

Call for evidence: A review of coherent provision and sustainability in further and higher education

Response from Audit Scotland

7 August 2020

Background

1. Audit Scotland welcomes the opportunity to respond to the Scottish Funding Council's (SFC) call for evidence, to help inform its review of coherent provision and sustainability in further and higher education.
2. Audit Scotland is the independent public sector audit agency undertaking the external audit of the majority of public sector bodies in Scotland. We do this on behalf of the Auditor General for Scotland (AGS) and the Accounts Commission (for local government). Public audit provides independent assurance that public money is spent properly and is providing value for money. We carry out this work through the annual audits of public bodies and performance audits on specific themes and subjects.
3. Audit Scotland is responsible for the audit of the SFC on behalf of the AGS. The 2019/20 annual audit is currently underway and the report will be published on our website in due course. The AGS appoints the external auditors for Scotland's 20 incorporated colleges and Glasgow Regional Board. Since 2010, the AGS has had powers to undertake performance audits in bodies funded by the SFC, including universities and specialist institutions (please note that references to universities in our response include specialist institutions).
4. In 2019, Audit Scotland produced reports on behalf of the AGS on Scotland's colleges ([June 2019](#)) and the finances of Scottish universities ([September 2019](#)). We recognise that the environment in which colleges and universities are operating has changed significantly since we published these reports, as a result of the Covid-19 pandemic. However, the reports include findings and recommendations that remain relevant.
5. Our response does not address every question in the call for evidence, as many relate to policy choices and decisions. We have instead focused on two areas that are relevant to our remit, drawing from our previous audit work. Our submission highlights the challenges and opportunities for colleges and universities in light of Covid-19, and reiterates some of our previous recommendations that may help the SFC and Scottish Government in supporting colleges and universities to respond to the pandemic.
6. We would be happy to discuss our response further and contribute to the next phases of the review.

Response

What opportunities and threats does the post-pandemic environment hold for colleges, universities and specialist institutions?

7. Colleges and universities make an important contribution to the Scottish economy and wider society as providers of further and higher education, major employers and centres of research and innovation. They contribute to national outcomes in the Scottish Government's National Performance Framework and to policy priorities, such as inclusive and sustainable growth and reducing inequalities.
8. Colleges and universities are expected to play a central part in supporting Scotland's economic recovery following the Covid-19 pandemic. To enable them to fulfil this important role, they will need to work together and with partners to mitigate and manage the risks presented by Covid-19. Some of the challenges and pressures facing institutions are new and others have been exacerbated by the pandemic. Covid-19 has significant implications for the finances and operation of Scotland's colleges and universities, and for outcomes for students, both in the short and longer term. The response to the pandemic provides an opportunity to take stock of what is working well in the provision of further and higher education and what could be improved, and to identify lessons for the future.
9. Through our audit work and monitoring of developments, we have identified the following challenges and opportunities presented by Covid-19 to colleges and universities:
 - **Financial sustainability** – Colleges and universities were already operating within an increasingly tight financial environment and faced financial pressures and uncertainties (including pensions costs, estates

costs and EU withdrawal). The sectors now face a loss of income from sources including international student fees, accommodation, catering and other commercial activity, as well as additional costs to support the move to online teaching and learning and making campuses safe for students and staff to return. The impact of Covid-19 on the financial sustainability of colleges and universities is significant. It will be important for the SFC to continue to work with the sectors to develop and refine medium-term financial forecasts as the financial impact of Covid-19 becomes clearer. There is also an opportunity for the SFC to further improve its reporting on financial and performance information, to help support effective scrutiny of decisions and their future implications.

- **Strategic objectives** – Colleges and universities have a central role in supporting Scotland’s economic recovery following Covid-19 and continuing to meet the Scottish Government’s priorities for further and higher education. Increased unemployment and structural changes to the economy will require institutions to upskill or reskill potential employees (including school leavers, apprentices, graduates, lower skilled workers and existing employees experiencing redundancy) to ensure employers have the skills they need. The pressures on financial sustainability outlined above present a risk to the ability of colleges and universities to fulfil this important role and deliver the Scottish Government’s strategic objectives. However, there is also an opportunity to review and refocus the outcomes expected of colleges and universities to better reflect the post-pandemic environment.
- **Digital** – The rapid move to digital learning and teaching following the closure of campuses required adaptation and innovation and demonstrated the agility of colleges and universities. The increased use of technology and digital approaches offers opportunities to deliver teaching and learning more efficiently and effectively and to better meet the needs of students and engage a wider range of learners. Sharing learning from recent experiences will be essential in identifying and enabling effective changes in how teaching and learning is delivered in future. The increased use of technology also presents risks, including additional demands on IT infrastructure and related capital expenditure; challenges in delivering more practical or work-based learning; reduced access to learning for students from more deprived backgrounds or with additional support needs; and issues around cyber-attacks and data management, protection and privacy.
- **Equalities** – There is a risk of existing and potential students from more deprived backgrounds being the most negatively affected by the impact of Covid-19. This includes the potential impact of increased financial hardship, limited or no access to online learning, and reduced job opportunities following graduation. This may make it more challenging for colleges and universities to contribute to the Scottish Government’s priorities around fair access to higher education and promoting equality and inclusion.
- **Governance and accountability** – Good governance and sound controls are essential in crisis situations, such as the Covid-19 pandemic. In such circumstances existing controls may be compromised, and it can be difficult to put in place robust controls for new processes. This leaves public bodies open to an increased risk of fraud, in areas such as governance, procurement, applications for funding and cyber-crime. More information on the range of fraud risks emerging from the Covid-19 crisis, and what public bodies might do to help reduce them, is available in our [briefing paper](#).

How can SFC, alongside government and other enterprise, skills and education-focused agencies, best support colleges, universities and specialist institutions to make their full contribution to Scotland’s inclusive, green and education-led recovery?

10. The SFC and the Scottish Government have a good understanding of the issues affecting colleges and universities. Our recent reports on Scotland’s colleges ([June 2019](#)) and the finances of Scottish universities ([September 2019](#)) included recommendations to help support continuous improvement in the sectors.

- 11.** We made recommendations to support the SFC in improving its analysis of the financial health of the sectors. The SFC is using financial forecast returns to build a more detailed picture of the financial position of colleges and universities and has made progress in its reporting on financial sustainability. Given the impact of Covid-19 and forecast operating deficits going forward, detailed analysis and transparent reporting of the medium-term financial position is more important than ever.
- 12.** Last year we recommended that the SFC and Scottish Government should agree and publish a medium-term capital investment strategy for colleges. The Programme for Government 2019/20 included a commitment for the SFC to work with the Scottish Government to develop a medium-term estate strategy for the college sector, which would set out the main priorities for college capital investment over the next five to ten years. The SFC intended to publish the strategy by summer 2020 but has had to reprioritise its work due to Covid-19. The changes in the delivery of college learning brought about by Covid-19 will significantly impact on capital investment priorities, such as digital infrastructure, and will need to be reflected in the final strategy. Finalising the strategy will be an important component in supporting colleges' medium-term financial planning.
- 13.** We have previously recommended that the SFC and Scottish Government should review whether targets for college provision and student outcomes remain relevant and realistic. Although the SFC reviews the targets and measures in its guidance on outcome agreements each year, the overall sector-level credit target and FTE targets have remained the same. During 2020, the SFC has applied flexibility around the credit targets due to the impact of Covid-19. Continuing to review national and local targets so that they are relevant to a changed environment and allow colleges the flexibility to respond to changing demands will be important in supporting colleges to contribute to Scotland's economic recovery.
- 14.** Outcome agreements between the SFC and colleges and universities provide a means of supporting delivery of specific Scottish Government priorities. We have previously reported that there is scope to provide a clearer line of sight between funding commitments and the delivery of desired outcomes. The SFC's review of outcome agreement arrangements for 2020-21, and a more comprehensive review for 2021-22, provides a valuable opportunity to take stock of how well the outcome agreement process is working and what could be improved.
- 15.** Lifelong learning, skills and training will be central to Scotland's economic recovery. A wide range of bodies will be contributing to this agenda alongside colleges and universities, including the Scottish Government, the SFC, enterprise and skills agencies, businesses, the third sector, and national and regional strategic groups and partnerships. Clarity of respective roles and responsibilities will be needed to help ensure a coordinated approach, as these bodies work together towards supporting Scotland's economic recovery and renewal.
- 16.** The important role of colleges and universities in contributing to Scotland's inclusive economic and social recovery will have implications for the demands placed on them. For example, what learning they offer, how this is delivered and the level of uptake from students. Balancing these demands alongside increased financial pressures and actions to ensure financial sustainability will be challenging. Managing this will require all those involved in delivering and supporting further and higher education to work together effectively and to be flexible and willing to adapt to new ways of working.
- 17.** In developing a coherent and effective response to the challenges and opportunities faced, we would highlight the importance of the following principles, which should underpin any new arrangements:

 - effective governance and accountability
 - transparency and openness
 - sound financial controls and management
 - long-term planning to deliver better outcomes for individuals and communities.
- 18.** The longer-term impact of Covid-19 on the further and higher education sectors is not yet clear. Audit Scotland will continue to monitor the implications and report on this through our annual audits and performance audit work, where appropriate.