Education, Children and Young People Committee
Wednesday 18 June 2025
21st Meeting, 2025 (Session 6)

Financial sustainability of Scotland's colleges

Introduction

1. Building on its pre-budget scrutiny 2025-26 and its work on colleges regionalisation, the Committee will explore college funding and will look at the current funding settlement and consider sustainability of funding of Scotland's colleges in the years ahead.

Committee meeting

2. At today's meeting, the Committee will take evidence from.

   - Angela Cox, Chair, College Principals Group, Colleges Scotland;
   - Andy Witty, Director of Strategic Policy and Corporate Governance, Colleges Scotland;
   - Joanna Campbell, Principal and Chief Executive, Glasgow Kelvin College;
   - Professor Wayne Powell, Principal and Chief Executive, Scotland's Rural College; and
   - Vicki Nairn, Principal and Vice-Chancellor, University of the Highlands and Islands.

Supporting information

3. A SPICe briefing has been produced for the meeting. This is included at **Annexe A.**

4. Colleges Scotland, Scotland's Rural College and the University of the Highlands and Islands have written to the Committee to provide additional evidence ahead of this meeting. This is included at **Annexe B.**

Clerks to the Committee
June 2025

Annexe A

Education, Children and Young People Committee
Wednesday 18 June 2025
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Financial sustainability: Colleges

The Committee has agreed to undertake an evidence session on the financial sustainability of the college sector. This follows on from an inquiry the Committee undertook on college sector in 2022, as well as the prebudget scrutiny last year which looked at the college and university sectors.

The Committee will take evidence from representatives of colleges.

Colleges' Sustainability

There have been longstanding concerns expressed about the level of funding for colleges. Audit Scotland's 2024 Colleges report states:

> "Scottish Government funding for colleges reduced by £32.7 million in cash terms in 2024/25, and has reduced by 17 per cent in real terms since 2021/22." – Audit Scotland, Scotland's colleges 2024

The Audit Scotland report noted that, of the colleges that had provided accounts, 11 institutions reported deficits in 2022/23, compared to eight the previous year.

In January 2024, the SFC published a report on the Financial Sustainability of Colleges in Scotland 2020-21 to 2025-26. This noted that "colleges are responsible for their own financial sustainability and are required to notify SFC if they identify material risks to their financial viability or sustainability." It also identified fifteen "risks to colleges' financial health". These included:

- Increasing staff costs due to cost of living pay awards, higher employer pension contributions, and job evaluation outcomes for support staff.
- Challenges in meeting student activity thresholds due to demographic changes and competition from universities and employment opportunities.
- Funding Recovery: Uncertainty over funding recovery due to lower recruitment levels and ongoing discussions about potential mitigations.
- The impact of cost efficiencies (including the impact of reduced staff numbers, changes to frontline student services and potential decisions about the future of

particular campuses) on the quality of student experience, the health and wellbeing of college staff, and breadth and width of the curriculum offered to students

- The uncertain economic outlook, with high inflation and rising interest rates.

- The need to support capital projects such as addressing the backlog of estates maintenance, digital requirements, and any issues with RAAC.

The SFC said that to mitigate the risk of not achieving student activity targets, colleges were undertaking proactive budget monitoring, effective curriculum planning, and developing stronger partnerships with schools, universities, employers, and industry. It also said that colleges have been focusing on staff cost savings, including the possibility of compulsory redundancies, curriculum reviews, and freezing non-essential spending. The SFC said "should continuously review their operating models and consider options for reducing costs and maximising income in this challenging environment of increasing staff costs, inflationary pressures, high energy costs and interest rates, and flat cash settlements."

In terms of the SFC's actions, the report noted that the funding model for colleges had changed, with reduced credit targets, more generous terms and conditions and "decoupling 20% of the value of credits to take account of college sunk costs, recognising that colleges bear an element of semi-fixed costs even when credits are not delivered."

The SFC provided the Committee an interim financial sustainability report and this was published in May. Under the Colleges sector, this interim report made a number of observations:

- Fiscal Environment: Colleges are operating in a very tight fiscal environment with challenges such as increased staff costs, high energy costs, inflationary pressures, and higher interest rates impacting loan repayments.

- Operating Surplus: The sector reported an underlying operating surplus of £570,000 in 2023-24, a significant improvement from the prior year's deficit of £14.4 million, mainly due to reductions in staff costs from voluntary severance activities.

- Dependency on Grants: Colleges remain highly dependent on the Scottish Funding Council grant, which represented 76% of total income in 2023-24.

- Staff Restructuring Costs: The sector reported staff restructuring costs of £9.2 million in 2023-24, a reduction of £3.8 million from the previous year.

- Cash Balances: Cash balances at the end of July 2024 were £128.6 million, a slight increase from the previous year and significantly higher than the forecast.

- Sector Borrowing: Overall sector borrowing reduced from £217.2 million to £207.6 million by the end of July 2024, with most borrowing is in the form of NPD/PFI commitments.

Last year Karen Watt the previous Chief Executive of the Scottish Funding Council explained that the totality of the funding settlement is tight and highlighted ways in which the SFC was seeking to support the sector as well as individual colleges. She told the

Committee—

> "We also monitor things closely, and when we see institutions getting into difficulty, we work with them. As the committee will know, we regularly publish material on the financial state of colleges and universities. We are working extremely closely with a small number of colleges because they have quite significant cash-flow difficulties." (OR 12 June 2025, Cols 30-31)

Colleges were also covered in a letter from the Scottish Government prior to last week's meeting. It said—

> "The college Tripartite Alignment Group (comprising of Scottish Government, the SFC and Colleges Scotland) continues to work on identifying and implementing workable flexibilities to ease colleges' financial pressures while ensuring accountability for public funds. Work is ongoing across a number of work priorities currently, such as diversification of funding into the sector, establishment of a new way to flexibly fund investment through a College Transformation Framework, and exploration of the breadth of delivery via colleges.
>
> "Through the work of the Tripartite Alignment Group, formalised changes to guidance on college asset disposals have been issued so that colleges retain a more significant proportion of the value of any sale to invest locally."

The Minister for Higher and Further Education told the Committee last week that the college sector is experiencing a period of "evolution" and he is optimistic in how the college sector will develop as colleges align their offer better to the "needs of the economy and the needs of learners".

The UHI submission to prior to this evidence session outlined the UHI Strategic Plan 2030; this included aims to "deliver a connected, flexible curriculum shaped by student needs and employer demands" and to "drive regional economic transformation through entrepreneurship and innovation". UHI also highlighted a number of suggestions that would support UHI's "continuing success". These included: linking funding to regional economic development; moving to a "Tertiary funding settlement and empower UHI … to direct funding and target resources to match demand in year", including being able to move HE underspend to support FE.

Late accounts

Martin Boyle from the Scottish Funding Council told the Committee on 7 May 2025 that two institutions were late in delivering their accounts and this had delayed the SFC completing its financial sustainability report for the college sector.

A subsequent letter from Stephen Boyle, the Auditor General for Scotland, confirmed that the two colleges were Forth Valley College and Lews Castle College (one of the partners of UHI).

In the case of Forth Valley College, the Auditor general explained that the appointed auditor issued a “qualified opinion”[1] on the accounts and that this led to the Auditor General to prepare a section 22 report on the college.

In terms of Lews Castle College, the Auditor General reported that the delay was “due to a lack of responsiveness and staffing challenges at the college, and a need to conclude triennial pension valuation procedures.” The auditor issued a qualified opinion on the accounts for this college and the Auditor General is preparing a statutory report on the matter.

Governance arrangements

The colleges that are giving evidence have a range of different governance arrangements. The most common regional college structure is where a Regional Strategic Board covers one college (e.g. Edinburgh, Fife, Ayrshire, and Aberdeen & Aberdeenshire). UHI, Glasgow Kelvin and SRUC do not sit in this model of regional governance.

Glasgow Kelvin College

Glasgow Kelvin is currently under the Glasgow Colleges’ Regional Board. However, the Glasgow Colleges’ Regional Board is due to be dissolved shortly and each of the Glasgow colleges will be designated as “regional colleges”.

University of the Highlands and Islands (UHI)

The Governance of UHI and its partner colleges is complex and the UHI’s submission helpfully sets this out. The Court of the University of the Highlands and Islands (UHI) existed prior to regionalisation. It was then established as the RSB [Regional Strategic Board] in 2014 and secured operational fundable body status in 2015. A committee of the UHI court, the Further Education Regional Board (FERB), was established to carry out the regional body role. Further education funding is distributed by UHI to seven assigned colleges. The academic partners who were designated as assigned colleges are UHI Moray, UHI Perth, UHI Inverness, UHI North West and Hebrides, UHI Shetland, Orkney College UHI and UHI Argyll. On the 1st of August 2023, UHI North Highland, UHI Outer Hebrides and UHI West Highland merged into a single college to become UHI North West and Hebrides.

UHI’s submission noted that its duties as a RSB included:

- responsibility for administering all funds provided to UHI by the SFC;
- a general duty to secure coherent provision of FE and HE in the region; and
- an obligation to monitor the performance of assigned colleges.

[1] The Scottish Public Finance Manual explains:
“If the auditor is not satisfied in relation to any of the matters specified in section 22(1)&(2) of the PFA Act an explanation will be sought from the body concerned. If the explanation is not satisfactory the auditor's opinion - and therefore the accounts - will be modified. (Modification can take the form of an emphasis of matter paragraph, a qualified opinion, a disclaimer of opinion or an adverse opinion.)”

The UHI also explained that it UHI is accountable to the SFC as both an RSB and as a fundable higher education body. The UHI also noted that individual colleges are accountable for their own performance. It's submission states:

> "The Assigned College Boards of Management are responsible for the effective governance of their institutions. This includes ensuring the college fulfils its mission, complies with legal and regulatory requirements, manages resources responsibly, and maintains high standards of education and financial stewardship. Boards are required to act in the best interests of the college, holding the executive to account while supporting leadership to deliver outcomes aligned with RSB priorities and community needs."

Scotland's Rural College (SRUC)

The SRUC was established in 2012 through the merger of the Scottish Agricultural College (SAC) with Barony, Elmwood and Oatridge Colleges. SRUC spans both the university and the college sectors.

Since October 2024, SRUC has Taught Degree Awarding Powers. Previously SRUC's degrees were awarded through the Universities of Glasgow and Edinburgh.

Post-school education reform

Work to reform the post-school education landscape has been under discussion since 2020. During the COVID-19 pandemic, concerns around the future sustainability of tertiary education in Scotland led the Scottish Government to commission the SFC's 2021 Review of Coherent Provision and Sustainability.

The review report set out recommendations for change to the college and university landscape, calling on the Scottish Government to establish an overall vision and strategy for further and higher education, increase collaboration between colleges and universities and move to multi-year funding assumptions.

The Scottish Government then commissioned the Independent Review of the Skills Delivery Landscape. Carried out by James Withers, the review was published in June 2023, setting out 15 recommendations for transforming the skills delivery landscape. The Scottish Government published 'Purpose and Principles for Post-School Education, Research and Skills' in June 2023. This is a framework intended to set the overarching policy direction for higher and further education. This included five principles including: "Transparent, Resilient and Trusted: The system is financially and environmentally resilient; trusted to deliver, and subject to effective governance" and under this, the Government highlighted three outcomes:

- Public funding models for education, skills and research are fair, transparent, and maximise value.
- All parts of the post-school system are trusted to deliver, environmentally and financially resilient and held to account for their impacts on learners, practitioners, local communities, and the wellbeing economy.

- Collaboration across the post-school system is pursued proactively with shared values and a common purpose.

The Tertiary Education and Training (Funding and Governance) Bill was introduced to the Scottish Parliament on 5 February 2025, and is currently at Stage 1. The Bill proposes changes including consolidation of responsibilities for securing national training programmes, apprenticeships and work-based learning in the SFC from SDS; and changes to the SFC's governance and how it oversees tertiary education – this includes putting SFC’s responsibilities around financial sustainability of institutions into law. The Bill comes at a time of financial uncertainty for universities and colleges.

Scottish Government Budgets

College resource and capital allocations are set out in the table below.

Table 1: College Resource and Capital Budgets (Level 3)

	2023-24 Scottish Budget £million	2024-25 Scottish Budget £million	2025-26 Scottish Budget £million	% Change 2025-26 Budget on 2024-25 Budget
Net College Resource	701.681 (675.7)	643.021	656.197	2.0%
Net College Capital	82.400	84.850	64.832	-23.6%
Total	784.081 (758.1)	727.871	721.029	-0.94%

Sources: Scottish Budget 2024-25 and Scottish Budget 2025-26
Notes: In 2023-24, £26m initially allocated to the college resource budget was removed. This figure is show in brackets in the 2023-24 column.
The ‘Percentage Change’ column compares the 2024-25 budget allocations with the 2025-26 budget allocations to provide a like-for-like comparison.

This year’s college revenue budget is a 2% increase on the 2024-25 Budget allocation. The Scottish Government’s Level 4 data states that the cash terms increase is provided to “support workforce costs including pensions and pay settlement”. This follows the announcement that £4.5m would be provided by the Scottish Government to settle ongoing industrial action over pay in the college sector.

The college capital budget has decreased by 23.6% on the 2024-25 Budget. The Scottish Government’s Level 4 spreadsheets state this “reflects profiled spend on multi-year capital projects”.

During pre-budget scrutiny, the Committee heard that the discontinuation of the Flexible Workforce Development Fund (FWDF) was having a negative impact on colleges, making building links with businesses more challenging. In its pre-budget letter to the Minister, the Committee called for the fund to be reinstated. The Minister’s response to the Committee stated his own disappointment at the end of the fund and the inability to reinstate it, stating he remained open to suggestions on how this might be done.

Scottish Funding Council allocations 2025-25

Every year the Scottish Funding Council ("SFC") publishes the allocation of funding for each college. This is how the SFC allocates the Scottish Government's budgets for colleges and includes money for delivering teaching and staffing costs, student support, and capital. The SFC published its final allocations for colleges on 29 May 2025. The SFC said that its allocations were seeking to balance a range of priorities.

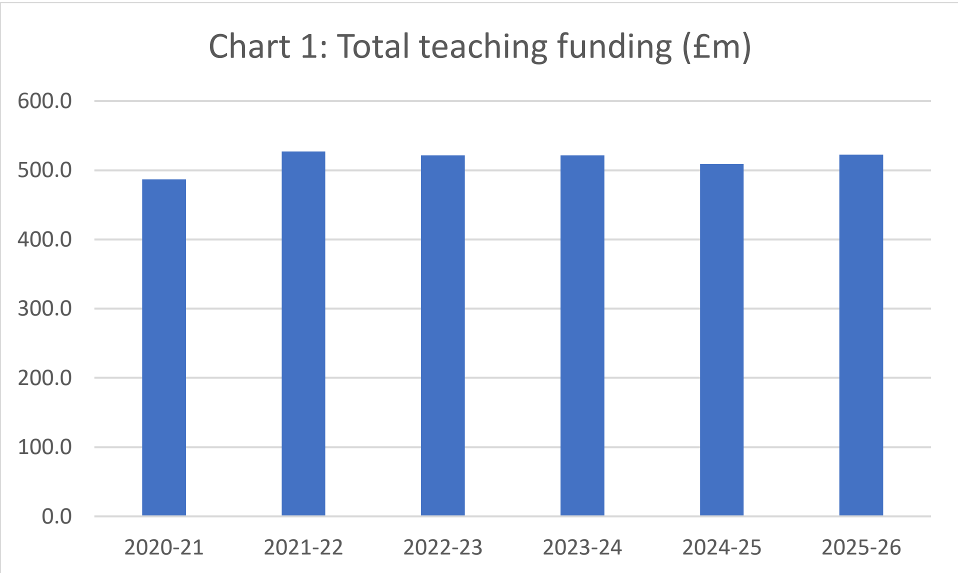
Teaching and staffing costs

Table 2 shows the allocation of funding to the sector to support teaching.

Table 2: Teaching funding (£m)

	2024-25	2025-26
Teaching (& fee waiver) funding	509.3	509.7
Support for lecturers pay	0.0	4.5
Support for pension costs	0.0	8.3
Total teaching funding	**509.3**	**522.5**
Support for increase in National Insurance costs	0.0	5.5

Total teaching funding will increase by £13.2m in 2025-26 compared to 2024-25. This is a 2.4% cash increase. The Chart below shows the total teaching funding to colleges since 2020-21.



While there has been an increase to the total teaching funding allocation in 2025-26 compared to 2024-25, this follows three years when the funding has reduced or stayed the same in cash terms.

This year, the SFC also received a further £5.5m associated with increased National Insurance costs. The SFC's commentary around the indicative allocations to colleges estimated that this will partially (c60%) offset the increase in National Insurance costs. This would suggest that colleges would need to find money to support the remainder of the costs of the NICs increase, around £3.7m, from other budgets. Colleges Scotland's submission said that it is not "clear if colleges are in fact receiving 60% of this funding, or in a timely way, due to the accounting differences between Academic Years and Financial Years".

The SFC provides teaching funding to colleges that undertake to deliver a specified volume of activity measured in 'credits' (1 credit here is equivalent to 40 hours of learning or the equivalent of 4 SCQF credits). Some subject areas are more expensive to deliver than others and the SFC groups subjects into five price groups.[2]

The SFC noted that this year, it had made changes to the teaching funding allocation model. It described the key changes as being:

- A change to the core credit price for each college/region based on their actual split of activity across subject price groups.
- Grouping of colleges primarily based on size (in relation to student numbers) and taking into account geographical area.
- The removal of premiums from core funding and reallocated the associated funding resulting in a single premium rate applied to each group.

Martin Boyle from the SFC told the Committee in May—

> "The Scottish Government has asked us to look at our funding model. It has evolved a lot over the past couple of years. The funding model evolves all the time because things change—training changes and the way that people learn changes. We do not want to put massive shocks into the system of how colleges are funded. If we make changes, we have to phase them in over two or three years. However, our funding comes from the Scottish Government, so it is up to the Government how things are done—the quantum of funding and how much is to go to colleges. However, we are committed to supporting colleges and to keeping them delivering the great work that they do." (OR, 7 May 2025, Col 41)

Colleges Scotland have said that there will be winners and losers in this process. Writing in April of this year, Colleges Scotland said—

> "Initial conversations have indicated that the revised funding model will have different impacts for different colleges. For some colleges funding is likely to reduce over the next three years by up to -5.6%, while other colleges will see an increase of 4.5%, with a range of change in between. In an effort to keep the college sector stable, the SFC is putting mitigations in place for 2025/26 so that there is some smoothing of the new arrangements, however colleges are still waiting to hear fully about the mitigations on offer."

Colleges Scotland's submission stated—

> "Colleges Scotland is advocating for the current funding model to be reviewed for 2026/27 onwards as the current model is inflexible, particularly when trying to respond to the needs of employers and industry and create short, sharp courses like microcredentials. Colleges should also be able to use funding to achieve better outcomes regionally and locally without over bureaucratic reporting conditions. SFC

[2] See guidance for 2024-25 here for more information on credits: https://www.sfc.ac.uk/wp-content/uploads/2024/06/Credit-Guidance-for-Colleges-2024-25.pdf

> has committed to working with Colleges Scotland on a review but this now needs to proceed at pace to enable colleges to have the flexibility and agility to respond to industry need and to better serve learners."

UHI's submission said that one of the challenges it is facing in relation to financial sustainability was the "flat cash value of FE credits and long terms trend of flat cash in HE grants". UHI said that it is "currently significantly underfunded in terms of credit demand and meetings the needs of business and industry". UHI also reported that—

> "Some UHI Academic Partners identified as being in financial distress continue to generate operating cash deficits over the next 3 years, despite aggressive cost saving measures and financial recovery plans, posing an additional threat of reduced capacity limiting the generation of new income and growth, coupled with rising debt required to support liquidity cover."

In a recent PQ, the Scottish Government provided data on average costs per place for different levels and stages of education. The most recent full set of data was 2023-24. College places receive, on average, the least funding out of these levels/stages.

Table 3: Cost per place in different sectors

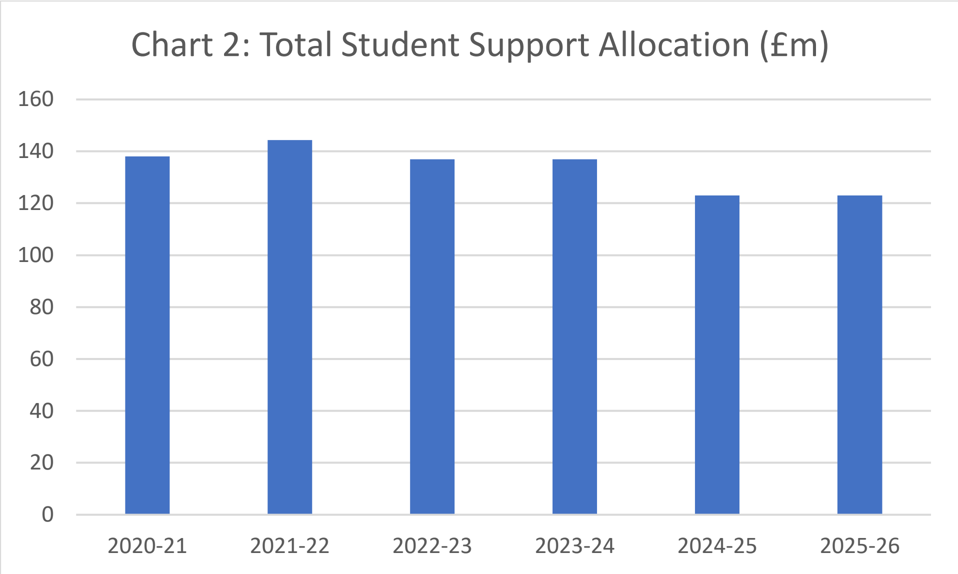
	Pre-School	Primary	Secondary	College	University
2023-24	£12,000	£7,487	£9,276	£5,506	£7,613

The difference between funding for college and university places was an issue that was raised by the Committee in its report on college regionalisation. The Scottish Government's response in June 2023 said—

> "SFC has committed to working with the sector to consider the differences in funding between the college and university sectors, while recognising that the difference in funding per FTE reflects the different costs of provision across tertiary education. SFC has increased the cost per credit for 2023/24 and, in recognition of fixed costs, also decoupled a portion of funding from credit activity which is a positive step for the college sector."

Student support

Funding for student support is demand-led. Colleges are expected to follow SFC guidance on student support, where possible. Funding for student support by colleges in 2025-26 will be a total of £123m. The same as 2024-25. The chart below shows the changes in the allocations over the past seven years (ie to include a data point prior to the pandemic).



The SFC said in 2022-23 that the reduction in that year was to reflect underspends in this area. The commentary around the 2024-25 allocations explained the reduction in Student Support that year:

> "Balancing our priority to protect frontline teaching funding and the reduced budget available, we are adjusting the student support budget to better reflect actual demand and recent trends in budget spend."

SFC can redistribute the funding in this area between colleges in-year to better reflect demand.

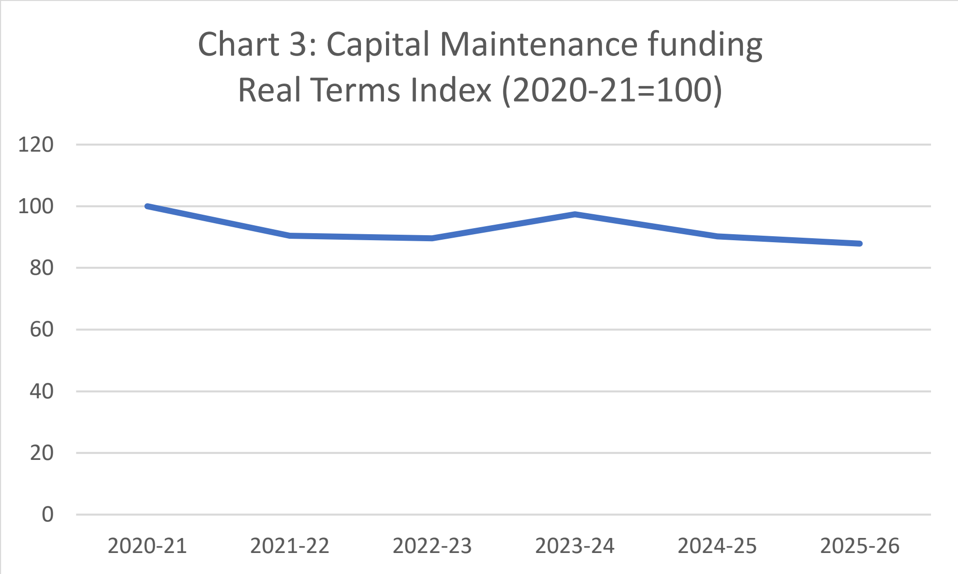
Capital funding

Capital funding can be volatile as large projects' costs can skew trend lines. For example, in recent years, the new Fife College campus in Dunfermline has taken up significant funds. Helpfully the SFC reports project funding and capital maintenance funding separately. The table below shows the total allocations for capital funding and costs to service Non-profit distributing public private partnerships (NPD).

Table 4: Capital allocations

	2020-21	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**2025-26**
Capital Maintenance funding	32.7	29.4	31.2	35.9	34.5	34.5
Project funding	3	4.3	41.4	46.5	51.9	30.3
Total Capital funding	**35.7**	**33.7**	**72.6**	**82.4**	**87.9**	**61.8**
College NPD expenditure	29.3	29.3	29.3	29.3	29.3	31.6

Just looking at the capital maintenance funding, the funding in 2024-25 remains the same as 2024-25. While there has been some fluctuations in the funding between 2020-21 and 2025-26, the capital maintenance funding has not kept pace with inflation. The following chart shows the real terms[3] value of this funding compared to 2020-21. In real terms the capital maintenance funding is 12% lower than in 2020-21 and is the lowest value in the period shown.



The SFC explained the increase in the NPD line. It said—

> "Funding for NPD expenditure in FY 2025-26 is £31.6m, an increase of £2.3m (7.8%) from FY 2024-25. This is for major capital project unitary charges (under the Scottish Government's Non-Profit Distributing model) for Ayrshire, Inverness and City of Glasgow colleges."

Colleges Scotland's submission said that it was working with the SFC to establish the level of capital investment required over the next ten years. It also said—

> "The failure to increase investment in college estates and address critical digital infrastructure needs is unacceptable for those learners choosing to study at a college. Many college buildings are in a state of disrepair, with some containing Reinforced Autoclaved Aerated Concrete (RAAC) that remains unaddressed. Students and staff are expected to work and learn in substandard and deteriorating conditions."

The SRUC noted that its estate included around "350 buildings across six campuses, eight disease surveillance centres and 24 consultancy offices". It reported that it "receives a comparatively small proportion of the capital funding allocation to colleges" but that this had been "offset by financial transaction loans available to HE institutions".

[3] Using the March 2025 HMT GDP Deflators.

Students and outcomes

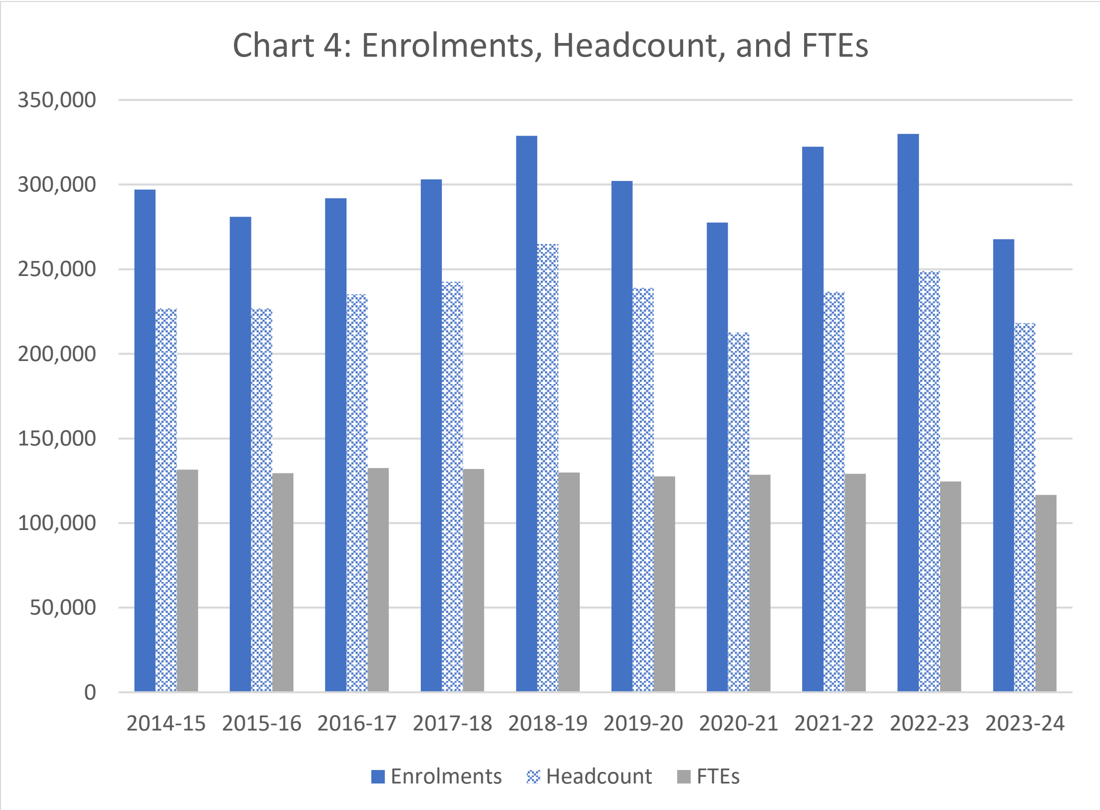
Enrolments, headcount and FTE students

The number of students at colleges can be counted in different ways. Generally these are presented as enrolments, headcounts, and FTE students there are. One student could enrol in multiple courses.

The SFC published its annual College Statistics release in February 2025, looking at students in 2023-24 and providing a time series from 2014-15. In 2023-24, there were:

- 267,668 enrolments, down 62,252 (19%) compared to 2022-23.
- 218,145 students (headcount), down 30,762 (12%) compared to 2022-23.
- 116,602 students (FTE), down 8,052 (6%) compared to 2022-23.

The chart below shows the data under each of these categories for the period 2014-15 to 2023-24. The 2023-24 figures for enrolments and FTE students are the lowest recorded in the data and the figure for headcount was the second lowest, after 2020-21.



As noted above, the SFC funds credits. In 2023-24, SFC reduced the target for credits for colleges, while maintaining the funding from 2022-23, thereby increasing the funding per credit. The [SFC's commentary around the funding for 2023-24] said that changes had taken account of "performance and demographics" and "rebased credit allocations for all colleges, lowering them by 10%". The SFC explained:

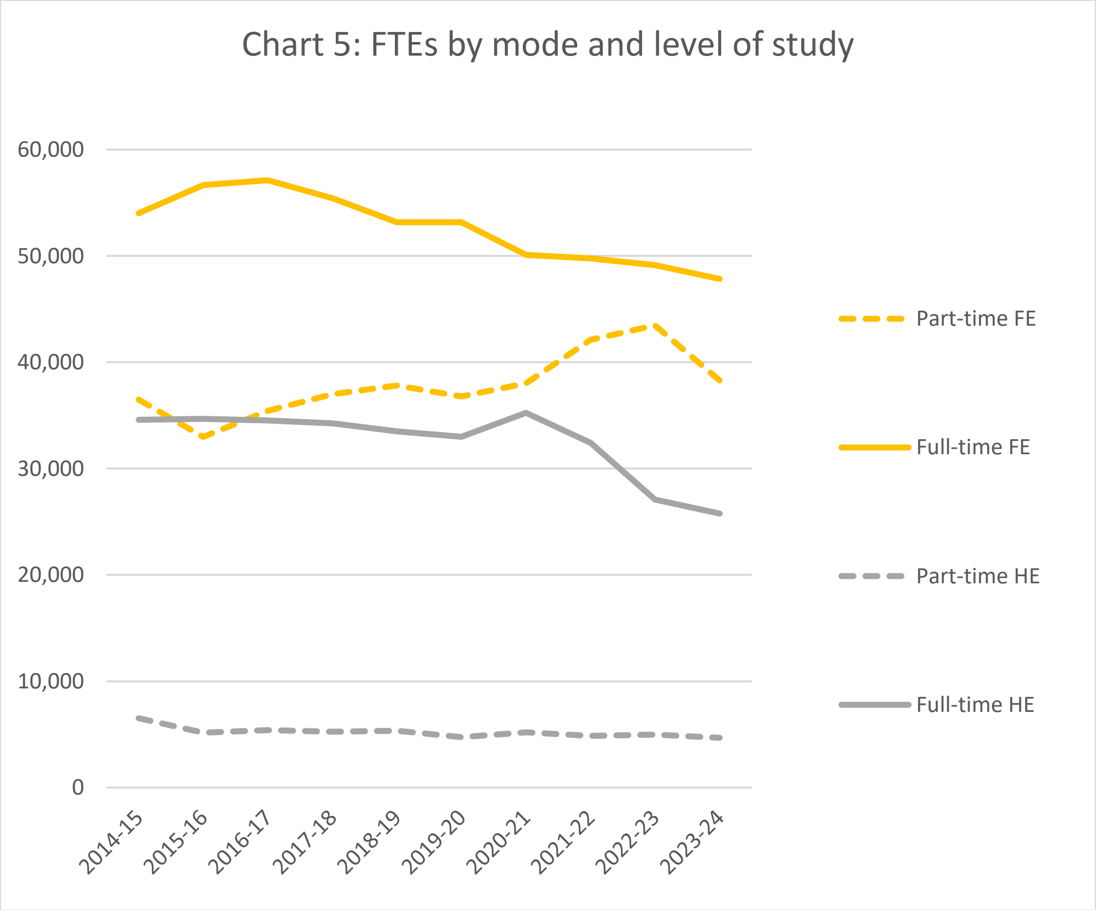
> "This credit rebasing will go hand in hand with revised credit guidance which will begin to remove some of the crisis-based mitigations we introduced to help colleges and students deal with the immediate and significant impacts of the COVID-19 pandemic. We have listened to feedback from the sector and employers and will make changes to the guidance to provide greater opportunities for colleges to deliver the optimal balance of full-time and part-time provision."

Table 5 shows the SFC's targets for credits against the amount delivered from 2020-21 to 2023-24. This shows the decreases in both targets and delivery between 2021-22 and 2023-24.

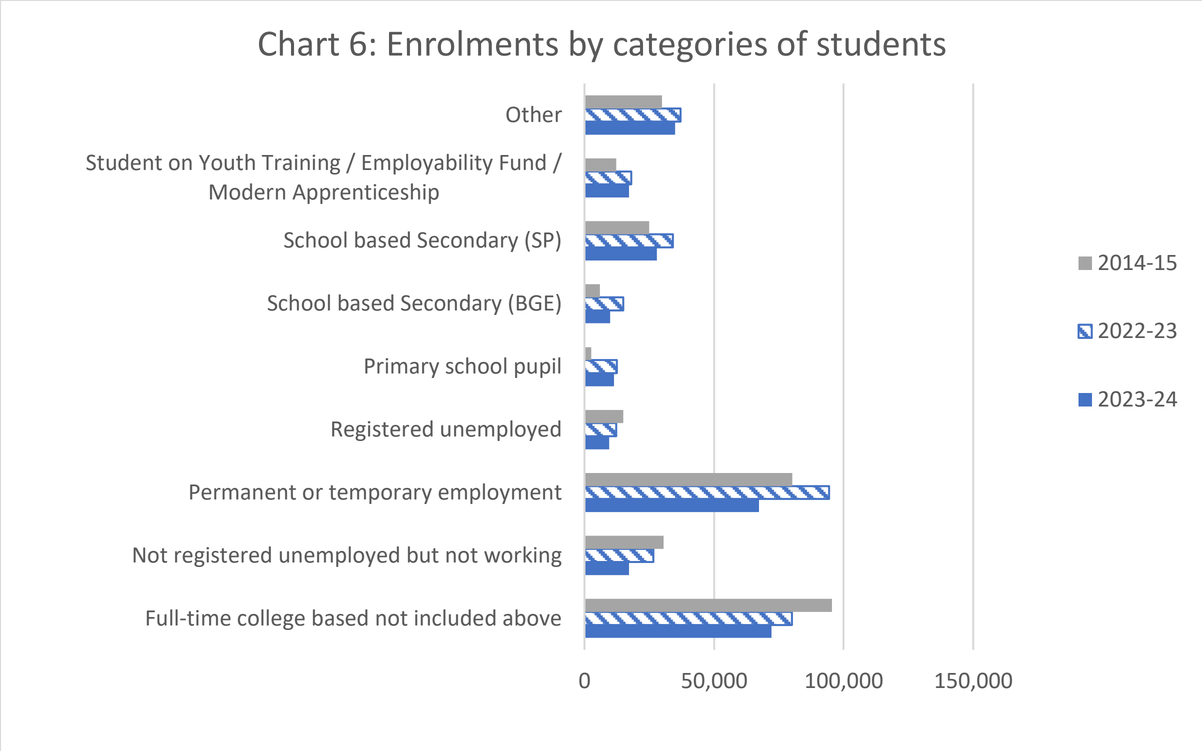
Table 5: Credit targets and delivery

Academic Year	Target	Delivered	Percent delivered
2020-21	1,757,677	1,730,519	98.5%
2021-22	1,821,835	1,766,277	97.0%
2022-23	1,725,225	1,692,042	98.1%
2023-24	1,552,851	1,565,139	100.8%

Colleges deliver both higher and further education. The chart below shows the numbers of FTE students taking FE and HE on a part and full-time basis since 2014-15.



Colleges provide education for a wide range of the population and for a wide range of purposes. This includes education delivered for both primary and secondary school pupils, full-time students, people in work, people looking for work, etc. The Chart below shows this variety. To make this easier to read, SPICe has condensed a number of categories[4] and included a category "Other" which includes several smaller categories, such as retirees, winter leavers, school pupils outwith school link programmes, access courses and so on. The data provides is for three years, 2014-15, 2022-23 and 2023-24.



In all of these categories, there is a fall between 2022-23 and 2023-24. Despite this, there are some areas where the enrolments increased between 2014-15 and 2023-24, including education through school link programmes.

Colleges Scotland's submission placed the reducing number of students in the context of colleges responding to reducing funding. Colleges Scotland suggested that this may create unmet demand for college places.

Future demographics and school leavers

The college sector plays a very significant role in educating young people and school leavers in particular. Enrolments can be affected by demographic changes. The SFC presents participation rates of 18-19-year-olds in Scotland.[5]

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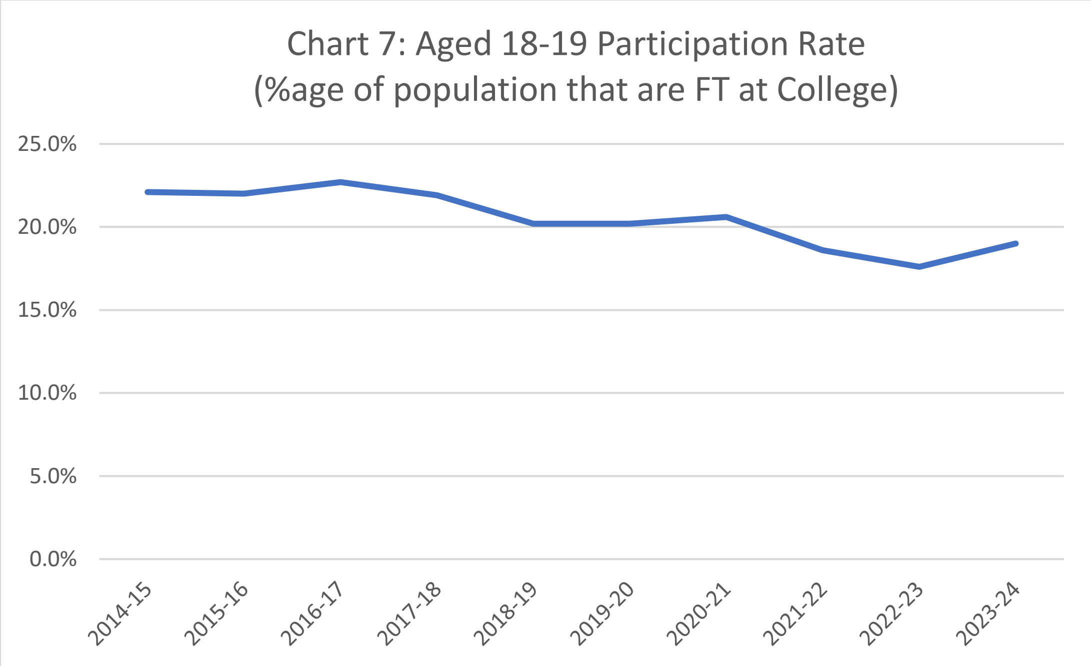
[4] For example, the SFC reports on individual secondary school years and these are summed into BGE and Senior Phase. Member may wish to note that "Student on Youth Training / Employability Fund / Modern Apprenticeship" is a category that the SFC report on, ie SPICe has not aggregated these categories.

[5] SFC seeks to account for the influx of students from outwith Scotland by using data from younger cohorts in earlier years. SFC explains that this is "in order to calculate a more representative participation rate of the proportion of 18 and 19 year olds undertaking college courses who would be residing in Scotland regardless of their education path".



There was an uptick in the number of full-time college students in 2023-24 and a small fall in the 18-19 population. Under the SFC's measure, the 18-19 population fell by 8.6% between 2014-15 and 2023-24. Going forward, the SFC reported that "the number of 18-to-19-year-olds in the population is expected to grow after 2023-24 until the end of the decade."

A joint Education Scotland and SFC report on colleges in 2023-24 stated—

> "The overall number of learners in colleges is falling. In AY 2007/08, there were around 380,000 learners in Scotland's colleges on SFC credit rated programmes. By AY 2014/15, post regionalisation, learner numbers had fallen to 239,000. In AY 2022/23, the figure had fallen further to 179,000 learners. The sector faces an ongoing challenge in providing an appropriate curriculum to meet the needs of this changing learner population and of the wider economy. Trends including a reducing 16 to 24-year-old population; the lowest birth rate in Scotland since consistent records began; and competition from employers and universities over recruitment targets are set to continue. This is an important consideration when planning for viable future provision across the sector."

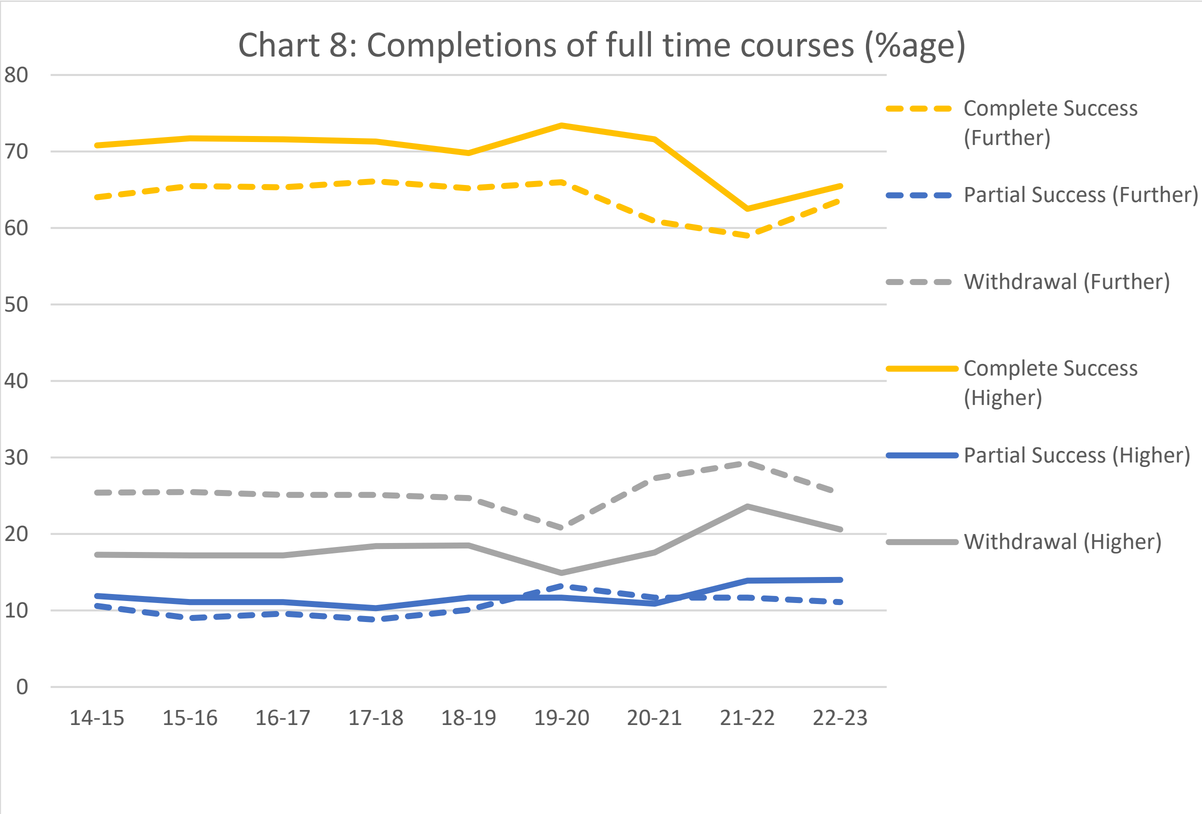
UHI's submission highlighted that over 35% of its FE students are 25 years and over half of its HE students are 25 and over. Colleges Scotland's submission said—

> "There also needs to be recognition in the system overall - from within colleges but critically from the SFC and Ministers - that colleges will have to change in response to demographic changes (including learners of all ages), patterns of migration within Scotland, rising numbers of students with additional support needs, digital learning trends, and the very fast moving upskilling of staff required by employers in the workplace who need quick, flexible and affordable options for training."

Outcomes

The SFC publishes College Performance Indicators annually. The [most recent was published in May 2024 and relates to the year 2022-23]. The data for 2023-24 is expected to be published in early July.

The chart below shows the completions, partial completions and withdrawals for full time courses in both FE and HE.



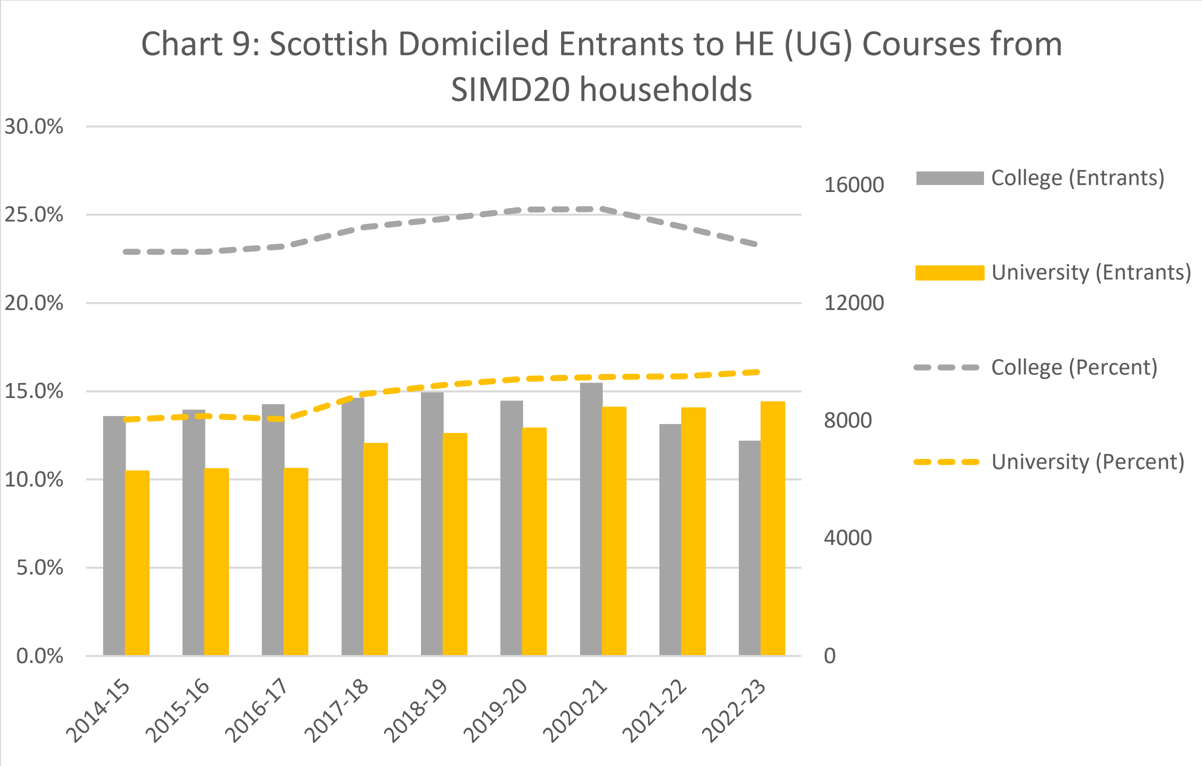
Widening access

Colleges play a key role in the policy aim to widen access to higher education. Students can study HNC or HND qualifications at college. In addition, college courses can lead to students taking up places in degree courses at universities.

Higher education in colleges

A greater proportion of Scottish domiciled college students studying higher education live in the most deprived quintile of SIMD than is the case for universities.
In 2023-24, 28.0% of full time HE students in colleges lived in SIMD20 areas. In universities in 2023-24, 16.3% of full-time first degree Scottish domiciled students came from SIMD20 households and 13.4% of full time students taking other UG courses came from SIMD20 households.

The next chart looks at all Scottish domiciled HE entrants (both full and part time) in the two sectors. The line refers to the percentage of students from SIMD20 (left axis) and the bars are the total number of entrants (right axis).



This chart shows that, in universities, the number of Scottish domiciled entrants to any UG HE course from SIMD20 households steadily increased between 2014-15 (6275) and 2022-23 (8625). There was a corresponding increase in the percentage of all Scottish domiciled entrants from those households (from 13.4% to 16.1%). For colleges, the chart shows that since 2020-21 the number and percentage of Scottish domiciled HE entrants from SIMD20 households has reduced. While a greater percentage of HE entrants in colleges are from SIMD20 households (23.3%) than universities in 2022-23, universities in that year had more entrants from SIMD20 households.

Colleges support their local communities and offer differing amounts of HE courses. For example, in 2022-23 Glasgow Kelvin had 1,070 entrants in HE courses, and 41.9% of those were from SIMD20 households – the highest percentage of any college or university.

Articulation

Articulation is the progression of learners from a Higher National (HN) qualification at college level into second or third year of university in certain subjects where agreements are in place between institutions.

Full credit articulation - also known as Advanced Standing - sees learners receive maximum possible credit for prior learning. A learner with a Higher National Certificate (HNC) may move into second year university, while a Higher National Diploma (HND) enables progression straight into third year. Partial credit articulation - also known as Advanced Progression – enables an HND level learner to enter the second year of a university course, where they will be required to repeat some study at the same level they have just completed.

It is important to state that college HNCs and HNDs are respected qualifications in their own right. However, for many learners, they are also important building blocks opening up opportunities for further study. SFC's 2022-23 Report on Widening Access shows that articulating students made up 22.4% of all Scottish domiciled full-time, first degree university entrants. This overall percentage is down from 28.2% in 2020-21 and 27.7% in 2021-22.

The data also shows a decrease in the number of students articulating with Advanced Standing using the main measure of articulation (students with HNDs /HNCs enrolling within three years of completing their college course) – down by 1,000 enrolments on 2021-22 to 2,895 in 2022-23. The SFC Report on Widening Access 2022-23 stated:

> "A downturn is not totally unexpected as numbers qualifying from college with a HNC/D have been declining in recent years."

Staffing data

In May 2025, the SFC published data on the staff employed by colleges looking at the year 2023-24. This found that in that year:

- The sector employed 10,112 FTE, this was a fall of 845 (-7.7%) from the previous year. The FTE figure in 2014-15 was 10,798
- Teaching staff accounted for 49% of the total FTE, and non-teaching was 51% of FTE. Over the past 10 years, the proportion of teaching and non-teaching staff has been around 50/50.

National pay deal

The National Joint Negotiating Committee (NJNC) was established to jointly agree terms on issues including pay and conditions. It brings together colleges with unions EIS-FELA, GMB, Unite and UNISON and secretariat is provided by College Employers Scotland (CES). The National Recognition and Procedure Agreement (NRPA) was agreed by all parties and endorsed by the Board of Colleges Scotland in January 2015.

In the years since the establishment of the NJNC and the NRPA, pay negotiations have been challenging. While the Scottish Government does not have a direct role in negotiations, it commissioned the Lessons Learned – resetting national collective bargaining in the colleges sector report seeking recommendations to improve the process. This is known as the Strathesk report and was carried out in 2021-22.

The report found the issue of low trust between negotiating sides required to be addressed to make progress. It also found the "absence of a commonly accepted evidence base" posed a problem.

It recommended that the national bargaining process should be reset, the Bargaining Agreement reviewed, a protocol on information sharing should be agreed, negotiating skills should be improved via training and behaviour should be reset away from "ill-tempered exchanges".

The Scottish Government has not formally responded to the Strathesk report. The Minister told Parliament during a Member's Debate on Further Education Pay on 7 May 2024 that the report stated Scottish Government intervention in past disputes had not been helpful. He encouraged employers and unions to "find a resolution and, more generally, try to facilitate an improvement in the approach to interaction between them." The Minister for Higher and Further Education reported last week that some trade unions had withdrawn from the NRPA.

In September 2024, in relation to college lecturers, unions and employers agreed a backdated four-year pay award. This agreement included £5,000 consolidated pay rise across the 2022/23, 2023/24 and 2024/25 academic years, as well as a further increase of 4.14% in 2025/26. Support staff received a £5,000 consolidated pay rise across academic years 2022/23, 2023/24 and 2024/25.

UHI's submission reported that—

> "In 2023/24 and 2024/45 the settlement of long running pay disputes has presented liquidity challenges for several UHI partners with the SFC providing liquidity support (in the form of either loans or advances of grant) to several UHI partners."

Ned Sharratt, Researcher (Education and Culture), SPICe
Date: 11/06/2025

Annexe B

Written evidence from Colleges Scotland

Briefing for Education, Children and Young People Committee - Financial Sustainability of Colleges - June 2025

Key Points

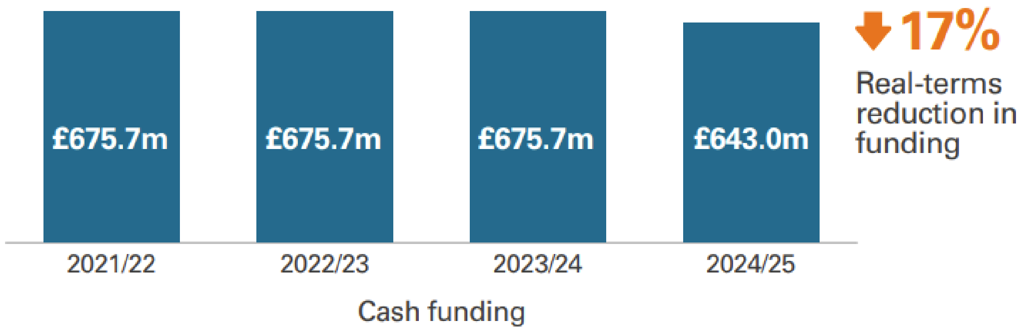
- Scotland’s colleges are nearing the end of AY 2024/25 in a state of severe financial challenge caused by sustained underfunding of the sector, which has not kept pace with inflation or cost rises in outgoings like energy bills.
- The Audit Scotland 2024 report on college sector finance showed eleven of the fourteen colleges whose accounts were available at the time their report was compiled were in deficit in 2022/23.
- College funding in real terms has reduced by 17% since 2021/22, a percentage expected to rise. This is clearly not sustainable.
- The failure to maintain colleges in a “steady state” means opportunity cost for individuals, lost economic growth and turning students away from what could be their only chance to access education and training.
- There must be a clear commitment to halt the decline in funding and to bring sustainable investment into colleges in the future.

Financial Sustainability

Colleges are continuing to respond to regional and local economic and community demand for high quality education and skills training, working closely with employers and creating opportunities for people to move out of poverty. These actions however are being delivered by a sector which has lost £1 in every £5 of public funding since 2021/22 and the sector is not sustainable in the short, medium or long term if this trend continues.

This continued erosion of resources jeopardizes the sector's capacity to meet Scotland’s needs, undermining efforts to build a prosperous and equitable future for the people of Scotland.

Exhibit 2.
Cash and real-terms resource funding for the college sector 2021/22 to 2024/25
Cash and real-terms funding have reduced since 2021/22.



Source: Audit Scotland analysis of Scottish Government budgets

College Sector Funding Model

Colleges Scotland is advocating for the current funding model to be reviewed for 2026/27 onwards as the current model is inflexible, particularly when trying to respond to the needs of employers and industry and create short, sharp courses like microcredentials. Colleges should also be able to use funding to achieve better outcomes regionally and locally without over bureaucratic reporting conditions. SFC has committed to working with Colleges Scotland on a review but this now needs to proceed at pace to enable colleges to have the flexibility and agility to respond to industry need and to better serve learners.

The recent Parliamentary Answer to the written question (S6W-36497) evidences the funding disparity for college learners compared to learners in secondary school and university. There is a question about duplication across SCVQ 7 and 8 being provided in multiple settings. In evidence regarding the Tertiary Education and Training (Funding and Governance) (Scotland) Bill on 14 May 2025 Jon Vincent advised that as a college Principal this funding rationale, and the disproportionately low level of funding for college learners had not been explained to the college sector.

Flexibility

The Committee recommended in the Regionalisation Inquiry Report that the Scottish Government and SFC urgently give colleges as many financial and operational flexibilities as possible to help them deliver on the various strands of their work. This could have included but not be limited to: flexibility for year end, flexibility on SFC outcomes, and flexibility in terms of access to additional funds.

Through ongoing engagement with the Scottish Government and SFC, Colleges Scotland has gained some adjustments to the current funding model which has helped to provide some welcome flexibilities, including on asset disposal. However, the sector has made further requests for other flexibilities including on multiyear funding, and flexibility on surpluses to aid financial stability.

Response to reducing funding

College leaders have used creativity and skill to navigate the landscape of reducing investment into colleges. This level of disinvestment has been very challenging to manage, even with some mitigations and flexibilities in place:

- Student numbers fell by both headcount and enrolments between 2022/23 and 2023/24 – enrolments reduced by 18.8%, headcount reduced by 12%, and FTEs reduced by 6.5%.
- Campus closures being examined.
- Course and curriculum being examined and with potential consolidations / reductions.
- Voluntary redundancy schemes.
- Cost cutting measures in other areas.
- Questions over unmet demand for college places.

Employer National Insurance Contributions

Another additional financial pressure facing Scotland's colleges in 2024/25 is the introduction of increased employer NIC's. While the UK Government is funding the cost of increased NICs for colleges in England, in Scotland there was no similar promise. Earlier this year the Scottish Government committed to covering 60% of the increased costs public bodies would face. It is not clear if colleges are in fact receiving 60% of this funding, or in a timely way, due to the accounting differences between Academic Years and Financial Years, but Colleges Scotland would be pleased to write to the Committee over the summer to inform members on whether the 60% contribution has actually come to the sector. There is the risk of Scotland's colleges being in a detrimental financial position to England's colleges because of policy differences.

Tertiary Education and Training (Funding and Governance) (Scotland) Bill

Through the lens of college financial sustainability, the Bill is an opportunity for colleges to receive more funding without necessarily seeing an increase in the overall education and skills budget. This is because it is now recognised that the apprenticeship system can be streamlined. Currently, for some Frameworks, colleges receive only around 40% of the public funding that leaves Scottish Government for the actual delivery of the apprenticeship training. There are legitimate other costs in the system, but there is scope for additional funding to come to colleges if the Bill proceeds into legislation.

Vision and purpose of the college sector

The Committee has previously raised concerns, including within the College Regionalisation Inquiry, that colleges are making decisions to respond to the challenging financial climate without clear overarching strategic direction from the Scottish Government as to their purpose and what they must prioritise, and that colleges were being asked to take decisions for the future while being uncertain as to whether those decisions would be compatible with the Scottish Government's vision. The Committee also believed it was essential that the Scottish Government provided clarity to colleges regarding what they should be prioritising.

Colleges Scotland has consolidated the sector's strategic priorities into a cohesive document that reflects the collective input and perspective of the colleges. Colleges –

Anchor Institutions Fuelling Scotland's Economic Success outlines our short-term priorities and provides a framework for addressing the key challenges and opportunities facing the sector.

With increased investment, colleges could play a much bigger strategic role in assisting the Scottish Government in delivering it's four priorities - eradicating child poverty, growing the economy, tackling the climate emergency, and ensuring high quality and sustainable public services.

There also needs to be recognition in the system overall - from within colleges but critically from the SFC and Ministers - that colleges will have to change in response to demographic changes (including learners of all ages), patterns of migration within Scotland, rising numbers of students with additional support needs, digital learning trends, and the very fast moving upskilling of staff required by employers in the workplace who need quick, flexible and affordable options for training.

New industries (including energy generation and transmission, digital, e-health, and green construction) are also emerging alongside the requirement to continue to train people for 'traditional' skills which are essential in the economy (plumbing, gas engineers, joinery, health and social care, hospitality, automative repair). There should be planning, data, intelligence and critically transformation funding available to the college sector to respond to these external changes alongside quick and responsive action from qualifications awarding bodies, quality and inspection agencies, and other agencies who can support transformation. Essentially, the system as it is unsustainable and opportunities could be missed without close attention and crucially the resources being available to pivot and respond to the changing world.

Skills and Serving the Local Community

The Committee recommended that colleges further develop their engagement with local SMEs to take account of their needs, whilst also recognising the Flexible Workforce Development Fund's (FWDF) role in allowing colleges to work meaningfully with local employers and SMEs to deliver courses which meet their and their employees' needs. However, following the Draft Budget announcement in December 2023, it was confirmed by the Scottish Government that the FWDF was to be discontinued. Colleges Scotland, working with our members, and in partnership with over 130 businesses and representative organisations, sought the reinstatement of the FWDF, having estimated that potentially over 2,000 employers and 45,450 learners would miss out on training opportunities in 2024/25 if the Fund was not reinstated, whilst also reinforcing the findings of the Scottish Government commissioned evaluation.

College Estates

The Committee noted in the Regionalisation Inquiry Report the significant level of backlog and life cycle maintenance required to ensure that the college estate is wind and watertight, and the impact that this may be having on learners.

Given this situation, the Committee was further concerned about ability of colleges to meet their net zero targets by 2045. The Committee also strongly encouraged the Scottish

Government to explore how the requisite resource could be provided to remedy the outstanding maintenance issues and place colleges on the path to Net Zero.

The announcement of a £20.1 million (23.7%) cut in Capital funding for the college sector as part of the 2025/26 Draft Budget, reducing it to £64.8 million, is alarming. We must again advise the Committee that the failure to increase investment in college estates and address critical digital infrastructure needs is unacceptable for those learners choosing to study at a college. Many college buildings are in a state of disrepair, with some containing Reinforced Autoclaved Aerated Concrete (RAAC) that remains unaddressed. Students and staff are expected to work and learn in substandard and deteriorating conditions.

Colleges Scotland has been engaging with the SFC through the Infrastructure Delivery Group to oversee a Baseline data collection from the college sector to identify the required investment in college sector infrastructure and address identified needs over the next ten years for capital projects, backlog maintenance, compliance works, and planned and operational maintenance.
This evidence will inform a Capital Infrastructure Investment Plan, expected to be published by the SFC in 2025.

Staff pay

College Employers Scotland (CES) acts as the representative body for college employers. There has been positive progress in college industrial relations recently, including:

- College support staff received a £5,000 consolidated pay rise across academic years (AYs) 2022/23, 2023/24 and 2024/25. This delivered a near 16% average pay increase across those years. The £1,500 consolidated pay rise agreed for AY 2024/25 was also implemented on time from 1 September 2024 – a first since national collective bargaining was launched.
- College lecturing staff received a four-year consolidated pay rise: a £5,000 increase across 2022/23, 2023/24 and 2024/25, as well as a further increase of 4.14% in 2025/26. The lecturers' pay agreement kept Scotland's college lecturers as the UK's best paid, with starting salaries increasing to nearly £42,000 from September and average salaries at around £50,000.

Colleges have delivered staff pay rises against a financial backdrop which was, and remains, extremely challenging.

There have also been a number of positive initiatives which enhance colleges as Fair Work employers:

- Since October 2022, Scotland's colleges have been rolling out a groundbreaking National Menopause Policy which aims to improve support for staff who are experiencing menopause.
- Colleges agreed that the annual increase in the Real Living Wage was paid to directly employed staff from 1 November last year – six months ahead of the national implementation deadline.

- West Lothian College is running a pioneering trial which has offered compressed working hours to all support staff and managers. The trial is an example of how colleges right across Scotland are innovating to embed Fair Work principles and enhance staff wellbeing.
- Scotland’s colleges have introduced a new national Disciplinary Policy and model Disciplinary Procedure which will help to maintain appropriate standards of conduct and behaviour in the workplace. The policy will ensure fairness, openness, respect and support when responding to and handling concerns around employee conduct and behaviour. Successful development of the policy is another example of how positive partnership working between CES and the four college sector trade unions is delivering improved working conditions for staff.

Colleges Scotland
June 2025

Written evidence from Scotland's Rural College

Dear Convenor,

Thank you for the invitation to attend the meeting of the Education, Children and Young People Committee regarding its ongoing scrutiny of the long-term financial sustainability of Scotland's colleges, and for the opportunity to provide the Committee with background context.

Background Context

We are proud to be a unique institution which spans both the university and the college sectors. Our tertiary nature encompasses not only FE, HE and CPD education and student experience, but also integrates world-class research and cutting-edge innovation and commercial activity. We thus deliver joined-up education and skills development that is future-proofed and better aligned to modern workforce requirements. Our regional and place-based mission and wide geographical presence supports a pan Scotland approach to economic growth and skills acquisition.

SRUC is a 'fundable body' listed in Schedule 2 of the Scottish Further and Higher Education (Scotland) Act 2005 as amended: see SSI 2008/241 - Fundable Bodies (The Scottish Agricultural College) (Scotland) Order 2008 and has higher education institution status: see SSI 2008/177 - The Designation of Institutions of Higher Education (The Scottish Agricultural College) (Scotland) (No. 2) Order 2008.

SRUC is the name used for the merged organisation, comprised of Barony, Elmwood, Oatridge Colleges and SAC, which came into effect from 1 October 2012. The merger was effected by all the assets and liabilities of the other colleges being transferred to SRUC, by virtue of The Elmwood College, Oatridge College and The Barony College (Transfer and Closure) (Scotland) Order 2012 and SAC changing its name to SRUC. SRUC was awarded Taught Degree Awarding Powers in October 2024 and will welcome the first cohort of undergraduate and post-graduates to graduate with an SRUC degree in September 2025.

Our Strategy

Our Strategy is clear – we are a global tertiary education powerhouse that supports a thriving natural economy for Scotland that is build on our tripartite mission of education and skills, research and consulting/commercial income generation and knowledge exchange. This is founded on excellence and impact as evidenced by two Queen's Anniversary Prizes in 2017 and 2023. These are the highest national honour awarded to UK colleges and universities and we are extremely proud to have won these for our work in dairy genetics and for our Veterinary Services, which has made significant contributions to animal health, welfare and veterinary science.

	Proposed in SRUC Strategy
Vision	To be a global tertiary powerhouse underpinning a vibrant natural economy - a distinctive place-based university college at the heart of the natural economy, characterized by a unique combination of education, research, innovation and enterprise, and commercial ventures.
Mission	We will redefine what tertiary education means in the 21st century, building on traditions in tertiary education; research excellence; and innovation, enterprise, and commercial ventures. We will create a high-performing innovation and skills ecosystem that powers a natural capital-based economy. We will address major global challenges of climate change; food, water and energy security; and biodiversity loss. We will drive imaginative new ways of working between Business, Government, Communities and academia.
Purpose	To deliver sustained impact and innovation in the natural economy and create a sustainable future for people, communities, business and the environment, today and tomorrow, in Scotland and globally.

Tertiary Vision and Alignment

Tertiary education improves not only the quality of life for the individual, but benefits society through higher levels of civic participation, increased tax revenues from higher earnings and in driving innovation, economic growth and societal progress on matters such as health and environmental sustainability.

The Tertiary Education and Training Bill sets out a commitment to delivering real change to existing education and training models in terms of the benefit to learners, employers and the economy from bringing together funding for post-16 skills, education and research into one funding body. Indeed, the SFC's response to the Bill makes reference to providing the right opportunities at the right place and right time – something that we, at SRUC, are committed to.

With our spectrum of activity across education, research and innovation, geographical spread across Scotland, strong links to, and engagement with, both businesses (particularly SMEs) and policy makers, and focus on the natural economy, SRUC is uniquely placed to lead the way in delivering on these tertiary ambitions despite the confines and challenges of the current funding environment. Indeed, SRUC is ranked number 1 of any College or University in the UK for business engagement with SMEs -supporting economic growth, productivity and growth across Scotland.

Through our school of veterinary medicine, we have already championed this approach - increasing the pipeline of future vets from rural communities and addressing shortages, widening access and improving the health and sustainability of that sector. What is perhaps less evident from the outside is that SRUC has long enabled a model of education that encourages individuals to repeatedly engage in progressive levels of education over the course of their careers, to the benefit of the individual and employers.

Furthermore, our regional, place-based approach to innovation and skills – exemplified with the Dairy Nexus near Dumfries and the Rural and Veterinary Innovation Centre (RAVIC) in Inverness is fundamentally linked to Scotland's National Strategy for Economic Transformation (NSET) and delivers support for Scotland's largely SME-based economy – for example bringing in funding from Borderlands in a manner that has underpinned the suthwest dairy industry.

Size and Scale

As a national institution, SRUC has a very mixed and geographically diverse estates model with circa 350 buildings across six campuses, eight disease surveillance centres and 24 consultancy offices. This translates to ~153,000m^2 of internal building space and about 4,200 hectares of land (including a significant farms estate for teaching and research). The degradation ratings for buildings inherited when SRUC was formed reveal significant backlog maintenance requirements, however SRUC receives a comparatively small proportion of the capital funding allocation to colleges. Previously this was offset by financial transaction loans available to HE institutions. The discontinuation of these funding streams has left SRUC at a disadvantage.

SRUC currently employs just over 1,000 FTE staff, of which there are approximately 180 Researchers, 126 Consultants, 24 Vets and 96 Scientific Staff. We teach around 2,500 HE & FE Students, 300 Masters Students, >100 Research Post Grad Students and 2,000 Attendees on short courses across our two schools: The School of Veterinary Medicine and Biosciences and The School of Natural and Social Sciences.

Financial Overview

SRUC income is categorised under the following streams:

- Education £30.4m, Research £28.4m, Commercial £32.9m = £91.7m
- Of the Education income, 68% comes from SFC/SG with £10m in the FE and £11.9m in HE funding settlements.

Financial Recovery Funding

- Last year, SRUC identified an operating deficit. This led to the development and approval by the SRUC Board and the SFC of a three-year financial recovery plan. The 2024/25 outcome is ahead of the financial recovery plan agreed with the SFC and is considered to be a going concern. The budget for 2025/26 approved by the SRUC Board will meet the projections within the Financial Recovery Plan.
- SRUC received support over two years from FY24/25 with a £5m advance of income, a deferral of £2m in FT loan repayments, additionally £8m of FT loans were repurposed to support immediate cash constraints.

Summary and Future

We recognise that the budgets are challenging across both HE and FE sectors and have actively reshaped our profile to enable us to continue to deliver against Scotland's rural and agri-food ambitions while putting us on a sustainable footing. This has required the sale of properties and reshaping of our workforce and offering. However, we believe that we are now on a sustainable footing, and are looking to our growth opportunities, particular in relation to our degree awarding powers that will enable us to attract students from beyond Scotland, continue to grow and diversify our commercial revenue, and work collaboratively with partners to fully exploit investment in our place-based innovation centres.

We are fully committed to the development of a forward-looking tertiary model that is aligned to the National Strategy for Economic Transformation (NSET), regional growth and skills transformation and creating a highly educated skilled workforce of the future.

Best wishes

Professor Wayne Powell BSc, MSc, PhD, DSc, FLSW, FRSE

Principal and Chief Executive

Written evidence from University of the Highlands and Islands

The information within this briefing note has been provided by UHI.

Overview

The University of the Highlands and Islands (UHI) is a tertiary university partnership with degree and research awarding powers. UHI was founded in 2011 to provide a regional University which would deliver high-quality education tailored to the unique needs and characteristics of the Highlands and Islands, Moray and Perthshire, fostering economic, cultural, and social development.

UHI 2030 Strategy

Th UHI Strategic Plan 2030 outlines a bold vision for transforming education, research, and regional impact across the Highlands and Islands, Moray, and Perthshire.

Vision and Mission - to be a globally recognised tertiary institution that delivers transformational impact through: Lifelong learning, sustainable development and regional economic and social growth.

Five Strategic Themes

1. **Teaching, Learning and Student Support**

- Deliver a connected, flexible curriculum shaped by student needs and employer demands.
- Support integrated learning pathways from school to PhD.

2. **Research and Innovation Impact**

- Lead world-class research rooted in local environments, heritage, and global relevance.
- Foster co-created research with communities and industries.

3. **Enterprise and Growth**

- Drive regional economic transformation through entrepreneurship and innovation.
- Align curriculum and research with workforce and industry needs.

4. **Environmental Sustainability**

- Champion a just transition to net zero.
- Protect and enhance local ecosystems and promote sustainable practices.

5. **Operational Excellence**

- Create a streamlined, efficient, and people-focused institution.
- Ensure financial sustainability and institutional agility.

Success to date

Since being awarded university title in 2011, the UHI partnership has enjoyed numerous successes, and continues to ‘punch above its weight’ for Scotland’s youngest University, continuing to provide high quality teaching provision, student support, research and knowledge exchange impacts.

Key indicators include:

- National Student Satisfaction Survey (NSS)2024, UHI achieved an overall student satisfaction rate of 81.2% (+0.36%), which is above the benchmark of 80.7% in 2023 and this year’s Scottish sector average of 78.1%. UHI was placed 6th in the ranking for overall satisfaction in Scotland.

- National 2024 Postgraduate Taught Experience Survey (PTES), UHI achieved number 1 in Scotland and the highest overall satisfaction rate of any Scottish institution and was ranked 15th in the UK.

- Nearly three quarters of UHI research submitted for review to the 2021 Research Excellence Framework achieved the top two grades (4* or 3*) as world leading or internationally excellent. A full breakdown is available on our website: https://www.uhi.ac.uk/en/research-enterprise/ref/2021/2022

- Our ability to provide FE and HE programmes to all areas through local campuses, learning centres and provision that is networked across partners.

- The provision of unique learner journeys from FE right through to PhD in a wide range of subject areas

- \+ Substantive provision of Modern Apprenticeships and growth in Graduate Apprenticeships

- Commendations for student support in the 2024 Quality Assurance Agency Quality Enhancement and Standards Review

- In 2022 UHI was recognised for its ‘Outstanding Contribution to The Regional Economy’ by the Scottish Council for Development and Industry Business Excellence Awards.

- Driving economic growth by serving as an anchor institution and catalyst of economic development in one of the fastest growing regions of Scotland.

- BiGGAR Economics independent report 2020 identified that for every £1 invested in UHI, UHI invested £4 back into the economies of the communities it serves and found that in 2019, UHI generated £560m gross value added (GVA) and supported 6,200 jobs throughout the economy in the Highlands and Islands, Moray and Perthshire, with an additional £93m GVA and 1,000 jobs across the rest of Scotland.

- As a large and dispersed yet collective organisation, UHI was recognised as having a significant economic footprint in its regions, generating that impact through the lifetime earnings premium of its students, research and knowledge exchange activity, and its physical presence in its regions.

UHI

Where learning means more

Overview & strategic context

- The project to establish a university in the Highlands and Islands was initiated in 1991.
- The University of the Highlands and Islands achieved university status on 1 February 2011.
- The University is **a Company Limited by Guarantee** ('Executive Office') and a **Scottish Charity.** Our Charitable purpose is the "advancement of education".
- The University is also designated a **Regional Strategic Body** by the Scottish Government and has responsibility for allocating funding within the region, planning what learning colleges provide within the region, achieving agreed regional outcomes and monitoring the performance of colleges.

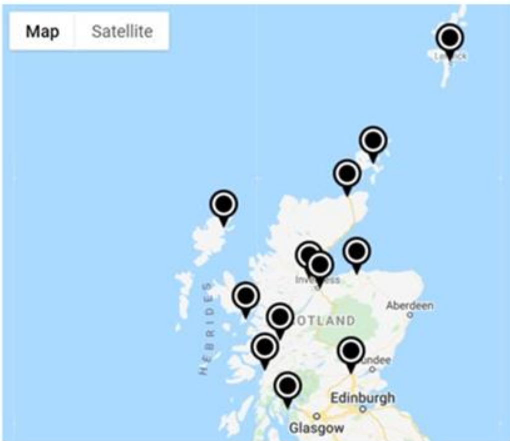
Our mission

To have a transformational impact on the people, communities and economy of our regions

UHI

Where learning means more

- 11 independent partners (The University+10 Academic Partners = UHI)
- Annual Income >£130M
- Online and local delivery with 45 locations across Highlands & Islands, Moray and Perthshire
- 25,000 FE Students / 11,000 HE Students
- 72% of research rated as world leading or internationally excellent in REF2021.
- UHI Post graduate experience rated best in Scotland three years running.
- 2024 NSS Results = 81.2%, 6th in Scotland.



UHI Scope and Scale

UHI is a fully integrated tertiary university combining further and higher education, the only institution of its kind in Scotland, and one of few in Europe. We offer more than a college and more than a traditional university: UHI is a diverse, flexible partnership, that is rooted within our communities and driven by their needs.

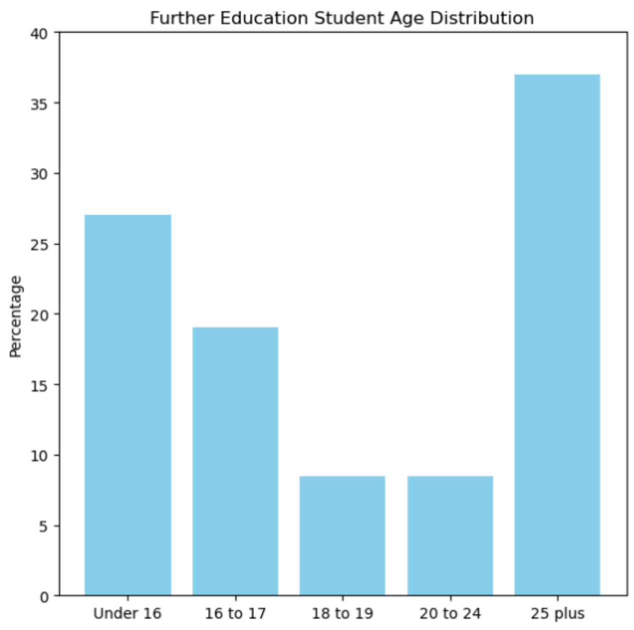
UHI delivers further education, higher education, apprenticeships, short courses, knowledge exchange and research to over 36,000 students each year across 45 teaching and learning centres in the Highlands and Islands, Moray and Perthshire. Collectively, the UHI partnership covers two thirds of Scotland's land mass and all of Scotland's inhabited coastal islands except for Great Cumbrae. The area extends over 400 miles north to south and over 200 miles east to west, with most partners more than 100 miles distant from each other. Some partners are based in the urban centres of Perth, Inverness and Elgin whereas other institutions cover wider rural geographical and island areas through a network of learning centres.

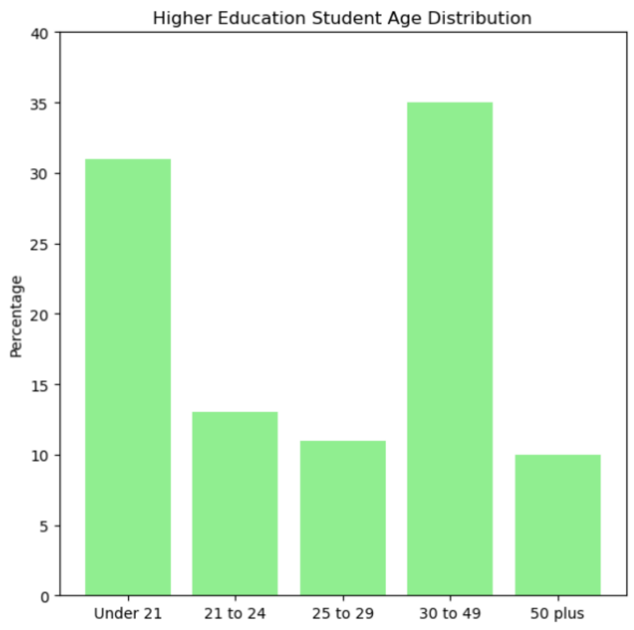
Student Data Summary (2023/24)

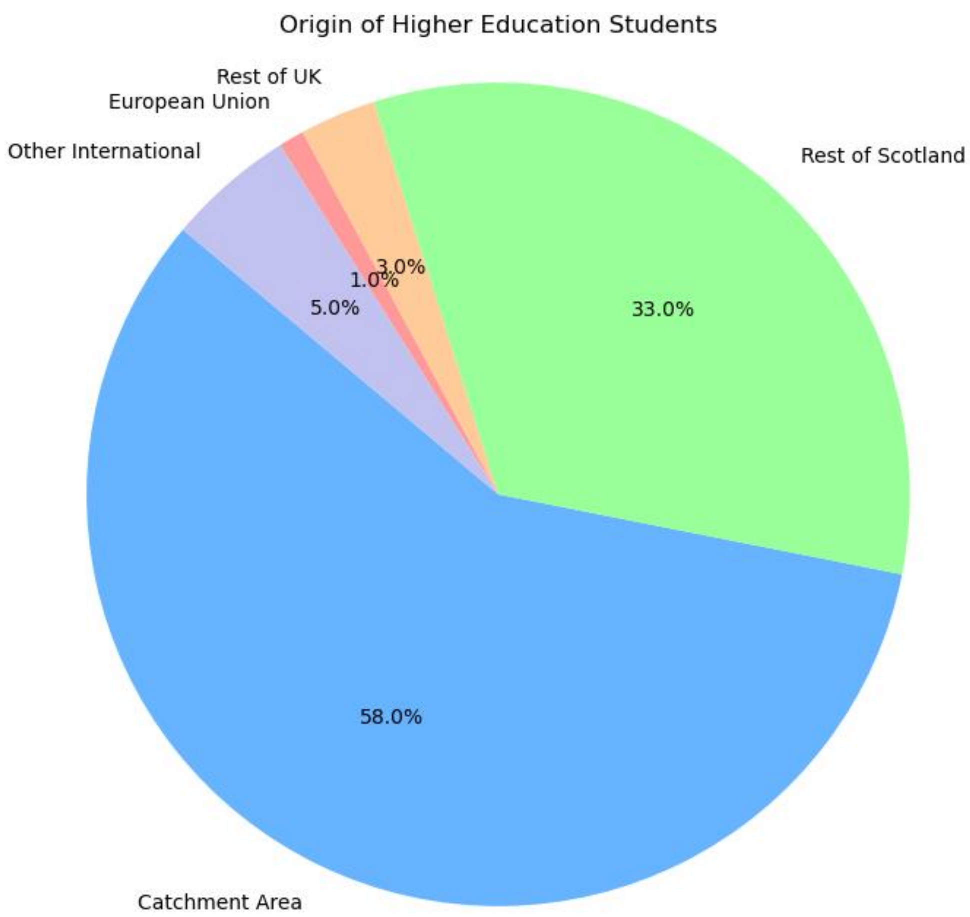
Total Student Numbers

Category	Total	Part-time	Full-time
Further Education	26,082	21,824	4,258
Higher Education	10,066	5,052	5,014
Total Students	36,148		

ECYP/S6/25/21/1







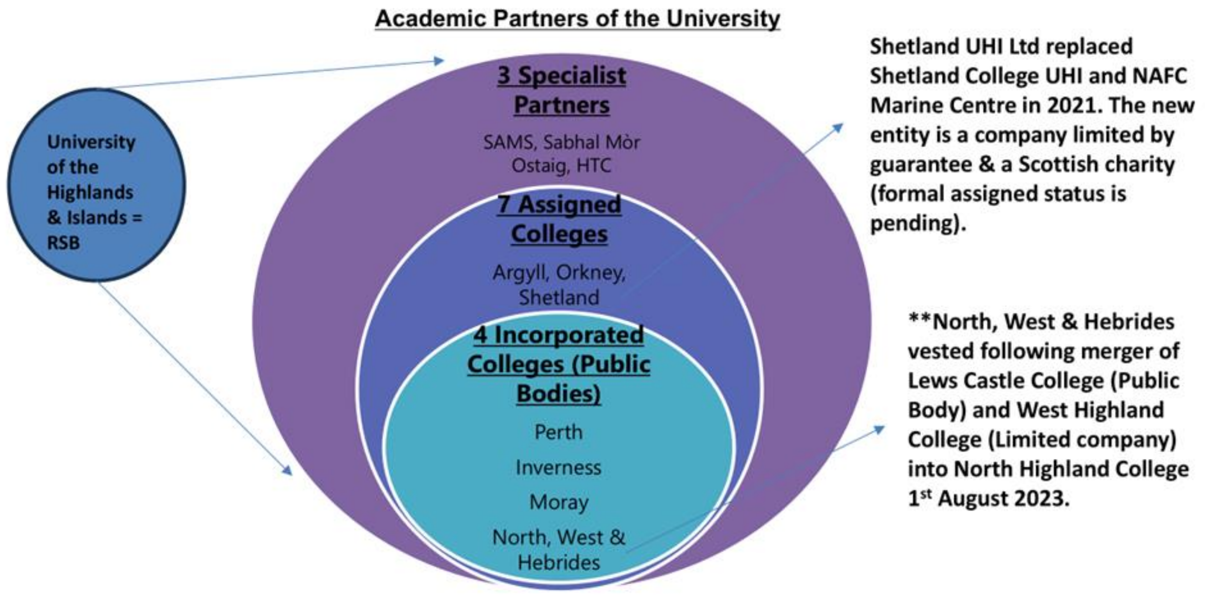
Governance Structures

The UHI Partnership comprises 11 independent partners (University+10 Academic Partners).

The University is an autonomous institution, a **Scottish Company** (limited by guarantee), **a Registered Scottish Charity** and **a Regional Strategic Body (RSB)**.

The University achieved University status in 2011 and receives funding from the Scottish Funding Council in accordance with The Fundable Bodies (University of the Highlands and Islands) Order 2011.

The Post 16 Education (Scotland) Act 2013 defines the University of the Highlands and Islands as an “Other Regional Strategic Body” and Scottish Ministers may by Order assign colleges to a Regional Strategic Body (RSB).



The academic partners comprise: UHI Argyll, Highland Theological College UHI, UHI Inverness, UHI Moray, UHI North, West & Hebrides, UHI Orkney, UHI Perth, Sabhal Mòr Ostaig UHI, Scottish Association for Marine Science UHI, and UHI. Each institution is autonomous, and all partners are separate registered charities.

UHI has 7 Assigned colleges* (*UHI Shetland Assigned Status pending) and **3 Specialist Colleges/Research Institutions.**

- UHI Perth, UHI Inverness, UHI Moray and UHI North, West and Hebrides are classified as Public Bodies.
- UHI Argyll and UHI Shetland are companies limited by guarantee.
- UHI Orkney is a part of Orkney Islands Council.
- Highland Theological College, Scottish Association for Marine Science and Sabhal Mor Ostaig are not assigned colleges.

RSB Duties & Obligations

The key obligations which UHI is accountable to the SFC for as an RSB include:

- responsibility for administering all funds provided to UHI by the SFC.
- a general duty to secure coherent provision of FE and HE in the region; and
- an obligation to monitor the performance of assigned colleges.

The key powers conferred on the University as an RSB include:

- a right for an RSB to attend and address any meeting of any of its colleges where the RSB is concerned about any matter relating to financial support provided or to be provided by the RSB.
- rights for an RSB to demand information from and issue directions to any of its colleges, provided that the ability to issue directions only applies to assigned colleges constituted under the Further & Higher Education (Scotland) Act 1992 and that directions cannot require the transfer of any staff, property, rights, liabilities or obligations.
- a power to require its colleges to transfer any staff, property, rights, liabilities or obligations to the RSB or to any other college assigned to it, ***provided that the college consents to the transfer*** - The requirement for consent limits the ability of the University to move assets (and cash) between Academic Partners. The powers do not extend to an ability to require the transfer of funds from Academic Partners to the University or to require the transfer of funds from one Academic Partner to another, unless there is consent from the Academic Partner.

Key Responsibilities

University Court as the Regional Strategic Body

- Strategic leadership including the strategic plan
- To secure the coherent provision of high quality fundable further and higher education throughout our region
- To monitor the performance of assigned colleges
- Accountable to SFC under the Financial Memorandum and to be responsible for delivery of the Regional Outcome Agreement

Assigned College Boards of Management

- Financial management of the college
- To be accountable to the RSB under a Financial Memorandum between the college and RSB and responsible for delivery of their individual contribution to the Regional Outcome Agreement (i.e. provision and delivery of quality education/research against agreed targets)

There are four key documents in terms of which the University is accountable and responsible to the Scottish Funding Council ("SFC"), and therefore ultimately, the Scottish Government for funding provided by the SFC.

1. The Further & Higher Education (Scotland) Act 2005 ("the 2005 Act"), which includes the amendments made by the Post-16 Education (Scotland) Act 2013.
2. The SFC Financial Memorandum with Fundable Bodies in the College Sector ("the FE Financial Memorandum").
3. The SFC Financial Memorandum with Higher Education Institutions ("the HE Financial Memorandum").
4. The Self-Evaluation and Action Plan ("SEAP"), as part of SFC's wider Outcomes Framework and Assurance Model. Prior to AY24-25, assurance was through The Highlands and Islands Regional Outcome Agreement ("the Outcome Agreement").

Financial Memoranda

The FE Financial Memorandum and the HE Financial Memorandum each impose detailed obligations on the University as conditions of receipt of funding for FE and HE provision. The terms of these Memoranda are very similar, but the FE Financial Memorandum is more detailed and leaves less flexibility for FE institutions than the HE Memorandum. The key obligations which UHI is accountable to the SFC for as both an RSB and as a fundable higher education body include:

- compliance with the good governance codes for the FE/HE sectors.
- ensuring public funds are used in accordance with the Memoranda and for the purpose given.
- planning and managing its activities to remain sustainable and financially viable.
- delivery of priority outcomes as identified in SFC's Outcome Framework and Assurance Model.
- ensuring a sound system of internal management and control, and to have regular, timely, accurate and adequate information to be able to monitor performance and to account for the use of public funds and to make such information available to the SFC on request.
- putting in place a UHI-specific Financial Memorandum with its assigned colleges in terms agreed with the SFC Accountable Officer.
- to ensure that its assigned colleges comply with the Scottish Public Sector Finance Manual (FE only).

The governing body of all HE/FE institutions is stated to be responsible for compliance with the Memoranda. However, this is supplemented with a provision for the personal accountability of the chief executive officer (i.e. the principal) of any HE or FE institution both to the governing body of their institution and to the SFC for the proper use of funds provided by the SFC and for institutional compliance with the terms of the FM.

This provision creates a chain of responsibility from Parliamentary approval for the Government's budget, to the Minister for education, down through the SFC to the individual institutions, so that there is an individual who will ultimately be answerable for how the public funding provided to institutions is spent at each level. This is a requirement of the Public Finance & Accountability (Scotland) Act 2000. As such, provision for personal accountability of the principals of Assigned Colleges is included within the Financial Memorandum.

The University is required to put in place UHI-specific financial memoranda with each of its assigned colleges. This is a requirement of the FE Financial Memorandum, and these documents have been in place since 2016. Through this mechanism the obligations on the University under the FE Financial Memorandum are effectively “passed down” to the Academic Partners.

There is a distinction between the University’s accountability for the funds provided by the SFC for the purpose of funding further and higher education provision, and responsibility for the overall financial sustainability of the institutions which receive funding for FE/HE provision from the University. The Principal and Vice Chancellor is also the Chief Officer of the RSB in addition to their role as the head of the institution

The Assigned College Boards of Management are responsible for the effective governance of their institutions. This includes ensuring the college fulfils its mission, complies with legal and regulatory requirements, manages resources responsibly, and maintains high standards of education and financial stewardship. Boards are required to act in the best interests of the college, holding the executive to account while supporting leadership to deliver outcomes aligned with RSB priorities and community needs.

Financial Sustainability

Key challenges for UHIs Assigned Tertiary Colleges include a combination of financial pressures, policy constraints, rural and island delivery, legacy issues, structural challenges and inflexible funding arrangements.

Specific challenges include:

- The flat cash value of FE credits and long terms trend of flat cash in HE grants represents a real terms pressure in balancing budgets. Whilst the rate of inflation has reduced in the last year, the historic impact of high inflation against flat funding has required reductions in staffing and other costs to reduce deficits.
- In 2023/24 and 2024/45 the settlement of long running pay disputes has presented liquidity challenges for several UHI partners with the SFC providing liquidity support (in the form of either loans or advances of grant) to several UHI partners.
- The number and value of FE credits and current over delivery against available credits and suppressed demand. The relevance of economic growth across our regions was a common factor linked to credits and particularly the opportunities and need for skills development and training in support of the Inverness and Cromarty Green Freeport. UHI is currently significantly underfunded in terms of credit demand and meetings the needs of business and industry

- For academic partners with islands focus the historical non-funding of distant islands allowance is a significant structural issue which across Shetland, Orkney and North, West and Hebrides represents an annual pressure of circa £760k per annum.
- Some UHI Academic Partners identified as being in financial distress continue to generate operating cash deficits over the next 3 years, despite aggressive cost saving measures and financial recovery plans, posing an additional threat of reduced capacity limiting the generation of new income and growth, coupled with rising debt required to support liquidity cover.
- Several academic partners with access to reserves have seen these reduce over recent years either to support underlying and/ or operating deficits as well as to pump prime growth activity which are part of recovery plans over the next 2-3 years to get to a sustainable financial position.
- UHI has been significantly impacted by Brexit, particularly due to the loss of access to key European Union funding streams such as: European Structural and Investment Funds (ESIF), which includes the European Regional Development Fund (ERDF) and European Social Fund (ESF) and EU research funding programmes, such as Horizon 2020.
- Current financial challenges and budget pressures have the potential to impact course availability and quality. UHI Colleges may be forced to cut courses, reduce student support services, or delay maintenance and upgrades to facilities, should sector funding continue to decline in real terms. Previous access to transformation and infrastructure funds have been reduced over the last few years as budget settlements have tightened. This could negatively affect student outcomes and limit access to education, especially for those in rural, island or disadvantaged areas.
- Total additional funding support received by the UHI partnership from the SFC, in the form of either loans or grant advance, is £11.0m at the end of March 2025. Financial recovery plans are either in place or in development for Academic Partners in Financial Distress

The University receives no additional funding over Higher and Further Education core grants in respect of its RSB functions. Consequently, the costs associated with RSB obligations are currently recovered from Grant funding.

UHI Transformation

In accordance with our 2030 UHI Strategic plan UHI is currently actively seeking to deliver transformational changes as part of the institution's ongoing evolution and to implement more efficient operational structures that will deliver better value for money and enhanced services for our learners and communities with more resource directed towards delivering core services for the benefit of our leaners.

The University has delivered total central cost savings since the end of AY 21/22 of £5.5m of recurring savings. These savings delivered by the University relate to central office functions. The University's academic partners have also implemented substantial cost savings within their own budgets to mitigate against the significant and unprecedented challenges affecting the whole of the educational sector over the past three years.

Whilst UHI has achieved much success and many notable achievements, the legacy founding mechanisms are now considered a barrier for UHI in a very challenging education sector, where student numbers and funding are reducing, and costs are increasing. It is clear and universally accepted that UHI must adapt and change and our work on the development of a new operating model for the UHI Partnership represents a significant opportunity to address current and projected financial sustainability challenges.

The SFC have provided £1.45m to support the development of a Full Business Case that is due for delivery later this year. This Full Business Case will set out a proposed organisational structure as well as provide a route map for change and the funding needed to deliver the preferred operating model.

Our ambition is to deliver a community based, more integrated institution as per our 2030 strategy together with a fast-tracked approach to making UHI more effective and efficient to drive an enhanced student experience together with a financially sustainable, growth focused institution.

The UHI regions (Highlands and Islands, Moray and Perthshire) have a hugely varied geography, from rural and island locations to urban cities, serving diverse communities. There is 'no one size fits all' in UHI, and flexibility, local delivery and innovation must remain at the heart of what the University was founded to provide. Delivery of education in rural and Island locations is delivered at significantly higher cost than single campus city locations and this has not been recognised via provision of the distance islands allowance, which is paid to other agencies such as Local authorities and NHS.

UHI as a tertiary university partnership serves its communities proudly, but we must do more; more resources devoted to our students; more embedded in our communities; more economic development as an anchor institution, and most importantly, continue to be true to our founding mission "to have a transformational impact on the people, communities and economies of our region".

UHI provides a critical future for our young people who otherwise would have to leave the region to pursue their education, and as such plays a vital role in addressing depopulation through successful, sustainable communities.

Key considerations for UHI continued success

- **Support for change and transformation** Whilst UHI has made strong progress to date, to drive the radical and integrated change, which is required, we need the support of our stakeholders, including dedicated funding support from the Scottish Government/Scottish Funding Council and a willingness to amend legislation if necessary.
- **Funding linked to regional economic development** UHI Colleges play a key role in training for healthcare, social care, and green jobs. Appropriate enhanced funding linked to the Scottish Governments economic development strategies will safeguard our ability to support Scotland's Just Transition and workforce development goals.

- More targeted support and resources for r**enewable energy skills. UHI colleges are key** to Scotland's renewable energy transition, especially in wind, wave, and tidal energy. Support to expand training in green skills, engineering, and environmental sciences to support this growth as well as support the economy through research and knowledge exchange.
- **Enable the delivery of more Foundation Apprenticeships (FAs) -** designed for senior phase pupils (S5 and S6). These programmes blend academic learning with real-world work experience, giving students a head start in their careers or further education.
- **Provide a** Tertiary funding settlement and empower UHI as the fundable body in the region to direct funding and target resources to match demand in year.
- **Provide** greater certainty around core funding and seek to implement three year budgets to enable better and more informed planning.
- **Distant Islands Allowance:** Provide separate payment for Distant Islands Allowance to create a fairer offer for rural and island provision.
- **'No clawback' position**. SFC's current position on clawback is that it plans to apply recovery consistently across the sector. The UHI partnership has provided for £4.2m of HE clawback (735 HE UGT FTEs) for 2023/24 and & potentially £4.3m for 2024/25. Provision for clawback is incorporated in academic partner Mid-Year Returns and cashflows. UHI would like to utilise this unspent funding for transformation for the benefit of learners including to support increased demands for FE delivery provision above allocated credits and for invest to save initiatives across our region that will better value for money in the medium to long term.

UHI has been a pioneering pathfinder for truly integrated tertiary post-school education for the last 30 years, and one of the most successful educational projects in Scotland enabling fair and wider access alongside the Open University. Investing in UHI will enable continuation of this success and secure the next chapter in innovative tertiary education for Scotland