

Scotland's colleges 2017



AUDITOR GENERAL 

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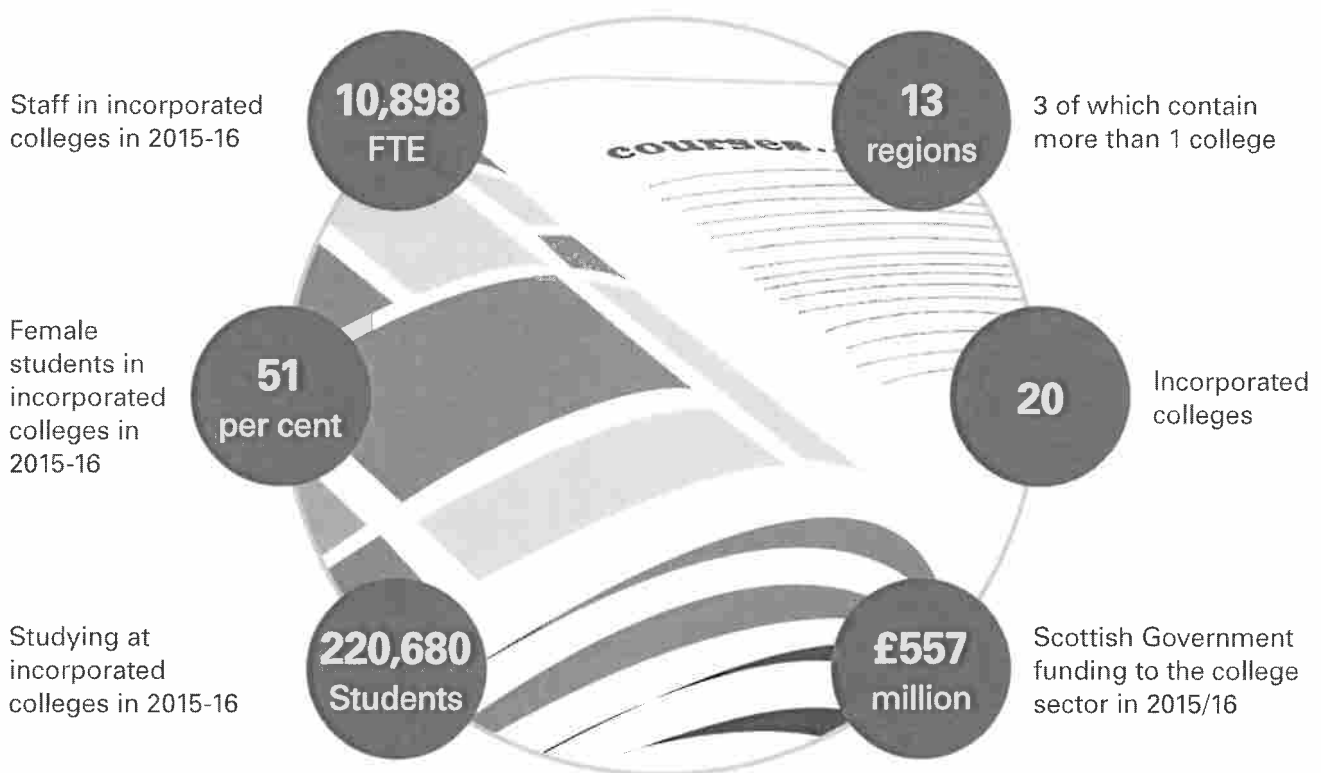


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Key facts



Summary



Key messages

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

the college sector continued to exceed targets for learning but faces financial challenges

Recommendations

The Scottish Government and the SFC should:

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

The SFC should conclude its work to:

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

Colleges should:

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

1. This report is the latest in a series that provides an overview of the college sector in Scotland. It gives an update on college finances and an analysis of learning activity. We have set out our methodology in [Appendix 1](#). Our previous reports have commented on the various changes which have taken place in the sector in recent years including regionalisation, college mergers and reclassification of colleges as public bodies.^{1, 2}

2. Scotland's colleges play an important role in helping to achieve sustainable economic growth by contributing to the development of a highly educated and skilled workforce. In 2015-16, there were 220,680 students at incorporated colleges. They are the main providers of further education (FE) in Scotland, and also provide a significant amount of higher education (HE), with around

47,000 students studying at HE level at college in 2015-16. The college sector in Scotland comprises 20 incorporated colleges and six non-incorporated colleges organised into 13 college regions (**Appendix 2**).³ Ten of these regions consist of one college. College boards in these regions have been designated as regional college boards. The three remaining regions (Glasgow, Highlands and Islands, and Lanarkshire) consist of more than one college. The individual colleges in these regions are assigned to a regional body. The regional bodies for the three multi-college regions are:

- Glasgow Colleges' Regional Board (GCRB)
- The Lanarkshire Board⁴
- University of the Highlands and Islands (UHI).

3. UHI delivers its education through the various colleges within the Highlands and Islands region. Thus any higher education provided by a college is on behalf of UHI. Any further education delivered by a college is on behalf of the region. This differs from colleges elsewhere which deliver a mixture of further and higher education on behalf of the region. The participation data included in this report does not include information about students studying higher education through UHI.

4. 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 convention '2015-16' when referring to figures from colleges' accounts, or relating to the academic year; and '2015/16' when referring to funding allocations made in the Scottish Government's financial year.

5. A revised Statement of Recommended Practice (SORP) introduced in 2015-16 resulted in changes in how colleges prepare their accounts. SORPs are sector-driven recommendations on accounting and related practices as approved by the Financial Reporting Council (FRC), the UK body responsible for promoting corporate governance and reporting. The figures for the previous year are normally included in accounts to help make comparisons. As the revised SORP required colleges to restate the prior-year financial figures, the 2014-15 financial figures included in the 2015-16 accounts may differ from those included in the 2014-15 accounts. We have used the 2014-15 financial figures as presented in the 2015-16 accounts in this report.

6. Unless we state otherwise, all financial figures in the body of this report are in real terms, that is, adjusting for inflation. The base year for this report is 2015-16 and GDP deflators from December 2016 have been used to calculate the real-terms figures for other years.⁵

