Scottish Funding Council
Comhairle Maoineachaidh na h-Alba

Neil Bibby MSP

Convener

Public Audit Committee

The Scottish Parliament

By email publicaudit.committee@parliament.scot

18 November 2026

Dear Convener,

Thank you for your letter of 12 November 2026 and for the opportunity to attend Public Audit Committee (PAC) that day. Please find below information relating to your two requests:

Assessment of cash advances

You have asked for the ground rules SFC applies in determining the exceptional circumstances when deciding whether to issue cash advances to colleges for more than one year in a row. As discussed at PAC, we recognise the need for clarity as highlighted by Audit Scotland, and have set out the evidence we require in relation to liquidity support in our refreshed recovery plan guidance and financial forecast return guidance. This evidence includes: a credible and robust recovery plan, assurance on its deliverability, regular progress updates to evidence that delivery, additional financial reporting to evidence the improving financial trajectory, assurance on the oversight arrangements for that delivery, measurable performance indicators to report against, and evidence that the transformation supports longer-term sustainability.

An advance explicitly requires repayment within one year, and in exceptional circumstances where that liquidity support is sought in the following year, SFC will look for greater assurance on the depth and pace of transformation. This may include inviting the college senior team to present to SFC's senior team, requiring that SFC joins as an observer the college's Board or Committee meetings, and requiring third-party assurance on the recovery plan and its delivery. As discussed at PAC, we recognise that cash advances are not suitable tools to support the range of multi-year transformation underway in the tertiary system, and we continue to engage with Scottish Government on routes to support this.

Colleges at Risk of Insolvency

Principle of transparency

First and foremost, I should underline SFC's commitment to transparency and sharing information publicly on the financial health of universities and colleges in Scotland. Our annual reports on the financial sustainability of colleges and universities aim to meet the public interest through an in-depth analysis of the financial health of the college and university systems each year. We also work closely with Audit Scotland to support their annual publication on Scotland's colleges. There is also in-depth information publicly available regarding individual college finances in their annual report and accounts which SFC publishes on its website, allowing for easy access to all college reports in one place.

SFC's publication: risk in a flat-cash scenario

In your letter you asked for the names of institutions at risk of insolvency or near to that point. I think it would be helpful to explain the differences between the Audit Scotland Report and SFC's Financial Sustainability Report. Audit Scotland's Report is based on colleges' published annual reports and accounts, with a focus on historical, actual results. While SFC's report includes analysis of that backwards-looking information, it goes further to include analysis of forecasts based on a series of assumptions and scenarios that may or may not materialise. This forecast information is collected from colleges in order to understand and anticipate the system-wide risks in different scenarios – it does not represent the actual, current financial health of specific colleges.

With this context in mind, I would therefore like to clarify SFC's concerns discussed on 12 November, and set out in our report of 1 October:

- SFC is not reporting based on audited information that there is a risk currently or in the near-term of insolvency. SFC is instead providing transparency about the system-wide financial risks in different future, and hypothetical, scenarios – in this case if there were to be flat-cash funding from Scottish Government from 2027-28 onwards, ongoing inflationary pressures, and no additional funding to address child poverty or transformation. This information should be considered in that context rather than as a factual statement of the current finances of colleges.
- In that hypothetical scenario of flat-cash funding, while we highlighted the four colleges in our discussion at PAC as an illustration of the scale of the problem, the risks are clear across the sector, they are not limited to four colleges. As set out in SFC's publication: fourteen colleges (58%) are forecasting less than 20 days' cash reserves by the end of July 2027, nineteen colleges (79%) are forecasting adjusted operating deficits in 2027-28, and the sector as a whole is forecasting negative cash by 2028-29.

SFC is concerned that rather than providing transparency, publishing the names of four colleges could inadvertently be both misleading to the Public Audit Committee and the wider public as well as being potentially detrimental because (i) it would represent an inaccurate picture for these colleges, reflecting forecasts of a hypothetical future scenario rather than their current finances; and (ii) it would be inaccurate with regards to the sector to name only four colleges, these colleges are not outliers, in a flat-cash scenario there is a sector-wide increase in financial risk.

The vital uplift of funding from Scottish Government in 2026-27 has helped to reduce the financial health risk profile for the tertiary system: stabilisation funding has supported colleges and universities to fund inflationary pressures, and transformation funding is supporting a range of projects including exploration of federalised models and shared services. There is ambitious work at pace across colleges and universities to find efficiencies, grow income, manage costs, and find a path to financial sustainability – with the sector-wide work including College Sector of the Future offering an unprecedented opportunity to address this challenge collectively.

It is through this ongoing collaboration between colleges, universities, SFC and Scottish Government, by delivering stabilisation and transformation, the tertiary system can achieve greater financial resilience, improved learner and employer outcomes, and support the economic growth that Scotland needs.

SFC is engaging intensively with Scottish Government to ensure this future hypothetical risk does not materialise, and this forms part of ongoing Budget negotiations. SFC is making the case this requires committing to multi-year support for programmes of stabilisation and transformation in 2027-28.

Supporting colleges in a complex environment

We deliver our commitment to transparency alongside our statutory duty to secure coherent provision across fundable further and higher education, ensuring that there are opportunities for learners and that essential skills needs are met, while supporting the Government's key priorities to deliver economic growth, eradicate child poverty, address climate change, and improve public services. This purpose must of course be delivered in a manner that is transparent and accountable. As noted above, we strive to deliver transparency across a number of different publications.

In previous discussions at Parliament, we and the Auditor-General have recognised that colleges are unusual as public bodies, delivering a public good while operating in a quasi-commercial environment and in a specific Scottish and indeed UK market. In any request to name individual colleges, whether publicly or in a private session in Parliament, we would need to consider the following:

- We take into account the need to allow institutions sufficient time to plan and implement their financial recovery without public scrutiny which could influence

lending decisions and credit terms, insurance arrangements, supplier relationships, staff recruitment and retention, and prospective students' decisions about where to study.

- Publishing the name of an individual college based on its forecasts is likely to mean suppliers shorten their payment terms, lenders may require repayment of loans, investors may end contracts which provide income to the college, learners may choose not to take up courses, and key staff may depart - all of which mean a college that may otherwise be able to implement a financial recovery may fail to do so, and that risks impacting learners and communities. In this respect, it is important to bear in mind that although colleges are technically classed as public bodies for accounting purposes, they operate in a quasi-commercial environment, generating commercial income and holding commercial debt (from before their classification to the public sector).
- The impact of publishing the name of a specific college is not limited to the college either: as discussed with PAC one of the strengths of the Scottish tertiary system is the collaboration between colleges and universities through partnerships, shared services, tertiary institutions and exploration of federalised models. This means there are more interdependencies between institutions, so naming one institution could harm other institutions in turn – and this risk of contagion would have greater impacts on learners, regional economies and communities.

Further engagement with the Public Audit Committee

In light of the unique environment in which colleges operate, we would welcome the opportunity to brief the Public Audit Committee in closed session on matters that are both nuanced and commercially sensitive. We recognise the importance of working with Audit Scotland to support transparency where public funds are provided to public bodies, and we welcome ongoing discussions with Audit Scotland regarding how we can increase our engagement and act in the public interest, recognising the challenging and unique environment for colleges. We will continue to work closely with colleges and Scottish Government to support the financial viability and financial sustainability of all colleges in Scotland, recognising the central role of colleges in communities, regions and Scotland in addressing child poverty and driving economic growth.

Yours sincerely



Paul Devoy

Interim Chief Executive and Accountable Officer, SFC