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News release

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Scotland's colleges face major reforms and financial challenges

An Audit Scotland report published today, *Scotland's colleges: current finances, future challenges*, assesses the financial standing of the college sector before structural reforms and public spending reductions take effect.

The report says that while the overall financial standing of Scotland's colleges is sound, the sector works to tight margins and faces considerable financial challenges and major reforms.

In 2010/11 there were 37 independent colleges with 306,000 students. Scottish Ministers have announced structural reforms of the sector, including the creation of 13 college regions. In addition, mergers are expected to reduce the number of independent colleges by a third.

The sector spent £771 million in 2010/11 and reported an overall operating deficit of £29 million, or 4.0 per cent. However, exceptional circumstances at the City of Glasgow College accounted for much of this, and 24 of the 37 colleges reported operating surpluses for the year.

Auditor General for Scotland, Caroline Gardner, said: "The overall financial standing of Scotland's colleges was sound in 2010/11. But most colleges operate to tight margins and there are major challenges ahead. The Scottish Government contributes around three-quarters of colleges' combined incomes but this funding is set to reduce by around a quarter over the next three years.

"The planned reforms have the potential to bring a more strategic and coordinated approach to the management of Scotland's colleges at a national level, and more robust planning of college provision within regions. However, the Scottish Government needs to clarify the costs and benefits of regionalisation, including structural reform, how these benefits contribute to its reform objectives, and how the costs will be funded."

The report also says colleges and the new regions should develop coherent strategies that better link local needs and national priorities, inform regional spending decisions, and secure better value for money.

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Notes to editors

1. By August 2013, colleges will be organised around 13 regions: Aberdeen & Aberdeenshire, Ayrshire, Borders, Central, Dumfries & Galloway, Edinburgh, Fife, Glasgow, The Highlands & Islands, Lanarkshire, Tayside, West; and West Lothian. Appendix 3 in the report details the colleges within each region.
2. There were 37 independent colleges on 30 September 2012. On 1 October, Edinburgh's Telford College, Jewel & Esk College and Stevenson College Edinburgh merged to form the Edinburgh College. Also on 1 October 2012, Barony College, Elmwood College and Oatridge College merged with the Scottish Agricultural College to form Scotland's Rural University College, reducing the number of incorporated colleges to 33.
3. The Scottish Government has forecast that its revenue grant support to the college sector will fall by 24 per cent in real terms between 2010/11 and 2014/15, from £545 to £471 million. Its capital support is projected to fall by 46 per cent over the same period.

4. In February 2012, Scottish Ministers announced their intention to introduce structural changes to the college sector, including mergers, as part of overall reforms to post-16 education. In addition, Ministers are expected to introduce legislation in the current Parliamentary session to underpin this reform programme. To inform its scrutiny of draft legislation, the Scottish Parliament requires a financial memorandum to be attached to each Bill, setting out the likely cost of the policy objectives that the Bill addresses. It is important, therefore, that the financial memorandum for the Bill establishing regional boards for college provision provides a detailed assessment of the costs and benefits of regionalisation, including the funding of merger costs.
5. The Auditor General for Scotland is responsible for securing the audit of the Scottish Government and most other public bodies in Scotland, except local authorities. She investigates whether spending bodies achieve the best possible value for money and adhere to the highest standards of financial management. The Auditor General is independent and is not subject to the control of the Scottish Government or the Scottish Parliament.
6. Audit Scotland is a statutory body set up in April 2000, under the Public Finance and Accountability (Scotland) Act, 2000. Audit Scotland has prepared this report for the Auditor General for Scotland.
7. All Audit Scotland reports published since 2000 can be found on our website www.audit-scotland.gov.uk