OFFICIAL REPORT
AITHISG OIFIGEIL

DRAFT

Public Audit and Post-legislative Scrutiny Committee

Thursday 28 June 2018

Session 5

The Scottish Parliament
Pàrlamaid na h-Alba

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CONTENTS

PUBLIC AUDIT AND POST-LEGISLATIVE SCRUTINY COMMITTEE
18th Meeting 2018, Session 5

CONVENER

*Jenny Marra (North East Scotland) (Lab)

DEPUTY CONVENER

*Liam Kerr (North East Scotland) (Con)

COMMITTEE MEMBERS

Colin Beattie (Midlothian North and Musselburgh) (SNP)
*Bill Bowman (North East Scotland) (Con)
*Willie Coffey (Kilmarnock and Irvine Valley) (SNP)
*Iain Gray (East Lothian) (Lab)
*Alex Neil (Airdrie and Shotts) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Iain Clark (New College Lanarkshire)
Kenneth Gibson (Cunninghame North) (SNP) (Committee Substitute)
Dr John Kemp (Scottish Further and Higher Education Funding Council)
Martin McGuire (New College Lanarkshire)
Dr Linda McTavish CBE (Lanarkshire Regional Board)
Derek Smeall (New College Lanarkshire)

CLERK TO THE COMMITTEE

Lucy Scharbert

LOCATION

The Adam Smith Room (CR5)

Scottish Parliament

Public Audit and Post-legislative Scrutiny Committee

Thursday 28 June 2018

[The Convener opened the meeting at 09:00]

Decision on Taking Business in Private

The Convener (Jenny Marra): Good morning and welcome to the 18th meeting in 2018 of the Public Audit and Post-legislative Scrutiny Committee. I ask everyone to please turn off their electronic devices or switch them to silent so that they do not affect the committee's work. We have received apologies from Colin Beattie, and Kenneth Gibson is attending the meeting in his place.

Agenda item 1 is a decision on taking business in private. We have already agreed to take in private item 4, which is consideration of our draft report. Do members agree to take items 3 and 5 in private?

Members *indicated agreement.*

Section 22 Report

"The 2016/17 audit of New College Lanarkshire"

09:00

The Convener: Agenda item 2 is on the 2016-17 audit of New College Lanarkshire. I welcome our witnesses: from Lanarkshire regional board, Dr Linda McTavish CBE, chair; from New College Lanarkshire, Martin McGuire, principal and chief executive, Iain Clark, vice principal, resources, and Derek Smeall, vice principal, strategy and corporate performance; and Dr John Kemp, now chief executive—

Dr John Kemp (Scottish Further and Higher Education Funding Council): I am still the interim chief executive.

The Convener: I am sorry—Dr John Kemp is the interim chief executive of the Scottish funding council.

I ask Dr Linda McTavish to make an opening statement.

Dr Linda McTavish CBE (Lanarkshire Regional Board): Thank you, convener. I thank the committee for taking the opportunity to invite us to provide more evidence. Our region, which covers South Lanarkshire, North Lanarkshire and East Dunbartonshire, has consistently met our credit target since the merger. We are a very large region—as I said, we cover three local authorities—with a large population, including a significant rural base.

We have a very positive relationship with the SFC, which has been very constructive and helpful to us. We are in financial difficulties and, when those difficulties came to light, we immediately examined the reasons and took steps to make savings. We delivered savings in 2016-17, as can be seen in the evidence. We accept that those difficulties were caused, in part, by poor planning. However, our merger was complicated: it was the only two-plus-one merger in Scotland. The merger was viewed and assessed by the funding council and ourselves as being successful, but there have been post-merger issues. We will explore those issues and how we dealt with them this morning.

We welcome the committee's scrutiny. We will try to answer your questions as best we can, and we will provide the committee with further information, if necessary.

Alex Neil (Airdrie and Shotts) (SNP): The committee's remit is to look behind the financial challenges and to understand why they exist and what can be done to sort them. There are three related big strategic issues: one is the amount of credits that the college gets, which determines its income; the second is the cost structure; and the third is any additional grant from the SFC.

I will concentrate on the cost structure. I have been looking at the organisational structure of the college. Correct me if I am wrong, but I see seven layers of management. Martin McGuire is the principal, then there are three vice principals, seven assistant principals, umpteen managers—the information that I have says that there are 14 managers in business development alone—six heads of faculty, at least six assistant heads of faculty and more than 30 curriculum and quality leaders. There are also the lecturers, who are not a tier of management. Therefore, I count seven tiers of management.

My understanding is that there are four teams in business development, which is one of the departments under an assistant principal. The commercial business development team has a total of six people, including three managers, which is an average of one person per manager; the regional development team has 22 people, including three managers; the external funding team has six people, including three managers—again, that is a ratio of one to one; and the catering, conferencing and accommodation team has 45 people, including five managers. Is that not a wee bit top heavy in terms of management, especially when some of the people who have been made redundant or taken severance are lecturers and, at the end of the day, the principal job of the college is the teaching aspect of its remit?

Martin McGuire (New College Lanarkshire): I am happy to answer that. The structure of the college was pretty much agreed at the time of the merger. The board went through a process of looking at the structure. We were the last of the colleges to merge so the structure was based on structures in other colleges. It is important to remember the size and the scale of the organisation. You mentioned the external funding team; our Erasmus contract for European exchange is the biggest in the United Kingdom, amounting to £1.6 million over the next two years. Not only is it the biggest in the UK, but we send more students to Europe than the whole of Wales does. There is a scale there that I think people have to understand.

We also have to remember that we inherited a lot of staff through the merger. It is not as though we have brought in a whole load of new staff; we inherited staff. Obviously, some of them were in consolidated posts and fitted into the structures and so on. It is an operation that has a turnover of £55 million across a wide geographical area, and I have given an example of the scale.

On the business side, we also have modern apprentices. Our fire and security students won an award down south, which hit the press because of the Grenfell tower fire being in the news at the moment, and a stat that came across my desk last week is that in our fire and security department, we train more fire and security modern apprentices than the whole of England. I think that people have to understand the scale of the organisation.

Dr Kemp: In response to some of the questions that were raised when the committee previously discussed New College Lanarkshire’s section 22 report, we compared the management structures of the six colleges in Scotland that have a turnover of around £50 million. There are several colleges that have roughly the same turnover as New College Lanarkshire, and the college is about average in terms of the size of the senior management team and the proportion of staff who earn above £60,000.

Clearly, how a college organises the grades beneath the £60,000 mark will vary but many of those people will be teaching as well as being managers and so on. We can give some reassurance that New College Lanarkshire pretty much has the same level of senior management as any other college of the same size.

Alex Neil: They might all be overmanaged, then, in terms of the layers of management. I do not think that that is a very good excuse. I know a lot of organisations whose turnover is far in excess of £55 million, but which have far fewer layers of management. What do the assistant heads of faculty do?

Martin McGuire: They teach, for a start. Also, because we have six faculties spread across a wide area, they are required at times to act as the head of faculty when the head of faculty is not on campus. Again, it is about the size of the organisation—some of our faculties are bigger than other colleges in Scotland.

Alex Neil: You referred specifically to the management of Erasmus, which is done by the external funding team. The external funding team has only six people, which I presume is enough to run Erasmus and its other activities, and it has three managers, which is an average of one manager per person. Are you seriously telling me that that is efficient?

The whole point is that you have to look at your cost structure, because you are facing a major deficit situation. Reading the evidence from the management and the union is like reading about two entirely different colleges, because there is your perception and then there is the union’s perception, and never the twain shall meet.

People are being made redundant and I believe that the curriculum and quality leaders have recently been downgraded, but it seems to me that they are pretty crucial to the quality of delivery. It is no justification to say to the committee that it is okay to have seven layers of management because everybody else does it. We see streams of college reports, and a lot of them are in financial difficulty.

The funding council has a role as well. Maybe it needs to take a more critical look at the relationship between the overhead costs and the resources that go into actual teaching. As Martin McGuire knows, I recently dealt with an individual case in which we discovered that, in one class, there was no lecturer for eight weeks. How often does that happen?

The Convener: Is that a question for Mr McGuire?

Alex Neil: It is for both Martin McGuire and John Kemp, actually.

Martin McGuire: The incident that you refer to was certainly a surprise to me. We have reviewed that and made the faculties aware that that is not what we expect.

Alex Neil: Can I just pick you up on that? You say that it was a surprise to you. As the principal, you have all these layers of management but nobody told you that a course was running for that period of time without a lecturer. In other words, despite all the management, it is not being managed.

Martin McGuire: The circumstances in that particular case were unique, and there was cover. I do not think that the course went for eight weeks without a lecturer—there was cover. There was a specific incident, but it might not be appropriate for us to get into a dialogue about that just now.

You said that the curriculum and quality leaders have been downgraded, but that is not the case. As part of national bargaining, all posts have to be levelled. You talked about the assistant heads of faculty, and I think that you previously mentioned their salary. They were levelled at level 3, which is the appropriate level under national bargaining. There is an independent panel that looks at that. The curriculum and quality leaders—there are 40-odd of them—also attempted to be levelled at level 3 but, unfortunately, the panel's judgment was that they will remain at level 2, which is their current level. They have not been downgraded; they have been levelled at their current level through the national bargaining panel.

Dr McTavish: The national bargaining panel consists of union and management representatives, with an independent chair. We made a presentation to it. The union might not like the result of the decision, but that is the decision under national bargaining. We have gone through correct procedures. Those staff are upset about that, but the evidence was presented by both sides and the conclusion was reached that their levelling should be 2. I can supply the committee with the information that the panel gave on those posts, if you need it.

Alex Neil: On the layers of management and the number of people in management, according to my information, there are 14 managers in one assistant principal's empire, and there are another six assistant principals. In total, how many managers report to the assistant principals? I am not talking about the heads of faculty; I am talking about the same sort of managers as the ones that I mentioned in business development. What is the total?

Martin McGuire: I cannot give you that figure off the top of my head, but we can supply the structure.

Alex Neil: Can you give me a rough figure?

Martin McGuire: I cannot give you an accurate figure for that.

Alex Neil: Do the other departments have more or fewer than 14 managers each?

Martin McGuire: It depends what the activity is in the particular department.

Alex Neil: If the others have roughly 12 or 14 each, and you multiply that by seven, there must be nearly 100 folk at that level alone who are managers.

Martin McGuire: There are more than 1,000 staff in the college, spread across a wide geographical area.

Alex Neil: If you add them all up, including assistant heads and all the rest of it, you are saying that at least 15 per cent are managers. The thing is, all those managers are not delivering performance, compared with South Lanarkshire College.

09:15

Martin McGuire: If you look at the three constituent colleges that merged, you will see that we have fewer managers now from the senior team than were originally there.

Alex Neil: That is not the point.

The Convener: Can your stick to your point about performance, Mr Neil?

Alex Neil: Yes. If we look at performance, we see that the outcomes for further education and recognised qualifications, full time, show New College Lanarkshire at 59.4 per cent, and South

Lanarkshire College—a much smaller college with nothing like the layers and layers of management that you have—at 70.2 per cent. The outcome totals for FE and recognised qualifications, part time, show 73 per cent for New College Lanarkshire and 81.4 per cent for South Lanarkshire College. There are other KPIs, but that is an example. My point is that—

Martin McGuire: You have to put it in the context of the environment—

The Convener: Let Mr Neil finish, please, Mr McGuire.

Alex Neil: The two things that the Parliament is interested in are your management and cost structure, and what the college is actually achieving. I recognise the problems with the merger; I think that we are all aware of those, but that was some time ago now. We want to concentrate on the future rather than the past. Looking to the future, how do you improve your performance and your cost structure, and how do you get more people into teaching and fewer people pen pushing?

Dr McTavish: Both colleges come under our board. In terms of regionalisation, South Lanarkshire College has stayed as itself. It operates from one site in East Kilbride. That is its major site. One of the benefits of regionalisation is that, together, we have been able to put more resource into South Lanarkshire College.

On performance, we recognise in our plan, on which we are working with the funding council, that a key measure is the retention of students. That is the critical measure for us. Retaining more students is a trigger for the other performance measures going up. The statistics for this year are not verified by the funding council yet, but the indications are that we have improved retention.

In terms of the overall results, if we view the total background of both sets of students, from South Lanarkshire College and from New College Lanarkshire, the profile is different. We are taking more students from the postcodes where there is the least access to education. That is a big thing, and maybe Martin McGuire could give you further information on that.

The Convener: Mr McGuire, could you address that point briefly, before we move on to the next question?

Martin McGuire: The areas that New College Lanarkshire serves have levels of deprivation that are far above the Scottish average.

The Convener: Thank you. I will come back to you later, Mr Neil, if you have further questions.

Iain Gray (East Lothian) (Lab): Dr McTavish mentioned the plan that is being worked on with the funding council—and I will ask a little more about that shortly—but prior to that there was some talk of the impact of national pay bargaining. The Auditor General's report makes the point that the college did not budget any contingency for the impact of bargaining—why not?

Iain Clark (New College Lanarkshire): Mr Gray is referring to the 2015-16 budget, which was a particularly challenging budget to achieve. We arrived at a point where we had managed to balance the budget and careful consideration was given to the presentation of the budget. I presented it to the finance committee as a balanced budget, with the overriding criterion, based on a sensitivity analysis, that including anything else in the budget would put us into deficit. The finance committee was reluctant to increase income targets any further or cut expenditure any further, so it was put in as a point of emphasis in the report that went to the board of management, explaining that it was a balanced budget but that any increase for national bargaining would tip us into deficit. The board made the decision not to present a deficit budget, so it presented to Colleges Scotland and the Scottish funding council a balanced budget that was heavily caveated by a point of emphasis.

Iain Gray: Just to be clear, you are saying that the board approved a budget that was balanced, knowing that there was cost pressure that was inevitably going to fall on it and throw it into deficit. However, the board decided to ignore that for presentational reasons. That does not sound like sound budgeting.

Dr McTavish: In terms of the board's involvement and agreement, we asked Iain Clark if the way that we were presenting information was acceptable. In other words, we put the budget to the funding council with—Iain Clark will give you the technical name—

Iain Clark: A point of emphasis.

Dr McTavish: —a point of emphasis. Seemingly, that is a way forward when you are finding it difficult to balance your budget at the time. That was at the point when we were agreeing to national bargaining; we wrote in agreeing that we would take part in national bargaining. That letter, which I have with me, was sent in June 2015. We pointed out to the management side that we had difficulties in balancing the budget and that there were difficulties with the amount of money that we could support by our own means without Colleges Scotland putting a case to the Government and the funding council about the cost pressures that colleges were under.

Iain Gray: The Auditor General said that, as it turned out, the cost of national bargaining in that budget year was £400,000, which is not an insignificant factor in creating the financial position that the college is now trying to recover. What additional funding did the college receive from the Scottish Government once national bargaining had reached an agreement?

The Convener: Dr Kemp, do you want to answer that one?

Dr Kemp: On the additional funding for national bargaining, a distinction needs to be drawn between the cost of living element, which is now nationally negotiated, and the harmonisation element of moving everyone on to the one scale. The harmonisation element has been funded by the Scottish Government, but that kicks in later on for 2017-18, 2018-19 and 2019-20; there is a three-year period when that is phased in. What that means for New College Lanarkshire, for example, is that there is going to be a 10 per cent increase in funding to the college for 2018-19. A large chunk of that is built up from looking at what the costs of harmonisation are in the colleges in Lanarkshire and the Government fully funding those costs. The subsequent year of that is dependent on the spending review, but we have the costs estimated for that, which will be confirmed later. The harmonisation element is, in effect, fully funded.

Iain Gray: Sorry to stop you there, but has the £400,000 gap in the budget been covered by additional funding from the Government?

Dr Kemp: No. That was before the harmonisation element kicked in. We are talking about back in 2015-16 when national bargaining was in its very early days. There was an intention to move towards it, but the mechanism was not fully in place. Colleges were used to setting budgets based on what they could afford for staffing and they negotiated locally. They were moving towards a system where it was negotiated nationally, and it was harder to predict what the cost of living increase would be as part of that. At that stage, nobody knew what the harmonisation deal would be either, because it had not been negotiated. We are talking about a period when national bargaining was in its fairly early days.

Iain Gray: I think that we can accept that, when the budget was set, the college did not know how much national bargaining would cost. However, surely it would also be reasonable to say that it was unlikely that it would cost nothing at all. Are you saying that you accepted from the college a budget that made no provision whatsoever for the national pay bargaining that everybody knew was coming?

Dr Kemp: Let us be clear. The budget for the college is a matter for the board, not for the funding council. We get a financial forecast from the college, which we consider, and that forms part of our assessment of how well the college is doing. We engage with the college on that, but the approval of the budget is a matter for the board.

Financial forecasts make all kinds of assumptions and at that time it was very hard to predict how national bargaining would go—it was clearly not going to be zero—

Iain Gray: The prediction in the budget was that national bargaining would be included.

Dr Kemp: Yes, with a heavy caveat.

Iain Gray: Okay. I want to move on to the business plan. We are told that, just over a year ago—May last year—the college and the funding council began the process of creating a business scenario plan. We have also been told that the plan has not been finally agreed but has been through five iterations. It does not sound as though we can have much confidence in that process, given that it has taken 13 months not to reach agreement.

Dr Kemp: Our engagement with the college on the financial difficulties and latterly on the business plan has been going on for almost two years. The reason why it has taken so long is that we are very keen—as is the college—to understand exactly what the issues are and come up with a long-term solution that is based on real information about what would make a difference rather than just leaping towards balancing the budget, which produces exactly the sort of problems that we were discussing earlier. We have been working quite closely with the college over that time.

However, I emphasise that, although the business scenario plan has not been finally signed off—we anticipate that that will be done in the next couple of months—many of the actions in the plan have already been taken. There have been significant cost savings through voluntary severance schemes, for example, that have already kicked in, and the deficit is coming down.

We are keen that, when the plan is finalised, it is one that is fully owned by both the college and the funding council and one that the auditors have looked at and everyone is happy with. However, we have not allowed the search for perfection in the plan to hold up taking some action.

Iain Gray: On the ownership of the plan and everyone being happy, the evidence submitted by the college Educational Institute of Scotland branch suggests that staff—or at least staff representatives and trade unions—do not feel that they have been involved or have ownership of the plan. How have the staff been involved in developing the iterations of the plan?

Derek Smeall (New College Lanarkshire): Just to clarify Dr Kemp's comment about the iterations of the plan, it is misleading to suggest that there has not been agreement. There has been no final sign-off but, at stages, there has been an authorised VS process and so on. There has been engagement across the college with many managers and staff involved in specific areas for the purposes of calculation and modelling.

However, while we have been going through the process, there have been many external changes. For example, we have had to consider the definition of what funding will be made available on an annual basis in order to extrapolate over a five-year period, and some of the impact assessments and so on are quite significant. Therefore, the judgment has been that it is important to get the plan right.

We have worked very closely with colleagues at the funding council and members of the board of management in iterating and progressing the plan. The final version, which will be the long-term five-year plan, is yet to be signed off and at certain points, where appropriate, there will be opportunities for wider discussion and consultation.

Iain Gray: It is an iterative process that, according to Dr Kemp, has been going on for two years, in the course of which a number of actions have been taken, such as more than one voluntary severance scheme. Do you not think that negotiation with the wider staff body should have been happening throughout the process?

Derek Smeall: There was one VS process in that planning element. There has been specific consultation with staff, as I have described—

09:30

Iain Gray: Sorry, may I stop you there? You said that staff had been involved in producing information. That is not the same as a consultation on the plan towards sustainability; that is a different thing.

Derek Smeall: Given the timeline of a long-term plan, the appropriate time for consultation has not been reached.

Iain Gray: Are you going to finalise the plan with the board of management and the funding council and then talk to staff about it?

Derek Smeall: It will not necessarily be like that; there will be an iterative process—

Iain Gray: But there has been two years of iteration already.

Derek Smeall: Well, one year, as far as the business development plan is concerned, although, as Dr Kemp said, discussions have been longer lying.

There is now a requirement, for example, to align the plan with the financial forecast return, so the potential sign-off or closing off of the plan must involve that reconciliation. That deadline is now September, which puts a different timescale on things. Between now and December, there needs to be a plan for how the process of consultation and finalisation will take place.

Iain Gray: When the staff say that their representatives have not been consulted about or involved in the development of the plan, that is true, is it?

Derek Smeall: If you are talking about all staff, in the widest possible sense, yes—at this stage.

The Convener: Mr Smeall, who is in charge of relationships with the staff and unions and the consultation process? Whose remit is that?

Derek Smeall: Normally and primarily, the vice-principal for organisational development takes that on.

The Convener: Is that you?

Derek Smeall: No.

The Convener: Who is it?

Derek Smeall: It would normally be Brian Gilchrist, who is assistant principal, organisational development. He takes care of human resources and industrial relations.

The Convener: Mr McGuire, as principal, how comfortable are you with the fact that consultation with staff and unions has not happened?

Martin McGuire: Given the complexity of the plan, I think that people have needed just to get on with working on it. Once we get to a stage at which the plan is ready to go out and be evaluated, that will be the appropriate time—rather than our keeping going back and forward with the iterations.

I am aware that some of the iterations have been quite complex. That is particularly the case with the impact assessments. I will give you an example. We were asked to look at how we could improve efficiencies in the classroom on our biggest campus, the Motherwell campus. That campus was built 10 years ago to a plan that involved smaller room sizes, for good pedagogical reasons. We had to explore how we could maximise efficiencies and increase the number of students in those rooms.

The Convener: You had to consult staff as you looked at that.

Martin McGuire: The first thing that we required to do was to look at what it would cost to maximise the size of the rooms, so we had to look at our capital and estate plan. After that had been agreed, the funding council said that that was not to be the case and we would have to—

The Convener: I am baffled that the business planning process has taken two years and is still not signed off, and at no point along the road has there been proper consultation with staff and unions, who might have good ideas about cost savings and all the other things that you are looking at. Dr McTavish, are you comfortable with the process having taken two years?

Dr McTavish: John Kemp mentioned two years; the first year was about clarifying where we were. No scenario plans were developed in that time—

The Convener: And that takes a year to work out?

Dr McTavish: Given the complexities of the college and other things that were happening to us in the context of national bargaining, other costs were coming in during that time, which we had to deal with, as well as making savings on the ground. We were in contact with the funding council at all times in that year, and the issues were discussed at Martin McGuire's meetings.

The Convener: Things seem to have been moving at a snail's pace, Dr McTavish. Do you agree?

Dr McTavish: I would love it to be agreed so that we can move forward. We would all love that.

The Convener: What are the barriers to that?

Dr McTavish: The plan has to be deliverable for everybody. Some previous plans for other parts of the public sector did not deliver what they aimed to deliver.

The Convener: So you need more time on top of the two years to make it deliverable.

Dr McTavish: I am very sorry, but we have worked for one year looking at different scenarios. We looked at increasing classroom size. Some of the scenarios would have caused the staff major difficulties. We had to work our way through what they meant.

The Convener: And that took a year? Dr McTavish, it is the committee's job to follow the public pound and check that we are getting value for money.

Dr McTavish: Absolutely.

The Convener: Frankly, given what you have told us today about the pace of the business planning, which is ultimately designed to bring down your deficit and get value for the public purse, I am baffled at the time that your board has taken. I will bring in Liam Kerr.

Liam Kerr (North East Scotland) (Con): I want to follow up the point that Iain Gray made. One way to make the savings that was identified was a voluntary severance scheme. I think that Mr Smeall said that there had been one as part of this programme. However, the voluntary severance scheme is being run before the plan has been finalised. By definition, a voluntary severance scheme means that you lose staff—it gets efficiencies into the system, if you like. However, by extension, that puts more pressure on the remaining staff and it has a potentially negative impact on the student experience. However, you have not finalised the plan that says why you are doing all that in the first place. You have not even consulted the staff who will be taking voluntary severance as part of the plan so that they understand what is going on and what the end game is. Is that right?

Dr McTavish: The voluntary severance scheme was about our analysis of the posts that were still critical for us. It was not about people.

Liam Kerr: No. It was about driving efficiencies.

Dr McTavish: It was driving efficiencies—

Liam Kerr: As part of a plan that has not been finalised yet—am I right?

Dr McTavish: Yes. The first part of the agreement with the funding council was to have a voluntary severance scheme. It was reported to the board. It was phase 1 of where we were going.

Liam Kerr: As part of a plan that has not been finalised yet and which, as the convener has pointed out, did not merit full consultation with the people who were impacted. Is that correct?

Dr McTavish: The thinking was that when we got further down the line full consultation could take place. We considered whether the scenarios were feasible. The things that were suggested to us were not feasible and would have caused problems.

The Convener: Do you not run the risk of doing two years of work, then putting it to the people who are delivering the teaching in the college, who completely reject it? Is it not better to take them along with you as you go?

Dr McTavish: We would always take staff along with us.

The Convener: So why did you not consult them throughout this process?

Dr McTavish: Our view was that we would consult towards the end of the process. We might have got that very wrong—I accept that.

The Convener: Okay.

Dr Kemp—you oversee all colleges in Scotland. Other colleges will have done similar business planning. Is two years a reasonable timescale? Is it a reasonable model not to consult as you go?

Dr Kemp: On timing, ideally we would have reached an agreed plan more quickly. That has happened in some cases. However, there are colleges where issues have been identified and we have leapt quickly to a plan, but it has not worked, and a year later we are back, coming up with another plan. We were keen for that not to happen. We have learned lessons from Edinburgh College—the section 22 report on which the committee considered a few weeks ago—which is on a successful trajectory. That example was so successful partly because we spent some time—not as much time as for New College Lanarkshire—getting an agreed plan so that the funding council and the college were in exactly the same place, and partly because we got auditors to check the plan so that we would not be going back six months in with people saying that it was not what they thought we had agreed. We had been there previously with Edinburgh College.

It was important to get an agreed plan. The question whether elements of it were implemented before it was finally agreed comes back to the point about urgency. There was a very significant deficit in the college, which is already coming down as a result of actions that have been taken as part of the not-fully-agreed plan. It was important that we acted and did not just wait for two years while the situation got worse.

Iain Gray: I want to pick up on Dr Kemp's point that all of what we are discussing is due to the college's financial position and the deficit that it is trying to resolve in order to create financial sustainability. An alternative explanation to the ones that we are exploring is that the college simply does not have enough money to do its job, which is down to the funding council. How do you decide on funding and how confident are you that the college's allocation is correct and adequate?

Dr Kemp: We fund colleges on the basis of credits for the amount of activity that they do—we pay a particular amount per credit. We take into account rurality, deprivation and a few other premiums but, essentially, we fund all colleges on the same basis: for the amount of activity. We do not fund colleges based on the size of their deficits, but on what they deliver.

Iain Gray: We have already heard that New College Lanarkshire serves areas of significant deprivation and—if my geography serves me correctly—some rural areas. Are you satisfied that that is reflected in its allocation?

Dr Kemp: Every college in Scotland, were it to be asked whether its funding is adequate, would probably argue that it is not, but they are all funded on the same basis. We have to fund them in a fair way. For the next couple of years, as national bargaining is implemented, we will be moving to a system of funding the costs of national bargaining, but we will need to transition back to one in which the funding is based simply on funding the volume of activity.

We are confident that we are funding New College Lanarkshire fairly and on the same basis as every other college. We are open to discussion on some issues. What used to be called extended learning support, and is now called access and inclusion funding, is being used at New College Lanarkshire, and we varied the amount upwards by £750,000 recently because we had looked at what the college was doing and how we were funding it.

The key point is that we fund colleges on the same basis wherever they are, and we take account of rurality and other things. New College Lanarkshire is funded on the same basis as every other college in Scotland.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): Before I pick up on some of the issues in the Wylie & Bisset LLP internal audit report, I ask Dr Kemp to clarify what he said about the harmonisation elements being funded by the Scottish Government. Does that apply to all the colleges in Scotland?

Dr Kemp: Yes. We have worked with Colleges Scotland to identify the costs of moving each college from its individual position on wages, hours, holidays and so on. We are heading into year 2 of the transition period, and we have put in the funding for year 1. We have identified the funding for year 2, and year 3 will be dependent on the spending review.

Willie Coffey: Every college in Scotland got a harmonisation uplift to pay for the harmonisation of salaries from before the mergers.

Dr Kemp: No—the national bargaining harmonisation is happening at the moment. There was regional harmonisation in some places as part of the mergers, which was a different process.

Willie Coffey: That is what I am asking about. Were all colleges funded to meet that cost?

Dr Kemp: No. Some colleges were given funding as part of the merger process, but it was not long-term funding in the way that the national bargaining funding is.

The Convener: Dr McTavish, you are shaking your head.

Dr McTavish: We harmonised at the point of merger, because it was important that the staff who were working with us were receiving the same salary. We did that locally and met the costs of it ourselves.

Willie Coffey: The Wylie & Bisset LLP internal audit report is quite damning, is it not?

Dr McTavish: It is a very damning report. Our board of management found out about and got reports of the information, post-merger, not because it was discovered by auditors but through our getting letters or writs. At the board's audit committee, we determined that it would be better to get an overview of the matter as we wondered why it was not in the due diligence reports that we received just prior to the merger of Coatbridge College into New College Lanarkshire. We were very disappointed that it was not in them because less cash came with the merger, and extra costs were identified. When we add those costs up, they are considerable. I will pass over to our principal, who can say a wee bit more about them.

09:45

Willie Coffey: If you do not mind, let me ask the questions and you, please, answer them.

Dr McTavish: I am sorry, Mr Coffey.

Willie Coffey: It is all right.

The internal audit report says that a budget surplus of £21,000 was forecast, but it turned into a deficit of £1 million despite an injection of nearly £1 million by the funding council. The report also raises some other issues. For example, a European regional development funds clawback cost you more than £200,000. Failure to provide funds to manage the end-of-lease arrangement for Duart house cost the college £88,000. There was a failure even to know what the exit conditions for the lease were. There was a failure to manage the contract renewal at the Greenhills industrial estate complex. The contract specified that there were termination conditions and that renovations were required, but those were not provided for and cost another £75,000. The report also mentions a relationship with Chinese universities that is described as "financially disastrous". That is not to mention the excessive exceptional staff costs, which were forecast to be £300,000 but turned out to be £1.7 million.

That is a catalogue of disasters. Why does it take an internal audit report to find that kind of stuff out when you guys should already have been aware of it in management of the college?

Martin McGuire: That is because the information was not identified through the due diligence process. It all relates purely to Coatbridge College coming into the merger.

Willie Coffey: So, nobody among all the managers and layers that Alex Neil mentioned earlier knew that any of that was going on.

The Convener: Mr McGuire, who did the due diligence report?

Martin McGuire: I think that it was Scott-Moncrieff.

Iain Clark: Scott-Moncrieff did the financial due diligence and Anderson Strathern did the legal due diligence.

Alex Neil: How much did they get paid for it?

Iain Clark: I can get that information to you.

Alex Neil: Will you send it to us? Given the mistakes that they made, you should claim your money back from them.

Dr McTavish: We tried to do that. We have not given the committee the due diligence report that we got at the point that Coatbridge College merged into the college: that is not the report that you are looking at. We are talking about something that happened when we were into the merger.

One of the reasons why we decided to get the reports was to get a complete record. In 2015, we were trying to drill down, understand all the finances and determine where we could make savings. I know that members are all interested in the quality of learning and teaching—we are all passionately interested in that. Nobody would wish the motor vehicle students to be learning in the facilities that they were in when other students were in great facilities. It was about getting them in. When we took away the leases, it meant that more money could go straight back into the college's yearly budget.

Willie Coffey: I appreciate that point, Dr McTavish, but not even to be aware of exit clauses in end-of-lease arrangements for properties and premises, or to know their impact, is astonishing. It is standard business practice that there is a condition in leases that asks a tenant to make good any repairs when they leave premises. It is common. It is astonishing that nobody knew that and that it was flagged up only by the internal audit report. Surely to goodness, management should know that.

Dr Kemp: To be fair, the internal audit report was sought because management had become aware of the need to have everything clarified in the report. The issue is whether there was sufficient clarity in what was reported by Coatbridge College at the time of the merger.

Willie Coffey: You said earlier that it is not the funding council's role to oversee reports, financial plans and so on, but surely to goodness there must be engagement. The funding council has thrown money at the problem. We have heard that, when it came to reporting the staff costs, the college buried its head in the sand, yet you gave it another £1 million to address the matter. Surely that means that you have an interest in the issue and that you need to look in detail and depth at the college's plans.

Dr Kemp: At the time of the merger, we worked closely with the three colleges. The committee, or its predecessor, has already considered some of the issues to do with Coatbridge College's entry into the merger and how difficult that was. What we are seeing is a reflection of that.

Willie Coffey: But you are giving New College Lanarkshire another 10 per cent for 2018-19. Are you not scrutinising its plans to make sure that that is a justifiable award? Is it just a case of the college asking for money and you handing it over?

Dr Kemp: No. I make it clear that that is not the way that it works. That was my point. We—

Willie Coffey: Have you done any diligence on the college's business plan?

The Convener: Let Dr Kemp answer, please.

Dr Kemp: The increase in the funding to New College Lanarkshire is not based on the business plan or the deficit; it is based on the fact that the costs of national bargaining will account for a large chunk. There have also been increases for childcare and various other bits of provision, as well as an uplift in the unit of resource for all colleges. The increase in funding of about 10 per cent is not based on the business transformation plan. It is based on our normal funding method, plus the extra for national bargaining.

Willie Coffey: Okay. I will let colleagues come in.

Bill Bowman (North East Scotland) (Con): I want to go back to more general matters. I do not know whether you have formally responded to the Auditor General's report. You have given us some papers, which are headed "Human Resources", "New College Lanarkshire" and "Selection of Learning & Teaching Highlights", as well as the internal audit report. What is the status of those documents? I do not know what points you are making with them.

Dr McTavish: We selected some documents in order to give the committee more information on our work and some of the areas that the *Official Report* of the committee's previous discussion suggested the committee is interested in. I apologise if we have not produced the paper that you expected us to produce—a response to the section 22 report. We can do that.

Bill Bowman: I am not asking for that specifically. First, I would like to know whether, as a board or as a college, you have a response to the report. I presume that you would have a reaction to it—whether you agree or disagree with it. Has the information that you have provided been made available to the Auditor General?

Dr McTavish: We had never released the due diligence report to anyone. We have provided a redacted version to the committee, because we had to ensure that, from a legal point of view, it was okay to submit it.

The paper on the impact of national bargaining on the staffing was written as an analysis of what had happened and of who had taken up the offer of voluntary severance. There was some debate about whether all the teachers who left had done that. The paper that we have provided shows who left. Over the period for which we have been New College Lanarkshire, we have increased the number of teaching staff.

We selected the papers in an attempt to help the committee.

Bill Bowman: It would have been helpful to see what you were responding to. I am sure that you were responding to valid points. I did not realise that this was the first time that the internal audit report had surfaced. Reference to the due diligence report has been teased out. It might be interesting for the Auditor General to have sight of those documents and to give a reaction, because it seems to be a fairly serious matter.

The Convener: Perhaps the witnesses can clarify whether the reports were shared with the Auditor General. Do you know? Dr McTavish is shaking her head. Does that mean that you do not know or that they were not shared?

Dr McTavish: The audit report—I am sorry, convener.

The Convener: Take your time.

Dr McTavish: The audit report was shared with the audit committee of the college. In the discussions with the funding council and the Auditor General, there was thinking that your view of the old Coatbridge College was complete with the previous committee's work on that, but I said that that was only part of the story. We had to start to make the college better and we did not always want to go back, but I wanted to let you see the volume of stuff that came in. You had discussions about the extra costs that we faced in relation to Coatbridge College that had not been identified in the due diligence report at the time that we merged.

The Convener: Mr McGuire, can you add to that briefly?

Martin McGuire: I am sure that Audit Scotland is aware of that report, because, in its latest transaction, it referred to some of the issues in that report. I am pretty sure that Audit Scotland has seen it.

The Convener: Okay—it is probably aware of that.

Bill Bowman: Are you referring to the Coatbridge report, Mr McGuire?

Martin McGuire: Yes.

Bill Bowman: We can perhaps check that in due course.

Kenneth Gibson (Cunninghame North) (SNP): Page 17 of the annual audit report considers performance management and states:

> "Overall, Student Outcomes identify a mixed picture and in some areas remain a cause for concern, for example, the percentage of further education students who enrol on full-time recognised qualifications ... has ... shown a downward trend for early and further withdrawals over the three year period. In addition, the 2016/17, early and further withdrawal rates have continued to increase and remain higher than the national average."

Why is that? Given that the funding council has made it clear that the funding relies on outcomes and credits, what impact is that likely to have on the further sustainability of the college?

Dr Kemp: On the financial impact, we pay for students who are retained, so, if a college has an early drop-out rate problem, that will affect its funding from us, as there will not be credits for which it can claim. Clearly, if a college has a significant issue with retention, that affects its income. More important, though, we want to ensure, through our outcome agreements with colleges and with regions, that they are adequately serving their region and that students are being well served and are completing successfully.

We are aware that New College Lanarkshire has had an issue with retention. The college is aware of the issue and has been addressing it—it has been part of the Government's improvement programme on retention. As Linda McTavish said, the early indications are that that is improving the situation, and it will be part of the discussion between the funding council and Lanarkshire as part of the outcome agreement arrangements. There is a financial impact in that a college does not get funding for students who are not there, but the key thing is that it serves students well and makes sure that they are successful. That is why we are pushing that in the outcome agreement.

Martin McGuire: Since the merger, the college has been one of the few colleges to have grown, and that is part of the widening access agenda. As I said, we serve areas of high deprivation, so we are attracting more students who are furthest removed from FE, which makes it harder to retain students. The simple thing to do would be not to grow and not to take those students, because that would increase or at least help our performance indicators, but the right thing to do is to work with the students and to work in those areas of high deprivation. With that comes a challenge. We are up for that challenge and we are starting to make inroads into it. However, it is really important that we understand the environment that the college works in.

Kenneth Gibson: I think that we understand that perfectly well, but the submission from the EIS further education lecturers association states:

> "The impact of the financial difficulties on the daily operations created an extremely stressful working environment and has led to strained relationships at all levels. Teaching workloads are unmanageable, and conflicts arise daily over job roles and related tasks. Staff absences, often due to stress-related illnesses, can lead to further stress on remaining staff."

The association has also said that you have consistently refused to provide

> "details of the deficit which would be shown in the accounts for 2016/2017 or of the budget for the current year 2017/2018".

One of the reasons for there perhaps being a reduction in outcomes and, therefore, in the ability of the college to attract funding for its credits may be the financial situation that it is in and the impact that that is having on staff morale—not just deprivation in the areas from which you recruit your students.

10:00

Martin McGuire: There is no doubt that morale is affected. A lot of rumours are going around about campuses closing. Last week, I had to put out an email to assure staff that no campus closures were planned. When colleges go into deficit, there is a fear among staff and they see that other organisations are looking at compulsory redundancies. We have tried to assure them that that will not be the case in our situation.

It is also important to remember that the deficit has come down to less than 1 per cent of turnover. Although we would not want to have a deficit of £500,000, there has been a marked improvement.

Right across the board, in a merged college, some staff have left. We have now lost about 130 staff, and there is no doubt that workloads have increased. Our approach has been about communicating and trying to keep people motivated, but that has been very difficult to do. One of the other factors around motivation and morale going down has been national bargaining. We have seen strikes in the sector for the first time in 20 years, which has undoubtedly caused division in staff rooms, because some staff went out while others did not. That becomes a long-term difficulty among staff.

The sector is in a difficult environment at the moment. Through the employers association, we have a system in which a cost-of-living rise is agreed and then, whether we can afford it or not, we have to find the money for it. When we look at cutting our costs, we see that 70 per cent of them are wage related and the other 30 per cent have been pretty much cut to the bone, so the only other option is to look at how we could save on staff-related costs.

Kenneth Gibson: However, a lot of what we have talked about this morning seems to be about matters such as a lack of consultation, a failure to take staff with you and, as Dr McTavish has said, saying that you will talk to folk once you have agreed the plan. EIS-FELA says that

“there were concerns about the level of consultation ... in relation to the proposed new structure”,

and it goes on to say:

“There is a perception now among academic staff that Faculty Management are not interested in staff and that the CQL position is a buffer between the lecturing staff and Management”.

How can you get the best possible outcomes for your students if you have such a relationship in the college? That must surely impact on your outcomes and, as they lead to increased income, the viability of the college.

Martin McGuire: I have said all along that having staff who are happy and content and who feel secure makes for our having good students. I have been a principal for 12 years, and I have been appointed to four different colleges, so I know what it means to have good staff relationships. At the minute, it is difficult, but a whole load of circumstances have made it so.

The Convener: Mr McGuire, in your previous answer to Mr Gibson you said that you find it difficult to motivate staff. Why is that?

Martin McGuire: At the minute, for some staff it would not matter how many times I told them that there will be no compulsory redundancies and that no campuses are closing. There is a rumour mill, and there is a difficult culture in which some people actively seek to do damage in the organisation and to upset others. We are seeing that right across the sector just now, because of the turmoil, the churn and the change that are undoubtedly happening.

Kenneth Gibson: The Scottish funding council provided advance funding of £1.9 million to the college in July 2017 on the condition that it developed a business scenario plan. Does the funding council do that routinely?

Dr Kemp: Are you asking whether it routinely makes advances on that scale?

Kenneth Gibson: Yes.

Dr Kemp: It does not. That would be quite unusual. We have done it as a way of smoothing cash flow in colleges, but it is a fairly unusual step. It was clearly part of our engagement with the college on creating a plan that would help it to get into a better place.

Kenneth Gibson: Have the criteria on which that money was advanced been fulfilled?

Dr Kemp: The advance was until the end of this academic year. We are currently—

The Convener: Dr McTavish, you are shaking your head.

Dr McTavish: The advance was paid back in one month. It was a cash-flow issue. Iain Clark might be able to comment further.

Iain Clark: We received £1.9 million from the funding council on 19 July 2017 as an advance on our 2017-18 grant, so, in effect, we had no liability within 13 days.

Dr Kemp: The scale on which we assist the college with cash flow will need to be resolved as part of finalising the business plan. There is a continuing need to help the college with its cash flow, and we will do that.

Dr McTavish: We welcome the scrutiny of the PIs by the committee, the board, senior management and the staff. They are part and parcel of how we can make improvements—especially the key PI on retention. If you look at your table, it is in the strongest pink.

On positive destinations, I contacted Audit Scotland, and one of the reasons why—

The Convener: Dr McTavish, I am not sure that that directly answers Kenneth Gibson’s question.

Dr McTavish: Sorry.

Kenneth Gibson: I have just one final question, convener. You have given me a lot of leeway, and I appreciate that.

What would have happened if you had not advanced the £1.9 million?

Dr Kemp: The college would have been in a very serious cash position at that time had we not done it, and that is why we did it.

Kenneth Gibson: Okay. Thank you.

Alex Neil: I have a question for Martin McGuire. In answer to Kenny Gibson, you said that people in the college are deliberately undermining it—or words to that effect. What evidence do you have for that?

Martin McGuire: If there are rumours that we are closing campuses in spite of the fact that I continually say that we are not doing that, somebody is obviously starting those rumours.

Alex Neil: It sounded more serious, as though there is an organised undermining of the college. It was a pretty incendiary statement that you made, to be honest, Martin.

Martin McGuire: I can only draw that conclusion, Alex. If I continually say to people that we are not closing campuses and we are not reducing the number of faculties but the rumours still exist and people still say that that is happening, somebody must be making it up and putting it out there.

Alex Neil: I think it is a big jump from saying that somebody is engaging in rumour mongering to saying that they are deliberately undermining the college.

Martin McGuire: I think it does that, because it creates real anxiety and worry. It creates stress in the staff rooms—it absolutely does—and it is very difficult to deal with.

Alex Neil: Could that be a symptom of the industrial relations situation that is described in the written evidence that we have from the unions? Basically, they say that you are refusing to involve them—

Martin McGuire: That—

Alex Neil: Let me finish. Kenny Gibson has pointed out some of what they say. I will take just one sentence. They say:

> "Many staff have little confidence that the organisation will get any better and do not feel valued."

Despite all the layers of management, it does not look like a well-managed college when the workers feel like that. That submission is from both the EIS and the further education lecturers association. In the evidence from the union side, there is a clear message that people are not being involved. Linda McTavish has already admitted that you have not involved the staff in any meaningful way in the business development planning process. No wonder they feel alienated. If they are not being informed and are not involved, it is surely no wonder that rumours start.

Martin McGuire: Again, I think that you are taking it from one perspective there.

Alex Neil: No, I am asking a question.

Martin McGuire: We do communicate. We regularly meet the trade unions through formal joint negotiating committees and the partnership committees that we have, and we have informal meetings to take them through particular issues. I will give you an example. There was a partnership meeting last week on communication. The support staff union was there, but the EIS did not turn up.

Alex Neil: I am not going to get into the nitty-gritty of one particular meeting.

Martin McGuire: No, but we are talking about opportunities for people to engage.

Alex Neil: I will rephrase my question. What are you going to do at the board level to address what is a very serious problem? You have already said that staff morale is low and you have admitted that you do not involve staff in the business development process et cetera, et cetera et cetera. You have more or less agreed with the points that are made in the evidence from the trade union side—you have certainly given credence and validity to them. So, what are you going to do about it?

Martin McGuire: What we need is a secure, sustainable funding model for the college moving forward that will bring security. If people know that their jobs are safe, they will start to feel secure. The most difficult thing for staff at the moment is the fact that they do not feel secure in their jobs. That is a daily occurrence and it is why, as John Kemp said, we need to get the business plan done and dusted quickly and put to bed so that we can get back to focusing on taking the college forward, which is about teaching and learning, skills and skills development.

Alex Neil: But it is a basic fact in any organisation that, for a business plan to be successful, it must involve, from conception right through to execution, the people who will have to make it successful. You have said that you are not doing that. So, with all those layers of management, how are you going to involve the ordinary lecturer, the ordinary curriculum and quality leader and so on in the business planning process? If you do not do that, the rumours, the dissatisfaction and the low morale will continue. It might be the best business plan—financially—in the world, but it will not be successful if the people who are expected to deliver it have not been involved in it and therefore do not feel ownership of it. It is a basic principle of management in any organisation that you involve people in those decisions.

Martin McGuire: I think that we are now getting to the stage at which, hopefully, we will get the final draft solution, which will then go to the board, for wider consultation and to our auditors.

Alex Neil: It is too late. The final draft is far too late for that. Surely, you have to involve staff before you finalise your draft—that is the lesson.

Martin McGuire: As Derek Smeall said, staff have been involved at various levels in providing some of the scenarios.

Alex Neil: That is not quite what he said.

Martin McGuire: I will be honest with you: some of the impact assessments that we have had to produce as part of the process have not been palatable. I think that they would have increased the rumours and upset staff even more. We have not been trying to keep things from people; we have been trying to explore the issues.

The Convener: When is the final iteration, draft or whatever of the business plan going to be ready?

Martin McGuire: We met the funding council in May and felt, at that point, that it was pretty much done and dusted. However, there was agreement then that we would wait for the FFR guidance to come out. It came out the week before last and has now been plugged into the plan. We hope that we are pretty much at the point at which we can present a plan that has been worked through.

The Convener: But when?

Martin McGuire: What is the date for that, Derek?

Derek Smeall: The final deadline is the end of September. Obviously, we are in the midst of that work, but drafts will be available a significant time before that deadline.

The Convener: Mr McGuire, my understanding of your answer to Mr Neil is that staff morale is low because the staff are worried about money and you need a sustainable funding settlement. Are you saying that, if you get more money, the staff will be happy?

Martin McGuire: No. I do not think that money makes people—

The Convener: But that is what you said in response to Mr Neil.

Martin McGuire: We need a sustainable model for the college moving forward. Are you talking about giving the staff more money or about giving the college more money?

The Convener: You said that, when a funding solution is in place, the staff will feel more secure.

Martin McGuire: Yes, absolutely.

The Convener: You think that that will come off the back of the business plan.

Martin McGuire: Absolutely.

The Convener: Dr Kemp?

Dr Kemp: My understanding of what Martin McGuire said regarding a sustainable funding model for the college is that he meant the business plan.

Martin McGuire: Yes.

Dr Kemp: The sustainable funding for the college will be delivered through the fairly significant increase in funding for 2018-19. Depending on future spending reviews, that funding level will be continued. The issue is how that is translated into something that works in the college and can demonstrate a balanced budget going forward.

10:15

The Convener: If we ask you to come back to the committee later in the year, do you expect that business plan to be ready?

Dr Kemp: I anticipate that the business plan will be ready soon after the recess.

Liam Kerr: I want to check on a few things. We were looking at the Coatbridge College business, and Willie Coffey asked about due diligence. Scott-Moncrieff and Anderson Strathern were the professional advisers on that, and they produced due diligence reports that did not pick up around £1 million of liabilities—is that correct?

Iain Clark: The financial accounts of Coatbridge College were completed only in March 2015. At the creation of the business plan for the merger, the Coatbridge College presentation was that it would make a break-even budget or a £21,000 surplus. When we finished the accounts in March 2015, one full year later, we discovered a £1 million deficit over an eight-month period, and that extrapolated to £1.5 million.

I do not think that Scott-Moncrieff could have estimated such a deficit. When Scott-Moncrieff was given the information and carried out due diligence, Coatbridge College had provided only a forecast. The accounts were presented a year later.

Liam Kerr: I want to press you on that, Mr Clark. Who dropped the ball? Who missed £1 million of liabilities? Earlier on, it seemed to be Scott-Moncrieff and Anderson Strathern. Are you now saying that it was Coatbridge College or someone else? Who at your end missed it?

Iain Clark: The Coatbridge College accounts were not completed until March 2015, by which time there was a full understanding of the position of the college. The due diligence was done in 2013-14, and the information that was provided to Scott-Moncrieff would have been based on what the budget was, because the financial year figures had not yet been finished.

Liam Kerr: I understand that the Coatbridge College principal and board were not completely sold on the idea of a merger and there was a great deal of prevarication. Would that have affected the due diligence that was done?

Dr McTavish: I do not think so. It is a process that you would look at. When we took up the issue with the auditors who had carried out the original due diligence, they said that they can put in the report only what is highlighted to them. That information did not come from Coatbridge College at that time.

Liam Kerr: Coatbridge College failed to provide the information, so the due diligence reports that you would have paid a significant amount for did not ask the question. However, Coatbridge College would say that it was not given the information by the seller.

Dr McTavish: That is what Coatbridge College said, and our audit committee challenged it. As you say, we were concerned about the cost of the due diligence reports and their accuracy, as well as the effect of the extra costs in the business model for the new college going forward.

Liam Kerr: I might come back to that. A part of the section 22 report says:

> "During 2015/16, the college tried to manage its cash flow problems. It delayed payments to creditors and sought to receive quicker payments from debtors".

That is extremely poor practice, and it goes against everything that the Scottish Government says is appropriate. Who took that decision?

Iain Clark: Previous to January 2017, the college was completing payment to its suppliers twice a month. In January 2017, we moved to one payment a month, which was consistent with the SFC's drawdown period and our policy of allowing a standard 30 days. Because there was no change to the policy and we were working within an existing policy, that was a decision for the senior finance team. It was not referred to the board of management under the scheme of delegation. As can be seen from the accounts, our standard number of creditor days is nine. The average in the sector is 22, the highest is 6 and the lowest is 39. We sit comfortably within that framework.

Liam Kerr: I understand that, but the Auditor General's report says that the college "delayed payments to creditors". You are saying that that is semantics and that you did not delay payments to creditors.

Iain Clark: We moved from two payment runs a month to one a month from January 2017, so we stayed within the 30 days. The auditors audited the accounts and they audited our creditor days as being nine days. We do not have any issues with deliberately delaying payments to suppliers; we simply moved from two credit runs a month to one a month.

Liam Kerr: I understand. For the avoidance of doubt, you are saying, "There's nothing to see here."

Iain Clark: Yes.

Liam Kerr: What other options for managing the cash flow did you consider?

Iain Clark: At the time, we had only working cash management to do. We spoke to our debtors to ensure that they would pay us on time. We asked some large-scale debtors whether there was any chance of getting paid early, but they often did not say yes to that.

The Convener: Mr McGuire, in your answer to Mr Neil you said that there are troublemakers among your staff. I am very concerned by that statement, and I am concerned about the relationships that you will need to foster to take the college forward in difficult times. Are you in a position to take forward the staff and the college?

Martin McGuire: I think I am. Some people who are watching this meeting will be quite happy that I have said that, because a lot of staff are getting fed up with the constant rumours and the constant undermining. However, there needs to be a solid and sustainable financial model for the sector and for our college, in particular.

The Convener: I thank the witnesses very much indeed for their evidence.

10:21

Meeting continued in private until 11:07.

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Members and other meeting participants who wish to suggest corrections to their contributions should contact the Official Report.

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