

Dear Convener,

Revised Submission to the Scottish Parliament's Education and Culture Committee

Since submitting our supplementary evidence to the Committee on the 24th October, we have noticed a couple of errors in the calculations in our submission and wanted to ensure the committee had clear, correct and up to date information.

These were:

- Page 2 – clarifying in paragraph three that this refers to the proportion of all learners over 16 years of age.
- Page 4 – the calculation of the real terms cumulative reduction in funding, previously stated as 20%, we have now calculated this to be 27%.
- Page 9 – correction on the figure in 2009-10 re the proportion of part time learners, indicating this is 74% in terms of total numbers and 35% in terms of activity. The figure in the earlier version referred to activity levels in the previous year.

We've attached an updated version of the document, which I'd be grateful if you could circulate. Please do let me know if you require any additional information.

Yours sincerely,

John Spencer

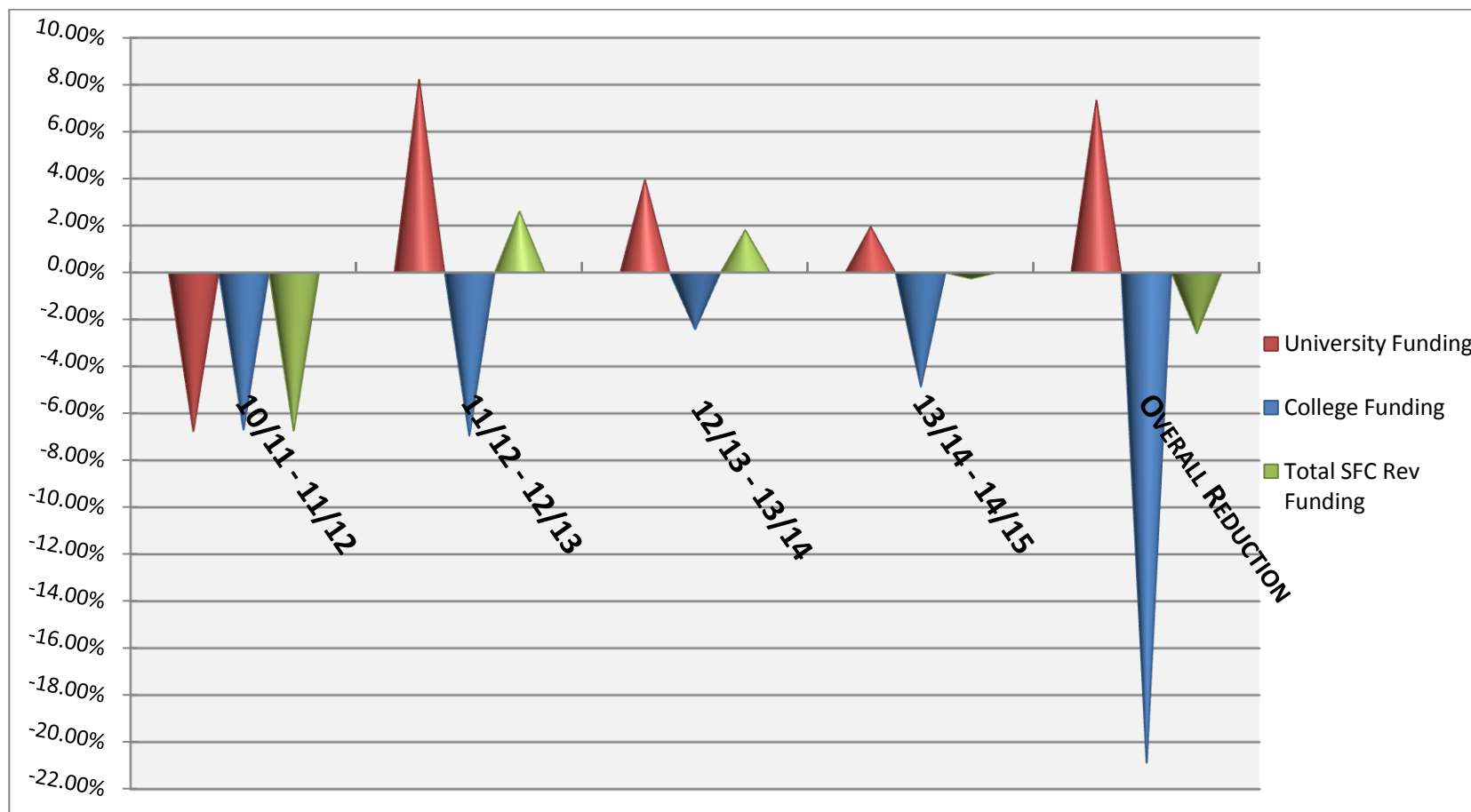
Convener of *Scotland's Colleges* Principals' Convention

1. SUMMARY

- A 27% cut in real terms will have a negative impact on the college sector over the next three years in terms of capacity and quality of education that can be delivered. While the impact will be different for each college, depending on the local circumstances, and action taken in response to the previous year's cut to budgets, we expect the vast majority of colleges will lose staff, and that it is not possible to achieve this completely on a voluntary basis. That in turn would reduce teaching capacity, student numbers and quality.
- Our particular concern is that the budget for next year would 'front-load' that cut at 13% in real terms. We understand the Government's agenda for reform and have stated that we will work constructively in taking that forward; however, we are concerned that this is not currently a budget for reform. Those reforms will take time to deliver, will likely have up-front costs, and will not be completed before the first year of this budget comes into force to allow savings of that extent to be made.
- A further area of concern is in the shift of provision towards 16-19 year olds while resources are significantly constrained. This group of learners are more resource intensive than older groups, and the squeeze on those over 19 is; therefore, potentially disproportionate in terms of the numbers affected. While it is true that numbers of young people are falling overall, those becoming 'NEET' due to the economic circumstances are rising at a significantly higher rate. Our figures indicate that if colleges in Scotland took on one in four of those NEETs in that group, and continued to service 18-24 year olds to the same level, there would be no funded provision left for older learners who make up over half of learners over 16 years of age.
- In this context, we therefore, urge that action be taken to amend the draft budget to support the college sector through this transition, and ensure provision for learners can be protected. One way of doing this would be to use some of the recently announced Barnett Consequentials:
 - We would recommend a **funding stream in support of the Government's objectives on young learners**, to ensure that we can continue to provide the range of opportunities for those over 24, who are often in need of support and essential training to re-enter or improve their prospects in the workplace. This could also support delivery of training in key areas of growth as identified in the Government's Economic Strategy.
 - We will support reform and would encourage the Committee to **support colleges through the merger process, particularly to support staff severance packages and to minimise the need for compulsory redundancies**.
 - **Re-phasing the budget cuts** would allow for reform to be planned and learners to be protected from a year of serious disruption, followed by further disruption as reforms are taken forward. There must be capacity for forward planning.
 - It would also be helpful to consider how the **capital settlement may be enhanced** to allow essential upgrades of facilities to take place.

2. THE BUDGET PROFILE

The graph below indicates the proposed revenue budget changes each year from 2010-11 through to 2014-15 as well as the overall change over the total Spending Review period. Note – this does not include capital allocations.



(i) Determining the % Reduction in Overall College Income

Below is analysis of the decrease in SFC allocations for college funding in cash terms, noting both the year to year and cumulative change.

Area of spend	2011-2012	2012-2013	2013-	2014-	TOTAL £m
	£m	£m	2014 £m	2015 £m	
Letter of Grant for College sector (AY)	545.5	506.9	494.7	470.7	
Actual decrease per annum		37.8	12.2	24.0	74.0
% decrease each year		7%	2%	5%	
% decrease cumulative		7%	9%	14%	

(ii) Considering the Overall Make-Up of Grant: Determining the Overall Impact on College Funds Excluding Student Support

In this we make the assumption, in line with Ministerial statements, that the level of student funding for bursaries, discretionary funding and childcare are to be retained at the same cash levels as in 2010-11 and take this as the baseline for funds available for colleges' activity, and apply inflation, assuming an ongoing rate of 4.5%.

College Receipt Excluding Student Funding*(AY)	449.9	411.3	399.1	375.1
Total College Receipt % Grant	82%	81%	81%	80%
% decrease each year		9%	3%	6%
% decrease cumulative		9%	11%	17%
Inflation 4.5% p.a.		13%	17%	10%
Inflation cumulative 4.5% p.a.		13%	19%	27%

(* assuming student support funding – bursary, discretionary funding and childcare funds are static as 2011-12 cash levels)

(iii) Adjustments for Financial and Academic Years

The above calculations exclude any adjustment for financial (FY) and academic years (AY). To adjust for SFC financial years we must consider current funding for academic session 2011-2012. The academic year 2011-12 straddles two SFC Financial Years: April 2011 – Mar 2012 and April 2012 – March 2013. The SFC has awarded funding assuming the same level of funding in financial year 2012-13 however, since funding has fallen, the colleges will see a further shortfall in funds between April 2012 and July 2012 leaving less for academic session 2012-13.

We have calculated a total shortfall of £12.6m for 2012-13 based on four months at £3.15m.

- **This indicates a starting fund of £494.3 million rather than £506.9 million**

	AY 11-12	AY 12-13	Difference
Per Annum	£544.7m	£506.9m	£37.8m
Per Month	£45.39m	£42.24m	£3.15m
SFC FY Funding Shortfall between April 2012 – July 2012			4 * £3.15m = £12.6m

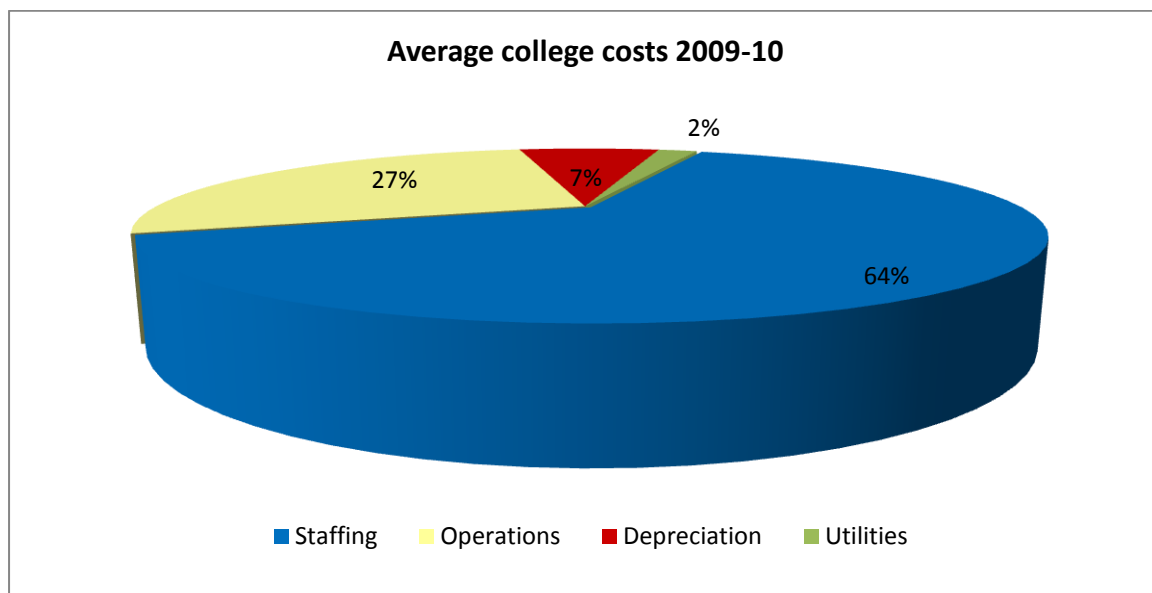
3. IMPACT OF THE BUDGET CUTS LAST YEAR

Last year colleges absorbed a 10% cut in resource revenues. In response to the settlement, Scotland's colleges made a one year agreement with the Scottish Government that despite the level of funding cuts, activity levels would be maintained. The sector also worked to avoid making compulsory redundancies.

In absorbing the cuts colleges explored where savings could be made that would allow them to continue to maintain activity levels and student numbers.

Average college costs 2009-10

The average college costs in 2009-10 showed a little over 64% costs attributable to staffing, 2% on utilities, 27% on operations (including learning resources) and 7% depreciation.



[source: Scottish Funding Council]

As well as 'backroom' operational support functions in payroll, IT, facility maintenance, and human resources, etc, a proportion of operational spend is inflexible – costs of building leases, licences, and audit processes, for example. This portion of spend also includes the purchase of learning materials that support the quality of delivery.

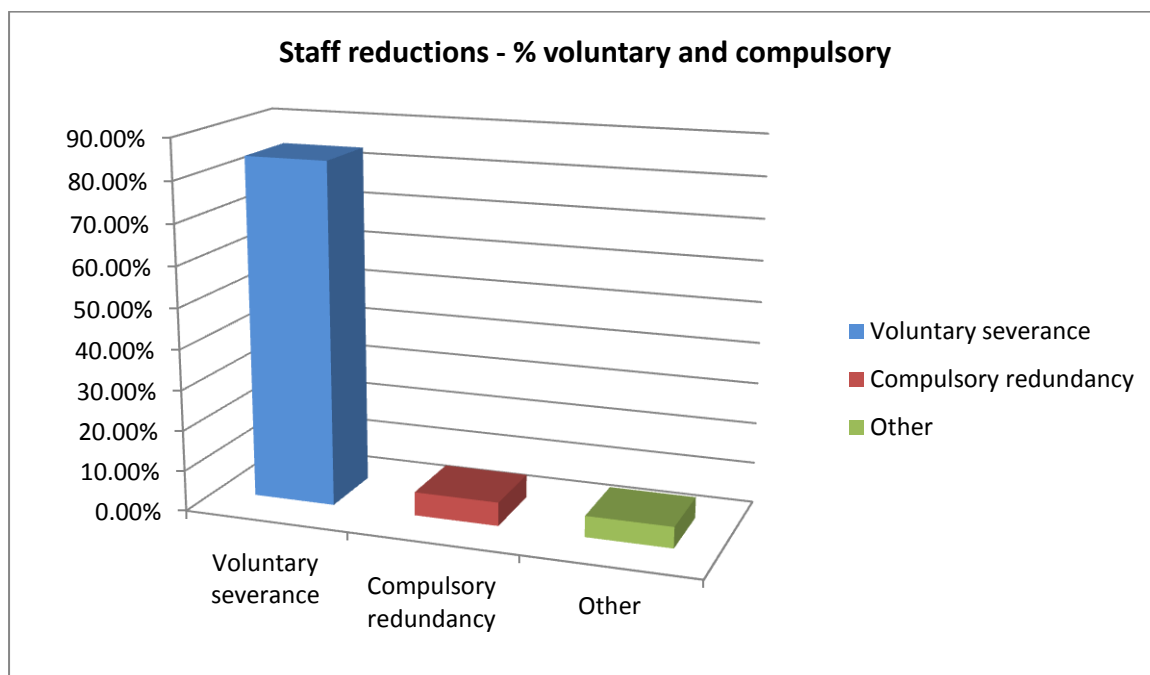
Colleges made efficiencies in reducing operational costs (see the case study below from *Borders College* as an example of this) and some sought to establish joint processes working with other colleges. Colleges have also demonstrated innovative and creative approaches to efficiency by working jointly with other partners. For example *John Wheatley College* has a partnership arrangement on Library and Information Services with Glasgow Life, and similarly *Borders College* with Heriot Watt University.

Staff reductions and redundancies

There is little flexibility in the average college spend to find savings of the magnitude of 10% from the area of operational costs alone, even in the most optimistic of backroom efficiency scenarios. The only other area of spend in which flexibility exists to make savings is in staffing costs.

There were over 1,000¹ job losses in the sector last year. Colleges sought to avoid compulsory redundancies wherever possible and, as a result, the vast majority of staff reductions were voluntary, or taken through other approaches such as renegotiating hours, not replacing exiting staff or renewing temporary contracts, job shares, and retirement.

The 6% of redundancies which were compulsory occurred where colleges had exhausted viable alternative ways to achieve cost savings.



[Source: Scotland's Colleges, July 2011²]

¹ Scottish Government Employment statistics 2011

² This was a survey of member colleges, the response rate was 83%

Retaining activity and protecting places

To help protect student places, college Principals accepted a one year agreement with the Scottish Funding Council that there would be flexibility in the recognition of a full time course consisting of 16 rather than 18 credits. The flexibility was not used in all colleges and courses. Care was taken to protect the learner experience, with changes only applied where assessed as appropriate.

No agreement has been made with the Scottish Funding Council as to whether this would continue however, we would not consider this flexibility to be sufficient to retain student places and would be concerned as to a potential impact on quality if it were to be applied on a universal basis.

Case Study – Borders College- Information supplied by the college

In January 2011 Borders College received a funding allocation from the Scottish Funding Council for the academic year 2011/2012 which represented a cut of 8.9% or £676,000 on the previous year's funding which was already a flat cash settlement. This cut was split between a reduction in activity and a reduction in the amount being paid for the remaining activity.

In order to produce a balanced budget for the year 2011/2012 the College took the following actions:

- Activity in schools link programmes was reduced, amounting to a reduction of approximately 100 places available to local school pupils wishing to gain vocational qualifications.
- All full-time programmes were harmonised to a standard number of teaching hours not to exceed 16 hours face-to-face teaching hours for each course.
- The staffing budget was reduced by approximately £530,000. This saving was achieved by a reduction of 22 staff, 11 (7.4 FTE) of whom left under either voluntary severance or early retirement and 11 (8.55 FTE) of whom were made compulsorily redundant.
- Other costs were reduced as follows: Property, facilities maintenance, and ICT costs by £146,000.

4. IMPACT OF THE CUT IN 2012-13

Having made efficiencies to absorb the 10% funding cut last year, most colleges find themselves with little potential room for making back-room efficiency savings of a similar magnitude next year – finding savings would be expected to mean further job losses and reduced learner provision in terms of courses and places.

We understand the Scottish Government's position and agree on the importance of striving to avoid compulsory redundancies. The concern among many colleges is that funding voluntary packages will be a significant challenge, given the numbers that were taken up in the last year.

It would be reasonable to expect that the rate of job losses will be in line with the trend over the last year. While it will depend on the circumstances of each college and the decisions that were taken in the previous year, we would also expect the overall rate of compulsory redundancies among these would be significantly higher than last year. While a small number of member colleges may be able to offer a guarantee on no compulsory redundancies, the majority would not be able to do so.

In the move towards regional delivery, this level of cut will see colleges making the decision to lose provision, students and staff to make immediate savings, and will likely not allow for joint working with potential regional partners to consider how savings can be made on a regional basis over time. Colleges want to be able to effectively and cost-effectively plan for reform.

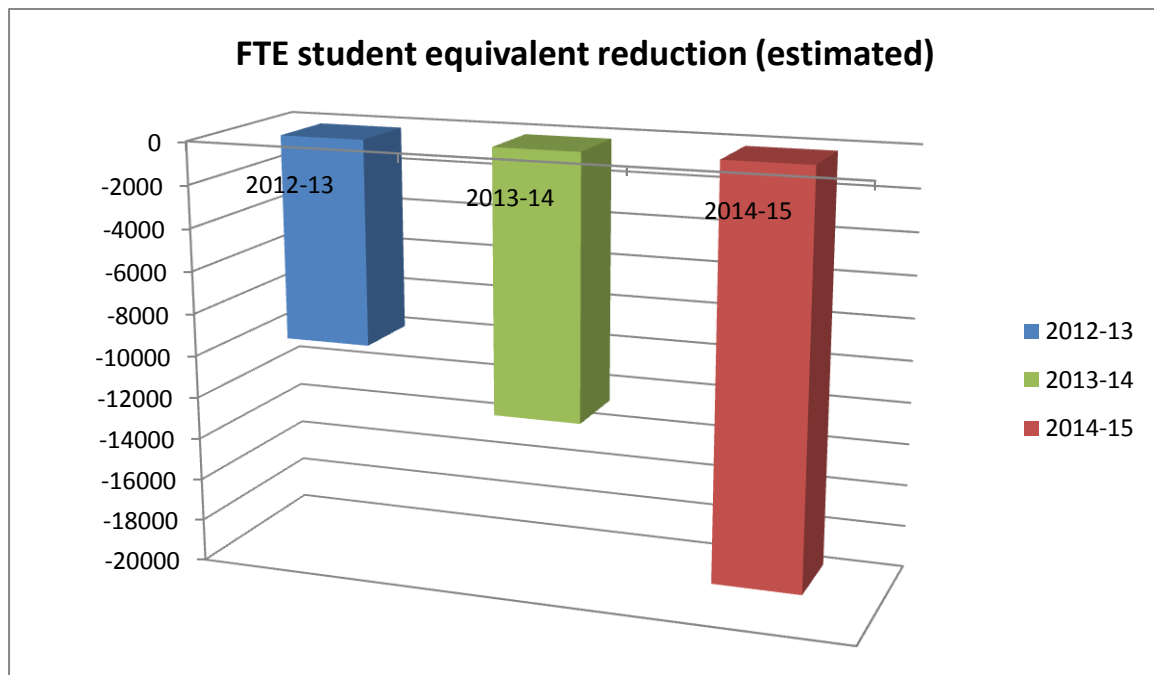
Learner provision, student support and places

We do not believe that cuts of this magnitude can be absorbed without an impact on learners and places. Colleges must be able to balance the level of provision with quality and it would not be possible for the sector as a whole to retain the current levels of activity without compromising the quality of our offering.

Colleges expect that the funding reductions will lead to a proportional reduction in wSUMs to support activity. It would not be possible to express this accurately as headcount; however, this can be translated into full time equivalent (FTE) student places, based on there being 16 wSUMs as an approximate of a full-time student.

The reduced total decrease is 153,851 wSUMs for a 7% cash cut, assuming that cash levels for SUMs continue at the same level. On that basis, we can project the decrease in provision for Scotland is almost 10,000 FTE student enrolments for the year 2012-13.

The table below extrapolates the cumulative reduction in FTE equivalent student numbers across the Spending Review period.



In terms of headcount, we would expect the figures to be far higher, as the proportion of students in Scottish colleges undertaking part time study is almost 75% of the total number, accounting for around 35% of total activity³.

Support services

A further concern is on student support services, which are part of colleges' strong success record in providing guidance for students – whether because they are returning to education after many years, or to ease the transition from school, or because of additional learning needs. While not conventionally considered to be part of the front line delivery, these services are key to the effectiveness of front line teaching for many learners.

³ Source: SFC statistics 2009-10

Case Study:			
John Wheatley College-			
Information supplied by the college			
<i>Below is an estimate of impact on funding, students and staff for 2012-13.</i>			
	2010/11	2011/12	2012/13
	Actual	Actual	7% Cash Reduction
Impact on core SFC Grant			
Core Grant including Fee Waiver	£7,888,000	£7,177,000	£6,675,000
Cash Reduction on prior year		£711,000	£502,000
Cumulative 2011/12 reduction onwards			£1,213,000
Impact on Teaching Activity			
Reduction in funded WSUMs @ 2011/12 tariff		-1,479	-2,548
Reduction in Full Time Students (equivalent)		-92	-159
Estimated Reduction in Headcount Enrolment		-296	-510
Impact on Staffing Levels - minimum reduction in FTE			
Estimated total staffing reduction		-18	-10
Total annual reduction in core grant funding between 2010/11 and 2014/15		£1,680,000	to £2,040,000
Total annual reduction in WSUMs between 2010/11 and 2014/15		-6,397	to -8,219
Total annual reduction in student FTE between 2010/11 and 2014/15		-399	to -513

Case Study – Borders College-- Information supplied by the college

For 2012/2013

The impact of the cut will depend very much on whether there is an associated reduction in expected delivery or how much is contained in a reduced value for any activity delivered. Any College's ability to reduce expenditure will depend on individual circumstances. **The following is for illustrative purposes only and does not represent a savings plan for the College.**

Each 1% cut represents a reduction in income of around £69,000.

This would require the College to reduce its expenditure accordingly.

For example this represents 360 SUMs or 18 FTE students which would in most cases be a full-time group. Therefore, it is possible to say that a cut of 7% could result in the loss of 7 full-time courses.

The loss of 7 full-time courses would require academic staff to be reduced by around 5 lecturing staff and the reduced income would require staffing costs to be reduced across the College.

Having reduced other business support costs by at least 2% each year over the past 5 years and 10% last year, the college has very little scope for anything other than a small efficiency saving in the future.

Borders College has further challenges as a rural college serving a dispersed population and economies of scale are not easily available. However, over the past three years the college has demonstrated innovative and creative approaches to efficiency connected to co-location and shared service arrangements with Heriot Watt University.

Delivering for 16-19 year olds

The Scottish Government's letter of guidance to the Scottish Funding Council notes the importance of delivering on the stated priority for a guaranteed place in education and training for all 16-19 year olds to develop their skills, and learn or secure a career pathway through sustainable employment.

The table below summarises the number and proportion of 16 to 19 year olds not in employment, education or training (NEET), Scotland, 2004-2009, the last years for which figures are available.

Annual Population Survey (Jan to Dec) 16-19 Year old NEET Populations in Scotland 2004-2009

	Proportion	Level
2004	13.3%	35,000
2005	14.2%	37,000
2006	12.4%	32,000
2007	12.2%	32,000
2008	11.8%	31,000
2009	13.8%	36,000

In 2009 36,000 16-19 year olds were counted as not in employment, education or training. Evidence would illustrate that the economic downturn continues to have a significant impact on employment rates in Scotland, particularly on youth unemployment. In figures published in August 2011, the number of young people (18-24 year olds) claiming Jobseekers Allowance for over 6 months increased by 33.7% (or 2,245 young people) in Scotland over a twelve month period to reach 8,905. This is a comparable increase to the UK as a whole, which is 21% (or 17,895 young people) to reach 103,230.

In the table below we summarise the patterns of attendance and learning activity for each enrolment based on learner age.

Table 2: Patterns of attendance and learning in Scotland's Colleges (2009-10) by age profile.

Age of Learners	Enrolments	Average wSUMs per Enrolment (wSUMs)	Nominal Hours per Enrolment (Hours)	Average Cost to SFC per Enrolment (£)
16-19 Year Olds	109,922	10.9	436	2,256
19-24 year olds	50,381	7.8	310	1,615
25 years and over	297,707	2.9	115	600

This illustrates that younger people generally undertake more full time courses, and adult learners generally study part time.

While we are aware that overall numbers of 16-19 year olds are falling, the indication is an upward trend for those becoming NEET, so it is unclear to what extent there would be an additional demand on colleges for places.

Our analysis indicates that if Scotland's colleges were to offer a full time national programme to only one in four of 16-19 year olds categorised as NEET (based on 2009 figures), colleges would not be able to continue to serve the 18-24 year olds to the same level, and there would be no funded places available to those over 24, who in 2009-10 made up more than half of students in Scotland's colleges⁴.

⁴ Of those over 16 years of age - 2009-10 figures- 126,407 learners aged 16-24 and 162,424 aged 25-84. Source: SFC

5. A BUDGET FOR REFORM

The Government has outlined its reform agenda through 'Putting Learners at the Centre', and Scotland's colleges have committed to work constructively with the Government in taking that agenda forward.

Colleges believe that the proposals in the paper will be difficult to deliver at the pace being proposed, or with the budget as currently set out.

The reforms in the legislation to result from the 'Putting Learners at the Centre' consultation are expected to be introduced to Parliament after the summer recess 2012, and be enacted in 2013. The reductions in funding from the next financial year come ahead of the introduction of the Bill, and of any possible savings from the resulting reforms.

The front-loaded nature of these cuts does not, we believe, recognise the need to invest in regionalisation and that savings from reform will take time to achieve.

We will respond in detail to the Scottish Government's proposals in this paper; however, we are of the view that the two processes, while separate, must be better linked to enable this to be a Budget for reform.

Mergers

There have been several mergers in recent years, all of which have involved merger implementation support funding from the Scottish Funding Council.

The up-front costs cover a variety of necessary expenses that result – restructuring which included packages for voluntary severance, harmonisation of terms and conditions for staff, harmonising HR and ICT systems, legal fees that result from a number of institutions forming a single new legal entity, and marketing/rebranding required to establish a new institution of a different name.

It can take many years to fully complete a merger, depending on the institutions involved and how much they have worked together in the past and the willingness to effect the merger.

The time spent on merger can be substantial for Chairs and Principals, senior management, and key support services such as HR, where up to 50% of their time can be absorbed during the merger process.

Additionally, the process will go on long beyond actual vesting day to fully implement the merger.

The table below details how recent mergers have been funded by SFC, as well as enabling monies and loans provided.

Merger	Year of Merger Completion	SFC Merger Implementation Funding £m	Analysis of Funding
City of Glasgow	2009-2010	£8.50m plus enabling monies	Restructuring Staff Terms and Conditions HR ICT Marketing Legal Other
University of the West of Scotland (included Bell College, Paisley)	2006-2007	£11.907m grant loan of £3m Enabling monies of £609k	HR Estates ICT Marketing
Forth Valley College	2004-2005	£3.1m	Restructuring Staff Terms & Conditions HR Other ICT Project Management Facilities Marketing
Adam Smith College	2004-2005	£1.855m	Restructuring Staff Terms & Conditions ICT Marketing

Case study: City of Glasgow College merger – Information supplied by the college

Funding support from SFC was critical to the success of the City of Glasgow College merger. The merger was a complex change management programme which required strong leadership, careful project planning and project management.

Up to £8.5 million Merger Implementation Funding was granted, divided into three headings:

- **Voluntary Severance £4.3 Million**

The college made a firm guarantee to no compulsory redundancies; and put in place an employment guarantee until 2013. However, merger funding allowed the college to offer severance packages to staff wishing to leave. To date, 109 applications for voluntary severance have been approved at a cost to SFC of £3.3 million, and a salary saving to the College of £4.5 million.

Through the process of restructuring and voluntary severance we have reduced the number of staff in management posts by 52, representing a saving in management costs of £2.2 million.

- **Harmonisation of Salaries £1.8 million**

Harmonising academic and support staff salaries was an important stage of the merger process and some 70% of support staff benefitted from the merger, either through increased salaries or improved terms and conditions. With regard to academic staff the college has harmonised salaries;

although, not reached agreement on terms and conditions. Lecturing staff have been matched across into the new structure without the need for interview.

£813 K of merger funding has been invested in salary harmonisation.

- **Merger Integration £2.4 million**

This merger project funding was critical in helping the college integrate three sets of operational systems into one integrated system. This included a new website, a single integrated email system for staff and students, a new telephone system, a new HR and payroll system, establishing a new student union with sabbatical office bearers, establishing the new City of Glasgow College brand, the merger 'communication facilitators', merger related staff training and development, external HR support, and the merger office.

To date, City of Glasgow College has invested £1.5 million in merger integration, and made initial savings of £1.1 million.

New funding model

A further issue in considering both the Budget and the reform agenda is the move to a new model of funding for colleges. This work is being taken forward by the Scottish Funding Council, and is expected to be announced towards the end of the year.

The proposed model is to be implemented from 2012-13, and is expected to move college funding into a regional model.

The concern remains; however, as to how it will work in practice, and if by having a different method of distribution some colleges will face bigger cuts to their budgets than would be the case with the current model.

We are seeking assurances from the Scottish Funding Council that the new mechanism will be modelled to protect against unintended consequences, to ensure that it supports the sector's ability to effectively plan for reform and not further risk destabilising institutions.

6. SUPPORTING REFORM

As shown above, the impact of cuts to college budgets, particularly in the first year, could have a serious impact on provision, learners and staff, and the pacing of the cuts would allow little time to realise and plan for any efficiencies from reform.

Scotland's colleges are open to the reform agenda, which must be planned at a realistic pace, and with a budget that supports that transition, and allows us to continue to deliver for learners.

We recommend to the Committee key areas in which changes could be made to the budget that would support the ability to deliver the Government's agenda.

1. Transitional funding for reform

Additional funding through the period of reform would go a long way to help protect key learner activity – particularly for older or disadvantaged learners, or in support of learning in the Government's identified key sectors in the economic strategy. Such funding would help to protect these activities which will be essential to economic growth and social mobility.

The move towards regionalisation may involve planning for mergers, and as shown above, those have up-front costs. To make any regional approach work, and not present an additional cost burden in making those transitions, would require transitional funding to be made available.

Such funding would help colleges in terms of restructuring and offering voluntary severance at a level that is broadly equitable across the sector, and seeks to minimise compulsory redundancies.

2. Re-profiling the cuts

We believe that a re-profile to manage the greatest cuts in the last year of the Spending Review period would significantly improve the sector's ability to plan, work with partners towards regionalisation, and ensure there is less disruption to learners and an ability to retain places.

This would be a significant step forward and help to reduce the impact on delivery both in the first year and over time and would allow more time to find efficiencies within colleges and innovative ways to work jointly with partners to support the move forward with reform.

3. Capital resources

Many college facilities still remain in need of upgrade and adequate funds are needed to help develop and maintain those facilities and ensure these are not overlooked while undertaking reforms.

7. CONCLUSION

Colleges are committed to work with the Scottish Government on the reform agenda. As we have described in our submission, the impact of the cuts could be damaging for learners, and would be expected to result in staff losses and compulsory redundancies.

Given the recent release of additional funding in Barnett Consequentials, this provides an opportunity for part of that money to be made available for an additional funding stream for these activities which will be essential if we are to be able to deliver reform, protect learners, and deliver economic growth.

We hope the committee's recommendations will endorse our call for additional support to ensure the college sector can deliver for learners, and allow for a planned and effective move towards reform, a re-profile of the cuts, and for support in developing the college estate.