

# Scotland's colleges 2019



AUDITOR GENERAL 

Prepared by Audit Scotland  
June 2019



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## Audit team

The core audit team consisted of: Mark MacPherson, Mark McCabe, Yoshiko Gibo, Angus Brown and Sanya Ahmed, with support from other colleagues and under the direction of Angela Canning.

## Links

-  PDF download
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# Key messages



- 1** The college sector reported a small, but improved, underlying financial surplus in 2017-18. Colleges are operating within an increasingly tight financial environment and the sector-wide position masks particular financial challenges for some colleges. The gap between colleges' income and expenditure is widening and this is forecast to continue, with 12 incorporated colleges forecasting recurring financial deficits by 2022-23.
  - 2** Colleges face increasing cost pressures. The increase in Scottish Government revenue funding for 2019/20 covers only the additional costs of harmonising pay and conditions across the sector (excluding cost of living increases and increases in employers' pension contributions). Current Scottish Government capital funding falls short of the estimated costs of maintaining the college estate. The proportion of non-government income that colleges generate has reduced over time, and cash balances and money held by arm's-length foundations fell.
  - 3** Student numbers increased, and the sector exceeded its learning activity targets. Over the past three years, colleges have been providing less learning to students aged 16-24 and more to students aged 25 and over. Colleges are widening access to disabled, ethnic minority and care-experienced students. After several years of increasing learning delivered to students from deprived areas, the proportion of learning delivered to this group fell slightly in 2017-18.
  - 4** There is considerable variation across colleges in terms of student attainment and retention and those going on to positive destinations. Average attainment rates for students in full-time education have remained relatively static in recent years. The attainment rate for full-time further education, at 66 per cent, is some distance from the Scottish Funding Council's (SFC) target of 75 per cent by 2020-21. Attainment gaps still exist for students from the most deprived areas, students with disabilities and for care-experienced students.
  - 5** There is scope for the SFC to work with individual colleges and their boards to improve financial planning and to achieve greater transparency in the sector's financial position. The SFC can also be more transparent in how it reports colleges' performance against outcome agreements and student satisfaction data. The SFC has agreed aspirational and stretching targets with colleges in their latest outcome agreements. Based on recent performance trends, achieving some of these targets will be very challenging for colleges.
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## Recommendations

### Colleges should:

- agree their underlying financial position with the SFC prior to finalising their accounts ([paragraph 5](#))
- improve data collection and response rates for student satisfaction and publish results ([paragraphs 52–53](#))
- use *How good is our college?* effectively to drive improved performance and enhance the quality of service provision ([paragraphs 55–57](#)).

### College boards and regional bodies should:

- agree medium-term financial plans that set out the mitigating actions to ensure their college's financial sustainability ([paragraphs 17–19](#))
- submit agreed medium-term financial plans to the SFC along with financial forecast returns (FFRs) ([paragraphs 17–19](#)).

### The SFC should:

- work with colleges to agree their underlying financial position prior to finalising their accounts ([paragraph 5](#))
- require colleges to submit medium-term financial plans to support FFRs in assessing financial sustainability across the sector ([paragraphs 17–19](#))
- publish college region performance against all outcome agreement measures ([paragraph 44](#))
- publish good-quality student satisfaction data for every college ([paragraph 52](#)).

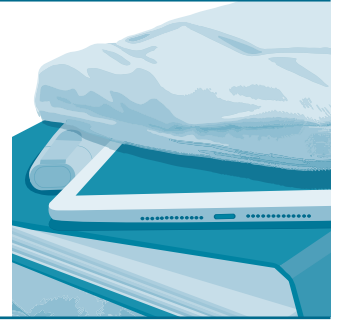
### The SFC and Scottish Government should:

- agree and publish a medium-term capital investment strategy that sets out sector-wide priorities ([paragraph 24](#))
  - review whether targets for college provision and student outcomes, including for students from deprived areas, remain relevant and realistic, based on current performance trends ([paragraph 31](#)) ([paragraphs 41–42](#))
  - work with colleges to deliver the necessary improvements in performance to meet agreed outcome agreement targets ([paragraph 45](#)).
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# Part 1

## Financial health



### Key messages

- 1** The college sector reported a small, but improved, underlying financial surplus in 2017-18. Colleges are operating within an increasingly tight financial environment and the sector-wide position masks particular financial challenges for some colleges.
- 2** The Scottish Government has been providing colleges with real-terms increases in revenue funding since 2016/17. The most recent increase for 2019/20 covers only the additional cost of harmonising staff terms and conditions. Colleges also need to fund cost of living pay increases and any unfunded element of increases in employers' pension contributions. The proportion of non-government income, such as education contracts and other commercial income, has reduced. Colleges' ability to access other sources of funding, such as cash and arm's-length foundation (ALF) balances, is also reducing.
- 3** The gap between colleges' income and expenditure is widening. Twelve incorporated colleges were forecasting recurring financial deficits by 2022-23. At the time of their annual audits, ten of these were still to determine the specific actions needed to achieve financial sustainability.
- 4** Scottish Government capital funding falls short of what is needed to meet the estimated costs of maintaining the college estate. The Scottish Government is working with the Scottish Futures Trust and SFC to identify an appropriate revenue funding model for future investment in the college estate.

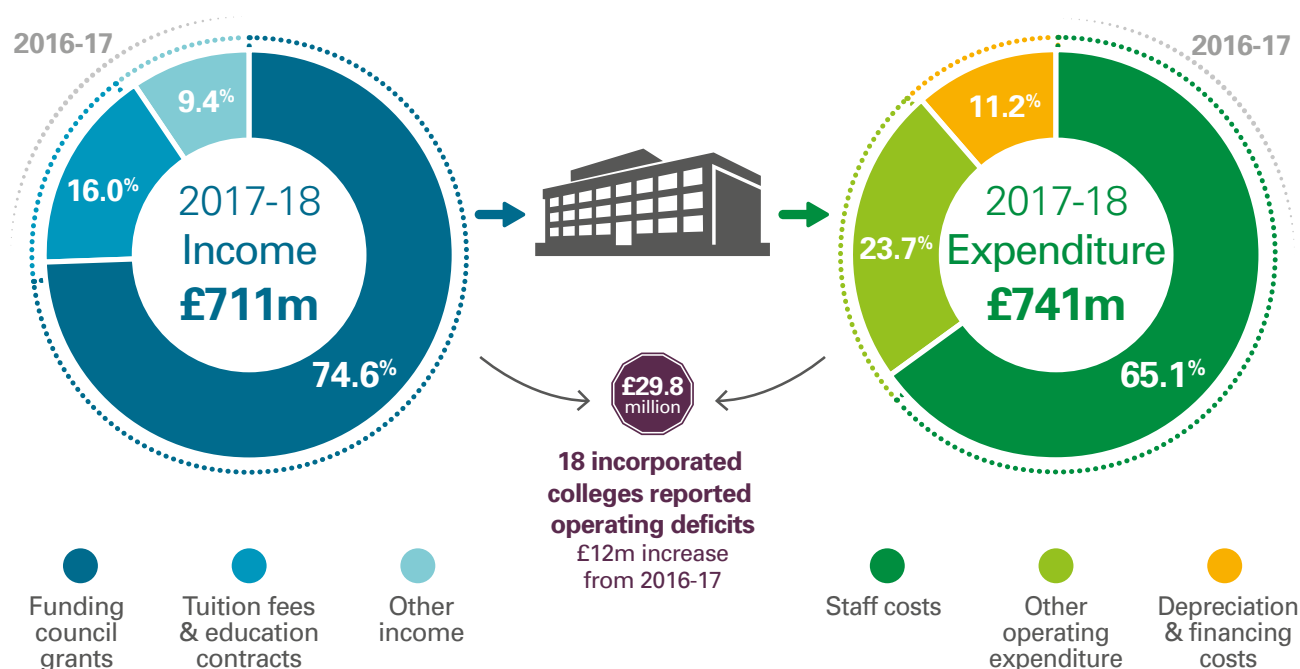
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### The underlying financial position for the college sector improved slightly in 2017-18, but the gap between income and expenditure is widening

- 1.** Income remained unchanged across the sector in 2017-18 at £711 million. This represents a 1.9 per cent reduction in real terms from 2016-17. Scottish Government funding (provided through grants from the Scottish Funding Council) increased by 1.0 per cent in real terms. The proportion of income from other sources, such as education contracts and other commercial income, fell, meaning that colleges are increasingly dependent on Scottish Government funding ([Exhibit 1, page 7](#)).

## Exhibit 1

Colleges have achieved an underlying surplus but the gap between income and expenditure is widening



## Underlying financial surplus



Source: College accounts/SFC

2. Colleges' expenditure increased by £11.8 million (0.3 per cent in real terms) to £741 million in 2017-18, widening the gap between income and expenditure. As a result, the sector's operating deficit increased to £29.8 million. Eighteen of the 20 incorporated colleges reported operating deficits.

3. Adjusting the operating position for technical accounting factors that are beyond a college's immediate control, such as pensions and net depreciation, helps to provide a clearer picture of a college's short-term financial health. After such adjustments, incorporated colleges reported an underlying surplus of £3.1 million. While the underlying surplus is £2.8 million higher than in 2016-17, it represents a very small percentage of sector expenditure (0.4 per cent).



**4.** The overall underlying surplus for the six non-incorporated colleges is £0.1 million, equivalent to 0.4 per cent of their expenditure of £25.6 million and less than half the surplus in 2016-17 (£0.25 million).

**5.** In calculating and reporting their underlying operating positions, colleges continue to interpret the SFC's accounts direction inconsistently. While the differences between colleges' and the SFC's calculations are small overall (around £1.4 million), differences in individual college figures can be significant.

**6.** As public bodies, colleges are expected to operate with balanced budgets, but they are operating within an increasingly tight financial environment. The underlying positions of individual colleges are shown on [\(Exhibit 6, page 12\)](#), together with other indicators of financial health.

### **The latest increase in Scottish Government revenue funding is only enough to cover the costs of harmonising staff terms and conditions**

**7.** Scottish Government revenue funding to the sector reduced in the period leading up to college reorganisation. Revenue funding for the sector has increased year-on-year since 2016/17 in real terms, mainly due to the Scottish Government funding the costs of harmonising staff terms and conditions. All of the increase in funding in 2019/20 is to fund these costs [\(Exhibit 2, page 9\)](#).

**8.** The SFC and Colleges Scotland have calculated the additional cost from harmonising staff terms and conditions at £50 million per annum from 2019-20. This includes £12 million allocated over the next two years to fund the harmonisation of terms and conditions for support staff. Colleges and the Educational Institute of Scotland (EIS) are in dispute over the cost of living pay claim for lecturers, over and above the harmonisation of pay, terms and conditions. This has resulted in several periods of industrial action and they have yet to reach agreement. The additional costs of the settlement will have further implications for colleges' costs and financial sustainability.

**9.** There is no additional Scottish Government revenue funding to cover other cost increases over this period, such as cost of living increases and increases in employer pension contributions. Scottish ministers have committed to pass on any specific UK funding made available to help meet planned increased employer pension contributions to the Scottish Teachers Superannuation Scheme. There still may be a significant element that remains unfunded for colleges [\(Exhibit 3, page 9\)](#).

### **Staffing changes will affect SFC funding for harmonising terms and conditions**

**10.** Total staffing numbers across the sector in 2017-18 remained unchanged, but the staffing profile across the sector has changed.<sup>1</sup> The number of non-teaching staff fell, while the number of teaching staff increased by the same proportion. The proportion of full-time permanent teaching staff with a recognised teaching qualification fell by one percentage point to 87.9 per cent.

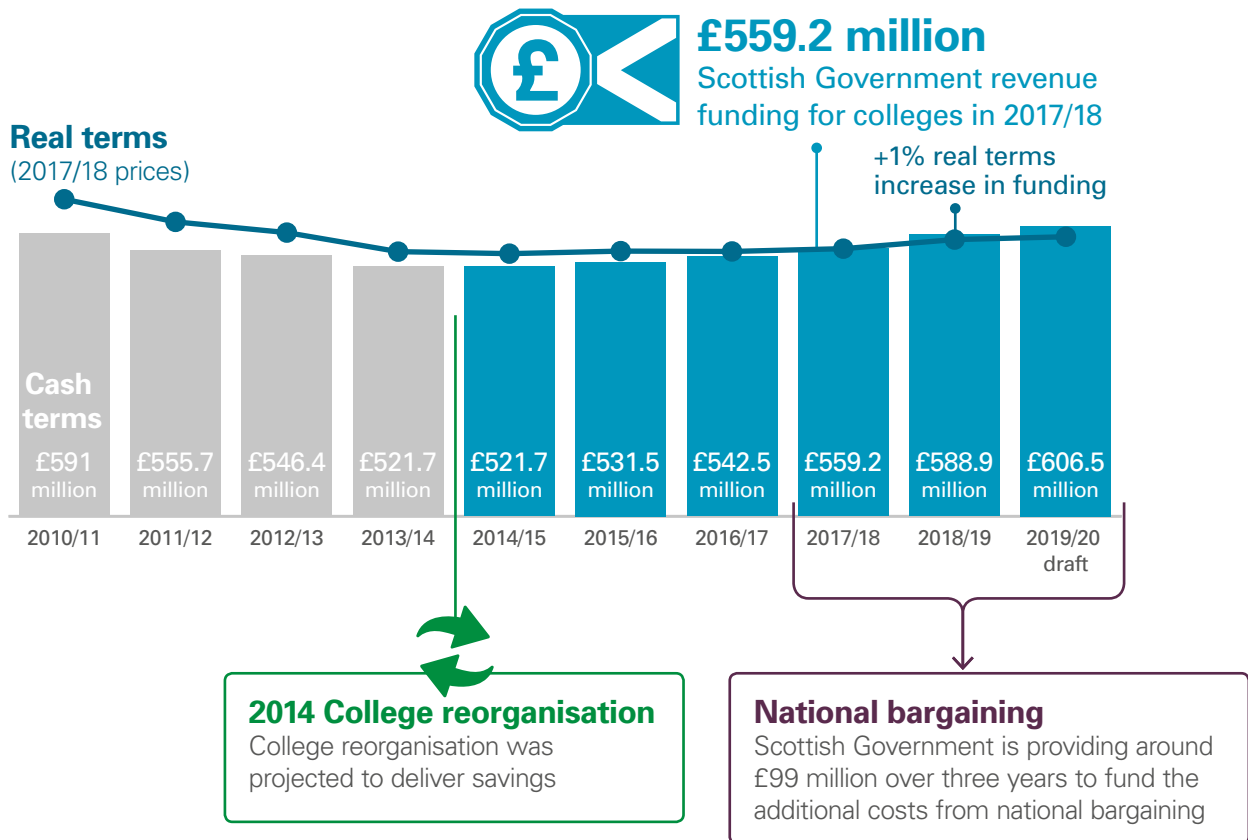
**11.** Small changes at sector level mask noticeable changes within some colleges:

- Twelve incorporated colleges increased their teaching staff numbers. Of these, seven reduced their non-teaching staff.
- Seven incorporated colleges reduced teaching staff. Of these, three increased their non-teaching staff.
- Three incorporated colleges increased both teaching and non-teaching staff numbers, while four reduced both teaching and non-teaching staff.



## Exhibit 2

### Scottish Government revenue funding for colleges



Source: Scottish Government

## Exhibit 3

### Colleges staffing 2017-18



Note: Staffing numbers fluctuate depending on the point in the year they are recorded.

Source: College staffing returns to the SFC

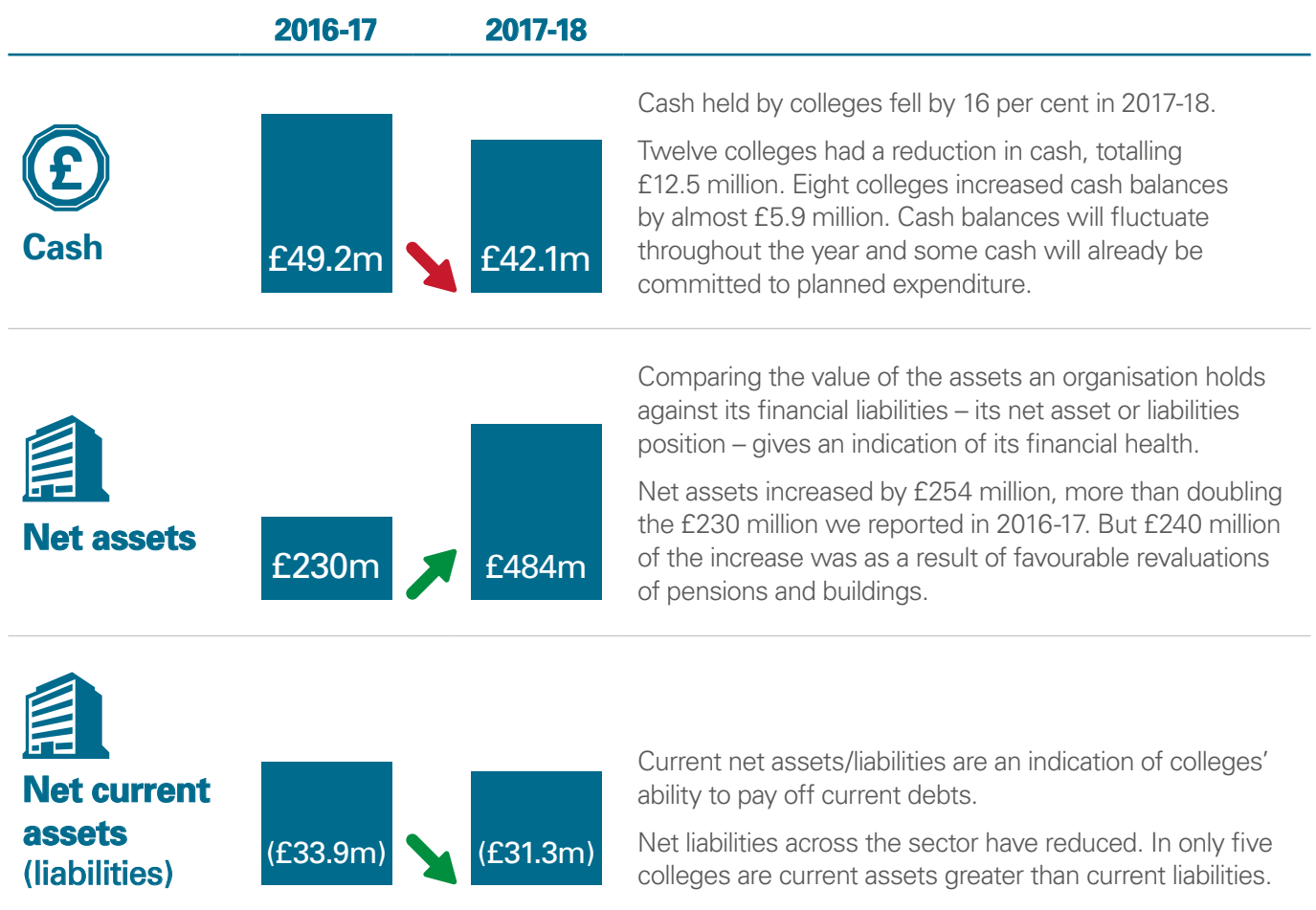
12. Current funding allocations for harmonisation of terms and conditions are based on the number of staff in April 2018. The SFC will consider changes in staff numbers when determining future funding allocations.

### Some sector-level financial health indicators improved in 2017-18 but the ability to draw on cash balances and ALF income has reduced for most colleges

13. Performance across the sector varied against financial health indicators. The sector's access to cash reduced. Its current net asset/liabilities position improved (ie, the sector's ability to pay its debts), with a reduction in net liabilities. Net assets more than doubled in 2017-18, mainly due to factors outside colleges' direct control. ([Exhibit 4](#)).

## Exhibit 4

### College sector financial health indicators



Source: Incorporated college 2017-18 accounts

### Arm's-length foundations continue to be a reducing source of funds for colleges

**14.** Fifteen colleges received funding from arm's-length foundations (ALFs) in 2017-18. Around 80 per cent (£8.4 million) of the total sector income from ALFs was provided to Ayrshire, City of Glasgow, Glasgow Clyde and Glasgow Kelvin colleges. ALFs are independent, charitable bodies that were set up when colleges were reclassified as public bodies and could no longer retain significant cash reserves. Colleges can donate money into ALFs and can apply to ALFs for funding. Colleges have typically used income from ALFs to fund voluntary severance, capital works and investment in equipment and digital infrastructure.

**15.** Balances held by ALFs are reducing, with colleges planning to apply to use a further £6.25 million of ALF funding in 2018-19. ALF balances vary significantly, with some colleges having little or no scope to access any ALF income. For the remainder of colleges, the ability to apply for income from ALFs is becoming increasingly limited as balances reduce ([Exhibit 5](#)).

### Exhibit 5

The balances of arm's-length foundations (ALFs) are reducing






Source: College accounts and ALF accounts or SFC – ALF balances not in college accounts

### There is significant variation in the financial positions of individual colleges

**16.** There is significant variation in the financial indicators at individual college level. Taken on their own, each indicator is not a reliable measure of financial health. But, taken together, the indicators provide a broad indication of the extent to which each college is exposed to financial risk ([Exhibit 6, page 12](#)).

## Exhibit 6

### Financial indicators

Colleges	Underlying surplus/deficit	Operating surplus/deficit	Cash 	Net assets 	Net current assets/liabilities 
Ayrshire College	-1.9%	-4.9%	3.3%	78.5%	-8.1%
Borders College	1.6%	-0.6%	19.9%	0.5%	10.5%
City of Glasgow College	0.7%	-2.5%	7.6%	29.7%	-4.8%
Dumfries and Galloway College	-0.5%	-8.1%	5.5%	82.7%	-6.7%
Dundee and Angus College	0.3%	-4.6%	2.7%	77.7%	-6.3%
Edinburgh College	0.6%	-3.4%	1.4%	111.5%	-8.7%
Fife College	0.2%	-6.6%	4.2%	61.3%	-3.1%
Forth Valley College	1.9%	-2.3%	15.6%	-14.0%	1.6%
Glasgow Clyde College	0.3%	-1.0%	5.3%	138.8%	-5.0%
Glasgow Kelvin College	1.5%	1.0%	4.6%	41.9%	-10.3%
Inverness College	1.4%	-5.2%	14.6%	-10.2%	-5.0%
Lewis Castle College	1.9%	-5.1%	2.7%	48.0%	-4.9%
Moray College	1.2%	-3.5%	5.9%	90.6%	-5.9%
New College Lanarkshire	0.9%	-4.3%	1.8%	53.9%	-8.7%
North East Scotland College	-2.2%	-8.1%	4.9%	85.0%	5.5%
North Highland College	0.4%	-6.0%	3.0%	22.1%	2.3%
Perth College	0.0%	-5.7%	8.6%	103.0%	-8.4%
South Lanarkshire College	4.0%	0.2%	3.9%	56.0%	-5.5%
West College Scotland	0.0%	-4.7%	6.2%	101.9%	0.0%
West Lothian College	0.9%	-5.0%	3.9%	-16.6%	-4.4%
<b>Scotland</b>	<b>0.4%</b>	<b>-4.0%</b>	<b>5.7%</b>	<b>65.2%</b>	<b>-4.2%</b>

Quartile: Highest 1 2 3 4 Lowest

#### Notes:

1. Financial indicators are shown as of the proportion of each college's expenditure
2. For each indicator, we have shown colleges' performance broken down into quartiles, with the highest performance shown in Quartile 1 and the lowest performance in Quartile 4.

Source: College accounts

## Twelve incorporated colleges are forecasting recurring deficits during the next five years

**17.** The SFC requires colleges to submit five-year financial forecast returns every year, and provides colleges with common financial planning assumptions to use when preparing their forecasts. Although colleges did apply the SFC's common assumptions, the SFC identified that colleges had not been consistent in compiling their most recent financial forecasts.<sup>2</sup> Colleges had broadly adopted one of two approaches: making forecasts that incorporated actions to address potential deficits; or forecasting their future financial position based on how they currently operate. Twelve colleges are forecasting recurring deficits during the next five years. Of the six non-incorporated colleges, only Orkney College is not projecting a recurring deficit during the next five years.

### Only two of the 12 incorporated colleges forecasting recurring deficits had identified specific actions to address their financial challenges

**18.** At the time of their annual audit, only two of the 12 colleges forecasting a recurring deficit had identified the specific actions needed to address their financial challenges. A further five colleges were in the process of developing specific actions. Of the ten colleges still to determine agreed actions to address recurring deficits, six are forecasting a deficit position by the end of the next academic year: Inverness, North Highland and West Lothian colleges are forecasting deficits from 2018-19; and Forth Valley, Glasgow Clyde and Glasgow Kelvin colleges are forecasting deficits from 2019-20 ([Exhibit 7](#)).

## Exhibit 7

Status of colleges' responses to forecasted recurring deficits

### 12 colleges forecasting a recurring deficit

At the time of their 2017-18 annual audits:



Source: SFC/colleges' external auditors

**19.** The SFC asked colleges that are projecting deficits to identify the actions needed to achieve financial sustainability. Additional financial pressures have emerged since colleges prepared their financial forecasts, including reduced capital funding and additional employer pension contributions. Unless funding increases, or colleges change how they operate, these are likely to result in future forecasts showing a worsening financial picture.

### Three colleges face particular challenges to their financial sustainability

**20.** Auditors have highlighted that increasing operating deficits present challenges to financial sustainability in many colleges. Three colleges face particular challenges.

#### Ayrshire College



Ayrshire College reported an underlying deficit of £1 million in 2017-18 and was forecasting increasing deficits over the next five years, with a cumulative deficit of around £12 million (equivalent to 23 per cent of its current expenditure) by 2022-23. The college faces a number of cost pressures. It has identified annual PFI payments of £1.4 million until 2024-25 as its highest risk.



In February 2019, the SFC agreed the college's two-year financial sustainability plan. The SFC will provide the college with an additional £1.3 million in 2018-19 to fund a voluntary severance scheme and additional revenue funding support of £0.7 million in both 2019-20 and 2020-21.



The college anticipates its severance scheme will contribute to financial sustainability by generating savings of £1.66 million a year, reducing its projected cumulative deficit by 2022-23 to £5 million. Like other colleges, Ayrshire will need to continue to manage its costs, and to develop the necessary actions to balance its operating position from 2021-22 onwards.

#### New College Lanarkshire



Last year, the Auditor General for Scotland prepared a statutory report on the college, which highlighted the financial challenges facing the college and the potential impact on its longer-term financial sustainability. The college reported an underlying surplus of £0.6 million for 2017-18.



During the year, the SFC provided the college with £1.1 million for voluntary severance and a short-term cash advance of £1.3 million to address cash-flow difficulties.



The Lanarkshire Regional Board has agreed a five-year regional business plan with the SFC. This forecasts an underlying surplus for the college by 2019/20. The college anticipates receiving a further repayable advance of £2.6 million from the SFC in 2018-19, subject to maintaining progress and achieving the milestones in its plan.



To achieve financial sustainability, the college is reducing staffing costs. The SFC will provide £645,000 for the next voluntary severance scheme proposed in the plan. The college also intends to increase non-SFC income and to pursue opportunities for shared services with South Lanarkshire College.

## North Highland College



The college reported a small underlying surplus of £0.1 million in 2017-18 but faces several key risks to its financial sustainability.



The college has previously required cash advances from its regional body, the University of the Highlands and Islands (UHI). It is forecasting a cumulative underlying deficit of £2.5 million by 2022-23 (equivalent to around 16 per cent of current costs) and a negative cash-flow position from 2019-20 onwards.



The college has loans of £1.3 million and in 2017-18 relied on waivers from its bank to avoid breaching loan covenants. At the time of the annual audit, the college did not have an agreed financial plan in place to achieve the required savings in both the short and longer term.



The auditor highlighted the need for more detailed interaction between the college and UHI as savings plans are developed. The college has since begun a curriculum review, with a view to achieving savings for the 2019-20 budget. However, the college anticipates that it may require financial support from UHI, in the form of cash advances, for 2019-20.

**21.** Staff costs are the largest area of college expenditure and those colleges that have produced financial plans to address their underlying financial deficits are planning or currently implementing voluntary severance schemes as part of their plans.

### Scottish Government capital funding is insufficient to address colleges' maintenance requirements

**22.** Capital funding is needed for the maintenance and improvement of buildings and investing in digital infrastructure. The Scottish Government provided £76.7 million of capital funding for the sector in 2018/19. Of this, £43.1 million related to existing capital commitments, including Forth Valley College's new campus project, £27 million was allocated for very high-priority backlog maintenance identified in the SFC's estates survey in 2017.<sup>3</sup> The SFC is monitoring whether funding for backlog maintenance has been spent as planned.

**23.** In 2019/20, capital funding for the sector has fallen to £47.6 million. Of this, £22.7 million is for Forth Valley College's new campus. After other specific capital commitments,<sup>4</sup> the SFC is allocating £21 million to address lifecycle and backlog maintenance needs.<sup>5</sup> Colleges and the SFC have calculated annual lifecycle maintenance costs to be around £22 million, over and above the £77 million high-priority backlog maintenance costs previously identified in the SFC's 2017 estates survey.

**24.** Reduced capital spending creates a risk that the cost of urgently needed backlog maintenance increases. This in turn poses a potential risk to some colleges' ability to continue to deliver their core services in a safe environment, and to invest in new digital infrastructure to generate efficiencies and enhance the student experience. The Scottish Government is working with the Scottish Futures Trust and the SFC to identify an appropriate revenue funding model for future investment in the college estate ([Exhibit 8, page 16](#)).



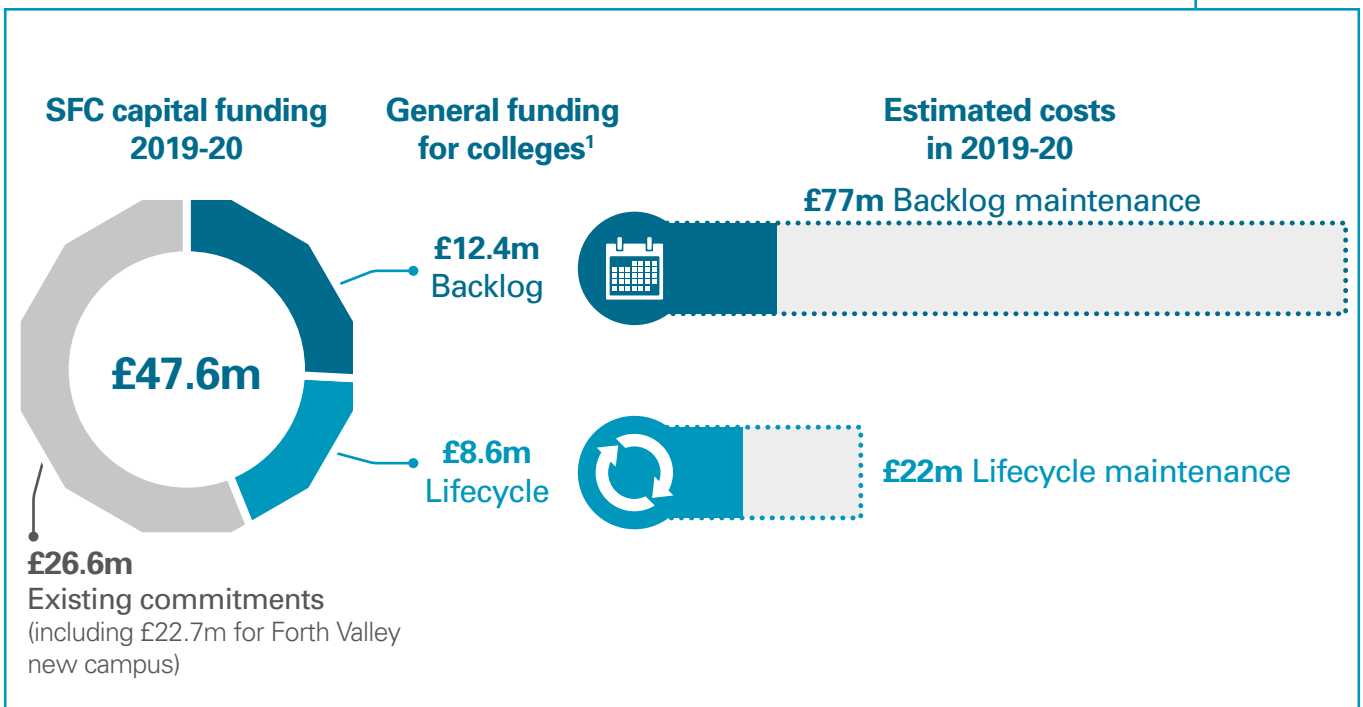
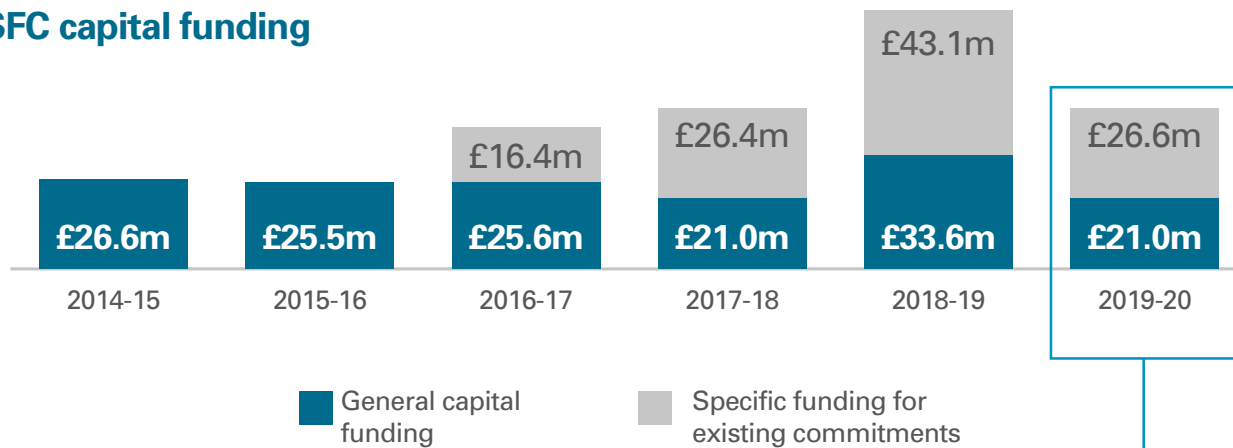
**Exhibit 8**  
Capital funding



**£47.6 million**  
Capital funding in 2019-20

Typically, capital funding is used for the maintenance and improvement of buildings but is becoming increasingly important for investing in and developing digital infrastructure.

**SFC capital funding**



Note: 1. Excluding Forth Valley  
Source: Scottish Government/SFC

## The potential implications of the UK's withdrawal from the EU remain unclear

**25.** The college sector is examining the potential implications surrounding the UK's planned withdrawal from the EU. The main areas that are likely to be affected are students, staff and funding. Data shows that:

- 7.3 per cent of credits are delivered to non-UK EU nationals (2016-17).
- Colleges' representative body, Colleges Scotland, estimates that non-UK EU nationals make up around three per cent of current staff in the sector. There will however be variation across colleges, with potentially the most significant impact being in Edinburgh and Glasgow.
- The SFC is allocating around £13 million to colleges to deliver European Social Fund (ESF) activity in 2019-20. This includes an assumed ESF contribution from the European Commission of around £5 million (around 0.7 per cent of current total sector income), subject to the submission of successful claims to the Scottish Government. College accounts for 2017-18 show that an additional £2.6 million of European income was received across the sector (0.4 per cent of total sector income). This was predominantly for ERASMUS+ placements.<sup>6</sup>

**26.** The wider potential implications of EU withdrawal remain unclear. While the direct impact on colleges is likely to be relatively small compared to some other parts of the public sector, colleges anticipate that the indirect effects could be much more significant. This includes potential reductions in EU funding that colleges receive through students funded by other organisations.

# Part 2

## Performance



### Key messages

- 1** Student numbers increased, and the sector exceeded its learning activity targets. Over the past three years, colleges have been providing less learning to students aged 16-24 and more to students aged 25 and over.
- 2** Colleges are widening access to learning for disabled, ethnic minority and care-experienced students but the proportion of learning delivered provided to students from deprived areas fell slightly in 2017-18. Attainment rates for students in most of these categories continue to be below those of the student population overall.
- 3** Fewer students are completing their courses but a slightly higher proportion of students gaining a qualification are going on to positive destinations. Average attainment rates for students in full-time education have remained relatively static in recent years. The attainment rate for full-time further education, at 66 per cent, is some distance from the SFC target of 75 per cent by 2020-21.
- 4** There continues to be considerable variation across colleges in terms of student outcomes. The SFC has agreed aspirational and stretching targets with colleges in their latest outcome agreements. Based on recent performance trends, achieving some of these targets will be very challenging for colleges.

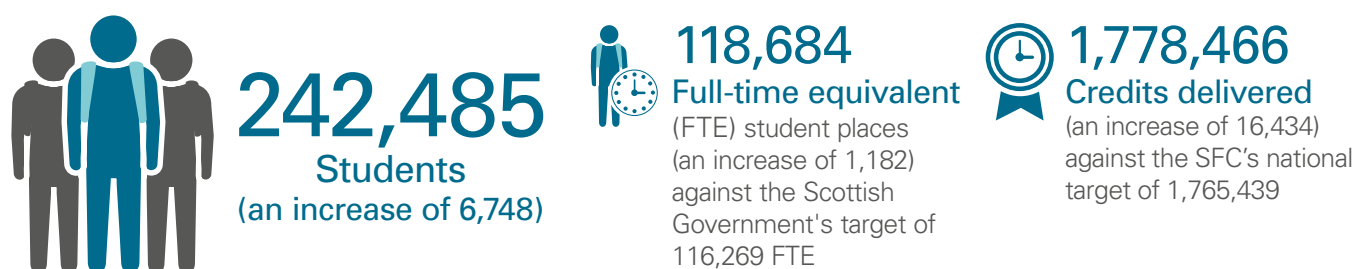
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### **Student numbers increased, and the sector exceeded both the Scottish Government's learning target and the SFC's national activity target**

**27.** In return for their funding from the SFC, college regions agree a range of outcomes they aim to deliver each year. Outcome Agreements contain ten measures to assess colleges' progress. Within these ten measures there are national priority measures based around learning credits delivered, the achievement of qualifications (attainment) and successful students going on to positive destinations.

## Exhibit 9

### Number of students and amount of learning delivered 2017-18



Source: SFC

**28.** Colleges delivered 16,434 more credits than in 2016-17 and exceeded the SFC's national activity target by 0.7 per cent. Five colleges missed their individual target (by a very small percentage in two instances):<sup>7</sup>

- Fife College (by 0.1 per cent)
- New College Lanarkshire College (by 0.2 per cent)
- North East Scotland College (by 1.4 per cent)
- Lews Castle College (by 4.7 per cent)
- Orkney College (by 4.5 per cent).

**29.** Where regions miss their credit target, the SFC – or the regional body, in a multi-college region – can decide to recover funding. Where the SFC or regional body is aware that a college may miss its target, it can look to redistribute both the activity and the funding to another college or region.

**30.** UHI is committed to providing access to learning across the region, and to avoid centralising delivery in urban areas. Where colleges in the Highlands and Islands region have not met their targets, UHI is working closely with the colleges to understand, support them and, where necessary, review targets to reflect circumstances. For example, Lews Castle College faces particular challenges due to a declining population in the Outer Hebrides, and UHI is working with the college to assess the effects of this change, and to support the college to adjust its focus to deliver a financially sustainable operating model.

**31.** Colleges also exceeded the Scottish Government's target of delivering 116,269 FTE places<sup>8</sup>, delivering 118,684 FTE places, an increase of 1,182 (one per cent) on 2016-17 ([Exhibit 9](#)). The Scottish Government's target has remained constant since 2012-13 though the context in which colleges operate has been changing:

- The young Scottish population has been reducing and is projected to reduce further over the next few years. This is resulting in fewer young students (16-24) at college, and more school-aged and older students.

- The Scottish Government continues to promote widening access to further and higher education. Its aim is for 20 per cent of students entering university to be from the 20 per cent most deprived areas by 2030. While colleges play an important role in supporting a learner's whole journey, this may reduce the number of students that will consider studying at college in future.

### **Over the past three years, colleges have been providing fewer credits to students aged 16-24 and more to students aged 25 and over**

**32.** In October 2017, the Minister for Further Education, Higher Education and Science confirmed that colleges no longer needed to prioritise full-time education for 16-24 year olds.<sup>9</sup> It is clear that college provision was changing before this announcement. Between 2014-15 and 2017-18, the number of students aged 16-24 fell by 6,887 (or by six per cent). There was a corresponding increase in the number of students aged 25 and over by 6,664 (or by seven per cent). Over the same period, the proportion of learning credits delivered by colleges shifted from students aged 16-24 to students aged 25 and over by four percentage points ([Exhibit 10, page 21](#)).

**33.** Between 2014-15 and 2017-18, there was an increase of 86 per cent (15,815) in the number of school pupils under 16 years of age attending college. Students aged under 16 now make up an additional six per cent of the student population compared to 2014-15. Despite this, credits delivered to under 16 years old have remained very small at only around three per cent. Under the Scottish Government's Developing the Young Workforce programmes, colleges work closely with schools and councils, offering more vocational courses to school pupils. Most courses will not be graded but aim to expand pupils' curriculum choices and help them develop a career path. In 2017-18, all colleges except Newbattle Abbey College delivered credits to students under 16 years of age.<sup>10</sup>

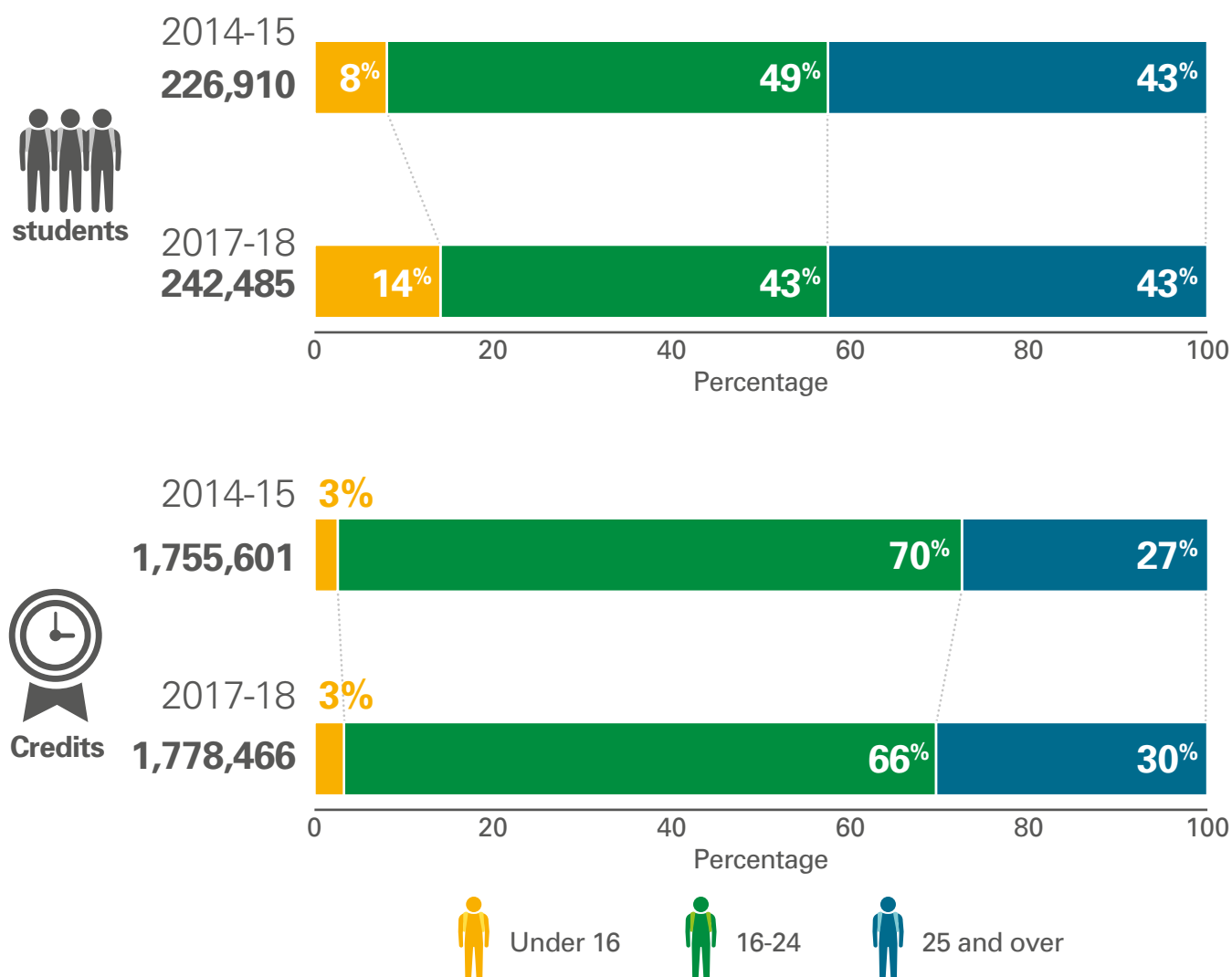
### **More change is needed to achieve gender balance across important subject areas**

**34.** Female students represent 52 per cent of the student population (125,899) and males 48 per cent (115,945).<sup>11</sup> The number of female students increased by more than the number of male students in 2017-18 (increasing the proportion from 51 per cent last year).

**35.** In 2016, the SFC committed to increasing the minority gender share in the most imbalanced subjects.<sup>12</sup> Its aim is for the gender balance of students enrolling on important subject areas to be no greater than 75:25 per cent by 2030. Progress towards addressing the long-standing gender imbalances has been limited and will require a concerted effort from schools, colleges and wider society in making sustainable change ([Exhibit 11, page 22](#)).

**Exhibit 10**

Change in the number of students and learning credits delivered across the sector over the past three years



Note: The proportion of credits for 2017-18 doesn't add up to 100 per cent due to rounding.

Source: SFC

**Eighteen college boards have more men than women**

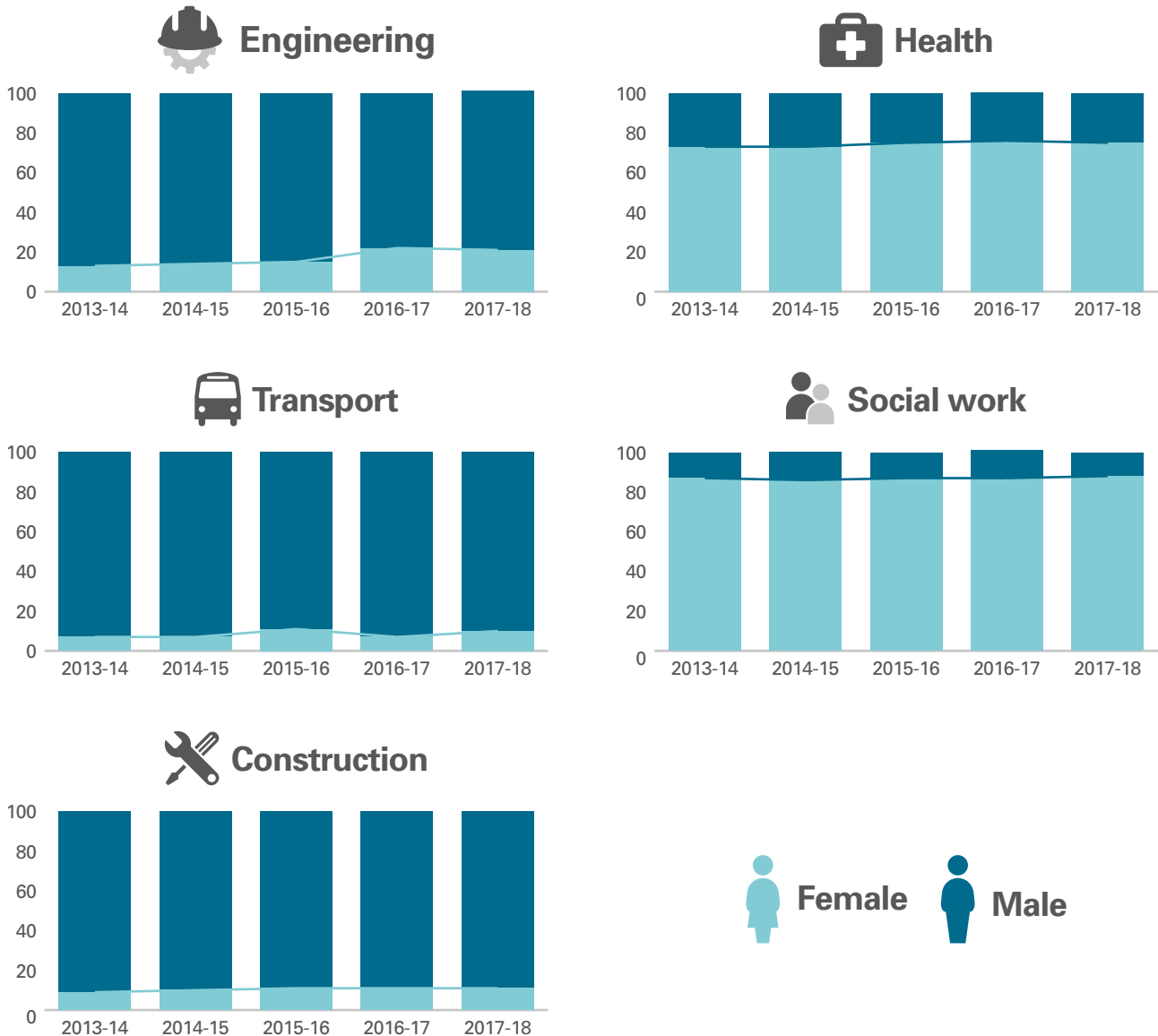
**36.** In February 2019, 246 board members across the sector were men (57 per cent of the total members) and 187 were women (43 per cent of the total members). The number of men increased by 12, while the number of women decreased by four.

**37.** Four college boards have more women members than men and five have an equal gender split. Orkney College Board has the most uneven gender balance with 19 men and three women.

**38.** The Gender Representation on Public Boards (Scotland) Act 2018 requires 50 per cent of non-executive members on public boards to be women by 2022. The gender balance of college boards is not entirely under the control of colleges as some members are elected to their position.

### Exhibit 11

Proportion of students on each course by gender (headcount)



Source: SFC

### Colleges are widening access to students from a range of backgrounds, but are not meeting targets for students from the most deprived areas

39. Colleges are committed to widening access to learning for all, particularly those who may have found it more difficult to enter further and/or higher education. Across the sector, the proportion of credits colleges deliver to students from an ethnic minority, who have been in care or who have disabilities has increased in recent years.<sup>13</sup>

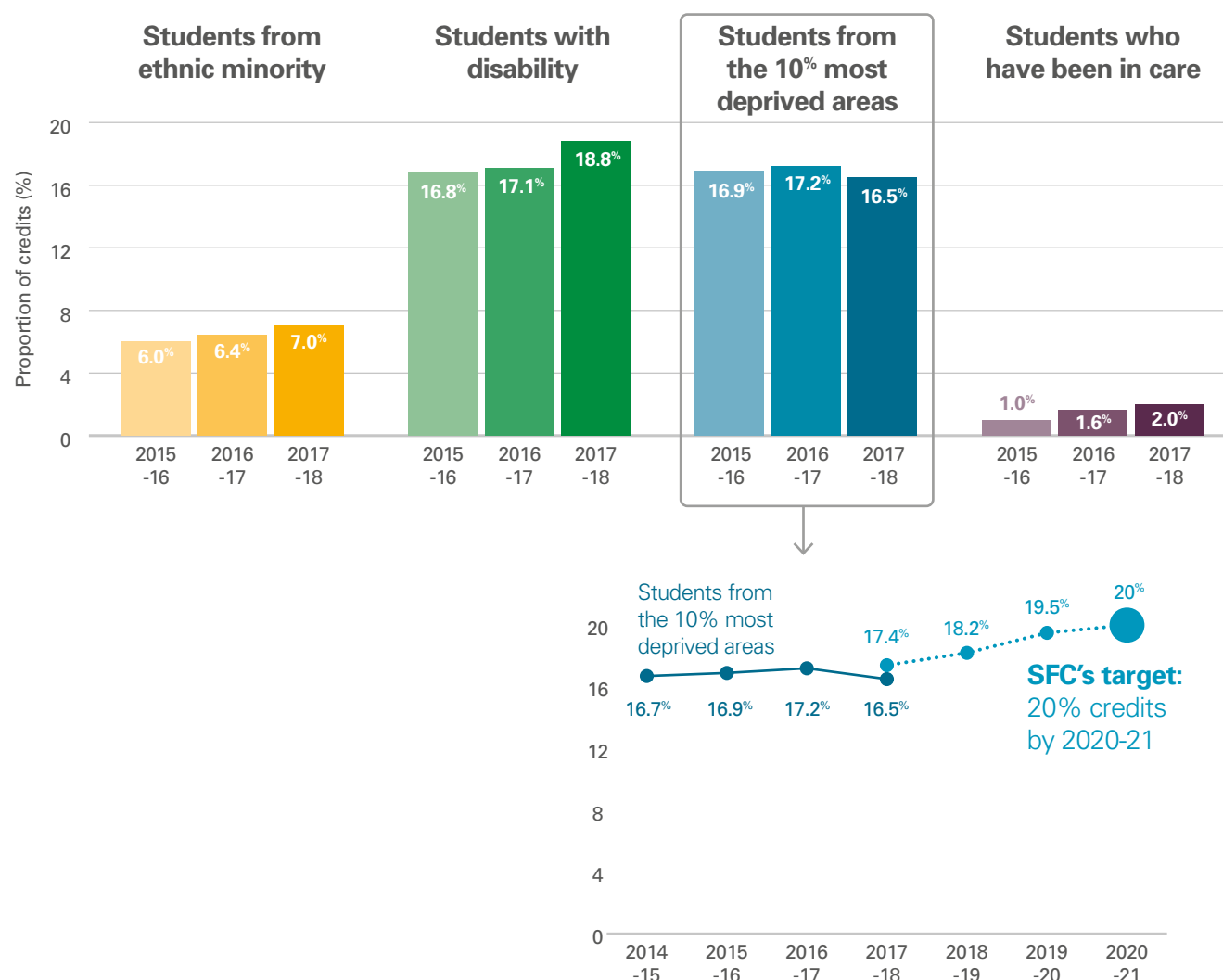


**40.** The proportion of credits that colleges deliver to students from the ten per cent most deprived areas had also been increasing, but this trend reversed in 2017-18.<sup>14</sup> The proportion of credits delivered to these students, at 16.5 per cent, was below the SFC’s national target of 17.4 per cent.<sup>15</sup> The reasons for this decrease are likely to be complex. For example, the trend is for school pupils to stay on longer at school. Also, in line with the Scottish Government’s aim of widening access to higher education, there has been an increase in the proportion of students from deprived areas going to university. Increasing the proportion of credits to students from the most deprived areas will require a coordinated effort from schools, colleges, universities and other relevant stakeholders ([Exhibit 12](#)).

**41.** Based on recent trends, the SFC’s target of delivering 20 per cent of credits to students from the ten per cent most deprived areas by 2020-21 looks difficult to achieve.

## Exhibit 12

### Proportions of credits delivered to students from selected groups























Source: SFC

## Exhibit 13

### National performance summary, 2017-18

The proportion of students completing their courses is falling, but the proportion of full-time students going on to positive destinations is improving.

	 <b>Attainment rates</b>	 <b>Retention rates</b>	 <b>Positive destinations</b>	 <b>Satisfaction</b>
<b>Further education</b>				
 Full-time	66.1  (0.8%)	74.9  (0.0%)	86.0  (1.9%)	93.1  (0.3%)
 Part-time	78.2  (1.1%)	89.8  (0.2%)	–	–
<b>Higher education</b>				
 Full-time	71.3  (0.3%)	81.6  (1.2%)	81.6  (1.4%)	83.2  (4.2%)
 Part-time	80.4  (1.8%)	91.6  (0.3%)	–	–

(%) – Percentage change from the previous year

Note: The latest positive destinations data available is for 2016-17. Percentage change is from 2015-16.

Source: *College Performance Indicators 2017-18*, Scottish Funding Council, 2019; *College Leaver Destinations 2016-17*, Scottish Funding Council, 2018; and *Student Satisfaction and Engagement 2017-18*, Scottish Funding Council, 2018

### Student attainment has remained relatively static in recent years and further work is required to address the attainment gap

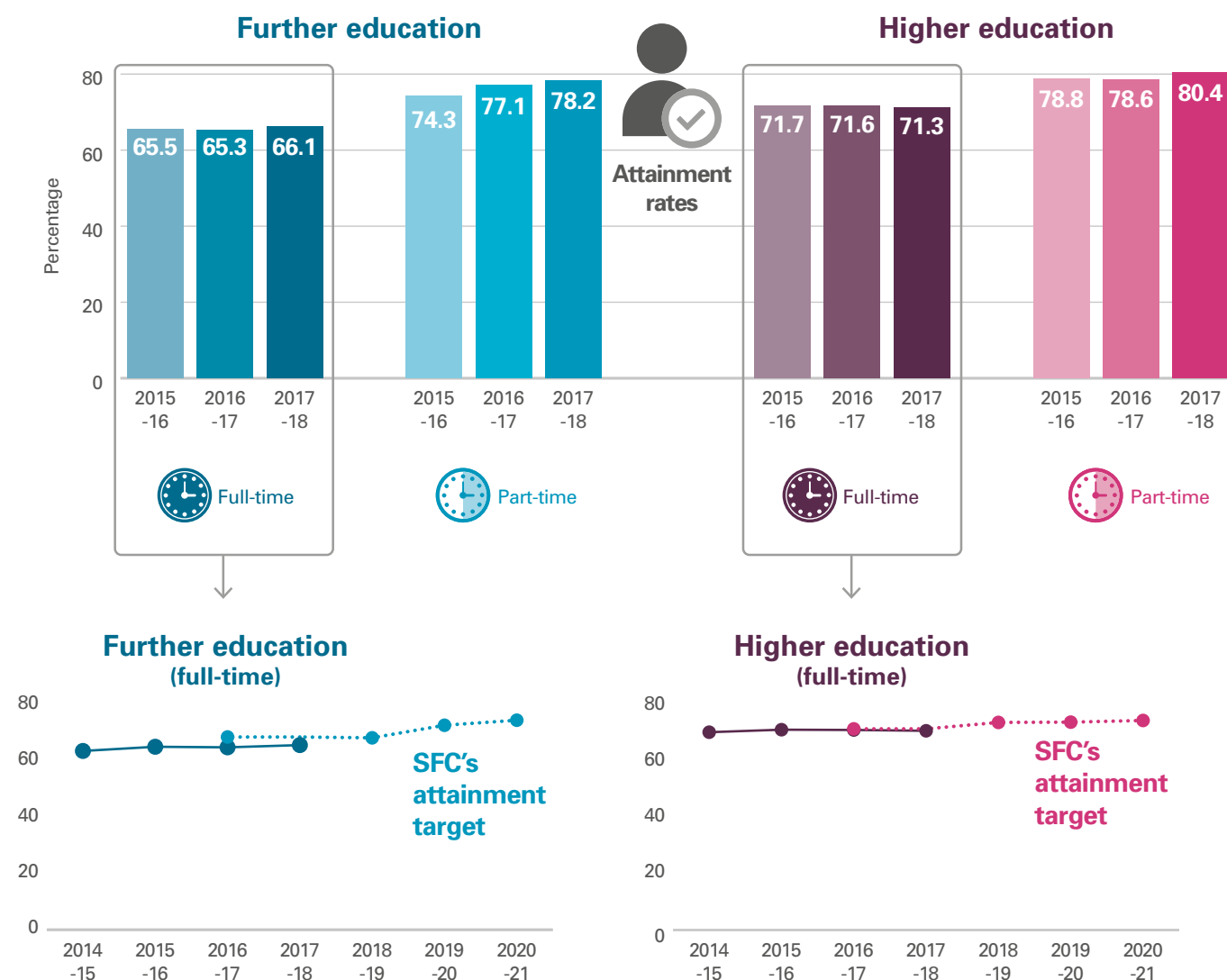
**42.** The SFC aims to improve attainment rates (the proportion of students completing their course successfully) in full-time further education and higher education to 75 per cent by 2020-21. The average attainment rate for full-time further education improved in 2017-18. In contrast, the average attainment rate in full-time higher education fell slightly. Both remain below the SFC's long-term target, with a significant improvement needed in further education over the next three years. The SFC has set intermediate national attainment targets for full-time students, although it did not set a target for 2017-18. It does not set national targets for part-time students ([Exhibit 14, page 25](#)).

### Only two regions met all of their agreed overall attainment targets

**43.** There is wide variation in regional performance against attainment targets ([Exhibit 15, page 26](#)):

- West College Scotland region met all four targets. Highlands and Islands region met both targets for further education.
- Two regions missed all four targets (Dumfries and Galloway and North East Scotland colleges).

### Exhibit 14 Attainment rates



Source: SFC

**44.** The SFC does not report the performance of college regions against regionally agreed attainment targets in its Summary of Progress and Ambitions report.<sup>16</sup>





**45.** In 2018-19, the SFC plans to improve its use of Outcome Agreements to achieve its desired outcomes for learners, for skills development and ultimately for inclusive economic growth in Scotland. This includes agreeing more ambitious targets with college regions to deliver Scottish Government priorities. Based on performance to date, some existing targets will be very challenging for colleges. It is important for the SFC and colleges to be clear on what will be needed to deliver the more ambitious targets.

## Exhibit 15

Attainment rates: progress towards outcome agreement targets



### Attainment target met in 2017-18


	No of college regions providing this type of study <sup>1</sup>	No of college regions	Percentage
<b>Further education</b>			
 Full-time	15	6	40%
 Part-time	13	9	69%
<b>Higher education</b>			
 Full-time	13	2	15%
 Part-time	11	5	45%

Note: 1. Total numbers are based on 13 college regions plus SRUC and Newbattle Abbey College, with the exceptions being: Part-time further and higher education: Ayrshire and Newbattle Abbey colleges did not set 2017-18 targets for these measures in their Outcome Agreement; and Higher education: College outcome agreement measures are not applicable to Highlands and Islands region or SRUC at this level.

Source: SFC

### More work is required to close the attainment gap for certain groups of students

**46.** Students from an ethnic minority, on average, achieve better results than the overall student population, but more work is required to close the attainment gap for the rest of the identified student groups.<sup>17</sup> Students who have been in care have the lowest attainment rates, and were the only group where attainment decreased in 2017-18 ([Exhibit 16, page 27](#)).

**47.** The SFC is committed to raising the attainment rates for students from the most deprived areas to achieve overall attainment rates of 75 per cent by 2027-28.<sup>18</sup> In [Scotland's colleges 2018](#) , we reported that the attainment gap between students from the least and most deprived areas had increased between 2011-12 and 2016-17.

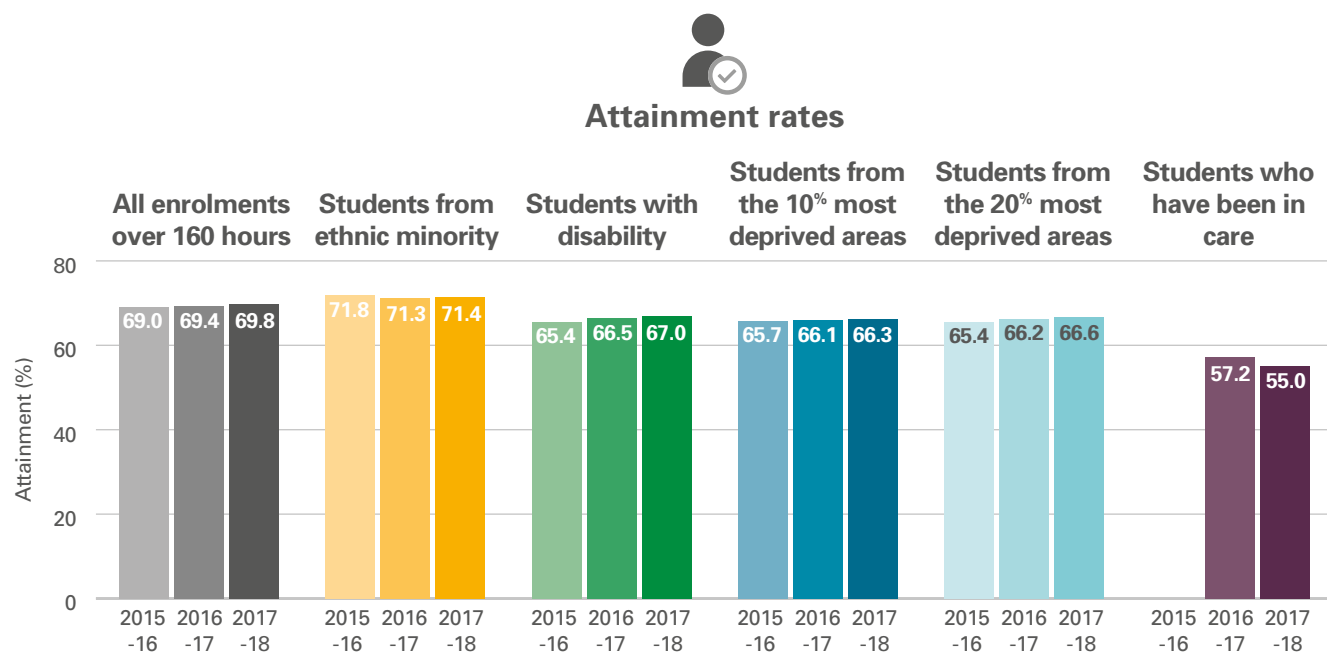
**48.** Last year, we reported that the attainment gap in 2016-17 increased between those students from the least and most deprived areas. In 2017-18, the attainment gap for those in further education closed slightly, from 7.4 to 6.5 percentage points (69.7 per cent compared to 63.2 per cent). The attainment gap for those in higher education was 7.7 percentage points, the same as in 2016-17 (74.4 per cent compared to 66.7 per cent).

### Fewer students completed their course in 2017-18

**49.** Challenges still exist in improving student retention (the proportion of students completing their course, either successfully or partially). The proportion of full-time further education students that completed their course remained unchanged in 2017-18 but the proportions fell for all other types of study ([Exhibit 17, page 27](#)).

### Exhibit 16

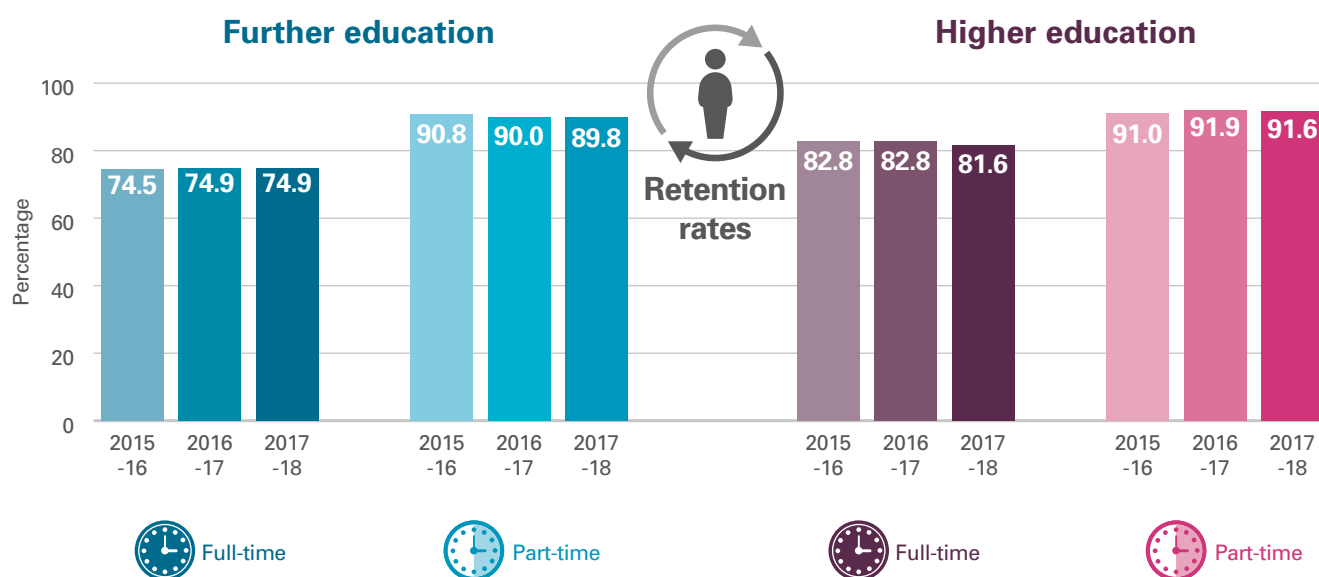
Attainment on courses over 160 hours for students from selected groups



Source: SFC

### Exhibit 17

Proportion of students completing their course



Source: SFC

**50.** Since 2017, the Scottish Government has been running a College Improvement Project (CIP) to raise attainment and retention. It has worked with five colleges through the CIP, trying to identify what improvement can be shared across the sector.<sup>19</sup> The project is scheduled to finish in 2019. While it is too early to assess the impact of the project, more work is required to improve retention. The Scottish Government plans to monitor changes in retention as improvement actions are scaled up and spread to different courses within the colleges and across the sector.

### **A greater proportion of students who qualify are going on to positive destinations**

**51.** Latest data (covering 2016-17) shows that 95 per cent of full-time student qualifiers with destinations confirmed entered a positive destination, such as employment or continued education (2015-16, 94.9 per cent).<sup>20</sup> Of all qualifiers, 84.5 per cent moved into a positive destination (2015-16, 82.7 per cent). Around two-thirds of all qualifiers went on to further study or training (up by one percentage point from 2015-16). 17.7 per cent of all qualifiers entered work (up by 0.7 percentage point).

### **The SFC does not publish college-level student satisfaction data**

**52.** Student satisfaction is a performance measure in college Outcome Agreements. For 2017-18, the SFC reported student satisfaction for the sector, but only using data from those colleges that received at least a 50 per cent response rate to their survey (15 of 26 colleges for full-time further education and five of 15 colleges for full-time higher education). It does not publish student satisfaction data for individual colleges or results for part-time and distance or flexible learning students. Publishing good-quality information on student satisfaction for individual colleges would allow students, and potential students, to determine whether a college provides a good experience for students. It also means that colleges can be effectively held to account by other stakeholders.






**53.** The SFC has been working with the college sector to conduct the Student Satisfaction and Engagement Survey (SSES) since 2015-16. However, over the past three years, response rates to the SSES have varied noticeably across colleges and the SFC does not yet believe that all colleges are conducting the survey in a way that allows either it or individual colleges to place reliance on the survey results. The SFC held an event for colleges in February 2019 to explore ways to improve response rates.

### **College performance varies widely for student outcomes**

**54.** Taken together indicators on student attainment, retention, destinations and satisfaction provide a broad indication of a college's performance. There was significant variation in performance across colleges; the proportion of students from deprived areas can influence performance, but it is clearly not the only factor ([Exhibit 18, page 29](#)).

## Exhibit 18

Performance indicators for full-time further education in colleges

Colleges	 % credits for FT	 Attainment rates	 Retention rates	 Positive destinations	 Satisfaction	College's self-evaluation for 'Outcome and Impact'
Glasgow Kelvin College	45.5	60.2 ↓	69.0 ↓	82.9 ↑	-	Good
West College Scotland	58.5	69.2 ↑	78.1 ↑	80.6 ↓	-	Good
Glasgow Clyde College	67.1	66.1 ↑	74.9 ↑	82.8 ↑	96.7 ↑	Good
Ayrshire College	74.4	66.9 ↔	73.9 ↓	82.6 ↓	-	Good
City of Glasgow College	58.9	67.9 ↓	76.3 ↓	91.2 ↑	84.5 ↓	Very Good
New College Lanarkshire	75.4	61.4 ↑	68.3 ↑	89.9 ↑	89.0 ↓	Satisfactory
Dundee and Angus College	70.0	75.4 ↑	81.4 ↑	81.7 ↑	95.4 ↑	Very Good
Fife College	61.8	59.1 ↑	73.4 ↑	71.7 ↑	91.9 ↑	Satisfactory
South Lanarkshire College	74.5	69.7 ↓	76.2 ↑	89.1 ↓	98.5 ↑	Very Good
West Lothian College	67.9	65.5 ↑	75.3 ↑	89.7 ↑	-	Good
Forth Valley College	51.8	71.4 ↓	77.2 ↓	75.6 ↓	95.1 ↓	Very Good
Edinburgh College	62.9	60.7 ↓	70.6 ↓	85.9 ↑	-	Good
Newbattle Abbey College	100.0	52.1 ↓	69.9 ↓	81.3 ↑	100 ↑	Good
Dumfries and Galloway College	70.6	59.6 ↓	70.6 ↑	88.3 ↑	-	Satisfactory
Perth College	78.4	70.0 ↑	77.2 ↓	85.2 ↑	96.2 ↑	Good
Borders College	78.0	68.7 ↑	77.1 ↑	86.9 ↓	-	Very Good
SRUC Land based	63.9	68.3 ↓	82.3 ↓	87.8 ↓	-	-
North Highland College	55.7	71.8 ↑	83.2 ↑	90.0 ↑	-	Very Good
Argyll College	47.4	76.0 ↑	82.0 ↑	80.9 ↓	94.3 ↑	Very Good
West Highland College	48.1	69.8 ↓	77.8 ↓	87.4 ↑	100 ↑	Very Good
Inverness College	69.5	70.6 ↑	77.7 ↑	87.3 ↓	94.7 ↑	Very Good
North East Scotland College	72.6	66.6 ↑	77.0 ↑	87.2 ↓	94.0 ↑	Good
Lewis Castle College	46.5	60.8 ↓	71.6 ↓	90.3 ↑	100 ↑	Satisfactory
Moray College	74.2	69.0 ↑	75.5 ↑	84.2 ↑	94.0 ↑	Good
Orkney College	33.1	75.0 ↓	80.3 ↓	84.3 ↓	-	Very Good
Shetland College of Further Education	32.0	77.8 ↓	85.6 ↑	97.2 ↑	-	Very Good
<b>Number of colleges where performance increased in 2017-18</b> ↑		<b>13</b>	<b>15</b>	<b>16</b>	<b>13</b>	
<b>Proportion of total number of colleges %</b>		<b>50%</b>	<b>58%</b>	<b>62%</b>	<b>87%</b>	
<b>Quartile:</b>	Highest	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	Lowest

Notes:

- Colleges are listed according to the proportion of students from the most deprived areas (Glasgow Kelvin College having the highest proportion).
- Percentage point changes are from 2016-17 (For leaver's destination data, from 2015-16. See Note 3).
- The latest leaver's destination data available is for 2016-17. The figures are across further and higher education study. College-level figures published are not broken down by the two.
- The overall student satisfaction rates are included only for colleges with a response rate of 50 per cent or more, in line with the SFC publication.
- For each indicator, we have shown colleges' performance broken down into quartiles, with the highest performance shown in Quartile 1 and the lowest performance in Quartile 4.

Source: *College Performance Indicators 2017-18*, Scottish Funding Council, 2019; *College Leaver Destinations 2016-17*, Scottish Funding Council, 2018; *Student Satisfaction and Engagement 2017-18*, Scottish Funding Council, 2018; Colleges' self-evaluation reports, 2019; and SFC's Infact database



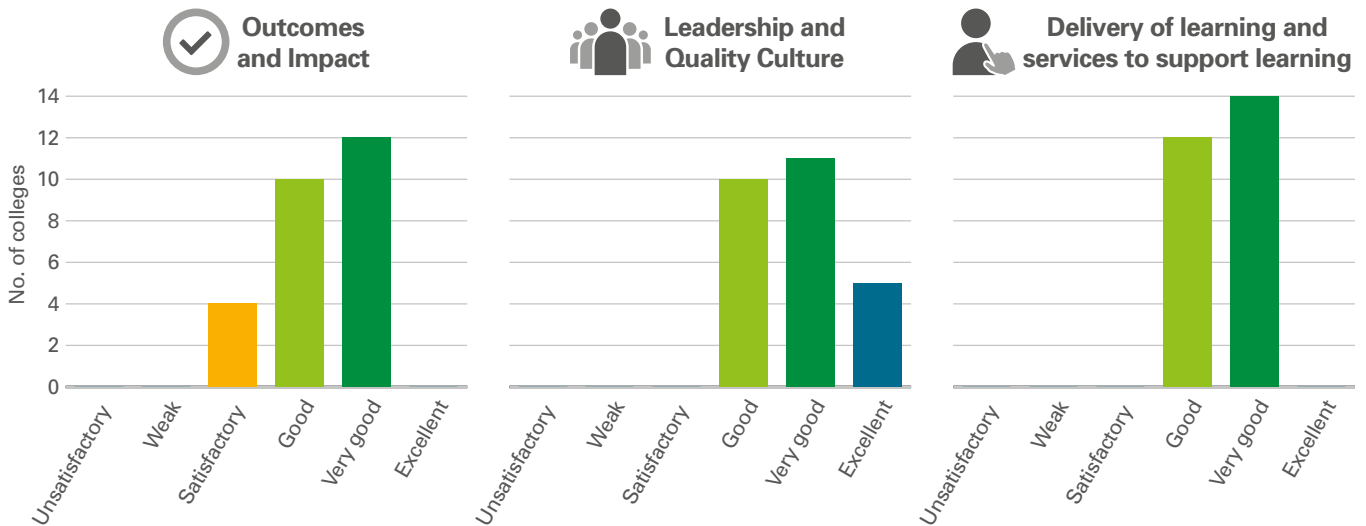
## Colleges have published enhancement plans to improve their performance

55. The SFC and Education Scotland, the national body for supporting quality and improvement in learning and teaching, introduced a new quality assessment evaluation framework for colleges, *How good is our college?* in 2016.<sup>21</sup> The new quality framework is based on a validated self-evaluation and is intended to enable colleges to assess progress and develop an improvement plan.

56. In January 2019, individual college results were published for the first time with grades in three categories: Outcomes and impact; Leadership and quality culture; and Delivery of learning and services to support learning. All colleges graded themselves as 'Good' or above for two of the three categories. In general, colleges assessed their Leadership most highly and the outcomes and impact for students least highly ([Exhibit 19](#)).

57. The factors considered in relation to 'Outcomes and impact' map closely to attainment and retention but not to positive destinations and student satisfaction. Some colleges which consider their performance to be 'Good' or better have relatively low levels of attainment (in the bottom half of the quartiles). It is not clear how colleges' own assessment of performance fits with the views of their students and staff.




**Exhibit 19**  
College's self-evaluation grades



Source: Education Scotland

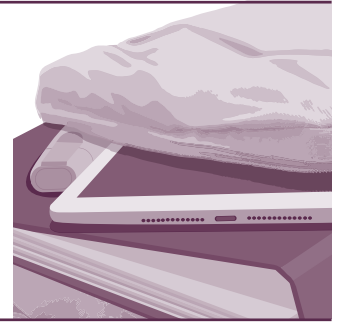
# Endnotes



- 1 *College Staffing Data 2017-18*, Scottish Funding Council, 2019.
- 2 Financial forecast returns submitted by colleges to the SFC in September 2018 and covering the period to 2022-23.
- 3 [College sector estates condition survey](#) , Scottish Funding Council, December 2017.
- 4 This includes £1.5 million to support business cases for the highest priority campuses and £1.4 million for very high priority maintenance at Fife College.
- 5 *Outcome agreement funding for colleges*, Scottish Funding Council, 2019.
- 6 Erasmus+ is the European Union programme for education, training, youth and sport. It runs for seven years, from 2014 to 2020. Erasmus+ aims to modernise education, training and youth work across Europe. It is open to education, training, youth and sport organisations across all sectors of lifelong learning, including school education, further and higher education, adult education and the youth sector.
- 7 Lanarkshire region and the Highlands and Islands region both met their regional targets.
- 8 *College Statistics 2017-18*, Scottish Funding Council, 2019.
- 9 2018-19 Outcome Agreement Guidance, Letter from Minister for Further Education, Higher Education and Science to Chair of Scottish Funding Council, 2017.
- 10 SFC's Infact database.
- 11 According to the SFC's Infact database, 641 students did not give their gender or described it as 'Other'.
- 12 Gender Action Plan, Scottish Funding Council, 2016.
- 13 *College Statistics 2017-18*, Scottish Funding Council, 2019.
- 14 The level of deprivation is calculated using the Scottish Index of Multiple Deprivation (SIMD) 2016. In the previous two years, it is based on the SIMD 2012.
- 15 [College Region Outcome Agreements: Summary of Progress and Ambitions](#) , Scottish Funding Council, September 2017.
- 16 [College Region Outcome Agreements Summary of Progress and Ambitions report 2018](#) , Scottish Funding Council October 2018, summarises performance for the sector from colleges regions' Outcome Agreements.
- 17 *College Performance Indicators 2017-18*, Scottish Funding Council, 2019. Attainment on courses over 160 hours.
- 18 *Guidance for the development of College Outcome Agreements: 2017-18 to 2019-20*, Scottish Funding Council, 2016.
- 19 Dundee and Angus College, Edinburgh College, Inverness College UHI, New College Lanarkshire and West College Scotland.
- 20 *College Leaver Destinations 2016-17*, Scottish Funding Council, 2018. The data available is for full-time students only across further and higher education.
- 21 *How good is our college?*, Education Scotland, 2016.

# Appendix


## Audit methodology



### What the report covers

This report looks at all colleges in the sector and Scotland's Rural College (SRUC), to present a comprehensive picture of the sector and its performance.

Until 1992, Scottish councils ran all publicly funded colleges in Scotland. 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 which are subject to audit by the Auditor General for Scotland. The remaining six colleges are generally referred to as non-incorporated colleges. SRUC is classed as a higher education institution but counts towards the achievement of the national target for colleges. The report primarily focuses on incorporated colleges. However, we state clearly where we include data relating to non-incorporated colleges.

The college sector in Scotland comprises the 20 incorporated colleges and six non-incorporated colleges, organised into 13 college regions (as shown in Appendix 2 of [Scotland's colleges 2018](#) ) . 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 Glasgow and in Highlands and Islands are assigned to the relevant regional strategic body, ie Glasgow Colleges' Regional Board (GCRB) or University of Highlands and Islands (UHI). In Lanarkshire, New College Lanarkshire is the regional body and South Lanarkshire College is assigned to the Lanarkshire Board.

### Financial commentary

Incorporated colleges prepare their accounts based on the academic year, which runs from 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:

- 2017-18 when referring to figures from colleges' accounts, or figures relating to the academic year
- 2017/18 when referring to funding allocations made in the Scottish Government's financial year.

Financial figures in real terms are adjusted for inflation. The base year for this report is 2017-18. The GDP deflator provides a measure of general inflation in the domestic economy. We have used the GDP deflator from March 2019 to calculate the real-terms figures for other years.

## Our audit involved

- Analysing relevant Scottish Government budget documentation, colleges' audited accounts and auditors' reports covering the financial periods ending July 2018.
- Analysing information held by the SFC, including financial, performance and activity data.
- Interviewing Colleges Scotland, student unions, trade unions, the SFC and the Scottish Government.
- Analysing data that we requested from colleges' external auditors.

## Detailed methodology for specific sections in the report

### **Underlying financial position** ([page 7](#))

Incorporated colleges reported an overall deficit of £29.8 million in their 2017-18 audited accounts. In reporting the underlying financial position, we have used the SFC's data for each college based on the accounts direction it issued in 2018.

### **Calculating student numbers** ([page 19](#))

In this report we present student numbers 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 2017-18 they would only be counted once. Where we show full-time and part-time student numbers this will include multiple enrolments.

In line with last year's report, we have included non-incorporated colleges and SRUC to give a comprehensive picture of performance against the Scottish Government's national target for learning activity.

# Scotland's colleges 2019

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