Douglas Ross MSP
Convener of the Education, Children and Young People Committee

20 May 2025

Dear Mr Ross,

Thank you for the opportunity to give evidence regarding the Tertiary Education and Training (Funding and Governance) (Scotland) Bill on 07 May 2025. I was pleased to be able to express SFC's support for this Bill and the wider post-16 education reform programme. I am writing to provide further information regarding issues raised during the session, and in response to your letter dated 14 May.

SFC’s commitment to post-16 education reform programme

SFC is clear on the benefits of reform, and we are committed to working with partners to deliver these changes for the benefit of learners, employers, and the economy. Given the transformational changes facing our economy and society, including new technology, shifts in Scotland’s demographics, and climate change, it is more important than ever that we have a funding system that can respond flexibly. This approach will ensure we have the right opportunities for learners, in the right place and at the right time: it will enable us to respond to the skills that employers need across the full range of provision from short, sharp courses to apprenticeship programmes and higher skills programmes, including access to the research and innovation offering of our universities.

Therefore, SFC fully supports Ministers’ ambitions to bring together the funding for post-16 skills, education, and research into one place. Bringing funding for provision into one funding body will bring parity of esteem between different types of provision to create a more connected, coherent, and cohesive system. All education and skills providers, whether private training providers, colleges or universities, will benefit from a more transparent, efficient, and streamlined approach to funding allocations, monitoring, and reporting.

As I mentioned at Committee, reform of the funding body landscape is one part of the broader post-16 reform programme. The Bill should be seen holistically alongside other post-16 education reforms, such as skills planning and the careers service, because a better understanding of skills needs will enable us to ensure that the right types of provision are being funded, and the careers service will have a vital role to play in advising learners about school subject choice for their chosen pathway. Taken together, these reforms will enable the whole of the education and skills system to better work together.

A redesigned funding body

The changes associated with SFC's additional responsibilities as a result of the Bill will be significant: they will embed the employer voice, apprenticeships and work-based learning to create a redesigned funding body with a new mission, values, culture and delivery mechanisms, and in doing so ensure that they are prioritised alongside college and university provision:

- Apprenticeships, work-based learning, and employers will be threaded throughout our governance mechanisms. SFC's Board Membership, committee structures, and committee membership will all be reflective of our new responsibilities for apprenticeships and employer engagement. For example, the Bill makes provision for the establishment of a dedicated Apprenticeship Committee.
- Alongside the transfer of functions, we will welcome expert staff from SDS who are experienced at delivering apprenticeships and work-based learning. We already have strong working relationships with SDS counterparts and therefore have strong foundations from which to build.
- As part of the transition and implementation, SFC will have a new strategic plan which will set out our strategic priorities across all our responsibilities.
- SFC’s new responsibilities will be reflected in our Ministerial Letter of Guidance, which will set out the Scottish Government’s priorities for SFC in relation to apprenticeships, colleges, universities, and work-based learning.

These reforms will strengthen SFC’s tertiary approach and will put apprenticeships and work-based learning on an equal statutory footing with college and university provision for the first time in Scotland. This will ensure we have a skills, education and research system that meets the needs of learners and employers and ensures that Scotland continues to thrive into the future.

Employer engagement

We heard at Committee that there are concerns about SFC’s experience of engaging with employers. As mentioned above, we will benefit from the expertise and experience of SDS colleagues who will transfer into the redesigned funding body. Their expertise will build on the solid foundations of SFC’s existing role. SFC has a strong track record of working with key partners to respond to the current and prospective skills needs of learners, industry, and regions. We actively engage with employers and industry sectors in line with our current role, remit, and statutory duties. These relationships are crucial in developing insight and knowledge about skills gaps and sector priorities that help inform our engagement with institutions to support provision and curriculum planning. For example, we worked at pace with partners to develop and implement a new Graduate Apprenticeship Framework for Operating Department Practitioners to meet an urgent skills gap.

SFC also plays a facilitating role between employers, industry, and the sectors we fund. Through our Outcomes Framework and Assurance Model (OF&AM), we set our expectations of colleges and universities in return for the funding that they receive. SFC's outcome for skills and work-based learning requires that: "Institutions produce confident and highly capable work-ready graduates, engaging with employers to respond to industry and sector needs, skills alignment and to co-create solutions to challenges." Colleges and universities have developed excellent relationships with employers and industry partners to develop a wide range of work-based learning and apprenticeships. For example, the Civil Engineering Contractors Association (CECA) Academy, funded by SFC, is a collaboration between CECA Scotland, colleges, and leading civil engineering employers to equip learners with essential skills, and it has been rolled out across Scotland's colleges.

Costs associated with the Bill

The figures outlined by SDS during the Committee session and in their written submissions to both the Education, Children and Young People Committee and the Finance and Public Administration Committee (FPAC) have not been shared or discussed with SFC. Although we have asked to engage with the SDS leadership, they have explained that they will engage only with the Scottish Government as they work through the issues they have raised. As I said during the Committee session, given the complexities related to TUPE for example, it is difficult for SFC to comment on these figures without understanding the detail behind them.

We do, however, recognise the costs set out in the Financial Memorandum (FM) as an estimate of costs associated with the Bill. The FM reflects the detailed financial information that we provided to the Scottish Government and the engagement we had with them about costs as they developed the Outline Business Case. I enclose a copy of our submission to the FPAC regarding the FM. We will continue to work with the Scottish Government to develop and refine this estimate as the reform programme progresses.

It is of course imperative that we have opportunity to engage closely with SDS regarding the operational transition – including costs, staff, and digital – as soon as possible, and we stand ready to work with SDS leadership at the earliest opportunity to ensure reform is delivered successfully for the benefit of learners, employers and our economy.

SFC's Financial Sustainability Reports

We understand the concerns raised by members about the delay to the publication of our financial sustainability reports. I assure you that we remain committed to these reports: we recognise that they are a respected source of information that enable public scrutiny, inform policy decisions, and provide sector-level intelligence for colleges and universities.

These reports are based on an analysis of published accounts and forecasts provided by institutions to SFC. To provide meaningful, consistent, and accurate sector reports, we need information from every institution. There was an unprecedented delay in laying the accounts for three colleges in 2022-23, and two remain outstanding. I understand that Audit Scotland has provided you with more detail on the reasons for the delays.

Given these delays, our reports became unavoidably out-of-date, and did not reflect the pace of change or the current financial environment in which institutions are operating. We recognised that their publication would not have been helpful in providing an understanding of the current position of the sectors. We therefore made the decision to postpone the reports to provide a comprehensive and meaningful update. Our updated report will include analysis of institutions' 2023-24 Annual Accounts and financial forecasts that we are scheduled to receive at the end of June 2025.

We plan to publish this updated report in September. This timescale is necessary for us to undertake this complex analysis of over 40 institutions, hold challenge engagements with institutions regarding their returns, and follow our robust governance processes. This adjusted timing will move us into a schedule that better fits the sectors' reporting and forecasting cycle, and, for that reason, we intend to adopt it for future editions of our annual financial sustainability reports.

In the meantime, in recognition of the Committee's interest in our financial analysis of the sectors and to respond to your request for information to be expedited, I am pleased to share at Annex A an analysis of the available 2023-24 accounts for the college and university sectors which was recently presented to our Finance Committee, in line with our governance processes. Please note that, due to the issues outlined above, this analysis excludes institutions whose 2023-24 accounts have not yet been published. This analysis will be incorporated with the June 2025 forecasts and published in our reports in September. We recognise that the accounts referred to above may still not be available in time for our revised publication date, however our intention is to proceed with publication.

SFC's approach to reallocating funding

In your letter of 14 May, you asked for clarification about £10m funding that had been allocated to the University of Dundee. As I explained at Committee, the Scottish Government budget sets out SFC's funding across different budget lines, and we must allocate funding in accordance with these budget lines, i.e. we cannot allocate funding intended for universities to colleges, and vice versa. We carefully manage our budget of around £2bn to ensure it is allocated to best effect to deliver for learners, employers, and the economy. Where there are underspends, these are usually returned to the Scottish Government. We provide advice to government about where we think this funding should be spent, but ultimately, the decision rests with the Scottish Government.

In a previous committee session, SFC's Director of Finance explained that £10m of the £22m provided to the University of Dundee related to 'reprofiled funding'. Reprofiling funding simply means adjusting the timing of funding being spent. In this specific case, there was a projected underspend for FY 2025-26 relating to a ring-fenced capital project. In line with usual processes, this funding would by default return to the Scottish Government. The Scottish Government decided to 'reprofile' £10m of this funding to support the university sector in FY2025-26. SFC subsequently allocated this funding to the University of Dundee, alongside £12m of the additional £15m Financial Transactions funding made available by Scottish Government, in line with SFC's robust governance processes. Therefore, I wish to correct the record of 07 May to reflect that the £10m was funding reprofiled from the Scottish Government, as set out by SFC's Director of Finance at the evidence session on 19 March 2025.

I trust this information is helpful and please do let me know if there is anything further that we can assist with.

Yours sincerely,

Martin Boyle
Chief Operating Officer
Scottish Funding Council

Annex A: Financial Analysis of 2023-24 Annual Accounts

The following analysis is based on our analysis of institutions' available Annual Accounts at the end of December 2024, compared to available Annual Accounts for 2022-23, and forecasts submitted at the end of June 2024.

It is important to note that:

1. The sector is not homogeneous and there continues to be variation between institutions in terms of financial performance that is not reflected in the aggregate indicators.
2. The returns can only be viewed as a snapshot in time; they are historic and are not a guarantee of future performance.
3. This analysis does not present a complete picture of the college and university sectors:
   - The analysis of the college sector excludes the results of UHI North, West and Hebrides and UHI Perth whose 2023-24 accounts have yet to be laid before Scottish Parliament. Similarly, the position reported for 2022-23 excludes the results for Forth Valley College and Lews Castle College whose 2022-23 accounts have also yet to be laid before Scottish Parliament.
   - The analysis of the university sector excludes the results for the University of Dundee, whose annual accounts have not yet been submitted.
   - Additionally, the Open University in Scotland is not included in this analysis due to different reporting arrangements in place. While The Open University has operations in Scotland, the institution's accounts are only produced on a UK basis.

This analysis will be incorporated with institutions' forecasts received in June 2025 and will be published in our reports in September 2025.

College Sector

- Colleges continue to operate in an extremely tight fiscal environment alongside many challenges such as increased staff costs, high energy costs, other continued inflationary pressures and higher than historic interest rates impacting on loan repayments.

- The sector reported an underlying[1] operating surplus of £570k in 2023-24. This has improved by £14.2m against the forecast deficit of £13.6m and represents a substantial improvement against the prior year deficit of £14.4m. The improvement against the 2022-23 result is attributable to reductions in staff costs reflecting savings from ongoing voluntary severance activity.
- Colleges remain highly dependent on SFC grant which represented 76% of total income for the sector in 2023-24 compared to 77% in 2022-23.
- The sector reported staff restructuring costs of £9.2m in 2023-24. This is a reduction of £3.8m (30%) against the £13.0m reported in 2022-23 with continuing voluntary severance activity undertaken by colleges to rebalance their financial position.
- The sector reported cash balances of £128.6m at the end of July 2024, a marginal increase of £2.5m (2%) against the balance of £126.1m at the end of July 2023. However, the reported cash balance significantly improved (41%) against the forecast cash balance of £91.2m.
- Overall sector borrowing reduced from £217.2m at the end of July 2023 to £207.6m by the end of July 2024. Most of the sector's borrowing is in the form of NPD/PFI commitments relating to three colleges.

University Sector

- The sector reported an underlying operating surplus of £17.2m for AY 2023-24. Whilst this is better than the forecast position (£7.4m deficit), it represents a significant deterioration of 92% on the 2022-23 result (£211.7m surplus), mainly due to increased staff and other operating costs set against overall flat income. Nine institutions reported adjusted operating deficits during 2023-24, and eight institutions reported adjusted operating surpluses
- Institutions' dependency on SFC grants further reduced from 31% in 2020-21 to 24% in 2023-24.
- Eight institutions spent a total of £16.9m on staff restructuring during 2023-24. This is substantially more (431%) than the £3.2m spent during 2022-23.
- The sector cash position at the end of July 2024 is reduced on levels reported the previous year. The sector reported cash and short-term investment balances of £1.682bn at the end of July 2024 which is a 26% reduction on last year's balance of £2.265bn at the end of July 2023 and a 23% reduction on the forecast of £2.177bn. This reduction was largely due to

[1] Further detail about the adjustments to the operating position to give the underlying operating position are set out in Annex D of SFC's 2024 Financial Sustainability publication: Financial Sustainability of Colleges in Scotland 2020-21 to 2025-26 - Scottish Funding Council

one institution reclassifying the way it reports its investments. No institution reported a negative cash balance at the end of July 2024.

- Overall sector borrowing reduced slightly during the year ending 31 July 2024. The majority of the sector’s borrowing is in the form of Private Placements which involve large bullet payments at set points in the future with interest paid in the intervening years.