,000 in the year. The report gives some indications of that.

We can certainly answer questions about the costs relating to things like the Coatbridge campus and other financial pressures that New College Lanarkshire faced in 2015-16, but the key point was that its budget was too optimistic. As the college has explored that, it has become clear that it faces questions about its longer-term financial sustainability, on which it is working with the funding council.

**Alex Neil:** I take the point about poor financial planning, but the key expenditure in any college is obviously on staff. It is my understanding, for example, that there are nine assistant heads of faculty in New College Lanarkshire, each earning about £52,000 a year. Of course, if each is earning £52,000, the total cost of their employment will be nearer £80,000. Are we getting value for money from nine assistant heads when we are making

redundant people who are on the front line, in the classroom?

There are at Edinburgh College similar issues of allegedly excessive senior management team salaries, and issues about job titles. We do not know how much of a pay rise—this was previously a big issue with Coatbridge College—the senior management team is getting, compared with the rest of the staff. Surely we should be looking behind all that and questioning use of resources, which is fundamental to the remit of a section 22 report.

**Caroline Gardner:** That is fundamental to the work that the funding council should be doing with the college to make sure that it is financially sustainable in the future and is delivering value for money. As we say in the report, in return for future funding, the funding council is requiring the college to put in place what it is calling a business scenario plan. That will look at five possible scenarios for the college's future operations. It will look at the curriculum that it offers, how it supports students, costs, its management structure, the campuses from which it operates and so on. Those are questions that should properly be focused on the college itself and the funding council.

**Alex Neil:** Should we follow up on those issues with the college and the funding council?

**Caroline Gardner:** Yes—that is my view. What I have done is bring to the attention of the committee the challenges to financial stability and the fact that although a scenario plan has not yet been agreed between the college and the funding council, those are entirely appropriate questions for the committee to explore.

**Alex Neil:** There are many other related issues: I was just giving a sample. Convener, obviously the matter is for our later private session, but I think that we should follow the Auditor General's recommendation to follow up with the funding council and the colleges.

**The Convener:** There are certainly issues in the New Lanarkshire College report that require to be followed up, so we will take that on board.

09:45

**Colin Beattie:** Is it realistic to expect that Edinburgh College can repay its deficit through adjustments to future grant funding? It is struggling to make ends meet, never mind to pay what is outstanding.

**Caroline Gardner:** I will ask Helen Russell to come in, as the auditor of the college, but my view is that Edinburgh College has so far made good progress in a difficult situation. It is now better at longer-term financial planning, which is an

important requirement for any public body, and it is building deficit repayment into its thinking about future costs and income. Helen Russell will give you a bit more detail.

**Helen Russell (Audit Scotland):** I confirm that it is the case that Edinburgh College has, in fact, built in over the following three years that funding will come down and that it will be able to cope with that loss of funding.

**Colin Beattie:** Are you satisfied that Edinburgh College is performing according to the plan to deliver a balanced situation?

**Caroline Gardner:** Yes. We say, first of all, that it has made good progress. This year it is due to close off the individual projects within its initial transformation plan, and it has agreed a new strategy for the three years starting this August. As Helen Russell said, that contains strong financial planning for the future, but we also say in the report that Edinburgh College continues to face significant challenges, as all colleges do, in implementing the full costs of national pay bargaining and making sure that it can continue to develop the curriculum to meet the needs of learners and employers in the area, and to do that in a way that continues to be financially viable. So far, it has made good progress in all that.

**Colin Beattie:** New College Lanarkshire is of much more concern—certainly, from my point of view. I share Alex Neil's concerns. He raised a couple of things on which I did not pick up a response. The first was the unexpected costs at the Coatbridge campus. What were those costs?

**Caroline Gardner:** Lucy Nutley and Mark MacPherson will pick that up.

**Mark MacPherson (Audit Scotland):** New College Lanarkshire has indicated that one of the most significant unexpected financial implications was the return of a £1 million deficit—the former Coatbridge College returned the £1 million deficit prior to merger—when the budget had included a small surplus of about £20,000. This committee's predecessor committee heard some of that in evidence that it took on a previous Coatbridge College section 22 report when the issue was raised by members.

The other issues that came up were a couple of costs associated with leases on buildings that had not been built into the original merger case. Those costs were roughly £250,000.

**Colin Beattie:** Was that due to poor reporting by Coatbridge College? Was it an error?

**Mark MacPherson:** I think that no one had picked up that those costs could occur. I cannot say for certain whether that was down to Coatbridge College or should have been picked up as part of the diligence.

**Colin Beattie:** How much was it? Was it £200,000?

**Mark MacPherson:** The amount was £250,000 in total.

**Colin Beattie:** That is not a small sum.

**Mark MacPherson:** No, it is not. As we say in the report this year, the colleges tend to operate with very narrow margins. We also say in the report that New College Lanarkshire had set itself a very tight financial budget for 2015-16, although it was aware of those issues when it set the budget and believed that it could accommodate them. There was also, just to cover that, clawback of European regional development funding amounting to, I think, about £206,000.

**Colin Beattie:** The cost of leases is fairly fundamental. Would internal audit not have picked that up?

**Mark MacPherson:** I cannot comment on that. I do not have the background on how precisely the issues came to light. The cost was clearly discovered. I think that we made reference to some legacy issues in our "Scotland's Colleges 2016" overview report, in which we noted that New College Lanarkshire, having identified one legacy issue, decided to investigate a number of other issues in order to determine whether there was anything else about which it should be concerned.

**Colin Beattie:** Would it be possible to find out exactly how that came about? There must be some record. Internal audit must have picked up the matter at some point. What triggered the sudden knowledge that the leases had been omitted from the calculations?

**Caroline Gardner:** The broader background—of which I think Mr Beattie is aware, having been a member of the committee throughout that period—was that there were significant problems around the inclusion of Coatbridge College in the merger to create New College Lanarkshire. The college's previous principal and members of the board were at first very much against the idea of merging, then they agreed to the merger, then they pulled out again before, finally, the merger went ahead. The due diligence was troubled as a result of that. We reported on that and the committee explored the matter when it was looking at issues related to the "2013/14 Audit of Coatbridge College".

The point is that by the time of the 2015-16 budget, those costs were known about and New College Lanarkshire felt that it had included them in the budget, but the budget was tight at that point. I reported last year in my overview report on the cash-flow problems that resulted. We have moved on from that. In 2016-17 the college again set a budget that was overoptimistic in terms of

the income target that it expected and the costs of national pay bargaining.

**Colin Beattie:** I am aware of the problems in Coatbridge College prior to the merger, but I would still like to know exactly how the problem with leases was identified and at what point, because that is important. One would expect that such a significant omission and such a basic issue would have been found by internal audit.

**Mark MacPherson:** I know that New College Lanarkshire commissioned its internal audit service to examine that to determine whether there were other legacy issues. One of the issues that cropped up was in relation to a contract that the college believed could end up with additional costs, but that proved not to be the case. New College Lanarkshire, in the interests of ensuring that everything had been double checked, asked its internal audit team to review again a number of issues, which is where the lease issues came up.

**Colin Beattie:** The issue came up as a result of an internal audit that was commissioned by—

**Mark MacPherson:** —by New College Lanarkshire.

**Colin Beattie:** That still does not explain why it was not picked up before.

**Mark MacPherson:** I am sorry—I do not have the answer to that.

**Colin Beattie:** I will move on to the other issue that Alex Neil brought up—the question of delayed payments to creditors and trying to accelerate payments from debtors. That is fairly classic, is it not? One would expect that to be picked up in five minutes. Did internal audit pick it up?

**Caroline Gardner:** I reported on that in my report “Scotland’s Colleges 2017” and the college’s auditor reported it in her annual report on the college’s annual report and accounts last year. At that point, the college thought that it was on top of what it thought were short-term financial issues. That proved not to be the case. The report that the committee has today highlights the scale of the challenges that the college is facing and the financial support that it has required from the funding council.

**Colin Beattie:** Can we say that that fairly dodgy practice has now stopped?

**Caroline Gardner:** I think that it has. Lucy Nutley might want to add to that.

**Lucy Nutley:** There is no indication that the payment days have increased significantly from the 2016-17 audit.

**Colin Beattie:** Do colleges not normally budget to break even rather than to have surpluses? Paragraph 18 talks about a possible surplus. A

surplus of £1 million is not normal for a college, is it?

**Caroline Gardner:** It is not, nowadays. Before colleges became part of the public sector for accounting purposes, they were able to carry reserves, and some of them budgeted to make a surplus so that they could carry that forward for known purposes, for investment or for future cost pressures that they would face. Now, as the committee knows, they are within the public sector accounting boundary and cannot carry forward surpluses unless they are able to transfer them into their arm’s-length foundations on the basis that they will be able to request them back later.

**Colin Beattie:** Is the information in paragraph 18 incorrect—that there would be a 2019-20 surplus of £1.1 million, a 2020-21 surplus of £997,000 and so on? That is not going to happen, is it?

**Caroline Gardner:** The college is forecasting surpluses in the business-scenario planning that it is doing with the SFC in order to bring it back into financial balance. I assume that part of the reason for the forecasting might be that it can negotiate with the funding council what funding it requires, and budget to repay additional funding.

You have heard from Helen Russell that Edinburgh College is confident that it will be able to repay the funding council. In order to do that it will have to make an operating surplus, so there is funding available to do it. I think that the same is true of New College Lanarkshire. Mark MacPherson would like to add to that.

**Mark MacPherson:** I will add only that we are talking about the underlying financial deficit or surplus position. Members will be aware from last year’s colleges report that we have encouraged a number of adjustments to be made to accounts so that there is more clarity about colleges’ current financial position, as opposed to the position as it would be affected by longer-term commitments including pensions and asset revaluations that can affect the figures but are not within the colleges’ control.

**Colin Beattie:** Something came to my mind about the question of delaying payments to creditors and so on. Who approved that as a policy?

**Caroline Gardner:** I do not think anybody would need to approve it. I think that the college could do that at its own hand, and that it was done within the finance department. I guess Lucy Nutley could give you more detail.

**Colin Beattie:** Did the finance department think that that was a good idea?

**Caroline Gardner:** I think that the finance department was probably focused very heavily on

trying to manage the cash-flow position. That is clearly not a sustainable way of running the college for the longer term, but I think that that was the primary focus. I reported it in my colleges report last year because it is clearly not good practice and was—

**Colin Beattie:** It is surely against all accounting principles. The person who is running the finance department should be aware of that. Did that person, while doing that, raise the matter with the board so that it was aware of what was happening?

**Caroline Gardner:** That was clearly poor financial management and poor financial planning. I do not know whether we are able to say at this point what happened, given that that was back in 2015-16 and was reported in my report last year.

**Colin Beattie:** That brings in a governance issue as well.

**Caroline Gardner:** Lucy, do you know whether the matter was reported to the board within the financial reporting in 2015-16?

**Lucy Nutley:** I do not know about 2015-16. I know that in 2016-17 an internal audit review was commissioned on budgetary control, which highlighted a number of significant findings across the finance function that were then subsequently actioned by the college. As I said, in 2016-17, there was no indication that there had been extension of creditor days in order to manage cash flow.

**Colin Beattie:** Did that report highlight any other irregularities that should have been raised with the board, and were they raised?

**Lucy Nutley:** Yes. The internal audit report was delivered to the audit committee of the college board and all the recommendations in that report have been followed up.

**Iain Gray (East Lothian) (Lab):** Auditor General, I want to go back to the business scenario plan that Alex Neil asked about. It is obviously critical to developing a strategy to deal with concerns about the longer-term financial viability of the college. Paragraphs 16 and 17 discuss the possibility of changing structures and a “voluntary severance scheme”. Alex Neil expressed concern about where that kind of approach can leave us. A voluntary severance scheme that simply allows those who volunteer to take severance can leave a very top-heavy structure with senior management still in place but without the lecturers to actually deliver the courses in the college. That could be quite worrying.

I take your point that we should pursue that with the SFC and college management, but that means that if it comes up with a plan that does not work, we will know that only when it has not worked. By

that time, the college could have severe problems. The report says that you have asked the auditor to keep the position with regard to the plan under review. Are you watching the development of the plan to ensure that it has the potential to work?

**Caroline Gardner:** We certainly are. It is nonetheless a matter of fact that the plan is a matter for agreement between the funding council and the college. However much it might be tempting on occasion, auditors do not have stop powers. We cannot stop people doing things if we think they are ill advised.

It is also worth noting that the process of agreeing the plan between the funding council and the college has been quite long and drawn out. It has been an iterative process. Five drafts have been submitted by the college to the funding council. They have been the subject of discussion between them and we still do not have a final agreed version. That reflects the extent to which the funding council is seeking to make sure that whatever is put in place is financially sustainable, that it meets the needs of students and employers in the area, and that it is focused on the quality of education and training that is being delivered. We will continue to look closely at it and to report back in future, as we have done on Edinburgh College, but it is a complex matter that is likely to require changes to the way in which the college delivers education and to its estate: it currently operates from six campuses.

**Iain Gray:** Might you also report on that in your annual Colleges Scotland report?

**Caroline Gardner:** We might well, but I doubt that there will be much more to say on this college when that report is published later this month.

**Iain Gray:** It is quite soon, is it not?

**Caroline Gardner:** It is, yes.

**Iain Gray:** One of the particular failings or mistakes, if that is the right word, that you have mentioned on a couple of occasions—and it appears in the report—was the failure of the college to budget all for the financial implications of national bargaining. You say it cost the college £400,000, which had not been budgeted for at all.

Is it not the case that, at that point, most, if not all, colleges were saying that they did not have resources to budget for what they thought would be the potential implications of national bargaining? That was not an unusual position for a college to be in, was it?

10:00

**Caroline Gardner:** I think that I said that in response to an earlier question. It is certainly true that when it was setting its 2016-17 budget, it

would not have known the exact costs, but it was poor financial planning not to include an estimate and to recognise that the true costs were likely to be higher or lower than that estimate.

**Iain Gray:** Okay, but the other aspect of this is that when that national bargaining procedure reached a conclusion, some additional central funds were made available nationally for disbursement to colleges in order to meet those costs. Did the college not receive money from Government to cover some of that?

**Caroline Gardner:** We are talking about a timing issue, but I will ask Mark MacPherson to talk you through it.

**Mark MacPherson:** That is right, it is a timing issue. I do not think the money was available when the college was setting the budget or by the end of the financial year. Since then, the Scottish Government has made a commitment to fund in 2017-18 and 2018-19. I know that some money was released last year, but that would have been after the time of the issues to which we are referring.

**Liam Kerr:** I have a number of questions on the Edinburgh College report that are not dissimilar to Iain Gray's. The committee has looked at Edinburgh College in quite some depth previously, so I was quite pleased to read the Edinburgh College report. It is an optimistic assessment. There were some considerable issues the last time we looked at this, so I was perhaps a little surprised.

Given the measures that are being taken and the progress that has been made, how confident are you that there will be positive outcomes from this?

**Caroline Gardner:** I will ask Helen Russell to come in in a moment but, as the report says, we think that the college has made good progress with the plan. We can see that, for example, in the fact that it met, and indeed exceeded, the learning target for the first time in 2016-17, that it managed to make the expected planned savings, and that it is making good progress with the underlying changes to the way in which it delivers education and training in the area.

I do not want to downplay the scale of the challenges that it still faces, and we note those in the report. We also note that the principal who has overseen the transformation programme is retiring at the end of August and that a new chair, Professor Sir Ian Diamond, has just taken up post. It will be important to keep up that focus on delivering. Equally, we have seen real progress.

Helen Russell, you are close to the college. Do you want to say a bit more about the confidence that you can take from that?

**Helen Russell:** I can add to that on the budget outturn for the end of March. The deficit continues to come down and is much more in line with that plan. The college is also confident of exceeding the planned level. It is above its target on activity targets for the year, and it also hopes to get more income from the SFC.

It has made a lot of changes to courses and the way in which it works to bring the staff and students on board. Overall, it has made a lot of progress and it is starting to move forward effectively. It is always difficult to see whether the end result will be totally positive, but it is certainly working hard to get there. As external auditors, we will continue to watch over it and see its progress accordingly.

**Liam Kerr:** I will explore a number of those issues if I may. The voluntary severance schemes have not quite delivered the projected savings. When we looked at Edinburgh College at an earlier session, I made the point that voluntary severance schemes often do not go as planned, but why has this one not gone as planned? Was too much optimism built into the programme? Do you know?

**Helen Russell:** I can only say that it obviously planned it in such a way that it started off with the admin staff until it had looked at what courses it intended to put in place, and then it moved on to other staff. That obviously brought challenges because the college did not want to lose staff from across the organisation; it wanted to be more focused on where the staff could leave from and I think that is what caused the problems. It was optimistic in trying to achieve a number and see where the staff would leave from, but it has not quite worked out that way, although the college has advised that it has had quite a lot of interest in the fourth scheme and it hopes it will be able to achieve targets.

**Liam Kerr:** I take the point that Alex Neil made earlier about where the staff are coming from. To date, the college to date has moved 112 full-time-equivalent staff on through the schemes. It has made savings by deleting posts. Where I am struggling to square this is that it has also increased the learning activity and is projecting to do the same again. It is delivering more teaching, more credits, but with significantly fewer staff. Is that sustainable? What impact will that have on the ability to teach of the staff who remain and the pressures that are on them?

**Helen Russell:** It is fair to say that, right at the very beginning of last year, the college's targets also took a big hit and they were brought down quite a lot. Therefore, the staff could accommodate the new targets and courses because of the way in which the college structured its VS scheme and managed to move staff about

without losing staff from where it wanted to keep them. The big hit that the college took last year has also helped.

**Liam Kerr:** Shifting the focus away from staff to students, one of the things that we looked at in the colleges overview report was how shifting funding and focus can have a gender impact on who is studying at these colleges, how it can affect the age profiles, and it can affect whether they are part-time or full-time courses. Can you tell me very clearly whether that has happened as a result of these changes within Edinburgh College?

**Helen Russell:** I cannot tell you definitely, but I am not aware of anything from the accounts from last year. They have disclosed gender and student interest. I am not aware of any great shifts.

**Caroline Gardner:** We expect the college to monitor that as the business transformation plan is taken forward, and again the committee might want to explore that with the college if it decides to take the report further.

**Liam Kerr:** Auditor General, you talked about the principal who in the report it says "led" the college through this transformation to a point where we are getting quite an optimistic report. That principal is now leaving. You talked about Professor Sir Ian Diamond coming in as chair, which is good, and impressive, but what will happen with the principal position?

**Caroline Gardner:** We understand that the college made an appointment in the past couple of weeks, and somebody will be in place. As we say in the report, it will be important for the new team, chair and principal, to keep the focus on the plan.

**Liam Kerr:** Iain Gray asked about the national pay and the pensions contributions. What is the practical impact of the report and the conclusions of the report on those figures?

**Caroline Gardner:** Edinburgh College has done a better job of forecasting and planning for the costs of national pay bargaining on its own staff and circumstances. Those costs are included in the current year's forecast and in the next couple of years' forecasts. Assuming that nothing unexpected comes out of that, we think that the college has done what it can to manage the costs while recognising that they are still a challenge for this college, as for all colleges.

**Liam Kerr:** I am grateful. Thank you.

**Bill Bowman:** In the conclusions section of the Edinburgh College report, you say at paragraph 20:

"The college has made good progress".

You have used the term "good progress" a few times this morning. I will take that at its English

meaning, which is that it is better than average progress. You go on to say:

"Management are confident that the planned financial position will be achieved."

It might be news if the management was not confident that it will be achieved. Are you confident that it will be achieved?

**Caroline Gardner:** Yes. We report in those terms because we think that the planning is well founded and the first two years of the plan have demonstrated that the college is making good progress. As Helen Russell said, we are watching closely what is happening with the in-year position, and it is moving in the right direction. However, until we have audited 2017-18, it is very hard to give you more assurance than I have this morning and that is included in the report.

**Bill Bowman:** It is just that that is stated as a fact rather than an opinion.

**Caroline Gardner:** It is a fact that the management is confident and that I think that it has made good progress so far.

**Bill Bowman:** That is the bit that is missing in the words in the report.

The New College Lanarkshire report states:

"The auditor gave an unqualified opinion ... but has highlighted concerns about the college's financial sustainability."

It goes on:

"The college has taken steps to improve the quality of financial performance monitoring and forecasting."

You then state:

"I have asked the auditor to keep the position under review."

I would expect that if you were just doing an audit, but what do you actually mean when you talk about keeping it under review? Are you expecting interim reporting or something else?

**Caroline Gardner:** The code of audit practice under which the auditors who I appoint do their work requires them, as you would expect, to do the straightforward financial statements review, but it also picks up four aspects of the wider public audit model that all auditors are required to look at. One of those is financial stability. In the normal course of events, that will be reported in the annual audit report, which then informs my thinking about whether to bring matters to the attention of the committee.

In the case of bodies such New College Lanarkshire, where it is clear that there are significant challenges that need to be managed, I ask the auditor to stay in close touch with events as they develop during the year and to bring it to



my attention if things develop in unexpected ways from there.

**Bill Bowman:** Would that have happened already since the last report?

**Caroline Gardner:** This is the first section 22 report on New College Lanarkshire. We have been—

**Bill Bowman:** I mean the last audit report.

**Caroline Gardner:** The 2016-17 audit report led to the section 22 report. Prior to that, as I have said, I noted the cash-flow difficulties that New College Lanarkshire faced in 2015-16. Lucy Nutley and her colleagues at Mazars have been monitoring that closely, and that is what has led to the reporting in 2016-17 that you are looking at today.

**Bill Bowman:** So there is no more up-to-date position that we can hear about.

**Lucy Nutley:** I have kept in contact with the Auditor General and Mark MacPherson on the progress that is being made and I have kept up with the college on where the business plan is and the stages of approval that it is going through. As of today, the plan has not yet been approved, but I continue to keep them informed.

**Bill Bowman:** So there is nothing more to report. Would we expect to hear from you if you had a concern?

**Caroline Gardner:** I would not normally report to you until the end of the next financial year, unless something catastrophic were happening. That is not the position that we are in at the moment, because of the continuing engagement between the funding council and New College Lanarkshire, but the normal route for me to report to you is a section 22 report at the end of the annual audit process each year.

**Willie Coffey:** For a long time, the committee has talked about the role for internal and external audit, but we should always remember that there is perhaps a clearer duty on senior management to act responsibly at all times with regard to the stewardship of the finances that they are responsible for. For example, in relation to New College Lanarkshire, you mention that there was an “overly optimistic” assumption about income generation. I have heard that a few times over the years in the audit committee. Whose role is it to scrutinise that to ensure that it is deliverable and is not just a mechanism to balance the books?

**Caroline Gardner:** As the committee has been exploring recently in relation to NHS Tayside, the responsibility sits in several places. First of all, the director of finance has a clear responsibility to make sure that the plans are soundly based and solid and that they are reported well to the audit

committee and the board of the public body. The members of the board also have a responsibility to test and challenge those and ensure that they ask the right questions and are comfortable with the responses that they receive.

10:15

As Lucy Nutley said, in the case of New College Lanarkshire, the board decided to commission an internal audit of financial management because of concerns that initially came up around cash flow management, and that process highlighted some recommendations, which the board is putting in place. The responsibilities sit first with the director of finance and then with the board. In this case, we think that the board did its work once the problems came to the fore. It was perhaps a little slow to recognise the challenges coming through in 2015-16 and particularly to understand the true underlying causes rather than the historical issues that we recognise in relation to Coatbridge College.

**Willie Coffey:** Did you say that the income was £1 million less than the target?

**Caroline Gardner:** I think that it was £900,000, so it was very nearly £1 million.

**Willie Coffey:** What was the target?

**Caroline Gardner:** I think that the target was £6.1 million, and it received £5.2 million.

**Willie Coffey:** The college thought that it was getting £6 million but it got £5 million. That sounds reasonable, but it is about challenging whether that is deliverable. Do you agree that it is mainly the role of the board and senior management, rather than the audit function, to say whether the target is deliverable?

**Caroline Gardner:** I agree. As you say, it is the board's responsibility to test the targets that it gets. We make the point in the report that all colleges are operating on quite tight margins, so a small difference in income and expenditure can make a big difference. That is very much the case in New College Lanarkshire, and I think what we have seen is optimism about higher income and lower costs than were actually incurred in practice. The board could have tested that earlier. Once it identified the problem, it really started to explore the underlying causes.

**Willie Coffey:** Paragraph 18 in the report says that the college is forecasting surpluses of nearly £1 million in the coming three years. How comfortable are you that that is deliverable?

**Caroline Gardner:** I can give the committee less assurance in relation to those forecasts, simply because the business scenario plan has not yet been agreed between the college and the

funding council. They will be going through a similar process of testing out how realistic it is, how far it continues to meet the needs of learners and employers and what the impacts on staff are.

**Willie Coffey:** Do you know at this stage whether those forecasts are based on income generation targets?

**Caroline Gardner:** I do not know. We cannot add much to the fact that the plan is still being discussed between the funding council and the college.

**Willie Coffey:** My other query relates to Edinburgh College. You mentioned on page 5 of the report on that college that some of the savings that it introduced related to property and information technology costs. You may not have the answer, but did the IT savings relate to student or staff IT investment? What was the extent of the saving? Were services cancelled, and was there any impact on service delivery as a result? Do we know any of that detail?

**Helen Russell:** I am sorry, but I do not know.

**Willie Coffey:** We could probably find that out at some stage.

**The Convener:** There are issues here and we are going to have to explore the matter further, so we could perhaps pick that up with the funding council and the college.

We have explored a bit already the issue of national pay bargaining in relation to New College Lanarkshire. Tell me whether this is the correct characterisation, but it strikes me that New College Lanarkshire has struggled more than other colleges in managing the results of national pay bargaining. Why is that?

**Caroline Gardner:** My first reaction is that it probably erred on the side of optimism in relation to minimising the costs of national pay bargaining in the same way that it erred on the side of optimism in its income forecast. That reflects the college's desire to bring in a balanced budget in 2015-16 and 2016-17. All colleges started in different positions, depending on their previous terms and conditions and therefore how much difference there was from the new national set of terms and conditions. Other colleges managed to make an estimate that has stood them in good stead without being the right number. New College Lanarkshire stands out for not having made a provision for those costs in its budget for 2016-17.

**Mark MacPherson:** Just to clarify, that was for the period 2015-16.

The only thing that I would add is that I am sure that New College Lanarkshire would want to emphasise that, as part of the merger process, it acted to harmonise pay, terms and conditions for

staff at the predecessor colleges that are now part of New College Lanarkshire. One of those predecessors—I am sorry, but I cannot remember which one—was already at the top end of the salary scales in the sector, and that was the level to which the college harmonised. So, in a sense, the college had already done quite a lot of the uplift to its pay at the point of the merger that created the college. Obviously, that means that things such as national insurance increases and pension increases will have a higher financial cost for the college.

**The Convener:** Are you saying that the college had already done some of the preparatory work?

**Mark MacPherson:** It had done that as part of the merger process. It is good practice when merging organisations to look at the harmonisation of terms and conditions for all staff. Having done that, there were still some additional costs from national bargaining as the harmonisation took place across the sector.

**The Convener:** If the college were to cite national pay bargaining as one of its biggest challenges, what would your response be? Colleges Scotland told us in 2016 that it was a challenge for every college but, clearly, from what you have just said, some other colleges across Scotland coped better with it. To what extent can New College Lanarkshire's troubles be just explained away by that?

**Caroline Gardner:** Colleges Scotland was absolutely right that it is a challenge for every college. As we have said, colleges started in different positions, depending on what their local terms and conditions were and how much of the issue had been dealt with through the merger process where that was relevant locally.

As Mark MacPherson said, because one of the three colleges that merged into New College Lanarkshire was at the top end of the scale, some of that already had been dealt with during the merger that formed New College Lanarkshire two or three years ago. As Mark MacPherson has also said, because costs were higher as a result of that, that had a knock-on cost through the employer's national insurance contributions and pension contributions that had to be made, which were not planned for as well as they might have been in the budgets that flowed from there. As we say in the report, the underlying issue is one of financial planning rather than primarily one of the pressures that national pay bargaining placed on the college. That is not to say there were not pressures—there are for all colleges—but what went wrong here was the financial planning for that.

**The Convener:** So it was about how management dealt with that pressure.

**Caroline Gardner:** That is right—it was about the planning for it and being aware of it.

**The Convener:** Alex Neil and Iain Gray both touched on a top-heavy management structure. Because you have done reports on several colleges throughout Scotland, you are in a good position to give us a sense of whether the management structure at New College Lanarkshire is too top heavy in comparison with the other colleges that you have looked at.

**Caroline Gardner:** I do not think that I can give you an answer to that. A whole range of factors affect the size and shape of a management structure of a college. This particular college is not far on from a merger of three colleges into one, and it operates from six campuses. That is one of the things that you might want to explore with the college and the funding council.

**The Convener:** I have a feeling that you will give me the same answer to my next question. Our motivation in all this is to look at the effect on students. I think that you would not normally cover the retention and attainment of students in a section 22 report, but what is your take on how the situation has affected those issues?

**Caroline Gardner:** We are all concerned about the impact on students and employers in the area. You are right that that issue does not tend to come up in section 22 reports, but we cover it every year in our annual report on colleges. Mark MacPherson could give us a bit more detail now, or you might want to hold off until we publish that report in a couple of weeks.

**The Convener:** Just for the record, when is that report due?

**Mark MacPherson:** We will publish in roughly two weeks, on 21 June.

**The Convener:** The colleges overview will be published in two weeks, which will give us an indication of how retention and attainment has been affected. Do you want to add anything, Mr MacPherson?

**Mark MacPherson:** I am not sure that the overview report will necessarily draw a direct link with the issues covered in the section 22 report, but it will give an indication of the levels of attainment, retention, student satisfaction and positive destinations for the college sector.

**The Convener:** Will that be for each college?

**Mark MacPherson:** Yes. We will include an indicator of that for each college.

**The Convener:** Good. We look forward to seeing that.

As members have no further questions, I thank Audit Scotland for this morning's evidence.

10:24

*Meeting continued in private until 10:45.*



This is the final edition of the *Official Report* of this meeting. It is part of the Scottish Parliament *Official Report* archive and has been sent for legal deposit.

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