

Finance and Public Administration Committee
8th Meeting 2026 (Session 6)
Tuesday 24 February 2026

Scottish Spending Review

Purpose

1. The Committee is invited to take evidence from the following witnesses in relation to the Scottish Government's Scottish Spending Review 2026 (SSR)—
 - Mirren Kelly, Chief Officer - Local Government Finance, COSLA
 - Jack Gillespie, Interim Deputy Director of Finance, NHS Scotland
 - Sarah Roughead, Chief Financial Officer, Police Scotland
 - Tiffany Ritchie, Acting Director of Finance, Scottish Funding Council
2. This standalone evidence session on the SSR builds on the Committee's recommendations in its [Report on the Scottish Budget 2026-27](#)¹ and is intended to provide a snapshot of how the SSR has been received amongst key sectors. Possible areas of interest might include the extent to which—
 - the SSR follows international best practice², including in relation to the approach taken by the Scottish Government, the level of detail provided, and the presentation of figures
 - the figures provided in the SSR are credible and achievable
 - the SSR provides the certainty needed for bodies to be able to plan ahead
 - the efficiency and reform plans for individual portfolios and public bodies contained within the SSR, including on workforce numbers, are achievable and within the timescales provided
 - the SSR and efficiency and reform plans impact on service delivery and operational effectiveness
 - discussions on public sector pay align with the Scottish Government's policy in this area
 - progress is being made in relation to public service reform, including innovations, preventative measures and digitalisation.
3. The health, local government and justice sectors have been invited as they all appear to be facing particularly difficult funding settlements and expectations around efficiencies and reform plans, while the higher and further education sectors are also facing significant longstanding financial challenges and planned reforms.

¹ Published on 5 February 2026.

² The Committee had intended to hold an additional panel to explore best practice in methodology and approach to spending reviews, but witnesses invited were unavailable.

4. A written submission³ has been received from the Scottish Funding Council which is attached at Annex A of this paper.
5. SPICe has produced a separate briefing on the SSR to support this evidence session (paper 5). The briefing also includes information on the Infrastructure Delivery Pipeline (IDP) for context and to support the 3 March evidence session specifically on the IDP.

SSR

The Scottish Government's approach to the SSR

6. Following its visit to Estonia in September 2024, [the Committee recommended in its pre-budget 2025-26 report](#) that the Scottish Government considers adopting a zero-based budgeting approach for the next SSR. The Scottish Government, [in its response of 4 December 2024](#), said it was considering its options for the SSR. The [Cabinet Secretary later confirmed](#) (on 13 February 2025) that “as part of the planning process [... for the SSR], my officials will consider the potential to pilot a ‘zero-based budgeting approach’ and how it might be used in a Scottish Government context”.
7. Some months later, in [its pre-budget 2026-27 report](#) (published on 29 January 2025), the Committee repeated its request that the Scottish Government “considers taking a ‘zero-based budgeting approach’, learning lessons from Estonia”. It also requested in-depth information on the process for preparing, scrutinising and delivering the SSR. However, the Scottish Government provided limited details in its [response](#) of 13 January 2026.
8. In its [report on the Scottish Budget 2026-27](#) on 5 February 2026, the Committee expressed disappointment that despite its recommendations, “the Scottish Government does not appear to have taken a zero-based budgeting approach to the SSR”. It goes on to say that “furthermore, there is very little detail in the document about the exact approach the Scottish Government did take. It is therefore not possible for the Committee to have any certainty that the Government took a comprehensive and credible approach”. In its [response of 16 February 2026](#), the Scottish Government said that the SSR was developed through a detailed process including “elements of a zero-based budgeting approach” and that the Cabinet Secretary held “deep dive sessions with all Cabinet colleagues [...] with portfolio spending reviewed in detail”.
9. The SPICe briefing at paper 5 provides further information on international best practice and principles for how spending reviews should be undertaken.

³ Provision of written submissions was an option rather than being formally requested due to the short notice for witnesses with invites for the session.

Scottish spending plans and efficiency and reform plans

Overview

10. The [SSR](#) published alongside the Scottish Budget 2026-27 on 13 January 2026 sets out the Scottish Government's indicative spending plans up to 2028-29 for resource, and up to 2029-30 for capital. In her foreword to the SSR, the Cabinet Secretary states that—

"With continued focus on our key priorities and the commitments set out in the Programme for Government, the SSR delivers cumulative real terms resource spending growth of 2.8% up to 2028-29. While Scotland's capital funding will reduce in real terms by 0.3% by 2029-30, as a result of UK Government decisions, we are nevertheless using all funding levers at our disposal to sustain an impactful capital programme."

11. The SSR further states that while the review is based on robust funding assumptions, "plans should be viewed as indicative and subject to substantial change", given the wider risks and uncertainties set out in the MTFS. The Scottish Government intends to take forward monitoring and reporting through established governance structures, supplemented through focused reviews of areas of significant spend over the course of the SSR. Progress towards delivery of the targets and measures "will be regularly monitored and updates on progress of the FSDP will be provided publicly as part of the update of the MTFS".

12. In its Scottish Budget 2026-27 report, the Committee welcomed publication of the SSR "which should provide on the trajectory of spending portfolios, public bodies and local government can expect over the next three years". However, the Committee agreed with witnesses that "more detail could have been included, such as level 3 figures split by capital and resource funding throughout" and therefore recommended that "the incoming Scottish Government after the election prioritises updating the SSR as early as possible into the new parliamentary session".⁴

13. Annex A of the SSR includes a summary of portfolio spending plans. The document notes that these plans "are focused on delivering our priority outcomes for the people of Scotland [... and] it represents an important step forward in progressing our work on fiscal sustainability and providing a funding framework for our partner organisations to plan effectively and strategically".

14. Annex B of the SSR sets out portfolio efficiency and reform plans for portfolios and public bodies. This is part of the Scottish Government's [Public Service Reform Strategy: Delivering for Scotland](#) (published in June 2025) which sets out "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 [... and] how we will tackle systemic barriers to change". The Strategy includes 18 workstreams including on Shared

⁴ [Report on the Scottish Budget 2026-27](#)

Services, Workforce, Data Collection, and Scaling Intelligent Automation. The Minister for Public Finance's [latest update on progress with the public service reform programme](#) was provided on 27 January 2026.

15. The Scottish Government intends to make £1.5 billion of cumulative efficiencies across the Spending Review period. The majority of the savings set out in the plans (£384m in 2026-27, £374m in 2027-28, and £303m in 2028-2029) are to be achieved in the health and social care portfolio, mainly through the existing target of 3% recurring savings across core funding for NHS Boards.
16. In its Scottish Budget 2026-27 Report, the Committee said it shares the view of witnesses who expressed concerns regarding the extent to which the targets set out in the Scottish Government's portfolio efficiency and reform plans, including for local government and the justice portfolio, are achievable within the timescales proposed. It welcomed the incentive provided to organisations to carry out reforms in the knowledge they will be able to retain their savings. However, it went on to urge the Scottish Government to ensure that all savings made are reported regularly to allow scrutiny of progress towards its overall targets, and that these reports include details of any impact on public service delivery.⁵
17. The Fraser of Allander Institute (FAI) stated that the "extent to which these cuts in spending are achievable is difficult to assess, given the detail of some of these efficiency measures that we have"⁶. The Institute for Fiscal Studies (IFS) highlighted particular challenges for the health and social care sector⁷, which is discussed in more detail below.

Health and social care

18. The SSR sets out Level 2 health and social care portfolio spending plans as follows—

Level 2 health and social care portfolio spending plans

Level 2 spending line	2026-27 Budget £m	2027-28 £m	2029-30 £m	2029-30 Capital & FTs only £m
Health and Social Care	21,952	22,786	23,896	1,032

19. Page 15 of the SSR also sets out the spending outlook for individual NHS Boards and national organisations such as NHS24 and Public Health Scotland.
20. The efficiency and reform plans for the health and social care portfolio included in the SSR is set out in the following table—

⁵ [Report on the Scottish Budget 2026-27](#)

⁶ [Budget – day 3 reaction – Council tax & the Spending Review | FAI](#)

⁷ [IFS blog on the Scottish Budget 2026-27 and the SSR](#)

Efficiency and reform plans: health and social care portfolio

£ million	2026-27	2027-28	2028-29
Efficiencies and Productivity, of which	384	374	303
3% NHS Board Recurring Savings	247	290	220
Other operational efficiency and productivity savings	137	84	83

Note: All savings figures are recurring, however on an annual basis some of these may be delivered through a mix of recurring and non-recurring measures initially as we reform over the medium term.

21. The Scottish Government states that it “recognises the need for reform and renewal across health and social care to tackle the challenges we face now and in the future”, highlighting the Health and Social Care Service Renewal Framework and the Population Health Framework which “provide a high-level blueprint for change, to ensure the sustainability, efficiency, quality, and accessibility of health and social care services in Scotland”.
22. The plans go on to say that “all NHS Boards must deliver at least 3% recurring savings against baseline funding each year to support long-term fiscal sustainability”. In addition, health and social care “will contribute to the targeted reduction in public service workforce including consideration of opportunities for the consolidation of functions and closer collaboration across all NHS Boards and Health and Social Care Partnerships as part of the business systems programme”.
23. The Scottish Fiscal Commission (SFC) told the Committee on 20 January 2026 that “progress towards achieving these targets for recurring savings to date, and the number of health boards not breaking even, suggest that it could be challenging for the Scottish Government to deliver the efficiency savings it has incorporated into the health and social care portfolio plans”.⁸
24. The Committee’s Scottish Budget 2026-27 Report also highlights comments made by the IFS that the 0.7% increase in health and social care spending in 2026-27 “allows [... the Scottish Government] to avoid cuts to other services, but without heroic improvements in productivity will almost certainly not be enough to maintain let alone improve services”.⁹
25. The IFS later stated (on 6 February 2026) that “plans imply a substantial reduction in the share of funding going towards hospitals and the ambulance service, and a big increase in the share going to other services, such as primary care and social care”. It went on to say that—

“To enable this without adverse effects on hospital performance, the Scottish Government is banking on Scotland’s territorial and national health boards delivering 3% efficiency savings per year – far in excess of historical trends. Without big improvements in efficiency, hospital and

⁸ Official Report, 20 January 2026

⁹ [Report on the Scottish Budget 2026-27](#)

ambulance performance would start deteriorating again unless other budgets were cut back to bolster core NHS funding".¹⁰

26. Concerns were also expressed during evidence to the Committee regarding efficiencies expected of local government and the justice sector.

Local government

27. The SSR sets out Level 2 finance and local government spending plans to 2029-30 as follows—

Level 2 finance and local government portfolio spending plans

Level 2 spending line	2026-27 Budget £m	2027-28 £m	2029-30 £m	2029-30 Capital & FT £m
Local Government	14,782	14,771.8	14,773.3	-

28. Provisional Level 3 spending lines are also provided in the SSR as follows:

Provisional Level 3 spending lines: local government

Level 3	2026-27 Budget £m	2027-28 Provisional Budget £m	2028-29 Provisional Budget £m	2029-30 Provisional Capital Budget £m
General Revenue Grant	10,440.7	10,643.8	10,476.0	-
Non-Domestic Rates	3,474.0	3,266.0	3,434.0	-
General Capital Grant	493.7	504.1	512.8	524.7
Specific Resource Grants	222.4	222.4	222.4	-
Specific Capital Grants	147.7	131.5	124.2	124.2
Local Government Advice and Policy	4.2	4.0	3.9	-
Total Local Government	14,782.6	14,771.8	14,773.3	648.9
<i>of which</i>				
Fiscal Resource	10,667.2	10,870.2	10,702.2	n/a
Capital	641.4	635.6	637.1	648.9
UK Funded AME (Non-Domestic Rates)	3,474.0	3,266.0	3,434.0	n/a

29. In its Scottish Budget 2026-27 Report, the Committee said it has "significant concerns that the pressures on local government finance may lead to large council tax rises and some local authorities struggling to meet their statutory obligations". It therefore asked the Scottish Government to discuss with local government how and where further support might be provided to ease such pressures, including if additional funds become available through revenues or the

¹⁰ [IFS blog on the Scottish Budget 2026-27 and the SSR](#)

block grant.¹¹ The Scottish Government brought forward an amendment at Stage 2 providing £20 million of additional funds to local government for social care, which the Committee agreed to at its meeting on 17 February 2026.¹²

30. The FAI has warned that “the local government settlement looks very difficult over the 3-year period, particularly as this includes social care where the Scottish Government have assumed, again, that there will be growing demands”.¹³ This view was echoed by a number of witnesses.

31. The efficiency and reform plan for the finance and local government portfolio included in the SSR is set out in the following table—

Efficiency and reform plan: finance and local government portfolio

£ million	2026-27	2027-28	2028-29
Efficiencies and Productivity, of which	13.5	8.5	8.2
Programme Efficiencies	3.0	1.5	1.5
Operational Efficiencies	0.2	0.2	-
Workforce Savings	10.3	6.8	6.5
Service Reform, of which	0.5	1.6	2.0
Portfolio Reform Plans	0.5	1.6	2.0
Other Efficiencies and Reform	53.0	37.0	38.0

Note: All savings reported are new recurring ongoing savings.

32. In respect of local government, the Scottish Government states that it will “support local government’s leadership and ambition to deliver transformation to ensure sustainability of services delivered at a local level, both within and between councils”. It further highlights that, in the year to June 2025, the workforce in local government fell by 0.7%, equivalent to around 1,500 FTE, adding—

“The future fiscal outlook for Local Government will bring challenges that will require it to participate in further efficiencies, and undertake transformation of services, in line with our strategic ambitions. However, Local Government will have the flexibility in how they find the savings that are equivalent to the quantum necessary and fit their local circumstances.”

33. The FAI highlight “a sizeable line for Local Government – “Other Efficiencies and Reform” for which there are no details”.¹⁴

¹¹ [Report on the Scottish Budget 2026-27](#)

¹² [Minutes for Finance and Public Administration Committee 7th Meeting, 2026 Tuesday, February 17, 2026 | Scottish Parliament Website](#)

¹³ [Budget – day 3 reaction – Council tax & the Spending Review | FAI](#)

¹⁴ [Budget – day 3 reaction – Council tax & the Spending Review | FAI](#)

Police Scotland

34. The SSR sets out justice and home affairs spending plans at Level 2, with Police Scotland related spending as follows—

Level 2 justice and home affairs portfolio spending plans relating specifically to Police Scotland

Level 2 spending line	2026-27 Budget £m	2027-28 £m	2029-30 £m	2029-30 Capital & FTs only £m
Police Central Government	85.7	95.1	98.5	-
Scottish Police Authority	1,652.4	1,651.1	1,644.1	-

Other funding streams contained in the SSR are likely to impact on Police Scotland in some way.

35. The efficiency and reform plan for the justice and home affairs portfolio included in the SSR is set out in the following table—

Efficiency and reform plan: justice and home affairs portfolio

£ million	2026-27	2027-28	2028-29
Efficiencies and Productivity, of which	29.0	42.0	55.0
Contract savings	5.0	5.0	5.0
Digital Improvements	5.0	5.0	5.0
Workforce Savings	19.0	32.0	45.0
Service Reform, of which	5.0	12.0	20.0
Portfolio Reform Plans	5.0	12.0	20.0

Note: All savings reported are new recurring savings.

36. This table does not refer to the specific efficiencies expected of Police Scotland, which was subject to a significant reform programme, including cost savings, from 2012. According to the SSR, this reform programme has reduced the annual cost of policing by around £300 million compared with legacy services.

37. The SSR further states that Police Scotland and the Scottish Fire and Rescue Service have reduced their workforces by around 4% “in response to their budget allocations and continue to budget and operate within high vacancy factors”. It goes on to say that justice organisations are working towards an average 0.5% reduction per annum over five years “whilst protecting frontline service delivery”.

38. It is estimated that delivery of Police Scotland’s Estate Masterplan will release around £50 million to £80 million of capital receipts over the next five to ten years. On digital reform, “significant developments are already underway including

Police Scotland's delivery of Body Worn Video to frontline police officers and staff, and the roll out of the Digital Evidence Sharing Capability (DESC)"¹⁵.

39. The FAI has commented that "the area that looks like it has taken the biggest clobbering though is the justice system", adding "it does not seem credible that such large cuts can be made to this area without impacts on services".¹⁶

Scottish Funding Council

40. The SSR sets out education and skills spending plans at Level 2, with Scottish Funding Council (SFC) spending as follows—

Level 2 education and skills portfolio spending plans relating specifically to the Scottish Funding Council

Level 2 spending line	2026-27 Budget £m	2027-28 £m	2029-30 £m	2029-30 Capital & FTs only £m
Scottish Funding Council	2,010.6	2,004.7	2,000.6	-

Figures for the L2 SFC include areas of timebound funding, such as funds to support the University of Dundee and strategic infrastructure investments

41. The Committee has heard evidence in recent years regarding the financial pressures on both the higher and further education sectors. In its Scottish Budget 2026-27 report, the Committee stated, "given our ongoing concerns regarding the significant financial pressures on Scotland's colleges and the vital role they play in driving economic growth, we welcome the increased funding for this sector".

42. The efficiency and reform plan for the education and skills portfolio included in the SSR is set out in the following table—

Efficiency and reform plan: education and skills portfolio

£ million	2026-27	2027-28	2028-29
Efficiencies and Productivity, of which	19.7	10.6	12.8
Workforce Savings	18.4	7.4	9.5
Shared Services and Digital Improvements	1.3	3.2	3.3

Note: All savings reported are new recurring savings.

43. The narrative that sits alongside this table highlights that the Tertiary Education and Training (Funding and Governance) Bill will transfer responsibility for national

¹⁵ DESC "is a collaborative programme between Scottish Government, COPFS, Police Scotland and SCTS, in consultation with the defence community and judiciary to deliver DESC across the criminal justice sector in Scotland. It manages the digital collection and storage of evidence throughout the lifetime of a criminal investigation and prosecution".

¹⁶ [Budget – day 3 reaction – Council tax & the Spending Review | FAI](#)

training programmes, apprenticeships and work-based learning to the SFC. The SFC is also “reassessing its capacity and governance to meet expanded responsibilities and support the sustainability of colleges and universities”. While implementation of the Bill will incur costs over the three years 2026-27 to 2028-29, it is forecast to deliver annual recurring savings by 2030-31, primarily arising from “staffing a transition team at the SFC, pension shortfall payments from staff moving from Skills Development Scotland to the SFC, IT system costs, and restructuring costs due to diminished need”. Later savings “derive from reduced headcount and more efficient service delivery”.

44. While the document highlights significant restructuring exercises in the college sector, including a 9% workforce reduction since 2014, it states that “deeper and more fundamental reform to the sector is needed”. Colleges Scotland “have proposed to work with Government to ensure improvement to the sector’s sustainability, efficiency and future responsiveness”, which the Scottish Government states “must deliver a wide-scale and urgent programme of reform”.

Integrated Pay and Workforce Policy

45. The Scottish Government’s [Multi-year Pay Policy Framework 2025-26](#) sets out that pay should not increase by more than a total of 9% over the three years between 2025-26 to 2027-28 and that “any employer that does not agree a three-year pay deal will be restricted to a maximum 3% pay uplift for 2025-26”. However, SPICe in its briefing on [Public Sector Pay Policy – Challenges Ahead?](#) published on 9 December 2025, highlighted that “the pay deals that have subsequently been agreed by Scottish public sector employers do not meet the expectation within the policy framework of either covering the three-year period or being restricted to a maximum 3% pay lift for 2025-26”. Examples include NHS Agenda for Change and the Scottish Prison Service both agreeing a two-year pay award of 4.25% in 2025-26, followed by 3.75% in 2026-27¹⁷.

46. The Scottish Government published an [Integrated Pay and Workforce Policy \(IPWP\)](#) alongside the Budget, which “sets an overall pay envelope of 9% over 3 years with a cap of 3% for any single-year deal”. The IPWP “is the first step in operationalising the commitments in the Fiscal Sustainability Delivery Plan to manage the public sector pay bill and workforce size through a co-ordinated approach to pay and workforce planning”. The IPWP highlights “the Cabinet Secretary [...] has acknowledged that many multi-year deals cover only two years of the three-year [Public Sector Pay] Policy for 2025-26 to 2027-28, [and] to address this, the Cabinet Secretary has committed to review the pay policy as part of the 2027-28 Budget process”. The future policy to be published alongside the Scottish Budget 2027-28 “will include recognition of the connection between pay policy and workforce management as dual drivers of fiscal sustainability”.

47. The IPWP also commits the Scottish Government to publishing a Workforce Management Governance Framework in Spring 2026 “setting out our approach

¹⁷ Both have an inflation guarantee which states that the pay deal will be 1 percentage point higher than the annual average CPI inflation.

for all public sector workforces across Scotland including NHS Scotland, firefighters and police officers, local government, further education workers, core Scottish Government and public bodies including non-departmental public bodies, public corporations". It states that "workforce reform, spanning capability, leadership, organisational design and culture, is critical to achieving fiscal sustainability and managing the public sector paybill". The managed reduction of 0.5% per annum to 2029-30 set out in the FSDP "will align with service redesign, automation, and smarter resource use [... and] this approach is designed to protect frontline services while reducing corporate costs and improving productivity".

48. The SFC's January 2026 forecasts again highlight particular risks around public sector pay. Achieving the Scottish Government's current target to reduce the overall devolved public sector workforce by an average of 0.5% a year from 2025-26 to 2029-30 would, according to the SFC, "require a significant departure from recent trends". It also notes that if pay awards are higher than the Scottish Government has assumed, larger workforce reductions would be needed to keep the paybill at the level used in the SSR.¹⁸
49. The SFC goes on to say that "to remain within the limits of the pay policy, there would need to be an average pay award of 1.1% in 2027-28", a real terms cut to pay. As the SFC considers this a risk and on the basis that the Government intends to revisit the issue for the 2027-28 budget, "we have therefore used our baseline assumption rather than the current pay policy".¹⁹
50. The Committee also heard from witnesses that the Scottish Government has "laid out ambitious targets for efficiencies in the public sector in the FSDP, but the underlying assumptions that are required for these settlements border on heroic". The FAI said it "would be no surprise to see an emergency statement in the coming year if pay deals continue to burst through the stated pay policy especially given that a few are already automatically inflation-protected". The FAI said, "there is silence on the fact that the pay policy for the first couple of years has been blown to bits", adding "there is no acknowledgement of that, and it feels as though that can has been kicked down the road to the next budget".²⁰
51. In its Scottish Budget 2026-27 report, the Committee said it shares these concerns raised by the FAI and is concerned that the SFC felt it had to use its own baseline assumptions rather than the Scottish Government's pay policy for its forecasts.

¹⁸ [Scotland's Economic and Fiscal Forecasts – January 2026 | Scottish Fiscal Commission](#)

¹⁹ [Scotland's Economic and Fiscal Forecasts – January 2026 | Scottish Fiscal Commission](#)

²⁰ [Official Report, 20 January 2026](#)

Next steps

52. The Committee will hear from the Cabinet Secretary for Finance and Local Government on 10 March 2026 on the evidence gathered at this session relating to the SSR, as well as evidence it is due to take on the Scottish Government's Infrastructure Delivery Pipeline on 3 March.

Committee Clerking Team
February 2026



SFC Submission to Finance and Public Administration Committee: Scottish Spending Review and Public Service Reform

18 February 2026

About the 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, providing learning, reskilling, and upskilling opportunities to Scotland's learners and securing the undertaking of research and innovation.
4. 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.
5. We publish a significant amount of data and information, which enables evidence-informed decision making for a range of stakeholders, including Scottish Government and the institutions we fund.

SFC's organisational operations

6. **Running costs:** We deliver on our distinct statutory remit efficiently, with a staff base, as per our published 2024-25 Annual Report and Accounts, of 161.7 FTE and lean operating costs, with our running costs (staff and non-staff) for FY 2024-25 making up 0.7% of our spend.
7. **Recruitment:** The need to invest in our workforce has been recognised by two separate Audit Scotland reports. Its [Annual Audit of SFC 2019/20](#) highlighted the risk that SFC may not have adequate resources to carry out its core functions and meet the objectives set



out in its strategic plan, while its 2022 [Planning for Skills](#) Report recognised SFC staff capacity constraints. SFC has therefore seen an increase in its workforce but staff costs continue to make up 0.6% of our total spend.

8. **Shared Services:** We participate in shared services, for example, we share internal audit services and office space with Scottish Enterprise. We also adopt learning and development packages from other government and partner organisations, such as Civil Service Learning, to secure efficient approaches to support our staff.
9. **Delivering efficiencies:** To secure efficiencies across the sectors we fund, we provide funding for the delivery of procurement services and digital infrastructure at a national level through Advanced Procurement for Universities and Colleges (APUC) and Jisc respectively. The sectors save around £27m annually through Jisc, and in 2023-24, the sectors saved £37.2m through collaborative agreements with APUC. SFC has agreed to support APUC to undertake a project to accelerate the development of shared services across colleges and universities to identify, assess and implement shared service opportunities that can deliver real value for institutions and for students.

The sector position

10. The college and university sectors are operating in an increasingly challenging fiscal environment. The most up-to-date position was published in SFC's Financial Sustainability Reports for the [college](#) and [university](#) sectors in September 2025. Key highlights are summarised below:

College sector

11. The sector reported an adjusted operating deficit of £1.4m in 2023-24, projected to increase to £10.7m in 2024-25 and to £25.5m in 2025-26, with further deficits of £36m and £42m projected in 2026-27 and 2027-28 respectively.
12. 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 21 colleges (88%) in 2026-27 and 20 colleges (83%) in 2027-28.
13. Colleges remain highly dependent on SFC grant which is forecast to remain at 77% of total income throughout the forecast period.
14. 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.
15. 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.
16. 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 12 colleges by the end of 2027-28.

University Sector

17. 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.

18. The sector reported an underlying operating surplus 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 mainly driven by three universities and 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.

19. Nine universities reported underlying operating deficits during 2023-24, and forecasts show this increasing to 10 in 2024-25 and 11 in 2025-26 before reducing to seven in 2026-27. Five universities are not projecting any underlying deficits throughout the forecast period.

20. Universities' reliance on SFC grants is forecast to reduce by 2% (down to 22%) by the end of 2026-27.

21. 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 to reflect 2025 student recruitment cycles.

22. 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.

Scottish spending review

23. The college sector is expected to benefit from a significant uplift in its budget for 2026-27 should the Budget Bill pass through Parliament. The resource budget will increase by 9.3% while the capital budget will increase by 23.7%. While this uplift is welcome, the financial environment continues to be challenging for colleges. We will therefore balance stabilisation of the sector through an uplift to the teaching budget for all



colleges alongside a commitment to transformation.

24. The university sector is also expected to benefit from an uplift to its budget, albeit of a smaller scale than the college sector. Its resource budget is expected to increase by 3.2%, and its capital budget (which funds research and innovation as well as capital maintenance) is expected to rise by 8.2%. There is an additional commitment of up to £20m of funding for the University of Dundee. As with the college sector, our priority for the university sector will be to enhance the teaching budget with an inflationary uplift to support investment in high quality teaching to deliver positive outcomes for learners.
25. SFC's Board is currently considering the approach to funding allocations for academic year 2026-27. It is anticipated that indicative allocations will be published towards the end of March to enable colleges and universities to plan for the forthcoming academic year with greater certainty.

Public Service Reform

26. Public service reform is vital both through a lens of delivering efficiencies and delivering transformation of public services. SFC's contribution to public service reform is through the delivery of the most significant transformation of the tertiary education sector in over a decade. We are delivering this transformation across the following three programmes of activity.

Simplification of the funding body landscape

27. The Tertiary Education and Training (TET) Bill will see the transfer of responsibilities for the funding, development and delivery of national training programmes (NTPs) (including apprenticeships) from Skills Development Scotland (SDS) to SFC. We believe there will be significant benefits of bringing the funding of all post-16 provision into a single funding body.
28. Firstly, centralising funding within a single body will enable a more holistic approach, making the system more flexible in responding to learner demand and employer need. It will bring data and evidence together in one place to support stronger, more targeted funding decisions.
29. Secondly, reform will support a more connected education system by aligning funding streams, improving parity across provision, streamlining learner pathways, and strengthening alignment between colleges, universities and apprenticeships. By better enabling recognition of prior learning, there will be opportunities to deliver efficiencies across the system.
30. A unified funding system will also increase transparency and consistency, reduce administrative burden and free up capacity for frontline delivery. For example, training providers will no longer have to report to two different bodies, using different systems.



31. Finally, reform brings employers and independent training providers into a system that also includes universities' research and innovation capabilities, opening up new opportunities for collaboration and helping ensure Scotland's workforce is prepared for future challenges and opportunities.

College Sector

32. SFC is supporting college transformation through a range of initiatives.

- **College Infrastructure Strategy (CIS):** published in 2022, the CIS sets out a collective approach between SFC and colleges to develop an Infrastructure Investment Plan (IIP) for Scotland's colleges. We are currently updating and enhancing a baseline exercise which will provide a robust, accurate and evidence-based data set to inform the case for future investment in college infrastructure, both estates and digital, taking into account net zero requirements. Rather than replacing like for like, our focus will be on determining investment requirements to meet current and future demand for physical, hybrid and digital teaching. Our approach will provide the insights we need to identify (i) existing assets that should be maintained and / or updated and developed where it is economic to do so; (ii) assets which could be shared between different public bodies and partners to increase use and income; and (iii) uneconomic or under-performing assets that should be disposed of.
- **Asset Disposals:** in July 2025, following negotiations with the Scottish Government, we published updated guidance which allows colleges to retain sale proceeds of up to £1m. Where sale proceeds are over £1m, there is now a presumption that, in addition to the first £1m, colleges will be permitted to retain 70% of the sale proceeds more than £1m. This provides greater incentive for colleges to dispose of assets, freeing up money for investment in other projects.
- **College Transformation Framework (CTF):** developed in conjunction with the College Tripartite Alignment Group and launched in 2025, the CTF allows colleges, on a temporary basis, to vary the delivery of their credit thresholds set during the annual funding round, without impacting their core teaching grant, thereby providing a mechanism to support them to transition to a more sustainable position, for example by transforming their curriculum, from within existing budgets.
- **College flexibilities:** in partnership with the College Tripartite Alignment Group, SFC is exploring opportunities to offer greater flexibilities to colleges within the financial and budgetary rules that govern public bodies. Areas being explored include borrowing; carry-forward of surplus; fixed-asset disposals and reinvestment of proceeds; severance; insurance; procurement; consultancy contracts; and non-property operating issues.



33. The Regional Strategic Bodies (RSBs) in Lanarkshire and Glasgow were disbanded in 2025, leading the way for the colleges in those areas having a direct funding relationship with SFC.
34. As referred to by the Minister for Higher and Further Education at the Education, Children and Young People Committee session on 21 January 2026, we are currently working with Colleges Scotland and the Scottish Government, within the auspices of the College Tripartite Alignment Group, to scope a project that will look at the future of the college sector.

University sector

35. In parallel to the CTF referred to above, SFC launched a University Transformation Framework (UTF) in December 2025. It seeks to support institutions by providing them with the flexibility to redirect previously allocated funds towards transformation projects. To ensure accountability for public funds, universities have been asked to make formal bids. Proposals could include meeting demand for industry skills, the adoption of more cost-effective delivery models, or the generation of alternative funding sources. The deadline for bids was 13 February 2026 and the SFC team will be reviewing these over the course of the coming weeks with a view to making recommendations to the SFC Board later in the spring.
36. SFC is supporting the recently announced Scottish Government-Universities Scotland Funding Framework project. This review will analyse the cost of delivering high-quality teaching research, building a comprehensive evidence base to inform future public investment and institutional planning. The project will also examine how the sector can transform to better meet the needs of future learners and the economy, including how universities can enhance their impact through business creation, knowledge exchange, and collaboration.