Public Audit Committee – Written Response – October 2026

Introduction

Colleges are vital anchor institutions in our local communities, and skills engines of our regional economies, providing the upskilling and re-skilling required to lift people out of poverty and deliver sustainable economic growth.

Skilled college graduates contribute billions to Scotland's economy each year, across hugely diverse industries, in every community. College graduates are estimated to have made the Scottish economy cumulatively better off by around £52bn over their 40-year working lives.

Colleges are part of Scotland's anti-poverty infrastructure, helping to deliver progress on the key Scottish Government priority of eradicating child poverty. According to research from the Nuffield Foundation and the Fraser of Allander Institute published just before the election, college education keeps 15,000 people out of absolute poverty and 10,000 people out of severe poverty, with 250,000 children benefitting from the higher incomes earned by people with college-level qualifications.

With the right level of investment, colleges can achieve greater financial stability and continue to play their vital role as anchor institutions within communities. They are not only central to widening access to education and opportunity, but also serve as key drivers of skills development, productivity and economic growth across Scotland.

In last year's Budget there was a 10% increase across revenue and capital funding for the college sector. I see this as an important first step towards the level of investment that will be required over the next few years. Above-inflation budget settlements are necessary to provide stability for the sector and create the conditions for its long-term sustainability and any further sectoral transformation required through the College Sector of the Future workstream.

Audit Scotland Report – *Scotland's Colleges 2026*

The Audit Scotland report recognises the extremely challenging financial position colleges continue to operate in due to the 7.5% real terms cut to government investment in the five years to 2026/27. During 2024/25, an increasing number of colleges needed to rely on short-term support to balance the books. I see this as a clear sign of a sector still under significant and unsustainable financial pressure.

For several years, colleges have worked hard to manage these significant financial pressures, reduce costs, and protect the quality of learning and teaching. It is notable that colleges have already cut their workforce by 13% since 2019, compared to a 12% increase across the devolved public sector in Scotland (a 25-percentage point difference).

It is a real credit to staff that, despite growing financial pressures, colleges have still increased the proportion of students who successfully completed their courses and supported a high proportion of students into positive destinations. However, despite every effort to protect the college offer, a reduction in 40,000 college students over two years is

the wrong direction of travel for our sector and our economy. I see this as the very moment that investment in the college sector is vital for the future economic success of Scotland.

Audit Scotland also noted within the report the additional £84.6 million still to be distributed to colleges over the next two years of the Spending Review period. I see this as significant as colleges need confidence that this years' additional government investment will be sustained and built upon in the next Scottish Government Budget.

The Audit Scotland report also notes that:

- Scotland's 19 incorporated colleges reported a collective £5.6 million deficit in 2024/25 – up from £1.9m in 2023/24.
- Five colleges needed a cash advance from the Scottish Funding Council in the same year – three more than 2023/24.
- The sector has cut its workforce by 13% since 2019 to reduce costs – compared to a 12% increase across the devolved public sector in Scotland.
- Student numbers dropped by 40,000 (15.9%) between 2022/23 and 2024/25. However, the proportion of students successfully completing courses rose in 2024/25, with 95% of students satisfied with their college experience.

I recognise this situation and that is why Colleges Scotland, along with the Scottish Funding Council (SFC) and the Scottish Government are working together to deliver the College Sector of The Future workstream. The Auditor General notes this workstream as key in progressing his Recommendations from 2025.

The Minister for Innovation, Technology and Tertiary Education has confirmed in writing to the Committee that the workstream is now expected to conclude during the early months of 2027. At this point Ministers will receive the final recommendations for consideration and that this revised timetable will ensure that any future decisions are informed by the strongest possible evidence base and the widest possible range of stakeholder perspectives.

24 September Evidence Session

In providing my comments on the Evidence Session, I have grouped the comments thematically to aid the Committee.

Financial Sustainability

Colleges Scotland would agree with the Auditor General's conclusions that the financial challenges facing the college sector have deepened and that the sector remains under significant pressure in terms of its financial position, the number of courses that it can offer, and the number of students who can be provided with a place.

This situation is also set out in the SFC report recently published on the Financial Sustainability of Colleges in Scotland. The report paints an increasingly urgent picture of the financial challenges facing colleges and highlights the destabilising effect that potential flat cash Scottish Government Budget settlements would have on the college sector, causing "further intensify financial pressures" on colleges already operating in "an extremely tight fiscal environment". This is why earlier I set out the need for continued above inflation increases in the Budget for the college sector.

College Sector Reform

Colleges Scotland recognises the Auditor General's observation that progress in delivering reform has been slow. The college sector has been engaged in a number of reviews in the post-pandemic period, ranging from the SFC Review of Coherent Provision and Sustainability in 2021, the Skills Delivery Landscape Review led by James Withers in 2023, the Independent Review of Qualifications and Assessment led by Professor Louise Hayward in 2023, as well as the Purpose and Principles for Post-School Education, Research and Skills published by Scottish Government in 2023.

The college sector, through Colleges Scotland, has also had extensive engagement with the Scottish Government and SFC in the development and ongoing implementation of the Tertiary Education and Training (Funding and Governance) (Scotland) Act 2026.

Whilst these various reviews and associated workstreams have provided indicative direction for the college sector, Colleges Scotland would echo the observations made by Audit Scotland in evidence that:

> "*It is a sector that…needs clarity in its roles, responsibilities and funding arrangements, whether those are multiyear or otherwise"* and that there is a *"real need for clarity, on the completion of the public service reform process, as to what the sector is here to do, so that it can fulfil its duties to people going through college and using its services and to local businesses."*

Colleges Scotland also recognises and agrees with the observation made by Audit Scotland that "*reviews of future provision, demand and funding arrangements are all important, but the alignment and scope of those reviews have to be really clear."*

Looking forward, I am of the view that there is a need for the Scottish Government, SFC, and the college sector, to ensure the alignment of ongoing reviews and workstreams, bringing together the College Sector of The Future Workstream, the College Funding Model Review as well as the College Infrastructure Investment Plan and ongoing review of Modern Apprenticeship Contribution Rates (amongst other key interdependencies). This alignment is vital to offer a route map to provide the required clarity for the college sector to maximise its ability to deliver for learners, employers and the Scottish economy.

College Sector Infrastructure

Colleges Scotland recognises the observation that *"There are all sorts of reasons, including growth in technology, why colleges' estate needs will be different in future, so it is right that any plans that are made are focused on that, rather than purely on what it would cost to fix what colleges currently have".*

The college estate is in need of investment. College learners deserve to be taught their skills in modern, state of the art net-zero and industry-standard facilities, which are wind and watertight.

Colleges Scotland has been engaging with the SFC on the development of the College Infrastructure Investment Plan, which is due to be published in November 2026. This Plan must provide clarity on the needs of Scotland's colleges for estate investment and the mechanisms by which this can be achieved. Going forward, this plan needs to inform the recommendations from the College Sector of The Future Workstream.

Public Sector Classification and Flexibilities

Colleges Scotland agrees with the remarks from Audit Scotland that it is not helpful "*that the matter of classification remains unresolved for the sector"* and would endorse the position that "*Colleges need to move forward with a clear understanding of the constraints, or otherwise, on what is available to them, whether they can borrow and what that means for multiyear funding arrangements".*

Colleges Scotland would also echo the observations from Audit Scotland that the college sector is "*a resilient sector, and it is making difficult decisions and looking for other income sources"* and that there are "*variables at play with regard to income generation: clarity around funding arrangements, public body status, and borrowing and multiyear funding arrangements".*

Colleges Scotland, working with Scottish Government and SFC through the Tripartite Alignment Group, has engaged in work to identify the potential scope of additional commercial income as a means of supporting financial sustainability. This work has evidenced that the college sector is currently constrained in its ability to generate additional commercial income due to the current ONS classification of the sector.

Student Headcount and Demand

Colleges Scotland would echo the observation made by Audit Scotland that there "*There has been a reduction in the number of courses and in the student head count, with fewer people working in Scotland's colleges"* and I consider that there is a collective need to understand the learner journeys that students are taking through Scotland's colleges in order to both reduce levels of student withdrawal and non-completion.

Colleges Scotland would also agree with the observation made by Audit Scotland that there is a need to understand unmet student demand, including its size and where it comes from. Alongside this there is a requirement to understand the current level of college capacity against the current levels of student demand. Colleges Scotland is working with the SFC to understand the range of unmet demand as part of the ongoing work related to the College Funding Model Review.

Conclusion

I recognise the stark picture painted by the Audit Scotland Report, the Auditor General's evidence and other reports. This only reinforces my belief that the evidence shows that the college sector requires multi-year over inflation Budget settlements, in order to allow it to continue to be the skills engine and community anchor that I know it can be for the benefit of Scotland's economy and people.

Gavin Donoghue,
Chief Executive Officer
October 2026