PA/S7/26/10/1

Public Audit Committee
Thursday 12 November 2026
10th Meeting, 2026 (Session 7)

Scotland's colleges 2026

Introduction

1. At its meeting today, the Public Audit Committee will take evidence from the Scottish Government and the Scottish Funding Council on the Auditor General for Scotland's (AGS) report on the Scotland's colleges 2026, which was published on 10 September 2026.

2. The Committee previously took evidence from the AGS on 24 September 2026. Following its meeting on 24 September, the Committee sought written evidence from Colleges Scotland and College Employers Scotland, these can be found at **Annexe A** and **Annexe B.**

3. Follow up information was also provided by the Auditor General for Scotland, this can be found at **Annexe C.** The Scottish Funding Council has also provided a link to its recent College Infrastructure Investment Plan, this can be found at **Annexe D.** The Committee also received a copy of a letter from the Minister for Innovation, Technology and Tertiary Education to the Education and Gaelic Committee with a progress update on the future of Scotland's college sector, this can be found at **Annexe E.**

4. A copy of the report can be found at **Annexe F.**

5. The Committee will decide any further action it wishes to take following the evidence session today.

Clerks to the Committee
November 2026

Public Audit Committee – Written Response – October 2026

Introduction

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

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

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

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

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

Audit Scotland Report – *Scotland's Colleges 2026*

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

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

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

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

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

The Audit Scotland report also notes that:

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

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

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

24 September Evidence Session

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

Financial Sustainability

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

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

College Sector Reform

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

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

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

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

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

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

College Sector Infrastructure

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

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

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

Public Sector Classification and Flexibilities

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

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

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

Student Headcount and Demand

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

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

Conclusion

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

Gavin Donoghue,
Chief Executive Officer
October 2026

Public Audit Committee – Written Response – October 2026

Introduction

College Employers Scotland (CES) welcomes the publication of Audit Scotland's 2026 report on Scotland's colleges and the discussion of its findings during the Committee's evidence session on 24 September 2026. We also welcome the opportunity to contribute to the Committee's scrutiny.

Audit Scotland Report – Scotland's Colleges 2026

Audit Scotland's report highlights a number of significant challenges facing the college sector. These include:

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

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

24 September Evidence Session: The College Sector Workforce

Key trends

We agree with Audit Scotland's observation that staffing reductions through voluntary redundancy have been significant and applied across the college sector workforce. We also agree with its observation that savings generated by these reductions have been largely consumed by staff pay rises, as well as by increasing National Insurance and pension costs. Staff costs are the largest single component of college expenditure and have grown since National Bargaining and harmonisation were introduced. CES analysis in 2024 found that, between 2017/18 and 2021/22, staff costs increased by 23%. This compares with growth of 16% in total expenditure and only 12% in income. Over the same period, recurring staff costs increased from around 65% to 69% of expenditure and from 67% to 74% of college income.

CES' analysis also found that Scottish colleges devoted a higher proportion of both income and expenditure to staffing than the comparator college sectors examined elsewhere in the UK. In addition, we note and recognise the 2026 Audit Scotland report which highlights that, despite reductions made to the college workforce, staff costs in the year 2024/25 still accounted for two-thirds of college expenditure (67 per cent).

Staff pay levels since the introduction of National Bargaining

CES's analysis in 2024 concluded that college pay awards since National Bargaining was introduced have generally been equal to or above the Scottish Government's Public Sector Pay Policy (PSPP), particularly for lower-paid employees. Of the nine academic years examined, five produced more favourable increases for employees at the bottom of the college pay scales than the relevant government policy benchmark. The most recent pay deals also compare favourably with the current PSPP, which sets out a 9% pay envelope over the three-year period from 2025/26 to 2027/28. Under these agreements, college lecturers received a 4.14% pay award in 2025/26, with further increases of 3.75% in 2026/27 and 3.25% in 2027/28. Professional Services Staff received a 4.25% increase in 2025/26, followed by agreed uplifts of 3.4% in 2026/27 and 3% in 2027/28.

It is also impossible to discuss workforce costs without referencing industrial relations throughout the period of National Bargaining. These have often been strained, negatively affecting college staff and, at times, learners. It is noted that the college sector experienced industrial disputes and/or industrial action in almost every year between 2014/15 and 2023/24. There has, however, been a marked improvement throughout 2025 and 2026, supported by a refreshed National Recognition and Procedures Agreement. This has contributed to multi-year pay agreements being reached for lecturing and professional services staff without industrial dispute.

The importance of Scottish Government support

Financial support from the Scottish Government has been instrumental in securing pay agreements without significant adverse effects on colleges in recent years. Partial support was provided directly for the Professional Services Staff pay deal in 2025 and indirectly through the 2026/27 Scottish Budget allocation for the Lecturing Staff award agreed this year. Nevertheless, institutions remain under pressure because longer-term funding has not kept pace with rising staff costs.

Audit Scotland reported in 2024 that college funding had fallen 17% in real terms since 2021/22, with staffing representing approximately 70% of college costs. By 2025 it reported that the real-terms reduction between 2021/22 and 2025/26 had reached 20%. There has been a financial improvement thanks to the Scottish Government allocating £721 million to colleges for 2026/27, a cash increase of 9.3%. However, Audit Scotland calculates that overall college funding remains over 7% lower in real terms than in 2022/23.

A shrinking workforce

Historically, colleges have managed funding pressures through workforce reduction measures such as voluntary severance. Based on current forecasts, a staff reduction of 667 Full-Time Equivalents (FTEs) is projected over the period from 2024-25 to 2027-28, equating to the potential removal of 6.6% of FTE staff employed in the sector. In April 2026, the SFC reported the college workforce in 2024/25 at 9,775 FTE, which is 340 FTE or 3.4% lower than the previous year and around 1,080 FTE or 9.9% below 2015/16 levels. The latest Audit Scotland analysis sets out the contraction even more starkly: the college workforce declined by 13% between 2019 and 2026 compared with a 12% increase in staffing across Scotland's devolved public sector.

Such staffing decreases – which carried restructuring costs of £8.1m in 2024-25, with forecast costs of £4.4m in 2025-26 and £2.2m in 2026-27 – are significant. However, they have not been enough to offset growing staff costs linked to national pay deals. Indeed, in 2025, the SFC explicitly identified the deterioration in financial sustainability across the sector as being driven partly by "increases in pay inflation agreed through National Bargaining exceeding savings from staff restructuring", alongside self-funded severance costs and other reduced income. Pensions and employer National Insurance contributions have also added to the pressure.

Moreover, the scale of previous workforce change means that the scope for further staffing reductions is increasingly limited. The SFC has warned that additional shrinkage is "expected to have a significant impact on the student outcomes and experience, quality and volume of teaching, campus closures and colleges' ability to provide the skills their regions need". It also reports that some colleges can no longer afford voluntary severance, and that voluntary departures are harder to secure because of previous rounds of restructuring. In turn, colleges have anecdotally highlighted that staffing reductions at the scale already observed could have a negative impact on the student experience.

Exploring workforce reform

The long-term sustainability of Scotland's college sector will require thoughtful workforce reform in the context of ongoing financial pressures and the Scottish Government's wider ambitions for public service transformation.

Colleges remain committed to maintaining high-quality learning and recognise the vital contribution of lecturers and professional services staff. At the same time, they need sufficient flexibility in workforce planning, deployment and development to respond effectively to changing learner needs, employer demand and wider economic priorities. This is not about moving away from the principles that have served the sector well. National Bargaining and Fair Work remain fundamental to attracting, retaining and supporting the skilled workforce that colleges require.

However, it is also important to recognise that arrangements developed in one context may require review as circumstances change. The labour market is evolving rapidly; expectations of education and training continue to shift; and colleges must be able to adapt accordingly. Ensuring that workforce structures and arrangements remain fit for purpose will therefore be an important consideration for the sector's future sustainability.

Scotland needs a constructive, evidence-led conversation about how workforce sustainability can best be achieved in this changing environment. To support that discussion, we have commissioned Dr Michael Smith, an independent expert with extensive experience in the tertiary education sector, to undertake research exploring how the college workforce might evolve. This will complement the Scottish Government's College Sector of the Future programme.

We hope the research will identify practical options for workforce transformation and provide a robust evidence base to inform future decision-making, helping colleges remain financially sustainable while continuing to deliver the skills, training and knowledge that Scotland's economy and communities require. We look forward to updating the Committee on the progress and findings of this work.

Job Evaluation

Background

In 2018, a comprehensive job evaluation exercise was initiated with the aim of ensuring that all professional services staff jobs are fairly remunerated based on the details of their job description and the specifics of their role. However, since the project's inception it has been hampered by delays and complexity. In 2023 it was paused due to a lack of confidence in its viability.

Under a national agreement, new grades deriving from the National Job Evaluation exercise should apply from 1 September 2018. This date, therefore, marks the time from which any back pay may be due to staff, meaning the financial implications are significant. The Scottish Government has previously committed to backdating any costs to 2018.

Ensuring Job Evaluation is robust

An SFC review is now underway to ensure lessons are learned and future implementation is robust. This commenced in October 2026 and is expected to report in early 2027. We welcome this approach and believe an independent review is critical to fully understand what has hampered the job evaluation exercise and how it can be reinitiated. We note our 2024 response to the predecessor committee, which identified a number of key issues that we believed had contributed to the delay. These include the lack of a shared objective, governance challenges, process design flaws, and technical and resource limitations.

Following the conclusion of the SFC's Lessons Learned exercise, and subject to the recommendations on project remobilisation and the release of money, we are ready re-commence the job evaluation project. As noted in the Audit Scotland report, we have established a Job Evaluation Project Board, with staff and management representatives, and are keen to develop a robust business case that is informed by the learning from the SFC evaluation.

We want to reassure the Committee that colleges are committed to resolving the issue of job evaluation for professional services staff promptly and equitably. We recognise the importance of providing certainty to support staff and colleges on this issue while safeguarding the financial sustainability of the sector.

Conclusion

Audit Scotland's latest report makes clear that colleges are at a hinge point. Even with the welcome uplift in the 2026/27 Scottish Budget, real-terms funding reductions since 2021, together with rising staff costs, continue to threaten colleges' stability and effectiveness.

With staffing accounting for the largest proportion of expenditure, and limited scope for further staffing reductions, workforce reform and flexibility will be essential to sustaining high-quality provision across colleges in the years ahead. Progress with Job Evaluation for Professional Services Staff is also a key part of that agenda, helping to build a fairer, more transparent and strategically aligned workforce.

College Employers Scotland is committed to supporting the collaborative discussion and evidence-based analysis needed to deliver progress in both areas and strengthen the long-term sustainability of Scotland's colleges.

College Employers Scotland
October 2026

PA/S7/26/10/1

Annexe C: Letter from the Auditor General for Scotland, 7 October 2026

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07 October 2026

Neil Bibby MSP
Convener
Public Audit Committee
Scottish Parliament
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By email

Dear Convener

When I gave evidence to the committee on 24 September 2026 on my Scotland's Colleges 2026 report, I committed to providing the Committee with some further information in relation to some of its questions, which I set out below:

Correlation between colleges rated at high or very high financial risk and colleges with financial management capacity issues

The convener queried whether those colleges experiencing financial management capacity issues were among those that the Scottish Funding Council had rated as having high or very high financial risk.

Of the colleges where auditors highlighted financial management capacity issues in annual audit report key findings and recommendations, I only reported UHI Perth among colleges that the SFC had rated at high or very high financial health risk.

It is important, however, to note there is a time lag between our evidence sources in relation to this. Our information on financial management capacity issues in colleges is taken from the 2024/25 annual accounts and annual audit reports. Our information on colleges rated at high or very high financial risk by the Scottish Funding Council is from April 2026.

PFI and NPD commitments

Alan Brown MSP queried whether there had been any assessment of ongoing Private Finance Initiative (PFI) legacy issues at Scotland's colleges.

We had not carried out any detailed audit work on PFI legacy issues as part of this report. The SFC's Financial sustainability of Scotland's colleges 2024/25 to 2028/29 report, published on 1 October this year, states that there are no longer any PFI commitments in the college sector. It also states that the Non-Profit Distribution (NPD) model was used to purchase buildings for three colleges (Ayrshire College, City of Glasgow College and UHI Inverness).

College student headcount statistics

Alan Brown MSP also queried whether there was a breakdown of how the 40,000 reduction in student headcount, from 2022/23 to 2024/25, was spread across colleges and whether the demographic spread is known.

While the Scottish Funding Council does not publish headcount statistics by college, it does publish aggregated sector-wide figures showing headcount by age and sex. These can be found on the SFC statistical publication schedule.

I hope you find this additional information useful.

Yours sincerely

Stephen Boyle
Auditor General for Scotland

Written submission from Scottish Funding Council, 4 November 2026

Dear Members of the Public Audit Committee,

The national College Infrastructure Investment Plan was published this morning.

The development of a national infrastructure investment plan is based on a detailed evidence base that has given us the clearest sector-wide picture of the college estate we have ever had.

The Plan does not represent a bid for funding. It is designed to provide a framework for considering how college infrastructure should be maintained, improved, replaced, shared, repurposed or disposed of over time, and an estimate of the investment needed to do so.

The College Infrastructure Investment Plan can be found on the College Infrastructure Investment Plan 2027-28 to 2036-37 - Scottish Funding Council

Please contact us if you require further information.

Kind regards,

John

John McFarlane

Assistant Director, Public Affairs (Mat Cover)

Corporate Services Directorate

Scottish Funding Council

Minister for Innovation, Technology and Tertiary Education
Ministear airson Ùr-ghnàthachadh, Teicneòlas agus Foghlam Treas-ìre
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Karen Adam MSP
Convener
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6 October 2026

Dear Convener,

Future of Scotland's College Sector: Progress Update

I am writing to provide the Committee with an update on the College Sector of the Future workstream, following the correspondence of 12 March 2026 from my predecessor to the Education, Children and Young People Committee. In that letter, Mr Macpherson set out the joint programme of work being undertaken by the Scottish Government, the Scottish Funding Council and Colleges Scotland to develop a sustainable, future-focused vision for Scotland's colleges. I am pleased to report that good progress has been made since the launch of the workstream.

Progress across the workstream

The workstream was established around three pillars: 1. synthesising evidence on learner, employer and community needs; 2. engaging stakeholders on the future role of colleges; and 3. exploring sustainable and flexible models for funding and delivery.

Pillar 1 aims to co-create a synthesis of the evidence of the current and future needs of learners, employers and communities, as well as previous refinements to the college sector, will form the foundation for subsequent pillars ensuring this work builds on past successes and lessons learned. A suite of evidence papers have been published on Colleges Scotland website, setting out the status quo and recent history relating to college governance, leadership, funding flexibilities, future trends and scenarios, the breadth of provision delivered by colleges, and a synthesis of existing national reports and reviews relevant to the future of tertiary education and skills provision in Scotland. The papers bring together evidence on demographic change, labour market demand, economic transformation, technological change, learner expectations and international practice. A map of all college campuses (and universities, for context) is provided that also show regional partnership and local authority boundaries. Further papers summarising key data about the sector, providing

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information about the workforce, and the role of colleges in delivering Senior Phase, will follow.

Pillar 2 is comprehensive series of stakeholder workshops, meetings, and surveys, and these are well underway. The workshops are a mix of national and regional level, collectively engaging with learners, college leaders, staff and trade union representatives, representatives from local and national businesses and industry, and employers in the private and public sectors.

Governance arrangements have been established to support the workstream, including a Delivery Assurance Group and Work Co-ordination Group, and two reference groups: one for Cross-Party MSPs and one for staff and learners, ensuring transparency and challenge throughout the process.

The engagement phase has generated a rich discussion about the future role of colleges as anchor institutions within their communities, their contribution to economic growth and tackling poverty, and how colleges can best support increasingly diverse learner journeys throughout life.

Revised timetable

The original intent was for recommendations to be developed for ministerial consideration during autumn and winter 2026. While strong progress has been made, the scale and complexity of the work, alongside the extensive stakeholder engagement undertaken and the interdependencies with other significant programmes of reform, mean that the workstream is taking longer than originally anticipated. Partners have been keen to ensure that staff and learners have been able to participate fully, which meant organising workshops and meetings of the Staff and Learners Reference group around the summer holidays. For these reasons, partners have agreed that additional time is required to complete Pillar 3 – the co-design of solutions - to sufficient quality. The workstream is therefore now expected to conclude during the early months of **2027**, at which point Ministers will receive the final recommendations for consideration. This revised timetable will ensure that any future decisions are informed by the strongest possible evidence base and the widest possible range of stakeholder perspectives.

Next steps

Over the remainder of 2026 and into early 2027, the workstream will focus on evidence-based options for the future of the sector, based on the outputs from Pillar 1, Pillar 2 and other pertinent information.

I recognise the Committee's continuing interest in this important work and will be happy to provide a further update and copy of the report on the Pillar 2 workshops as soon as it is available.

I am sending a copy of this letter to the Public Audit Committee given it will be hearing from Audit Scotland on 12 November, and Audit Scotland's recent report on colleges made reference to the key findings from College sector of the Future being expected by the end of 2026.

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Yours sincerely,



ALYN SMITH MSP
MINISTER FOR INNOVATION, TECHNOLOGY AND TERTIARY EDUCATION

Copied to:
Convener, Public Audit Committee

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Scotland's colleges 2026



AUDITOR GENERAL

Prepared by Audit Scotland
September 2026



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Accessibility

You can find out more and read this report using assistive technology on our website www.audit.scot/accessibility.

Audit team

The core audit team consisted of: Derek Hoy, Ray Buist and Hannah Ashwell, under the direction of Cornilius Chikwama.

Key facts

£5.6m	overspend by Scotland's 19 incorporated colleges in 2024/25 £1.9 million overspend reported in 2023/24
£13.9m	additional financial support needed from the SFC in 2024/25 £5.4 million in 2023/24
£721m	Scottish Government resource funding for colleges in 2026/27 9.3 per cent increase from 2025/26 in cash terms 7.5 per cent real terms reduction in the last five years
77%	college income that came from Scottish Funding Council grants in 2024/25
282 staff	took voluntary redundancy in 2024/25, costing £7.2 million
13%	**decrease** in college workforce 2019–2026 Compared to 12 per cent **increase** across the devolved public sector
21%	reduction in enrolments between 2022/23 and 2024/25 Student headcount reduced by 16 per cent
1.6m	credits of teaching delivered by colleges in 2024/25 Eight per cent reduction since 2022/23
95%	of students satisfied with their college experience in 2024/25

Key messages

1 Scotland's colleges continue to operate in an extremely challenging financial landscape. Scotland's 19 incorporated colleges collectively reported a £5.6 million deficit in 2024/25, and the Scottish Funding Council (SFC) increased the amount of support it provided to colleges in the form of cash advances from £5.4 million in 2023/24 to £13.9 million in 2024/25. Despite the SFC intending this to be short-term support, arrangements for repayment can be unclear and some colleges have needed advances to be rolled forward, highlighting long-term financial sustainability challenges in the sector.

2 The Scottish Government increased net resource funding for colleges by over nine per cent in 2026/27, but funding has decreased by over seven per cent in real terms in the five years to 2026/27. It is not clear if the uplift in funding is sufficient or if it will be sustained for colleges to deliver the level of reform needed in the college sector.

3 Colleges have shown resilience, meeting the threshold for credit delivery set by the SFC for the second consecutive year, seeing the proportion of students successfully completing courses rise in 2024/25, and continuing to support a high proportion of students into positive destinations. Scotland's colleges have also reduced their workforce, in contrast with other parts of the public sector. Almost 40,000 fewer students were taught or trained at college in 2024/25 than in 2022/23, as student numbers at

Scotland's colleges fell for the second consecutive year. Without successful reform of the college and wider post-school education and skills sectors, it is not clear if colleges can continue to deliver positive outcomes for students and employers.

4 The Scottish Government and its partners are progressing a programme of transformation across the college and wider education and skills sector. But some reform programmes should have been undertaken sooner in line with funding reductions. Progress in implementing actions to address the recommendations in our Scotland's colleges 2025 report has also been slow.

5 The Scottish Government expects colleges to maximise income generation to support their financial sustainability, but colleges remain dependent on SFC teaching funding. Colleges' capacity to generate income remains limited, varies across colleges and risks diverting colleges' focus away from their core purpose.

Recommendations

We have not made any new recommendations in this report. The recommendations we made in 2025 remain important and the Scottish Government, Scottish Funding Council and colleges need to take action to implement them at pace.

The eight recommendations made in our Scotland's colleges 2025 report call for action to deliver a sustainable college sector that is responsive to Scotland's social and economic needs, but many of these are only at the early stages of implementation, as summarised at Appendix 1. These must now be actioned as part of wider post-school education and skills reform.

The Scottish Government and its partners have launched a College Sector of the Future workstream. The Scottish Government believes that the objectives of this workstream align with Audit Scotland recommendations and address them collectively rather than as discrete actions.

The Scottish Government is due to publish, by the end of 2026, key findings from the workstream and recommendations to ministers for transforming the college sector. From this we expect to see actions to fully address recommendations from our Scotland's colleges 2025 report.

Introduction

1. Scotland's colleges play a significant role in our post-school skills and education sector. They offer a wide range of academic and vocational courses and pathways to employment, higher education and apprenticeships. Colleges have a vital role in providing a skilled workforce that meets local and national demand, and in supporting Scotland's sustainable economic development.

2. The Scottish Government sets national policies and provides funding for Scotland's 25 colleges via the Scottish Funding Council (SFC). Nineteen of these colleges are **incorporated colleges** (Exhibit 1, page 8) and they are subject to audit by the Auditor General for Scotland. This report considers the 19 incorporated colleges (whereas SFC statistical publications include all 25 of Scotland's colleges).

3. In previous years, we have reported on the financial challenges facing the college sector, and our Scotland's colleges 2025 report highlighted the increasingly challenging landscape in which the sector operates, including:

- a 20 per cent real-terms reduction in funding over five years to 2025/26 and colleges forecasting further deficits
- an over seven per cent reduction in the sector workforce in 2023/24
- curriculum and estate rationalisation to make savings.

4. This report provides an overview of the financial sustainability and overall performance of Scotland's colleges in 2024/25. It assesses progress to reform the sector, including how colleges are generating income as a means of supporting financial sustainability. It also considers how stakeholders are working in partnership to address the systemic challenges facing Scotland's college sector.

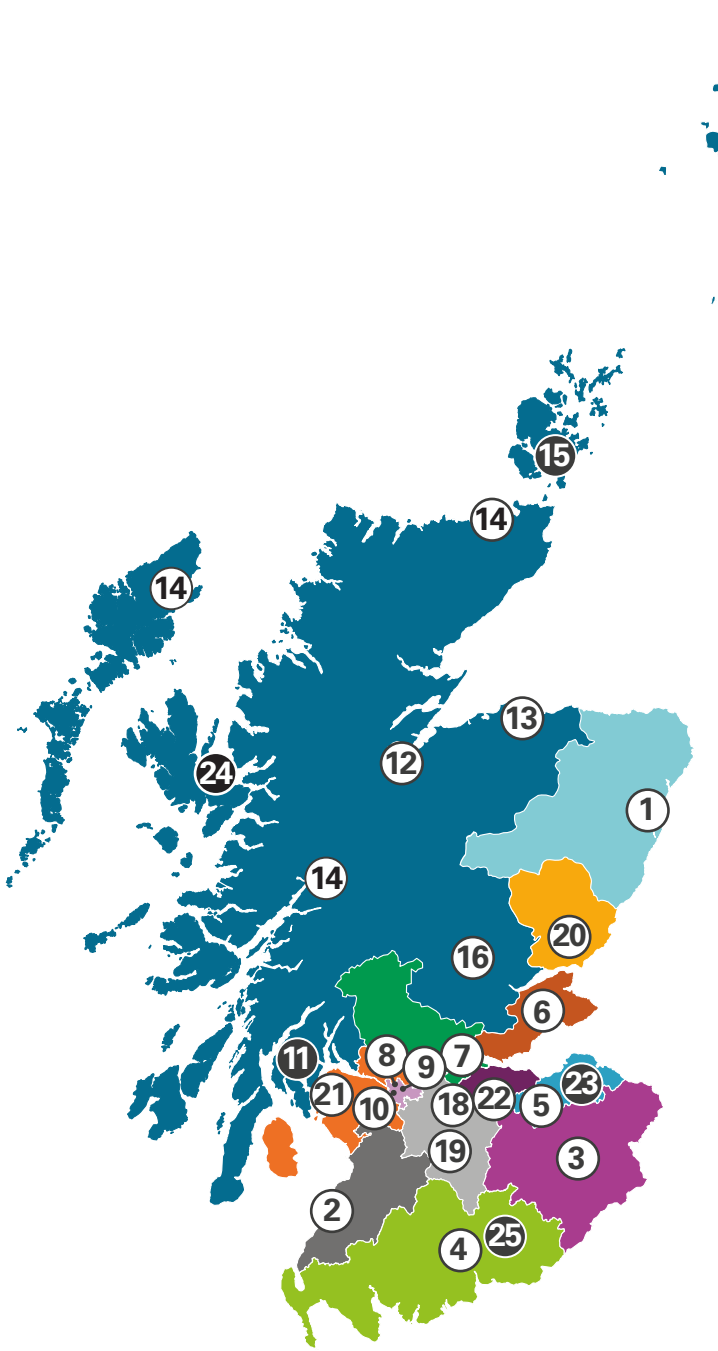
5. The report draws on analysis of the 2024/25 annual audit reports (AARs) and audited annual accounts for all 19 incorporated colleges in Scotland as well as evidence obtained from:

- interviews with the Scottish Government, the SFC, Colleges Scotland and College Employers Scotland (CES)
- a survey to members of the college sector's finance director and business development networks on income generating activity



Incorporated colleges are statutory bodies, governed by a board of management under the Further and Higher Education (Scotland) Act 1992. Non-incorporated colleges typically do not have the same statutory status or governance arrangements.

Exhibit 1.
Scotland's colleges in 2024/25



- **College – incorporated, audited by AGS**
- College – not audited by AGS

Region		College
Aberdeen and Aberdeenshire	1	North East Scotland College
Ayrshire	2	Ayrshire College
Borders	3	Borders College
Dumfries and Galloway	4	Dumfries and Galloway College
Edinburgh and Lothians	5	Edinburgh College
Fife	6	Fife College
Central	7	Forth Valley College
Glasgow	8	City of Glasgow College
	9	Glasgow Clyde College
	10	Glasgow Kelvin College
Highlands and Islands	11	UHI Argyll
	12	UHI Inverness
	13	UHI Moray
	14	UHI North, West and Hebrides
	15	UHI Orkney
	16	UHI Perth
	17	UHI Shetland
Lanarkshire	18	New College Lanarkshire
	19	South Lanarkshire College
Tayside	20	Dundee and Angus College
West	21	West College Scotland
West Lothian	22	West Lothian College
n/a	23	Newbattle Abbey College
n/a	24	Sabhal Mòr Ostaig
n/a	25	Scotland's Rural College

Note: On 30 July 2025 both the Glasgow Colleges' Regional Board and Lanarkshire Regional Strategic Board disbanded, with associated colleges becoming separate regional entities.

Source: Audit Scotland

- interviews with Glasgow Kelvin College and North East Scotland College to provide case examples of challenges in the sector, how these are being addressed, and how they are generating additional income
- reports published by the SFC, the Scottish Government, Colleges Scotland and other stakeholders.

6. 2024/25 is the latest year for which audited accounts and most published statistical data are available. Where the latest published information relates to an earlier period we make this clear within the report. Where years are given, those relating to college finances or performance are for the academic year (August to July). Those relating to government funding to the sector are for the financial year (April to March).

1. College sector financial performance and sustainability

Scotland's incorporated colleges are under growing financial strain: the sector's deficit increased, short-term funding support became more prominent, and the path back to financial sustainability remains unclear.

Scotland's colleges reported a £5.6 million deficit in 2024/25

7. Collectively, Scotland's 19 incorporated colleges reported an **adjusted operating position** deficit of £5.6 million in 2024/25 (£1.9 million in 2023/24). Colleges Scotland attributes increases in deficits reported by some colleges to increasing costs, including staff and energy costs, not being matched by increased funding. Colleges have now collectively reported a deficit for a third consecutive year following two years in which surpluses were achieved, as set out in Exhibit 2 (page 11).

8. Significant changes were made to the SFC's college funding allocation model in 2023/24 to reflect changing student demand and rising delivery costs. These included a ten per cent reduction in the volume of teaching colleges were required to deliver with no corresponding decrease to teaching funding.[1] In 2024/25, colleges were required to provide the same volume of teaching as in the prior year with less funding to meet rising costs, as set out at Exhibit 4 (page 18).



Adjusted Operating Position (AOP) removes the effects of accounting entries such as pensions valuation adjustments that are not within colleges' control but are required to be reported in colleges' audited accounts.

College financial results varied significantly in 2024/25

9. In 2024/25, 11 colleges reported a deficit (eight in 2023/24), four of which reported a deficit of £1 million or more, including UHI North, West and Hebrides (Case study 1, page 12). Eight colleges reported a surplus, the largest of which was reported by North East Scotland College (£1.9 million).

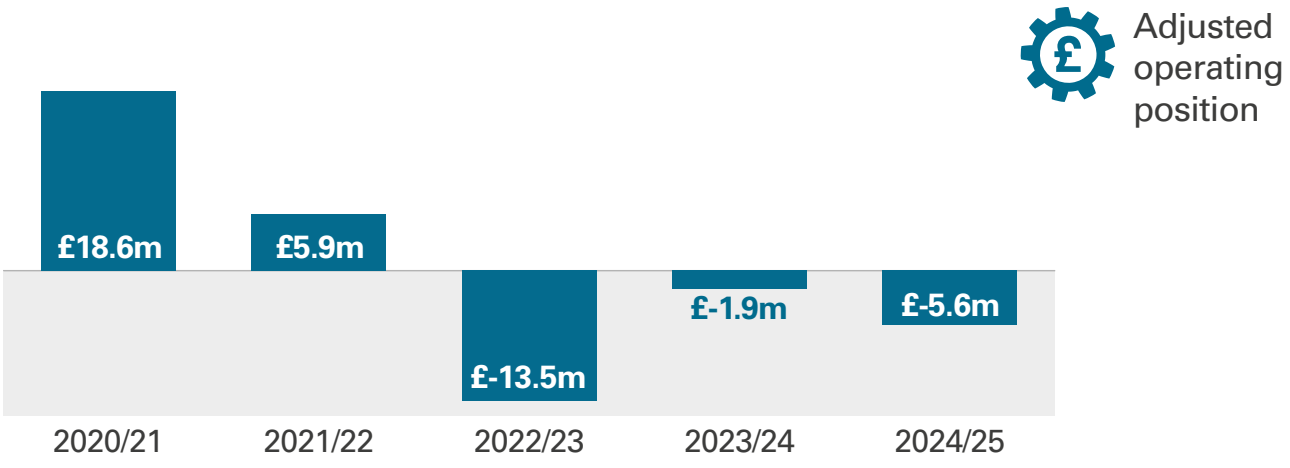
10. Ten colleges reported a deterioration in financial performance in 2024/25 compared to the previous year, but seven reported improvements (Exhibit 2). For example:

- Dundee and Angus College reported a £1.9 million surplus in 2023/24 and a £0.3 million deficit in 2024/25. The college attributes this deteriorating position to funding not increasing or keeping pace with inflation, despite the savings the college made in 2023/24.
- The financial performance at West Lothian College improved from a £0.5 million deficit in 2023/24 to a £0.4 million surplus in 2024/25. The college achieved this through management restructuring, the use of vacancy management, increasing income and electing not to progress a refurbishment project.

Exhibit 2.

The adjusted operating position for Scotland's incorporated colleges 2020/21 – 2024/25

Incorporated colleges have collectively reported a deficit in each of the last three years.



Note: £15 million of Covid-related grant and a further £9.9 million of Coronavirus Job Retention Scheme funding contributed to a large surplus in 2020/21. For 2020/21 to 2022/23, SFC data includes Glasgow Colleges' Regional Board.

Sources: Audit Scotland analysis of Annual Report and Accounts 2024/25; SFC financial sustainability reporting for 2020/21 to 2022/23

Case study 1.
UHI North, West & Hebrides (UHI NW&H)



UHI North, West and Hebrides was formed on 1 August 2023 from the merger of:

- UHI North Highland
- UHI Outer Hebrides (formerly Lews Castle College)
- UHI West Highland.

UHI NW&H reported a £2.2 million deficit in 2024/25, the largest of all incorporated colleges, and a £4.7 million deficit in its first two years of operation. The college also reported net liabilities of £8.7 million at the end of 2024/25, the second highest of all incorporated colleges.

The college attributes the deficit in 2024/25 to the impact of pay awards, pension and National Insurance costs, lower income generation from higher education students than expected, and flat cash funding from the SFC.

The external auditor concluded in 2024/25 that the college's board has effective planning and management arrangements in place. While the college is financially unsustainable in the short-term and reliant on support from external parties, it is now implementing a board-approved financial recovery plan and has a medium-term financial plan that forecasts a return to financial balance by 2027/28, to be achieved by:

- reducing expenditure in part from £0.5 million of staff cost savings per year following a voluntary severance scheme ran in 2024/25
- increasing income generated from tuition fees and additional grant income.

The college auditor has noted that the cost base of the merged college is lower than the combined costs of the three separate colleges prior to 2023. This supports the college's path towards medium-term financial sustainability.

Source: Audit Scotland

Colleges have drawn upon a range of supports to manage financial risk, including the SFC's allocation of £13.9 million of cash advances in 2024/25

11. In 2024/25, some colleges sought financial support from sources including their **arm's-length foundations (ALFs)** or their subsidiaries. For example, New College Lanarkshire received a £1.6 million cash advance from its subsidiary in 2024/25 to meet short-term liquidity need and repaid it in 2025/26.

12. Colleges established ALFs as charitable bodies in 2014 when incorporated colleges were reclassified as public bodies. Colleges transferred a combined £99 million to these foundations when they were set up. This balance, which had decreased to £8.2 million by the end of 2023/24, fell to £6.7 million in 2024/25, as reported in the SFC's Arm's Length Foundations: 2024–25 Update.

13. The SFC supports colleges to manage financial risk through a range of measures, including assisting with the development of financial recovery plans, engagement with colleges by SFC business partners, and the College Transformation Framework (CTF), discussed further at paragraph 44.

14. Some colleges have received financial support from the SFC to manage short-term cashflow pressures, including where costs are incurred before related grant income is received. For other colleges, financial support reflects a more unsustainable financial position. In all cases, financial support is expected to be settled within the same financial year as the associated grant funding is received, although the SFC may provide additional financial support where further cashflow pressures arise.

15. In 2024/25, five colleges received additional financial support amounting to £13.9 million from the SFC, set out at Exhibit 3 (page 14). This is a significant increase on the £5.4 million of financial support received by two colleges in 2023/24. The SFC has provided a further £12 million in support to colleges between August 2025 and July 2026.



Arm's-length foundations (ALFs) are independent, charitable bodies set up by colleges to hold cash colleges are not able to carry forward. Colleges can request access to ALF funding for specific purposes by submitting business cases to the ALF Board.

Exhibit 3.

Financial support provided to incorporated colleges by the SFC

In 2024/25, the SFC provided a total of £13.9 million in additional financial support across five colleges.

College	SFC liquidity support in 2024/25
New College Lanarkshire	**£4.5 million** advance of funding rolled forward from 2023/24
	£3 million advance of funding in 2024/25
UHI Moray	**£0.9 million** advance of funding rolled forward from 2023/24
	£1.1 million advance of funding in 2024/25
	£0.8 million grant to UHI Regional Strategic Body allocated to UHI Moray
UHI North, West & Hebrides	**£1.1 million** advance of funding[1]
UHI Perth	**£1.5 million** advance of funding[2]
West Lothian College	**£1 million** advance of funding

Notes:
1. In order to support transitional costs following establishment of the merged college in 2023/24.
2. In order to manage a 2023/24 deficit, pay awards and voluntary severance scheme costs.

Source: Annual Reports and Accounts for 2024/25, Scottish Funding Council

Arrangements for the settlement of SFC-provided financial support can be unclear

16. Arrangements for the settlement of financial support by colleges to the SFC can be unclear. For instance, New College Lanarkshire received a £4.5 million advance of funding between June and July 2024 to help it meet the cost of nationally agreed pay awards. The college's appointed auditor reported in December 2024 that agreement was still to be reached between the college and the SFC on the repayment of the £4.5 million.[2] In 2025, the auditor again noted that that repayment of this financial support has yet to be agreed with the SFC.[3] The SFC told us that this £4.5 million was refreshed in 2024/25 to support transformation.

17. In 2024/25, UHI Moray received £0.8 million of additional funding to meet voluntary severance scheme costs. The SFC has said that this took the form of a grant to the UHI Regional Strategic Body that was subsequently allocated to UHI Moray. In its 2024/25 annual accounts, UHI Moray describes the funding as an interest free loan from the SFC with no specified repayment date.

18. Transactions between the SFC and one college in 2025/26 indicate that the college repaid £0.75 million of financial support in December 2025 through reprofiling of the college's funding allocations. It then received a further £0.75 million advance of funding paid into the college bank account in the same month. This illustrates both the ambiguity in recognising advances in funding as repaid and that cash advances provide only short-term liquidity support without addressing the underlying causes of cash flow pressures at some colleges.

19. Where a college's request reflects an underlying financial deficit, rather than a timing difference, this may be a sign of financial sustainability risk. The SFC requires a financial recovery plan to be prepared before support is approved, alongside increased engagement and oversight. The SFC has limited capacity to support colleges financially to address the level of challenge the sector currently faces. College sector stakeholders recognise that more fundamental change is needed (progress to reform the college sector is considered in Part 3 of this report).

The SFC has assessed more than half of colleges as at very high or high financial risk

20. The SFC evaluates colleges' financial health using indicators such as monthly cash flow projections, year-end projections and data submitted by colleges in financial forecasting returns. The SFC also considers colleges' individual circumstances, exposure to risk, and capacity to respond to financial challenges, using its judgement to adjust the level and method of engagement that it employs with each college to provide oversight.

21. In April 2026, the SFC classed eight of Scotland's 25 colleges, including seven incorporated colleges, as financially at very high risk, with a further six colleges assessed as at high risk. Colleges assessed to be at higher risk, and those in receipt of financial support, receive more intensive engagement from the SFC's Institutional Financial Health team and Institutional Performance Directorate.

Colleges have reduced their workforce to reduce costs, while the Scottish public sector workforce has grown

22. Colleges employed 12,575 staff by headcount in 2024/25, 520 fewer (four per cent) than in the previous year, and 1,570 fewer than in 2022/23. The college sector workforce has reduced by over 11 per cent in two years.

23. Colleges continue to rely on voluntary severance schemes as the principal means of reducing staff costs in the longer term. The SFC is currently required to approve all schemes. Colleges must comply with a requirement that costs of severance should be in line with thresholds set out in the Scottish Public Finances Manual, currently requiring a payback period not exceeding 24 months and a maximum cost of £95,000 per staff member leaving a post.[4] In 2024/25, appointed auditors did not report any instances of non-compliance in the management of voluntary severance schemes.

24. In 2024/25:

- Voluntary severance schemes at incorporated colleges led to 282 staff leaving post, accounting for over half (54 per cent) of the net reduction in staff numbers during the year.
- Exit packages, as reported in audited accounts, cost incorporated colleges £7.2 million.
- Only three incorporated colleges reported no voluntary redundancies in year (same as 2023/24).
- No college made compulsory redundancies.

25. Latest data from the Scottish Government's Public Sector Employment Statistics show the college workforce reduced by 13 per cent in **FTE** terms between quarter one 2019 and quarter one 2026. During this period the overall devolved public sector workforce, including the impact of organisational **reclassification**, increased by 12 per cent.[5]

Staff costs at colleges are rising despite most colleges using voluntary severance schemes in 2024/25

26. Despite the reductions made to the college workforce over the last two years, staff costs have increased and still account for two-thirds of college expenditure (67 per cent). In 2024/25, incorporated colleges' staff



Full-time equivalent (FTE) is a measure that converts working or study hours, including part time, into a number of full-time staff or students to enable consistent comparison between institutions.



Reclassification refers to the movement of organisations between the public sector and private sector, such as banks and train operating companies.

costs, as reported in audited accounts, rose to £553.7 million, an increase of over £10 million from the £542.9 million reported in 2023/24.

27. The SFC highlighted that rising staff costs due to nationally agreed pay deals was one of the main factors driving college workforce reductions and the use of voluntary severance schemes. In December 2025, a three-year pay deal awarded professional service staff a 4.25 per cent increase for 2025/26 with further increases of 3.4 per cent in 2026/27 and three per cent in 2027/28. In June 2026, a three-year pay deal for college lecturers was agreed between college employers and the college lecturers trade union, the Educational Institute of Scotland - Further Education Lecturers Association (EIS-FELA). This will provide pay increases of 3.75 per cent in 2026/27, 3.25 per cent in 2027/28 and 3.2 per cent in 2028/29. This means that staff costs will increase further, unless staff numbers reduce.

A lessons learned exercise is being undertaken in response to the long-delayed job evaluation for professional services staff

28. A job evaluation exercise by CES and professional service trade unions, that began as a commitment to develop a job evaluation route map within the 2015/16 support staff pay agreement, is still to be completed. Delays arose due to a lack of shared objectives, governance challenges, process design flaws, and resource limitations.

29. A Job Evaluation Project Board was created by CES in partnership with trade unions in December 2025 to re-examine how the college sector can successfully restart the job evaluation process. The SFC has commissioned a lessons-learned exercise to understand why the project was not completed and what assurances are required to restart the project before a revised business case can be approved. This business case will formally set out the purpose of the job evaluation, how it will be delivered, and how much it will cost. It is not yet known when the final lessons-learned report will be published.[6]

30. As we noted in our Scotland's colleges 2025 report, the Director General for Education and Justice confirmed in November 2024 that responsibility for job evaluation funding commitments now rests with the Scottish Government. But future longer-term implications of the outcome of the job evaluation exercise on staffing costs will need to be met by colleges, potentially creating additional financial sustainability risk to the sector.

College auditors have reported financial management capacity issues at some colleges

31. Auditors highlighted finance department capacity challenges at several colleges in their annual audit reports in 2024/25. These included the capacity among small finance teams to support audit delivery, implementation of new financial systems, communication between

finance teams and budget holders, and implementation of auditor recommendations. Colleges will need to ensure that they retain sufficient financial knowledge and expertise to manage the financial sustainability challenge being faced across the sector.

32. We considered the impact of a reduced workforce in our Scotland's colleges 2025 report and recommended that the SFC collate staff views on the impacts of college transformation. Limited progress has been made to implement actions for this recommendation. The SFC intends to meet with the College Development Network (CDN) and Colleges Scotland to discuss opportunities to progress this recommendation, but discussions have not yet taken place, as set out at (Appendix 1).

Funding for colleges increased for 2026/27, but is over seven per cent lower than in 2022/23

33. The Scottish Government announced an uplift in funding for the college sector in its 2026/27 budget, with net college resource rising to £721.1 million. This represents a £61.4 million (9.3 per cent) increase on the £659.7 million funding for colleges in 2025/26. Despite this increase, net resource funding for colleges has decreased by over seven per cent in **real terms** over five years (Exhibit 4).

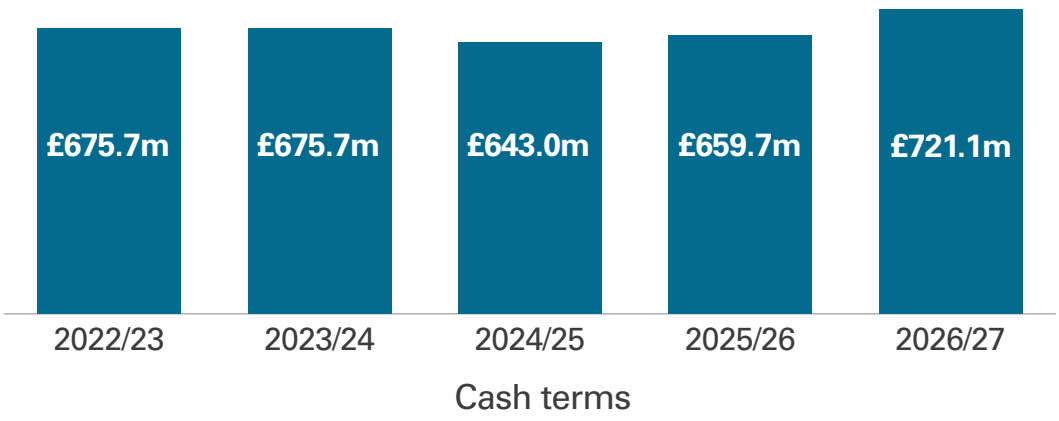


Real-terms adjusts the cash value of money to account for the effects of inflation to allow a more accurate comparison of funding over time.

Exhibit 4.

Scottish Government resource funding for the college sector 2022/23 – 2026/27

College resource (revenue) funding has reduced by over seven per cent in real terms since 2022/23.



↓7.5%
Real-terms reduction in funding

Note: 2023/24 data excludes £26 million funding included in the published draft budget of £701.7 million but subsequently withdrawn.

Source: Scottish Government approved Scottish Budgets 2022/23 – 2026/27; Real terms analysis by Audit Scotland

34. Teaching funding allocated by the SFC accounts for the largest share of overall college funding. Teaching funding increased from £528 million in 2025/26 to £570.5 million in 2026/27 (eight per cent).

It is not clear if current funding will allow colleges to deliver the level of reform needed

35. The Scottish Government says that the increase in funding will both support sector stability and allow colleges to reform. Colleges Scotland has suggested that this single-year uplift is insufficient to support the level of reform that the Scottish Government expects and that further above-inflation settlements will be needed if colleges are to remain sustainable.

36. Not all colleges will benefit from an eight per cent increase (paragraph 34) in teaching funding. Following changes to the funding allocation model for the 2025/26 academic year, some colleges were temporarily protected from significant reductions in their teaching funding.[7] The SFC has used the 2026/27 funding uplift to remove these protections sooner than originally planned, meaning these colleges will receive smaller uplifts. In 2026/27, colleges have received uplifts of between 3.2 per cent and 10.7 per cent. As a result, the SFC recognises that the capacity for colleges to reform will vary.

The Scottish Spending Review allocates additional funds to colleges but does not enable longer-term financial planning

37. The SFC published its Coherence and Sustainability: A review of Tertiary Education and Research summary report in June 2021. This report called for multi-year funding to allow colleges to plan and invest in a more strategic way.

38. In its Scottish Spending Review (January 2026), the Scottish Government announced £146 million of additional resource funding to the college sector over three years to 2028/29 to support reform and transformation, and delivery of services and opportunities for students and employers. However, the £146 million of funding announced in the Spending Review includes the £61.4 million uplift for 2026/27 and overall funding to the SFC is decreasing over this time, as set out at Exhibit 5 (page 20).

39. Colleges do not know how the remaining £84.6 million will be distributed over the final two years of the Spending Review period or what this will mean for future funding. This makes it more difficult for colleges to prepare robust medium-term financial plans.

Exhibit 5.

Scottish Government funding allocations to the SFC 2026/27 – 2028/29

The SFC's spending is expected to decrease over the next three years.

£ million	2026/27	2027/28	2028/29
Cash terms	2,010.6	2,004.7	2,000.6
Real terms	2,010.6 (base year)	1,966.5	1,926.6

Note: SFC funding includes areas of funding that are timebound, for example to support the University of Dundee and infrastructure investment.

Source: Scottish Spending Review 2026 The Scottish Government, January 2026. Real-terms analysis by Audit Scotland

40. The Scottish Government's Tackling Child Poverty Plan 2026–31, Bringing Hope, Building Futures (March 2026), includes a further £21 million of funding available to colleges from the Social Justice portfolio in 2026/27:

- £9 million for RISE (Raising Income through Skills and Education) to support families at greatest risk of poverty to access skills and education, and to enter, sustain and progress in work.
- £2 million Training Access Fund to provide access to training for people in low paid work.
- A new £10 million Flexible Workforce Development Fund is focused on incentivising businesses to offer development opportunities to parents and priority families already in their workforce.

41. The Scottish Government has since confirmed an additional £1 million allocation to RISE, bringing this up to £10 million. These funds are single year commitments; they do not provide medium-term clarity to support colleges' ability to plan strategically.

Despite reducing the workforce and receiving additional resource in 2026/27, colleges continue to face a significant challenge to remain financially sustainable

42. College management and their appointed auditors highlighted financial sustainability risks at almost all incorporated colleges in 2024/25. Appointed auditors' analysis of college medium-term financial forecasts

for the period 2025/26 to 2027/28 found that for the 16 colleges for which we obtained complete data:

- a combined deficit of £19 million was forecast in 2025/26, rising to £27 million in 2026/27 and £32 million in 2027/28
- 11 colleges forecast deficits in all three years
- individual college deficits of up to £8.2 million were forecast in 2027/28, with no college forecasting a single year surplus of more than £0.2 million
- only five colleges forecast an improved outturn over the three years to 2027/28.

43. These forecasts were prepared prior to the Scottish Government including an uplift in funding for colleges in 2026/27. The SFC expects this single-year uplift in funding to provide some short-term relief for some colleges. But it does not remove the underlying financial sustainability challenge facing the sector, which will require significant transformation activity. Colleges need to have clear and deliverable medium-term financial plans that make savings and grow income to ensure their sustainability.

The SFC expects to publish its college Infrastructure Investment Plan in autumn 2026

44. In 2025, the SFC developed a College Transformation Framework (CTF) that allows colleges to vary credit delivery by up to ten per cent and to use funding not recovered to deliver agreed transformation projects. This is to support colleges to transition to longer-term financial sustainability and responds to colleges' requests for more funding not tied to credits.

45. Edinburgh College and Fife College took part in the CTF pilot in 2025/26 and are continuing to use the model in 2026/27. Two further colleges, Glasgow Kelvin College and Forth Valley College, are taking part in 2026/27, with a third college considering participating. Despite the increase in funding available to colleges in 2026/27, most of these colleges told us that this would not impact on the extent to which they need to use the CTF to free up funding for transformational programmes.

46. Colleges participating in the CTF pilot have reported benefits to the **Tripartite Alignment Group (TAG)**. For one college, this enabled a rebalancing of the curriculum through restructuring and reskilling. The other college is preparing a three-year transformation plan with key priorities such as workforce and curriculum development. Upon completion, lessons learned from the two initial pilots will help inform future policy development.



The Tripartite Alignment Group (TAG) was established in 2023. It brings together the Scottish Government, the SFC and Colleges Scotland to provide strategic direction, improve joint working, and address key challenges facing the college sector in Scotland.

47. The CTF does not invest new funding for the sector to reform but allows colleges to reduce their teaching provision at a time when colleges are already unable to meet demand. The SFC told us that the framework is a targeted mechanism to support colleges' transition to longer-term financial sustainability. But it comes at the expense of current teaching provision, and it will not be suitable for all colleges. On its own, the CTF is unlikely to address the sector's wider financial sustainability challenges.

Capital maintenance funding for colleges has increased but remains significantly short of estimated need

48. In our Scotland's colleges 2025 report we found that capital funding was only addressing colleges' emergency needs. In June 2025, the Education, Children and Young People Committee heard that colleges estimate that the cost of delivering maintenance backlogs and to transform campuses to meet net zero were close to £1 billion.[8]

49. The Scottish Government has increased capital maintenance funding for colleges by £8.2 million to £42.7 million in 2026/27 (£34.5 million in 2025/26).[9] This means that a significant gap remains between the funding available to colleges and that needed for estate repairs and transformation.

50. £32 million of the £42.7 million will be distributed to colleges through the funding allocation, with additional grant funding, available on application for high-priority emergency repairs during the year, rising from £2.5 million to £10.7 million. This rise is intended to address the shortfall in high-priority funding in 2025/26, when the SFC received an additional £6.3 million emergency capital funding from the Scottish Government. Colleges' applications for this additional funding totalled £8.6 million.

51. Additional funding for major capital projects fluctuates annually. Fife College has been allocated £1.1 million of capital funding for the Dunfermline learning campus in the Scottish Government Budget 2026/27. The prior year capital budget included over £30 million for completion of this work. Thus, overall capital funding investment in the sector has decreased by around a third in cash terms (£64.8 million to £43.8 million) in 2026/27.

The SFC expects to publish its college Infrastructure Investment Plan in autumn 2026

52. The SFC told us that the **college Infrastructure Investment Plan (IIP)** remains on schedule for publication in the autumn of 2026, but some work strands will continue beyond that date.



The **college IIP** is part of a wider infrastructure strategy for the college sector that aims to ensure that money is invested efficiently to develop a college estate that delivers successful learning and skills outcomes for students, college staff, and communities.

53. Following completion of a first baselining exercise in 2024, the SFC has supported colleges to provide updated and more robust information on the condition of their buildings that allows comparison between colleges. The SFC wrote to colleges in April 2026 making it clear that future capital and maintenance funding will be based on this updated information.

54. On completion of the IIP project the SFC expects to have a much clearer view of the extent of the capital funding requirements for the college sector. This will enable the SFC to put forward a case for college capital funding, to be considered against other public sector areas, to inform future Scottish Spending Reviews.

2. College sector activity and outcomes

Colleges are teaching and training fewer students. Satisfaction rates remain high and the proportion of students successfully completing courses rose in 2024/25.

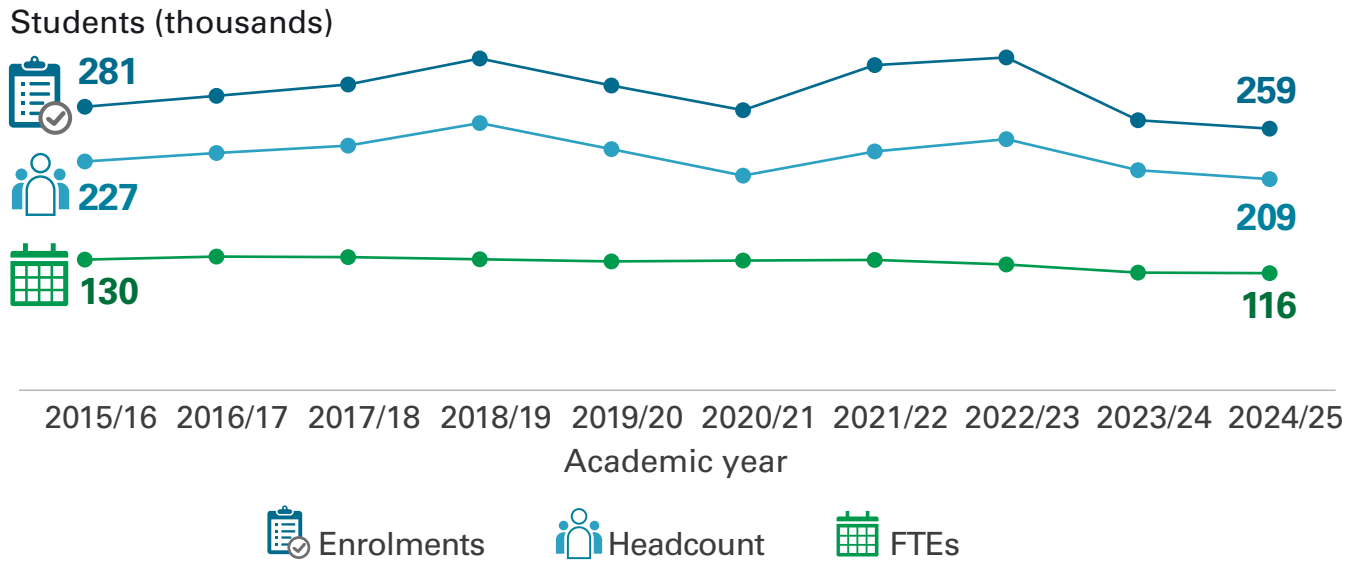
The number of students enrolling at Scotland's colleges is the lowest in ten years after falling for a second consecutive year in 2024/25

55. The number of students attending Scotland's colleges has fallen by almost 40,000 (15.9 per cent) between 2022/23 and 2024/25. Enrolment on courses decreased by 70,600 (21.4 per cent) and the number of full-time equivalent (FTE) students reduced by 8,600 (6.9 per cent) over that two-year period, as shown at Exhibit 6.

Exhibit 6.

Enrolments, students and FTE student numbers at Scotland's colleges 2015/16 – 2024/25

Student headcount, enrolments and FTEs have fallen for two consecutive years and are at their lowest level in the last ten years.



Note: Headcount is the number of individual students attending college. Enrolments is the number of registrations for courses at college. Some students may be enrolled on more than one course. FTE converts study hours into a number of full-time students.

Source: College statistics 2024-25, Scottish Funding Council, February 2026

Colleges delivered on their teaching requirements for the second consecutive year in 2024/25

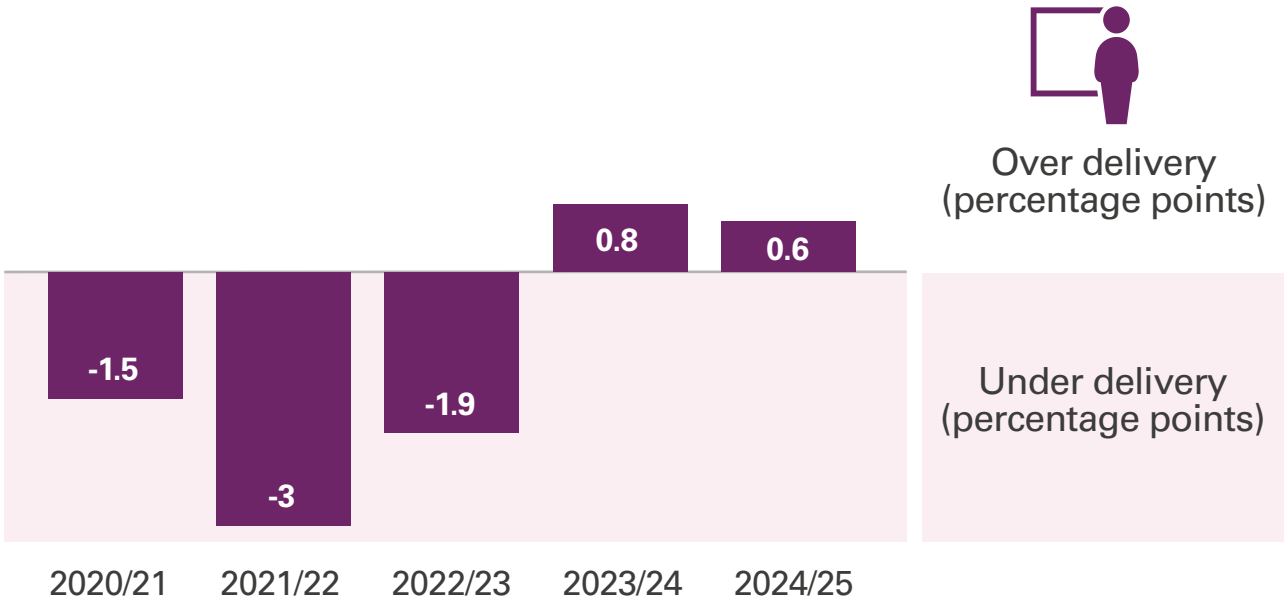
56. The SFC measures the volume of learning activity delivered by colleges using credits, with one credit typically equivalent to around 40 hours of learning. The SFC determines the number of credits to be delivered by each college in exchange for the core teaching grant it receives. This is referred to as the college credit threshold. If a college fails to deliver the agreed number of credits in return for its funding, the SFC may ask for a proportion of funding to be repaid. The funding allocation model currently permits colleges to under deliver on credit thresholds by two per cent without funding being recovered.

57. In 2024/25, colleges collectively delivered 1,561,670 credits. This is eight per cent lower than two years earlier and marginally lower than in 2023/24. Colleges exceeded their collective threshold for teaching volume by 0.6 percentage points (0.8 per centage points in 2023/24) as shown in Exhibit 7.

Exhibit 7.

Over/under delivery of credits by colleges 2020/21 – 2024/25

Colleges have collectively met their credit threshold in the two years since the SFC implemented a ten per cent reduction.



Source: Audit Scotland analysis of College statistics 2024-25, Scottish Funding Council, February 2026

58. In 2024/25, three incorporated colleges failed to meet their individual credit thresholds but met or exceeded the 98 per cent threshold and therefore no funding was repaid to the SFC.

Understanding unmet demand for college courses is complex

59. We reported in 2025 that colleges have reduced the number of courses they offer due to the real-terms reduction in funding. Colleges Scotland note that colleges are still reducing the curriculum they offer and they are increasingly not meeting student demand.

60. Colleges take different approaches to monitoring applications for college placements once courses are full. Students may enrol on a different course at the same college, obtain a placement at a different college, or seek employment if they are unsuccessful in applying to enrol on a particular course. This means that measuring unmet demand from the student perspective is complex.

61. The SFC also suggests that demand for courses from employers may differ from student demand. The number of students wishing to study courses may exceed employer demand, for example. This further complicates how unmet demand is both defined and measured.

62. In 2025 we recommended that the SFC prepares a plan to identify how it will measure unmet demand and carry out annual analysis. As described above, measuring demand is complex. The SFC is taking forward this recommendation as part of the fundamental review of the college funding model and will report progress through this work, as set out at Appendix 1.

Success rates for students improved in 2024/25

63. The SFC's College Student Outcomes 2024/25 publication reports on the course outcomes of students across the sector:

- 'complete success' for students who have gained their qualification or achieved more than 70 per cent in a multi-year course
- 'partial success' for students who have completed the course but have not successfully gained the qualification or 70 per cent in a multi-year course
- 'non-completion' for students who were still enrolled after the funding qualifying date but withdrew from their studies before the programme ended
- 'early withdrawal' for students who had withdrawn from the programme before the funding qualifying date - 25 per cent of the course has elapsed for courses of 20 weeks or less, or five weeks from the course start date for courses lasting more than 20 weeks.

64. For students enrolled on courses lasting 160 hours or more, 'complete success' rates increased to 75.1 per cent in 2024/25 (71.7 per cent in 2023/24).[10] Corresponding rates of 'non-completion' decreased from 14.6 per cent in 2023/24 to 12.9 per cent in 2024/25. The SFC report says that colleges attribute improved outcomes to better staff training, the use of trauma informed practices and targeted learner support.

65. Improved outcomes were reported for students who are care-experienced, disabled students, and those living in Scotland's **most deprived** communities. But these students are still more likely to withdraw from their courses. Course withdrawals can arise for a variety of reasons, including where students find employment, and therefore not all withdrawals should be regarded as an unsuccessful outcome. In around 20 per cent of cases, no known reason is given by the student for their withdrawal. The SFC notes that obtaining the reason for withdrawal can be difficult as students are often uncontactable. It is exploring options to improve response rates (paragraph 73).



The Scottish Index of Multiple Deprivation (SIMD) is a way of measuring how deprived different areas in Scotland are. Here we use SIMD20 – those from the 20 per cent most deprived areas – as most deprived.

Most college sector leavers find positive destinations

66. The SFC defines a student leaving college and entering a positive destination as one who enters employment, training or further study within six months of qualifying. The SFC's College Leaver Destinations 2023/24 report, published in April 2026, found that 85.4 per cent of students leaving the college sector went on to a positive destination (86.7 per cent in 2022/23). The SFC attributes the slight decrease in the proportion of students entering a positive destination to fewer further education students moving to university or entering employment. Students with higher level qualifications were more likely to go on to a positive destination.

67. The proportion of students who remained in college having successfully completed a full-time course increased to 63.1 per cent in 2023/24 (60.8 per cent in 2022/23), a nine-year high. The SFC notes this may be because some students, who were unable to complete all of their courses in 2023/24 due to industrial action, were offered the opportunity to complete remaining courses in 2024/25, resulting in fewer students leaving the college sector. This suggests that efficiency within the college sector to allow students to develop skills and qualifications has been adversely impacted, and that further costs have been incurred to educate those students needing to remain within the college sector.

Colleges provide an important pathway to university for students from deprived communities

68. Colleges play a key role in delivery of the Scottish Government's Widening Access agenda to provide fair access to higher education for students from our most deprived areas and reduce poverty in Scotland.

69. In 2024/25, a record 6,150 (17.4 per cent) full-time first-degree entrants to Scottish universities came from Scotland's most deprived areas, up from 5,445 (16.7 per cent) in 2023/24[11, 12].

70. 2,420 (39.3 per cent) of these students progressed from college, the largest number to do so in the past ten years, and the highest proportion since 2020/21 (40.4 per cent).

Student satisfaction rates increased in 2024/25

71. The SFC's Student Satisfaction and Engagement Survey (SSES) 2024/25 was conducted by colleges, and asked all eligible students if they were satisfied with their college experience. Just under half of surveyed students responded, representing 21 per cent of the student population. Of those responding, 94.9 per cent either agreed or strongly agreed (92 per cent in 2023/24).

72. The SFC is planning revisions to the student satisfaction and engagement survey to better align the survey with the SFC's Outcomes Framework and Assurance Model (OFAM) and the Tertiary Quality Enhancement Framework.

73. The SFC, colleges and the Scottish Qualifications Authority (SQA) re-established a Statistical Advisory Group for Further Education (SAGE) in October 2025 to better understand student journeys through tertiary education. This will include exploring options to improve response rates from college students withdrawing from courses to better understand their reasons for doing so.

74. As colleges continue to face significant financial challenges and undergo a period of transformation, a clearer understanding of students' experiences and journeys through the tertiary education system will help colleges identify the impact of workforce and curriculum changes and respond appropriately.

3. College sector reform progress

Transformational work is now under way but should have started sooner. Colleges' efforts to maximise income generation are not significantly improving their financial position.

The Scottish Government and partners have launched a College Sector of the Future Workstream

75. In March 2026, the Scottish Government, the SFC and Colleges Scotland launched a College Sector of the Future (CSotF) workstream to explore changes needed to ensure the college sector is more equitable, sustainable and maintains colleges' role in communities and the delivery of skills for regional economies.[13] This is a partnership and evidence-based approach, developed through the TAG, intended to tackle challenges collectively and develop a sustainable long-term future for the college sector. The Scottish Government and partners recognise that colleges have delivered savings and efficiencies, but more fundamental reform of the sector is needed.

76. The CSotF workstream is being delivered through three overlapping pillars of work:

- Pillar 1 aims to gather existing evidence on the current and future needs of learners, employers and communities, including costs of delivery and financial flexibilities.
- Pillar 2 is a series of national and regional workshops building on the evidence gathered in Pillar 1, attended by learners, employers and national and regional stakeholders, to evaluate whether existing priorities should be amended and how future priorities can be delivered.
- Pillar 3 will see the co-creation of a set of sustainable and flexible funding framework options.[14]

77. Work on the three pillars is expected to conclude by the end of 2026, with key findings published alongside a suite of recommendations to Scottish ministers to deliver the structural changes needed to allow the sector to deliver what is expected of it in future decades.

78. The workstream sits alongside other programmes of transformational work for the sector. We reported on the Scottish Government's Post-School Education and Skills Reform (PSESR) programme in June 2026. The programme includes projects aimed at simplifying the post-school funding landscape, reforming the apprenticeship model, introducing a new approach to skills planning, improving careers support, and reviewing post-school qualifications. In December 2025, the Scottish Government and Universities Scotland announced a 'Framework for the Sustainability and Success of Scotland's Universities' aimed at securing financial sustainability for the sector over the next 20 years.[15]

79. The Scottish Government says the concurrent delivery of these workstreams will help align tertiary education programmes. But earlier implementation of reforms could have better supported colleges to manage the impact of reduced funding when budget decisions were being made by the Scottish Government.

Sector reform is progressing slowly through a range of programmes

80. The CSotF workstream is dependent on a range of reform programmes that are currently underway across the college sector. These are not new programmes, and while progress is being made, this has been slow:

- Colleges Scotland say colleges have been calling for a fundamental review of the college funding allocation model since regionalisation in 2014. The SFC has agreed to undertake this work, and a requirement to do so has since been included in legislation through the Tertiary Education and Training (Funding and Governance) (Scotland) Act 2026. Key areas of the funding allocation model are yet to be agreed, and implementation is not expected until 2028/29.
- The SFC's Capital Infrastructure Strategy was published in 2022, with work subsequently undertaken to develop baseline data on the condition of the college estate. The associated Infrastructure Investment Plan is due to be published in autumn 2026.

81. The SFC needs to urgently progress these programmes to ensure that they align with and inform further actions to be determined from the outcome of the CSotF workstream.

Limited progress has been made by the Scottish Government and the SFC to implement our recommendations and clearer strategic leadership is needed

82. In our Scotland's colleges 2025 report, we set out eight recommendations for college sector stakeholders to implement. All

eight recommendations are in progress, with most at an early stage of implementation, and three now overdue.

83. A summary of progress against each of the recommendations made in last year's report is set out at Appendix 1. The Scottish Government says the CSotF workstream will allow these recommendations to be taken forward collectively.

The Scottish Government expects colleges to maximise income generated from other sources to support reform

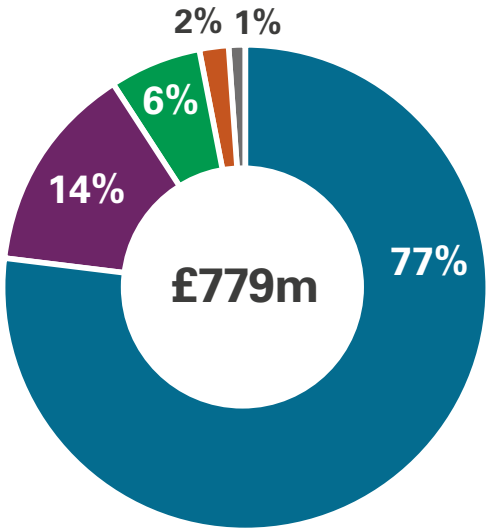
84. In 2024/25, 77 per cent of incorporated college income came from the SFC, with a majority of other revenue coming from tuition fees and other income (Exhibit 8). The profile of college funding has not changed significantly in recent years. SFC core grants accounted for between 76 per cent and 79 per cent of revenue in every year since 2020/21. The SFC reported in its Financial Sustainability of Colleges in Scotland 2022-23 to 2027-28 report that college projections show that this will remain around 77 per cent of sector income through to 2027/28.[16]

Exhibit 8.

Profile of income streams at incorporated colleges 2024/25

Income from commercial activities, within other income, represents a small proportion of overall income.

77%	**SFC Grants:** including teaching funding, other SFC grants, childcare grants.
14%	**Tuition fees & contracts:** including commercial training for employers, international students, short courses.
6%	**Other income:** including catering, residences, nursery provision, un-named income generating activities.
2%	**Other grant income:** including EU and charitable grants, deferred capital grants.
1%	**Investment income:** including bank interest, donations and endowments.



Source: Audit Scotland analysis of Annual Report and Accounts 2024/25 for Scotland's 19 incorporated colleges

85. The Scottish Government expects colleges to maximise income generating opportunities to support their financial sustainability as part of wider reform within the sector. But at the November 2025 meeting of the TAG, the Scottish Government also accepted that significantly increasing commercial income generation is not straightforward for colleges and that there is a need to be clear with ministers on the challenges and options available.[17]

86. The SFC identifies colleges' overreliance on SFC funding as one measure of the financial health of a college within its Outcomes Framework and Assurance Model. But the SFC also notes that income generation at colleges is mixed with some colleges generating more commercial income than others.

Colleges have limited opportunities to generate additional income

87. Our survey of colleges identified commercial training for employers, employer-funded apprenticeship training, and commercial activity such as hair and beauty provision, catering services and equipment and facility hire to be the most common income-generating activities across colleges.

88. Survey respondents told us that income-generating activities, such as hair and beauty services, catering and retail, support student learning but they do not generate significant income. In Scotland's most deprived communities in particular, colleges need to be affordable to their communities, which could place limits on their ability to generate additional income.

Barriers to generating new income are often not within colleges' control

89. Surveyed colleges highlight a range of barriers and associated risks that must be mitigated if they are to engage in additional income generating activities.

90. Many of the barriers affect the whole sector and are not within the control of the colleges. Others are influenced by geographic location and the presence or absence of industry close to the college. This means that not all colleges have the same opportunities to generate income, as set out in (Exhibit 9, page 33).

Exhibit 9.

Barriers and risks to income generation identified by college finance directors and business development network members

Structural barriers and risks impact colleges capacity to compete with independent training providers and generate new income streams despite mitigating actions.

Barriers	Mitigating actions	Residual risks
Workforce limitations:		
• adopting Fair Work First principles and national bargaining pay and conditions • severence schemes reducing skills and capacity	• recruiting associate trainers • building relationships with unions • implementing resource management • employing business development teams • aligning activities with existing curriculum	• failure to deliver core purpose • financial risks • failure to deliver contracts • failure be competetive • industrial action
Financial and economic constraints:		
• single year funding • Office for National Statistics classification • rising costs and limited margins • market uncertainty • limited risk appetite	• developing fully costed business plans • ensuring effective governance • using public procurement contracts • using existing resources • applying to ALFs for grants • securing SFC emergency maintenance funding	• failure to deliver core purpose • financial risks • failure to deliver contracts • reputational risk
Circumstantial limitations:		
• nature of existing estates, equipment and digital capabilities • regional and geographic context • industry presence	• building relationships with employers and industry • collaborating with internal and external stakeholders • increasing marketing and business development activity • using existing assets and skills • aligning activities with regional and national priorities	• failure to deliver core purpose • financial risks • reputational risk

Source: Audit Scotland survey 2026

91. Private training providers are not bound by the same **Fair Work First** employment standards that public bodies are required to adopt when bidding for commercial contracts. Colleges have told us that this makes their bids less competitive.

92. From 2025/26, a contract to deliver learning and development within the Scottish Prison Service, formerly held by Fife College, was awarded to an independent training provider.[18] Forth Valley College bid for the new contract but lost out because it could not compete with the successful bidder on cost. This was despite technical and quality aspects of the college's bid being described as 'excellent'.

93. Colleges Scotland has set out the barriers and risks that colleges face as well as the flexibilities colleges need to grow income generating activity, and this is informing the CSotF workstream. But further discussions are required among TAG members to achieve consensus on what is expected of colleges and what they can deliver.

The TAG is considering how to remove barriers to allow more flexible use of college finances

94. The TAG has considered income generation and college financial flexibilities since September 2024. Colleges Scotland has said that more financial flexibilities are currently afforded to further education colleges in other parts of the United Kingdom.

95. In our Scotland's Colleges 2025 report, we recommended that the TAG sets out what enabling support the Scottish Government and the SFC will provide to colleges to diversify income streams. Workshops took place in December 2025 and March 2026 to understand and explore flexibilities. A paper setting out recommendations for college flexibilities that was due to be published in May 2026 was published in July, without formal recommendations, as part of a suite of papers being published through the CSotF workstream.

96. This work includes an analysis of the Office for National Statistics classification of colleges as public bodies and the consequent restrictions on colleges ability to carry forward surpluses, borrow money to invest in new income generation initiatives, and on procurement.

Colleges are having to adapt to generate or retain commercial income

97. Colleges identified exploring specialisms or new markets as the most important drivers of income generating opportunities, with market engagement key to identifying demand. Following analysis of responses to our survey we carried out fieldwork interviews with **Glasgow Kelvin College** (Case study 2, page 35) and **North East Scotland College** (Case study 3, page 35) to better understand the unique challenges they face, how these are being addressed, and the ways in which they are generating additional income.



Fair Work First principles are a set of seven requirements that public sector employers are required to comply with to support fairness, opportunity and respect in the workplace.

Colleges are currently required to meet two of the seven Fair Work First principles: payment of at least the Real Living Wage, and workers' representation such as trade union recognition.

Colleges aim to meet the remaining principles from April 2027.

Case study 2.
Glasgow Kelvin College



Glasgow Kelvin College staff told us the college is less advanced than some other colleges in developing commercial income streams and due to recent challenges, including the aftermath of the Covid-19 pandemic and industrial action, has not had the resources to develop commercial relationships. The college believes it is now in a position where there are new commercial opportunities to grow income and provide enhanced services to businesses and has taken steps to explore these.

The college has engaged an external consultant for nine months to assess college arrangements and implement structures to facilitate income growth and diversification.

The college has recruited an assistant principal for growth and income diversification with responsibility for growth of all non-SFC income and commercial training.

The college board has increased its risk appetite for income generating activity to facilitate progress.

The college believes it has performed well in retaining existing training contracts during a period of industrial action, in part due to the positive relationships the college has with employers and external organisations.

Source: Audit Scotland

Case study 3.
North East Scotland College (NESCol)



North East Scotland College (NESCol) told us how it, and its subsidiary Aberdeen Skills and Enterprise Training Ltd (ASET) have had to adapt to an increase in the number of competing private training providers and the decline of the North Sea oil and gas industry. The college subsidiary previously benefited from around £7 million of income at its peak but is now forecasting less than half this amount in 2025/26 (£3.2 million).

NESCol is adapting to these challenges by repositioning its subsidiary to address changing demand and priorities and has funded new posts at the college to identify and support further commercial opportunities.

Source: Audit Scotland

Efforts to generate additional income risks diverting focus away from colleges' core purpose

98. Colleges accept that they should generate their own income where opportunities exist, but these opportunities, and colleges' ability to compete for contracts, are limited and vary across the sector. Sector stakeholders need to work together to identify the financial flexibilities that colleges can use to maximise income generating opportunities, but as part of the wider programme of work to set out the core purpose of colleges with respect to meeting the needs of students, employers and local communities.

Endnotes

1 College Final Funding Allocations AY 2023–24, Scottish Funding Council, May 2023.

2 2023/24 Annual Audit Report New College Lanarkshire, Audit Scotland, December 2024.

3 Annual Audit Report 2024/25 New College Lanarkshire, Audit Scotland, December 2025.

4 Settlement agreements, severance, early retirement and redundancy terms - Scottish Public Finance Manual, Scottish Government, June 2026.

5 Public sector employment in Scotland Statistics for 1st Quarter 2026, Scottish Government, June 2026.

6 Job Evaluation Update, National Negotiating Committees, February 2026.

7 College Final Funding Allocations 2025–26, Scottish Funding Council, May 2025.

8 Official Report, The Scottish Parliament's Education, Children and Young People Committee, June 2025.

9 College Final Funding Allocations AY 2026–27, Scottish Funding Council, June 2026. College Final Funding Allocations AY 2025–26, Scottish Funding Council, May 2025.

10 College Student Outcomes 2023–24, Scottish Funding Council, July 2025.

11 Report on Widening Access 2023–24, Scottish Funding Council, October 2025.

12 Report on Widening Access 2024–25, Scottish Funding Council, August 2026.

13 College Sector of the Future workstream launched, Scottish Funding Council, March 2026.

14 Letter from the Minister for Higher and Further Education to the Convener of the Education, Children & Young People Committee, Scottish Government, March 2026.

15 Joint Framework announced to secure the future of Scotland's universities for the next generation, Universities Scotland, December 2025.

16 Financial Sustainability of Colleges in Scotland 2022-23 to 2027–28, SFC, September 2025.

17 Colleges Tripartite Alignment Group minutes November 2025, Scottish Government, January 2026.

18 Annual Procurement Report 2024-25, Scottish Prison Service, February 2026.

Appendix 1

Progress against recommendations published in our Scotland's colleges 2025 report

There has been limited progress against the recommendations set out in our Scotland's colleges 2025 report.

All eight recommendations made remain in progress, with three now overdue.

Scotland's colleges 2025	
Recommendations for the Scottish Government	**Assessment**
Within one year, **issue clear guidance on its expectations of colleges in relation to its public sector reform ambitions** to enable colleges to develop future-focused plans to attract and retain students that align with the wider public sector reform agenda.	**In progress** The Scottish Government has said that guidance on its expectations of colleges in relation to public sector reform will be informed by the outcomes of the CSotF workstream (paragraphs 75–78).
Within six months, **identify ways to analyse the economic impact of reducing funding** to the college sector and carry out an analysis within the subsequent 12 months.	**In progress** **Overdue** The Scottish Government has said that this will be addressed through the CSotF workstream (paragraphs 75–78), specifically through a review of costs, inputs and outputs within Pillar 1. This work is currently being scoped by the Scottish Government, the SFC and Colleges Scotland as part of the CSotF Workstream.

Cont.

Scotland's colleges 2025	
Recommendations for the Scottish Funding Council	**Assessment**
Within 12 months, work with colleges to **prepare a plan to collect views from college staff and collate these at a national level**. This should identify the impacts on staff arising from college transformation, how this is being managed, and good practice that can be shared across the sector.	**In progress** The SFC intends to meet with the College Development Network (CDN) and Colleges Scotland to identify opportunities to collaborate on this recommendation, but discussions are yet to take place (paragraph 31).
Within 12 months, **prepare a plan to identify how it will measure unmet demand for college courses** from students and carry out relevant analysis on an annual basis to help identify gaps in provision.	**In progress** The SFC is progressing this recommendation as part of the fundamental review of the college funding model (paragraphs 60–62), recognising the complexity in identifying and defining unmet demand.
Within 12 months, where needed, **provide support to colleges to submit updated infrastructure strategies** that fully align with the college's strategic and curricula plans and are focused on future need to prevent delays to the publication of the Infrastructure Investment Plan in autumn 2026.	**In progress** The SFC has noted that the quality of college infrastructure strategies varies and has prioritised supporting colleges to provide a second year of baselining data (paragraphs 52–54). Updating guidance on minimum content for infrastructure strategies forms part of the IIP programme.
Recommendations for the Tripartite Alignment Group	**Assessment**
Within six months, **set out plans for colleges to diversify income streams**, outline the associated risks, and set out what enabling support the Scottish Government and the SFC will provide to colleges.	**In progress** **Overdue** Pillar 1 of the CSotF workstream includes an in-depth review of financial flexibilities (paragraphs 94–96) to address some barriers that restrict college capacity to generate new income streams – including powers to borrow and carry forward surpluses, and public sector pay policy and national bargaining.
Within one year, **review and begin to make changes to the funding model for delivery of higher education, further education and apprenticeships** by colleges to ensure it reflects the current operating and funding environment, achieves student equity, and creates the right incentives to deliver against the Scottish Government's strategic objectives for the college sector.	**In progress** Fundamental reform of the SFC's funding allocation model is now under way (paragraph 80) but key areas of the model for reform are yet to be identified. A final report and recommendations are expected in late 2027 for implementation in 2028/29. Reform has been made a statutory requirement through the Tertiary Education and Training (Funding and Governance) (Scotland) Act 2026.

Cont.

Scotland's colleges 2025	
Recommendation for colleges	**Assessment**
Within the next academic year, **identify new opportunities to collaborate** through the sharing of assets, resources and systems, curricula design and sharing of good practice.	**In progress** **Overdue** Colleges collaborate to share good practice through Self Evaluation and Action Plans, a reporting mechanism within the Tertiary Quality Enhancement Framework (TQEF) that sits under the OFAM. The Creating Safer Colleges Toolkit was developed collaboratively between colleges and specialists to provide a consistent, trauma informed approach to tacking gender-based violence in the college sector. New opportunities to share assets, resources and systems are limited. Pillars 2 and 3 of the CSotF workstream are intended to bring stakeholders together to collaborate on and agree priorities across the sector, and to co-design a pathway for delivery that can facilitate greater collaboration between colleges.

Source: Audit Scotland

Appendix 2

Scotland's 19 incorporated colleges

College	AOP surplus (deficit) 2024/25 £000	Change in AOP 2024/25 vs 2023/24 £000	Voluntary Service uptake (staff) in 2024/25	Exit package cost £000
Ayrshire College	(£1,000)	(£664) ↓ (Worse)	9	£384
Borders College	(£363)	(£428) ↓ (Worse)	6	£118
City of Glasgow College	£59	(£71) ↓ (Worse)	9	£282
Dumfries & Galloway College	£10	£3 ↑ (Better)	10	£475
Dundee & Angus College	(£266)	(£2,183) ↓ (Worse)	23	£505
Edinburgh College	(£494)	£1 ↑ (Better)	19	£215
Fife College	£836	(£84) ↓ (Worse)	20	£775
Forth Valley College	(£317)	(£1,302) ↓ (Worse)	0	£0
Glasgow Clyde College	£74	(£118) ↓ (Worse)	17	£339
Glasgow Kelvin College	£240	£41 ↑ (Better)	15	£540
UHI Inverness	(£1,091)	(£470) ↓ (Worse)	0	£0
UHI Moray	(£833)	£217 ↑ (Better)	32	£541
New College Lanarkshire	£125	£368 ↑ (Better)	0	£0
North-East Scotland College	£1,877	£1,362 ↑ (Better)	3	£100
UHI Perth	(£661)	£786 ↑ (Better)	36	£651
South Lanarkshire College	(£1,454)	(£1,832) ↓ (Worse)	37	£1,168
UHI North, West & Hebrides	(£2,189)	£342 ↑ (Better)	13	£454
West College Scotland	(£612)	(£668) ↓ (Worse)	32	£666
West Lothian College	£432	£964 ↑ (Better)	1	£3
Total	**(5,627)**	**(3,736)**	**282**	**7,216**

Note: To allow consistency, the figures used are for the college only. Exit package costs are those reported by colleges in exit packages tables in audited accounts. Some colleges will have incurred additional pension or restructuring costs associated with voluntary severance schemes operating in 2024/25. For Edinburgh College, voluntary severance headcount includes four leavers under 'other' redundancy arrangements.

Source: Audit Scotland analysis of Annual Report and Accounts 2024/25 for Scotland's 19 incorporated colleges

Scotland's colleges 2026

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