Ben Macpherson MSP
Minister for Higher and Further Education
Scottish Government

14 November 2025

Dear Minister,

Pre-budget Scrutiny 2026 to 2027

I am writing on behalf of the Committee regarding its pre-budget scrutiny 2026-27. As you are aware, this year the Committee agreed to focus on the long-term sustainability of funding for colleges and universities. The Committee's year-round approach is in line with the Finance and Public Administration Committee's guidance to subject committees on budget scrutiny.

This work builds on the Committee's previous pre-budget scrutiny for 2025 to 2026 and its work on colleges regionalisation.

The Committee's findings are set out in the annexe of this letter.

Yours sincerely,

DOUGLAS ROSS MSP
CONVENER

Annexe

Post-school reform

1. Work to reform the post-school education landscape has been under discussion for many years. As part of its pre-budget Scrutiny 2025 to 2026, the Committee considered areas in which the reform agenda could help colleges and universities through the current financial challenges they face, in light of the reductions to the funding allocations for both sectors.
2. The Committee heard of the frustrations regarding the slow pace of change in relation to post-school reform and concerns about the reform of the post-school landscape being carried out at a time of reducing funding.
3. The Committee's work on post-school reform continued this year with scrutiny of the Tertiary Education and Training (Funding and Governance) Bill, which was introduced on 5 February 2025. The Bill included proposed changes to the Scottish Funding Council's (SFC) governance and how it oversees tertiary education.
4. The Bill places a new duty on the SFC to monitor the financial sustainability of post-school institutions and strengthens its existing functions. It provides a regulation-making power for the Scottish Minsters to set out matters on which post-16 education bodies must notify the SFC. The Committee considered the Bill at Stage 1 and reported its findings on the Bill on 9 September. The Committee received a response from the Scottish Government on 19 September 2025. The Stage 1 debate took place on 25 September and the Committee will consider the Bill at Stage 2. Aspects of the Committee's scrutiny of this Bill are discussed later in this letter in relation the SFC's guidance on good governance.

Budget 2025-26 allocations and financial sustainability of colleges and universities

Colleges

5. During its pre-budget scrutiny last year, the Committee heard concerns regarding the level of funding for colleges and the challenges faced by colleges within the current financial climate. This was also a focus of its inquiry into college regionalisation in 2023 and follow-up work.

6. Last year, the Committee noted the increase in the number of part-time college students and said that, given the potential economic benefits in terms of upskilling the workforce, it was important that colleges provide for those who wish to study part-time. However, the Committee noted the cost implications of the delivery of part-time courses and asked the Scottish Government to set out what consideration was being given to the growth of part-time learning and how it plans to ensure colleges are funded appropriately to deal with this change.[1]

[1] Pre-Budget 2025 - 2026 letter to Minister for Higher and Further Education and Minister for Veterans 9 October 2024

7. In its response, the Scottish Government said that the SFC is exploring with Colleges Scotland through the College Alignment Tripartite group the potential to identify tailored and transitionary funding arrangements for individual colleges. It stated[23]—

> "In considering and submitting their proposals for this transitional funding, which recognises the additional costs involved in making such changes, colleges will wish to evaluate and assess the needs of the regions they serve. This could include the types of course delivered including part-time offerings."

8. The Committee continued its scrutiny of the financial sustainability of Scotland's colleges during its pre-budget scrutiny this year.

Funding allocations

9. The college resource and capital allocations announced in the Scottish Government's 2025-26 Budget are set out in Table 1 below.

Table 1: College Resource and Capital Budgets (Level 3)

	2023-24 Scottish Budget £million	2024-25 Scottish Budget £million	2025-26 Scottish Budget £million	% Change 2025-26 Budget on 2024-25 Budget
Net College Resource	(701.7) 675.7	643.0	(656.2) 659.7	(2.0%) 2.6%
Net College Capital	82.4	84.9	64.8	-23.6%
Total	(784.1) 758.1	727.9	721.0	-0.94%

Sources: Scottish Budget 2024-25 and Scottish Budget 2025-26

Notes: Following publication of the initial budget documents:

- In 2023-24, £26m initially allocated to the college resource budget was later removed. The **figure initially allocated is show in brackets** in the 2023-24 column.
- In 2025-26, £3.5m funding was later added to the college resource budget. The **figure initially allocated is shown in brackets**, and the percentage change based on that figure is also shown in brackets.

10. This year's college revenue budget is a 2.6% increase on the 2024-25 Budget allocation but followed a 4.8% reduction between 2023-24 and 2024-25. The Scottish Government's updated Level 4 data states that the cash terms increase of £3.5m is provided to "to support workforce costs, including

[2] Letter from the Minister for Higher and Further Education; and Minister for Veterans, 31 October 2024

pensions and pay settlement and to create an Offshore Wind Skills Programme and College Care Skills Programme".

11. Prior to publication of the 2025-26 Budget, the Committee heard that £4.5m would be provided by the Scottish Government to settle ongoing industrial action over pay in the college sector.

12. The college capital budget has decreased by 23.6% on the 2024-25 Budget. The SFC published its final allocations for colleges on 29 May 2025. The SFC said that its allocations were seeking to balance a range of priorities.

Student numbers

13. The SFC published its annual College Statistics in February 2025, looking at students in 2023-24 and providing a time series from 2014-15. For 2023-24—

    - 267,668 enrolments, down 62,252 (19%) compared to 2022-23.

    - 218,145 students (headcount), down 30,762 (12%) compared to 2022-23.

    - 116,602 students (FTE), down 8,052 (6%) compared to 2022-23.

14. The 2023-24 figures for enrolments and full-time equivalent (FTE) students are the lowest recorded in the data and the figure for headcount was the second lowest, after 2020-21.

15. Colleges receive funding from the SFC to deliver a target number of hours of learning (credits). The SFC stated that for the 2023-24 academic year (AY) it adjusted the credit allocations for colleges lowering the threshold for all colleges by 10% as a first step in working with the sector to move towards credit allocations that more closely reflect anticipated student activity. The overall level of funding was maintained, meaning that the price per place increased.[4]

Current financial climate and challenges facing colleges

16. Audit Scotland's 2024 colleges report, published in September 2024, highlighted that Scottish Government funding for colleges reduced by £32.7 million in cash terms in 2024/25, and has reduced by 17% in real terms since 2021/22.[5] In its most recent report on Scotland's colleges published in October 2025, Audit Scotland commented that there was a 20% real-terms reduction in funding for colleges between 2021/22 and 2025/26 and highlighted that two targeted funding packages for colleges in 2023/24 were also withdrawn.[6] It pointed out that responsibility for funding the outcome of a non-teaching job evaluation was returned to the Scottish Government in 2023/24 and that colleges now included a provision in their accounts to reflect the possible cost of compensating staff affected by the evaluation. As there is currently no associated income to meet the provision, several colleges

[4] SFC. College Statistics 2023-24, 25 February 2025.
[5] Audit Scotland. Scotland's colleges 2024. September 2024, page 3.
[6] Audit Scotland. Scotland's colleges 2025. October 2025, page 3

reference the job evaluation as a significant risk to their financial sustainability.[7]

17. The Audit Scotland report noted that the sector reported a small surplus of £0.4 million in 2023/24, although there was significant variation between colleges. It stated that seven colleges reported a deficit in 2023/24, and two colleges required liquidity support from the SFC.[8]

18. In September 2025, the SFC published its report on the Financial Sustainability of Colleges in Scotland 2022-23 to 2027-28. The report noted that colleges continue to operate in an extremely tight fiscal environment with many challenges such as increasing staff costs, general cost pressures and high energy costs. It said increasing staff costs are the largest factor and "are likely to remain a significant pressure as they constitute over two thirds of colleges' expenditure." The report stated[9]—

> "Further substantial adjusted operating deficits are forecast over the next three years…These forecasts show that most colleges are not sustainable."

19. The key messages included[10]—

- The sector reported an adjusted operating deficit of £1.2m in 2023-24. This deficit is forecast to increase to £10.7m in 2024-25. This deterioration against 2023-24 reflects higher staff costs partly offset by higher income and lower operating costs. The adjusted operating deficit is forecast to increase to £25.5m in 2025-26 with further deficits of £36m and £42m projected in 2026-27 and 2027-28, respectively.
- Nine colleges reported adjusted operating deficits in 2023-24. Seventeen colleges (68%) expect to report adjusted operating deficits in 2024-25. Twenty-two colleges (92%) are forecasting adjusted operating deficits in 2025-26, reducing to twenty-one colleges (88%) in 2026-27 and twenty colleges (83%) in 2027-28.
- Colleges remain highly dependent on the SFC grant which is forecast to remain at 77% of total income throughout the forecast period.
- The sector reported staff restructuring costs of £10.2m in 2023-24. Staff restructuring costs of £7.4m are forecast for 2024-25 and £1.9m in 2025-26.
- The sector reported an aggregate cash balance of £130.5m at the end of 2023-24, with cash reserves forecast to fall to £35.1m by 2025-26, falling to a negative cash balance of £46.2m by the end of 2027-28.
- While no college reported a cash deficit at the end of 2023-24, four colleges are forecasting a cash deficit by the end of 2025-26, increasing to twelve colleges by the end of 2027-28.

7 Audit Scotland. Scotland's colleges 2025. October 2025, page 11
8 Audit Scotland. Scotland's colleges 2025. October 2025, page 3
9 SFC. Financial Sustainability of Colleges in Scotland 2022-23 to 2027-28, 26 September 2025, page 4
10 SFC. Financial Sustainability of Colleges in Scotland 2022-23 to 2027-28, 26 September 2025

- The number of colleges reporting net cash outflows is expected to increase from twelve (48%) in 2023-24 to eighteen colleges (75%) by 2027-28.
- Overall sector borrowing (loan debt, finance leases, and Non-Profit Distributing commitments) reduced from £220.2m at the end of 2022-23 to £207.6m by the end of 2023-24. Borrowing is forecast to reduce further to £164.9m by the end of 2027-28. Most of the sector's borrowing is in the form of Non-Profit Distributing commitments relating to three colleges.

20. The SFC commented that colleges have addressed the risk of not achieving student activity thresholds through the following—
    - undertaking scenario and contingency planning
    - proactive budget monitoring
    - effective curriculum planning and management
    - developing stronger partnerships with schools, universities, employers and industry
    - increased marketing activity
    - implementation of business process improvement initiatives
    - shift in delivery patterns.

21. Andy Witty, Director of Strategic Policy and Corporate Governance, Colleges Scotland, referred to the Audit Scotland 2024 report which stated that college funding had reduced by 17% in real terms since 2021/22 and highlighted that the level of funding for colleges is less per head than any other part of the education system. He called for reinvestment into the college sector and said there were opportunities to streamline elements of the sector.[11]

22. He went on to highlight the SFC financial sustainability report published in January 2024, which showed a growing reduction in the amount of cash held by colleges and predicted a cash deficit that would mean that the college sector as a whole would run out of money by July 2026.[12]

23. Angela Cox, Chair, College Principals Group, Colleges Scotland and Principal and Chief Executive of Ayrshire College echoed those sentiments saying[13]—

    > "Over the past few years, colleges have been saying that we are reaching a bit of a precipice and I would say that we are now over that precipice and are hanging on by our fingernails."

24. Joanna Campbell, Principal and Chief Executive, Glasgow Kelvin College, commented on funding, reform and the pace of change. She said[14]—

    > "…lots of reforms are in train, but because of the crisis that we face as a sector, we need to see more pace on those. The funding model is an

[11] Education, Children and Young People Committee. Official Report, 18 June 2025, Col 3
[12] Education, Children and Young People Committee. Official Report, 18 June 2025, Col 3
[13] Education, Children and Young People Committee. Official Report, 18 June 2025, Col 3
[14] Education, Children and Young People Committee. Official Report, 18 June 2025, Col 27

example of that: we asked for pace, but the pace has been slowed down. My takeaway message in response to your question is that we need to see more pace injected into this."

25. The Scottish Government told the Committee that the College Tripartite Alignment Group continues to work on identifying and implementing "workable flexibilities to ease colleges' financial pressures while ensuring accountability for public funds." The Cabinet Secretary for Education and Skills (The Cabinet Secretary) said[15]—

> "Work is ongoing across a number of work priorities currently, such as diversification of funding into the sector, establishment of a new way to flexibly fund investment through a College Transformation Framework, and exploration of the breadth of delivery via colleges."

26. The SFC published its College Transformation Framework (CTF) in May 2025, which stated that it had been working via the College Tripartite Alignment Group and sector groups, to identify ways to support a more sustainable college sector. It said[16]—

> "The CTF proposal seeks to support transformation within the financial resources currently available, recognising that we are likely to have challenging budget settlements in future."

27. Tiffany Ritchie, Acting Director of Finance, SFC, acknowledged the need for transformation in the college sector in order to address the financial sustainability challenges. She spoke of a broad range of measures needed to address the challenges and said that a mix of both funding and transformative initiatives are required.[17]

28. On the level of funding required for colleges to achieve financial sustainability, Tiffany Ritchie (SFC) said funding should support colleges with inflationary pressures and transformation; however the exact amount was a matter for the Scottish Government.[18]

29. When asked about the level of funding required for colleges to address the current difficulties, the Minister for Higher and Further Education (The Minister) said there was a process of internal engagement on budget negotiations within Government before the budget is published. He stated[19]—

> "There is a live discussion about a specific figure. We are seeking advice from the SFC on a range of matters, including support for our colleges."

College funding model

30. The Committee has been aware of calls from across the sector for changes to be made on how college funding allocations are calculated and the need for a new funding model to be found. This has been an ongoing theme throughout

[15] Letter from the Cabinet Secretary for Education and Skills to the Convener, 5 June 2025
[16] SFC. College Transformation Framework, 16 May 2025
[17] Education, Children and Young People Committee. Official Report, 1 October 2025, Col 4
[18] Education, Children and Young People Committee. Official Report, 1 October 2025, Col 5
[19] Education, Children and Young People Committee. Official Report, 1 October 2025, Col 47

the Committee's work on colleges over the last few years. The Committee explored the financial flexibilities which could form part of a new funding model, including some which have already been introduced.

31. In May 2023, in its funding allocations for 2023-24, the SFC reduced the target for credits for colleges while maintaining the funding from 2022-23, thereby increasing the funding per credit. It said that changes had taken account of "performance and demographics" and "rebased credit allocations for all colleges, lowering them by 10%." The SFC stated[20]—

> "We have listened to feedback from the sector and employers and will make changes to the guidance to provide greater opportunities for colleges to deliver the optimal balance of full-time and part-time provision."

32. In April this year in its indicative funding allocations, the SFC highlighted that it had made changes to the teaching funding allocation model. It described the key changes as being[21]—

    - A change to the core credit price for each college/region based on their actual split of activity across subject price groups
    - Grouping of colleges primarily based on size (in relation to student numbers) and taking into account geographical area
    - The removal of premiums from core funding and reallocation of the associated funding resulting in a single premium rate applied to each group.

33. It stated that[22]—

> "The above changes address issues regarding transparency and funding comparability between learners on similar courses which have been raised by the sector. We will work with the sector on further refinements to the model during AY 2025-26."

34. Angela Cox (Colleges Scotland and Ayrshire College) commented on the fact that the SFC had dropped the threshold for credits that had to be delivered in colleges. She said that this was in response to severe financial stress, saying "colleges could not afford to pay their utility bills and keep the light on at the height of inflation."[23]

35. In May this year, Martin Boyle representing the SFC told the Committee that the Scottish Government had asked the SFC to look at the college funding model. He said[24]—

> "It has evolved a lot over the past couple of years. The funding model evolves all the time because things change—training changes and the way that people learn changes. We do not want to put massive shocks into the system of how colleges are funded. If we make changes, we

[20] SFC College Final Funding Allocations AY 2023-24, 25 May 2023
[21] SFC. College Indicative Funding Allocations AY 2025-26, 10 April 2025
[22] SFC. College Indicative Funding Allocations AY 2025-26, 10 April 2025
[23] Education, Children and Young People Committee. Official Report, 18 June 2025, Col 21
[24] Education, Children and Young People Committee. Official Report, 7 May 2025, Col 41

have to phase them in over two or three years. However, our funding comes from the Scottish Government, so it is up to the Government how things are done—the quantum of funding and how much is to go to colleges."

36. Andy Witty (Colleges Scotland) confirmed that there were ongoing discussions through the College Tripartite Alignment Group on college funding and that Colleges Scotland had called for a review of the current financial model.[25] Angela Cox (Colleges Scotland and Ayrshire College) echoed this call for a review of the current model which she argued was outdated and not in step with future college provision. She said[26]—

> "As we think about the future and the skills transition that our economy requires, we need to stop tinkering around the edges and take a fundamental look at, and a strategic approach to, how we fund colleges in future. Obviously, we will always ask for more money but it is not necessarily about a huge amount more funding—it is about flexibility in the funding to enable colleges to respond to the needs of their regions."

37. Professor Wayne Powell, Principal and Chief Executive, Scotland's Rural College (SRUC) also argued for a funding model which would meet the needs of learners and the "needs of a future society and economy, particularly in relation to the demographic changes that are taking place, which are pretty stark for Scotland."[27]

38. Tiffany Ritchie (SFC) said that the SFC recognised that more is needed to be done to ensure the funding model is fit for future demands. She said[28]—

> "…we recognise that more is needed, which is why we have committed to working with both Colleges Scotland and Universities Scotland and the wider sectors on the fundamental review of the funding allocation model, so that it is fit for purpose for the future and can continue to meet those sorts of demands."

Financial flexibilities

39. Financial flexibilities available to colleges has been an ongoing area of interest to the Committee. In its 2023 report into colleges regionalisation, the Committee recommended that the Scottish Government and the SFC urgently give colleges as many financial and operational flexibilities as possible to help them deliver on the various strands of their work. In its pre-budget scrutiny last year, the Committee repeated its call for the Scottish Government and SFC to continue to explore how to give colleges as many financial and operational flexibilities as possible to improve their ability to deliver, especially in the current challenging financial climate. The Committee however also agreed with witnesses that flexibilities alone will not address the financial issues being faced by colleges.[29]

[25] Education, Children and Young People Committee. Official Report, 18 June 2025, Col 24
[26] Education, Children and Young People Committee. Official Report, 18 June 2025, Col 25
[27] Education, Children and Young People Committee. Official Report, 18 June 2025, Col 26
[28] Education, Children and Young People Committee. Official Report, 1 October 2025, Col 17
[29] Letter to the Minister for Higher and Further Education; and Minister for Veterans, 9 October 2024

40. The Committee noted the call from the SFC for the Scottish Government to give further consideration to the flexibilities associated with activity targets and the rules and restrictions associated with particular funding. It recommended that these issues should be part of the Scottish Government's ongoing consideration of financial flexibilities available to colleges.[30]

41. The Committee heard of some of the flexibilities which could help colleges address the financial challenges which could form part of a new funding model. In its most recent financial sustainability of colleges report, the SFC highlighted that from 2023-24 onwards, it has extended the following flexibilities to colleges to help limit their exposure to recovery of funding[31]—

    - A reduced credit threshold while maintaining broadly the same level of funding as in 2022-23
    - A 2% tolerance on the reduced credit threshold
    - The alignment of the required date with universities for claiming credits
    - The decoupling of 20% of the value of credits to represent colleges' semi-fixed costs.

42. Joanna Campbell spoke of the core funding credit flexibilities introduced where a 10% leeway was afforded all the colleges. She highlighted that the sector had been pushing for a change to the funding model for a number of years and that this was seen as the first stage of the migration to a new funding model. She said—

    > "On one side, there was the flexibility that was afforded, but it did not suit every college."[32]

43. Tiffany Ritchie (SFC) referred to the transformation framework which is a flexibility within existing budgets and said that colleges are undertaking pilots through that framework.[33]

Unmet need

44. This year, the Committee heard that, despite falling college enrolment numbers, there was demand for some college places which they were unable to fulfil. Angela Cox (Colleges Scotland and Ayrshire College) said that when a request for additional funding had been made to the SFC due to over delivery, she was told that there was no flexibility in the funding model for this. She said[34]—

    > "Last year in Ayrshire, which is a single college region, we turned away 764 students after interview. A third of those students wanted to study

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[30] Letter to the Minister for Higher and Further Education; and Minister for Veterans, 9 October 2024
[31] [SFC. Financial Sustainability of Colleges in Scotland 2022-23 to 2027-28, 26 September 2025]()
[32] Education, Children and Young People Committee. Official Report, 18 June 2025, Col 22

[33] Education, Children and Young People Committee. Official Report, 1 October, Col 16
[34] Education, Children and Young People Committee. Official Report, 18 June 2025, Col 22

science, technology, engineering and mathematics subjects and some of the others perhaps needed more of a bespoke programme— which we would historically have been able to accommodate, before we lost about a fifth of our funding over the past few years."

45. Joanna Campbell (Glasgow Kelvin College) also spoke of the lack of funding flexibility in relation to unmet need. She referred to the work of the College Tripartite Alignment Group on core funding flexibilities and the 10% leeway afforded to colleges, which was seen as the first stage of the migration to a new funding model but did not suit every college or address unmet need. She said[35]—

> "To give a bit of context, my college used some of those flexibilities and we reduced our credits by 9 per cent. The result was a 14 per cent reduction in our student head count. We had to do that because of the financial pressures that were facing us, but the result is that we have, roughly speaking, three applicants for every college place."

46. Joanna Campbell (Glasgow Kelvin College) commented on the challenges associated with changing the funding model for the whole college sector due to varying needs across the sector and inbuilt inequalities. She said that inequalities in post-16 funding are highlighted by the fact that in secondary schools, average funding is around £7.5k per learner, whereas in the college system it is £5.5k per learner and in the university sector, it is £8.5k per student.[36]

47. Audit Scotland referred to the evidence heard by this Committee on unmet need and one of the key recommendations in its latest report into Scotland's colleges is that within 12 months the SFC should[37]—

> "prepare a plan to identify how it will measure unmet demand for college courses from students and carry out relevant analysis on an annual basis to help identify gaps in provision."

Priorities for the sector

48. Last year, the Committee noted the call for a five-year plan for colleges and the need for colleges to be clear about what is required of them and what their priorities are in the longer term. The Committee welcomed the then Minister's commitment to reiterate the Scottish Government's position regarding the longer-term strategic direction with colleges.[38]

49. In its 2024 report, Audit Scotland recommended that the Scottish Government should set out the priorities that colleges are expected to deliver, so that the SFC and colleges can manage their funding to meet those priorities. In its

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[35] Education, Children and Young People Committee. Official Report, 18 June 2025, Col 22-23
[36] Education, Children and Young People Committee. Official Report, 18 June 2025, Col 23
[37] Audit Scotland. Scotland's colleges 2025. October 2025, page 5
[38] Pre-Budget 2025 - 2026 letter to Minister for Higher and Further Education and Minister for Veterans 9 October 2024

2025 report, Audit Scotland provided an update on this recommendation, stating[39]—

> "The SFC has developed a new Outcomes Framework and Assurance Model for 2025/26 setting expectations of colleges that align with the Scottish Government's Purposes and Principles for Post-School Education, Research and Skills. Views of the college sector on the need for further strategic direction are mixed. While some colleges are clear on their priorities, others felt the Scottish Government needs to be more transparent about what colleges should de-prioritise in light of real-terms funding cuts."

50. The 2024 Audit Scotland report also recommended that the Scottish Government should have early engagement with colleges and the SFC about its priorities. As part of its progress update in the 2025 report, it highlighted that the Scottish Government has offered further engagement with college principals, either individually or via Colleges Scotland. [40]

51. The Committee was concerned by the latest reports from the SFC and Audit Scotland on the medium to long-term financial sustainability of Scotland's colleges and the fact that forecasts show that most colleges are not financially sustainable. For a number of years, this Committee has expressed concern regarding the financial sustainability of Scotland's colleges and has made numerous recommendations to the Scottish Government on how these financial challenges should be addressed. The Committee is frustrated at the lack of change or urgency to make change that the sector has seen and shares concerns of the sector that without action, the future of some colleges is at serious risk.

52. The Committee notes the evidence that it will take a combination of both funding and transformative initiatives to address the financial challenges faced by colleges and recommends the Scottish Government sets out clearly in its budget documentation how it plans to support the sector in overcoming these challenges.

53. The Committee notes the work being done by the SFC through the College Tripartite Alignment Group on transformation initiatives and flexibilities in funding for colleges and requests that it is kept updated on this work including timelines for action.

54. The Committee notes the work of Audit Scotland on the financial sustainability of Scotland's colleges and the recommendation that the SFC should prepare a plan to identify how it will measure unmet demand for college courses and carry out relevant analysis on an annual basis to help identify gaps in provision.

55. The Committee agrees that this work should be undertaken and requests that the SFC and the Scottish Government confirm their

[39] Audit Scotland. Scotland's colleges 2025. October 2025, page 28
[40] Audit Scotland. Scotland's colleges 2025. October 2025, page 28

intention to carry out this work with indicative timescales for completion.

56. The Committee reiterates its view that there is a need for the Scottish Government to set out its priorities for the college sector and to ensure the resources provided match those priorities. This will provide clarity for colleges on what to prioritise and the Scottish Government's expectations of colleges. The Committee welcomes the commitment by the Scottish Government to engage with the sector on this.

National pay deal

57. The Committee is aware that the current financial climate is posing many industrial relations challenges for the college sector. The Committee notes that the National Joint Negotiating Committee (NJNC) negotiates pay deals for college staff through a partnership between College Employers Scotland and trade unions through the National Recognition and Procedure Agreement (NRPA). The Committee also appreciates that while the Scottish Government does not have a direct role in negotiations, it did commission the Lessons Learned – resetting national collective bargaining in the colleges sector report in 2021-22 seeking recommendations to improve the process.

58. The then Minister told Parliament during a Member's Debate on Further Education Pay on 7 May 2024 that the report stated that Scottish Government intervention in past disputes had not been helpful. The then Minister encouraged employers and unions to "find a resolution and, more generally, try to facilitate an improvement in the approach to interaction between them."

59. In September 2024, in relation to college lecturers, unions and employers agreed a backdated four-year pay award. This agreement included £5,000 consolidated pay rise across the 2022/23, 2023/24 and 2024/25 academic years, as well as a further increase of 4.14% in 2025/26. Support staff received a £5,000 consolidated pay rise across academic years 2022/23, 2023/24 and 2024/25.

60. In written evidence, UHI reported that: "in 2023/24 and 2024/45 the settlement of long running pay disputes has presented liquidity challenges for several UHI partners with the SFC providing liquidity support to several UHI partners."[41]

61. Andy Witty (Colleges Scotland) commented that positive progress has been made in college industrial relationships recently, "which will help to set the scene to make some of the changes that will be required."[42]

62. In relation to improving the national bargaining process, Joanna Campbell (Glasgow Kelvin College) pointed out that the recommendation to seek an independent chair has not been progressed. She said[43]—

[41] Written submission from UHI published with the papers for the meeting on 18 June 2025
[42] Education, Children and Young People Committee. Official Report, 18 June 2025, Col 21
[43] Education, Children and Young People Committee. Official Report, 18 June 2025, Col 21

> "We are still keen to ensure that we progress with most of the recommendations from that review but, at this point in time, we have not been able to do so in a manner that we would like."

63. In supplementary written evidence, Colleges Employers Scotland said the NRPA should be regularly reviewed and updated to incorporate learning from events. It stated[44]—

> "For the employers, a number of the Lessons Learned recommendations have already been taken onboard and acted upon, and those have contributed to a general improvement in industrial relations. However, the proposal that there should be an independent chair, to assist in reaching agreements and improving the overall effectiveness of the arrangements is not something the trade unions have been willing to agree on."

64. **The Committee welcomes the positive progress being made in industrial relations within the college sector; however it notes the ongoing impact of the current financial climate on meeting pay settlements and industrial relations within the sector. It also notes the impact of pay settlements on colleges' overall running costs, which has to be managed at a time when efficiencies must be made.**

65. **The Committee is aware of the Scottish Government's commitment to deliver its Fiscal Sustainability Delivery Plan to ensure public finances remain sustainable over the medium term to support delivery of the Government's priorities. As colleges operate as public bodies under the strategic direction of the Scottish Government, the Committee recommends that the Scottish Government sets out whether it intends to deliver staff cost savings in the college sector in line with its Fiscal Sustainability Delivery Plan, and, if so, how it intends to approach this work.**

66. **The Committee requests that the Scottish Government keeps it updated on any developments in relation to the recommendations contained in its Lessons Learned report on collective bargaining in the college sector. The Committee recommends that the Scottish Government works with the sector to appoint an independent Chair.**

Universities

67. During its pre-budget scrutiny last year, the Committee heard that universities had faced year on year funding reductions in real terms, with UCU, NUS Scotland and Universities Scotland highlighting cuts to teaching funding. SFC acknowledged that the universities budget declined by 14% over ten years. [45]

68. The Committee continued to explore the financial sustainability of Scotland's Universities in this year's pre-budget scrutiny 2026 to 2027.

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[44] Letter from College Employers Scotland (CES) about potential improvements to the National Joint Negotiating Committee, 9 July 2025

[45] Pre-Budget 2025 - 2026 letter to Minister for Higher and Further Education and Minister for Veterans 9 October 2024

Funding allocations

69. University (Higher Education) resource and capital allocations announced in the Scottish Government's 2025-26 Budget are set out in Table 2 below.

Table 2: Higher Education Resource and Capital Budgets (Level 3)

	2023-24 Scottish Budget £million	2024-25 Scottish Budget £million	*2024-25 ABR Budget £million*	2025-26 Scottish Budget £million	% Change 2025-26 Budget on 2024-25 Budget
HE Resource	809.207 (789.2)	760.707	*810.472*	773.590	1.7%
HE Capital	340.705	356.890	*356.890*	368.270	3.2%
Total	1,149.912 (1,129.905)	1,117.597	*1,167.362*	1141.86	2.17%

Sources: Scottish Budget 2024-25 and Scottish Budget 2025-26

Notes: In 2023-24, £20m initially allocated to the HE resource budget was removed. This figure is show in brackets in the 2023-24 column.

The 'Percentage Change' column compares the 2024-25 budget allocations with the 2025-26 budget allocations to provide a like-for-like comparison.

70. This year's HE revenue budget is a 1.7% increase on the 2024-25 Budget allocation.

71. SFC's final funding allocations for universities for academic year (AY) 2025-26, published on 29 May 2025, set out the following key funding points—

- Total teaching funding for universities has increased by £12.9m (1.8%), from £715.2m in AY 2024-25 to £728.1m in AY 2025-26. This follows a reduction in total teaching funding between AY 2023-24 and AY 2024-25.

- The Main Teaching Grant for AY 2025-26 is £693.7m, an increase of £11.8m (1.7%) on the previous year. This also follows a reduction between AY 2023-24 and AY 2024-25.

- Non-controlled funded student places have been reduced by 2,500 FTEs (-2.2%); this is due to the removal of the second tranche of additional 'SQA places' allocated in AY 2021-22 during the COVID-19 pandemic. SFC confirms funding from this is "being repurposed to enhance the teaching unit of resource."

- The sector is expected to deliver 1,378 Graduate Apprenticeship places in AY 2025-26 – this target is unchanged from the previous year.

- Research and innovation funding has increased by £11.3m (3.6%).

- The capital budget (excluding research and innovation) sees an increase of £0.1m (0.5%) to £28.6m. Capital maintenance funding is unchanged from financial year 2024-25.

- On research capital funding, SFC states: “We are expecting to receive HE Research Capital (HERC) grant funding from the UK Department for Science, Innovation & Technology (DSIT) for FY 2025-26, which will be matched by SFC. The amount is still to be confirmed and we are working on the assumption that it will be the same level as FY 2024-25 (£18.8m).”

Current financial climate and challenges facing universities

72. The Institute for Fiscal Studies (IFS) published a report on Higher education spending in February 2024. The report provides an overview of funding in Scotland, concluding that[46]—

> “There are no easy answers to increasing university funding, without increasing Scottish Government spending on higher education or requiring some contribution from students towards the costs of their tuition.”

73. In November 2024 ahead of the Scottish Budget for 2025-26, the IFS published an article highlighting the pressures universities face as a result of declining numbers of international students, a real terms fall in funding for home students and increases in staff costs.

74. Universities Scotland set out the challenges facing Scotland’s universities stating[47]—

> “The status quo is failing to ensure financial sustainability for Scotland’s universities. We need action in the short term in the 2026/27 budget - and cross-party engagement on how to ensure a long-term stable and successful financial future.”

75. It said finances are on track to surpass worst case scenarios modelled by PwC for the sector in Scotland in AY 2024-25 and highlighted—

    - Rising costs including employers’ national insurance contributions, rising estates maintenance and construction costs and rises in software licenses
    - For 15 institutions, an increase in employers’ pension contributions for the Scottish Teachers’ Pension Scheme (STPS) added £4.4m to costs. The Scottish Government provided £5.8m in February 2025, but Universities Scotland’s submission states there is “no indication that this mitigation will be repeated in future years”
    - SFC estimates the cost of addressing RAAC to be close to £750m for around half the sector
    - Universities Scotland estimates that falls in international student demand between 2022-23 and 2023-24 cost the sector £149m in one

[46] IFS Higher education spending report, February 2024
[47] Universities Scotland. Written submission published with the papers for 4 June 2025 meeting.

year, expressing concerns that the UK Government's immigration white paper will further reduce numbers.

76. Last year during its pre-budget scrutiny, the Committee heard evidence from London Economics and UCU about the potential benefits of a 1% employer levy contributing toward the funding of higher education. The Committee asked the Scottish Government for its views on this, and on alternative funding models. The Scottish Government's reply stated there were no current plans to discuss a levy with the UK Government, and that free higher education tuition for Scottish domiciled students remained an "absolute commitment."[48]

77. Universities Scotland called on the public debate on university funding to move away from "free versus fees", asking the Scottish Government to acknowledge current funding is not sufficient and for all political parties to engage with the issue. [49]

78. In September 2025, the SFC published its report on the Financial Sustainability of universities in Scotland 2022-23 to 2026-27. The report commented that financial sustainability remains challenging for many universities.

79. It highlighted that tuition fee income represents the largest source of income for the sector and that universities need international fee income to remain financially sustainable and to support other areas of their operation such as research, which is a loss-making activity. The report stated[50]—

> "There is an increasing risk that universities may not meet their international student tuition fee income targets as this continues to be an area of significant fluctuation and risk due to the competitive nature of the international markets, UK visa and immigration policy and geopolitical changes."

80. The key messages included[51]—

- The sector reported an underlying operating surplus[52] of £17.2m for 2023-24, with the surplus forecast to rise to £51.5m in AY 2024-25 before declining to a deficit of £12.9m in 2025-26 and rising again to a surplus of £134.9m in 2026-27. The 2025-26 deficit is mainly due to low growth in tuition fees, reduced operating and investment income and increased staff costs due to pay inflation. The forecast improvement in 2026-27 is due to more optimistic forecasts for tuition fees, research income, and other income offset by smaller increases in staff costs (reflecting the full impact of the savings from staff restructuring in 2024-25 and 2025-26), other operating expenses and depreciation. However, the forecast improvement in 2026-27 is mainly driven by three universities.

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48 Letter from the Minister for Higher and Further Education; and Minister for Veterans, 31 October 2024

49 Universities Scotland. Written submission published with the papers for 4 June 2025 meeting.

50 SFC. Financial sustainability of universities in Scotland 2022-23 to 2026-27, September 2025, page 5. The report excludes the 2023-24 actual and 2024-25 to 2026-27 forecast figures for the University of Dundee.

51 SFC. Financial sustainability of universities in Scotland 2022-23 to 2026-27, September 2025.

52 Operating surplus/(deficit) adjusted for pension provision movements and staff restructuring costs.

- Nine universities reported underlying operating deficits during 2023-24, and forecasts show this increasing to ten in 2024-25 and eleven in 2025-26 before reducing to seven in 2026-27. Five universities are not projecting any underlying deficits throughout the forecast period.
- Universities' reliance on SFC grants is forecast to reduce by 2% (down to 22%) by the end of 2026-27.
- International fee income is expected to increase from £1,324m in 2023-24 to £1,532m by 2026-27 (15.7% increase) but projections will be revisited after the autumn 2025 student recruitment cycle.
- The sector cash position is forecast to reduce from £1,682m at the end of 2023-24 to £1,511m at the end of 2026-27. No university is forecasting a cash deficit throughout the forecast period; however, many institutions are taking proactive steps to keep them in a positive cash position.
- Sector borrowing is forecast to increase marginally over the planning period to £1,542m at the end of 2026-27.

81. The Committee explored the support and assistance given to universities from the SFC and the Scottish Government. Claire McPherson, Director, Universities Scotland, said that they were keen to work with the SFC and the Scottish Government to look at a more financially sustainable model for universities and acknowledged that the sector would have to change in order to address the financial challenges experienced across the sector.

82. She argued that the gap between university income and expenditure has been increasing and that the current model is not sustainable. She said[53]—

> "We see in the example of Dundee just how significant universities are to regional and local economies as economic actors and as employers, as well as through their relationship with business and public services. All of that is too important to put at risk, but the current funding model does so—we are carrying a high level of risk across the sector at the moment."

Meeting the challenge of falling international student numbers

83. During its pre-budget scrutiny last year, the Committee heard that many universities were currently reliant on cross-subsidy from international student fee income, and that data from November 2023 and February 2024 showed a 20% fall in international postgraduate enrolments, with 12 institutions reporting intakes lower than forecast. The collective impact of the fall was estimated to be £100m. [54]

84. The Committee called for the Scottish Government to ensure that work to broaden the cohort of international students be progressed urgently.[55] In response, the then Minister stated that a key aim of the International Education Strategy (published in February 2024) was to attract and diversify the international student population and a Governance Group was formed to

[53] Education, Children and Young People Committee. Official Report, 4 June 2025, Col 40
[54] Pre-Budget 2025 - 2026 letter to Minister for Higher and Further Education and Minister for Veterans 9 October 2024
[55] Letter to the Minister for Higher and Further Education; and Minister for Veterans, 9 October 2024

oversee this. The then Minister added that the Scottish Government and SFC continue their engagement with the sector on financial stability and risks.[56]

85. This year, universities highlighted concerns about falling numbers of international students and, as with last year's pre-budget scrutiny, questions were raised around the sustainability of international student fee income. The Committee heard of the impact of UK migration policies on the number of international student numbers studying at Scottish universities and the subsequent financial challenges faced.

86. The UK Government's paper 'Restoring Control over the Immigration System' was published in May this year. Changes the paper sets out that will impact the university sector include—

- Reduce the ability for graduates of undergraduate and masters degrees to remain in the UK from two years to 18 months
- Tighten metrics monitoring whether sponsoring institutions are meeting their duties in relation to visa metrics set out in the Basic Compliance Assessment (BCA)
- Exploration of the possible introduction of a levy on international student tuition fees, to be reinvested into the higher education and skills system (further details are to be set out in the Autumn Budget).

87. Professor Mathieson, Principal and Vice-Chancellor, University of Edinburgh, highlighted the fragility of the cross-subsidy model used by Scottish universities where the education of domestic students and research is funded through international student recruitment and commercial activities. He cited the example of the impact of the currency crisis on the Nigerian market and said that reducing the post-study visa from 2 years to 18 months is likely to affect recruitment numbers in certain markets.[57]

88. He said its projections of international student numbers had been a key feature leading to the University of Edinburgh's current situation as staffing levels had been increased based on these projections. He said[58]—

> "We realised two years ago that we had not achieved the targets that we had set and had fallen short by about £20 million. That became a recurrent shortfall in our five-year budget. At that time, it was not clear whether that was a one-off effect of the policy statements that were being made by the Westminster Government and/or other aspects of geopolitics. One year ago, we saw more or less the same thing. We saw a shortfall of tuition fee income of about £20 million, so the cumulative figure became £40 million. At that point we intervened."

89. Among other issues, the Committee heard that the fall in international student numbers – particularly taught postgraduate students – had seriously impacted the University of Dundee's income. While a 25% decrease in international student income was planned for, the actual decrease was closer to 50%.[59]

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[56] Letter from the Minister for Higher and Further Education; and Minister for Veterans, 31 October 2024
[57] Education, Children and Young People Committee. Official Report, 4 June 2025, Col 20
[58] Education, Children and Young People Committee. Official Report, 4 June 2025, Col 11
[59] SPICe briefing contained in Annexe A of the cover note published with the papers for 1 October meeting, page 13

90. The independent investigation into the University of Dundee's finances, led by Professor Pamela Gillies, considered the causes of the worsening financial situation. The report highlighted the contributing issues leading to its financial situation as: the failure to respond to changes to the international student market as a result of changes to UK government policy on dependents; the devaluation of the Nigerian currency; and a drop in university's world league rankings, including the university falling outside the HE Times university ranking top 250 – a development the report states would have "directly impacted recruitment from China and India."[60]

91. Professor James A Miller, Principal and Vice-Chancellor, University of the West of Scotland (UWS) said the biggest impact on the number of international students enrolling was because they could no longer bring dependants to Scotland which caused a dramatic drop on the number of international students and in the make up of student applications.
He said[61]—

> "We also saw quite an interesting change in the make-up of students because of who was no longer applying to come. Our university saw quite a dramatic drop in the number of young professional women coming to do master's programmes in education, because they could no longer bring their dependants."

92. Professor Miller (UWS) said there was a reduction of around 2,000 students which equated to a loss of "several million pounds" over a number of financial years.[62] He highlighted that UWS is addressing this by "trying to derisk onshore recruitment by diversifying our transnational education."[63]

93. Professor Sue Rigby, Principal and Vice-Chancellor, Edinburgh Napier University, also spoke of the volatility of the international market and highlighted that, although Edinburgh Napier University saw a peak in international student numbers post pandemic, it has since been dropping by about £6 million a year.[64] She explained that, in addressing the falling number of international students, it was important to look at other educational opportunities. She said[65]—

> "Because fewer home students are coming to us, our expertise, our focus and the brilliant teaching that my staff do is directed outward, rather than inward towards Scotland."

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[60] Investigation into financial oversight and decision making at the University of Dundee Report presented to the Scottish Funding Council by Professor Pamela Gillies 19 June 2025
[61] Education, Children and Young People Committee. Official Report, 4 June 2025, Col 13
[62] Education, Children and Young People Committee. Official Report, 4 June 2025, Col 14
[63] Education, Children and Young People Committee. Official Report, 4 June 2025, Col 17
[64] Education, Children and Young People Committee. Official Report, 4 June 2025, Col 14
[65] Education, Children and Young People Committee. Official Report, 4 June 2025, Col 18

94. Richard Maconachie, Director Lead, Dundee Recovery Team, SFC highlighted that the SFC have warned of the overreliance on international student income for many years in its sustainability reports.[66]

95. Claire McPherson (Universities Scotland) confirmed that 2023-24 saw a 25% drop in postgraduate students which equates to about 10,000 students at a cost of about £150 million to the university sector. She cited geopolitical shocks as being a factor affecting the number of internationals students applying to Scottish universities and told the Committee[67]—

> "That demonstrates that a funding model that is predicated on international student income as a subsidy is quite significantly at risk, because lots of factors that are outside the control of the sector and of the Scottish Government impact on income. That leads to institutions having to make increasingly difficult decisions about their operating model and running costs."

96. She spoke of the lack of UK policy coherence and cited that in 2020, the UK Government published an international education strategy which encouraged diversification and international student growth. She said that those universities who decided to enter new markets had done so with the encouragement of a UK-wide strategy, however, she said that migration policy has "perhaps not been supportive and enabling in relation to achieving those outcomes, so there is an issue with policy coherence."[68]

97. Claire McPherson (Universities Scotland) went on the highlight the work being done by Universities Scotland across the sector on the Scottish Government's international education strategy and promoting Scotland as a place to study. She said[69]—

> "Given how absolutely fundamental to the sustainability of the sector international student income is, we spend quite a bit of time on it."

98. Tiffany Ritchie (SFC) commented that universities must recognise and acknowledge the volatility of the international student income stream and that "they must be resilient, flexible and agile to adjust themselves to that, and we need to continue to work with them in that area."[70]

99. The Committee was concerned with the latest report from the SFC which shows that financial sustainability remains challenging for many universities. This Committee has previously expressed concern regarding the current funding model for Scotland's universities and, again, notes the evidence that it is not sustainable. The Committee acknowledges the Scottish Government's position that there will be no introduction of tuition fees for Scottish-domiciled students and asks it to set out its view on how a new funding model could address the financial challenges faced by Scotland's universities.

[66] Education, Children and Young People Committee. Official Report, 1 October, Col 8
[67] Education, Children and Young People Committee. Official Report, 4 June 2025, Col 15
[68] Education, Children and Young People Committee. Official Report, 4 June 2025, Col 21
[69] Education, Children and Young People Committee. Official Report, 4 June 2025, Col 22
[70] Education, Children and Young People Committee. Official Report, 1 October 2025, Col 8

100. The Committee agrees there is an over-reliance on the international student income across the sector and requests that the Scottish Government provides an update on its work on broadening the cohort of international students and the ongoing work of the Governance Group set up to oversee the implementation of the International Education Strategy and its commitments.

Staff reductions and restructuring

101. As set out in the SFC's sustainability reports, staff costs are the largest element of expenditure for universities (55%) and colleges (70%), and actions taken by both universities and colleges to achieve financial sustainability have involved seeking to reduce these recurring staff costs.

102. Staff restructuring costs for universities are projected to increase sharply from 2023-24 levels (£17m across eight universities), peaking in 2024-25 (£38.5m across nine universities) and reducing in 2025-26 (£24.5m across seven universities) and 2026-27 (£11.6m across five universities). This reflects the mitigating actions required of the universities experiencing financial challenges over the forecast period. The SFC stated that universities will need to "balance staff restructuring activity with their ability to deliver required outcomes and Scottish Government priorities, in particular meeting student targets and supporting economic recovery."[71]

103. Since reporting on our pre-budget scrutiny last year, a number of Scottish universities have faced financial difficulties. The most high-profile example is the University of Dundee which the Committee has taken extensive evidence on from previous and current senior leadership team members, the SFC and the Scottish Government.[72] A number of universities have announced plans to make budget cuts, cut courses and seek staff redundancies. These include the University of Aberdeen, University of Edinburgh, University of the West of Scotland (UWS) and Robert Gordon University.

104. The Committee heard evidence regarding the planned staff reductions at a number of universities including the University of Edinburgh, University of Dundee and UWS. Recent press reports have suggested further staff cuts may follow.

University of Edinburgh

105. During evidence Professor Mathieson (University of Edinburgh) spoke of the need for the University of Edinburgh to reduce expenditure otherwise it is projected to be in deficit next year. [73] He confirmed that they are seeking to reduce expenditure by £140 million with roughly £90 million on staff costs and £50 million on non-staff costs. [74] He went on to say that, in order to achieve

[71] SFC. Financial sustainability of universities in Scotland 2022-23 to 2026-27, September 2025.
[72] University of Dundee | Scottish Parliament Website
[73] Education, Children and Young People Committee. Official Report, 4 June 2025, Col 4
[74] Education, Children and Young People Committee. Official Report, 4 June 2025, Col 5

financial sustainability, it is necessary to reduce recurrent expenditure, 58% of which is staff expenditure.[75]

106. He said that the Policy and Resources Committee and the Court at the University of Edinburgh had agreed a financial recovery plan but acknowledged the concerns expressed by the Senate and the unions.

107. In written evidence to the Committee, the joint unions at the University of Edinburgh said that they were not given sufficient financial information to allow them to consider possible alternatives to the recovery plan and expressed concern that modelling of alternatives to the recovery plan had not been carried out. They stated[76] —

> "As far as we are aware, no alternatives to the programme of cuts proposed by management have been modelled or presented. Neither the trade unions nor the Senate have seen any such efforts, despite repeatedly asking for such an exercise to be carried out. As noted above, we are not aware that Court has requested any such modelling."

University of the West of Scotland

108. Professor Miller (UWS) spoke of the reasons behind the need for UWS to reduce expenditure by £6.2m and lose 75 FTE posts highlighting a cyberattack in July 2023 which cost UWS £5 million. He also commented on the reduction in domestic student numbers with fewer students articulating from colleges. He said[77]—

> "We needed to target where we have seen the greatest reductions in the numbers of students. That is precisely what we have done, and that is why we have arrived at the number of posts that we have arrived at. We have not ruled out compulsory redundancies, but we have made it absolutely clear that they will be the last resort."

University of Dundee

109. In March 2025, the University of Dundee published details of an initial recovery plan which included a 632 reduction in FTE staffing. Following the Committee's evidence session, the then-interim Principal and Vice-Chancellor Professor Shane O'Neill wrote to the Committee to provide further information on a number of points. In this letter, Professor O'Neill stated that around 700 individuals could be impacted by redundancy.[78] Scottish Ministers publicly stated they did not support the proposed recovery plan and an updated recovery plan was announced on 29 April 2025 which included the reduction of up to 300 staff FTE through a voluntary severance programme.[79]

110. In March 2025, following Scottish Government announcements of additional funding being made available to the sector, the SFC Board approved a support package of £22m to support the university in addressing immediate financial challenges. [80] In April 2025, the Scottish Government appointed an Advisory Task Force to advise the University, the SFC, Ministers

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75 Education, Children and Young People Committee. Official Report, 4 June 2025, Col 6
76 Letter from the Joint Unions at the University of Edinburgh to the Convener of 30 June 2025
77 Education, Children and Young People Committee. Official Report, 4 June 2025, Col 50
78 Letter from the Interim Principal and Vice-Chancellor, University of Dundee to the Convener of 31 March 2025
79 University of Dundee. An alternative pathway to financial recovery
80 SFC. March 2025. Funding Support Package for the University of Dundee

and the city region on the future success of the university and its impact across the city region. The University remains the legally responsible decision maker. [81]

111. In June 2025, the Scottish Government announced funding of up to £40 million over three financial years, bringing the total additional funding made available by the Scottish Government via SFC to £62m. The Scottish Government news release stated[82]—

> "The SFC and Scottish Government will work together to develop appropriate conditions for the funding, which is subject to further due diligence. Funding will only be released once a sustainable, long-term recovery plan is put in place by the University that leverages commercial and private investment."

112. This is the first time that powers under section 25 of the Further and Higher Education (Scotland) Act 2005 have been used to direct the SFC to target a direct settlement, and to place specific conditions on that funding.

113. The SFC continues to work closely with the university it as develops its financial recovery plan. Most recently it wrote to the University's Acting Chair of Court in response to a further recovery plan submitted on 11 August 2025 stating—[83]

> "The SFC's view is that it is not appropriate that such fundamental decisions on shape and structure, as posited by the current University Recovery Plan, which will bind the University for decades, should be taken by an interim leadership team."

114. The letter went on to state[84]—

> "…it is the strongly held view of the SFC that fundamental decisions cannot and should not be taken without the existence of an approved, and properly consulted upon, University Strategic Plan."

115. During evidence, Richard Maconachie (SFC) highlighted that the current university recovery plan did not evidence consultation and engagement with staff and students.[85]

Senior management pay

116. The Committee considered the level of pay of senior leadership teams at institutions in the context of financial sustainability and savings universities were hoping to achieve. The Committee is aware that the Scottish Government does not set university principals' pay, as universities are autonomous and each university has a Remuneration Committee that sets their salaries.

117. The Committee heard that while the high level of pay and pay increases for university principals would not have a material effect on the level of savings being made by institutions, it does have a negative effect on staff

81 Scottish Government news release, 8 April 2025.
82 Scottish Government. News release. Direct support for Dundee University. 26 June 2025
83 SFC letter to UoD Acting Chair of Court, 18 August 2025
84 SFC letter to UoD Acting Chair of Court, 18 August 2025
85 Education, Children and Young People Committee. Official Report, 1 October 2025, Col 30

confidence and trust in the senior leadership team during extremely difficult financial times.

118. During a cross-ministerial session, the Cabinet Secretary told the Committee[86]—

> "I believe that restraint should be exercised in relation to salaries, and that we should be particularly mindful of other salaries, the cost of living crisis and the optics of salary levels to other staff."

119. The Cabinet Secretary said that it was not for the Scottish Government to discuss the salary levels of independent institutions however, given the importance of pay restraint, the Scottish Government may reflect on this in relation to the letter of guidance issued to the SFC. The then Minister agreed, telling the Committee that discussions had taken place with the chairs of the universities "encouraging them to exercise restraint in the uprating of remunerative packages in view of the challenging financial circumstances and the cost of living crisis."[87]

120. When asked what an appropriate salary for a university principal in Scotland would be, the Minister replied[88]—

> "It is not for me to comment on individual salaries, and it is not for me to direct institutions as to what they may want to offer or provide in terms of remuneration in a competitive global market."

121. The Minister then went on to say[89]—

> "Universities should exercise restraint in setting senior pay, and senior pay packages should be in step with the salaries, terms and conditions that are offered to other university staff."

122. The Committee notes that staff costs are the largest element of expenditure for universities and actions taken to achieve financial sustainability have involved seeking to reduce these recurring costs. The Committee notes the challenge for universities in balancing staff restructuring activity with their ability to deliver required outcomes and Scottish Government priorities. While recognising the autonomy of Scottish universities, the Committee is concerned that the sector cannot continue to see inappropriate and excessive loss of staff and deliver the sort of education that we would expect. The Committee asks the Scottish Government to respond to this concern and set out its view on the ability of the sector to continue to deliver in these circumstances.

123. The Committee notes the unprecedented use of powers under section 25 of the Further and Higher Education (Scotland) Act 2005 to direct the SFC to target a settlement to the University of Dundee, and to

[86] Education, Children and Young People Committee. Official Report, 11 June 2025, Col 4
[87] Education, Children and Young People Committee. Official Report, 11 June 2025, Col 5
[88] Education, Children and Young People Committee. Official Report, 1 October 2025, Col 48
[89] Education, Children and Young People Committee. Official Report, 1 October 2025, Col 49

place specific conditions on that funding. The Committee will continue to monitor this.

124. The Committee is concerned by the high pay packages offered to university principals and those in senior management positions and would welcome the Scottish Government's view on this, including confirmation of whether the Scottish Government's letter of guidance to the SFC will contain information on exercising pay restraint in relation to senior management staff in universities. The Committee encourages universities to exercise pay restraint at senior levels, given the difficult financial situation which universities find themselves in.

Funding allocation flexibility

125. As with the college sector, the Committee was aware of the calls for changes to be made to the funding model for universities. This has been an ongoing theme throughout the Committee's work on the financial sustainability of universities over the last few years.

126. Claire McPherson (Universities Scotland) said it was imperative that a new funding model for Scottish universities is developed. She argued that to achieve financial stability for the sector, an increase in investment is required and more flexibility in the funding model to deal with changing demographics and the future profiles of students. [90]

127. The Committee explored the financial flexibilities which could form part of a new funding model. The Committee heard of the need for greater flexibility in relation to funding of student places. Witnesses stated that a lack of flexibility to use funding already committed was a barrier for change, adding to financial uncertainty. While witnesses acknowledged the need to clawback funding for under recruitment, courses not delivered and unfilled places, they called for consideration to be given to mitigating circumstances and to be allowed to use funding already allocated to generate possible future growth in student numbers.

128. Professor Rigby (Edinburgh Napier University) described a "bureaucratic lack of agency", giving the example of SFC being unable to act on clawback of nursing funding due to this being a decision for health rather than education portfolios. She also described being unable to invest to grow numbers in Scotland, as she could abroad. [91]

129. Professor Miller (UWS) highlighted that there was around £8 million clawback for the year 2022-23 for UWS and that despite mitigating circumstances, UWS was unable to retain any of that funding. He said[92]—

> "We identified the problem, the size of the problem, the cause of the problem and more than one solution to the problem. The money was, nonetheless, withheld from the universities. Our point was that we are not

[90] Education, Children and Young People Committee. Official Report, 4 June 2025, Col 58
[91] Education, Children and Young People Committee. Official Report, 4 June 2025, Col 48
[92] Education, Children and Young People Committee. Official Report, 4 June 2025, Col 46

looking for any further funding but flexibility in using the funding that had already been committed to a number of universities, which might have been able to be managed over a period of years."

130. He argued that if they were given the opportunity to retain some of the money for unfilled places, they could consider long-term options for recovering student recruitment levels, such as the UWS Foundation Academy.[93]

131. Professor Rigby (Edinburgh Napier University) commented that flexibility over the use of clawback funding could be "quite a good illustration of a real opportunity to improve the system." She said[94]—

> "Clawback is not money; it is staff. We could take those staff, develop those new routes and deliver to the NHS the nurse trainees or nurses that are needed. However, the barriers to that at the moment are that we simply pay back the money and we do nothing. We are failing Scotland. By clawing back, the SFC, in a sense, is hurting us, but we have a ready-to-go solution. We think that everybody is aware of that and all it needs is the co-ordination of agreement between different parts of the Government."

132. In written evidence, the SFC said that it has started discussions with the college and university sectors on plans to review its approach to funding recovery and that it will "engage extensively with both sectors as we progress this work." It stated that the approach to funding recovery in the college sector operates using the same fundamental principle as in the university sector. It stated[95]—

> "We are reasonable in our approach to recovery: we have a 2% tolerance for under-delivery, and we consider appropriate and valid mitigations. We must take a fair and reasonable approach to our consideration of mitigations to ensure value for public money and fairness across the sector, particularly in the current challenging financial environment."

133. When asked if the Scottish Government would consider reviewing the process for recovering funds from universities and colleges, the then Minister highlighted the work being done with the college sector by the SFC through the College Tripartite Alignment Group. He said[96]—

> "There have been some instances in which that has been the case and some flexibility has been provided. I am sure that the topic will be explored in greater detail in the tripartite group."

93 Education, Children and Young People Committee. Official Report, 4 June 2025, Col 50
94 Education, Children and Young People Committee. Official Report, 4 June 2025, Col 46
95 Letter from Scottish Funding Council regarding funding recovery and over-recruitment, 30 July 2025
96 Education, Children and Young People Committee. Official Report, 11 June 2025, Col 63

134. When asked what discussions the SFC has had with universities on the lack of flexibility around funding and how clawback is impacting on the sector's ability to adapt, Tiffany Ritchie (SFC) said[97]—

> "We have been working with the sector on the recovery for academic year 2023-24, and I have written to the principals to highlight that we plan to focus our efforts on supporting transformation initiatives to ensure that that funding remains in the sector, thus supporting the change towards sustainability."

135. **The Committee agrees that it is imperative that a new funding model for Scottish universities is developed which should include more flexibility to deal with changing demographics and priorities across the sector, including addressing issues related to the clawback of funds. This should also be considered in relation to the funding model for colleges, and the impact of changes to credit targets etc should be assessed.**

Widening access

136. The Committee notes that universities are currently working toward a target to widen access so that by 2030, students from the 20% most deprived backgrounds should represent 20% of full-time, first-degree entrants to Scottish universities. An interim target of 18% is to be met by 2026.

137. Widening access to higher education has been a key area of interest to the Committee throughout its previous work on colleges, on the budget and on its inquiry, where the Committee has heard evidence about the role of both colleges and universities in helping to meet the target.

138. Each year following publication of the Budget, the Scottish Government publishes a Letter of Guidance setting out the priorities the SFC should focus on delivering. The SFC then allocates and distributes funding to individual institutions.

139. The Letter of Guidance for 2025-26 places an emphasis on the SFC supporting reform and "championing" Ministerial priorities in the context of uncertainty and challenging finances.[98]

140. In relation to funding conditions for universities, the letter stated that "opportunities for Scottish domiciled students should continue to be protected while supporting delivery of our widening access commitments and enhancing the student experience."

141. SFC's final funding allocations for universities for academic year (AY) 2025-26 published on 29 May this year stated that its approach to AY 2025-26 allocations included the need to balance a number of issues, including promoting widening access to higher education.

[97] Education, Children and Young People Committee. Official Report, 1 October, Col 9
[98] Letter from the Minister for Higher and Further Education; and Minister for Veterans to the SFC, 20 December 2024

142. In its inquiry into widening access to higher education, the Committee commended the work being done by practitioners, colleges and universities, supported by the SFC, in developing and delivering widening access programmes across Scotland.[99]

143. It noted the evidence heard in relation to current college and university funding models, and questioned whether the financial support available to students being targeted under widening access initiatives was adequate.[100]

144. In its pre-budget scrutiny last year, the Committee noted the evidence in relation to the impact of the reduction in the higher education budget and in staff numbers on widening access. This point was echoed this year by Professor Rigby (Edinburgh Napier University) who argued that universities want to extend widening participation measures, but the current financial model makes this difficult.

145. This year, Universities Scotland highlighted the importance of effective targeting in achieving widening access targets and reiterated its call to address the problems associated with the data currently used to determine disadvantage.[101]

146. In its report on its widening access inquiry, the Committee asked the Scottish Government to set out how it will take forward plans to introduce Free School Meals data as a widening access measure at a national level and also highlighted this recommendation in its Stage 1 report on the Tertiary Education and Training (Funding and Governance) (Scotland) Bill. [102]

147. The Scottish Government, in its response to the Committee's report on the Bill, said that the Bill could provide an opportunity to make appropriate provision for data sharing and that the Scottish Government hopes to bring forward amendments Stage 2 of the Bill to enable this to be taken forward.

148. The Committee notes the Scottish Government's letter of guidance in relation to funding conditions for universities which stated that opportunities for Scottish domiciled students should continue to be protected while supporting delivery of the widening access commitments.

149. The Committee welcomes the ongoing progress being made by both colleges and universities in helping to meet the widening access targets.

150. The Committee believes that information sharing is key to the effective delivery of widening access measures and interventions and that the introduction of Free School Meals data in addition to SIMD data

[99] Education, Children and Young People Committee 5th Report 2025. Widening access to higher education inquiry. SP Paper 782.
[100] Education, Children and Young People Committee 5th Report 2025. Widening access to higher education inquiry. SP Paper 782.
[101] Universities Scotland. Written submission published with the papers for 1 October 2025 meeting.
[102] Education, Children and Young People Committee 5th Report 2025. Widening access to higher education inquiry. SP Paper 782.

as a widening access measure would be extremely beneficial for the sector in meeting widening access targets. The Committee expects to return to this issue. However, it encourages the Scottish Government to consider Stage 2 of the Tertiary Education and Training (Funding and Governance) (Scotland) Bill as a mechanism to deliver this.

Impact of National Insurance employer contribution increase

151. In the UK Government's Autumn Budget 2024, Chancellor Rachel Reeves announced that, from 6 April 2025, employer National Insurance Contributions (NICs) would rise by 1.2 percentage points to 15%. The per-employee threshold at which employers start to pay National Insurance will also be reduced from £9,100 per year to £5,000 per year.

152. The Scottish Government produced indicative costs of the rise to the public sector in Scotland, estimating that the increase for universities will be £45m and £12m for colleges.

153. The Cabinet Secretary wrote to the Committee in March 2025 stating that the UK Government Chief Secretary to the Treasury had confirmed that the Scottish Government would receive additional funding based on the Barnett formula, adding[103]—

> "Indications of funding from the Treasury fall far short of the estimated cost of the increase in employer NICs."

154. This year, the SFC received £5.5m associated with increased National Insurance costs for colleges. The SFC's commentary around the indicative allocations to colleges estimated that this will partially (around 60%) offset the increase in National Insurance costs. This would suggest that colleges would need to find money to support the remainder of the costs of the NICs increase, around £3.7m, from other budgets. Colleges Scotland stated that it is not "clear if colleges are in fact receiving 60% of this funding, or in a timely way, due to the accounting differences between Academic Years and Financial Years."[104]

155. Claire McPherson (Universities Scotland) said the estimated cost to universities ranged from £45 million to £57 million and explained that, as universities are not public sector organisations, they have received no assistance to deal with those rising costs. She said[105]—

> "That is in contrast to the rest of the sector in the UK as, at the time of the national insurance announcement, there was an uplift in English tuition fees, which could mitigate the impact. We have not had such an opportunity. Our costs are rising and our income is declining, which has created a significant pressure on the sector, among a whole range of other costs and inflationary pressures that are adding to the cost of delivery."

156. Professor Mathieson (University of Edinburgh) highlighted that the rise in tuition fees for English students will provide an annual additional £3.5 million for the University of Edinburgh as they have a large number of

[103] Letter from the Cabinet Secretary for Education and Skills to the Convener of 3 March 2025
[104] Colleges Scotland. Written evidence published with the papers for the meeting on 18 June 2025
[105] Education, Children and Young People Committee. Official Report, 4 June 2025, Col 16

students who come from England. However, he made the point that the rise in employer national insurance contributions will increase costs by £14.5 million.

157. The Committee notes the increased cost to both the college and university sectors of the National Insurance employer contribution increase and asks the Scottish Government to consider how universities could be supported to deal with these increased costs. In addition, the Committee asks that the Scottish Government ensures colleges are receiving the offset funding and in a timely way.

Collaboration

158. The Committee explored how collaboration across the college and university sectors could help address some of the financial pressures faced by institutions through efficiency savings.

159. During evidence there was support for deeper collaboration between colleges and universities, but also recognition that there are structural and funding barriers.

160. In 2024, the SFC and colleges undertook a "baselining exercise" on colleges' estates. The College Infrastructure Investment Plan: Progress Report said that this has provided the first single comprehensive dataset of the entire college estate. SFC said[106]—

> "This dataset will allow us to begin discussions with colleges to consider prioritisation, rationalisation, shared services and collaboration in a strategic and coherent way as we consider the investment required for the college estate of the future, moving from place-based provision to outcome-based provision."

161. The SFC highlighted its Research and Innovation Shared Services Collaboration Fund which enables universities to develop sustainable models for the implementation of shared services, for example, sharing technology transfer office facilities and research offices.[107]

162. Angela Cox (Colleges Scotland and Ayrshire College) argued that there was no single model of funding that would work for Scotland's colleges and spoke of the need to recognise the diversity of the sector and the landscape of Scotland. She highlighted the collaborative work done by colleges citing work being done in Glasgow, Edinburgh and the South East to generate efficiencies in college provision and argued that this work needed project funding and investment.
She said[108]—

> "In Ayrshire, which is a single-college region across three local authorities, we work closely with the University of the West of Scotland,

[106] SFC. College Infrastructure Investment Plan: Progress Report
[107] SFC. Written submission published with the papers for the 1 October 2025 meeting.
[108] Education, Children and Young People Committee. Official Report, 18 June 2025, Col 14

and we are working increasingly closely with the National Manufacturing Institute Scotland and the University of Strathclyde to address the needs of Ayrshire."

163. Joanna Campbell (Glasgow Kelvin College) also highlighted the collaborative work being done in Glasgow to meet the needs of students and commented on the lack of adequate funding, questioning why the Scottish Government would not invest in the area to the same extent it does in rural areas.[109]

164. Professor Powell (SRUC) cited comparative work being done in universities in Scandinavia, New Zealand and the Netherlands on innovative partnerships and new ways of collaborating that allow funding and income to be diversified and called for colleges to be strategic and look at new ways of working together with universities. [110]

165. Angela Cox (Colleges Scotland and Ayrshire College) cautioned however that the technical skills required across Scotland are provided by colleges and that when appropriate, "we should be working with our universities, but we should not make the assumption that that will somehow increase the sustainability of the tertiary sector or address Scotland's economic needs." This point was echoed by Andy Witty (Colleges Scotland) who expressed concern about the removal of the flexible workforce development fund, a point also noted by Tiffany Ritchie (SFC). She said that the SFC is working with colleges to ensure that the flexibilities in its model continue to support what was achieved under that fund.[111] This was an area about which the Committee also expressed concern in its pre-budget scrutiny letter last year.[112]

166. Vicki Nairn, Principal and Vice-Chancellor of UHI, highlighted the differences in the university and college funding models which would not necessarily lend itself to a combined funding model and said that UHI have been in discussion with SFC regarding funding flexibilities.
She explained[113]—

> "It would be helpful if we could link any future model to economic development outcomes, so that we could ensure that all our colleges and universities were really supporting our communities and our businesses and industries, either by training the workforce for the future or by contributing to research and innovation…The art will be in developing an agile model that offers an innovative solution."

167. In written evidence, the University of Highlands and Islands (UHI), which is an integrated university combining further and higher education, highlighted the UHI Strategic Plan 2030; this included aims to "deliver a connected, flexible curriculum shaped by student needs and employer demands" and to "drive regional economic transformation through

[109] Education, Children and Young People Committee. Official Report, 18 June 2025, Col 14
[110] Education, Children and Young People Committee. Official Report, 18 June 2025, Col 15
[111] Education, Children and Young People Committee. Official Report, 1 October 2025, Col 17
[112] Education, Children and Young People Committee. Official Report, 18 June 2025, Col 16
[113] Education, Children and Young People Committee. Official Report, 18 June 2025, Col 17

entrepreneurship and innovation". UHI also highlighted a number of suggestions that would support UHI's "continuing success". These included: linking funding to regional economic development; moving to a Tertiary funding settlement and empowering UHI to direct funding and target resources to match demand in year, including being able to move HE underspend to support FE.[114]

168. Universities Scotland called for a £20 million strategic funding pot to "support and enable enhanced work on university effectiveness and transformation, helping drive maximum value and efficiency from university spend, and empowering innovative new collaborations across and beyond the sector." It stated that the Scottish Government intended to introduce a similar fund in FY 2023/24, but the £20m initially announced was withdrawn in-year.[115]

169. **The Committee commends the work being undertaken across the college and university sectors to develop collaborative approaches and achieve efficiencies and believes this collaborative work should be supported. The Committee recommends that the Scottish Government sets out what actions it is taking to encourage this collaborative approach including further information on the SFC's Shared Services Collaboration Fund. The Committee also asks it to respond to the call for a £20m strategic fund to support this work across the university sector.**

Capital investment and Reinforced Autoclaved Aerated Concrete (RAAC)

170. In February 2024, the SFC highlighted that RAAC has been found in 18 institutions in the further and higher education sectors and stated: "institutions are at different stages in the process of identifying RAAC and assessing its condition, so the full extent of exposure and required remedial works is not yet fully known."[116]

171. When launching its financial sustainability reports on colleges and universities, the SFC commented that both colleges and universities face similar risks to their financial health. These risks included infrastructure pressures, exacerbated by the impact of RAAC, affecting the delivery of high-quality learning, teaching and research.[117]

172. The SFC reported that estates issues such as extensive backlog maintenance, RAAC, and defective cladding are key drivers in the financial issues faced by colleges and said the "ongoing work on the College Infrastructure Investment Plan, due to be published in Autumn 2026, will allow SFC to better prioritise expenditure on estates in the future."[118]

114 Written submission from UHI published with the papers for the meeting on 18 June 2025
115 Universities Scotland. Written submission published with the papers for 1 October 2025 meeting.
116 SFC. Reinforced Autoclaved Aerated Concrete (RAAC), February 2024 update.
117 SFC. News release, 26 September 2025
118 SFC. Financial Sustainability of Colleges in Scotland 2022-23 to 2027-28, 26 September 2025, page 5

173. The SFC also highlighted that estates issues significantly contribute to the financial strain on universities which are exacerbated by RAAC and faulty cladding. It stated[119]—

> "The Financial Transactions programme, aimed at universities, was also closed to new applications last year - this allowed universities to take low interest loans to tackle Net Zero capital projects which are now required to be funded in more expensive ways."

174. In its latest progress report on college infrastructure investment, the SFC highlighted the importance of Scotland's colleges and described them as being "integral to the success of the economy and the communities they serve."[120]

175. The SFC noted that "capital budgets continue to be subject to significant pressures" that "at present, the existing funding model is the only identified approach to investment in the college sector."

176. It highlighted that it has asked the Scottish Futures Trust (SFT) to provide a comprehensive picture of all currently available and any possible alternative capital funding models which will form part of its consideration infrastructure investment in the college sector.

177. Angela Cox (Colleges Scotland and Ayrshire College) spoke of the underinvestment in college infrastructure and argued that infrastructure investment is needed to support transformational change. She told the Committee[121]—

> "There are colleges that have buckets to catch rainwater in their corridors and classrooms, and some colleges have had to close buildings because of a lack of investment to deal with reinforced autoclaved aerated concrete."

178. She said that college sector estimates suggest that colleges will need about £1 billion to cover both the backlog in maintenance costs and the work needed to reach net zero for college campuses.[122]

179. When asked why the figures from the SFC vary widely from this at £35 million for capital maintenance and £30 million for project funding for 2025-26, Andy Witty (Colleges Scotland) said the final capital infrastructure investment plan has still to be published which should contain up-to-date figures, however he agreed with Angela Cox (Colleges Scotland and Ayrshire College) regarding the scale of the investment needed. He said [123]—

> "The previous information that we had came from a college estates survey that was done in 2017 and recognised that about £360 million of investment would be needed just to make buildings wind and watertight."

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[119] SFC. Financial sustainability of universities in Scotland 2022-23 to 2026-27, September 2025, page 4.
[120] SFC College Infrastructure Investment Plan: Progress Report, 31 July 2025
[121] Education, Children and Young People Committee. Official Report, 18 June 2025, Col 4
[122] Education, Children and Young People Committee. Official Report, 18 June 2025, Col 4
[123] Education, Children and Young People Committee. Official Report, 18 June 2025, Col 5

180. Joanna Campbell (Glasgow Kelvin College) told the Committee of Kelvin College's estimated £8.2 million historical cladding issue in its Springburn campus. In budgeting for this she explained that the college has sold one of its campuses and that they are in discussions with the SFC on retaining the capital receipts. She said the Scottish Government has secured provision for colleges to retain 70% of the capital receipts from the sale of assets; however they still have a funding gap of £5 million. She said it was unlikely that they would be able to make up the shortfall. She told the Committee[124]—

> "That will have an impact on the facilities that we are able to provide to our students and a significant impact on learning and teaching. We will not be able to make the improvements that we would like to make, because all our resource goes into trying to address the shortfall, which has come about through no fault of our own."

181. Vicki Nairn (UHI) also highlighted the RAAC challenges at UHI Moray College. She commented that capital funding is a major issue and called for capital funding to be made available to the college sector. She said[125]—

> "You might be fortunate and have a new college building, but time continues to move on and a lot of the old colleges have maintenance issues—our building is 20 years old and we have them, too. Unless organisations can carve capital funds out of already pressured funding, it is really difficult to make funding available."

182. Professor Rigby (Edinburgh Napier University) confirmed that Edinburgh Napier University had reserves of £139 million, much of which is in university buildings. She explained that they have to carry out building repairs due to RACC and asbestos and that some buildings' sale values are much less that their asset value thus not worth selling to generate income.[126]

183. Professor Mathieson (University of Edinburgh) confirmed that the University of Edinburgh had spent around £30 million removing RAAC from university buildings.

184. The Committee wrote to the Scottish Government to seek information on what steps it plans to take in relation to supporting Scotland's colleges and universities deal with RAAC in their estates. The then Minister replied stating that responsibility for building maintenance lies with property owners. The then Minister said[127]—

> "As part of its role in supporting and overseeing college and university infrastructure, the Scottish Funding Council (SFC) has worked with all institutions to assess the presence and condition of RAAC across the sectors. SFC has provided guidance, including from the Institution of

[124] Education, Children and Young People Committee. Official Report, 18 June 2025, Col 5
[125] Education, Children and Young People Committee. Official Report, 18 June 2025, Col 51
[126] Education, Children and Young People Committee. Official Report, 4 June 2025, Col 24
[127] Letter from the Minister for Higher and Further Education; and Minister for Veterans to the ECYP Convener, 29 July 2025

Structural Engineers (IStructE), and continues to support colleges and universities in interpreting and applying this advice as needed."

185. When asked what the overall figure for tackling RAAC across the college sector was, a Scottish Government official told the Committee that this would be covered in the forthcoming SFC infrastructure investment plan which is due to be published in Autumn 2026.[128]

186. In supplementary evidence, the SFC said it had increased sector capital maintenance funding by £1.5m (4.9%) in AY 2025-26 and, with agreement from the college sector, it has ring-fenced £2.5m for high priority estates needs. It stated[129]—

> "However, we recognise that this funding is insufficient to meet demand, therefore, colleges unable to address high priority estates needs within existing capital maintenance funding are encouraged to notify SFC as soon as possible."

187. The Committee acknowledges the financial pressures faced by universities and colleges on their capital budgets which have been exacerbated due to RAAC and cladding issues. The Committee notes that the Scottish Government has said that responsibility for college and university buildings lie with the individual institutions; however, the Committee asks the Scottish Government to consider ways in which additional help and support can be provided to the sectors to address the additional financial challenges as a result of RAAC and cladding in university and college buildings.

188. The Committee notes the SFC's infrastructure investment plan is due to be published in Autumn 2026. Given the negative impact that RAAC and cladding issues have had across both sectors, the Committee believes that action must be taken sooner to help institutions address these challenges and asks the Scottish Government to set out how it intends to support universities and colleges with this.

Governance and institutional scrutiny.

189. The Committee considered the SFC's role in governance and institutional scrutiny of the university and college sectors.

Powers of the SFC

190. Section 9 of the Tertiary Education and Training (Funding and Governance) Bill (The Bill) includes a new duty on the SFC to secure the monitoring of financial sustainability of colleges and universities. The Scottish Government will be able to request information and advice from the SFC in relation to the financial sustainability of colleges and universities which the SFC must provide when requested. The SFC can also provide this information and advice whenever they consider it to be appropriate.

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[128] Education, Children and Young People Committee. Official Report, 1 October 2025, Col 64
[129] Letter from the SFC to the Convener, 23 October 2025

191. During the Committee's scrutiny of the Bill, the SFC explained that they already perform this function; however the Committee heard that there was a lack of awareness of the requirements of colleges and universities in relation to informing the SFC of any significant deterioration in an institution's financial situation.

192. The Committee noted that the Gillies report stated that the current Scottish Code of Good Higher Education Governance in Scotland and the SFC's Financial Memorandum with Higher Education Institutions are fit for purpose. However, the situation at the University of Dundee demonstrated the serious consequences of financial mismanagement and the importance of the SFC being sighted on emerging issues.

193. The Committee said, in light of the evidence from the University of Dundee, it strongly believed that reassurances should be sought to ensure that all Principals, institutions and Courts are aware of their responsibilities. The Committee urged the Scottish Government and SFC to work with the higher education sector to raise awareness of these requirements as a matter of urgency and to be proactive in this regard. [130]

194. In its response, the Scottish Government said the SFC and Universities Scotland are in the process of finalising detailed responses to the 16 recommendations set out in the Gillies report and the Scottish Government will consider any proposed new approaches. It noted the Committee's concerns and will give consideration to the Committee's suggestion on mandatory training for Principals, members of senior leadership teams and university courts.

SFC Expectations of Good Governance report

195. SFC published a report on Expectations of Good Governance on 24 September 2025. This set out learning from a March 2025 analysis of governance effectiveness review reports carried out by On Board and from Professor Gillies' report into the University of Dundee.

196. SFC restated that as part of their conditions of funding, colleges must comply with the Code of Good Governance for Scotland's Colleges and universities must comply with the Scottish Code of Good Higher Education Governance. These codes operate on a "comply or explain" basis, with aspects that must be complied with and others that should be complied with.[131]

197. The report found that some institutions were "long overdue an external governance effectiveness review" due to the COVID-19 pandemic, recommending those that had not carried out a recent externally-facilitated governance effectiveness review (GER) do this as soon as possible, and that future GERs are undertaken on schedule.

[130] Education Children and Young People Committee. Stage 1 report on the Tertiary Education and Training (Funding and Governance) (Scotland) Bill. SP Paper 847. 9 September 2025
[131] SFC. SFC's Expectations of Good Governance, 24 September 2025

198. It also found a need for the following—

- guidance on what GERs should cover
- improved induction, training and development for governing body members and
- GERs to focus more on the quality of financial oversight by the governing body.

199. SFC stated it will more closely monitor governance going forward, including—

- Requiring institutions to submit externally facilitated GERs to SFC
- Institutions will also be required to submit regular updates on the implementation of GER recommendations and where risks are identified, SFC will work with institutions to develop monitoring and action plans
- SFC will require reports regarding non-compliance with governance codes and consideration of breaches of the SFC financial memorandum
- Institutions must have clear and accessible whistleblowing policies in place
- SFC will undertake scrutiny of institutional strategies
- For universities, SFC will work with the Committee of Scottish Chairs and Universities Scotland to develop guidance about the process for recruiting Chairs of Court
- For colleges, SFC will supplement existing training for governing body members with SFC-presented training on roles, responsibilities and expectations.

200. The Tertiary Education and Training (Funding and Governance) Bill contains provisions that places a new duty on the SFC to monitor the financial sustainability of post-school institutions. It strengthens the SFC's existing functions and provides a regulation-making power for Scottish Minsters to set out matters about which post-16 education bodies must notify the SFC.[132]

201. Tiffany Ritchie (SFC) said it was important that lessons are learned from the Gillies report and other reports and that “steps are taken to ensure that there is enhanced scrutiny going forward.”[133]

202. Jacqui Brasted, Director of Access, Learning and Outcomes, SFC reiterated the point that there are duties on the institutions to comply with the relevant sector code of governance. She said that colleges must have GERs every three to five years and for universities, “I believe that it is every five years.” She said that the SFC plans to increase its engagement with institutions to ensure that those GERs are untaken.[134]

203. She said that some institutions’ GERs have a heavy emphasis on development rather than assurance which the SFC is looking to rebalance.

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[132] SPICe briefing SB 25-16. Tertiary Education and Training (Funding and Governance) (Scotland) Bill. 24 April 2025.
[133] Education, Children and Young People Committee. Official Report, 1 October 2025, Col 3
[134] Education, Children and Young People Committee. Official Report, 1 October 2025, Col 11

She said that GERs could help the SFC identify where there is a problem with an institution. [135]

UHI governance arrangements

204. The Committee is aware of the recent review of regional strategic bodies and changes around the governance of the Glasgow and Lanarkshire colleges. The Committee explored the governance arrangements at the UHI and its assigned colleges.

205. Vicki Nairn (UHI) explained that the UHI was undertaking "change programme" which included exploring whether there was duplication in functions in the UHI centrally and the assigned colleges.[136] In supplementary written evidence, UHI described the funding arrangement whereby the executive office of the UHI top slices funding and said, "this legacy mechanism is no longer fit for purpose, particularly, since designation as a Regional Strategic Body". It stated[137]—

> "It is intended to change this mechanism as part of the new operating model which is currently being scoped, with a full business case due to be submitted to the Scottish Funding Council in December 2025."

206. In supplementary evidence, the Minister said[138]—

> "While UHI, as an autonomous institution and a Regional Strategic Body, is responsible for its own operational decision making, the Scottish Government welcomes ongoing work by the University to develop a final business case for its Target Operating Model, and both the SFC and Ministers will give this careful consideration once finalised."

207. **The Committee welcomes the commitment from the SFC to monitor governance more closely across the college and university sectors as set out in its report on Expectations of Good Governance.**

208. **Although a matter for the SFC and UHI, the Committee agrees that the current operating model and funding arrangements for UHI may result in duplication of functions and welcomes the work being done to consider afresh how the university is structured and funded in the future.**

209. The Committee agrees the importance of addressing the out-dated top slice funding mechanism and requests that the Scottish Government provides an update on how this work is progressing.

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[135] Education, Children and Young People Committee. Official Report, 1 October 2025, Col 11
[136] Education, Children and Young People Committee. Official Report, 18 June 2025, Col 12
[137] [Supplementary written evidence from UHI 23 June 2025]
[138] [Letter from the Minister to the Convener, 22 October 2025]