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20 January 2026

Dear Convener,

## PRE-BUDGET SCRUTINY 2026-2027

I thank you and committee members for the extensive and comprehensive engagement, scrutiny and evidence that you have brought to a range of important issues on the sustainability and future of the college and university sectors.

Scotland benefits from a genuinely world class post-school sector that delivers excellence in teaching and research, and each year supports people to secure the training and qualifications to help fulfil their potential and contribute to Scotland's success as a nation operating in a dynamic and fast changing world. Both sectors also continue to play a vital role in helping lift families out of poverty by giving people the training and qualifications needed to secure new employment opportunities.

The Draft Budget 2026-27 invests over £2.4bn in post school education and skills; reinforces our steadfast commitment to free education.

At a critical time for both sectors, this budget delivers a significant real terms increase in our investment in Scotland's college and university sectors so that people of all ages have the opportunity to fulfil their potential.

Scotland's colleges will see a combined increase of £70m in resource and capital funding, equivalent to a 10% uplift on last year's budget. This is an opportunity for the sector to demonstrate how they can come together to help people all across Scotland to fulfil their potential and ensure that Scotland's workforce needs are met.

We have far-reaching work underway with both the university and college sectors to ensure that they are equipped to respond to the demands and opportunities they face, including the ongoing impact of consecutive UKG policies that place unnecessary burdens on the sector.

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The Minister and I, and my Cabinet Colleagues, will continue to work closely with both the college and university sectors to design and deliver the vital reforms needed to meet learner and business needs now and well into the future. Our draft budget provides a clear and stable platform on which to deliver that change, and I look forward to your support as that budget progresses.

I have provided detailed responses to the points raised in your correspondence from 14 November.

## Budget Priorities & Financial Sustainability

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 SG 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 SG 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 SG confirm their intention to carry out this work with indicative timescales for completion.*
56. *The Committee reiterates its view that there is a need for the SG 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 SG's expectations of colleges. The Committee welcomes the commitment by the SG to engage with the sector on this*

- Will the SG set out clear priorities for the college sector and ensure resources match those priorities?
- How does the SG plan to support colleges and universities to overcome financial challenges in its budget documentation?

The Scottish Government has engaged comprehensively with stakeholders and delivery partners in the lead up to budget 2026-27 and the accompanying spending review.

Across the spending review period, revenue funding into Scotland's colleges and universities increases by over £250m, which will mean more than £2.4 billion being invested annually to help people all across Scotland fulfil their potential. This investment will also strengthen Scotland's economy, support our world class research base, deliver the skills needed across key sectors, and help lift people out of poverty.

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Scotland's colleges will see an increase in revenue funding across the spending review period of over £146 million; creating a strong foundation for the sector to come together to deliver an ambitious body of reform and transformation alongside delivering vital services and opportunities for people and employers across Scotland.

As mentioned above the Draft Budget 2026-27 will see a combined increase of £70m in resource and capital funding into Scotland's colleges, equivalent to a 10% uplift on last year's budget. This is an opportunity for the sector to demonstrate how they can come together to help people all across Scotland to fulfil their potential, and ensure that Scotland's workforce needs are met.

*In addition to that funding, the new and expanded Whole Family Support package announced in the budget will boost investment through the RISE initiative (Raising Income through Skills and Education), giving colleges access to a projected £8 million of funding to deliver new or expanded initiatives to help adult learners get the skills and qualifications needed to secure new employment opportunities. This is a clear signal of the vital role of colleges in addressing this government's social and economic priorities.*

Our continued investment in apprenticeships, careers advice, developing the young workforce, and adult learning will strengthen pathways into and through employment: supporting economic outcomes, helping parents and carers to sustain and progress in work, and helping to tackle child poverty.

Overall, this budget will support sustainability and reform, protect free tuition, advance widening access, and support learners to progress into and through work, helping address poverty and cost of living pressures.

The College Infrastructure Strategy and Infrastructure Delivery Plan highlight work the Scottish Funding Council is leading with the college sector to develop a 10-year College Infrastructure Investment Plan, supported by the SG and the Scottish Futures Trust. Subject to the conclusions of that work in 2026 and informed by the associated business case, the Scottish Government will consider the potential for Public Private Partnership type models to enable a reformed and modernised college estate. Any deployment of Public Private Partnerships would remain subject to full business case development and robust Value for Money assessment, informed by specialist advice from the Scottish Futures Trust.

In line with usual practice, Ministers will issue the annual Letter of Guidance to the Scottish Funding Council in the weeks following publication of the draft budget. This letter will set out our expectations and priorities for both the college and university sectors. In addition the Minister and I commit to providing more extensive updates as work progresses around the transformation initiatives and flexibilities in funding for colleges.

## **College Fiscal Sustainability & Staff Costs**

65. *The Committee is aware of the SG'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 SG, the Committee recommends that the SG 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.*

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- Will the Government deliver staff cost savings in the college sector as part of its Fiscal Sustainability Delivery Plan? If so, how will this be approached?

Colleges have made and continue to make significant progress on efficiencies and costs savings. The latest public sector staffing figures published on 16 December show that in the third Quarter of 2025, staffing levels have continued to drop, reducing from 10,957 in 2022-23 to 10,112 in 2023-24.

Colleges are responsible for their own operational decisions, and this includes staffing and resourcing. The official annual college staffing figures, covering 2024-25, will be published by SFC in Spring 2026 and will provide a more comprehensive picture of college staffing.

## Funding Model & Flexibility

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 SG'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.*

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.*

- What is the Government's view on developing a new funding model for universities and colleges that addresses current financial challenges?
- Will the Government review clawback rules and provide greater flexibility in funding allocations?

The Draft Budget 2026-27 delivers a combined increase in resource and capital funding into Scotland's universities of over £55m, equivalent to a 5% uplift on last year's budget. The budget also honours our commitment to the University of Dundee and its sustainable future, with up to £20m available to support their recovery plan.

As set out by the Minister for Higher and Further Education on 18 December 2025: the Scottish Government recognises the crucial role that universities play in our country and their innumerable contributions to Scotland's economy, and is actively working with the sector via the Framework for Sustainability and Success of Scotland's Universities. This is a collaborative project between the Scottish Government, Universities Scotland and other relevant stakeholders to co-design and secure a successful and sustainable future for Scotland's university sector.

This is an issue that goes beyond party political boundaries, which is why the work of MSPs from across political parties is vital in finding common ground on complex issues.

The framework will be driven by a Steering Group that includes representatives from the sector, from government, from staff and student bodies, and from the business community.

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This Group will oversee exploration of options for ensuring a sustainable and successful future for Scotland's Universities, and will focus on designing a route to support the sector drive forward change.

On the issue of "clawback", where the Scottish Funding Council's allocation to a university does not fully accord with the actual take-up of places in any one year, the SFC has in the past recovered funding to be reallocated to ensure proper accountability for public funds and coherent provision across the sector.

The SFC has already taken important steps to ensure that the recovery of funds from universities is approached differently and in line with changes already brought forward for colleges via the College Transformation Framework. This means that universities will have the ability to use monies already allocated, and accounted for in their budgets and forecasts, more flexibly. In both cases, colleges and universities, there is no new funding currently attached to the Frameworks.

The Scottish Funding Council has established a bidding process so that they can demonstrate accountability for the flexibility provided: not all universities or colleges are afforded this flexibility by the SFC, only those who submit bids that are sufficiently well-evidenced. At this time, the University Transformation Framework relates specifically to the 2023-24 year where temporary COVID places were still in the system creating additional supply, but the principles may be adapted for future years.

[College Transformation Framework - Scottish Funding Council](#)

[University Transformation Framework - Scottish Funding Council](#)

### **International Students**

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.*

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%.*

100. *The Committee agrees there is an over-reliance on the international student income across the sector and requests that the SG 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.*

- What is the Government doing to broaden the cohort of international students and mitigate risks from falling numbers? (Sections 100, 85–89)

In addition to the work underway with the sector via the Framework for Sustainability and Success of Scotland's Universities, the Scottish Government's continued investment in international higher education is helping universities and colleges attract and diversify their international student population while strengthening existing partnerships and creating new ones. This work is increasingly critical to the future sustainability of institutions; particularly in the context of financial pressures, restrictive UK Government migration policies, and growing global competition.

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In 2023-24, almost 74,000 students from over 180 countries studied at Scottish universities, with international students accounting for more than a quarter of the total student population. This diversity enriches the learning environment and supports Scotland's reputation as an open and globally connected nation.

The first [International Education Strategy \(IES\) annual report](#) was published on 28 March 2025, highlighting progress made during 2024-25 across its three core themes and showcasing the strength of our collaborative approach. To further diversify the international student population, the Come to Study: Find Scotland campaign promotes Scotland's higher and further education sectors as distinct and world-class, emphasising the quality of institutions, the student experience, and long-term employment opportunities. This year, the campaign is initially targeting India, Nigeria, and the USA, with flexibility to expand to other territories as priorities evolve. It will also feature new case studies of students and graduates from a range of countries, each highlighting different aspects of student life.

Since its launch in 2023, we have invested over £1.3 million in the Scottish Education Exchange Programme (SEEP), funding 86 projects across colleges, universities, and the Community Learning and Development sector. These projects have fostered partnerships with more than 60 countries, further strengthening Scotland's international education footprint. Crucially, SEEP has helped institutions build connections across Europe, putting them in good stead for maximising the benefits of reassociating with the Erasmus+ programme from 2027.

Scottish Ministers have consistently raised concerns about the damaging impact of UK Government migration policies on Scotland's education sector and economy. To mitigate these challenges, Scotland's Migration Service provides support to international students and graduates navigating the complex migration system. In addition, this Government has confirmed that it will not apply a levy on international student income in Scotland. Introducing such a levy would undermine Scotland's attractiveness to prospective students, contradict our values as an open and inclusive nation, and risk the financial sustainability of institutions.

## Governance

*124. The Committee is concerned by the high pay packages offered to university principals and those in senior management positions and would welcome the SG's view on this, including confirmation of whether the SG'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.*

- Will the Government's letter of guidance to the SFC include pay restraint for senior university staff? (Sections 124)
- Will the Government implement mandatory training for principals and governing bodies to strengthen financial oversight? (Sections 193-194)

The Committee will be aware of the discussions that have taken place on these matters as the Tertiary Education and Training (Funding and Governance) (Scotland) Bill progresses through Parliament. I anticipate further debate and action on these matters at stage 3 of that Bill.

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Under the current arrangements, the Ministerial Letter of Guidance to the SFC sets out our expectations in relation to senior pay at universities. While universities are autonomous institutions with responsibility for their own pay and remuneration decisions, the SG expects universities to exercise restraint in setting senior pay, which should be in step with the salary, terms and conditions offered to other university staff. The SFC should therefore continue to seek assurances that universities are complying with the Code of Good HE Governance in relation to staff remuneration.

Universities are required to comply with the principles of good governance set out in the Scottish Code of Good HE Governance as a term and condition of grant funding from the SFC, including in relation to training of members of their governing bodies.

The SG has welcomed the response of SFC's guidance "SFC Expectations of Good Governance" following publication of the Gillies report. SFC's guidance acknowledges that there is a need for improved induction, training and development of governing body members, and supports the commitment of the SFC to supplement existing training of governing body members with SFC-presented training about its expectations of members, and the role and responsibilities of governing bodies, the accountable officer, and executive teams.

The SFC has also committed to working with Universities Scotland and Colleges Scotland to agree a way forward to ensure that all governing body members undertake this training, including determining whether this should be made mandatory under its Financial Memoranda, or whether this would be better placed within sector governance codes.

The sector's response to the Gillies Report, published jointly by Universities Scotland and the Committee of Scottish Chairs, also includes a commitment to strengthen the overall training and support package available to governing body members and executive teams.

## **Widening Access**

146. *In its report on its widening access inquiry, the Committee asked the SG 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*
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 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 SG to consider Stage 2 of the Tertiary Education and Training (Funding and Governance) (Scotland) Bill as a mechanism to deliver this.*

- How will the SG introduce Free School Meals data as a widening access measure and use the Tertiary Bill to enable data sharing? (Sections 146–150)

A Scottish Government amendment on information sharing for widening access purposes was lodged and agreed at Stage 2 of the Tertiary Education and Training (Funding and Governance) (Scotland) Bill in December 2025. The SG will continue to progress this work when the Bill has reached its conclusion.

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## Collaboration

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 SG 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.*

- What actions is the Government taking to encourage collaboration between colleges and universities, and will it respond to the call for a £20m strategic fund? (Section 169)

Across the spending review period, revenue funding into Scotland's colleges and universities increases by over £250m, which will mean more than £2.4 billion being invested annually to help people all across Scotland fulfil their potential. This investment will also strengthen Scotland's economy, support our world class research base, deliver the skills needed across key sectors, and help lift people out of poverty.

This investment also creates a strong foundation for the sector as a whole to come together to deliver an ambitious body of reform and transformation alongside delivering vital services and opportunities for people and employers across Scotland. The work taking place through the "Framework for Sustainability and Success of Scotland's Universities" will explore issues of shared services and interactions between further and higher education pathways, as will the complementary work with the college sector via the College Tripartite Arrangements.

As the committee acknowledges, it is imperative that the university and college sectors enhance how they collaborate, not just to support efficiencies, but also to support learners seamlessly access the education and training they need and to support a responsive approach to local and regional skills needs. This is why the Purpose and Principles for Post School Education and Research places emphasis on system-wide outcomes and action.

[Post-school education, research and skills - purpose and principles - gov.scot](http://Post-school%20education,%20research%20and%20skills%20-%20purpose%20and%20principles%20-%20gov.scot)

Yours sincerely,



**BEN MACPHERSON MSP**  
**Minister for Higher and Further Education**

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