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Public Audit Committee

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Thursday 12 November 2026

Session 7

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PUBLIC AUDIT COMMITTEE
10th Meeting 2026, Session 7

CONVENER

*Neil Bibby (West Scotland) (Lab)

DEPUTY CONVENER

*Dawn Black (Angus North and Mearns) (SNP)

COMMITTEE MEMBERS

*Miles Briggs (Edinburgh and Lothians East) (Con)
*Alan Brown (Kilmarnock and Irvine Valley) (SNP)
*David Kirkwood (South Scotland) (Reform)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Amanda Callaghan (Scottish Government)
Helen Cross (Scottish Funding Council)
Paul Devoy (Scottish Funding Council)
Sara Grainger (Scottish Government)
Neil Rennick (Scottish Government)
Tiffany Ritchie (Scottish Funding Council)

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Public Audit Committee

Thursday 12 November 2026

[The Convener opened the meeting at 09:30]

Decision on Taking Business in Private

The Convener (Neil Bibby): Good morning. I welcome everyone to the 10th meeting in 2026 of the Public Audit Committee.

Agenda item 1 is a decision on taking business in private. Does the committee agree to take items 3 and 4 in private?

Members *indicated agreement*.

"Scotland's colleges 2026"

09:30

The Convener: Agenda item 2 is consideration of the Auditor General's report "Scotland's colleges 2026". I welcome our witnesses to the meeting. From the Scottish Government, we have Neil Rennick, director general for education and justice; Amanda Callaghan, deputy director for governance and assurance; and Sara Grainger, institutional sustainability and reform unit head. From the Scottish Funding Council, we are joined by Paul Devoy, interim chief executive; Tiffany Ritchie, director of finance; and Helen Cross, director of investment and research.

I invite Neil Rennick to make a short opening statement, to be followed by Paul Devoy.

Neil Rennick (Scottish Government): Thank you, convener. We are very grateful for this opportunity to provide evidence on Audit Scotland's report "Scotland's colleges 2026".

Colleges Scotland's written submission to the committee describes colleges as "vital anchor institutions" and "skills engines" for economic growth, and I agree entirely with those comments. Scotland's colleges make a significant contribution to skills development, economic growth and social mobility. Having visited individual colleges over the past three years, I have been impressed by how they continue to adapt to financial pressures and to reform their learning offer to the needs of students and businesses.

Despite that, Audit Scotland's report highlights a number of challenges that the sector faces, particularly in relation to financial sustainability. We recognise those challenges and acknowledge that the recommendations made in the report "Scotland's colleges 2025" remain relevant. The task is to address immediate pressures while putting the sector on a more sustainable footing for the longer term.

A range of positive actions have been taken towards that aim. We have had the 10 per cent increase in college funding this year, including a 9.3 per cent increase in revenue funding; the establishment of the college raising income through skills and education—or RISE—fund and other measures to support low-income individuals in accessing skills and education; SFC flexibility to support financial sustainability through the college transformation framework; additional capital funding that was provided towards the end of 2025-26, ahead of the publication of the SFC's college infrastructure investment plan; and, crucially, the establishment of the college sector of the future workstream, which brings together learners, staff, employers, trade unions, business

and others to help shape future reform. Those measures recognise the need to value the unique strengths of our colleges but also to support the transformation that is needed to respond to changing demands and to prioritise what we can deliver within the resources available.

We are happy to respond to the committee's questions on those and other issues.

Paul Devoy (Scottish Funding Council): Thank you for the opportunity to speak to the committee today. I want to begin by recognising the vital contribution that Scotland's colleges make to our economy and communities. Through my own personal engagement and experience with colleges, their staff and students, I have seen at first hand the difference that they make to people's lives and to the employers and communities they serve. That contribution will become even more important. As Scotland's economy changes, reskilling and upskilling our workforce will be paramount, and colleges play a central role in developing the skills, productivity and talent that will drive economic growth.

We also need to be candid about the challenge. The college sector is under significant financial pressure, and the current position is not sustainable. Our own assessment shows that colleges are not financially sustainable over the forecast period, despite increased funding in 2026-27. We recognise the findings of the Auditor General's report, and we have responded to its recommendations, many of which reflect concerns that the SFC has identified through our own work.

For the SFC, stabilisation and transformation must go hand in hand. We need to support colleges through the immediate pressures that they face, but we cannot simply manage those pressures from one year to the next. That is why the college sector of the future programme is so important. Working with the Scottish Government and Colleges Scotland, we are playing our full part in designing transformational change that can put the sector on a sustainable footing and deliver better outcomes for learners, employers, communities and regional economies.

Scotland needs its colleges, and their role in skills, reskilling and economic growth will become more, not less, important. We recognise the seriousness of the Auditor General for Scotland's findings and we are acting on them. Our commitment to this committee is that we will play our full part in stabilising the sector now, driving the transformation that it needs and demonstrating tangible progress towards a sustainable college sector that delivers for learners, employers, communities and Scotland's economy.

The Convener: Thank you, both, for those opening statements. Normally, I would start these meetings by asking whether you accept the findings and recommendations of the report, but the recommendations in this report are, as you will be aware, no different from those in "Scotland's colleges 2025". Do you accept that those recommendations still stand?

Neil Rennick: Yes, we accept that, and they are reflected in some of the work that I have described, particularly the college sector of the future workstream.

The Convener: You have both stated that you are working on the recommendations, but, given that the recommendations from the 2025 report still stand, why have none—zero—been completed in the year preceding this audit report? Indeed, several are now formally overdue.

Neil Rennick: Again, from our point of view, that work has been reflected in our engagement with the Funding Council and Colleges Scotland, initially through the tripartite group and now through the college sector of the future workstream. The college sector has not been short of reform over the past 15 years and more recently, so it is not the case that there has not been significant action in that respect within the sector. However, we are continuing that work, and there needs to be long-term sustainable reform.

The Convener: I was asking why the recommendations were not implemented in the year preceding this report. Why are the recommendations in this report still the same as those in the 2025 report?

Neil Rennick: We accept that those issues and those challenges are still there. As I have said, we have taken actions with the additional resource that was provided this year and the additional flexibility that we—or, I should say, the SFC—have looked to provide to colleges. Action has been taken, but these are long-term, deep-rooted challenges that we are responding to. I think that the minister has written to the committee, explaining why the college sector of the future work is being rescheduled to report next year. It is because we need to get the long-term solutions correct.

The Convener: You have just referred to the letter from the minister in which he says that the college sector of the future report has been delayed. It was meant to be published at the end of this year, but it will not now be published until the start of next year. I think that you previously said that it would address the recommendations in the Audit Scotland report. Does this mean that implementing the recommendations from the Audit Scotland report will be kicked into the new year alongside the publication of the college sector of the future report?

Neil Rennick: As the meeting goes on, we can obviously talk through the individual recommendations and the progress that is being made on them, but the long-term direction will be reflected in the college sector of the future work. Indeed, even once that workstream has reported, that will not be the end of it. Long-term work will be needed in order to ensure that our colleges not only are on a sustainable footing but are adapting to the needs of society and businesses. This is not going to be some one-off and complete action. As all of you will have seen within your local colleges, colleges are constantly having to adapt to the different needs of students and businesses.

The Convener: Given that the recommendations of the 2025 report, which were agreed to, still stand in 2026, and given that the college sector of the future report has been kicked into the new year, what is to say that that report will not be delayed again and that we will be sitting here in a year's time with Audit Scotland's recommendations for 2025 still not having been implemented in 2027?

Neil Rennick: Those challenges are there, and we are responding to them. As I have said, we have taken a range of actions over the past year, and we will need to continue doing that. We recognise that the issues that have been raised in both the Audit Scotland report and the SFC's report on the financial sustainability of the college sector are urgent, and we are looking to respond to them. It is not the case that we are not responding at pace to those issues or that colleges are not responding to those issues.

The Convener: I welcome what you both said earlier about acknowledging the value of our colleges and the contribution that they make. I think that we would all agree with that.

The report paints a bleak picture of the current situation that our colleges face. The key facts section on page 3 paints a picture of a sector that has systematically been shrunk, with a 21 per cent reduction in student enrolment over two years, which represents 40,000 fewer student enrolments in that period; a 13 per cent reduction in the workforce since 2019, with 282 staff having taken voluntary redundancy in 2024-25 alone; an 8 per cent reduction in teaching credits delivered; the number of overspends in colleges going up; and the number of colleges needing additional financial support going up. You mentioned the cash uplift in terms of funding this year from the Scottish Government, but that is just an emergency injection of cash that is keeping the lights on at the moment, is it not?

Neil Rennick: That is not one-off emergency funding; it is funding that is built into the ongoing budget, which is reflected in the spending review for next year. It is a sustained increase in college funding. However, we recognise that, as the minister said when that money was allocated, and as the SFC made clear when it allocated it to individual institutions, it is there both for sustainability—to stabilise the sector—and to provide breathing space for reform.

The Convener: You cite the increase in funding that was announced in this year's budget, and you allude to further potential increases. However, the report highlights a 7.5 per cent real-terms cut in the sector over the past five years, and, according to the Scottish Parliament information centre, which provided that information to me, if you extend that to a six-year period, you will see that there has been a 13.7 per cent real-terms cut in that period. Do you accept that that is the level of real-terms cuts that we have seen to the college sector?

Neil Rennick: I absolutely accept that the financial position has been a pressure in the sector. As I said, going around individual colleges, I have seen how they have adapted to that by adjusting their workforce, both teaching and non-teaching, and by adjusting their offer in order to better match it with the needs of the local population and local businesses. It is not that colleges have just taken that hit and not adapted; they have been adapting. However, it is undeniable that colleges have seen greater reductions in their workforce than other parts of the public sector have.

The Convener: The Auditor General has warned that the financial situation that colleges face has worsened, and colleges have warned that further flat-cash settlements would be destabilising. In terms of this bleak picture of a college sector that has been systematically shrunk over a number of years, Mr Devoy said earlier that the financial situation that colleges face is not sustainable. Mr Rennick, you said that you recognise the financial difficulties that the college sector faces. Would you also agree that the current position of the sector in Scotland is not financially sustainable, as the Scottish Funding Council has said?

Neil Rennick: Drawing on the expert advice from Audit Scotland and the Scottish Funding Council, that would be the conclusion. As it stands now—given the delivery models and the arrangements that we have for colleges in the current funding context, and given the range of pressures—the sector is not sustainable.

The Convener: It is not sustainable. Obviously, we need a plan to turn that around, which we will want to discuss further this morning. I will hand over to Miles Briggs.

Miles Briggs (Edinburgh and Lothians East) (Con): Good morning, and thank you for joining us today.

I was interested in Mr Rennick's point about the situation not being sustainable. What responsibility does the Scottish Government need to take for that situation?

Neil Rennick: The minister has said that there is a need for substantial reform in the college sector, not purely in terms of the current financial arrangements but in terms of the offer that is available and how it is responding to the changing needs of the population and the economy. Part of our responsibility is to provide facilitation and greater clarity around those future needs, which is reflected in the work that we are doing on the national skills plan through engagement with businesses, education providers and others to understand what the needs and opportunities are. The convener described the picture as bleak, but there are many positive examples of our colleagues working locally to increase opportunities.

09:45

Sara Grainger (Scottish Government): As Neil Rennick said, individual colleges have done incredible work to manage the pressures that they have faced and to adapt their learning offer. They have been completely amazing for many years now. However, what has not happened is the sector coming together collectively to look at sector-wide issues. The Scottish Government is enabling and encouraging the college sector to do that in its future workstream.

Miles Briggs: Is it fair to say that the sector has had to manage decline in this period?

Neil Rennick: I would not describe it as that. When you go around colleges, you see some fantastic campuses and facilities and some really good offers and innovations. Earlier, I mentioned that I visited a couple of colleges that are working collaboratively with universities to make higher education opportunities available that would not otherwise be available at those locations. I would not describe the situation purely as a matter of decline. Lots of innovations are still happening, but they are happening in a really tough financial context, as is the case in a number of areas.

Miles Briggs: I have now been in the Parliament for 10 years. When we think about where the college sector was 10 years ago, compared with where it is now, we cannot say that it has not seen significant decline. The Government has often created an unstable environment.

What assessment has the Government made of the £26 million college transition fund, which was proposed in 2024? It was meant to support college transition projects to address financial challenges, but it was removed from the draft budget and from the final budget that was agreed to by the Parliament. Has there been any assessment of the impact of what would have been funding intended to support the transition of the college sector to meet the challenges that it faces, which you have outlined?

Neil Rennick: That proposal was made slightly before I started in the role, but, as far as I am aware, there had been no final decision or discussion with the Funding Council about exactly how the transition resource would have been used. It was intended to be a recognition of the desire to facilitate and support continuing transformation.

The reality is that we face a tight budget context. We will see what the outcome of the Scottish Government's budget is, but the United Kingdom budget has added some extra pressure to the Scottish Government's budget, so it is likely that we will have to continue managing those pressures within our available resources.

Miles Briggs: So, no assessment has been made of the impact that the £26 million transition fund would have had.

Neil Rennick: The funding was not allocated or committed to, as far as I am aware. I will just check with SFC colleagues that my understanding is right.

Tiffany Ritchie (Scottish Funding Council): That was money that we had engaged with ministers on, on the ground that there are two programmes in the college sector: we have to stabilise and we have to transform.

The Auditor General's report is really helpful. It talks a lot about sustainability and the longer-term need for transformation. At the SFC, we are equally concerned about viability, which means the short-term ability of colleges to meet their payroll, to meet liabilities as they fall due and, in effect, to keep the doors open. We engaged with the Government, and we are grateful to the officials and the ministers for their support on the points of stabilisation and transformation. That money was intended to support transformation, but it was not provided as a committed allocation. It was taken back, so we could not allocate it. We could not work with the sector on the transformation.

We are delighted that the funding settlement for 2026-27 supports both programmes, because we need both aspects. We cannot transform a sector that is in financial crisis, so stabilising it sufficiently to deliver transformation is vital, and we continue to do that. In 2026-27, we have the chance to deliver some of that transformation. That budget is probably a good example of what we would have done with the £26 million. Some colleges are now exploring federalised models, some are exploring shared services and some are looking at new commercial revenue streams. We had those opportunities a couple of years ago, and, as Neil Rennick said, it is absolutely vital that we continue to explore them in 2027-28.

Miles Briggs: I made the point because the money was for the sector to transition to being more financially resilient but, with that having been withdrawn, we can see where the sector is now. The Scottish Government cannot say that it is the sector's problem, because it has created an environment in which the situation has got worse.

The £10 million flexible workforce development fund was withdrawn mid-year in December 2023. What assessment has been made of the impact of that on the current financial arrangements for the college sector?

Neil Rennick: We recognise that an element of the reduction in student numbers was linked to the withdrawal of the funding. The flexible workforce development fund has been reintroduced for this year, alongside other measures, including the RISE fund, which I mentioned. That is a recognition that we saw the benefits of reintroducing the fund. I do not know whether SFC colleagues want to comment.

Tiffany Ritchie: We agree with that. The FWDF is a vital source of funding and employment opportunities.

Helen Cross (Scottish Funding Council): You mentioned the 40,000 fall in student numbers between 2022-23 and 2024-25, which represents a complex set of moves by colleges to adjust their provision. It is difficult to attribute it exactly, but the withdrawal of short courses that were funded by the FWDF will represent a large number of people who did not enrol in colleges. We have not seen a similar fall-off in full-time provision.

Miles Briggs: My next question is about what sort of future our colleges will have if there is no financial injection. The Government has focused on recovery. What is the vision for the college sector and where will its financial resilience come from in future? As the convener said, Audit Scotland's report is deeply concerning and there does not seem to be a huge number of answers from the Scottish Government, nor is there the potential for the sector to be able to do anything other than reduce head count, given that pay is its major cost.

Ahead of the budget, where is the Scottish Government on this? We need to be honest that throughout the period, a tap has been switched on and off, which has created a lot of problems. Where will the stability that the sector has been calling for come from? What assessment has been made of how much money is required? I think that we are talking about hundreds of millions of pounds, not just £20 million, which has been taken out of budgets and put back in during previous years.

Neil Rennick: I will bring in Amanda Callaghan on the work on colleges of the future and the future vision for colleges. We recognise, which is reflected in the SFC's financial sustainability report, that a range of different things have impacted the sector over time, including the changes to national insurance and the pressures as a result of changes in the wider economy. Scottish Government and SFC funding forms a significant proportion of college funding, but colleges are having to adapt and respond to a wider range of issues, some of which are local and some of which are national and beyond.

Amanda Callaghan (Scottish Government): The college sector of the future work is about identifying, with the college sector and partners, what the vision for the future needs to be, what reforms are needed, and what different partners in the system need to do in order to enable such reforms. Through that work, we are reflecting on some of the things that Sara Grainger had raised that colleges are already doing and identifying what is working and how it can be replicated or supported. That will play a big part in informing the economic and social needs and skills.

Those involved in the college sector of the future work are working closely with partners to understand their perspectives. Alongside the skills planning work, the aim is to bring it all together to create a vision and a set of actions for different partners to deliver the vision. It is a community thing; it cannot just be the Scottish Government setting out a direction of travel. Colleges do a lot of what they do really well, and there are also big differences between colleges. It is all part of coming together to create a strategic position.

Miles Briggs: What does that mean in cash terms? Colleges Scotland submitted a document to MSPs, which is entitled "A Budget to Save Scotland's Colleges". It outlines scenarios such as "decline", "diminished" and "survivable"—those are the words that it uses—and it is looking for hundreds of millions of pounds to be able to move the sector forward. That includes revenue spend, obviously, but capital spend, too, which we will

come on to. What figures are the Scottish Government looking at for the sector?

Neil Rennick: We obviously will not and cannot pre-empt the budget outcome that will be determined by ministers and the Parliament. However, we are certainly looking at that and feeding in evidence from the Scottish Funding Council, Audit Scotland and others to the process. The budget more generally sits in an incredibly tight financial context, so it is clear that the answer will not be around resources alone. It will have to involve reform, as well, as Tiffany and Paul have said.

Miles Briggs: Thanks. Perhaps I will come back in later on infrastructure.

The Convener: Neil Rennick, you mentioned that a lot of work is going on, but the bottom line is that colleges do not have the resources that they need, and, as Mr Briggs has said, there is no plan for what is expected of them. It is a bit as though Scotland's colleges are a rowing boat: they might have a paddle, but the paddle has been cut up; there are fewer students and workers on board; and they do not know where they are meant to be rowing to. How can colleges, staff and principals be expected to deliver positive reform when they do not have the resources that they need and they do not even know what is expected of them by the Government?

Neil Rennick: As I and SFC colleagues have said, part of the funding that was provided this year is to support sustainability and transformation. I commend work that the SFC has done to provide, within the resources that are available, flexibility for colleges to undertake that transformation.

I would not want you to lose sight of the fact that colleges are still providing a range of incredibly valuable education and skills. The top courses that people are undertaking are in areas that we would want them to be studying: engineering, science, care, construction, and so on. The vast majority of students who complete courses at colleges are satisfied with their college experience. The vast majority of college students go on to positive destinations. There are still lots of positives in the sector alongside the challenges that you are rightly describing.

The Convener: You said earlier, in response to Mr Briggs, that you would not describe the sector as being in decline. There have been 40,000 fewer students over the past two years. At what point would you describe the sector as being in decline, if a reduction of 40,000 students over the past two years is not a decline?

Neil Rennick: Those reductions and those impacts are not just happening in a passive way. We, the SFC and, most crucially, colleges are adapting and responding to those pressures and the offers that they make. I would not want to present it purely as a declining sector; it is a sector that is having to adapt significantly to changing circumstances. Almost regardless of the financial context, it would have to adapt anyway because the skills requirements are changing in the population and locally within regions. What has really struck me in visiting colleges is how embedded they are in the regions and how much they aim to respond to local needs.

The Convener: On the issue of met and unmet demand, I bring in Dawn Black.

Dawn Black (Angus North and Mearns) (SNP): I want to pick up on that point and drill down a bit more. You said in your introduction, Mr Rennick, that colleges are the skills engines. That is a really good way to describe them, because colleges provide vocational courses that mean that students are able to go and get jobs in practical areas. Are you confident that colleges are able to provide the courses that will fulfil the skills that are needed in the workplace today and that will be needed in the future?

10:00

Neil Rennick: As I said, I have been impressed by what colleges have to offer and by the way in which they have adapted their courses. The top courses for full-time and part-time students are in areas in which the Parliament would want training and skills to be provided.

When it comes to what colleges are able to offer, often, it is not simply a question of money. Physical capacity can be an issue, especially when we are talking about vocational courses that require facilities such as workshops. We need to look in the round at the wider situation, which includes resourcing for not only staff but the estate.

I will bring in SFC colleagues.

Helen Cross: The SFC is considering unmet demand as part of its fundamental review of the funding model, which was part of the Tertiary Education and Training (Funding and Governance) (Scotland) Act 2026 that was passed earlier this year. It is fair to say that, when people apply to colleges and are unable to take up a place on their desired course, we do not have a clear idea of their destination, because there is no single, joined-up system of the kind that there is for universities that identifies what happens to college applicants.

Learner choice is an important factor, but it is not the only factor. As well as thinking about what learners want, we need to think about employer demand. We need to think about local factors and national needs for people with key skills. We need

to balance the need for inclusion, and we need to think about regional equity and national needs.

The recommendation is important, and we are working on it, but we are building a bigger picture.

Dawn Black: You mentioned the skills that are required to fulfil business needs. How agile do you think that the college sector is in changing the offer to fulfil those needs?

Helen Cross: I think that colleges would like to be more agile. They put on new courses every year, and they work directly with local industry to understand its needs. Given the tight financial situation that colleges find themselves in, it is not always easy for them to move as quickly as they would want, but they do a lot of work in this area.

Tiffany Ritchie: If it is okay, I would like to add to that. We have talked about the fact that transformation funding has been provided in 2026-27. We have worked with the college sector to invest in five areas, one of which is the provision of modular credentials and microcredentials. That represents recognition by the colleges that folk need to reskill and upskill much faster than they used to, ideally while they are still in work, so that they remain employable despite what is happening with artificial intelligence and the like. There is a huge trend for modular credentials and microcredentials, which we are trying to support.

Dawn Black: That is good to hear.

Sara Grainger: Individual colleges work incredibly closely with their regional and local business partners. I would say that they are extremely good at having their finger on the pulse of what the skills needs in their areas are and are about to be, and I think that they are very agile.

However, there are practical limits to agility. Once a cohort of learners has started a course that takes five years, it would be unreasonable to just drop them. Likewise, on staffing, it is not possible to turn a sports lecturer into an engineering lecturer just like that. Therefore, there are limitations on colleges' ability to be agile, but they are very reasonable, human limitations that exist for good reason. Within the constraints of reality, I would say that colleges are very agile indeed.

Dawn Black: Good. I want to build on that. You said that colleges work with partners. Will you be more specific about who those partners are? Is it business groups or individual businesses? Who exactly are colleges working with to ensure that they are on top of the skills that are needed?

Neil Rennick: To give an example, on Friday, I was at Borders College to meet the principal and chair. Obviously, there is the big Center Parcs development down there, and the college is engaging on that and the skills needs for it. The college also speaks to the local chamber of commerce to review the specific needs in the Borders and to look at the particular geography in considering what the college can offer. That happens in all colleges as they respond to the local needs in their areas.

Dawn Black: All that said, many colleges are reducing the number of courses that are on offer because of the financial constraints and so on that we have spoken about. How do we marry up the need for agility in offering courses with the reality that course offerings are being reduced?

Neil Rennick: Sometimes, course offerings are reduced because there is not enough demand or there is no longer the need in the local economy. SFC colleagues will be much more expert in this, but my impression is that colleges constantly review their offer and adjust it every year, within the limitations that Sara Grainger described around the need to ensure continuity for students who are already participating. Colleges have a constant review process.

Dawn Black: Yes, that is an obvious point. However, we have reduced numbers of courses and, at the same time, student demand is reducing. If fewer people—whether they be young or old and whether they are reskilling or whatever—are coming through and student demand is dropping, are colleges offering what students want?

Neil Rennick: Again, SFC colleagues might come in on this, but student demand is not dropping across the board; it is changing for different types of courses in colleges, and there is continuing growth in higher education in universities. In broad terms, we still have high levels of positive destinations for people coming out of university and high levels of participation for people who enter learning later in life. People are finding different routes, not just through colleges but through other opportunities.

As I said, the SFC is much more expert on that.

Paul Devoy: Overall, 95.7 per cent of people are going to positive destinations, and the overall number of people going into the tertiary system has gone up, so we are at record numbers of people participating. The mix is changing. People are making choices depending on what they see as the future in the labour market and where they can get the best outcomes. It is a dynamic situation.

Having spent three years on the board of a college, I know that colleges face into the students to ensure that they meet local needs in terms of what students want to study, but they also face into employers. I know from my time at Forth Valley College that it was in partnership with the national

health service to ensure that it supplied the right skilled workforce to NHS Forth Valley. Colleges are facing multiple ways at the same time, and students are making different choices depending on how they see the future of the labour market. It is a very dynamic situation.

The labour market will only become more agile in future, with the advent of artificial intelligence and other technologies. All parts of the tertiary system will have to consider ways in which they can adapt. Things such as microcredentials will be crucial for that in future.

Tiffany Ritchie: The number of people going through the system is clearly under pressure. I do not know that we would recognise that there is reducing demand; there is the risk that it will not be possible to meet the demand. I think that the demand will increase because of the changing economic environment and because of the prevention strategy. If we need economic growth to help the country to balance the books, we need to invest in our schools, tertiary system and early years education, and reduce the pressures on health, justice and social security. We need to meet the demand, and that is part of the case that we are making for investing in the tertiary system.

Dawn Black: I am hearing from the answers that have been given that, although there is still a need among students, they are going to different destinations. They are choosing to go to university or to a type of tertiary education other than college, or they are choosing an apprenticeship route, which means that they are only part-time students on day release, for example. Have I picked up the message correctly?

Paul Devoy: It is a combination of all those things. The number of people between 16 and 24 years old who have chosen an apprenticeship has gone down in recent years, but the overall number of people going through the tertiary system is buoyant and high, so people are making different choices.

Colleges sit at the heart of their local communities and provide a range of services that are vital to economic growth and social inclusion. They are hubs for that, so we need to support them. As my colleague Tiff Ritchie said, for us, the key point is that we need to enable colleges to stabilise their financial situation and then work with them to transform. This year, we have funded, with the private sector, a number of transformation projects that have been inspiring. For example, work has been done at Dundee and Angus College and between Forth Valley College and Edinburgh College. Those colleges have the capacity to adapt and change in a way that I have not seen with other institutions. The Funding Council's role over the coming period will be to do what we can to support them on that journey.

Dawn Black: Absolutely. In recent weeks, more funding has been announced for apprenticeships. How will that feed into course provision in relation to day release to colleges? Do colleges have the capacity to deliver the formal education part of those apprenticeships?

Tiffany Ritchie: We very much recognise the great growth potential in apprenticeships, so we are delighted that, from 1 April, we will be able to bring together the university, college and apprenticeship systems. That coherence will really help.

We have been talking about the challenges for colleges. They are trying to develop microcredentials, deal with their financial challenges and meet employer and learner demand. Apprenticeships are a key tool, so we see colleges investing in growing the number of them. Universities are also already major delivery bodies for apprentices, and that will increasingly be the case. However, as you are right to point out, a level of transformation is needed for that to happen. Those institutions cannot do that if the system is not stable—it is simply not possible. In relation to the scale of redundancies, the risks relating to campuses and the impact on students, learners and communities, I cannot see the level of reform that is needed regarding apprenticeships being achieved without both stabilisation and transformation.

Dawn Black: One of the Scottish Government's main national policy objectives is to reduce child poverty. Some people might think, "What's that got to do with colleges?". However, colleges were given £21 million to support training and development opportunities for working parents in order to get them into better-paid jobs and reduce child poverty by 2031. Will you clarify whether the £21 million was a one-off payment?

Tiffany Ritchie: We were delighted that the college sector received that funding in 2026-27, and we are very much making the case for it to be recurring funding, but I will defer to my Government colleagues.

Neil Rennick: That funding, which was provided as part of the work on the tackling child poverty action plan, was allocated for a single year, but such funding is being considered as part of the budget process. My view is that such funding provides an incredible opportunity to bring people who are further from employment and training into colleges to gain benefits from them. My impression is that the projects that have been developed have been incredibly positive, and we will feed back that message to the Government. The funding was provided through a separate budget line on

tackling child poverty, but we will make the case for such funding for exactly the reason that you have given: colleges are drivers of social mobility in providing access to education and training.

Dawn Black: You said that you will give advice to the Government. There must be recognition that such projects cannot move forward if funding does not continue to be provided. The funding might not be at the same level, but sustainability of funding is needed to ensure that the projects can keep going and that our objectives can be achieved. Do you recognise that?

10:15

Neil Rennick: Yes. Ministers have been clear about their priority to tackle child poverty, and a key route to that is for parents to be able to access training and employment.

Dawn Black: Good—thank you. My final question is about sustainability. We heard that future public funding will not necessarily cover the costs of running colleges and everything that they need to do. Indeed, funding does not do that now. I noted down who said that, but I cannot find the name. It might have been Helen Cross. What needs to change to enable colleges to raise funds through diversification?

Paul Devoy: I know from my own experience that there is a lot of really good entrepreneurial activity in colleges. They have commercial arms that work on bespoke, employer-facing programmes that are highly successful. However, their cost base is high compared with some of their competitors, which makes it challenging. Colleges are looking at innovative ways to deliver such services so that they can remain as competitive as possible, but it is a challenge for them.

Tiffany Ritchie: Absolutely. There are a number of barriers. The cost base is particularly challenging and, being in the public sector, they cannot hold reserves, make multiyear investments or access borrowing. That is hugely challenging for them when they are trying to pivot towards meeting different employer needs. We are exploring that. There is a workstream about financial flexibility as part of the college sector of the future exercise. I really welcome the fact that the Government is willing to engage with us, including on the fiscal framework with England, because that scale of change might be needed to give colleges the flexibility to compete with the private sector.

A lot of what colleges do constitutes public goods and there is not necessarily a commercial model out there to deliver those. At the end of the day, we want to invest in our early years provision, our schools and our tertiary system in order to deliver the benefits to the rest of the economy, but there is a limit to how we can deliver public goods with commercial funding.

Alan Brown (Kilmarnock and Irvine Valley) (SNP): I will ask some financial questions, but first I have a question about unmet demand. It follows on from the questions that my colleague Dawn Black asked.

Helen, what are the timescales for completion of the work to measure unmet demand? What changes to the funding are likely to be recommended?

Helen Cross: We have committed to publishing our overall funding model by the end of 2027, with the idea that we will start to implement changes in the following academic year. However, we will publish papers while we are undertaking the work. I anticipate that we will be able to publish something about demand earlier in 2027, perhaps in the spring.

Alan Brown: One of the Auditor General's 2025 recommendations for the Scottish Funding Council was:

> "Within 12 months, prepare a plan to identify how it will measure unmet demand for college courses".

That was supposed to be done within 12 months, so we are quite a bit behind the curve on that.

Helen Cross: We have been talking to colleges about that work throughout 2026. We have held workshops and we are working with the finance and infrastructure technical working group of Colleges Scotland, which comprises a group of professionals from across the college sector. They are advising us on the overall funding model review. We have started a set of work, we have shared a plan for that work with the Scottish Government and we are actively talking with colleges.

A lot of the recommendations in the report said that things should be done within a year.

We are working in an incredibly complex environment. We are working hand in glove with colleges on their financial issues and, at the same time, looking to the long term at how to transform. We need to take the time to get that right. Making a lot of separate little changes to the system will not help us to properly understand the effects of those activities. A programme of reform is under way, and we need to work with colleges and take them with us.

Alan Brown: I think that everyone agrees that we need to get things right instead of to rush things. However, I observe that, rather than just accepting the report's recommendations, organisations might say, for example, "We accept the premise of the recommendation but can't do it

within that timeframe," and give us X, Y and Z reasons for that.

You have talked about agreeing a revised funding model and having it in place by the end of 2027. How does that fit into the college sector of the future work, which is supposed to report in early 2027 but seems to be running behind? How will it feed in and ensure that we get the transformation right?

Helen Cross: The two are obviously related.

Alan Brown: Fundamentally, it seems to me.

Helen Cross: The college sector of the future workstream is looking at the scope and shape of colleges in the future. Our funding model represents what we do with the settlement that the Scottish Government gives us for colleges and how we allocate funding to colleges for them to undertake their activities. That model will be impacted by the college sector of the future work.

Having said that, we currently have an activity-based funding model. We give a price for different activities. We are doing different things with colleges, such as benchmarking work. A pilot has been undertaken to look at their cost base. We are talking about a set of workstreams that will be impacted by the findings of the college sector of the future work, which will provide us with an evidence base to build a new model once policy decisions are taken.

Alan Brown: That seems to be fundamental, because unmet demand has been a long-standing issue. At Ayrshire College, which is my local college, there is frustration when there is oversubscription for courses that the college knows will lead to positive destinations. It means that you are possibly not getting the best outcomes for learners or employers, so I am a bit concerned that the work is taking so long.

Neil, what is your view on the funding model coming later than the college sector of the future report? How will it feed in and ensure that the college sector of the future propositions take account of the funding model? The two projects should not be separate.

Neil Rennick: I would not want to say that those are the only sources of information that we, along with colleges and the SFC, will draw on. The college sector of the future work is identifying practical options that we can facilitate the sector to progress work on. The information on unmet demand feeds into that, and that is part of the work that is being developed in the college sector of the future workstream. All that will be taken into account and fed together when it comes to looking at the future position of colleges.

It will not be the case that, if something comes along immediately after the college sector of the future workstream, it will not be taken into account. As I said at the beginning, the process will have to be iterative and ongoing.

Alan Brown: This is a fundamental issue. The more flexible funding model and the ability to meet unmet demand are utter priorities, as well as financial sustainability. I am concerned about the lag.

Amanda Callaghan: On the work that needs to be done to transform the sector, I note that the college sector of the future work will not end at the point of publication or the setting out of the future position. At a systemic level, it is about the ability for colleges to adapt into the future. We are facing demographic change and changes in employment, so we need systems in place to allow for that level of flexibility. Again, as Neil Rennick has said, it is all about a combination of different parts of information to create a system that is flexible and which can react both to future needs and to the demands that are there now.

Alan Brown: Yes, but you will need a fundamental understanding of the starting point if you are to set the correct pathway.

Sara Grainger: We absolutely need a clear evidence base for the status quo, or how things are, and that is what the pillar 1 papers of the workstream are providing. Information on costs, inputs and outputs is really important in that respect.

The funding model—that is, the way in which the SFC distributes money across the system—needs to be designed with full awareness of the system's purpose. I think that the committee referred earlier to a lack of clarity from the Scottish Government in that respect, but what we do not want to do—and what we are deliberately avoiding doing—is to tell the college sector what its future must be and to reform it. We want to reform with the sector, not to do reform to the sector, and one of the crucial outputs from the college sector of the future work will be a shared vision statement. The SFC will need to be able to design its allocation model to deliver on that vision and not vice versa.

That is why we need some of the same information for both pieces of work, but it makes sense for the allocation model to be finalised after there is a clear shared vision for the sector's future.

Alan Brown: The proof of the pudding will be in the eating, but I would have thought that the allocation model should be a fundamental principle for the college sector of the future work, too, instead of simply saying, "Let's wait and see what pie we get and then cut it up." That is part of the problem just now. We need a funding model that

has enough flexibility, is understood by colleges and can be delivered in that way.

Neil Rennick: Perhaps it is worth mentioning two other important inputs that are on the same timescale. I have already highlighted the national skills plan, which I hope will set out future skills needs, based on advice from business, the public sector and others.

Also, Tiff Ritchie talked earlier about the SFC taking on its full responsibilities for post-school funding across apprenticeships, colleges and universities. That sort of flexibility will not result in instantaneous change, but it will allow the SFC to think ahead about the right balance to strike in meeting skills needs. A range of things is feeding through at the same time, with exactly the aim that you have described of ensuring that we are better able to match up funding, demand and need in the economy.

Alan Brown: Okay. Going back to the issue of financial sustainability and stability, I note that the Auditor General's report for 2024-25 mentioned a cumulative deficit of £5.6 million across the college sector. However, the SFC report states a figure of £6.3 million. First of all, is there a reason for that difference?

Tiffany Ritchie: Yes, and I am very glad that you asked that question. In previous years, we have published our report a little bit closer to the Audit Scotland publication date, and I think that we might reflect on that in future years. Its report is backwards-looking and focuses on the 19 incorporated colleges, while our report covers the entirety of the college sector and includes forecasts for multiple years. Therefore, if you want a forward view of the impact of the risks that the auditors have pointed out, the SFC report can be particularly helpful.

The £5.6 million reported was an adjusted operating deficit; as the adjustments that were made were to remove one-off items such as severance costs, pension adjustments and the like, the £5.6 million is the better figure. If you take out the rest, the deficit is, I think, more like £44 million, which is recurring.

Alan Brown: Okay—that has thrown me slightly. I might well come back to that.

The Auditor General's report also refers to cash advances of £13.9 million. How do those cash advances sit with the reported deficits, and do they relate to that much bigger deficit that you have just mentioned?

10:30

Tiffany Ritchie: I very much respect what the Auditor General said in his report about the need to provide clarity by getting rid of the ambiguity relating to advances. We have worked very hard to do that. Advances do not represent additional money in any way. For example, if a college prepares an evidenced financial recovery plan, with SFC challenge, and says that it would like an advance, the SFC can pay the grant to a slightly different timetable, but that is it—there is no additional grant award, there is no hit to the college's profit and loss, its deficit is not affected and, frankly, there is no benefit to the balance sheet. Advances are a short-term stabilisation tool, with very limited scope to help.

Most of the advances that we issued initially were in 2024-25. I highlight that there was an 8 per cent reduction in the cash budget for colleges in that year, so we did everything that we could to stabilise the situation while the budget was reducing. In the years since then, we have continued to use advances, but, building on the Auditor General's feedback, we have made it much clearer that they involve only the rephasing of existing grants and that they provide no benefit to the P and L or the balance sheet.

In relation to the multiyear forecasts each year, we have made it clear in our financial guidance that colleges must show the repayments—there can be no ambiguity anymore. We have reissued our financial recovery plan guidance. For liquidity support to be provided, there needs to be evidence that a college will transform. In that guidance, we make it clear that advances are an in-year short-term tool to give a college a little more breathing space by slightly changing the timings of its grant.

I agree with the Auditor General that we need to remove the ambiguity—I think that we have done so—but we also need to reduce the use of advances, because they are a short-term tool and do not provide the stability that institutions need.

I also totally agree in relation to the fundamental concern about advances not being a suitable tool for transformation. It is not possible for a college to turn things around through an advance. That applies to New College Lanarkshire, UHI Perth and West Lothian College, which have all fundamentally turned things around and achieved a better financial situation. Multiyear transformation funding is needed. Most colleges are now in moderate to severe financial distress. We cannot fix that through an in-year rephasing of a grant, which is a very limited tool. I am glad that we have that tool and that we have used it to good effect in a small number of cases, but it is certainly not a solution for the medium to long term.

Alan Brown: Paragraph 16 in the Auditor General's report states that New College Lanarkshire, which you mentioned, received a £4.5 million advance to deal with the national pay

award. You have said that that was just a case of in-year reprofiling, but the report states:

"In 2025, the auditor again noted that that repayment of this financial support has yet to be agreed with the SFC."

Has a repayment mechanism been agreed? The report says that the £4.5 million was refreshed to support transformation. What is the position with that?

Tiffany Ritchie: The repayment has been agreed. It is a slightly confusing term. We issue liquidity support only when there is a credible plan for turnaround, so it is always provided to support some level of transformation—it is not an additional grant for transformation. That is what we received in 2026-27 and how we can deliver public service reform initiatives. We issue liquidity support only when we have total confidence that there is a plan to deliver and that it will be delivered. If there is a plan in place but we are concerned that we are not seeing the progress that we need, we ask for assurance from third parties.

With New College Lanarkshire, the aim was that the £4.5 million that we issued would be repaid within a year. The depth of change that the college went through, the digital investment that it made and the cost reductions that could be made as a result enabled it to turn around and repay the money, but it took between two and three years rather than one.

I will be honest: most colleges will not be able to transform in a year. That simply is not feasible. We used a liquidity tool to support New College Lanarkshire. On reflection, if there had been a transformation grant, that would have been the right tool to use. However, as I said, in 2024-25, there was a cut to the budget for colleges, and we had no other tools. I stand by the decision—I think that it was the right thing to do to allow the college to keep its doors open—but we would not recommend using that approach in the future. We need to stabilise the entire system in a fair and transparent way, and we need to accept that transformation will take multiple years.

Alan Brown: Has the entire £13.9 million in cash advances now been repaid?

Tiffany Ritchie: There are plans for the advances to be repaid if they have not already been repaid. They must be repaid within 12 months. There cannot be rephasing beyond that.

Alan Brown: I take your point that, in an ideal world, more money would be available for transformation, but if another college identified that an advance could help it to transform, through spending to save, what would be the harm in that? Why would it not be a viable option for other colleges to access money in advance to invest in digital services and save money, with the money being repaid in a year?

Tiffany Ritchie: That is available to all colleges, and that has been made clear in the SFC guidance. That goes out in our financial forecast return guidance and in our financial recovery plan guidance. We actively encourage all colleges to reach out to us to discuss where an advance would be useful. However, because that has to be repaid within a year, it is not often the most useful tool that is available to colleges.

We offer rephasing where it is useful to support any sort of investment. For example, and with slight apologies to my Government colleagues, some colleges have secured funding through Government initiatives in another part of Government, but they have to complete the work and can invoice only at the end. That immediately creates a cash-flow problem for the college, because it will already have spent on the staff and other resources to deliver the work. It cannot get the money from Government, so it comes to us and says, "We need a three-month rephasing here. We've won some funding, but we cannot deliver the work without liquidity support." That happens quite a lot.

I assure you that the facility is open to all colleges. With New College Lanarkshire, an unexpected depth of transformation was needed, and it went over the 12-month period, which was not expected. We would not expect to see that again. However, I salute the college for the scale of the turnaround and the fact that the money is being repaid.

Alan Brown: Does that all feed into the college sector of the future workstream, in considering transformation?

Tiffany Ritchie: Absolutely. We are holding additional workshops to ensure that public service reform initiatives are fully explored.

Alan Brown: The SFC report predicts a cumulative deficit of £32 million in 2028-29. How realistic is that prediction, and what is it premised on?

Tiffany Ritchie: Our predictions are based on multiyear forecasts that we collect from colleges every year. We collect financial returns throughout the year and, in the summer, there is a multiyear forecast. We go through a rigorous internal process to review those. We have experts in the SFC who have worked in colleges, universities, banks and the big four accounting firms, as well as ex-Audit Scotland senior auditors. We run challenge sessions, often asking for resubmission, and then produce a report to make sure that the evidence that goes public is as robust as possible.

The operating deficit is a concern. What is more concerning is that it is a recurring deficit, so there is clearly not a trend of recovery in the college sector. In 2014, when colleges came into the public sector with the arm's-length foundations, they started off with cash reserves of £100 million. You will see from one of the graphs in our report that the cash reserves are now zero. Colleges have basically been funding unaffordable inflationary pressures such as pay deals by accessing the cash reserves. Those reserves have now gone—there is no space left for colleges. That is why, in our report, we say that insolvency is a "significant risk", and that we can see four colleges running out of cash in the summer of 2027.

Alan Brown: You say that you do all that work to ensure the accuracy of the information that is put in the public domain, yet page 20 of your report highlights the "variances" in forecasting. How robust is the forecasting? For some of the years in your graphs, the predicted deficit in the forecast at the start of the year had more than halved by the time of the actual result. How realistic and robust is the forecasting?

Tiffany Ritchie: We want greater accuracy of forecasting. That is an area that we are focused on. In general, the forecasting has been improved. We stand up to be counted on this, but the volatility in funding from the SFC and Government is impossible to forecast in most cases. It was fantastic that, as Neil Rennick highlighted, we were able to issue additional funding for capital projects in particular in late 2025-26. That was not forecast—the colleges cannot forecast for that.

We have hundreds of budget transfers throughout the year, as that is the nature of operations in the Scottish Government. Even with some of the child poverty funding that Ms Black referred to, the timing and quantum were totally uncertain for individual colleges, so I could not ask a director of finance at a college to forecast that with accuracy. Underlying all that volatility, we are seeing an improvement in the forecasting accuracy. Partly, that is because colleges have to improve, because many of them are at risk of failing their going-concern assessment. When an external auditor says, "You need legal advice, as you may not be a going concern," that inspires the finance directors and results in greater buy-in from the board to improve the accuracy of the forecasting. I agree that there continues to be volatility. It is an improving evidence set, and we are very confident in the forecasts.

Alan Brown: Neil Rennick, do you agree with that comment about volatility? Moreover, what is being done to address the forecast £32 million deficit in 2029 at the same time that the colleges review that is being carried out?

Neil Rennick: A key driver of the work that we are doing not just through the college sector of the future work but the wider work that we have been discussing on flexibilities is the engagement that we have with colleagues across Government. I will always advocate for the fantastic role that colleges can play when I speak to colleagues in health, net zero, the economy and so on. I definitely would not want to tell colleagues not to put money in, even if it comes with strings or particular requirements, but it needs to be part of our overall approach to delivering sustainability for the sector as well as having a better matching up of what the sector is able to offer and the skills that we need.

Alan Brown: And do you recognise that erosion of reserves and cash balances and the fact that so little is now left for any one-off provision?

Neil Rennick: Yes.

Alan Brown: I keep talking about sustainability, but that is fundamental to it.

Neil Rennick: Yes, and individual colleges will have used their ALF money for a range of different things. Not all colleges had the same inheritance in that respect, so it is not universal across the sector, but it is undeniable that those resources have been used up over the last few years in investing in improvement and reform and in dealing with underlying pressures.

Alan Brown: Will that be recognised in funding models or funding considerations?

Neil Rennick: The ALF money was never included in the budget allocation—it was always available to individual institutions.

Alan Brown: No, I am referring to that understanding of erosion and there being no more ability to dip into reserves.

Neil Rennick: We recognise that. If you were asking me to highlight the biggest challenge facing every part of the public sector, not just colleges, I would say that it was responding to changing demands right now and meeting immediate pressures while creating the capacity and space for transformation and change. That is as true in the college sector as it is in universities and other areas of the public sector.

Alan Brown: Thanks.

The Convener: Before I bring David Kirkwood, I want to ask about the cash advances. You have made it quite clear that they are short term and have to be repaid within a year. The logic, then, is that the Scottish Funding Council would not give cash advances to colleges two years in a row.

Tiffany Ritchie: That is exactly the intention. As Audit Scotland has highlighted, there have been a couple of exceptions. However, those were

exceptional circumstances; there were no other tools available and keeping the colleges' doors open seemed like the right thing to do. However, you are right: it is not a sustainable position, and it is not one that we would look to use going forward.

The Convener: Because they stop being cash advances and become unrecoverable bailouts, essentially.

Tiffany Ritchie: Exactly.

The Convener: Okay. I call Mr Kirkwood.

David Kirkwood (South Scotland) (Reform): I have been able to visit quite a few of the colleges over the past few months. They are great places, and I am very impressed by them, but frustration has been expressed to me a couple of times about pay grades. People are frustrated at being limited to national pay bands instead of there being local flexibility. Given that the unions are involved in the college sector in the future work, are national negotiations baked in for the next 20 years, or will there be some flexibility for local negotiations?

Sara Grainger: The Scottish ministers are committed to national bargaining.

David Kirkwood: So, there is going to be national bargaining, and that is it.

Sara Grainger: The Scottish Government is committed to national bargaining—that is correct. There is scope to improve its operation and the way in which it is done, and that will need to be explored, but the fact and principle of national bargaining will remain.

David Kirkwood: When you talk about the scope to improve its operation, do you mean that, in certain cases, local supplements could be paid, but there will be no reductions?

Sara Grainger: I really would not want to answer to any specifics.

David Kirkwood: Okay—that is fair enough.

A lot of capital spending is going to be used to address the backlog of estate maintenance and the likes. Do you see that backlog tapering off in future, or will it always be there? Might we get to the stage where we are investing rather than just spending?

10:45

Helen Cross: It is not uncommon in any sector for there to be a maintenance backlog, and the uplift last year enabled us to address more of colleges' urgent maintenance challenges—obviously, we want to be able to support them to address that issue.

As you know, our "College Infrastructure Investment Plan 2027-28 to 2036-37" takes a look at the estate overall. The 24 colleges across Scotland have 99 campuses and more than 250 buildings, and we have come to the conclusion that that position is not sustainable, and that the estate is one of the things that need to change. We need to think differently not just across the college sector but across the public sector more broadly about how we use those buildings. Obviously, we need colleges to be embedded in communities, but we need to look at how to do that more smartly.

Neil Rennick: The aim is not to freeze the college estate at a moment in time and preserve and maintain that for ever. The solution will involve a combination of maintaining those assets that need to be maintained; replacing some with new assets, as has happened over the past 15 years or so; and in some cases, rationalising or sharing resources. There will have to be a mix of options, and we cannot assume that the estate that the colleges have today will be the same estate that they need in 10 years' time.

David Kirkwood: That is fair enough.

Alan Brown asked the questions that I was going to ask to clarify advances and so on, and you answered him very well, so thank you for that.

Helen Cross, you have mentioned that there is a fundamental review of funding going on at the moment. You mentioned microcredentials, and I am going to be talking to Jacqui Brasted tomorrow about that subject, which I am very interested in. The adoption of microcredentials could fundamentally change the way in which education is delivered across the estate. Do you see any change in the capacity that would be required to deliver a degree, if that course were built up of microcredentials delivered in various institutions? Do you think that that might result in a reduction in the total number of teaching hours or research hours that are required, and would that feed through into the money that would be required?

Helen Cross: It is brilliant that you are going to be speaking to Jacqui Brasted about that. I think that it is a huge growth area, and it links to apprenticeships and the idea that, if we create something that is employer led, which engages employers and which delivers what they need, it could help with economic growth.

Of the five public service reform initiatives that I mentioned, one of them is focused on modular microcredentials and one of the others is focused on innovative operating models and shared services. We are seeing a lot more partnership working between colleges and universities in Scotland, because I think that they recognise the scale of the challenge and realise that one individual institution going it alone is unlikely to succeed and is not going to deliver the scale of change that we need.

With Government support, the SFC is actively encouraging more joined-up thinking between institutions. It might be that some can specialise in some areas and others in other areas, but there might already be some brilliant thinking at some institutions that we need to share more broadly, and I think that that collaborative approach is more likely to succeed in Scotland than south of the border, because we have much better relationships between institutions and much more collaboration. That gives us a competitive advantage.

David Kirkwood: I agree. A good example is Dumfries and Galloway College and the University of the West of Scotland, where the college students study on the ground floor and, once they finish their courses, they can move upstairs and go to university. I think that that is an excellent way to arrange things.

Having microcredentials would reduce the amount of duplicate teaching, because they are recognised further up the education system. Have you done any studies that would quantify the time or money that would be saved by using microcredentials?

Helen Cross: We are not quite at that stage yet. There are important factors that we need to think about in that regard. For example, when a college on-boards a student who is studying full-time and is in the college a lot, it offers them a set of support services. If, over the course of a couple of years, a student studies at four different institutions, that will involve an overhead for the institutions that provide them with those services, because they will spend only part of their time at each institution. We need to think deeply about how we can lower those barriers across the tertiary sector and have as much comparability as possible, so that people can receive support wherever they are studying.

David Kirkwood: Thank you. Those are all the questions that I have at the moment.

The Convener: Before I bring Miles Briggs back in on the subject of infrastructure, I want to return to the issue of deficits and cash advances, which Tiffany Ritchie spoke about. You mentioned that four colleges are at risk of insolvency. Are you able to tell us which four colleges you were referring to?

Tiffany Ritchie: I am happy to discuss the sector-wide risks, but, as you will appreciate, there is a balance to be struck. The SFC is committed to getting as much information into the public sphere as we can on the risks that the tertiary system as a whole is managing, but, for commercial reasons, we try not to name individual colleges, and we do not propose to do so today. That is partly because they are managing negotiations with lenders. We cannot lend to them, but some colleges have legacy debt, so their relationship with the banks, including the banks' confidence in them, is vital. They also engage with suppliers and others.

The other reason for not doing so is that it is a very dynamic picture, which means that, at a given point in time, the figure might be a certain number, whereas, on another day, it will be another number. At the point at which we published our report, on 1 October, there were four colleges that it was hard to see passing their going-concern assessment in the event of a flat cash scenario.

The Convener: As the Public Audit Committee, it is our role to scrutinise what is happening in the sector. Would you be able to share with us privately, if not publicly, details of the insolvency risks?

Tiffany Ritchie: Depending on advice on commercial confidentiality—I would speak to the Auditor General about that—it might be possible for us to do that. I would be happy to explore that outwith the committee meeting.

The Convener: Our predecessor committee and the Auditor General repeatedly flagged the acute financial fragility in the UHI network. Three of the five colleges that require advances come under the UHI umbrella. Are those isolated cases or are there fundamental issues in the UHI as a whole?

Tiffany Ritchie: As there are a large number of institutions in the UHI partnership, whenever there are institutions in distress, statistically speaking, it is likely that a number of them will be in that region.

I think that it was Ms Callaghan who highlighted the diversity of the college sector. Colleges that operate in the city regions face particular pressures because, while there are greater commercial opportunities, the cost pressures that they face in relation to competitiveness are a key issue. We recognise that colleges in rural and remote locations face particular challenges, too. Linked to the work that we are doing on the college sector of the future programme and other work that we are doing with a number of institutions, which is not limited to the UHI and its partners, we want to explore the challenges that are faced in rural and remote areas and what more could be done to provide support in that space.

The Convener: To return to the point that was made about child poverty and the Government aligning its funding with the child poverty targets, you have rightly talked about the need to reflect on the rural nature of some college provision, but to what extent do you factor in areas of multiple deprivation when making your funding allocations, with a view to helping the Government to meet its child poverty targets?

Tiffany Ritchie: Helen Cross will be able to talk about the detail of the funding model. In general,

the Government's commitment to the priority of addressing child poverty ties in with the idea of a prevention strategy, which involves ensuring that we can demonstrate that investing in the tertiary sector will relieve pressures on health, justice, social security and other areas. Work on prevention is very much part of Paul Devoy's work with our board on the SFC's new strategy.

Helen Cross: Our funding model works as a matrix. Colleges are funded to do different activities. There is a base price for different types of courses, and, for each course, there is a calculated premium that reflects the challenges that that college faces. Therefore, addressing issues such as widening access, rurality and multiple deprivation is built into our costing. There is also a separate price point for supporting people with additional needs.

Miles Briggs: I want to return to some of the themes that colleagues have picked up on in relation to infrastructure. When Audit Scotland published its report, the SFC had not published its college infrastructure investment plan, as that was published on 4 November. That plan outlines that £2.5 billion will be needed over the next decade. Does the Scottish Government recognise that figure?

Neil Rennick: We certainly recognise the report and the work that has gone into, and is reflected in, the college infrastructure investment plan. That reflects the current estates and the pressures on them. We still have to work through what that looks like with the SFC and to develop a plan in response to that for the longer term. Again, that links with the colleges of the future work and the consideration of the future demand and future provision. We have mentioned microcredentials—how those are delivered will be different for certain vocational qualifications that have to be delivered within physical infrastructure.

We recognise the content of that report. We will have further engagement with the SFC and the sector on what it means for future plans. Clearly, all members will recognise that that has to sit in the wider context of the demands on the Scottish Government budget at a time when our capital allocation going into next year is reducing in real terms.

Amanda Callaghan: Helen Cross might want to talk through that report a bit more, but it is about the estate as it is. As a result of the college sector of the future work, that might need to change so, at the end of that process, the estate might look quite different from what is set out in the investment plan. I think that that is recognised. Another issue is that the estate is not just the physical estate but the digital estate and those kinds of things. There is a recognition that that is the baseline information if we were to keep everything. It is very important, but it is the starting point and might not be where we end up.

I do not know whether Helen Cross has anything to add.

Helen Cross: That is very much the basis on which the plan is set. It represents the cumulative investment needs of the 24 colleges, based on the current estates and what it would take to maintain, repair or replace them as they are. The report says that that is not a position that we are advocating, and that we want to work with the Government and the colleges to look at the right shape of the estate, the sector's digital needs and how colleges can best serve communities in future.

Neil Rennick: It is helpful that the report recognises the different demands of maintaining the estate as well as the transformational reform in some college areas but also recognises that it is not just about physical infrastructure; it is about investment in technology and facilities. A mix of things is reflected in the report.

Miles Briggs: That leads me on to ask about the vision for spend and borrowing for the sector. Paragraph 48 in Audit Scotland's report says:

"we found that capital funding was only addressing … emergency needs"

over the recent period. It points to a huge backlog of maintenance as well as the transformation work for net zero, with the figure for those now close to £1 billion for the current estate with 24 colleges. What is the vision on that?

Having been an education spokesperson and having been a member of the Education, Children and Young People Committee in the previous session of Parliament, I know that colleges have limited to no opportunities to meet that cost without Scottish Government funding. Where is the Scottish Government at with potential new models? One suggestion that has been outlined is mutual investment models—the college sector could look to that to find funding.

Perhaps this is a separate question, but it is now 13 years since the Office for National Statistics reclassification, which has tied the hands of the college sector so that it cannot do anything different. What is the Scottish Government's view on borrowing powers for the college sector? Will that be part of the coming budget? If not, there will have to be a significant additional capital allocation, or the emergency needs will continue.

11:00

Neil Rennick: The ONS classification was a UK-wide decision following a UK-wide review. There are limitations, as bodies that are included

in the Scottish Government's ambit do not have the authority to borrow in that way and, crucially, they count within the Government's overall borrowing limits. Our ability to borrow is tightly constrained, so there is no opportunity to create new money or access resources that are not already in our system, because everything counts towards our borrowing capability.

Over the past 15 years or so, different models have been used, including the non-profit-distributing model. For the Dunfermline learning campus, which opened last year, capital funding was provided through the SFC. You are right that we need to consider what the future models should be.

Amanda Callaghan: We are looking at alternative arrangements. As Neil Rennick said, there are significant limitations to what can and cannot be done, but we are exploring to see whether there are alternatives. Managing within the overall fiscal framework is a huge barrier.

Miles Briggs: Will a new bespoke model be developed to address the challenge? We are talking about billions of pounds. There are one-off cases such as the Dunfermline learning campus, but I know that Dundee and Angus College put forward proposals previously. We are talking about a huge challenge across the whole sector. If the billions of pounds that are needed will not be provided from the Scottish Government's budget, there will need to be some sort of new funding model.

Helen Cross: We are continuing to explore new innovative models. I believe that a pilot of the mutual investment model is being carried out in the national health service. We are talking to Scottish Government colleagues here and in the infrastructure division, and we are being advised by the Scottish Futures Trust on models that could be used in the college sector and on the sector's financial treatment within the whole fiscal framework.

Miles Briggs: When will there be a report on that work? Will it be ahead of the budget?

Helen Cross: I do not think that the timescale is that short. We are continuing to work with colleges on how we can match their priority projects to the financial opportunities, but it is not a short-term project.

Neil Rennick: In 2025-26, some money was provided through the SFC to allow business cases for priority projects to be developed. However, as you have recognised, there is no option that does not come with either capital costs or ongoing revenue costs. Other models have been used in the education sector—for example, we have had some success through the learning estate investment programme in schools—but they all have implications that we would need to factor into our longer-term budget planning.

Miles Briggs: Following the concerns that were expressed in relation to the University of Dundee, what lessons were learned for the college sector? I admit that the situations are very different, but we raised questions at the time about commercial sensitivity and the conversations between the institution and the Government, with a huge space created in which there was limited transparency. I feel that we have heard something similar today in relation to the colleges that are at risk. That is deeply concerning, given the role of this committee and of other committees. Institutions will need to raise the alarm much earlier than was the case with the University of Dundee. What is your view on that?

Tiffany Ritchie: The SFC treats it as a tertiary system. I appreciate that we are discussing colleges today but, given that you have mentioned the University of Dundee, I note that we have a number of institutions that are tertiary by their nature and involve partnerships, as Mr Kirkwood pointed out.

We took forward four elements in relation to enhancing institutional scrutiny. The first involved setting clear expectations with colleges and universities that they should come to us well ahead of time to discuss key issues. I would say that we are finding that to be happening. Part of the reason why we will not disclose all the names of the institutions that come to us for liquidity support is because that approach has worked. Some of those universities have had challenging discussions with their lender and auditor. However, in those cases, whatever rephasing is needed, we have offered the assurance that we ourselves undertake the financial analysis that we do, and the situations have been resolved quickly and quietly. To be honest, that is a success. I hear you when you say that that is not as transparent as you would like it to be, but one of the reasons why that approach has succeeded is that those cases have not become something public that has led to lenders and auditors losing confidence.

The second element involved joining things up. A lot of the financial issues that the SFC reports on are caused by wider problems. The University of Dundee, in particular, was not facing financial issues that were bigger than those of other institutions; to be frank, the problem was its method of responding or failing to respond to those issues. What we need is confidence in the governance. It must be the case that, no matter what the risks are or how the issues crystallise, they will be addressed appropriately and sensibly. We are working very hard on our outcomes framework assurance model to make sure that we

have greater confidence in the underlying operations of an institution.

That ties to the third element, which involves finance business partners, who give us a lot of data returns. Data is great, but the problem is that people can send in any sort of numbers, and you do not know whether they are credible unless you meet the chair of the finance committee and ask them what they think of the management accounts. At that point, you might find out that the management accounts have not been presented and that the finance committee has not been meeting. Had we done that in the case of the University of Dundee, the situation could have been different. We are now making a point of going out and meeting the institutions, shaking hands with people and understanding how the meetings operate and whether they are challenging people in the way that we expect. That approach is giving us a lot of confidence. The relationship between the executive team and the board, which was not functioning brilliantly in Dundee, is a particular area of focus.

The fourth element concerns the consequences of failure to comply. There was a view that the SFC sometimes recovers funding for underdelivery but that there is not much else to it. I think that that view has changed. We have had a number of institutions in to talk to our executive team and our board so that we can be certain that the executive team and the board are working together to forecast and deal with the financial challenges that the institutions face.

We have a great deal more confidence in institutions than we had before, and I see institutions responding to our approach. I can think of only one case where we have not had that proactive engagement.

Nothing in our report is a surprise, because we have been dealing with the institutions for 12 months now. I apologise to the committee for the lack of transparency, but, when an issue is live, there is a balance to be struck to ensure that we do not have too much transparency, which could result in the situation becoming a self-fulfilling prophecy. We must bear in mind commercial sensitivities. We are dealing with banks such as Santander and Barclays, which do not respond well to such matters being in the public sphere.

Miles Briggs: I respect that. No institution wants to be a front-page story, as that can undermine some of the work that needs to be done. However, I am concerned about the fact that, in many cases, sticking-plaster solutions are put in place to stop the situation becoming a story, with money being treated as an in-year transaction instead of being used to look to the future. That is where scrutiny is really important if we are to ensure that the sector moves towards financial health, so I think that we need greater transparency for committees in the Parliament.

The Convener: I completely agree with your latter point, Mr Briggs.

To go back to the infrastructure discussion, I understand what has been said about the approach to the infrastructure plan and how that can be amended; I know that an infrastructure plan has been announced; and I accept that we are still waiting on the publication of the report on the college sector of the future initiative. However, in line with what Alan Brown said about the issues around unmet demand not being fully understood yet, I am sure that you can appreciate that it looks like those three elements are not necessarily joined up.

We have heard today that it will take time to get the approach to infrastructure right, and Helen Cross said that the infrastructure plan will not be a short-term approach.

I do not think that we have time to discuss the need for capital infrastructure in many of our colleges, but there are issues around reinforced autoclaved aerated concrete, asbestos and fire safety. In my region, West Scotland, a campus in Inverclyde is closed because of a boiler issue, which has led to students losing out on five weeks of education.

We do not have a lot of time to fix urgent capital issues. I think that £147 million-worth of urgent repairs has been identified, and time is not on our side to deal with those issues.

Helen Cross: We provided emergency funding to West College Scotland to support the reopening of the Finnart Street campus, and we have run two rounds of targeted funding to support colleges to meet their health and safety needs. As Neil Rennick said earlier, we provided a first round of awards to colleges to advance business cases for bigger pieces of capital work, which will continue. We then ran another round of applications for business cases for bigger pieces of capital work; we are assessing the bids now and will be able to support more work this year.

We need to build a stronger evidence base for the specific projects and understand the financial needs. We have the sector-wide assessment, which will be the case that we take to the Government. Colleges are referenced in the Government's overall infrastructure pipeline and strategy documents. We want to ensure that the projects that colleges need come through that pipeline, and we are giving them the tools to ensure that they do.

The Convener: You will want to get all the investment decisions right, but time is not on our side when it comes to some of the college estate issues.

I want to clarify something in relation to the college sector of the future programme. Mr Rennick mentioned the important role that trade unions will play in determining the future of the sector. My understanding is that the future framework for Scottish universities gives trade unions a formal seat at the table, but that that is not the case with the college sector of the future programme. Is that correct?

Neil Rennick: It was always intended that the input of trade unions, students and businesses would be part of both the college sector of the future work and the universities work. Those pieces of work are not the same, so they have been structured in slightly different ways. Amanda Callaghan and SFC colleagues can talk about this, but my understanding is that the intention had always been for trade unions to be engaged and involved in the process, which they have been thus far. However, the trade unions have concerns about the issue that you have raised and the Minister for Innovation, Technology and Tertiary Education is due to meet them next week. That is one of the issues that will be discussed.

Sara Grainger: We established a reference group. At the time, the National Union of Students Scotland president asked that there be a single reference group for learners, staff and trade union representatives, so that is what we put in place.

The Convener: For the college sector?

Sara Grainger: Yes, for the college sector.

The reference group is the opportunity for trade union representatives, staff and learners to give their views on the work, both previous and planned, and to influence the way that it is done in terms of the inputs and the outputs. That was what we provided for them, but the trade unions have expressed dissatisfaction with that process. They have asked to be included in other groups, and we are giving very serious consideration to that request.

The Convener: Why was that not done initially? If they were included for the universities programme, why did you not include them in the colleges programme?

Sara Grainger: The workstreams are quite separate. There are different partnerships, so the dynamics are different.

The Convener: The dynamic might be different, but the Government is committed to the fair work principle.

Sara Grainger: Yes, 100 per cent.

The Convener: Therefore, that principle should be applied consistently in terms of listening to trade union voices and engaging properly with them.

Sara Grainger: Yes, 100 per cent. There can be no possible argument with that. We absolutely listen to the trade unions, which is why we established the reference group. The mechanism for it was slightly different, but the principle is exactly the same.

11:15

The Convener: On the mechanism, we are aware that industrial relations in the further education sector have been quite strained, which might even take away from the principled point of having trade unions represented at the top table. It would have made sense to get them involved earlier, not only in the reference group but as members of the college sector of the future workstream.

Sara Grainger: They have been involved in the college sector of the future workstream from the beginning. They have not been in the delivery assurance group, which has a specific and narrow remit. It is not equivalent to the steering group for the future framework for the universities. There is a completely different membership, a completely different set-up and a completely different set of remits.

The Convener: Okay.

My final question is for the SFC and is about teaching credits. On page 3 of the report, under "key facts", it states that there has been an

"Eight per cent reduction … delivered by colleges"

in teaching credits over a two-year period. I understand that Scottish colleges used to face strict financial clawbacks if they failed to deliver their funded credit targets, but the SFC recently relaxed the threshold to allow colleges to underdeliver by 10 per cent while still keeping their full funding. Why was that change made? Is that not a case of paying the same money for significantly less education?

Paul Devoy: The idea behind that approach was to ensure that we gave colleges room to transform and make changes, given all the restrictions that we have discussed for nearly two hours. At the same time, colleges were seeking, through that process, to protect the key learning outcomes that they were delivering. We sought to ensure that we gave them some scope for transformation, despite a very tight fiscal settlement, and, at the same time, we gave them the flexibility to look at how they shaped provision to meet that.

Helen Cross: In general, we have seen more colleges meeting their credit targets, even as finances remain tight, which is the primary reason why we have not—

The Convener: I am sorry to interrupt, Helen. When you say "meeting their credit targets", do you mean the 90 per cent target?

Helen Cross: In terms of overall delivery, no colleges have faced problems that have meant that we have needed to recover money.

The Convener: You have reduced the threshold at which you would recover the money.

Helen Cross: Even accounting for that.

The Convener: Was the previous threshold 100 per cent, 98 per cent or another figure?

Helen Cross: I am afraid that I have only been working in this area for a year, but I can write to you about that.

The Convener: Fair enough. That would be helpful.

As there are no further questions from committee members, I thank the witnesses for their time and evidence.

We have covered a number of issues in relation to the financial situation that our colleges face and the need to ensure a positive future for them. Significant concerns have been raised in the Auditor General's report, so I suspect that we will want to ask you further questions, but thank you for your evidence this morning. We move into private session.

11:19

Meeting continued in private until 11:54.

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