A REPORT BY THE AUDITOR GENERAL FOR SCOTLAND UNDER SECTION 22(3) OF THE PUBLIC FINANCE AND ACCOUNTABILITY (SCOTLAND) ACT 2000

THE 2003/04 AUDIT OF WEST LOTHIAN COLLEGE

1. I have received the audited accounts of West Lothian College for the year ended 31 July 2004. The auditors' report on the accounts is not qualified but contains a paragraph drawing attention to the College's position as a going concern. I prepared a similar report on the College's position as a going concern in respect of the 2002/03.

2. I submit these accounts and the auditors' report in terms of section 22(4) of the Public Finance and Accountability (Scotland) Act 2000, together with this report which I have prepared under section 22(3) of the Act outlining the College's position as a going concern.

3. West Lothian College recorded a surplus of £496,000 in its Income and Expenditure account for the period ended 31 July 2004 but a deficit of £102,000 when the cost of certain exceptional items were added.. At 31 July 2004 the accumulated deficit on the College's Income and Expenditure Reserve was £4,303,000.

4. The auditors' report, at pages 8 to 9 of the accounts, refers to the College's financial position in the following terms:

   "Going Concern

   > As disclosed in the balance sheet as at 31 July 2004 the College has total net liabilities. In forming our opinion, we have considered the likelihood of ongoing support from the Scottish Further Education Funding Council. The accounts have been prepared on a going concern basis, the validity of which depends on this support continuing. The accounts do not include any adjustments which would result from the lack of this support. In view of the significance of this uncertainty, we consider that it should be drawn to The Board Management's attention but our opinion is not qualified in this respect. We draw your attention to the paragraph included in the Statement of Accounting Policies at the Basis of Accounting section."

5. In 1999 the college agreed a PFI contract to provide its main campus facilities in Livingston. The contract was negotiated before SFEFC was established and was approved by the, then, Scottish Office, which was responsible for the provision of further education at that time. The financial case made in favour of the PFI deal was based on agreed assumptions about funded growth in student activity in line with a prevailing policy for growth in further education numbers. However, in 2002 the Scottish Executive revised its further education policy to replace competitiveness and growth in the sector with greater collaboration and consolidation of activity levels.

6. As a result of the policy changes, the level of activity related grant funding available to the college is lower than that assumed in the model underpinning the PFI contract. SFEFC is committed to provide £42 million over 25 years to support the college's contributions to the PFI contract payments. In 2003/04 this support amounted to £2,851,000 but the annual level of support will reduce significantly from 2007 and, without a significant increase in other funding the college will be unable to meet its contractual commitments.

7. In the light of these difficulties, SFEFC has commissioned an appraisal of the options available to the college to identify a way forward which provides value for money and secures the college's long-term financial position.

ROBERT W BLACK
Auditor General for Scotland
19 April 2005