Education, Children and Young People Committee
Wednesday 1 October 2025
28th Meeting, 2025 (Session 6)

Pre-budget scrutiny 2026-27

Introduction

1. This year, the Committee has agreed to focus its pre-budget scrutiny 2026-27 on college and university funding. In particular, it will exploring the long term financial stability of the college and university sectors. This work builds on the Committee's previous pre-budget scrutiny for 2025 to 2026 and its work on colleges regionalisation.

Committee meeting

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

Panel 1

- Jacqui Brasted, Director of Access, Learning and Outcomes, Scottish Fiscal Commission;
- Richard Maconachie, Director Lead, Dundee Recovery Team; and
- Tiffany Ritchie, Acting Director of Finance, Scottish Funding Council.

Panel 2

- Ben Macpherson , Minister for Higher and Further Education;
- Stuart Greig, Head of Governance and Assurance Division, Lifelong Learning and Skills;
- Amanda Callaghan, Deputy Director for the Institutional Stability Response Hub; and
- Edmund Anderson, Team Leader Strategic Engagement, Scottish Government.

Supporting information

3. A SPICe briefing has been produced for the meeting. This is included at **Annexe A.**
4. The SFC and Universities Scotland have provided written evidence ahead of this meeting. This is included at **Annexe B.**

Oral evidence

7. The Committee has taken oral evidence on its pre-budget scrutiny at the following meetings:

19 March 2025 (University of Dundee)

Panel 1 – University of Dundee

- Professor Shane O'Neill, Interim Principal & Vice-Chancellor;
- Tricia Bey, Acting Chair of Court;
- Professor Blair Grubb, Vice-Principal (Education);
- Helen Simpson, Interim Director of Finance.

Panel 2 – Scottish Funding Council

- Francesca Osowska, Chief Executive Officer;
- Richard Maconachie, Director of Finance;
- Jacqui Brasted, Interim Director of Access, Learning and Outcomes.

4 June 2025 (Universities)

- Professor Sue Rigby, Principal and Vice-Chancellor, Edinburgh Napier University;
- Claire McPherson, Director, Universities Scotland;
- Professor Sir Peter Mathieson, Principal and Vice-Chancellor, University of Edinburgh; and
- Professor James A. Miller, Principal and Vice-Chancellor, University of the West of Scotland

18 June 2025 (Colleges)

- 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.

25 June 2025 (University of Dundee)

- Peter Fotheringham, former Director of Finance;
- Dr Jim McGeorge, former Chief Operating Officer;
- Amanda Millar, former Chair of Court.

26 June 2025(University of Dundee)

- Professor Iain Gillespie, Former Principal and Vice-Chancellor, University of Dundee.

8. Meeting papers, official reports and written evidence from witnesses associated with these meetings are published on the website.

Clerks to the Committee
September 2025

Annexe A

Education, Children and Young People Committee
Wednesday 1 October 2025

Pre-budget scrutiny: 2026-27 Budget

Introduction

The Committee is taking evidence from the Scottish Funding Council and the Minister for Higher and Further Education ("the Minister").

The Committee has decided to frame its pre-budget scrutiny around its work throughout the year on the finances and funding of the Further and Higher education sectors. This year-round approach is in line with the Finance and Public Administration Committee's guidance to subject committees on budget scrutiny.

The Committee undertook Stage 1 scrutiny of the Tertiary Education and Training (Funding and Governance) (Scotland) Bill. The Committee held several sessions focused on the issues with the University of Dundee (UoD) and universities more broadly. The Committee has also taken evidence on the financial sustainability of colleges.

Budget process and timing

The Scottish Government's budget is normally introduced in December. However, UK Government's Budget is scheduled to take place on 26 November this year (it was on 30 October in 2024) and this may delay the Scottish Budget process.

The Scottish Government intends to undertake a spending review of both capital and resource spending and to publish this alongside the 2026-27 Scottish Budget.

Medium Term Financial Strategy and associated strategic documents

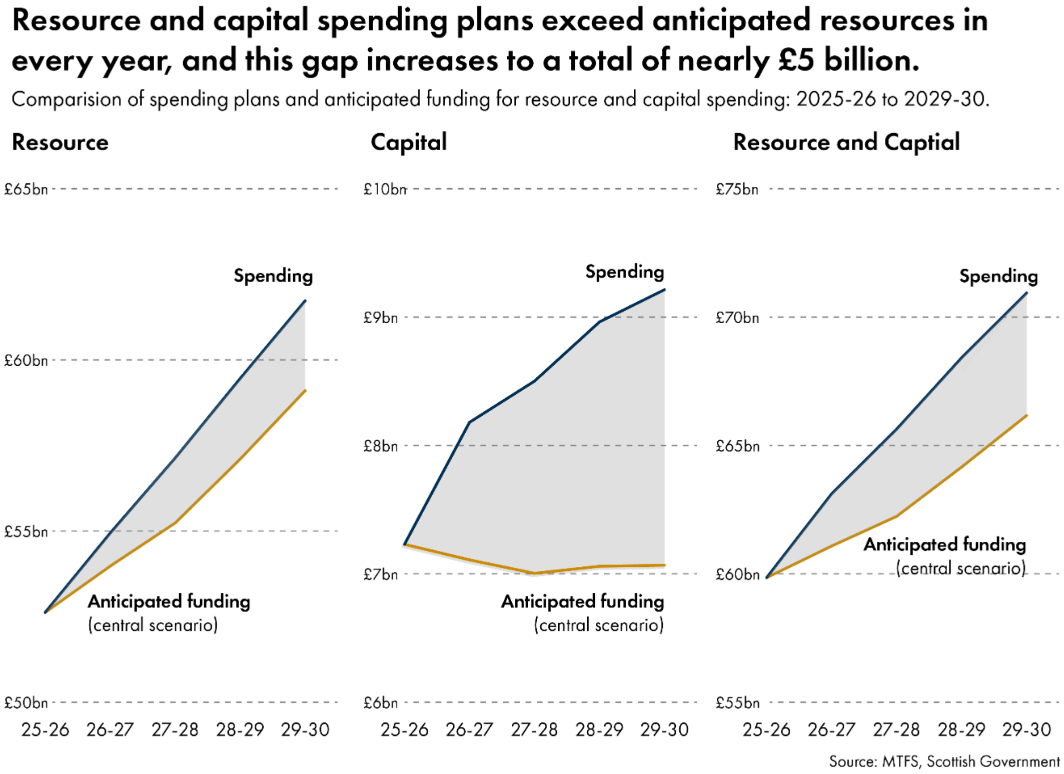
The Medium-Term Financial Strategy (MTFS) sets out the Scottish Government's expectations and broad financial plans and projections for at least five years ahead on a rolling basis and is informed by Scottish Fiscal Commission's Economic and Fiscal Forecasts, which are usually published at the same time. Both documents are intended to inform committees' pre-budget scrutiny.

The MTFS was published on 25 June 2025. The Scottish Fiscal Commission published its updated fiscal and economic forecasts on 29 May, which were restated in a further publication published following the MTFS.

The MTFS sets out the Government's 'Three pillars of the 2025 Medium-Term Financial Strategy'. These are:

- Ensuring public money is focused on delivering government objectives, underpinned by reform and prioritisation to maximise impact.
- Supporting sustainable, inclusive, economic policies with the greatest potential to grow Scotland's economy, expand and broaden the tax base to fund public services.
- Ensuring a strategic approach to tax revenues, which considers the longer-term impact of our tax choices and competitiveness.

The MTFS noted that there are expected fiscal pressures in both resource and capital spending with significant gaps between expected spending and funding.



The MTFS referenced the [Fiscal Sustainability Delivery Plan]() (also published on 25 June) and said that the Government expects to savings through the following actions:

- Reducing the devolved public sector workforce – expected savings of £0.1 billion to £0.7 billion per annum over five years.
- Wider public sector efficiencies and productivity, reform, and revenue raising, with savings growing from £0.6 billion to £1.5 billion per annum over five years.
- "Increasing public value" through prioritisation of budgets to maximise outcomes in line with the Scottish Government's priorities. This work is expects to be set out in

the spending review and the Government would expect to realise savings of between £0.3 and £0.7 billion per annum over five years.

On 19 June 2025 the Scottish Government published its Public Service Reform Strategy. This set out the Government's "commitments to change the system of public services - to be preventative, to better join up and to be efficient - in order to better deliver for people". This strategy referenced the 2011 Christie Commission and acknowledged that its vision of public sector reform "has not been delivered to its full potential". The PSR strategy identified how the Government will "tackle systemic barriers to change".

The programme for government 2025-26 said "colleges and universities are vital anchor institutions across Scotland" and are key to ensuring that people have the skills to support economic growth. The PfG said that the Government will "work with partners to secure a long-term and sustainable future for further and higher education" and listed a number of actions, including:

- Maintaining free tuition.
- Widening access to higher education.
- Taking forward the Tertiary Education and Training (Funding and Governance) (Scotland) Bill.
- Investing "up to £2m to develop engineering skills in the Glasgow City Region"
- Introducing a new Scottish Government-led approach to national skills planning, and strengthen regional skills planning to support a more strategic post-school offer.
- £3.5m for colleges to deliver programmes focused on care and offshore wind.
- Reviewing Sabhal Mòr Ostaig.

Scottish Spending Review Framework

In advance of the Scottish Spending Reviews expected this winter, the Government published a Scottish Spending Review Framework as an annex to the MTFS.
This said that the approach to the spending review process will be "underpinned by fiscal sustainability" and that the Government will engage with stakeholders on plans. It said that the focus of the spending review will be "the best way to deliver against the four core priorities of government". These are:

- Eradicating child poverty;
- Tackling climate change;
- Growing the economy; and
- Ensuring high quality and sustainable public services.

The Government stated, "we intend to prioritise where funding is deployed to ensure the greatest impact, using evidence and performance data to support this decision-making." The 2017 Budget Process Review Group recommended that Committees engage with the

Government, public bodies, and stakeholders on spending review frameworks in order to influence the process.

Post-school education reform

In June 2023, the Scottish Government published 'Purpose and Principles for Post-School Education'. This is a framework intended to set the policy direction for higher education (HE) and further education (FE). The aim is to ensure that, throughout their lives, people have the:

> "… opportunity and means to develop the skills, knowledge, values and attributes to fulfil their potential and to make a meaningful contribution to society." – Purpose and Principles, Scottish Government, June 2023

The principles of the post-school system are:

- **Transparent, Resilient and Trusted:** The system is financially and environmentally resilient; trusted to deliver, and subject to effective governance.

- **High Quality:** High quality opportunities are available for people to enhance their knowledge and skills at the time and place that is right for them.

- **Supportive and Equitable:** People are supported throughout their learning journey, particularly those who need it most.

- **Globally Respected:** Research, teaching, innovation and knowledge exchange undertaken by Scotland, must make a difference; enhance and contribute to global wellbeing, addressing 21st Century challenges such as the climate emergency and attracting inward investment and talent to study, live and work in Scotland.

- **Agile and Responsive:** Everybody in the system collaborates to deliver in the best interests of Scotland's wellbeing economy.

The Scottish Government also published an Initial Priorities document alongside Purpose and Principles. This set out the first steps toward post-school education reform. These include:

- the Scottish Government taking on responsibility for skills planning and the building of a regional approach;

- exploration of the development of a new single funding body;

- improving careers advice and education;

- reviewing student support for part-time learners, ensuring it takes account of all learning pathways including apprenticeships.

SFC Expectations of Good Governance report

SFC published a report on Expectations of Good Governance on 24 September 2025. This set out learning from a March 2025 analysis of governance effectiveness review reports carried out by On Board and Professor Gillies' report into the UoD (see 'Independent investigation' section later in this briefing).

SFC restated that as part of their conditions of funding, colleges must comply with the Code of Good Governance for Scotland's Colleges and universities must comply with the Scottish Code of Good Higher Education Governance. These codes operate on a "comply or explain" basis, with aspects that **must** be complied with and others that **should** be complied with.

The report found that some institutions were "long overdue an external governance effectiveness review" due to the COVID-19 pandemic, recommending those that had not carried out a recent externally-facilitated GER do this as soon as possible, and future governance effectiveness reviews (GERs) are undertaken on schedule.
It also found a need for the following: guidance on what GERs should cover; improved induction, training and development for governing body members and GERs to focus more on the quality of financial oversight by the governing body.

SFC states it will more closely monitor governance going forward, including:

- Requiring institutions to submit externally facilitated GERs to SFC.
- Institutions will also be required to submit regular updates on the implementation of GER recommendations and where risks are identified, SFC will work with institutions to develop monitoring and action plans.
- SFC will require reports regarding non-compliance with governance codes and consideration of breaches of the SFC financial memorandum.
- Institutions must have clear and accessible whistleblowing policies in place.
- SFC will undertake scrutiny of institutional strategies.
- For universities, SFC will work with the Committee of Scottish Chairs and Universities Scotland to develop guidance about the process for recruiting Chairs of Court.
- For colleges, SFC will supplement existing training for governing body members with SFC-presented training on roles, responsibilities and expectations.

Universities

The Committee has explored the financial sustainability of the university sector during an evidence session on 4 June 2025. The Committee has also taken evidence on the finances of the UoD on 19 March 2025, 25 June 2025 and 26 June 2025.
Information on university budgets and funding allocations for 2025-26 can be found at **Annex 1** of this paper.

SFC Financial Sustainability of Universities Report

SFC publishes annual reports on the financial sustainability of the university sector. The

2025 report was delayed, with publication now expected 26 September 2025 [please note, the report at not been published at the time of writing this paper]. A summary of the SFC's Financial Sustainability of Universities in Scotland 2020-21 to 2025-26 is available in the SPICe papers for the Committee's 5 June 2024 meeting.

Following requests for an update before September, SFC provided the Committee with an interim analysis of accounts to end of December 2024. This states:

- The sector reported an underlying operating surplus of £17.2m for AY 2023-24. Whilst this is better than the forecast position (£7.4m deficit), it represents a significant deterioration of 92% on the 2022-23 result (£211.7m surplus), mainly due to increased staff and other operating costs set against overall flat income.

- Nine institutions reported adjusted operating deficits during 2023-24, and eight institutions reported adjusted operating surpluses.

- Institutions' dependency on SFC grants further reduced from 31% in 2020-21 to 24% in 2023-24.

- Eight institutions spent a total of £16.9m on staff restructuring during 2023-24. This is substantially more (431%) than the £3.2m spent during 2022-23.

- The sector cash position at the end of July 2024 is reduced on levels reported the previous year. The sector reported cash and short-term investment balances of £1.682bn at the end of July 2024 which is a 26% reduction on last year's balance of £2.265bn at the end of July 2023 and a 23% reduction on the forecast of £2.177bn.

- This reduction was largely due to one institution reclassifying the way it reports its investments. No institution reported a negative cash balance at the end of July 2024.

- Overall sector borrowing reduced slightly during the year ending 31 July 2024. The majority of the sector's borrowing is in the form of Private Placements which involve large bullet payments at set points in the future with interest paid in the intervening years.

Challenges facing institutions

The Institute for Fiscal Studies (IFS) published a report on Higher education spending in February 2024. The report provides an overview funding in Scotland, concluding that:

> "There are no easy answers to increasing university funding, without increasing Scottish Government spending on higher education or requiring some contribution from students towards the costs of their tuition." - IFS Higher education spending report, February 2024

In November 2024 ahead of the Scottish Budget for 2025-26, the IFS published an article highlighting the pressures universities face as a result of declining numbers of international students, a real terms fall in funding for home students and increases in staff costs. Universities Scotland's submission to the Committee ahead of this session describes the last 12 months as "seismic for Scotland's universities", outlining the challenges facing the sector including:

- An expected 7% year on year decline in student visas across the 2024-25 academic year, on top of a 2-% fall in international students coming to Scotland in 2023-24.

- A fall of 92% in the sector's collective operating surplus in 2023-24, with 53% of Scottish universities recording a deficit.

- University access via SFC to financial transactions with low interest rates stopped in 2024-25 when this funding moved to the Scottish National Investment Bank (SNIB), mandated to lend at commercial rates.

Universities Scotland highlighted the potential for collaboration on shared services to save money, but said the "relatively modest spend" required upfront was "currently beyond many institutions".

The submission outlined the sector's budget ask as follows:

- A 5% real terms increase (6.7% cash terms) in the Higher Education Resource budget for 2026-27. This represents a £52.1m cash terms increase on the 2025-26 budget.

- A 3% real terms increase (4.7% in cash terms) in the Higher Education Capital budget for 2026-27. This represents a £17.3m cash terms increase on the 2025-26 budget.

- An inflationary increase in discretionary and childcare funding for students (£0.2m increase in cash terms from the 2025-26 budget).

- A £20m strategic funding pot (like the fund proposed but later withdrawn in the 2023-25 budget).

2025-26 Pre-Budget scrutiny

During its 2025-26 pre-Budget scrutiny work, the Committee heard:

- Concerns about the delivery of reforms to the post-school education landscape during a time when real terms funding continued to fall. SFC acknowledged the universities budget declined by 14% over ten years.

- The estimated collective impact of the fall in international student numbers was estimated to be £100m.

- Rising employer pension contributions and the discontinuation of SFC funding to cover these were causing issues for universities.

The Committee's letter to the Minister raised these issues, along with other evidence heard. The Minister's response to the Committee included an outline of government action to address the fall in international student numbers, and information about the use of consequentials funding to meet some of the additional costs of the Scottish Teachers Pension Scheme (STPS).

2026-27 Pre-Budget scrutiny

At the Committee's 5 June 2025 evidence session, Members heard evidence from university principals from Edinburgh Napier University, the University of Edinburgh, the University of the West of Scotland and Universities Scotland.

During the session, the impact of the fall in international student numbers due to changes to the student visa regime was discussed, with Principals stating the fall in numbers had caused income to fall by millions over the past two years. Witnesses spoke of international student income being used cross-subsidise teaching of Scottish-domiciled students. Universities Scotland estimated the fall in international student income had cost the sector about £150m "across the board".

Members heard that the rise in international student numbers had led to an increase in staffing numbers. Now, with international student numbers falling, staff numbers could not be sustained, and redundancies were required at many institutions.

High pay of senior leadership teams at institutions was discussed in the context of financial sustainability and savings universities were hoping to achieve. The Committee heard that the University of Edinburgh planned to make savings of £140m and £90m of this would be through reducing staff numbers and had left the post of Vice-Principal International vacant.

The impact of the rise in national insurance was discussed, with University of Edinburgh Principal Professor Sir Peter Mathieson stating that the £3.5m brought into his university by the increase in rUK tuition fees was welcome but the rise in employer national insurance contributions would cost £14.5m, outweighing any benefit.

On reserves, Edinburgh Napier Principal Professor Sue Rigby said that while her university's reserves "look as though they are worth a lot of money on paper", "a lot of that is buildings", and some of these buildings had issues with asbestos and RAAC. She added:

> "Although reserves can look very healthy, if you cannot sell them, they are not worth the paper they are written on. Cash is king in a university." – Official Report, 5 June 2025

Future funding was also discussed, with Universities Scotland's Claire McPherson said that funding to 'future-proof' the sector is needed. She said consideration needed to be given to models of delivery, e.g. for part-time and mature learners. Professor Mathieson called for discussion of alternative funding models for the sector.

SFC clawback of funding for under recruitment and courses not delivered was discussed, with witnesses stating that flexibility to use funding already committed was a barrier for change, adding to financial uncertainty.

Professor Rigby described a "bureaucratic lack of agency", giving the example of SFC being unable to act on clawback of nursing funding due to this being a decision for health rather than education portfolios. She also described being unable to invest to grow numbers in Scotland, as she could abroad.

University of Dundee

The Committee has held evidence sessions on the financial stability of UoD on 19 March 2025, 25 June 2025 and 26 June 2025. During these sessions, the Committee heard from the Scottish Funding Council (SFC), members of the university's senior leadership team (while some were in interim posts at the time of giving evidence, all have since left the university) and the former chair of the university court.

During these sessions the Committee heard:

- Apologies from those involved in the running of UoD.
- There were internal and external factors involved in the university's financial situation, and there had been inadequate financial discipline and control as well as inadequate oversight and accountability at senior level and issues with organisational culture.
- UoD initially requested £22m funding from SFC via the Scottish Government for liquidity support. (This ask later increased and the total additional funding made available by the Scottish Government via SFC is up to £62m – see further information in the 'Additional funding' section below.)
- The recovery plan initially proposed the loss of 632 FTE jobs, though this was not accepted by SFC and the Scottish Government.
- The fall in international student numbers – particularly taught postgraduate students – had seriously impacted the university's income. While a 25% decrease in international student income was planned for, the actual decrease was closer to 50%.
- SFC required UoD to produce monthly financial information rather than quarterly, and believed the situation at UoD to be unique, despite financial concerns across the sector.
- SFC was seeking to review its own governance effectiveness.

The Committee also heard that the senior management team and Principal did not have good knowledge – and in some cases were unaware - of their financial reporting requirements to SFC. The reporting requirements are set out in the HE Code of Good Governance and SFC's Financial Memorandum and Conditions of Funding documents. Paragraph 79 of the Higher Education Code of Good Governance sets out:

> 79. The Principal is the designated officer in respect of the use of Scottish Funding Council funds and compliance with that Funding Council's Financial Memorandum. The Principal must alert the governing body if any actions or policy under consideration would be incompatible with the terms of the Financial Memorandum. If the governing body nevertheless decides to proceed, then the Principal has a duty to inform either the Chief Executive of the Scottish Funding Council, or other appropriate officer.

SFC's Financial Memorandum (FM) requires the governing body to comply with the Code of Good Governance. It also sets out that the responsibility for ensuring compliance with the FM rests with the governing body of an institution (paragraph 4). Paragraph 18 sets out that:

> …the chief executive officer is also accountable directly to SFC's Accountable Officer for the institution's proper use of funds deriving from the Scottish Ministers and its compliance with the requirements of this FM.

Paragraph 19 states:

> The chief executive officer of the institution must inform SFC's Accountable Officer without delay of any circumstance that is having, or is likely to have, a significant adverse effect on the ability of the institution to deliver its education programmes, research and other related activity, including delivery of its Outcome Agreement with SFC. He or she must also notify SFC's Accountable Officer of any serious weakness, such as a significant and immediate threat to the institution's financial position, significant fraud or major accounting breakdown, or any material non-compliance with any requirement of this FM.

Failure to comply with the conditions set out in the FM can result in an institution being required to repay funding.

Paragraph 47 of the SFC Conditions of Funding 2025-26 document sets out:

> 47. As a standard condition of funding, if a university does not deliver activity in support of the Outcomes Framework, or provide the assurances required under the Assurance Model, or does not meet any other conditions of grant (including those set out in this document), SFC will consider the recovery of grant and/or reductions in future funding.

Independent investigation

The independent investigation into the UoD's finances was led by former Glasgow Caledonian University Principal Professor Pamela Gillies. The investigation focused on three main areas: Financial management; financial reporting and governance and oversight.

The report on the investigation was published on 19 June. It found failures in executive and governance responsibilities, summarising these as:

> "UEG [University Executive Committee] as a group failed throughout the latter part of FY24 to properly respond to the worsening situation and collectively failed to make appropriate disclosures under the Nolan Principles to FPC [Finance and Planning Committee] and Court.
>
> FPC failed in its reviews of FY24 forecasts for FY25 (21 May 2024), and again at its following meeting on 10 October 2024. There was no unexpected event or culmination of unexpected events beyond those impacting the sector as a whole. The University was not 'different'. This was an embedded issue and was reasonably

> foreseeable in May 2024.
>
> Court failed in its governance responsibilities in June 2024.
>
> The failure of the University's financial governance system was self-inflicted and experienced multiple times and at multiple levels. This led to a failure in identifying the worsening situation and not responding early enough." – [Investigation report, 19 June 2025]

Issues highlighted in the report include:

- The failure of UoD to respond to changes to the international student market as a result of changes to UK government policy on dependents, the devaluation of the Nigerian currency and a drop in UoD's world league rankings including UoD falling outside the HE Times university ranking top 250 – a development the report states will have "directly impacted recruitment from China and India" (p13).

- £40.3m raised from the financial year (FY) 2021 sale of university spin-out Exscientia was ringfenced for capital spending, but was never used for this and "it is evident that none of the 'ringfenced' cash now remains" (p22).

- UoD did not take opportunities to change its spending plans – e.g. the report highlights that in January 2024 when the fall in overseas postgraduate taught students (OPGT) became apparent, recruiting 393 students rather than the expected c.1,200, UoD could have put in place measures such as a recruitment freeze, but this did not happen. Instead, the report states: "Opportunities to make savings through unfilled vacancies were not taken and new posts were added with no budgets, and staff FTEs increased 8% from 2,984 to 3,230 from FY22 to FY24. There were 862 new staff joiners in FY23 and 949 in FY24." By April 2025, FTEs reduced from 3,230 to 3,110.

- A message from the Principal in March 2024 stated UoD was "moving into a surplus position after a decade of financial deficits" – the report states this "set the tone within the University for investment and growth at a time when savings should have been rapidly implemented. The University had no effective processes for cash management throughFY24 and was overcommitted on its capital expenditure." (p14)

- The report highlights the completeness of financial information presented to committees, the UEG and the University Court as an issue. However, despite this, it states: "…importantly, there was information produced which, with appropriate challenge (which was reasonably possible to apply, see Questions 12, 13 and 14), UEG, FPC and Court should have been able to assess the ongoing situation from March 2024." (p37)

- The UoD did not report potential breaches of covenant to the SFC – it is a requirement of SFC's Financial Memorandum to do so. The report also states a belief that the Principal was aware of the FY24 breach by the end of October 2024. The report states: "A breach of covenant, whether tested or not, is a reportable event to the SFC under the general overarching requirement to report contained in the

Financial Memorandum as it puts at risk ongoing access to facilities (the £40m RCF); internal reporting should be done in real time.” (p35)

- A lack of transparency around decision making led to a perception that key decisions were made “…by a ‘triumvirate’ of the Principal, DVC and COO at their weekly meetings was prevalent, although the DVC and COO did not believe these meeting were pivotal to key decision making. There was nevertheless thought to be little transparency or inclusivity in relation to how decisions were made across the institution and the culture of empowerment outlined in the Strategy document was not perceived to be in evidence uniformly across the institution.” (p58)

- Dissent was not welcome and challenge was “shut down” by senior management, with female members of staff in particular reporting “…being spoken over, sidelined or discussed in public as being obstructive if they attempted to be heard and there were reports that the University policy on dignity and fairness was not upheld in a number of instances.” (p58)

The final section of the report sets out ‘Lessons that may be beneficial for the wider sector in Scotland’. This section concludes that SFC’s Financial Memorandum and the Higher Education Institutions and the Scottish Code of Good Higher Education Governance in Scotland are fit for purpose, stating:

> “Whilst the University was obliged to comply with the FM, it did not. Whilst the Scottish Code provides a framework for adequate and effective management and governance arrangements, the University failed to operate effectively in practice (both governance and management).” – p63

The report does, however, recommend that the SFC FM “…could usefully be updated for ‘responsibilities of the Principal’ and in particular in the role as ‘Accountable Officer’ and the responsibilities of Chair of Court”.

Other lessons set out in the report include:

- UEGs (or equivalent) to be better equipped to actively consider and challenge management accounts, with access to clear, complete and timely information.

- Regular updates to the institution’s Finance Committee where there are financial sensitives (e.g. international student recruitment).

- The need for a questioning culture without fear, and senior leadership being open to challenge.

- Clear communication to committees, UEG and Court where there are matters of significance to the university.

- Minutes should make clear how decisions were arrived at.

- Overlapping Committee memberships (e.g. “The University of Dundee had a practice of the Chair of FPC ‘in attendance at ARC’ and the Chair of ARC ‘in attendance at FPC”) can result in bias and best practice would be for no such overlap.

- Similarly, where the Universities Secretary or equivalent role is the Chief Operating Officer of the institution, this can also create conflicts of interest, as there will be reporting lines to the Principal and to the Chair of Court. The report states: "Care should be taken to ensure the primary responsibility is always to the Chair of Court." (p64) The subsequent SFC Expectations of Good Governance report said that, while not a common arrangement, where this occurred, institutions should consider the appropriateness of the arrangement.

Taskforce

The Scottish Government created a Strategic Advisory Taskforce chaired by Sir Alan Langlands to develop recommendations to support the recovery of UoD. The taskforce published its report in August 2025, and recommendations included calls for UoD to:

- Implement a recovery plan to address financial challenges, focusing on cost reductions, income generation and asset rationalisation.
- Strengthen UoD's leadership capacity, appointing permanent members of staff to senior roles including that of Principal as soon as possible.
- Improve governance structures.
- Develop a medium and long term strategy aligning academic strength and financial sustainability.
- Prioritise the wellbeing and interests of students and staff.
- Review the University's estate and assets.
- Ensure clear, regular communication with stakeholders.

Recovery plans

The University of Dundee published details of an initial recovery plan on 11 March 2025. Proposals in the initial plan included a 600 reduction in FTE staffing. Following the initial recovery plan, Scottish Ministers wrote to Professor O'Neill in March 2025 to express concerns.

The UoD's then-interim Principal and Vice-Chancellor Professor Shane O'Neill wrote to the Committee later in March to provide further information on a number of points. In this letter, Professor O'Neill stated that around 700 individuals could be impacted by redundancy. Following the publication of this letter, Scottish Ministers again publicly stated they did not support the proposed recovery plans. During First Minister's Questions on 3 April 2025 First Minster John Swinney said the plan was "completely unacceptable" and an alternative was required. He added that Deputy First Minister Kate Forbes was leading cross-government work on UoD.

An updated recovery plan was announced by UoD on 29 April 2025, following presentation to and endorsement by the University Court. Proposals in this plan included the reduction of up to 300 staff FTE through a voluntary severance programme. SFC responded to the updated plan recognising its details "are still to be finalised" and committing to continuing to work with UoD.

On 18 August 2025, SFC wrote to the UoD's Acting Chair of Court in response to a further recovery plan submitted on 11 August 2025 stating:

> "The SFC's view is that it is not appropriate that such fundamental decisions on shape and structure, as posited by the current University Recovery Plan, which will bind the University for decades, should be taken by an interim leadership team." – SFC letter to UoD Acting Chair of Court, 18 August 2025

The letter went on to state:

> "…it is the strongly held view of the SFC that fundamental decisions cannot and should not be taken without the existence of an approved, and properly consulted upon, University Strategic Plan." - SFC letter to UoD Acting Chair of Court, 18 August 2025

SFC stated it expected a Strategic Plan to be developed over the next 12 months with staff, student and stakeholder engagement. The letter set out three steps as a condition of further funding:

a) Identify an accelerated plan to create stable long-term permanent leadership for the university.

b) Identify, quantify and deliver immediate 'no regrets efficiencies'.

c) Develop and execute a plan to deliver a University Strategy which can demonstrate appropriate and concrete engagement with staff and students to properly understand and consider their input into the University's vision.

UoD's Acting Chair of Court Dr Ian Mair responded on 15 September 2025 stating that progress has been made to appoint a permanent Chair of Court and lay members, adding that appointment of a Chair was a necessary step in the process to recruit a new Principal and Vice Chancellor. The process to hire a permanent University Secretary was also underway, but an interim would be required before a permanent replacement was appointed.

On the delivery of 'no regrets' efficiencies, the letter stated:

> "Easy and quick actions to reduce spending have already been implemented leaving matters of greater consequence remaining. I consider that the spirit of your letter seeks to strike the right balance between short-term decisions that address financial challenges sooner with the long-term impacts that are in support of a wider vision and strategic direction. We are continuing to explore the measures that could sensibly be taken in the coming months to improve the effectiveness and efficiency of the University, consulting the University's staff as we do so, without unduly constraining our future strategic development." – Acting Chair of Court letter to SFC, 15 September 2025

On the development and implementation of a University Strategy, the letter stated that the appointment of a Principal was a key element of this.

The letter then went on to thank SFC for converting a £12m financial transaction into a grant, due to “understanding of the tension in the duties of our Trustees in entering into the financial transaction of £12m while the University works through its Going Concern status”. However, in its response on 17 September 2025, SFC clarified that the £12m grant would not come from conversion of the FT loan element of the initial £22m support funding, but rather it would be brought forward from the “up to £40m” grant funding made available by the Scottish Government via SFC (see ‘Additional funding’ section below). SFC clarified this does not replace the £12m loan in the £22m package.

Additional funding

During the Stage 3 debate on the 2025-26 Budget on 25 February 2025, Cabinet Secretary for Finance and Local Government Shona Robison announced £15m of additional funding in financial transactions for SFC (this was not allocated to UoD at this stage). On 14 March, the Scottish Government announced £10m further funding for SFC to support higher education institutions. Again, this additional money was not allocated to UoD at that stage. During the Committee’s 19 March 2025 meeting with UoD representatives, interim Principal Shane O’Neill said that the UoD’s recovery plan sought liquidity support funding of £22m. On 20 March 2025, SFC announced a support package of £22m for the UoD. This funding is a mix of low-cost loans and capital grant.
During the Committee’s 11 June meeting, Minister for Higher and Further Education; and Minister for Veterans Graeme Dey said that on 28 May, SFC received a further financial ask from UoD. He said the Scottish Government was formally notified of this on 6 June and it was being worked on “at pace”. The additional money requested was to enable UoD to reduce the number of job losses from 600+ proposed in the original recovery plan and to boost liquidity.

When asked if the additional figure requested by UoD was £100m, the Minister said he would not “get into specific numbers”.
On 24 June 2025, the Cabinet Secretary for Education and Skills announced up to £40m in further funding for UoD over three financial years, bringing the total additional funding made available by the Scottish Government via SFC up to £62m.

Colleges

The Committee has explored the funding, structures and outcomes of the College sector in several areas of its work this year. This includes: scrutiny of the 2025-26 budget; a follow up on the Committee’s College regionalisation inquiry 2022-23 on 5 February 2025; and a one-off session from representatives of the College sector on 18 June 2025.

Strategic direction and clarity

While the Purpose and Principles and Initial Priorities documents were broadly welcomed by the sector, sector representatives have also repeatedly said that colleges need further guidance on what to prioritise. Andy Witty from Colleges Scotland told the Committee in February that the Purpose and Principles is “quite high level” and that Scottish Government accepts that “there is a raft of asks of the sector [in the Purpose and Principles] that could probably be clearer.” (Col 10) Neil Cowie from NESCOL said that, in relation to developing strategy for his college, “in the absence of direction [we] just cracked on and did stuff for our region". (Col 11)

The SFC's Credit Guidance for Colleges AY 2025-26 set out the SFC's priorities on what colleges should deliver. It said "the overall aim is to allow colleges to continue to adapt to the changing needs of their region and provide learning opportunities to sustain a pipeline of educated and skilled people who will be critical to our economic prosperity, and to upskill/reskill the existing workforce." It also highlighted:

- The continued provision of full-time places
- Re-training and re-skilling
- Prioritising senior phase school engagement
- Colleges should de-prioritise other school/college courses out with the senior phase.

Colleges Scotland has sought to take the initiative in developing strategic documents for the sector. In November 2024 it published Colleges – Anchor Institutions Fuelling Scotland's Economic Success. This document was intended to be an initial stage of developing a Strategic Plan for the sector which was anticipated to be published in "Spring 2025". In the November 2024 document, Colleges Scotland set out two phases under "Next steps"; these were: "Securing investment and trust" and Delivering impact". At the time of writing, Colleges Scotland has not published a Strategic Plan for the sector.

The Tertiary Education and Training (Funding and Governance) 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.

There have been recent changes around the governance of the Glasgow and Lanarkshire colleges. The Committee explored the governance arrangements at the University of Highlands and Islands and its assigned colleges. Vicki Nairn from UHI said that the UHI was undertaking "change programme" which included exploring whether there was duplication in functions in the UHI centrally and the assigned colleges (OR 18 June 2025, Col 12). She also described the funding arrangement whereby the executive office of the UHI top slices funding. In a letter to the Committee, UHI said:

> "UHI consider that this legacy mechanism is no longer fit for purpose, particularly, since designation as a Regional Strategic Body. It is intended to change this mechanism as part of the new operating model which is currently being scoped, with a full business case due to be submited to the Scottish Funding Council in December 2025. The funding mechanism underpins a significant number of University, Partnership and RSB services. The University does not receive any funding for the functions it performs as the RSB. Whilst the current "top slice" arrangement provides an established mechanism for the UHI partnership to share central service costs it does present challenges."

Financial 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.

SFC will publish an updated financial sustainability report prior to the Committee's meeting. Audit Scotland is also expected to publish its 2025 report on Colleges on 2 October 2025.

A theme from the witnesses during the evidence sessions in both February and June was that the college sector faces financial difficulties. Professor Powell from the SRUC said that his institution posted losses of around £10m and £5m in the past two years, but that this year he expects the institution to break even. (OR 18 June 2025, Col 34) Witnesses reported in June that the sector has small cash reserves, although colleges are in regular contact with SFC. Andy Witty from Colleges Scotland referenced SFC analysis that forecast that the sector would have a cash deficit of £4.2m by June 2026, if no action is taken. (Col 41)

Angela Cox said that colleges have reduced wraparound support services and mental health support, which support students from the most disadvantaged backgrounds. (OR 18 June 2025, Col 32)

Infrastructure and Capital Investment

The SFC published a [College Infrastructure Investment Plan: Progress Report] in July 2025. This said—

> "Scotland's colleges are a critical part of our infrastructure. They are integral to the success of the economy and the communities that they serve. Attractive,

> technologically current, and fit-for-purpose estate is essential to deliver the colleges' core purpose in delivering successful outcomes for their students."

The SFC noted that "capital budgets continue to be subject to significant pressures". It said that it had explored possible alternative capital funding models but the SFC said that "at present, the existing funding model is the only identified approach to investment in the college sector." As noted above, across the Scottish Government, it is expected that the capital funding settlement will be tight.

In 2024, the SFC and colleges undertook a "baselining exercise" on colleges' estates. The College Infrastructure Investment Plan: Progress Report said that this has provided the first single comprehensive dataset of the entire college estate. SFC said:

> "This dataset will allow us to begin discussions with colleges to consider prioritisation, rationalisation, shared services and collaboration in a strategic and coherent way as we consider the investment required for the college estate of the future, moving from place-based provision to outcome-based provision."

Capital funding can be volatile as large projects' costs can affect trend lines. For example, in recent years, the new Fife College campus in Dunfermline has taken up significant funds. 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 1: Capital allocations (£m)

	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 SFC holds £2.5m of unallocated capital funds for the College Emergency Capital Maintenance Fund. This is to support colleges where there is an emergency, extraordinary or unexpected need for additional capital funds; for example, if there was a health and safety concern that required to be resolved immediately.

Speaking to the Committee in February, Andy Witty from Colleges Scotland said that "urgent health and safety issues had been tackled". Joanna Campbell from Glasgow Kelvin College said "We have an estimated £8.2 million historical cladding issue" and that her college has a funding gap of £5 million. (OR 18 June 2025, Col 5) In relation to Reinforced Autoclaved Aerated Concrete (RAAC), Mr Witty said "we still do not have a route to a solution for the seven colleges and 11 buildings that have RAAC." (OR 5 February 2025.

Col 37) The SFC's website states, "institutions are at different stages in the process of identifying RAAC and assessing its condition, so the full extent of exposure and required remedial works is not yet fully known."

In February, Joanna Campbell from Dumfries and Galloway College and Colleges Scotland said:

> "Investment in our infrastructure, particularly capital investment to support Scotland's transition to net zero, is also important, as is our digital estate. Both of those will require capital investment in the sector, but although we have had a modest increase in our capital for the next financial year, we have a well-documented maintenance backlog across the entire college estate." (OR 25 February 2025, Col 6)

Apprenticeships

Andy Witty also highlighted funding for apprenticeships. He said that in some apprenticeship frameworks 40% of the Scottish Government funding reaches the colleges. (OR 18 June 2025, Col 3) Joanna Campbell from Glasgow Kelvin College noted that "some colleges are already managing agents … the money is going directly to apprentices and employers." (Col 20)

Angela Cox from Colleges Scotland and Ayrshire College said—

> "We could deliver far more apprenticeships in Ayrshire, but we find that, because of the cap on apprenticeship numbers, particularly in engineering, there are students who cannot get an apprenticeship place and are staying in college on full-time courses, and employers have workforce shortages, because they cannot get the apprenticeship provision. Unfortunately, some of the investments that have been made in Glasgow have accelerated outward migration, as people are seeking apprenticeship places. Young people are leaving our region." (Col 19)

New Funding model

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."

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."

Angela Cox said that the SFC has dropped the threshold for credits that had to be delivered in colleges. She said that this was in response to severe financial stress: "colleges could not afford to pay their utility bills and keep the light on at the height of inflation". (OR 18 June 2025, Col 21)

Table 2 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 2: 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%

Flexibility and unmet demand

During the Committee's 2025-26 pre-budget scrutiny, members 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. Audrey Cumberford told the Committee in February that Edinburgh College supported "thousands of businesses" through the FWDF and most of what was provided was bespoke provision for companies. (OR 5 February 2025, Cols 16-17) Ms Cumberford contrasted this work with that which is supported through mainstream funding, she said—

> "Year on year, the demand for long and fat full-time qualifications is clearly reducing. Student demand is reducing, and the qualifications are not what employers want. To put it crudely, our whole funding system is based on full-time qualifications, activity, teaching hours and bums on seats, and that does not lend itself well to the responsive, agile and bespoke provision that is often needed." OR 5 February 2025, Col 19)

Joanna Campbell described her ESOL provision as being heavily oversubscribed. (OR 18 June 2025, Col 23) Angela Cox from Ayrshire College said that the SFC is not able support colleges where they over-deliver. She explained that this meant that her college was unable to meet the demand for places in her are, she said—

> "Last year in Ayrshire, which is a single college region, we turned away 764 students after interview. A third of those students wanted to study science, technology, engineering and mathematics subjects and some of the others perhaps needed more of a bespoke programme— which we would historically have been able to accommodate, before we lost about a fifth of our funding over the past few years. That does not take into account the students who applied and whom we were not able to interview, and the unmet cost of delivering new provision that really meets the needs of our region. We are at a critical point, and colleges across the country would say the same thing." (OR 18 June 2025, Col 22)

Vicki Nairn said that UHI, which includes both university and college provision, would find it helpful if they could be more flexible in moving funds between HE and FE provision. (OR 18 June 2025., Col 17) She noted that while UHI is overdelivering on FE, it is underdelivering in HE places and that the SFC will clawback around £8.5m across last year and this year. (Col 33) Professor Powell from the SRUC said—

> "We need to have a system that is forward looking, is student-centric and allows universities and colleges to vire money at different points to support the student. The last thing that we need is to keep learners and students in college or university longer than they need to be. We need to get them out into the workforce as soon we can to drive productivity and to fulfil their ambitions." (OR 18 June 2025., Col 26)

Andy Witty indicated that SFC is open to continuing discussions on future funding models. (OR 18 June 2025., Col 25)

Industrial relations

As noted above, overall, the Government is seeking to make savings by reducing the devolved public sector workforce.

At its meeting in June, the Committee explored the structures of national pay bargaining in the sector. Following the meeting in June, the Committee received a letter from College Employers Scotland (CES) in relation to potential structural reforms and improvements to the college sector's National Joint Negotiating Committee (NJNC). This letter noted that:

> "For the employers, a number of the Lessons Learned recommendations have already been taken onboard and acted upon, and those have contributed to a general improvement in industrial relations. However, the proposal that there should be an independent chair, to assist in reaching agreements and improving the overall effectiveness of the arrangements is not something the trade unions have been willing to agree on.
>
> "The matter of independent chair aside, CES has since engaged with its Lecturing (EIS-FELA) and Support Staff trade unions (UNISON, Unite and GMB) to commence a review of the NJNC – NRPA. To date, the EIS-FELA has not yet participated in any review, but in prompting this review, two of the trade union partners in the support staff (UNISON and Unite) have given notice to all parties of their intention to resign from the current NRPA arrangement, in favour of a stand-alone agreement for Professional Services Staff (PSS) only. The GMB has not given that same notice."

Collaboration and Regional Economic Development

Witnesses in both panels emphasised the strategic role colleges play in regional development, particularly in addressing local skills gaps. There was strong support for deeper collaboration between colleges and universities, but also recognition that there are structural and funding barriers. Angela Cox from Ayrshire College said—

> "In Ayrshire, which is a single-college region across three local authorities, we work closely with the University of the West of Scotland, and we are working increasingly closely with the National Manufacturing Institute Scotland and the University of Strathclyde to address the needs of Ayrshire. … we need investment to support the transformation, because, at the moment, this is all being done at the side of a desk, with a lack of project funding and investment to make the transition." (OR 18 June 2025., Col 14)

Audrey Cumberford from Edinburgh College told the Committee in February that Colleges are seeking to both respond to immediate skills needs in their regions and looking forward at what will be required to support the skills-needs in the future. (OR 5 February 2025, col 4) She also said that the City Deal in Edinburgh and the Lothians had "helped to create a structure and a culture of collaboration between colleges, universities and other partners [e.g. industry and local government]". (Col 38)

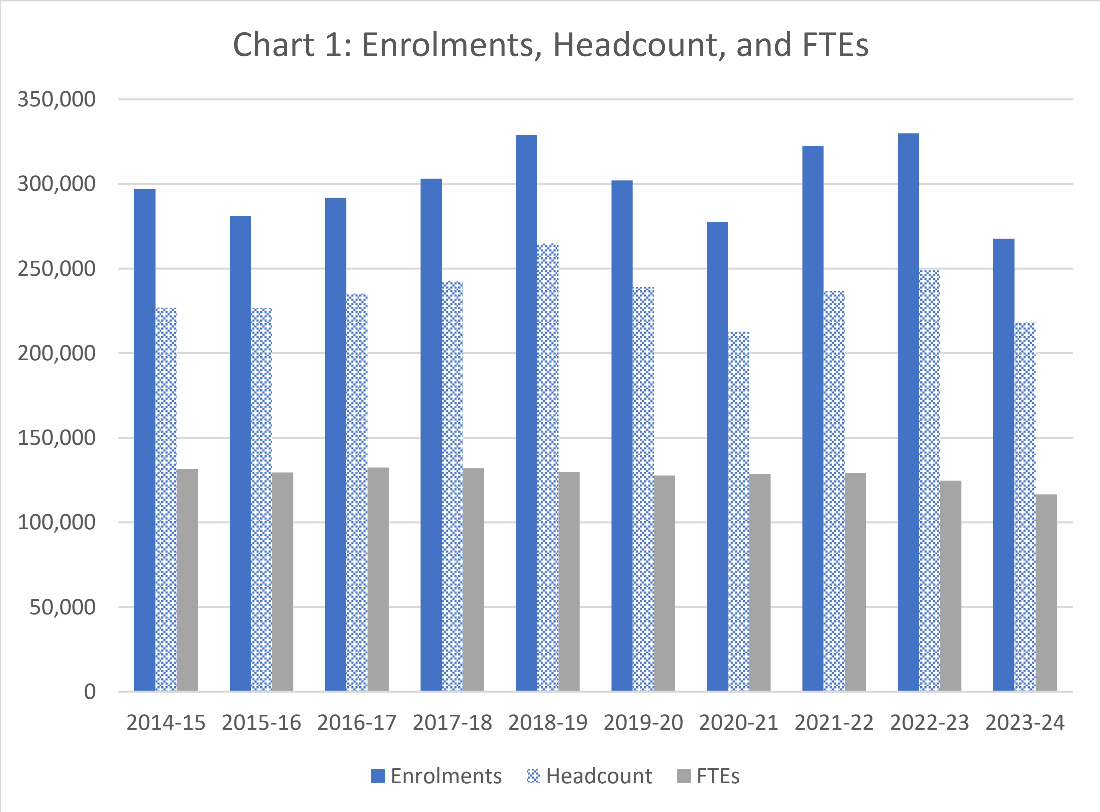
Enrolments, headcount and FTE students

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.



Outcomes

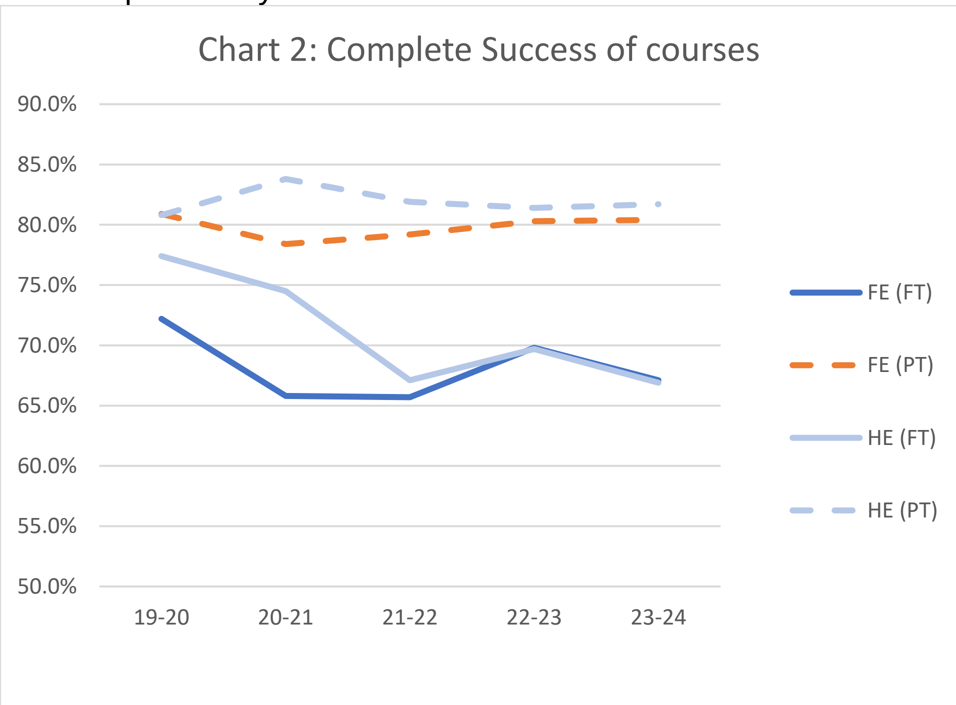
The SFC publishes College Performance Indicators annually. The most recent report on college student outcomes was published in July and reports on a range of measures in 2023-24.

The table below shows the completion rates of full time FE and HE students.

Table 3: Outcomes for College students on Full-time courses (2023-24)

	Complete success	Partial success	Non-completion
Further Education	67.1%	12.4%	20.6%
Higher Education	66.9%	16.0%	17.1%

The following chart shows the percentage of students who achieved "Complete Success" over the past four years of data.



Complete Success rates are lower than before the pandemic in full time courses. Complete Success rates are higher for part time courses than full time – particularly courses under 80 hours in duration. Overall success rates in part time courses are similar to pre-pandemic levels.

The data above does not include students who left the course before the 'funding qualifying date'. In 2023-24, students on courses lasting more than 20 weeks qualify for funding in week five of the course. In 2023-24 4.6% of FE students and 3.0% of HE students withdrew early and were not funded. In previous years, the qualifying date was 1 November. This change makes the comparison between 2023-24 and previous years imperfect.

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.

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, 24.8% of HE students in colleges lived in SIMD20 areas. In universities in 2023-24, 16.1 % of Undergraduate Scottish domiciled students came from SIMD20 households. There are more UG HE entrants in universities than in colleges and in recent years of total entrants from SIMD20 households has been higher in Universities (8,735 in 2023-24) than in Colleges (7,380 in 2023-24).

Lynne Currie and Ned Sharratt, Researchers, SPICe
Date: 25/09/2025

Annex 1: University allocations and Letter of Guidance 2025-26

2025-26 Budget

University (Higher Education) resource and capital allocations announced in the Scottish Government's 2025-26 Budget are set out in **Table 1** below.

Table 1: Higher Education Resource and Capital Budgets (Level 3)

	2023-24 Scottish Budget £million	2024-25 Scottish Budget £million	*2024-25 ABR Budget £million*	2025-26 Scottish Budget £million	% Change 2025-26 Budget on 2024-25 Budget
HE Resource	809.207 (789.2)	760.707	*810.472*	773.590	1.7%
HE Capital	340.705	356.890	*356.890*	368.270	3.2%
Total	1,149.912 (1,129.905)	1117.597	*1167.362*	1141.86	2.17%

Sources: Scottish Budget 2024-25 and Scottish Budget 2025-26
Notes: In 2023-24, £20m initially allocated to the HE 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 HE revenue budget is a 1.7% increase on the 2024-25 Budget allocation. In real terms, calculated using the SPICe Real terms calculator at 2025-26 prices, it is a decrease of 0.68%.

Letter of Guidance 2025-26

The Scottish Government allocates funding for the further and higher education sectors to the Scottish Funding Council (SFC) via the Budget. Following publication of the Budget, a Letter of Guidance is sent from the Scottish Government to SFC each year setting out the priorities SFC should focus on delivering. SFC then allocates and distributes funding to individual institutions.

The Letter of Guidance for 2025-26 places an emphasis on SFC supporting reform and "championing" Ministerial priorities in the context of uncertainty and challenging finances. In relation to funding conditions for universities, the letter:

- Stated that opportunities for Scottish domiciled students should continue to be protected while supporting delivery of our widening access commitments and enhancing the student experience.

- Confirmed that funding attached to 2,500 extra university places provided during the COVID-19 pandemic could remain in the sector to be "repurposed and targeted across the system to reflect demand, maximising opportunities for all Scottish domiciled students and improving the learner experience for all."

- Confirmed that Scottish institutions can raise the tuition fee rate for students from the rest of the UK from £9,250 to £9,535, in line with the UK Government's announcement of an increase to the tuition fee rate in England.

- Directed SFC to engage with institutions and conduct efficiency studies where necessary to ensure financial sustainability and to keep Ministers "sighted and assured" that institutions are delivering for learners while remaining financially sustainable.

- Directed SFC to continue to prioritise "investment in core university research and knowledge exchange grants to drive the sector's competitiveness and produce positive economic and social outcomes", including through capacity building support through the Research Excellence Grant.

University funding allocations

SFC's final funding allocations for universities for academic year (AY) 2025-26 were published on 29 May this year. The publication states that the "student demand picture across Scotland is changing" and SFC and Universities Scotland will work to develop a shared understanding of this.
SFC states its approach to AY 2025-26 allocations was to balance the need to:

- Secure opportunities for Scottish-domiciled students, ensuring any reduction in funded student places does not disadvantage first year Scottish applicants.

- Promote widening access to higher education.

- Continue to embed Graduate Apprenticeships and work-based learning.

- Enhance the amount of teaching funding per funded place.

- Enhance investment in research and innovation.

- Take financial sustainability of universities into account and mitigate impacts on institutions as much as possible.

- Continue to fund national infrastructure and specific programmes of national interest through strategic investment funds.

Key funding points from the AY 2025-26 allocations are:

- Total teaching funding for universities has increased by £12.9m (1.8%), from £715.2m in AY 2024-25 to £728.1m in AY 2025-26. This follows a reduction in total teaching funding between AY 2023-24 and AY 2024-25.

- The Main Teaching Grant for AY 2025-26 is £693.7m, an increase of £11.8m (1.7%) on the previous year. This also follows a reduction between AY 2023-24 and AY 2024-25.

- Non-controlled funded student places have been reduced by 2,500 FTEs (-2.2%), this is due to the removal of the second tranche of additional 'SQA places' allocated in AY 2021-22 during the COVID-19 pandemic. SFC confirms funding from this is "being repurposed to enhance the teaching unit of resource". This is explained in further detail in paragraphs 31 to 35 of the document.

- The sector is expected to deliver 1,378 Graduate Apprenticeship places in AY 2025-26 – this target is unchanged from the previous year.
- Research and innovation funding has increased by £11.3m (3.6%),
- The capital budget (excluding research and innovation) sees an increase of £0.1m (0.5%) to £28.6m. Capital maintenance funding is unchanged from financial year 2024-25.
- On research capital funding, SFC states: "We are expecting to receive HE Research Capital (HERC) grant funding from the UK Department for Science, Innovation & Technology (DSIT) for FY 2025-26, which will be matched by SFC. The amount is still to be confirmed and we are working on the assumption that it will be the same level as FY 2024-25 (£18.8m). Once the amount is confirmed we will issue a separate publication and will also look to update the tables in this publication."

A summary of overall budget allocations for the university sector and allocations by institution is available on the SFC website. Overall budget allocations can be found at Table 1 and funding allocations for individual universities are shown in Table 2.

Annexe B

SFC Submission to Education, Children, and Young People Committee: Pre-budget scrutiny 2026-27

26 September 2025

About Scottish Funding Council

1. The Scottish Funding Council (SFC) is Scotland's tertiary education and research authority. We are a non-departmental public body (NDPB) established by the Further and Higher Education (Scotland) Act 2005. Our powers derive from the 2005 Act, and we have two core statutory duties:

    a. To secure the coherent provision by post-16 education bodies of high quality and fundable further and higher education.
    b. To secure the undertaking of research.

2. Our purpose is to sustain a world-leading system of tertiary education, research and innovation that enables students to flourish; changes lives for the better; and supports social, economic, and environmental wellbeing and prosperity.
3. We invest around £2bn in tertiary education, research and innovation through Scotland's 24 colleges and 19 universities, which provides learning, reskilling, and upskilling opportunities to Scotland's learners. We are also the statistical authority for colleges, and we work closely with the UK-wide Higher Education Statistical Authority (HESA), to provide data and statistics for government, decision-makers, and the wider public.

SFC's Financial Sustainability Reports

4. SFC published Financial Sustainability Reports for the college and university sectors in September 2025. These reports set out an aggregate picture of the financial health of the sectors, based on their annual accounts for academic years 2022-23 and 2023-24. The university sector report sets out the latest forecasts for the three academic years from 2024-25 to 2026-27, while the college report sets out the latest forecasts for the four academic years from 2024-25 to 2027-28.
5. The following summary sets out the 2023-24 results (previously published in May 2025) compared to the new forecasts.
6. In reviewing this information, it is important to note that:

    - The sectors are not homogenous and there continues to be variation in institutions' financial performance that is not reflected in the aggregate indicators.
    - The financial sustainability of the sectors remains extremely fluid with assumptions being constantly updated as circumstances change. The results can only be viewed as a snapshot in time and are historic. Forecasts are not a guarantee of future performance returns and are highly likely to change over the planning period.

- The information is presented by Academic Year, which runs from August to July.

College Sector

Note: UHI North, West and Hebrides was established in August 2023 following the merger of UHI Outer Hebrides, UHI North Highland College and UHI West Highland College. This report includes the 2022-23 results of the three legacy colleges, but the 2023-24 result for the merged college has been excluded as its annual report and accounts had not been finalised.

Key Points

7. The sector reported an adjusted operating[1] deficit of £1.2m in 2023-24. This deficit is forecast to increase to £10.7m in 2024-25. This deterioration against 2023-24 reflects higher staff costs partly offset by higher income and lower operating costs. The adjusted operating deficit is forecast to increase to £25.5m in 2025-26 with further deficits of £36m and £42m projected in 2026-27 and 2027-28, respectively.
8. Nine colleges reported adjusted operating deficits in 2023-24. Seventeen colleges (68%) expect to report adjusted operating deficits in 2024-25. Twenty-two colleges (92%) are forecasting adjusted operating deficits in 2025-26, reducing to twenty-one colleges (88%) in 2026-27 and twenty colleges (83%) in 2027-28.
9. Colleges remain highly dependent on SFC grant which is forecast to remain at 77% of total income throughout the forecast period.
10. The sector reported staff restructuring costs of £10.2m in 2023-24. Staff restructuring costs of £7.4m are forecast for 2024-25 and £1.9m in 2025-26.
11. The sector reported an aggregate cash balance of £130.5m at the end of 2023-24, with cash reserves forecast to fall to £35.1m by 2025-26, falling to a negative cash balance of £46.2m by the end of 2027-28.
12. While no college reported a cash deficit at the end of 2023-24, four colleges are forecasting a cash deficit by the end of 2025-26, increasing to twelve colleges by the end of 2027-28.
13. The number of colleges reporting net cash outflows[2] is expected to increase from twelve (48%) in 2023-24 to eighteen colleges (75%) by 2027-28.
14. Overall sector borrowing (loan debt, finance leases, and Non-Profit Distributing commitments[3]) reduced from £220.2m at the end of 2022-23 to £207.6m by the end of 2023-24. Borrowing is forecast to reduce further to £164.9m by the end of 2027-28. Most of the sector's borrowing is in the form of NPD commitments relating to three colleges.

[1] A college's adjusted operating position (AOP) reflects its underlying operating performance after allowing for material one-off or distorting matters outside its control (e.g., pension valuations). This helps to assess a college's underlying financial strength and to provide figures which are readily comparable among colleges.
[2] A net cash outflow is where a college does not expect to generate enough cash to repay debt or invest in its estate.
[3] Non-profit distributing (NPD) commitments are a public-private partnership model, designed to fund infrastructure projects by capping private sector returns, ensuring any surplus profits are returned to the public sector or reinvested.

University Sector

Notes:

- The following analysis excludes the University of Dundee because the University has not yet finalised its 2023-24 Annual Report and Accounts or its forecasts.
- As in previous years, the sector position is skewed by the financial results of the two largest universities.

Key Points

15. The sector reported an underlying operating surplus[4] of £17.2m for 2023-24, with the surplus forecast to rise to £51.5m in AY 2024-25 before declining to a deficit of £12.9m in 2025-26 and rising again to a surplus of £134.9m in 2026-27. The 2025-26 deficit is mainly due to low growth in tuition fees, reduced operating and investment income and increased staff costs due to pay inflation. The forecast improvement in 2026-27 is due to more optimistic forecasts for tuition fees, research income, and other income offset by smaller increases in staff costs (reflecting the full impact of the savings from staff restructuring in 2024-25 and 2025-26), other operating expenses and depreciation. However, the forecast improvement in 2026-27 is mainly driven by three universities.
16. Nine universities reported underlying operating deficits during 2023-24, and forecasts show this increasing to ten in 2024-25 and eleven in 2025-26 before reducing to seven in 2026-27. Five universities are not projecting any underlying deficits throughout the forecast period.
17. Universities' reliance on SFC grants is forecast to reduce by 2% (down to 22%) by the end of 2026-27.
18. International fee income is expected to increase from £1,324m in 2023-24 to £1,532m by 2026-27 (15.7% increase) but projections will be revisited after the autumn 2025 student recruitment cycle.
19. The sector cash position is forecast to reduce from £1,682m at the end of 2023-24 to £1,511m at the end of 2026-27. No university is forecasting a cash deficit throughout the forecast period; however, many institutions are taking proactive steps to keep them in a positive cash position.
20. Sector borrowing is forecast to increase marginally over the planning period to £1,542m at the end of 2026-27.

Mitigating Action

21. Institutions are responsible for their own financial sustainability. Financial challenges will affect individual institutions in different ways, and each will have its own range of mitigating actions available. In our engagement with the sector, we are seeing a range of mitigating actions, including expanding digital delivery, focusing on income-generating opportunities, and cost reduction measures such as staff restructuring, reviewing course portfolios, and reviewing estate strategies.

[4] Operating surplus/(deficit) adjusted for pension provision movements and staff restructuring costs.

SFC's Role

22. SFC supports the college and university sectors by distributing the available funding to best effect, and through our engagement regarding outcomes and assurance, and our financial monitoring.
23. SFC sets out conditions of grant in the Financial Memoranda with institutions. Financial sustainability is a condition of grant, and institutions are required to notify SFC if they identify material risks to their financial viability or sustainability.
24. We monitor and assess the financial health of colleges and universities through regular engagement and analysis of financial returns which institutions are required to submit to SFC each academic year. This assessment includes consideration of institutions' individual circumstances and exposure to risk, and capacity to respond to financial challenges.
25. We increase our levels of engagement and monitoring activity for any institutions facing significant risks to their financial health. We require them to develop transformation plans to bring them back to a sustainable position, and we can support them through a range of interventions.
26. Financial monitoring informs SFC's overall Outcomes Framework and Assurance Model, which sets out SFC's expectations of colleges and universities in return for the funding that they receive.
27. We have worked with the sectors and Scottish Government to introduce measures to support institutions, including:
    - **Changes to SFC's College Funding Distribution Model**: Over the last two years, we have introduced significant changes to our college funding distribution model which have a range of benefits for the sector, including greater flexibility for colleges' use of funding, reduced exposure to funding recovery, and greater transparency and funding comparability.
    - **Asset Disposals:** SFC published new guidance that enables colleges to retain the first £1m of any asset disposal and then 70% of any value over this. This is a significant improvement on previous guidance.
    - **College Transformation Framework**: This framework provides a mechanism for colleges to undertake curriculum transformation and transition to a more sustainable footing from within existing budgets.
    - **University Funding Recovery 2023-24:** We are focused on supporting universities' transformation initiatives, sector-wide, through the recovery process for the last academic year.
    - **Research and Innovation Shared Services Collaboration Fund**: this fund enables universities to develop sustainable models for the implementation of shared services, for example, sharing technology transfer office (TTO) facilities and research offices.

University of Dundee and the Gillies Report

28. SFC is committed to supporting the University as it works to return to a position of financial health, and we continue to engage closely with the University regarding its Recovery Plan, supported by an underpinning strategy and vision.
29. We welcomed publication of the University's response to the Gillies Report, and we will continue to work closely with the University leadership team to monitor implementation of the action plan it published on 12 August to address both the findings of the Gillies Report and the 2024 externally facilitated review of Court Effectiveness.
30. We also recognise the lessons for the wider sector and for SFC. The Gillies Report has fed into work already underway in SFC to enhance our approach to institutional scrutiny in response to the increasingly challenging financial environment. This has included the publication of SFC's Expectations of Good Governance in September 2025. This report sets out what we have learned about the sector and institutional governance from analysis of Governance Effectiveness Review reports and the Gillies Report alongside SFC's expectations of sector governance and how we will monitor governance.
31. This guidance forms part of the wider work that SFC is undertaking on enhancing institutional scrutiny as noted above. We are committed to working with the sector and Scottish Government as this work progresses.

Looking to the future: a stable, effective, and competitive university sector

Universities Scotland's submission to the Scottish Government's 2026/27 budget-setting process

The last 12 months have been seismic for Scotland's universities. Geopolitical instability, further changes to the UK's immigration regime, tax increases, and persistently high inflation have relentlessly increased the pressure on a diverse sector that was already grappling with the consequences of long-term structural underfunding. The crisis at the University of Dundee has laid bare the precarious nature of Scotland's current HE funding model, and the associated implications for the nation's social and economic wellbeing.

The challenges we face in enabling and sustaining a flourishing HE sector are complex and difficult, but we approach the final year of this parliamentary term with renewed determination and hope for the future. Partnership working is an embedded feature of Scottish public life. It is our default approach to engaging our many and varied stakeholders – from the Scottish Government and Scottish Funding Council (SFC), to adjacent sectors, local and international businesses, and our staff and student communities. It is also the only viable approach to tackling the structural problems that risk undermining our future contribution to Scotland's growth and prosperity.

Scotland's universities stand ready and willing to work with any and all partners interested in the long-term vitality and competitiveness of our sector. We are encouraged by recent discussions with the Scottish Government, opposition parties, and other stakeholders regarding the funding model needed to underpin a thriving and sustainable university sector, and look forward to working in partnership to progress associated actions over the coming months.

However, we must also address our immediate financial reality. We cannot sustain another year of real terms funding cuts without serious implications for the stability of our sector and hence our core teaching and research activities, as well as the social and economic contribution we make to Scotland, and our global reputation and competitiveness. We therefore look to the Scottish Government for a 2026/27 budget settlement that:

- stabilises the sector, stemming the decline in HE investment, particularly for teaching, and mitigating the impact of intense geopolitical instability;
- creates space to test new ways of working that drive innovative approaches to transformation and effectiveness;
- helps relieve acute and immediate funding pressures, thereby ensuring the sector can play a full role in progressing the development of a sustainable and competitive university funding model for the future; and
- enables the sector to build back its reputation and competitiveness, via a credible funding package for both students and our research base.

Our ask

We are alive to the fiscal realities facing the Scottish Government, and the extent of demand for public investment across multiple sectors. Our ask is carefully calibrated. A single year's settlement cannot 'fix' university funding, but it can help mitigate immediate pressures and reduce the risk of institutional crisis. We therefore ask that the Scottish Government:

- increases SFC's Higher Education Resource budget by **5% in real terms** (6.7% in cash terms), relative to the 2025/26 baseline;
- increases SFC's Higher Education Capital budget by **3% in real terms** (4.7% in cash terms), relative to the 2025/26 baseline;
- provides an **inflationary uplift** to discretionary and childcare funding for students, ensuring learners are not deterred from studying at university because of caring responsibilities or other personal circumstances. We note this ask would still mean funding falls well short of the £16m made available in 2023/24; and
- creates a **£20 million strategic funding pot** to support and enable enhanced work on university effectiveness and transformation, helping drive maximum value and efficiency from university spend, and empowering innovative new collaborations across and beyond the sector. We note that the Scottish Government intended to introduce a similar fund in FY 2023/24, but the £20m initially announced was withdrawn in-year.

Our asks are further summarised in the table below[5]:

	2025/26 budget	**Budget sought in 2026/27**	**Uplift**
SFC Higher Education Resource	£773.5 million	£825.6 million	£52.1 million
SFC Higher Education Capital	£368.2 million	£385.5 million	£17.3 million
Discretionary and Childcare Funding	£12 million	£12.2 million	£0.2 million*
University Effectiveness and Transformation Fund	-	£20m	£20 million*

*NB – these funds would represent a partial or full restoration of monies provided to (or initially intended for) the sector in 2023/24, and therefore are not new asks per se.

Stability

[5] Calculated using https://spice-spotlight.scot/real-terms-calculator/

It is an unavoidable reality that public investment in universities has been falling in real terms for more than a decade. Neither teaching, nor research, is fully funded. Public investment per student is down over £3000 - or 39% in real terms - compared to 2014, and public sector research grants account on average for only 69.3% of associated costs.[6] As ministers are aware, the only means of sustaining the sector in such circumstances has been cross subsidy, primarily from fees paid by international students.

That model has become profoundly unstable in recent years due to geopolitical events, seismic currency fluctuations in key markets, and the UK's changing immigration regime. New visa restrictions precipitated a 20% fall in international students coming to Scotland in 2023/24, with some individual institutions experiencing an even sharper contraction in numbers. The latest UKVI data shows a further 7% year on year decline in student visas across the 2024/25 academic year. The sector is also bracing for further volatility as a consequence of the UK Government's Immigration White Paper, which signals a curtailing of the Graduate Route Visa for post-study work and increased controls on student visa compliance metrics.

The extent to which universities have been forced to rely on international income as a means of cross subsidising core teaching and research activity means the consequences of falling international student numbers have been immediate. The sector's collective operating surplus fell by 92% in 2023/24, and 53% of Scottish universities recorded a deficit. Stubbornly high inflation and utilities bills, amongst other unavoidable outgoings, are applying relentless upward pressure on operating costs. Increasing employer National Insurance contributions alone are estimated to have cost the sector £45m. Perhaps unsurprisingly, a recent UK-wide survey found that almost half of institutions had closed courses, and nearly a fifth had reduced investment in research.[7]

The greater the gap between funding and the costs of provision, the greater the likelihood that universities will be forced to keep reducing their costs in ways that are detrimental to their competitiveness, and even their stability. Neither the Scottish Government, nor the university sector – nor indeed Scottish society at large – wants to see another institution reach crisis point. Measured, targeted, and stabilising investment is far preferable – and significantly more cost effective – than reactive measures necessitated by events.

A stabilising budget settlement can help diverse universities respond to acute financial challenges in a managed and manageable way, in turn ensuring that students continue to receive the high quality education they expect and helping reduce the sector's relative reliance on volatile and unpredictable international funding streams.

Effectiveness

As noted above, we recognise the fiscal pressures facing the Scottish Government and the difficult choices ministers face. It is incumbent on every sector in receipt of public monies - including universities - to drive maximum returns from that investment.

[6] Based on UK-wide average costs. Source: Table 5, https://www.officeforstudents.org.uk/media/lqjivwol/annual-trac-2022-23-update-july-2024.pdf
[7] https://www.universitiesuk.ac.uk/what-we-do/creating-voice-our-members/media-releases/universities-grip-financial-crisis-what

Universities have a track record of leading large-scale efficiency drives and sharing services. Collaboration through agreements led or facilitated via specialist organisation APUC[8] saved institutions over £37 million in the last academic year, and use of shared procurement frameworks is more than twice as high as in the English sector.[9] Additional savings and access to super-high bandwidth, as well as a globally-leading internet service, is provided via the sector-owned JISC[10] shared service.

Universities are committed to scrutinising the full breadth of their operations, working innovatively and where appropriate with other sectors to maximise our efficiency and effectiveness. We are proud of our track record and want to go further, working with our partners in a planned, strategic way that protects the quality of teaching and research but drives out costs where it is efficient and sustainable to do so. However, it is paradoxically the case that identifying, developing, trialling, and rolling out cross-organisational efficiencies – particularly in such a diverse and geographically dispersed sector – requires upfront investment. Relatively modest spend can unlock significant savings, but that is currently beyond many institutions facing huge challenges in simply maintaining their core services and offer.

We look to the Scottish Government to help empower a renewed, collaborative drive to maximise efficiency and effectiveness by reinstating the strategic investment withdrawn in 2023/24. Whilst the level of funding sought is not at a scale that would support a fundamental review of university operations it would help unlock savings across the sector, enabling institutions to drive down costs in ways that could deliver return on investment relatively quickly.

Investments could include preparatory work for new shared services, and/or demonstrator projects that can ultimately be rolled out across the university sector and beyond. We ask that government enables and catalyses that work by investing in it directly, alongside an appropriate funding package for core teaching and research activity. The latter is a foundational step that will help universities protect their core activities, and create space for action on shared efficiencies that is planned and purposeful, as well as being in the sector's long term interests. Without it, there is a serious risk that universities are forced into short term decision making driven by financial necessity, and that the opportunity is lost to drive down cost in ways that add value across the whole sector and beyond.

Competitiveness

Ministers are rightly proud of our sector's international reputation for quality and excellence, across both teaching and research. More than two thirds of our universities are ranked in the top 5% of institutions globally; an incredible concentration, particularly given Scotland's relatively small size.[11] Scottish universities continue to attract highly talented students and staff from across the world, and are all conducting research that is judged to be world leading.[12] We also continue working hard to maintain the quality of our offer to all students, including our support for wellbeing and welfare, with the latest National Student Satisfaction

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[8] APUC is the procurement centre of expertise for Scotland's universities and colleges. https://www.ukupc.ac.uk/about.html

[9] https://www.universitiesuk.ac.uk/sites/default/files/field/downloads/2025-07/UUK-Transformation-and-Efficiency-Towards-a-new-era-of-collaboration-2025_1.pdf

[10] https://www.jisc.ac.uk/

[11] https://www.timeshighereducation.com/world-university-rankings

[12] As determined by the last Research Excellence Framework exercise, REF 2021.

Survey finding overall student satisfaction exceeds 80%.[13] Our quality assurance and enhancement model meets international expectations on quality,[14] and pioneered an enhancement-led approach in partnership with students. This has in turn generated significant interest from other countries in our quality system.

However, success is never guaranteed in a truly globalised sector, and there are worrying signs that structural underfunding risks undermining our competitive advantage. Scotland's share of competitively won UKRI research and innovation funding fell from 15.98% in 2013/14 to 13.59% in 2023/24,[15] equating to a potential loss of more than £450 million. If we were able to recover our competitive position, it could deliver an additional economic impact of at least £800 million each year.[16]

Financial challenges also place unrelenting pressure on our core offer to students, who themselves face significant cost of living difficulties. We are rightly proud of our internationally recognised approach to quality assurance and enhancement, but the more funding is squeezed the harder that becomes to effectively sustain. In addition, a recent report found that institutions across the UK are seeing significantly increased demand for student support,[17] which is becoming more and more challenging to meet.

Discretionary and childcare funding makes a vital contribution to ensuring students are not prevented from accessing a potentially life-changing university experience because of their personal circumstances. Demand has increased, but funding has fallen by 30% in real terms between 2023/24 and 2025/26. We ask that the Scottish Government takes action to stop the further erosion of this funding by at least keeping pace with inflation – noting the impact relatively modest awards can have on the decision-making of prospective students with caring and other additional personal responsibilities.

A budget settlement that helps maintain the competitiveness and equity of our offer to students will help ensure they continue to benefit from a world class educational experience, with all the associated benefits that brings to Scottish society and our economy in the longer-term.

Our offer

Universities are uniquely well placed to help deliver progress across the Scottish Government's four strategic priorities. We summarise below the contribution universities are already making to eradicating child poverty, growing the economy, tackling the climate emergency, and delivering high quality and sustainable public services, and identify some of the associated issues we want to work on with government and others over the coming year and beyond.

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[13] https://www.sfc.ac.uk/?news=student-satisfaction-rising-following-pandemic-dip

[14] European Standards and Guidelines on quality, which are used beyond the borders of Europe and form the basis of EQAR's assessment.

[15] https://www.hesa.ac.uk/data-and-analysis/finances/table-5

[16] Figure based on London Economics' estimation that every £1 spent on research through research councils generates an economic impact of £12.7. London Economics, 2022, *The Economic Impact of Scotland's University Research*, https://www.universities-scotland.ac.uk/wp-content/uploads/2022/12/LE-Economic-impact-of-HEI-Research-activity-Universities-Scotland-05-12-2022-CLEAN-STC.pdf

[17] https://www.qaa.ac.uk/scotland/news-events/news/qaa-publishes-tqer-report-for-the-university-of-st-andrews

Eradicating child poverty

The link between educational attainment and poverty is well established. Universities have a central role to play - alongside Scotland's colleges, schools, and other stakeholders - in lifting aspirations, improving life chances, and breaking intergenerational disadvantage.

Recognising that students who meet widening access criteria are often far less likely than their peers to have linear pathways to entry, universities support learners of all ages to access education and realise their potential. Our sector has the most developed progressive admissions systems in the UK – including contextualised admissions, minimum entry requirements, and the care experience guarantee - with the aim of doing as much as possible to level the playing field for applicants.

Additional support for students with experience of care has been a core part of universities' collaborative access agenda for many years. 1.9% of Scottish-domiciled full-time first degree entrants in 2023/24 were care experienced, at 620 entrants. This figure has increased every year since 2016/17.[18] Universities also work in partnership with colleges across Scotland to support articulation pathways into higher education, without any repetition of study. In 2022/23, 8,790 students enrolled on a first university degree course in Scotland having previously achieved an HNC or HND qualification at college, accounting for 22.4% of all Scottish domiciled first degree entrants.[19]

Working with adult learners and returners to education is a vital part of widening access work. Universities provide tailored pathways and flexible learning options, often working in partnership with colleges to offer a variety of progression routes. The sector works hard to provide a range of tailored academic, financial and wellbeing support to help students succeed throughout their studies. This can include ongoing mentoring, study skills workshops, careers advice, and enabling inclusive learning environments to help develop belonging and community. However, these services are often provided at an additional cost to universities, and are therefore under significant pressure.

The independent Commission on Widening Access has challenged universities to ensure that, by 2030, 20% of entrants are drawn from our 20% most deprived communities. The sector is proud to have hit the interim 16% milestone in 2021.

However, we recognise that progress towards the 2030 target has slowed in recent years, despite our best efforts. Effective targeting is key, but we are hampered by problems with the data currently used to determine disadvantage. We urge the Scottish Government to recommit to addressing those shortcomings, for both full time and part time students, be they young or mature. That could in turn reinvigorate the sector's progress towards realising the 2030 target, and the associated longer term impact on poverty rates.

Growing the economy

A recent study found the collective economic impact of Scotland's universities exceeded £17 billion in 2021/22 alone.[20] Return on investment is particularly high for university research and innovation, which generates almost £11 from every £1 of public money spent.

[18] https://www.sfc.ac.uk/publications/report-on-widening-access-2023-24/
[19] https://www.sfc.ac.uk/publications/report-on-widening-access-2022-23/
[20] https://www.universities-scotland.ac.uk/lescotland/

The sector's contribution is multifaceted, but it is also rooted in place. Universities play a critical economic, social, and civic role across Scotland – both within their own regions, and further afield. That includes:

- Acting as anchor institutions, and economic actors of place in their own right. Universities collectively employ more than 55,000 staff, making a multimillion-pound contribution to regional economies through their supply chains and staff and student spend on local services, as well as directly supporting community development through their civic and philanthropic activities.
- Instigating and enabling innovation and knowledge exchange, for example through research commercialisation, collaborations with industry, student and staff entrepreneurialism (start-ups/spin outs), attracting foreign direct investment, and hosting an extensive array of research and innovation infrastructure, including incubators and tech scalers.
- Acting as key participants in, and shapers of, the skills pipeline. Universities make the single biggest contribution to meeting Scotland's high skills needs, with an education and training offer that ranges from undergraduate degrees to academic doctorates, upskilling and reskilling opportunities, and continuous professional development.

Universities welcomed the 2025 Programme for Government commitment to work with regional and local partners to identify how best to formally devolve further elements of decision-making and delivery to Regional Economic Partnerships (REP). The sector has a critical role to play, working with partners across the public and private sectors, in identifying and capitalising on regional strengths and opportunities. We look forward to working with the Scottish Government to ensure universities are at the heart of REP decision-making and delivery, across the whole country, going forward.

The sector should also play an important role in the Scottish Government's evolving approach to regional and national skills planning. 86% of new jobs in Scotland are expected to be at graduate level by 2035, and more than 899,000 graduates will be needed to fill them.[21] Universities are also a natural partner in providing lifelong learning opportunities to industry, but our efforts to widen and deepen our offer are hampered by inadequate funding and structural constraints. For example, SFC's Upskilling Fund, previously valued at £7 million per year, was discontinued in 2024/25. Graduate apprenticeships – which have huge potential as a hybrid model of academic learning and work based training – are constrained by a frameworks model that prevents universities from responding to new and emerging industry needs.

We urge the Scottish Government to ensure universities are a central partner in skills planning and development activity, enabling the sector to explore new and innovative ways of responding to Scotland's evolving needs and opportunities for high level skills development.

Tackling the climate emergency

The research and innovation undertaken by Scotland's universities is already making a direct contribution to tackling the climate emergency, both at home and overseas. Our work

[21] https://www.universitiesuk.ac.uk/what-we-do/policy-and-research/publications/jobs-future)

is multifaceted, from developing new technologies to increasing understanding of the drivers of climate change, and the associated policy implications. Scottish Government funding – particularly via SFC's Research Excellence Grant (REG) – is a crucial enabler of that work.

Collaboration is a defining feature of the Scottish approach to research and innovation – across disciplines, between institutions, and with partners in industry – and is particularly important when addressing complex challenges such as climate change. For example:

- Scotland Beyond Net Zero is a collaboration of universities, local partners, and the Scottish Government that aims to address key challenges associated with the climate emergency, including clean energy, storage, decarbonisation, green transport, community empowerment, and climate justice.
- The University of Edinburgh and University of Strathclyde are partners in the IDCORE industry-based Doctoral Training Centre, which is training Engineering Doctorate students in Offshore Renewable Energy to ensure the critical offshore energy industry has access to the highly-skilled graduates it needs.
- FloWave, funded from a mix of public (UK and Scotland) and private sources, and hosted by the University of Edinburgh, is the world's first circular combined wave and current facility. It is designed to support research and development that aims to unlock the full potential of marine energy, including wave, tidal, and offshore wind energy technologies.
- The Scottish Partnership in Energy and Engineering Research (formerly Energy Technology Partnership) is a collaboration of 14 institutions, and the largest academic energy research partnership in Europe. SPEER aims to accelerate the development and deployment of innovative energy technologies with a focus on renewable energy, energy storage, and smart grid technologies.

University research on climate issues has international significance, but there is a further contribution the sector can make in responding to the climate emergency's implications for Scotland. The sector is custodian of a significant estate, with a physical presence in both urban and more rural communities. Our facilities are a central element of our students' educational and social experience, and the day to day working environment for our staff, but in many cases they are also open to the wider public.

Universities are determined to drive down the environmental impact of their built estate, but the scale of the challenge is significant. For example, current data shows that 17 of Scotland's universities collectively need over £850m just to upgrade buildings to 'satisfactory' condition.[22] This excludes capital costs for any new projects that might be needed to keep pace with evolving student expectations, and to maintain attractiveness in a highly competitive international recruitment market.

That said, the level of investment needed also creates a huge opportunity to radically rethink the way university estates are being used, and will be used in the future. The breadth and diversity of the sector's footprint – from listed historical buildings to 1960s office blocks, as well as more modern spaces – creates the ideal environment to test new

[22] Extracted from the Universities Estates Management Report of data from 2022/23.

ideas. Universities are also rooted in place and committed to working with other partners, such as local authorities and colleges, on cross-sector opportunities like large scale district heating networks.

However, that potential is being constrained because of a lack of affordable finance. Universities previously had access to financial transactions lending at very low interest rates through SFC, but that facility was withdrawn in 2024/25 when the funding moved to the Scottish National Investment Bank (SNIB). SNIB is mandated to lend at commercial rates, which are unaffordable for many institutions in the current financial environment.

We would welcome the opportunity to explore with SG, SFC and other relevant stakeholders new ways in which universities might be enabled to invest in their estates over the longer term, simultaneously safeguarding the quality of our offer to our students, staff and wider communities, and empowering our direct contribution to tackling the climate emergency.

Delivering high quality and sustainable public services

Graduates are an essential part of Scotland's public sector workforce – from teachers and planners to doctors, nurses, and allied health professionals. The Scottish Government's ambitious agenda for public sector reform includes a commitment to ensuring services are efficient and financially sustainable, which in turn depends upon a sustainable future for our universities.

The sector's contribution to the NHS is particularly significant. More than 12,000 doctors, dentists, nurses, midwives and other clinical staff graduate from Scottish universities each year,[23] going on to fill vacancies across our urban and rural communities. 7 Scottish universities are ranked in the UK's top 10 for research excellence in health and life sciences specialisms,[24] and many have long worked in close partnership with their local NHS boards.

However, there are concerning trends across the sector that, if not addressed, risk undermining the Scottish Government's ambitious plans for the future NHS. Applications from prospective Scottish students are falling across the healthcare professions, including medicine, with the problem particularly acute in nursing. Acceptances onto nursing courses were 6% down in 2024 on pre-Covid levels and, over the last 3 years, over 2400 fewer nursing students have started at university than originally planned.[25] Despite extensive outreach programmes, there is widespread agreement within the university sector that traditional routes into healthcare education – i.e. full time undergraduate courses, taught primarily to school leavers – are insufficient to meet future NHS requirements.

Universities want to work with the Scottish Government, SFC and other relevant stakeholders to develop innovative new pathways into healthcare that can help widen the pool of potential applicants and ultimately ensure the NHS has the doctors, nurses and allied health professionals it needs for a sustainable future. A recent conference on innovative provision, co-hosted by the Scottish Government and Universities Scotland, attracted significant interest from across the sector, both in Scotland and further afield. A

[23] HESA HEBCI data.
[24] Ranking relates to five Units of Assessment in REF2021.
[25] https://www.rcn.org.uk/news-and-events/news/ucas-figures-121224

wide range of approaches was discussed – demonstrating the sector's ability to respond to recruitment challenges, when it is enabled and empowered to do so. For example:

- HCP-Med for Healthcare Professionals – an innovative five-year medical degree specifically designed for existing healthcare professionals, clinical scientists and veterinary surgeons living and working in Scotland who want to pursue a career in medicine.
- Scottish Graduate Entry Medicine (ScotGEM) - a four-year graduate entry medical programme, tailored to meet the current and future needs of the NHS in Scotland, with a particular focus on rural medicine and healthcare improvement.
- PREPARE Podiatry – developed in partnership with NHS Greater Glasgow and Clyde, an innovative programme that enables existing heath board staff to undertake an undergraduate degree in podiatry alongside their professional duties.

Universities recognise the financial constraints facing the Scottish Government in the short to medium term. However, we are also conscious that ministers continue to make considerable investments in the NHS, which could support innovative and agile new funding mechanisms that help meet recognised workforce challenges. The sector stands ready to build on the momentum generated by the innovative pathways conference, in order to drive forward the necessary reforms.

Partnership working also underpins the sector's approach to clinically-driven medical research. Scotland's single national health service, and relatively small number of health boards, creates a powerful opportunity to respond to new and emerging treatment challenges in ways that could benefit generations of Scots to come.

However, Scotland's clinical academic workforce has been significantly eroded in recent years. FTE readers and senior lecturers fell by 30% between 2004 and 2021. Underrepresentation of women is a particularly acute problem, with women making up less than half the total professorial academic staff.

Clinical academics act as a unique interface between patient-facing care and research – treating patients, whilst also designing clinical trials and testing new therapies. We urge the Scottish Government to work with universities and health boards to reverse the fall in the clinical academic workforce, to the benefit of patients now and in the future.

We see huge opportunity for the future of clinical research in Scotland. Stemming the decline in the workforce is an important first step, but recent experience elsewhere in the UK suggests collaborative infrastructure also has a role to play in speeding up the translation of research into new treatments. Biomedical Research Centres (BRCs) bring together academics and clinicians to translate early scientific breakthroughs into potential new treatments, diagnostics and health technologies. There are currently 20 BRCs in England, funded by the National Institute of Health Research, delivering real impact for patients. Recent breakthroughs include lifesaving treatments for cancer, enabled by novel drug research supported by a BRC.[26]

[26] https://www.nihr.ac.uk/story/transforming-breakthrough-drugs-life-saving-cancer-treatments

There is no equivalent infrastructure in Scotland at present. Universities are keen to work with the Scottish Government and the NHS to develop a business case for establishing BRCs in future years – an approach that would help ensure Scots can benefit from the success of the model to date, whilst adapting it where required to meet Scotland's particular needs and opportunities.

Conclusion

Scotland's university sector is a national and international asset to be proud of, but years of falling public funding have had a fundamentally destabilising effect on its financial health. The warnings in this paper are stark; the 2026/27 budget presents an opportunity to act on them in ways that demonstrate the Scottish Government's commitment to the sector and recognition of the central role it can play in delivering real progress across the full breath of ministerial priorities. Our proposals are concrete, realistic, and measured. They are also built on a fundamental premise – that the success of an effective and competitive university sector, making a powerful contribution to Scotland's economy and wider society, is dependent upon a stabilising budget settlement in 2026/27.