6th October 2025

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NEW COLLEGE LANARKSHIRE
Bringing Education Closer

Agenda

NCL Board – Meeting Room Coatbridge Campus and Via Teams

5 pm 6th October 2025

1. Chair's welcome	Dave Winning
2. Apologies for Absence	
3. Declarations of Interest	
4. NCL Board Minutes	
4.1 Board Minute 9th June 2025	Dave Winning
4.2 Special Meeting of the Board 26th June 2025 – BTO	RG/CM
5. NCL Committee Minutes (FI) ~	Minutes Posted
5.1 CSAO 1st September 2025~	Dave Winning
5.2 ARC 1st September 2025 ~	Yvonne Finlayson
5.3 RGP Committee 8th September 2025 ~	Keith Fulton
5.4 Finance Committee 8th September 2025~	Paula Blackadder
6. NCL Student Association Report (FI)	Verbal Report – DP
7. Chair's Report (FI)	Verbal Report – RS
7.1 Chair's Overview	
7.2 National Committees	
8. Update from College Employers Scotland (FI)	Paper Posted – ET
9. Regional Outcome Agreement/ SEAP (FI) ~	Verbal Update – JL
10. NCL Risk Register (FI) *	Paper Posted – RG
11. NCL Finances Update (FI)	Papers Posted – LM
11.1 Cash Flow and Year End Position 24/25 (FI)	
11.2 FFR (FA)	
11.3 AMCOL (FI)	
12. Principal's Update (FI)	Verbal Update - CM

NEW COLLEGE LANARKSHIRE
Bringing Education Closer

13. Board Business

13.1 NCL Board Dates (FI)	**Paper Posted - BS**
13.2 On – line training (FI)	**Verbal Update - JL**
13.3 Board Strategy / Training Day (FI)	**Verbal Update - BS**
13.4 NCL Evaluation - Review of the Chair (FI)	**Paper Posted - BS**
13.5 Approval of Publication of Papers from the Board (FA)	**Verbal report- BS**

14. AOB

15. Date of Next Meeting: The scheduled date of the next meeting of the New College Lanarkshire Board is **10.30 am Monday 8th December 2025 in the Motherwell Campus Boardroom with Christmas Lunch in ML One to follow.**

The Lanarkshire Board – Boardroom Motherwell Campus and Via Zoom

5 pm 9th June 2025

Present: Ronnie Smith, David Alves, Keith Fulton, Yvonne Finlayson, Fraser Hainey, Elaine Loudon, Christopher Moore, Kellyann McGraith, Stella McManus, Barbara Philliben, Catherine Pollock, Lisa Reid, Dave Winning.

Via Zoom: Paula Blackadder, Catriona Blacker, Ann Doherty, Eileen Imlah, Moira Jarvie, Douglas Morrison, Alastair Rennie, Joanna Rosie.

In attendance: Elizabeth Arogbofa, Ann Baxter, Ronnie Gilmour, Jennifer Lowe, Lynn McKenzie, Elaine Turkington, Penny Neish and Diane McGill. Candy Munro attended for the CDN presentation and the CDN External Evaluation.

1. Chair's welcome: Ronnie Smith welcomed Board Members to the last scheduled meeting of the Lanarkshire Board – the RSB - and thanked them for attending. It was also Ann Baxter's last meeting at the Board before her retiral and he thanked her for her contribution to the Board and its committees over her long and distinguished career with New college and its predecessor. Finally, he welcomed Jennifer Lowe who had been recently appointed as the new Deputy Principal for Curriculum and Student Affairs.

2. Apologies for Absence: There were apologies from Tarryn Robertson and Julie Webster.

3. Declarations of Interest: Ronnie Smith and Ann Baxter declared interests in AMCOL through their Board membership.

Presentation – Candy Munro gave a presentation on the CDN resources available to support Board Members and demonstrated what is available to Board Members on line through the CDN website. Board Members who had not yet looked at the resources were encouraged to do so and Board Members were reminded that the on-line induction is a requirement for Board Members. The Chair thanked her for the presentation.

4. NCL Committee Minutes

4.1 CSAO 12th May 2025: Dave Winning drew the Board's attention to the Student Association reports and the work that the Association does on the student's behalf. Keith Fulton inquired about the student destination figures. It was confirmed that there was a focus on this and that the number of positive destinations had improved.

4.2 ARC 12th May 2025: Yvonne Finlayson noted that Audit Scotland had been asked if there was any guidance from them on how to arrive at the reliable estimate they were seeking from the College and Louisa Yuill was going to come back to the ARC on this matter.

4.3 RGP Committee 19th May 2025: Keith Fulton informed the Board that Items 5.1, 7 and 8 would be covered later in the Boards agenda.

4.4 Finance Committee 19th May 2025

4.4.1 Minute: Paula Blackadder drew the Board's attention to the £2 million transfer from AMCOL to NCL to support the college's cash flow which would be repaid to Amcol in due course. She also welcomed the positive report from the Cumbernauld Nursery.

4.4.2 Procurement Strategy: The strategy was approved by the Board.

4.5 Chairs Meeting 24th March 2025: The Board noted the minute.
4.6 Chairs and Remuneration Committees 7th April 2025: The Board noted the minute and the Chairs update.

5. SLC Committee and Board Reports

5.1 SLC Committees Update: The Board received the reports from the SLC Learning and Teaching Committee, the SLC ARC, the SLC Finance Committee and the Human Resources Committee. These reports are on the SLC website. The Lanarkshire Board noted the reports including the Finance Committee report setting out the voluntary severance scheme, legal fees and cash flow.

5.2 SLC Chairs Board Update: The SLC Chair presented his report to the Lanarkshire Board. He noted broader changes in the tertiary sector, a new Chief Executive at Colleges Scotland, the dissolution date of the 30th July for the Lanarkshire Board, changes to the SLC Board and that Chairs of assigned colleges would have to apply and go through the public appointments process if they wished to become the Chair of a Regional College. The Lanarkshire Board noted the report.

6. Lanarkshire Board Minutes

6.1 Minute of the Lanarkshire Board 17th March 2025: The minute was approved.
6.2 Minute of the 13th May 2025: The minute was approved but it was noted that it is confidential due to commercial sensitivities and not for publication.

7. Chair's Report

7.1 Chair's Regional Overview: The Chair informed the Board that all was on target for the dissolution of the Lanarkshire Board on the 30th July 2025. This would therefore be the last scheduled meeting of the Board. The SFC wanted to carry out a reflections exercise with Board Members as they had in Glasgow with the GCRB. This would involve a focus group for Board Members facilitated by the SFC and this would be before the end of July 2025. They were also going to carry out a separate governance review which would include broader lessons to be learned from recent experience at SLC.

7.2 National Committees: The Chair noted a new organizational model for Colleges Scotland with a new small group pf Trustees who would oversee the organization and a new body - the Council of Members – who would agree strategy. There was a new Chief Executive – Gavin Donoghue – who was formerly the Chief Executive of Colleges' Employers Scotland. Ronnie Smith also informed the Board that he was stepping down as Chair of the Colleges Scotland Audit Committee.

7.3 Regional Overview: This was as at 7.1 above.

7.3 Lanarkshire Region Update: This was as at 7.1 above.

7.4 Galliford Try: Keith Fulton updated the Board as follows:

- The 30th June was the deadline. There were issues in any extension as this would involve extending the sist which would have associated costs and the supply chain may not agree.

- A new draft of the settlement agreement had just been received. Christopher Moore and Keith Fulton would review this with Fraser Hopkins with particular attention to the clauses that were causing concern about the scope of NCL's powers to bind other parties, the "gagging" clause and also the sum offered being the full measure of the costs
- It was flagged at the Board that there may have to be another meeting to agree the final position.

7.5 There was discussion about the proposed sale of the land at the former Coatbridge College nursery. There were issues about whether it was advantageous to have planning permission or not and bids had been received with conditions which would be onerous.

Decision: It was recommended that the Board agree to pause the process until later in the year. The Board approved this recommendation.

8. Update from College Employers Scotland

8.1 Update: Keith Fulton drew the Boards attention to the latest position re job evaluation as follows:

- **Ballots:** UNISON and Unite held member ballots clarifying the employer's position in respect of Pay Harmonisation and Back-pay. These ballots asked their membership, in light of these clarifications, if they wish to continue with National JE, but with a recommendation to accept. It has been confirmed verbally by CES that the results of both ballots indicate that the majority of their members wish the National Job Evaluation Project to proceed. GMB advised CES that their members have been clear that they do not think the current proposal on job evaluation is sufficient.
- **Timeline:** A draft High-level Activity (Headline and sub-tasks) and Timeline for the completion of the JE Project has been drafted but requires further review and discussion at a joint employers' and support staff working group. The joint working group will also discuss six key themes that have been identified in separate discussions with each side.
- **College preparation:** Colleges have been asked to start preparatory work to map job history from 2018, ensure Job Descriptions and Organisation Charts are updated and confirm the number of roles to be evaluated. This information will also be used to develop the Business Case.

8.2 Representation: The NCL representation on College Employers Scotland was up for renewal. Keith Fulton and Elaine Turkington are the current representatives.

Decision: The Board approved both representatives continuing in this role.

9. Regional Outcome Agreement/ SEAP:

Ann Baxter informed the Board as follows in relation to the Outcomes Framework and Assurance Model (OF&AM) Quarterly Engagement meeting held on 15 April 2025.The focus of the April meeting was Funding Regularity and the Quality Self Evaluation Action Plan (SEAP).

9.1 On funding regularity:

- Discussed funding regularity and noted that the college is on track to meet credit target with a positive trajectory.
- The college expressed disappointment with the indicative funding allocation, particularly around the premiums. The Principal and team would welcome ongoing engagement with relevant SFC colleagues regarding the new approach to the funding allocation. SFC will follow up with Funding colleagues to see who is available to provide further detail and support discussions with the college teams as needed.
- Grade inflation across certain universities was discussed, along with the challenges it poses to the college sector. SFC were aware of these issues from information supplied by other institutions and will continue to monitor impact.
- SFC highlighted the development work underway on the SFC data dashboards. When complete this will allow SFC to share a summary of the data with the college in advance of OF&AM meetings. Prior to finalising the dashboards SFC will seek feedback from sector colleagues.

9.2 On the SEAP:

- The SEAP highlighted the college's significant investment in strategic priorities: recruitment, retention, and withdrawal mitigation, ensuring progression to higher education or employment. New College Lanarkshire is now above the national average for positive destination based on published data from SFC on 16.4.25.
- The college highlighted the creation of its internal data team and the impact this will have in future. SFC would welcome the opportunity to learn more about the college's approach to data collection and use and how this evidence will contribute to identifying key areas for intervention.
- A strong emphasis on student voice is embedded in the new learning and teaching strategy, featuring formal feedback cycles, active student participation in curriculum design, collaborative partnerships, and targeted support for student needs, including various mental health initiatives. SFC welcomed NCL's offer of a follow-up visit to learn more about these developments. The annual SFC SSES continues to have high levels of engagement with FEFT having a response rate of 71.78% and HEFT response rate of 56.97%.

9.3 Other:

- SFC particularly valued the overview provided of the opportunities and challenges facing the college and the region moving forward and recognise the efforts of the college to address these and provide a supportive learning environment for all its students.
- The delivery of the BA Business & Leadership Programme, a partnership between NCL and UWS, was discussed, including concerns about SAAS funding being limited to part-time study. SFC understood this lies with SAAS, but offered to follow up with the SFC funding team to explore this further.

9.4 The next meeting is on 8 July and will be an on campus and includes a visit to the Wellbeing Academy and Under Graduate School. The meeting will cover:

- Student Interests, Access and Success (in particular recruitment of students, from the most deprived SIMD areas).
- Financial Sustainability (Annual Reports and Accounts).

10. Regional Risk Register.

10.1 Ronnie Gilmour informed the Board that there are a total of 20 Strategic Risks logged as at Regional Strategic Risk Management Group (RSRMG) on 19 November 2024.

10.2. Risk Movements:

- There is no change to 18 risks.
- Risk O - "Inability to invest in the development of management systems, technology and the necessary level of iCT support staff required to adequately support and maintain them.." moves UP to a residual risk score of 9 (from 6).
- Risk M - "Catastrophic loss of building, infrastructure or utilities." moves UP to a residual risk score of 9 (from 6).
- All other risks remain the same as per February 2025.
- Whilst there is no change to risk score or residual risk, risks A, D, B, S, W and P have had updates to Risk Definitions and/or Risk Treatments.

10.3 Two risks are above the committee's threshold level and therefore are subject to Control Action Planning. These are:

- Financial: "A" Unable to maintain operating budget while delivering high quality, relevant and responsive education - very high (Above Amber [high] threshold
- Financial: "D" Inability to secure appropriate levels of funding to respond to operational and strategic priorities - very high (Above Amber [high] threshold) .

10. 4. Elaine McKechnie informed the Board that the SLC Risk register shows that **t**here are a total of 15 risks logged - the same as February 2025. Three risks have increased - Risks 5, 7 & 12

11. Lanarkshire Colleges finances update

11.1 NCL Update. Lynn Mackenzie updated the Board as follows:

- It was expected that the 24/25 accounts would show a break-even or small surplus
- There was no update from the SFC on the £4.5 million loan and whether this would have to be paid back.
- There had been a £2 million transfer from AMCOL to alleviate NCL cash flow and this would be returned in due course.
- NCL was awaiting a £3 million cash advance from the SFC by July again to alleviate NCL cash flow.
- The FFR was to be submitted in draft by the 30th June 2025 and this would show a deficit budget.
- Huge pressures are being put on college sector finances through external factors such as the NI increase for employers which was not fully funded, pension increases again not fully funded and salary awards not fully funded. Each time measures such as VS, asset sales and cost cuts were taken to alleviate the position another external factor out-with the college's control would arise to again put pressure on the budget and cash flow.

11.1.2 Ronnie Smith commented that there was no acknowledgement from the SFC or Scottish Government that the situation with college sector finances needed to be fixed. The Auditor general had produced a special briefing

on college sector finances last year and still there was no action. Eileen Imlah agreed that the position was very serious with cuts followed by further cuts and it raised issues about the impact on the communities that the colleges served. She posed the question of when Boards would have to say that the colleges can't continue to do what they are doing. Christopher Moore agreed with these comments and raised the issue of what was being communicated to the SFC and the Scottish Government by the sector and by individual colleges and how this was being communicated. There was a need to intensify the communications to convey the depth and urgency of the situation. Ronnie Smith said that he would support a delegation to the SFC and/or the Scottish Government.

11.2 SLC Update - Elaine McKechnie said that SLC was in much the same position with a draft deficit of £1.116 million (£2.036 million full year) as at 31st March 2025. The Finance Directors' Group was looking at the position across the sector and only 3 out of 21 colleges would be in surplus next year. Most colleges would be in deficit by 26/27.

Action: The Finance Committee will receive further reports at its next meeting including the FFR which the Board will also receive for consideration at its next meeting.

12. Student Association Reports:

12.1 NCL Student Association Report: In the absence of the student President, **Ann Baxter reported that** Overall NCL Students' Association has had a busy and successful year with Chloe Sandilands – Student President at the Motherwell campus winning Outstanding Contribution from a College Student at the Herald awards. In the end of year, Student Satisfaction and Engagement survey, the question "the college Students' Association influences change for the better" (excluding don't know respond) had an overall satisfaction of 92.7% up from 91.5% in 23/24. When the don't know responses were included overall satisfaction was 58.3% up from 51.9% in 23/24.

12.2 SLC Student Association Report: Catriona Blacker presented her report saying that the student engagement had been great during the year and she highlighted the LGBTQ activities and the Easter activities.

The Chair thanked the Student Presidents for all of their work during the year.

13. Principals' College Update Reports

13.1 SLC Update. Stella McManus updated the Board as follows:

- The Regional Strategic Bodies and Regional Colleges (Glasgow and Lanarkshire) Order 2025 was formally laid in Parliament on 1 May 2025, with the formal date for de regionalisation to take place on 30 July 2025.
- Scottish Government launched their programme for Government on 6 May and elements focus on the skills and training agenda.
- The College had its first formal engagement meeting with the SFC under the new Outcomes and Assurance Framework on 1 May 2025, with no areas of concern raised.
- Key priorities for Colleges Scotland have been developed by College Principals, and which will feed into manifestos.
- UNISON and Unite members have voted overwhelmingly to accept the refreshed proposals and approach to job evaluation.

13.1.2 Stella McManus said that on a positive note that she was looking forward to continuing working with NCL and its staff following the dissolution of the Lanarkshire Board and that this was not the end of the story.

13.2 NCL Update

Christopher Moore updated the Board as follows:

- NCL has been named as the first ever FE Institute of the Year at the 2025 Herald Education Awards for Further and Higher Education. The Outstanding achievement award was made to Chloe Sandilands, the Widening Access Award for the Undergraduate School in partnership with UWS, the lifetime Achievement Award to Ann Baxter and Outstanding Business Engagement in Colleges to the CLIC Project shared with partners. This is a tremendous list of achievements and a fantastic recognition of the efforts by staff over the year. He announced an extra days holiday at the end of the summer term to mark this occasion.
- He said that there were next stage collaborations under discussion with UWS as well as with strategic partnerships with employers who wanted to do something significant. This would come to the next meeting of the Board and there would be Board consideration of the Strategy 2030 in October.
- Jennifer Lowe was the new Deputy Principal and there would be consideration of her former post as Assistant Principal to adjust the focus of that post to strategy and impact.

14. Approval of Publication of Papers from the Board: The Board approved the publication of the agenda, the minute of the 17th March 2025, the update on College Employers Scotland in the College Registrars Report, the Student Association Reports and the External Evaluation Report.

15. External Evaluation Report : Candy Munro presented the report

- The transition from a RSB to a smaller and simpler structure as a Regional College presents a range of opportunities for the New College Lanarkshire (NCL) Board to spend more time on strategic decision making, operate as a team, and continue to innovate and focus on the needs of NCL students.
- The transition is being carefully planned. It will be important to ensure that the Board of NCL has the right number of members with the blend of skills and experience required by the college. This will require succession planning and building the 'new' Board as a team, which should be a priority.
- This is a strong Board with an excellent range of skills and experience amongst the membership.
- The launch of the NCL Strategy 2030 is an opportunity to harness the enthusiasm and commitment of the Regional College Board around the new strategic plan. Board members have been engaged in the development of the new strategic plan.
- The Board benefits from strong leadership from an experienced and skilled Chair who encourages contribution from all members, builds consensus, and effectively sums up Board discussions and decisions.
- There is a constructive working relationship between the Board and the executive team based on respect and a mutual understanding of each other's roles. This is an engaged and supportive Board.
- Compliance with the Code of Good Governance is monitored and reported to the Board through a compliance checklist which is maintained by the Governance Professional.

15.2 Keith Fulton commented on the observation about being able to take less detailed minutes. He felt that with the more detailed minutes Board members needed less explanation. It had also been important in the context of being an RSB. He also updated that he was in the process of conducting the review of the Chair and that the feedback was very positive and that this was a testament to how the Chair had built consensus and a team approach in the Board.

16. AOB: There was no other business.

17. Date of Next Meeting: The scheduled date of the next meeting of the New College Lanarkshire Board is Monday 6th October 2025 at the Coatbridge Campus.

18. Reflections on the RSB: Ronnie Smith thanked all who had served on the Lanarkshire Board -the RSB - and looked forward to new beginnings for NCL and for SLC.


NCL SA
UPDATE

WHAT WE'VE BEEN UP TO

2 successful passport to health events

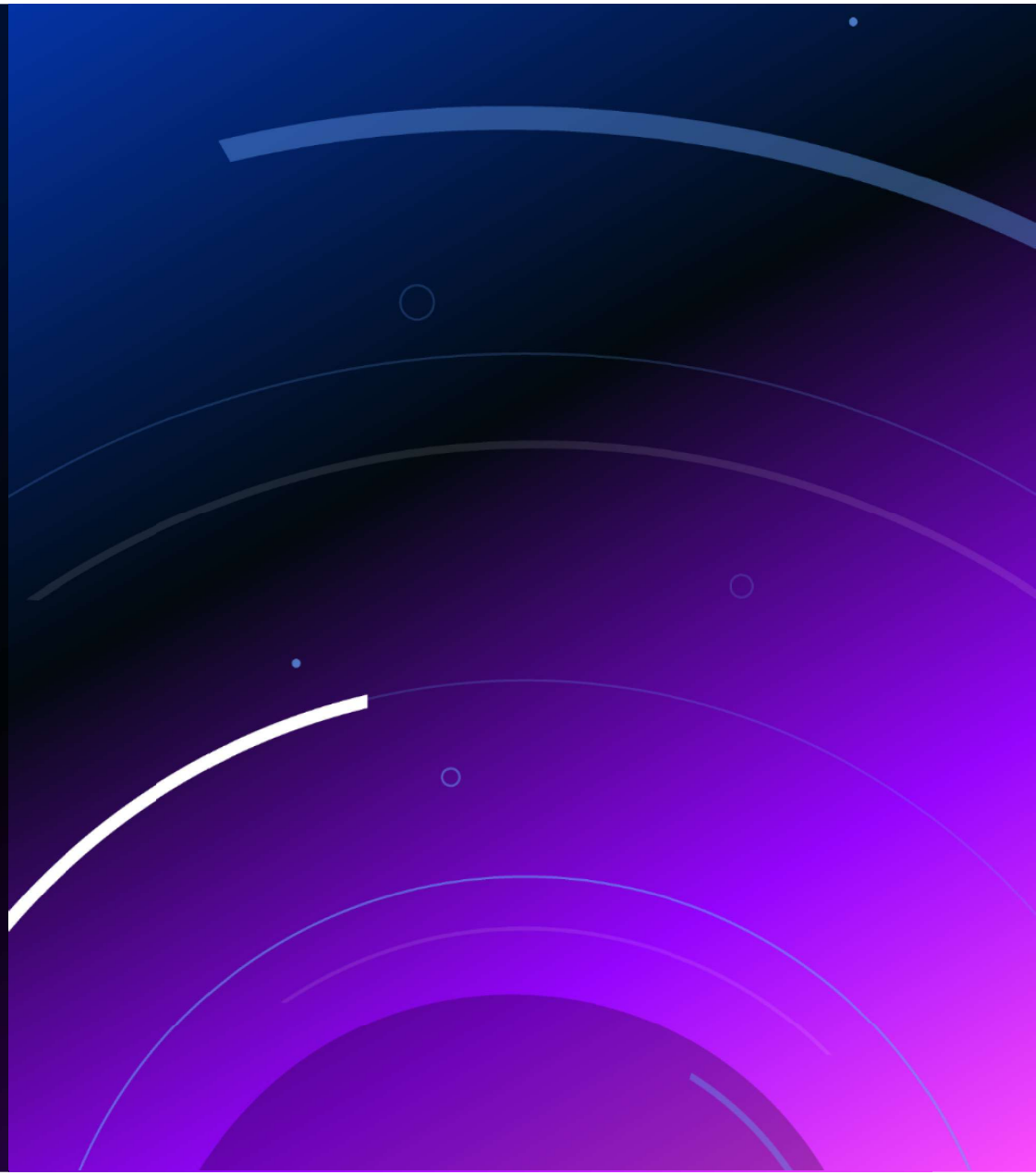
Sparqs training

Campaign Days

Ready Set Apprentice

Welcoming Students

Scottish Student Sport



PASSPORT TO HEALTH





In May and the start of September the SA ran the Passport to health event.

It promoted health and wellbeing on campus with various partners coming in, mental health and wellbeing checks, therapets, music, physical health checks.

Many students said that they had benifited from the event!

We hope to run more events like this that are just as successful to help students find support and try out new things.

PASSPORT TO HEALTH VIDEO

SPARQS

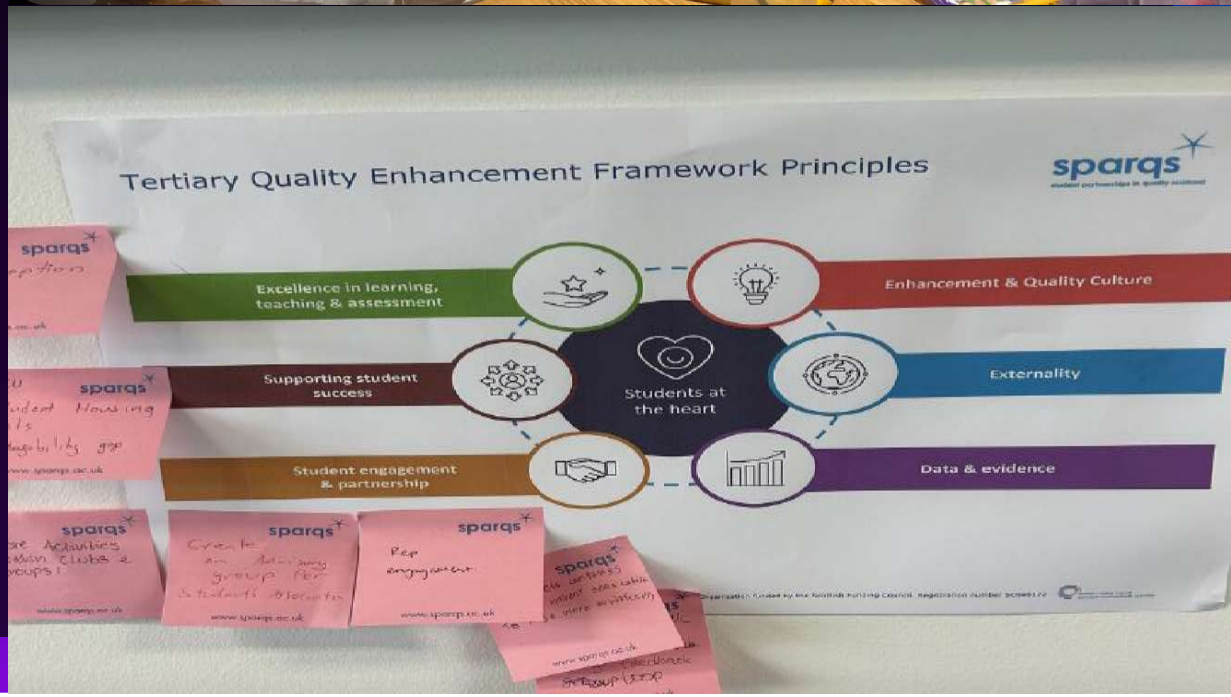
THAT'S QUALITY AND CLASS REP TRAINING



THAT'S QUALITY

1. That's Quality is a two day event held at QMU Edinburgh for Scottish sabattical officers.
2. I got the chance to meet and chat to lots of amazing people, exchange ideas, join campaigns and made new friends!
3. I joined the Scottish student housing and poverty campaign
4. Gained valuable information on the process of writing a SEAP
5. UWS SU are coming to our Motherwell campus to see what wer'e doing to tackle poverty
6. My team also won the quiz!!!!!!





CLASS REP TRAINING

A GREAT OPPORTUNITY TO MEET PEOPLE FROM OTHER INSTITUTIONS AND TO SEE HOW THEY RUN

THE TRAINING WAS REALLY IN DEPTH AND THOURUGH

NCL IS NOW ABLE TO ADMINISTER THE TRAINING ON CAMPUS IN THE WELLBEING ACADEMIES

CLASS REP MEETING ATTENDANCE WILL HOPEFULLY GO UP BECAUSE OF THIS

CAMPAIGNS I'VE BEEN INVOLVED IN





In August I joined the National Student Housing and Poverty Campaign.

The scottish government are pasing the Housing Bill currently, the action the campaign is taking ties in greatly with my manifesto priorites.

Further campaign mobilisation is happening on the 25th of October, I will be a key speaker at the Action For Poverty Rally.

LOOKING AT GBV IN EDUCATION AND ELECTION

I am hoping to be involved I the national campaign against GBV (gender Based Violence) in scottish institutions.

I met with Sandra McLaughlin to discuss a strategy for the upcoming election (scotland) to try and get our students to vote, holding a hustings was discussed.







READY SET APPRENTICE!

Over the last 2 week the SA held the Ready Set Apprentice event.

This event targeted our predomenlty male apprenticship students and offered them money help work shops, mens mental health sessions, team building, free lunches, sport and general wellbeing activites. We also launched our Padlet.

It was amazing to see so many students get involved!

WELCOMING STUDENTS

- As Students have started coming back the SA has been supporting everyone that comes to us!
- On the first week of term we had lots of our poverty bank uses.
- Our wellbeing academies are back to being used as wellbeing spaces.
- Lots of students have been enquiring about clubs and socieites



SCOTTISH STUDENT SPORT

I was asked to be a college representative for SSS (Scottish Student Sport).

I have also been looking at getting more of our students involved in sport, particularly Football, Basketball and a new oppertunitiy that has arisen- Shinty!



Financial sustainability of colleges in Scotland 2022-23 to 2027-28

Scottish Funding Council
Comhairle Maoineachaidh na h-Alba

SEPTEMBER 2025

Introduction

The Scottish Funding Council (SFC) has a key role in ensuring that the colleges we fund plan and manage their activities in a way which ensures their sustainability and financial viability. This report provides an aggregate picture of the financial health of Scottish colleges, based on their annual accounts for academic years 2022-23 and 2023-24, and the latest forecasts for the four academic years from 2024-25 to 2027-28.

Incorporated colleges, non-incorporated colleges and Glasgow Colleges' Regional Board (up to 2024-25) are all included in the analysis[1]. The one exception to this is UHI North, West and Hebrides, established on 1 August 2023 following the merger of UHI Outer Hebrides, UHI North Highland and UHI West Highland. This report includes the 2022-23 results of the three legacy colleges, but the 2023-24 result for the merged college has been excluded as its annual report and accounts had not been finalised at the time of writing this report. This needs to be taken into account when comparing 2022-23 and 2023-24 results, and the 2023-24 result with the 2024-25 forecast for the sector.

An explanation of the college regional arrangements is provided in **Annex B** and a map of the college regions in **Annex C**.

The report also considers key risks that could have a significant impact on colleges' financial sustainability and mitigating actions colleges are taking to remain financially sustainable. In the context of our assessment of sector finances, SFC engages regularly with the Scottish Government, sector bodies and auditors.

SFC has previously reported on the financial sustainability of the college (and university) sectors in SFC/CP/02/2020, SFC/CP/05/2020, The Financial sustainability of colleges and universities in Scotland – Review report in October 2020, Coherence and Sustainability: Financial Sustainability of colleges and universities in June 2021, SFC/CP/02/2022, and more recently SFC/CP/01/2024 and the May 2025 financial sustainability analysis.

1 Scotland's Rural College (SRUC) is classed as a higher education institution and is covered in the publication Financial sustainability of universities in Scotland 2022-23 to 2026-27.



SFC monitoring and engagement

SFC monitors and assesses the financial health (sustainability and viability) of colleges and supports them in making the best use of their resources through regular engagement and analysis of financial returns which colleges are required to submit to SFC each academic year. SFC also considers colleges' individual circumstances and exposure to risk, capacity to respond to financial challenges and other relevant available information.

Financial sustainability is a condition of grant set out in SFC's Financial Memorandum with colleges. Colleges are responsible for their own financial sustainability and are required to notify SFC if they identify material risks to their financial viability or sustainability.

SFC increases levels of engagement and monitoring activity for those colleges facing significant risks to their financial health. SFC works closely with such colleges to understand and assess the problem areas and requires colleges to develop transformation plans to bring them back to a sustainable position. This informs SFC's overall Outcomes Framework and Assurance Model, which sets out SFC's expectations of colleges and universities in return for the funding that they receive.

Photo: Sabhal Mòr Ostaig



Photo: Dumfries and Galloway College

Financial health of the college sector

Key messages

Colleges continue to operate in an extremely tight fiscal environment alongside many challenges such as increasing staff costs, general cost pressures and high energy costs. Increasing staff costs are the largest factor and are likely to remain a significant pressure as they constitute over two thirds of colleges' expenditure.

The financial position of colleges continues to be extremely challenging. The sector reported an adjusted operating deficit of £1.2m in 2023-24. This represents an improvement against the 2022-23 result (£14.7m deficit) due to reductions in staff costs reflecting voluntary severance activity. Nine colleges reported adjusted operating deficits in 2023-24.

The sector's adjusted operating deficit is expected to increase to £10.7m in 2024-25. This deterioration against 2023-24 reflects higher staff costs (due to pay pressures) partly offset by higher tuition fees and other operating income and lower other operating costs. Seventeen colleges (68%) expect to report adjusted operating deficits in 2024-25.

Further substantial adjusted operating deficits are forecast over the next three years. Twenty-two colleges (92%) are forecasting adjusted operating deficits in 2025-26, reducing to 21 colleges (88%) in 2026-27 and 20 colleges (83%) in 2027-28. **These forecasts show that most colleges are not sustainable.** We have previously reported that colleges take a cautious approach to forecasting, often resulting in better than anticipated results. This position has changed due to the current challenging financial environment and improvements on forecast will be extremely difficult to deliver.

Colleges remain highly dependent on SFC grant which is forecast to remain at 77% of total income. Forecasts include relatively flat SFC grant set against pay pressures including annual pay awards and rising employer National Insurance contributions and pensions. As a result of these pressures, many colleges have highlighted that savings required to balance their operating position would have profound negative impacts on curriculum delivery, student numbers and quality of provision, staff numbers and morale, and local communities. **An increasing number of colleges have reported that continued savings of that scale will not be achievable.**

Staff costs continue to be the largest element of colleges' spend at just under 70% of total costs. These costs are the focus of savings as colleges urgently try to balance their budgets in the current fiscal environment. Colleges have limited flexibility on pay deals due to national bargaining and public sector pay policy, staff savings are necessarily focused on reducing staff numbers. The sector reported staff restructuring costs of £10.2m in 2023-24 and forecasts staff restructuring costs of £7.4m in 2024-25 and £1.9m in 2025-26. Based on current forecasts, staff reductions of 667 Full Time Equivalents (FTEs) are 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. Staff reductions are expected to be achieved through a combination of vacancy management, voluntary severance schemes and, as a last resort, compulsory redundancy.

Estates issues are directly driving serious financial issues in many colleges. Issues such as extensive backlog maintenance, RAAC, and defective cladding are key drivers in this. However, the estates also require to be modernised and rationalised in some colleges to meet current teaching, curriculum and regional skills needs. The ongoing work on the College Infrastructure Investment Plan (College IIP), due to be published in Autumn 2026, will allow SFC to better prioritise expenditure on estates in the future.

The sector reported an aggregate cash balance of £130.5m at the end of 2023-24 but cash reserves are forecast to deteriorate to £35.1m by the end of 2025-26 and a negative position of £46.2m by the end of 2027-28. This reflects colleges' weak operating position and there is an imminent risk of some colleges becoming insolvent by the end of the 2025-26. While no college reported a cash deficit at the end of 2023-24, four colleges are forecasting a cash deficit by the end 2025-26, increasing to 12 colleges by the end of 2027-28. This deterioration in liquidity makes it increasingly difficult for colleges themselves, and SFC, to support the financial sustainability of colleges. It also makes it difficult for colleges to rebalance their cost base requiring self-funding staff restructuring activity.

Net cash flow from operating activities is also deteriorating. The number of colleges reporting net cash outflows is expected to increase from twelve (48%) in 2023-24 to eighteen colleges (75%) by 2027-28. This reflects their weak operating position and indicates that most colleges do not expect to generate enough cash to repay debt or invest in their estates.

As expected, overall sector borrowing (loan debt, finance leases and Non-Profit Distributing (NPD) commitments) reduced from £220.2m at the end of 2022-23 to £207.6m by the end of 2023-24. Borrowing is forecast to reduce further to £164.9m by the end of 2027-28. Most of the sector's borrowing is in the form of NPD commitments relating to three colleges. The remainder is legacy borrowing, in existence prior to the reclassification of colleges to the public sector, which has to be repaid over the term of the borrowing. Colleges haven't been able to undertake any new external borrowing since their reclassification. The borrowing figures exclude cash deficits projected by many colleges. **The weakening liquidity increases the risk of covenant breaches and heightens the risk of colleges defaulting on debt repayments including NPD commitments.**

The position beyond 2025-26 is uncertain. The assumptions used for these forecasts included:

- Unchanged SFC grant (core teaching funding) for 2026-27 and 2027-28 with mitigations included in 2025-26 funding allocations to be unwound over the three academic years 2026-27 to 2028-29.
- Pay awards of 9% (in line with public sector pay policy) covering the three years 2025-26 to 2027-28.
- Local assumptions for non-staff costs.

Colleges have also provided SFC with alternative scenarios based on more pessimistic planning assumptions which show an even greater deterioration in the sector's financial position.

It is important to note that:

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

Audit Scotland is also expected to highlight a challenging financial position for the college sector in its overview report due to be published in early October.



Photo: Forth Valley College

Risks to colleges' financial health

Colleges identified many risks in their returns which could adversely affect their financial health and ability to achieve student activity and other income targets. The most significant risk areas for colleges relate to:

Increasing staff costs, despite planned restructuring activity. This is due to cost of living pay awards and national pay bargaining, increases in employer contributions to National Insurance (NI) and pension schemes, and the outcome of the job evaluation exercise for support staff.

Difficulties in meeting activity thresholds due to demographic impacts and prospective students securing employment or obtaining places at universities instead of going to college, albeit this has been ameliorated by the 10% reduction in SFC's credit thresholds in 2023-24.

The requirement for colleges to self-fund the staff restructuring costs with no funding available from SFC or Scottish Government to support these costs and very limited cash in the college sector.

Further flat cash funding or unanticipated reductions in capital and revenue funding which would put significant added pressure on colleges to maintain a sustainable trajectory. This risk is increasingly likely to materialise given the current fiscal pressure facing the Scottish Government.

The uncertain macro-economic outlook, rising inflation and persistently high interest rates coupled with the fact that the UK has been in a technical recession.


Photo: UHI Inverness

Energy costs remain high against historic levels after substantial spikes in recent years.

The impact of cost efficiencies (including reduced staff numbers, frontline student services and potential closure of campuses) on the quality of student experience, the health and wellbeing of college staff, and breadth and depth of the curriculum offered to students.

The impact of the outcome of the Independent **Review of Skills Delivery and Purpose and Principles.**

The uncertainty of the UK Government's policies designed to mitigate the effects of leaving the European Union.

The lack of ability to address **backlog estates maintenance and digital requirements** to deliver a 21st century learning and teaching requirement.

The requirement for colleges to invest in the **achievement of public sector net zero targets** with the recent estimate of the costs of achieving net zero targets across the UK FE sector being £6.7bn[2].

The impact of reinforced autoclaved aerated concrete (RAAC) on the college estate with remediation and potential building closures required to make affected buildings safe for use.

Diversifying income and generating commercial surpluses is difficult due to:

- Increased competition from external providers with lower cost bases.
- Forecast funding limiting the sector's ability to expand their offer which may require additional investment.
- The lack of fiscal flexibilities to borrow and exploit further commercial opportunities.

2 The Cost of Net Zero | EAUC

Mitigating actions

From 2023-24 onwards, SFC has extended the following flexibilities to colleges to help limit their exposure to recovery of funding:

- A reduced credit threshold while maintaining broadly the same level of funding as in 2022-23.
- A 2% tolerance on the reduced credit threshold.
- The alignment of the required date with universities for claiming credits.
- The decoupling of 20% of the value of credits to represent colleges' semi-fixed costs.

Colleges have provided assurances that they are addressing the risk of under-delivering against student activity thresholds through the following:

- undertaking scenario and contingency planning;
- proactive budget monitoring;
- effective curriculum planning and management;
- developing stronger partnerships with schools, universities, employers and industry;
- increased marketing activity;
- implementation of business process improvement initiatives; and
- shift in delivery patterns.

Specifically, colleges are using a broad range of measures including:

- more online/blended learning, more part time and short courses (responding to learner demand);
- curriculum rationalisation and consolidation (including removal of low-demand courses) and development of new curriculum areas;
- reduced teaching time;
- larger class sizes; and
- closer engagement with local employers.

Colleges remain heavily reliant on SFC grant which accounts for 77% of their total income. They are continually seeking to increase levels of alternative income streams. However, generating commercial income in the current fiscal environment can be challenging as outlined earlier in the report.

Staff costs represent the largest element of college expenditure and are therefore the focus of savings. Colleges have been achieving the required savings largely through voluntary severance means. Several colleges have raised the possibility of compulsory redundancies as a last resort should they not achieve the savings through voluntary severance. They have also highlighted that operational impacts of staff reductions are serious in terms of the impact on student outcomes (quality, retention and other performance indicators), the impact on mental health, morale and turnover of remaining staff, as well as the college's reputation.

Other mitigating actions include: tighter controls on expenditure (including review of all purchase orders and cutting back on temporary staff costs); freezing non-essential expenditure; and delaying capital expenditure plans. Colleges have indicated that the capacity for the generation of non-staff cost savings is limited because of past actions to reduce these costs and continuing inflationary pressures.

Colleges are also actively reviewing their estates to identify disposals that could generate cash to fund restructuring activities. To this end, a number of colleges are actively reviewing whether one or more of their campuses require to be closed. SFC has recently published revised disposals guidance. This guidance also covers the arrangements in relation to the use of proceeds from disposals of land and buildings, providing more flexibility.

To support colleges in their transformation within the currently available funding, SFC launched the College Transformation Framework (CTF) in May 2025. Recognising the current fiscal pressures, the key focus of the CTF is to secure a sustainable college sector with a flexible funding model and curriculum. The CTF allows colleges to vary, for a fixed period, the delivery of credits from the thresholds set during the annual funding round, without impacting their core teaching grant. It provides a mechanism that could be used to support colleges to transition to a more sustainable footing from within existing budgets.

It is important that colleges take decisive action to adapt to specific financial challenges and other uncertainties. This may need to include very difficult decisions for some colleges. Financial challenges will affect individual colleges differently and each college will have its own range of mitigating actions available. We expect colleges to be alert to the risks to their financial health and have contingency arrangements in place to address them. We encourage colleges to constantly review and consider the range of options available to them so they can take corrective action rapidly as and when risks begin to emerge. However, as the scale of financial challenges has increased, colleges are finding it more difficult to make savings without undertaking more significant strategic changes to the way they operate.



Photo: West Lothian College

Financial performance of the college sector

This section reports on the results of our analysis of data from colleges' 2022-23 and 2023-24 annual accounts returns and the 2025 Financial Forecast Return (FFR) which provides forecast data for the academic years from 2024-25 to 2027-28. The table below provides a summary of key financial information for the college sector over these six years.

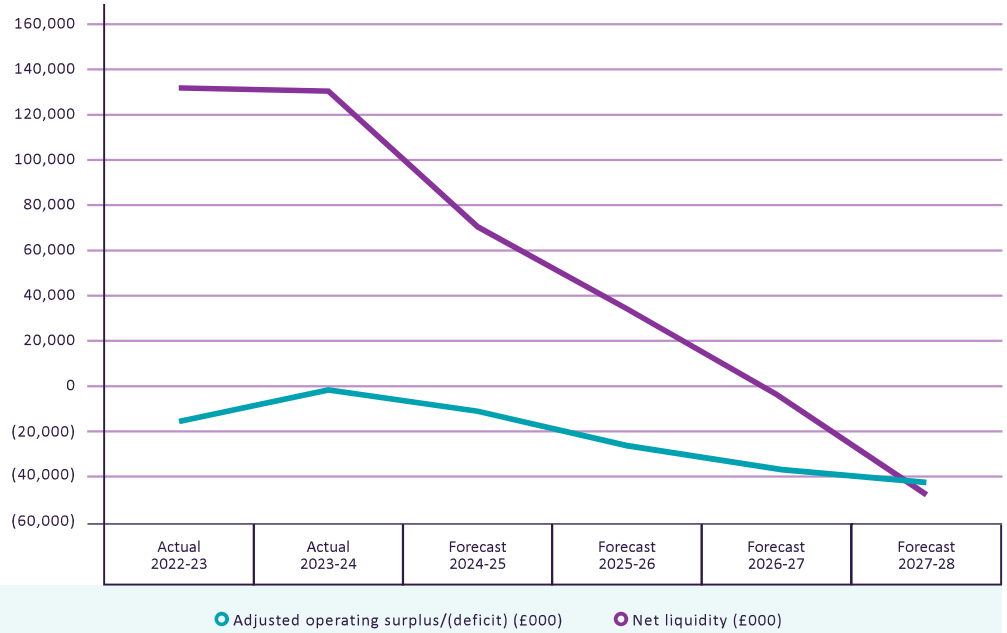
Summary of college sector aggregate key financial health indicators

	2022-23 Actual	2023-24 Actual	2024-25 Forecast	2025-26 Forecast	2026-27 Forecast	2027-28 Forecast
Total income (£000)	835,341	749,721	803,864	807,897	810,180	817,424
Total expenditure (£000)	882,606	824,297	846,583	866,779	879,773	893,799
Adjusted operating surplus/ (deficit) (£000)	(14,687)	(1,198)	(10,680)	(25,484)	(36,004)	(42,039)
Adjusted operating surplus/ (deficit) as % of total income	(1.8%)	(0.2%)	(1.3%)	(3.2%)	(4.4%)	(5.1%)
Cash flow from operating activities (£000)	24,062	26,311	(38,981)	(10,041)	(15,062)	(20,984)
Cash flow from operating activities as % of total income	2.9%	3.5%	(4.8%)	(1.2%)	(1.9%)	(2.6%)
Net liquidity (£000)	131,947	130,482	70,414	35,117	(2,921)	(46,165)
Net liquidity days	59	63	33	16	(1)	(20)
Total borrowing (£000)	220,214	207,624	197,031	186,175	175,839	164,893
Total borrowing as a % of total income	26%	28%	25%	23%	22%	20%

*There are no figures for UHI North West and Hebrides in 2023-24 as its annual report and accounts had not been finalised at the time of writing this report.

The table above and graph below show the deteriorating financial health of colleges after 2023-24 as indicated by increasing deficits and deteriorating liquidity. Within the overall sector trend, there remains a significant variation in financial performance for individual colleges across all years.

College sector adjusted operating position and net liquidity (£000)



* There are no figures for UHI North West and Hebrides in 2023-24 as its annual report and accounts had not been finalised at the time of writing this report.

The substantial deterioration in the sector's operating position and liquidity over the forecast period is largely due to: increases in pay inflation agreed through National Bargaining exceeding savings from staff restructuring; self-financed severance costs; forecast flat SFC grants; and reduced other income. It is important to note that a portion of the college cost base is fixed or semi-fixed as it forms part of the infrastructure for curriculum delivery. This makes further cost reductions more difficult for colleges to achieve. Increasing commercial income is also challenging due to the fixed cost base which makes it difficult for colleges to compete with alternative providers.

A table showing 2022-23 and 2023-24 operating position, adjusted operating position, liquidity and borrowing for each college is at Annex A.

Adjusted operating position

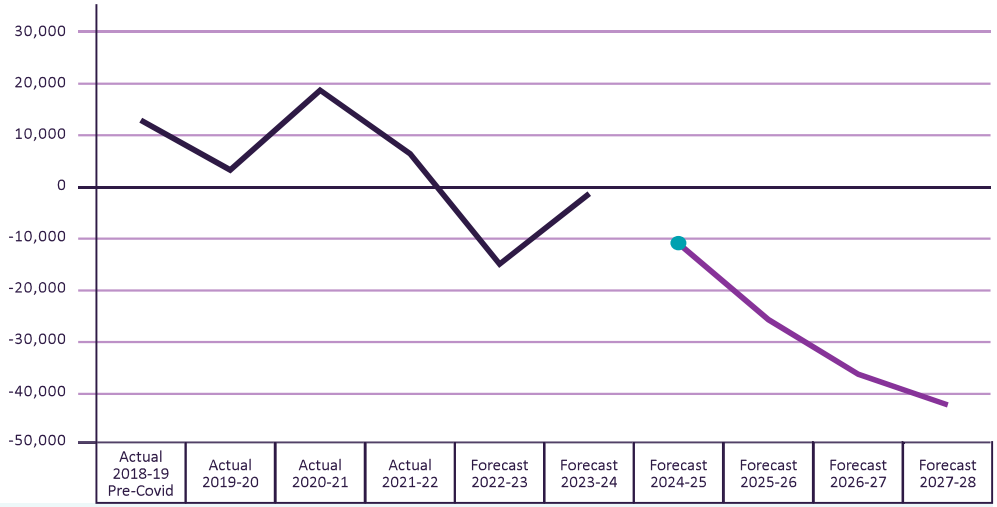
The adjusted or underlying operating position reflects the financial performance of colleges after allowing for non-cash adjustments and other material one-off or distorting items required by the FE/HE Statement of Recommended Practice (SORP). This smoothes volatility in reported results arising from the implementation of Financial Reporting Standard 102 and recognises that some of the reported costs do not have an immediate cash impact on the colleges. This gives a better indication of colleges' operational cash generating capacity and a clearer picture of colleges' short-term financial health.

The methodology for calculating the adjusted operating position, outlined in Annex D, has been agreed with the sector to ensure a consistency of approach in the interpretation of colleges' financial performance.

Depreciation and pension adjustments (non-cash items that are beyond a college's immediate control) account for most of the difference between the operating position and the adjusted operating position. Incorporated colleges receive a 'non-cash' budget to cover depreciation, but this additional budget is not recognised under the FE/HE Statement of Recommended Practice (SORP) accounting rules. Annual Managed Expenditure (AME) pension adjustments may also impact on the reported operating position. Consequently, we expect to see continuing operating deficits reported across the college sector.

The graph below illustrates the marked deterioration in the operating performance of the college sector since 2018-19.

College sector: adjusted operating position 2018-19 to 2027-28



* There are no figures for UHI North West and Hebrides in 2023-24 as its annual report and accounts had not been finalised at the time of writing this report.

The sector reported an adjusted operating deficit of £1.2m for 2023-24 which represents an improvement against the previous year's result (£14.7m deficit). This improvement is mainly due to reductions in staff costs reflecting savings from voluntary severance activity. Staff restructuring costs of £10.2m were reported as the sector took action to mitigate the impact of pay awards. Other operating costs increased by 3% overall. Sector income decreased largely due to a reduction in SFC grant income related to the change in accounting treatment following Scottish Government confirmation that responsibility for Job Evaluation funding commitments rested with them until the process is complete. Consequently, colleges were required to remove the assumed SFC grant income with the current year cost provision being adjusted through the adjusted operating position calculation.

Income from tuition fees and education contracts increased by 3% with a rise in FE fees and education contract income offsetting reduced HE fees. Other operating income reduced by 7% mainly due to a fall in grants from arms-length foundations, where funds are largely depleted, and residences and catering income.

The 2024-25 forecast shows a sector adjusted operating deficit of £10.7m. The deterioration against the 2023-24 outturn reflects higher staff costs (due to pay pressures) partly offset by higher tuition fees and other operating income and lower other operating costs. Further substantial operating deficits of £25.5m, £36m and £42m are projected for 2025-26, 2026-27 and 2027-28 respectively.

We have previously reported that colleges take a cautious approach to forecasting, often resulting in better than anticipated results. This position has changed due to the current challenging financial environment and improvements on forecast will be extremely difficult to deliver.

Nine colleges reported an adjusted operating deficit in 2023-24 compared to 21 colleges in 2022-23 (including 3 colleges that merged on 1 August 2023). A total of 17 colleges (68%) expect to report adjusted operating deficits in 2024-25, increasing to 22 colleges (92%) in 2025-26 before reducing to 21 colleges (88%) in 2026-27 and 20 colleges (83%) in 2027-28.

Whilst recognising that forecasts reflect a snapshot in time, the number of colleges forecasting adjusted operating deficits is of real concern with most colleges not sustainable on the basis of these forecasts. Alternative scenarios with more pessimistic planning assumptions put forward by some colleges show an even greater deterioration in the sector's financial position.

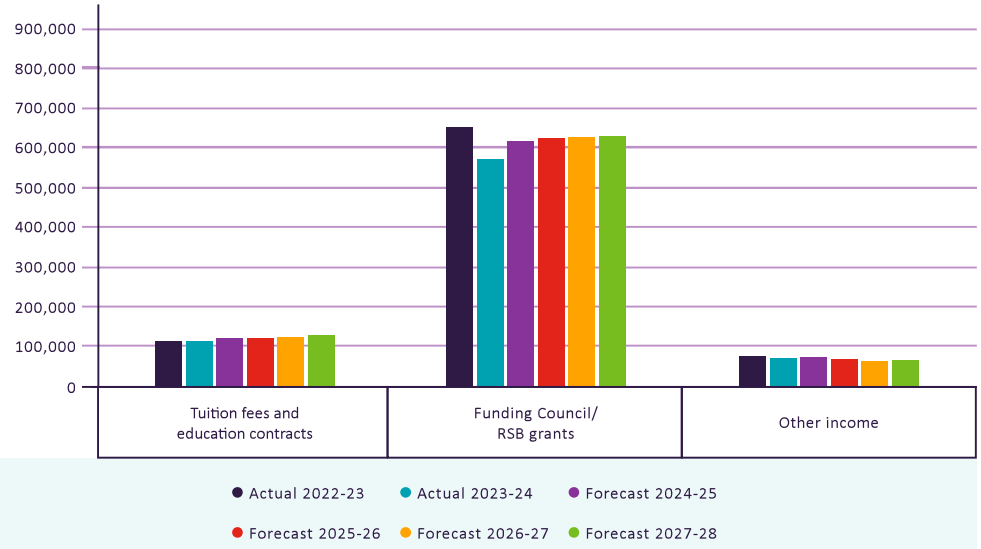


Photo: Dundee and Angus College

Income

The graph below shows the projected movement in sector income over the period from 2022-23 to 2027-28.

College sector: sources of income (£000)



* There are no figures for UHI North West and Hebrides in 2023-24 as its annual report and accounts had not been finalised at the time of writing this report.

Total sector income decreased by £85.6m (10%) in 2023-24 due to a change in accounting treatment for support staff job evaluation grant. From 2017-18 onwards, colleges had been providing for the estimated costs of support staff job evaluation and associated SFC grant funding. During 2023-24 the Scottish Government confirmed that responsibility for Job Evaluation rested with them until the process is complete. Consequently, colleges were required to remove the assumed SFC grant income with the current year cost provision being adjusted through the adjusted operating position calculation.

Income is forecast to increase by £54.1m (7%) in 2024-25 with further marginal increases projected over the remainder of the planning period. This is due to an expected increase in tuition fees and education contract income, which is the primary source of non-SFC income. Colleges received additional SFC funding to cover increased employer pension contributions to the Scottish Teachers Pension Scheme (STPS) in 2024-25, and additional funding in 2025-26 to cover a proportion of the costs arising from the rise in employer National Insurance contributions from April 2025. Colleges remain heavily dependent on SFC grant. This is projected to remain at around 77% of total sector income throughout the forecast period although there is some variation in grant reliance across the

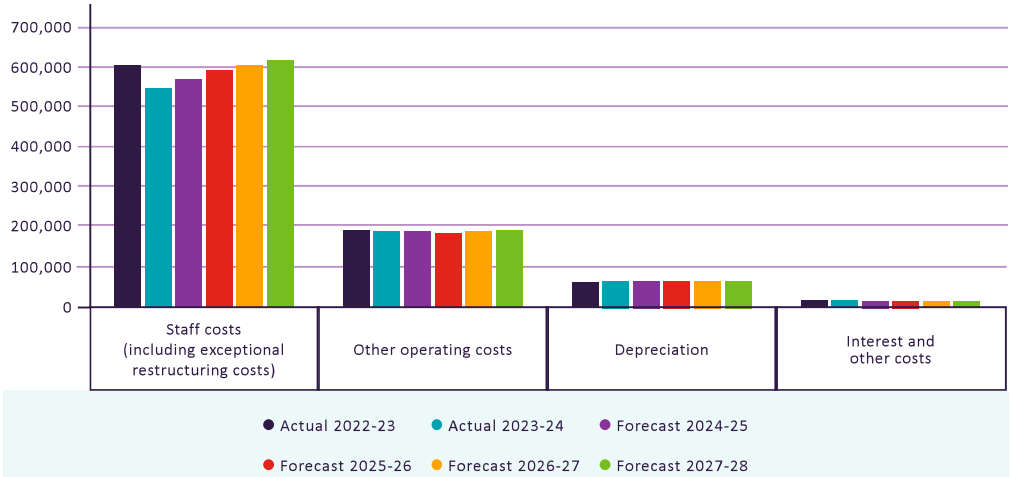
sector. In 2024-25, all colleges forecast achieving their credit thresholds (within the 2% tolerance) and are therefore not expected to be subject to recovery of funds. This was also the case in the previous year.

Other operating income including residences and catering income as well as income from trading subsidiaries, is expected to reduce from 2024-25 levels over the forecast period. Other operating income also includes grants from local arms-length foundations (ALFs) of over £4m in 2024-25 and £2.1m in 2025-26. The bulk of the grants provided by ALFs are expected to be used for funding revenue projects (for example covering salary costs of student mental health mentors) and severance costs. A lesser amount is expected to be used to support estates plans and refreshing of colleges' digital infrastructure. There has been a steady decrease in ALF balances over the last decade from £99m in 2014 to £8m in 2024. With a further forecast reduction to £7m in 2025, only 7% of the original balance is expected to remain after 11 years.

Expenditure

The graph below shows the projected movement in sector expenditure over the period from 2022-23 to 2027-28:

College sector: types of expenditure (£000)



* There are no figures for UHI North West and Hebrides in 2023-24 as its annual report and accounts had not been finalised at the time of writing this report.

Staff costs represent the largest element of expenditure for colleges at just under 70% of total costs. These costs are the focus of savings as colleges urgently try to balance their budgets in the current fiscal environment. Staff costs are projected to increase over the forecast period. This reflects the continued impact of pay awards agreed through National Bargaining and rise in employer National Insurance contributions partially offset by continued savings generated from voluntary severance.

The pay award for 2022-23, 2023-24 and 2024-25 was agreed by support staff with an average increase of £5,000 for staff over that period. In August 2024, lecturing staff reached agreement with the same pay award in 2024-25 but with an additional 4.14% agreed for 2025-26 (effective from 1 September 2025). Three percent of this will be funded by Scottish Government.

Public Sector Pay Policy (PSPP) for the three financial years 2025-26 to 2027-28 was published by Scottish Government in December 2024. Colleges were asked to assume a total pay award of 9% over these three years within their forecasts, in line with PSPP.

Public sector pension costs for the Scottish Teachers Pension Scheme have increased from April 2024 following a rise in employer contribution rates from 23% to 26%[3]. Employer contributions to the Local Government Pension Schemes (LGPS) have decreased slightly with some variations between individual schemes.

Other operating costs increased by £6.4m (3%) in 2023-24 against 2022-23 levels reflecting continuing inflationary pressures. Other operating costs are forecast to reduce by £4.7m (2.4%) in 2024-25 and by £3.7m (1.9%) in 2025-26 due to lower premises costs and reflecting other cost efficiencies which are being sought by colleges as part of their plans to reduce the cost base. Achieving these efficiencies will be difficult considering current cost pressures.

Staff restructuring plans

As highlighted above, staff restructuring is the main route to achieving savings for colleges. Eighteen colleges spent £10.2m on staff restructuring costs in 2023-24 (2022-23: £13.5m across 13 colleges). Colleges intend to spend a further £10.9m on staff restructuring activity over the forecast period. This is expected to be funded from within colleges' existing resources. Several colleges have indicated that they may have to resort to compulsory redundancies to achieve the level of savings required to rebalance their financial position.

In addition to voluntary and compulsory severance, colleges are also generating savings through vacancy management. Vacancy management savings can be permanent through the deletion of posts after a member of staff leaves, or temporary by delaying the recruitment of the post for a period. Some colleges continue to report difficulties in filling vacant posts due to the current labour market.

Savings tend to be generated in the year after the voluntary severance investment is made due to departures occurring at or towards the end of the academic year. Voluntary departures are becoming more difficult for colleges to secure. This is due to the volume of severance activity previously undertaken and the perceived unattractiveness of the terms of schemes to those staff that remain. Some colleges are no longer able to afford voluntary severance. The compressed timeframe for achieving savings can also lead to institutions considering compulsory redundancies.

There is an expected reduction of 667 FTE over the forecast period which equates to the removal of 6.6% of FTE staff employed in the sector. Colleges have highlighted the impact of this level of staff reduction on student experience. This could compromise colleges' ability to deliver both the breadth and quality of provision and there is a risk to maintaining business as usual when undertaking such fundamental restructuring.

The level of staff reductions, including the potential for compulsory redundancies, has already led to industrial relations challenges at several colleges, including ballots for industrial action.

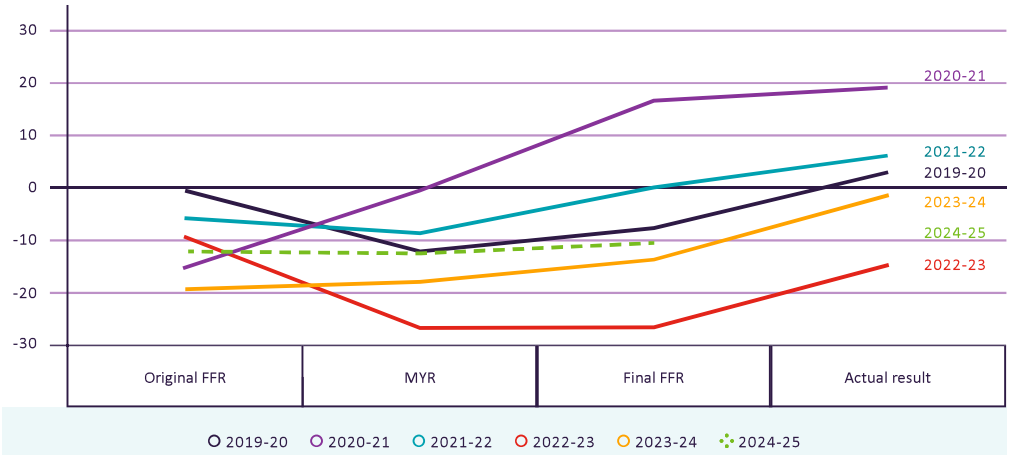
Accuracy of forecasting

For most colleges, movements between actual and forecast figures can largely be explained by adjustments being made as colleges react to new information. In the last few years, forecasting was difficult due to the uncertainty surrounding the impact of the pandemic, coupled with economic uncertainty. To consider the accuracy of forecasting we use historical forecasts and compare them to the actual results. The actual 2024-25 results will not be received until 31 December 2025.

3 Updated employer contribution rates for police, NHS and teacher schemes | SPPA (pensions.gov.scot)

The movements in the adjusted operating position for academic years from 2019-20 to 2023-24 and forecasts for 2024-25 are set out in the graph below:

College sector: adjusted operating surplus/(deficit) (£million)



* There are no figures for UHI North West and Hebrides in 2023-24 as its annual report and accounts had not been finalised at the time of writing this report.

Improvements in actual outturn against forecast have occurred in most years as shown in the graph above. These movements can be explained by adjustments colleges make to react to new information. For example, in-year allocations of SFC income which colleges were unaware of at the time of the preparation of their forecasts, reductions in provisions for recovery of SFC funding due to the timing of SFC assessments and changes in restructuring costs recognised at the year-end.

The graph shows that there have not been any significant variances between the forecasts provided to SFC in June 2024, March 2025 and June 2025. Unlike previous years, the three forecasts for 2024-25 are so far not hugely different. The final results, due at the end of December, will complete the picture on accuracy of forecasting for 2024-25.

We will continue to work with colleges on the accuracy of forecasting as part of our assessment of financial returns for 2024-25 and the current academic year. While SFC recognises that colleges need to make adjustments to their forecasts as they react to new information, they should ensure that their forecasts are as accurate and dependable as possible in future years.

Financial position – financial strength and resilience

Liquidity

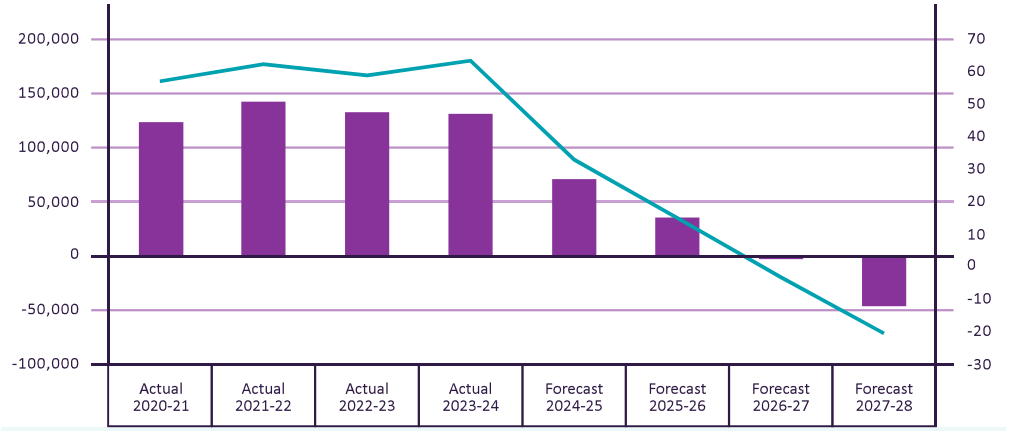
Adequate liquidity is vital for a college to remain solvent and continue their operations. It ensures the college has the necessary cash to cover short-term financial obligations, pay staff and manage any unexpected expenses. Low liquidity can cause a cash crisis and the inability to meet immediate financial needs putting the college at high risk of failing when faced with unexpected costs or liabilities. It can also restrict a college's ability to react quickly to market changes or seize new opportunities.

Liquidity of the college sector is forecast to deteriorate significantly over the three years of the planning period.

Cash balances

Cash balances (including short-term investments and overdrafts) and number of days expenditure held in cash reserves are key financial health indicators. The graph below shows the trend in levels of sector cash reserves and days ratio of cash to total expenditure over the period from 2020-21 to 2027-28.

College sector: liquidity



* There are no figures for UHI North West and Hebrides in 2023-24 as its annual report and accounts had not been finalised at the time of writing this report.

The sector reported a cash balance of £130.5m as at the end of 2023-24. Cash balances are forecast to reduce by 46% to £70.4m by the end of 2024-25 reflecting colleges' weak operating positions and the spend or return of unspent SFC ring-fenced grants (including the cash set aside for the lecturers' pay deal which was settled in September 2024). They are projected to further deteriorate to a negative balance of £46.2m at the end of 2027-28 (135% reduction on 2023-24 levels) reflecting continued weakening of colleges' operating positions.

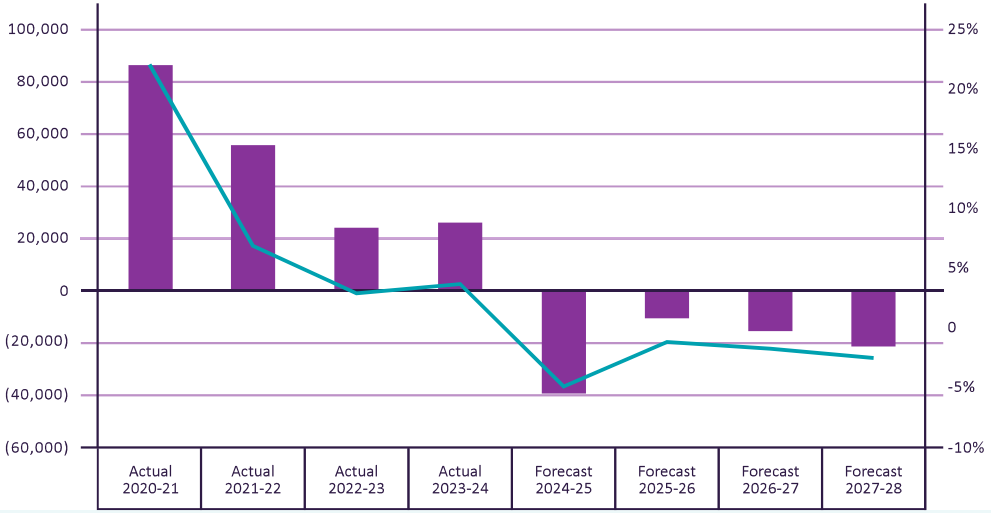
Seven colleges (28%) are forecasting less than 20 days' cash reserves at the end of 2024-25, increasing to 15 colleges (63%) by the end of 2025-26. Twenty days of cash or lower is an indicator of high financial health risk and therefore of concern to SFC. While no college reported a cash deficit at the end of 2023-24, 4 colleges are forecasting a cash deficit by the end of 2025-26, increasing to 12 colleges by the end of 2027-28.

Due to the increasing sector's cash deficit forecast from 2025-26 onwards, it will be increasingly difficult for colleges themselves, and SFC, to support the financial sustainability of colleges and for colleges to self-fund staff restructuring activity.

Cash flow

Net cash inflow from operating activities is an important measure of colleges' financial health. It illustrates a college's ability to generate sufficient cash to repay debt and invest in its estates. The graph below shows the trend of the sector's net cash inflow and net cash inflow as a percentage of total income over the period from 2020-21 to 2027-28.

College sector: net cash flow from operating activities



* There are no figures for UHI North West and Hebrides in 2023-24 as its annual report and accounts had not been finalised at the time of writing this report.



Photo: UHI North, West and Hebrides

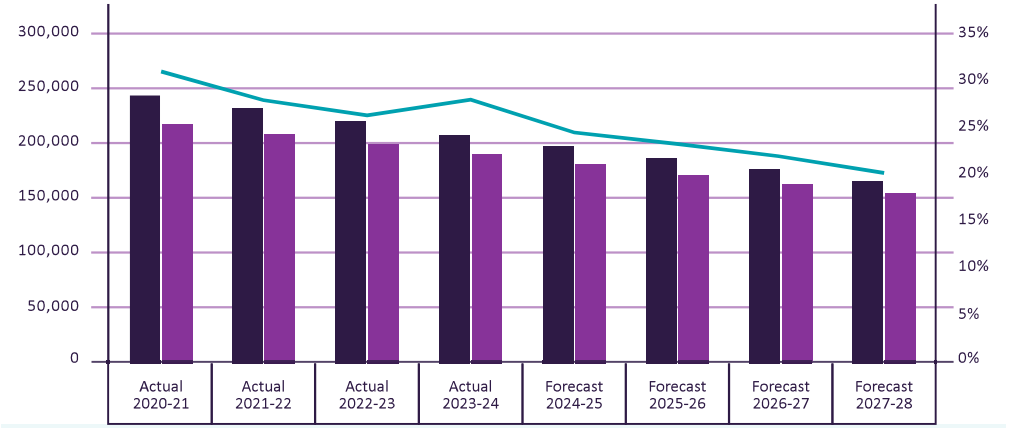
In 2023-24, there was an inflow of operating cash of £26m, equivalent to 4% of total sector income (2022-23: £24m inflow, 3% of income). The forecast for 2024-25 shows a net cash outflow of £39m (5% of total income) with further substantial net cash outflows projected in the next three years. Twenty colleges (80%) expect to report net cash outflows from operating activities in 2024-25, reducing to 18 colleges (75%) by the end of the forecast period.

This prolonged period of cash outflow in the college sector is unprecedented and indicates that most colleges do not anticipate being able to generate enough cash to repay debt or invest in their estates.

Borrowing

The graph below shows the trend in college sector level of borrowing and the ratio of borrowing as a percentage of total income over the period from 2020-21 to 2027-28.

College sector: borrowing



* There are no figures for UHI North West and Hebrides in 2023-24 as its annual report and accounts had not been finalised at the time of writing this report.

Total borrowing (including legacy bank loans, finance leases and Non-Profit Distribution (NPD)/Private Finance Initiative (PFI) commitments) is expected to reduce by 21% from £207.6m at the end of 2023-24 to £164.9m at the end of 2027-28 as expected. The bank loans relate to borrowing which existed prior to the reclassification of colleges to the public sector. This borrowing is forecast to decrease by 42% from £18.1m to £11m over the same period. Colleges have not been able to undertake any new external borrowing since reclassification. Eleven colleges (46%) are projecting outstanding borrowing at the end of 2027-28. It is important to note that the borrowing figures exclude any cash deficits projected by colleges in the forecast period.

The NPD model was used to procure buildings for three colleges (Ayrshire College, City of Glasgow College and UHI Inverness). The NPD model represented an alternative funding structure for public-private partnership projects that would previously have been carried out under the traditional PFI arrangement. Under the NPD model, colleges make monthly unitary charge payments which include the capital element of the loan together with interest, facilities management and building lifecycle costs. SFC provides the colleges with grants to fund the bulk of the unitary charge payments except for the facilities management costs and 50% of the building lifecycle costs.

There are no longer any PFI commitments in the college sector with the Ayrshire College Kilwinning campus PFI contract ended in June 2025.

No college reported any breach of bank covenants during 2024-25 or is forecasting doing so in 2025-26. Given the forecast deterioration in the sector's forecast operating and cash positions, there is a heightened risk of colleges breaching their covenants and defaulting on debt repayments in the later years of the forecast.

Capital Expenditure

Sector capital expenditure amounted to £81.1m during 2023-24, 117% higher than the previous year's total of £37.4m. The reason for the significant increase is expenditure on Fife College's Dunfermline Learning Campus. Capital expenditure of £148m is projected over the planning period. SFC capital grants are forecast to fund £134.2m of this expenditure with the remainder being financed through a mix of grants from arms-length foundations, non-SFC grants (such as City Deal funding) and colleges' own diminishing cash balances.

College Infrastructure Strategy

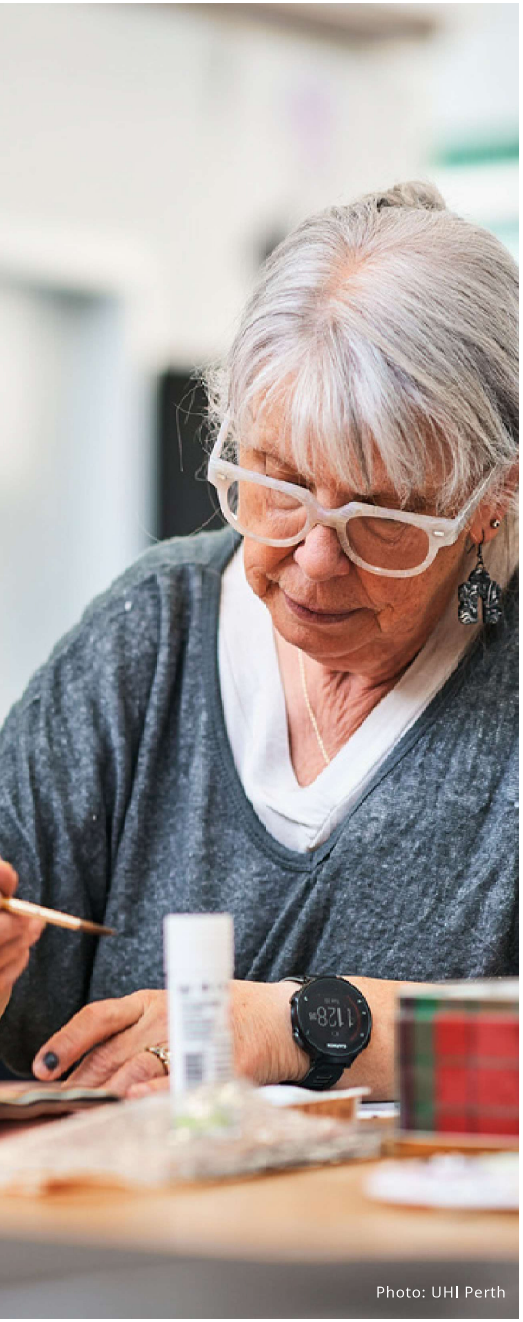
In November 2022, SFC published the College Infrastructure Strategy: The approach to delivering Scotland's College Infrastructure Plan. The strategy sets out the collective approach between SFC and colleges to develop a College Infrastructure Investment Plan (College IIP) for Scotland's colleges covering the period 2026-2036. The plan will identify infrastructure investment needs for the college sector, including investment in net zero, training equipment and digital infrastructure essential for a sustainable college estate.

In July 2025, SFC published the College Infrastructure Investment Plan: Progress Report providing an update on the first phase of work in the development of a 10-year College IIP. It outlined the significant work done to that date and, at a high level, the work to be progressed at pace, prior to publication of the full College IIP in Autumn 2026.

The baseline data obtained from colleges during the first phase of work provides SFC, for the first time ever, with a single comprehensive dataset of the entire college estate. This was a complex exercise with significant work done by colleges, SFC and others.



Photo: UHI Moray


Photo: UHI Perth

The following will be carried out in the next phase of work:

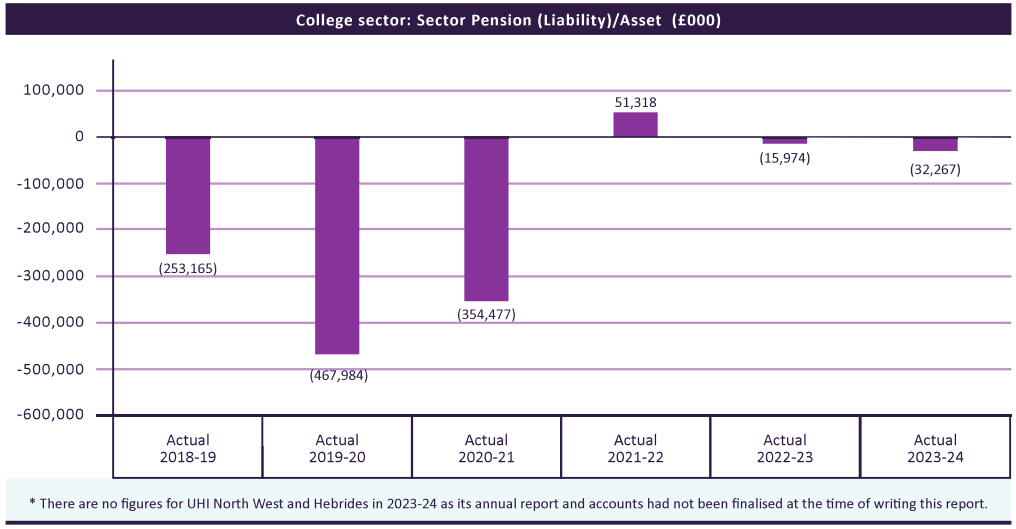
- Refresh college engagement process.
- Deploy the Scottish Capital Investment Manual (SCIM) processes for colleges including defining and testing objective evaluation criteria to progress and prioritise business cases and providing training for college estate teams in using the SCIM for colleges' documents.
- First annual update of baseline data using the Navigator tool including developing new sector guidance on measuring and capturing space utilisation, and exploring possible options for supporting colleges in providing data including space utilisation surveys, net zero data capture and measured building surveys.
- Updated infrastructure strategies for each college, noting that these are dependent on college curriculum plans.
- Explore Future Operating Models work.
- Continue research into alternative capital funding models with Scottish Government and Scottish Futures Trust (SFT).

The full College IIP will be published in Autumn 2026.


Photo: Edinburgh College

Pension Liabilities

Nearly all college staff belong to one of the two pension schemes, the Scottish Teachers Pension Scheme (STPS) or the relevant Local Government Pension Scheme (LGPS). The STPS is a notional fund and, therefore, colleges are unable to identify and report their share of the underlying assets and liabilities. Pension liabilities reported in colleges' financial statements therefore relate to the LGPS multi-employer defined benefit schemes.



* There are no figures for UHI North West and Hebrides in 2023-24 as its annual report and accounts had not been finalised at the time of writing this report.

Pension liabilities are subject to often large fluctuations, caused by actuarial valuations of the pension scheme, as can be seen from the graph above. A pension liability is a future financial obligation to pay retirement benefits to current and former employees, not an immediate financial pressure. However, it does impact on the operating position of the colleges as any increases in pension liabilities have to be funded by increases in employer contributions, alongside employee contributions and investment returns generated by the pension fund.

The sector moved from reporting a pension asset of £51.3m at the end of July 2022 to a £32.3m liability at the end of July 2024.

Annex A: Summary: college sector operating position, underlying operating position, liquidity and borrowing

College sector: operating position, underlying operating position, liquidity and borrowing								
Incorporated colleges	**Operating surplus/(deficit)**		**Adjusted operating surplus/(deficit)**		**Cash and cash equivalents less overdraft**		**Total borrowing**	
	2022-23 Actual £000	**2023-24 Actual £000**	**2022-23 Actual £000**	**2023-24 Actual £000**	**2022-23 Actual £000**	**2023-24 Actual £000**	**2022-23 Actual £000**	**2023-24 Actual £000**
Ayrshire College	(3,896)	(7,267)	(1,153)	(336)	11,685	11,048	41,054	38,364
Borders College	(683)	(1,226)	(50)	65	3,881	3,554	0	0
City of Glasgow College	(3,219)	(827)	(2,836)	130	10,559	12,363	123,174	117,283
Dumfries and Galloway College	(999)	(2,151)	7	7	2,053	1,120	71	31
Dundee and Angus College	(2,406)	(3,895)	(86)	1,869	5,533	6,777	2,273	1,819
Edinburgh College	(3,003)	(7,080)	(63)	(495)	5,706	4,185	7,840	7,239
Fife College	(2,127)	(5,643)	284	920	23,409	19,878	3,239	2,898
Forth Valley College	(3,598)	(3,862)	164	985	5,300	4,446	2,984	2,772
GCRB	143	(183)	172	(193)	1,592	424	0	0
Glasgow Clyde College	(964)	(5,396)	(496)	192	10,143	11,617	0	0
Glasgow Kelvin College	(1,887)	(4,057)	(1,054)	426	4,154	3,493	227	227
UHI Inverness	(1,796)	158	(389)	(621)	6,775	8,619	34,771	33,830
UHI Outer Hebrides	(1,396)	n/a	(330)	n/a	206	n/a	0	n/a
UHI Moray	(971)	(2,513)	(408)	(1,050)	1,162	1,460	203	166
New College Lanarkshire	(4,622)	(4,412)	(3,196)	284	4,214	4,593	0	0
North East Scotland College	(1,186)	(2,850)	(180)	515	8,675	8,287	0	0
UHI North Highland	(2,922)	n/a	(767)	n/a	658	n/a	1,000	n/a
UHI North, West and Hebrides	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
UHI Perth	(3,169)	(5,851)	(1,582)	(1,768)	2,499	1,833	0	0
South Lanarkshire College	(1,023)	(1,677)	(254)	378	3,263	4,691	0	0
West College Scotland	(2,624)	(9,536)	398	56	11,080	13,801	774	456
West Lothian College	(2,796)	(3,033)	(1,717)	(532)	1,575	185	2,211	2,211
Total incorporated colleges	**(45,144)**	**(71,301)**	**(13,536)**	**832**	**124,122**	**122,374**	**219,821**	**207,296**
Non-incorporated colleges								
UHI Argyll	162	(1,292)	160	129	5,680	5,401	0	0
Newbattle Abbey College	105	96	132	117	387	649	0	0
UHI Orkney	(767)	(831)	(767)	(831)	n/a	n/a	n/a	n/a
SMO	(65)	36	(65)	36	1,077	792	393	328
UHI Shetland	(686)	(1,284)	(403)	(1,481)	342	1,266	0	n/a
UHI West Highland	(871)	n/a	(208)	n/a	339	n/a	0	n/a
Total non-incorporated colleges	**(2,122)**	**(3,275)**	**(1,151)**	**(2,030)**	**7,825**	**8,108**	**393**	**328**
Sector total	**(47,266)**	**(74,576)**	**(14,687)**	**(1,198)**	**131,947**	**130,482**	**220,214**	**207,624**

Annex B: College Regions

The college sector in Scotland comprises 19 incorporated colleges and five non-incorporated colleges[4]. Ten of the thirteen college regions consist of one college. The three remaining regions (Glasgow, Highlands & Islands, and Lanarkshire) had more than one college until 30 July 2025. The individual colleges in the Highlands & Islands are assigned to the Regional Strategic Body (RSB), University of the Highlands & Islands[5]. Similar arrangements in Glasgow and Lanarkshire were removed by the Regional Strategic Bodies and Regional Colleges (Glasgow and Lanarkshire) Order 2025[6], which came into force on 30 July 2025. The colleges formerly assigned to their respective RSBs are designated regional colleges. Details of all regions and colleges are set out on the next page.

Fundable bodies in the college sector can be incorporated or non-incorporated. Before the Further & Higher Education (Scotland) Act 1992, almost all publicly funded colleges in Scotland were run by local authorities. In 1993, most of these colleges were established with boards of management constituted under the 1992 Act. Colleges with a board of management constituted under the 1992 Act are commonly referred to as incorporated colleges. Incorporated colleges were reclassified as arms-length central government bodies in 2014 and are subject to Government budgeting and accounting requirements and are required to comply with the Scottish Public Finance Manual.

The 1992 Act does not govern the non-incorporated colleges which take a number of different legal forms and/or have differing constitutional arrangements. One non-incorporated college, Orkney College, is run by its local authority.



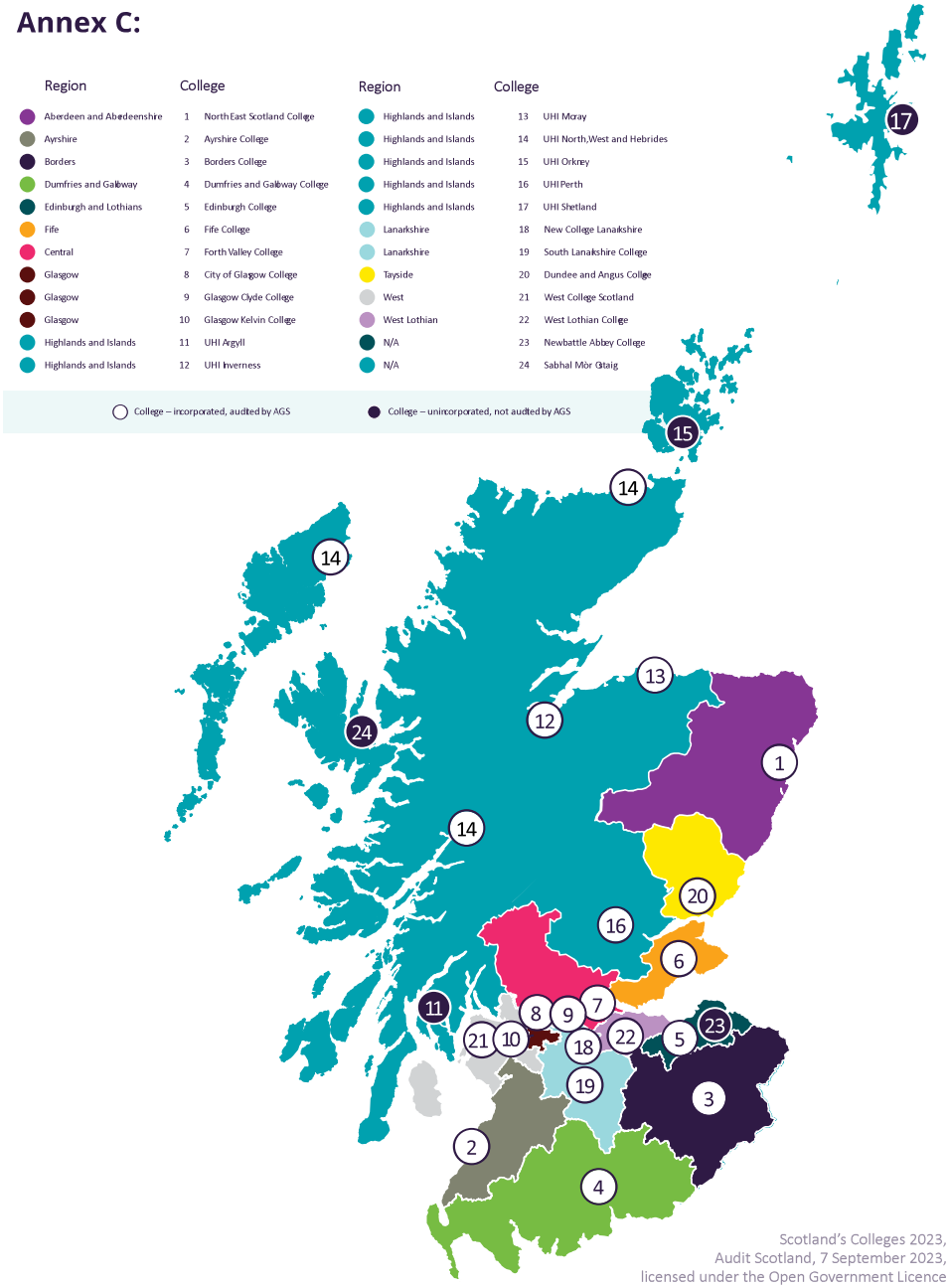
4 UHI Outer Hebrides, UHI North Highland and UHI West Highland merged to become UHI North, West and Hebrides from 1 August 2023.

5 Six colleges (UHI Argyll, UHI Inverness, UHI Moray, UHI North, West and Hebrides, UHI Orkney and UHI Perth) are currently assigned to UHI with UHI Shetland due to be assigned in due course.

6 the Regional Strategic Bodies and Regional Colleges (Glasgow and Lanarkshire) Order 2025

Annex C:

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



Scotland's Colleges 2023,
Audit Scotland, 7 September 2023,
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Annex D: College adjusted or underlying operating position

The underlying operating position is a better indicator of colleges' operational cash generative capacity.

The adjustments to the operating position to arrive to underlying operating position for the colleges:



Smooth the volatility in reported results arising from the FRS 102 accounting standard.



Recognise some of the reported costs do not have an immediate cash impact.

The reported operating surplus/(deficit) figures have been adjusted for:



Depreciation net of deferred capital grant (incorporated colleges only).



Exceptional non-restructuring costs (impairments and lease dilapidation costs).



Non-cash pension adjustments.



Donations to arms-length foundations (ALFs) (incorporated colleges only).



Non-Government capital grant (e.g. ALF capital grant).



Exceptional income.



Loan repayments (incorporated colleges only).



Non-Profit Distributing Project (NPD) income applied to reduce NPD debt.



Costs of job evaluation exercise not matched by revenue (from 2023-24 onwards).

Cover Photos:

Forth Valley College

UHI Inverness

UHI Perth

West Lothian College

Scottish Funding Council
Comhairle Maoineachaidh na h-Alba

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SFC Announcement

Reference: SFC/AN/19/2025

Issue date: 24/09/2025

Scottish Funding Council
Comhairle Maoineachaidh na h-Alba

SFC's Expectations of Good Governance

SFC's Expectations of Good Governance

Issue Date:	24 September 2025
Reference:	SFC/AN/19/2025
Summary:	This report is designed to enhance good governance in colleges and universities. The publication sets out what we have learned about sector and institutional governance from analysis of governance effectiveness review reports and Professor Gillies' report into the University of Dundee. The report provides clarity about SFC's expectations of sector governance and how SFC will monitor governance.
FAO:	Principals, Chairs, Finance Directors and Board Secretaries of Scotland's colleges and universities and the general public
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SFC's Expectations of Good Governance

Context

1. In June 2024, the Scottish Funding Council (SFC) published its Outcomes Framework and Assurance Model (OFAM) as the framework that replaced the Outcome Agreements and brought together all of the monitoring and engagement that SFC undertakes in relation to institutional outcomes and performance. One of the core principles that guides the Outcomes Framework, and the Assurance Model that underpins it, is that colleges and universities have flexibility in demonstrating how they deliver the outcomes – this reflects that no two institutions are exactly the same – and that their context can be taken into consideration in understanding how each has delivered the outcomes. SFC is considering how it enhances its institutional scrutiny and the proposals in this document form part of that – this may include an enhanced approach to monitoring financial viability and sustainability, revised Financial Memoranda and updated OFAM guidance.

2. The OFAM includes an explicit expectation about how colleges and universities operate under the Good Governance outcome, which states:

> Governing Bodies demonstrate good governance and accountability, including ownership of institutions' performance, compliance with SFC's requirements, proactive risk management, value for money, leadership and integrity in decision making and the way they conduct their business, and having regard to the principles of Fair Work and fair access.

3. In the published OFAM, we set out that the method of monitoring delivery of the Good Governance outcome would continue to include the following:

    - Internal and external audit reports.
    - Corporate Governance Statements within Annual Reports and Accounts (in the narrative part of the audited financial statements).
    - Annual Reports and Accounts meeting the relevant Financial Memorandum and sector code of good governance.
    - Governance effectiveness reviews (GERs).

4. Therefore, in considering the Good Governance outcome, SFC expects that colleges and universities will follow the relevant sector code, each of which adopts a 'comply or explain' principle. This affords individual institutions flexibility in determining compliance that is appropriate for their circumstances. The codes of good governance are owned by the sectors, rather than by SFC. As part of the terms and conditions of funding, SFC requires institutions to comply with the relevant sector code, but SFC also sets out any additional requirements in the Financial Memoranda with institutions. Colleges follow the Code of Good Governance for Scotland's Colleges. Universities follow the Scottish Code of Good Higher Education Governance.

5. To understand the assurance available over the current state of institutional governance, SFC commissioned a review of the most recently available GER report for each college, university and regional strategic body. This was to enable a baseline understanding of external assurance over governance in the institutions that SFC funds. There are two important aspects to note at the outset of this work:

    - The review was of the GER reports and what they tell us about governance in the institutions that we fund, and not a direct review of governance itself. Therefore, a report or GER approach that may need improvement is not the same as governance at the institution needing improvement.
    - SFC provided feedback to colleges following report submissions in 2017-18 and the College Development Network (CDN) undertook an analysis of college GER reports in 2021. The period covered by the current review included the Covid-19 pandemic years where many institutions and bodies, including the SFC, had to rapidly reprioritise activity and business as usual to manage extraordinary circumstances.

6. The purpose of this paper is to set out what we have learned about sector and institutional governance from this analysis of the GER reports as well as from Professor Gillies' report of the root causes of the issues that arose at the University of Dundee ('the Gillies Report'). It is also to set out SFC's expectations of sector governance because of these pieces of work and how we will monitor delivery of the Good Governance outcome of the OFAM going forward.

7. In setting out these expectations, SFC is cognisant that colleges and universities:

    - Operate under different statutory frameworks in relation to Good Governance – overall, there are strong elements of compatibility between the frameworks for the two sectors, however there are also some key differences.
    - Have dual regulation and legal obligations as charities. SFC's expectations, as set out in this paper, are compatible with expectations on institutions as charities and the approach to monitoring will strengthen the assurance over governance for key stakeholders, including the Office of the Scottish Charity Regulator (OSCR).

8. We are grateful to On Board Training and Consultancy (On Board) and to Professor Gillies and her investigation team for their work, on which we are drawing heavily in this paper.

Analysis of Governance Effectiveness Review Reports

9. In March 2025, SFC commissioned On Board to conduct a desk-based analysis of the most recent GERs and governance statements within the audited financial statements in the Further and Higher Education Sectors in Scotland (this included the GER reports of the Glasgow and Lanarkshire Regional Strategic Bodies that were in place during this period). On Board undertook this review and reported to SFC its key findings for each

sector and provided assurance to SFC, to the extent possible, about the quality of governance and, in particular, financial oversight in operation across the sectors.

10. The approach adopted by On Board, following guidance from SFC, was desk-based only with no follow-up or interviews with the institutions or those responsible for the GERs (reviewers). The conclusions and recommendations in the sector level reports made available to SFC are therefore based solely on review of the GER reports by On Board.

11. In their analysis of the GER reports, On Board identified areas of strength as well as areas for improvement and gives SFC a baseline and template for future reviews. On Board also made recommendations for the SFC that are included as Annex A (for the university sector) and Annex B (for the college sector).

12. The analysis of university GER reports highlighted a number of strengths that were noted in the reports. These included governing body member skills and experience and the quality of governing body and committee papers. About half of GER reports highlighted a culture of respect, openness and inclusion and constructive relationships as a strength, although many other reports commented favourably, but less directly, on these areas which led On Board to conclude that this strength is more widespread.

13. The analysis of college sector GER reports highlighted a number of strengths that were noted in the reports. These included the skills and experience of the Chair and governing body members, constructive challenge and an open culture, and students being at the centre of board decisions.

14. Reinforcing the principle that good governance is good governance regardless of sector, there were several developmental findings in common between college and university GER reports. These were as follows.

15. **Some institutions are long overdue an external governance effectiveness review.** We note that some external GERs were understandably delayed during the Covid-19 pandemic and we expect institutions to undertake these reviews as soon as possible to ensure that they address this area of non-compliance with the governance code. We also expect that future GERs are undertaken on schedule[1]. In setting this expectation, we recognise that institutions may have continued to undertake annual internal reviews of governance effectiveness, but this was out of scope of On Board's work. Although the governance codes for each sector adopt a 'comply or explain' approach, regular externally facilitated GERs are essential to provide assurance to the governing bodies, SFC, Scottish Government and other stakeholders that governance is adequate (designed appropriately) and effective (operating as designed) to ensure safeguarding of public funding and security of student interests. Such externally facilitated GERs provider

[1] Under the sector codes, externally facilitated governance effectiveness reviews must be undertaken at least every five years for higher education institutions and every three-five years for colleges.

greater assurance over governance effectiveness than internal reviews due to their independence from executive management as well as from governing bodies themselves.

16. The GER **reports often focus on development and do not always have a strong element of assurance**. In addition, GER reports are not consistent in providing assurance about the adequacy and effectiveness of governance of institutions – it is important to note that this is a comment on the reports and not a comment on the governance arrangements at institutions themselves. Although we understand and welcome the desire for boards to develop and improve, part of the purpose of externally facilitated GERs is to provide assurance, as noted above. An exclusive focus in GER reports on areas for development does not provide assurance as to whether current arrangements are adequate and effective. Without assurance over existing arrangements, it is unclear whether the recommended developments are intended to enhance and improve already effective arrangements or to make arrangements adequate and effective. The assurance element is vitally important and therefore GERs should be designed to provide both assurance and development opportunities for governing bodies. In this context, we note that neither of the sector governance codes includes an explicit reference to development as being a key purpose of GERs, although the college code states that the GER and an accompanying Board Development Plan should be sent to the SFC and published.

17. **Institutions have not always shared the reports with SFC in a timely way** and, SFC has not always or consistently (a) chased provision or publication of the reports or (b) reviewed those that we have received. The sector code's requirement for colleges, as public bodies, to share the GER reports with SFC is and has always been clear; the sector code's requirement for universities to share reports is more focused on reporting publicly on the results of effectiveness reviews and associated actions. There has been no explicit requirement in the past for universities to share their GER reports with the SFC. As noted above, SFC's activities and priorities were also impacted by the Covid-19 pandemic and this was an activity that was deprioritised at that time. SFC is addressing this moving forward with colleges and universities being required under the OFAM to undertake the reviews on a frequency in line with the appropriate sector governance code and to submit the reports to SFC in a timely way. SFC will review GER reports on submission and will chase for submission where these are outstanding.

18. There is a **need for greater clarity around what assurances are needed or desired** and this would provide benefit to SFC and to Governing Bodies – our guidance will support the sectors in understanding our expectations in this space. SFC expects that GER reports provide assurance over compliance with the relevant sector governance code in practice and that the governance arrangements in place at institutions are both adequate (i.e., designed appropriately) and effective (i.e., operating as intended). This includes effective scrutiny stemming from the culture of the governing body and committees being one that is curious, challenging and holds the executive to account. It also includes appropriate governance oversight of the institution's strategy, internal

control and risk management framework and financial viability and sustainability. GER reports should be clear about the evidence on which assurances are based.

19. The **GER process should support the requirement on governing bodies to comply or explain compliance with the relevant sector governance code in their Annual Governance Statement** in the narrative part of the audited financial statements. The analysis noted that there were occasional inconsistencies between the level of compliance indicated in the GER report and what is stated in the financial statements for the period of the review (e.g., the financial statements stating full compliance with the relevant sector governance code and the recent GER showing non-compliance). There is also a lesson for external auditors here in sense-checking the narrative part of the financial statements and considering what evidence they draw on to do so. Checking against the most recent GER report and action plan would enhance the assurance over the statements made by institutions in their financial statements.

20. **No standard approach to GERs is used within each sector and guidance on what is expected to be covered would be helpful**, particularly in terms of the evidence base for the review. Although it is for governing bodies to secure an external reviewer for the GERs, there can be significant variation in the approach adopted by reviewers and so in the assurance that the review itself can provide. Although SFC does not believe that it would be helpful for us to mandate an approach to GERs, we would encourage reviewers to consider the approach that they need to take to provide assurance, including over governance aspects such as the oversight of financial sustainability, with triangulation of evidence. On Board suggests that the approach should include document review, observation of governing body and committee meetings, a survey or questionnaire (that can be benchmarked), interviews and a workshop to gather governing body members' views.

21. There is a **need for improved induction and for training and development for governing body members** (including students). It is insufficient to recruit appropriate governing body members, although that is a necessary first step. It is important that there is an induction programme that ensures governing body members are aware of their role and responsibilities as both board members and trustees and of the context of their institution. It is also important that there is continuing training and development for governing body members and that they avail themselves of these opportunities.

22. Few GER reports commented on the **quality of financial oversight by the governing body** and, where there was comment, this was relatively superficial. Many GERs did not mention finance or financial oversight at all in the report. Although not a primary focus of GERs or a primary source of assurance about financial oversight, the governing body and committee's role here is crucial and lack of appropriate challenge and oversight can lead to financial issues not being identified or addressed in a timely way. This can have significant adverse consequences for the institution.

23. In addition to the common findings above, On Board identified findings specific to

college or university sectors that were more closely related to governance in the institutions and we recommend that governing bodies consider these and whether and how they might apply in their institution. We note that Outcome Managers will engage with institutions in relation to On Board's key findings about them as individual institutions in the coming OFAM meetings.

- For colleges, areas for improvement that were identified in GER reports related to monitoring progress on strategy delivery (including KPIs and strategic reporting), the effectiveness of risk management and its contribution as a strategic enabler to improving College performance, and tracking delivery of implementing previous recommendations.
- For universities, areas for improvement that were identified in GER reports related to more focus on strategic matters, the structure and strategic fit of committees, equality and diversity, and coverage of financial reporting and financial management.

Sector findings of Gillies Report

24. The Gillies Report was primarily focused on the issues that arose at the University of Dundee, but noted that the well-established SFC Financial Memorandum ('FM') with Higher Education Institutions and the Scottish Code of Good Higher Education Governance in Scotland ('Scottish Code') are fit for purpose.

25. Although the Gillies Report noted that the root causes were largely unique to the University of Dundee, the report included a short section that set out the lessons for the sector more broadly. This included a number of lessons for executive teams related to financial management and reporting, including consideration of student recruitment, and decision making.

26. In summary, the lessons for sector governance emphasise the following:

- Effective governance relies not only on systems and processes, there is critical importance of a culture that values questioning and critical appraisal at all levels, without fear, and encourages curiosity and engagement to uncover risks and issues worthy of debate.
- The importance of a values-led university culture that prioritises transparency and accountability and that supports evidence-based decision-making, integrity, and openness to challenge.
- The need for regular updates on sensitive matters, clear communication, and unbiased minutes that reflect challenges and decision-making processes.
- The importance of the Audit Committees maintaining independence and objectivity, avoiding overlap with other committees to prevent bias.

- Papers being provided sufficiently in advance of meetings to ensure informed decision-making.

27. There are also two specific lessons around roles that we wish to highlight in this paper.

- The report notes that the dual role of the University Secretary as Chief Operating Officer is a potential conflict of interest, requiring careful management to ensure primary responsibility to the Chair of Court. This is not a common arrangement in the Scottish university sector, but instances outside of the University of Dundee do occur. SFC recognises that institutions are autonomous and that staffing matters are not for the SFC. Therefore, we encourage institutions to consider carefully whether this arrangement is appropriate and how best to secure the University Secretary's independence where a dual role is in place.
- Overlapping attendance, whether or not formal memberships, between Finance Committee and Audit Committee, which can undermine the crucial independence of the Audit Committee. Although the sector codes of governance do not explicitly prohibit this, the spirit of the codes and SFC's view is that impact on the independence of the Audit Committee is detrimental to its oversight and assurance function. We therefore encourage the relevant bodies that own the sector codes of governance to consider carefully whether this should continue to be permitted in future iterations of the codes.

28. While the lessons from the Gillies Report are primarily focused on universities, some of these are also applicable to colleges – good governance is good governance after all. We encourage all governing bodies and executive teams to review these lessons and consider whether and how these may be applicable to their own institution.

Implications for Outcomes Framework and Assurance Model

29. SFC has, over and since the Covid-19 pandemic, had an approach to sectors governance that placed significant reliance on the colleges and universities complying with the relevant sector codes. This has been due to reprioritisation of activities during this period. Having introduced the new OFAM and considered the evidence from On Board's analysis of GER reports, SFC has determined that it would be helpful to set out the monitoring activity that will be undertaken to gain ongoing assurance that governance in colleges and universities is adequate and effective. As previously and to maintain institutions' autonomy:

- Colleges must comply with the principles of good governance as defined in the Code of Good Governance for Scotland's Colleges. The code sets out expectations, roles and responsibilities, including the requirement to undertake an annual internal Board evaluation and an externally facilitated effectiveness review every three to five years.

- Universities must comply with the principles of good governance as defined in the Scottish Code of Good Higher Education Governance. The Code sets out the requirement to undertake an annual internal Governing Body evaluation and an externally facilitated evaluation at least every five years.

30. However, SFC will undertake closer monitoring in this area, including:

- Requiring institutions to submit the reports from the externally facilitated GERs to SFC to provide assurance that:
    - GERs are undertaken regularly in line with sector governance codes.
    - the institution is complying with the relevant sector governance code.
    - the GERs consider and provide judgements about the adequacy (design) and effectiveness (operation) of the governance arrangements at the institution, with a focus on assurance and not just on development.

  Where an institution has not undertaken a recent externally facilitated GER in line with the sector governance code timings, we strongly recommend that this is rectified as soon as possible.
- Requiring institutions to submit to SFC regular updates on the implementation of recommendations of the GERs – to manage the burden associated with this, these should be the updates provided to the institution's Court / Board of Management and therefore will require minimal additional work for institutions.
- Where SFC's monitoring identifies risks or issues around weak governance, this will be addressed through the OFAM's institutional engagement and intervention strategy, including issues being discussed with institutions and the development and monitoring of actions plans, where appropriate.
- Requiring non-compliance with the relevant sector governance code to be reported to the SFC, with the report to include details of the non-compliance, how it has arisen and how it will be rectified in future if the institution does intend to rectify the non-compliance. Not all non-compliance with the Code will be considered a breach of the Financial Memorandum or the OFAM, as the governance codes themselves operate on a comply or explain basis and include aspects that institutions **must** comply with and other aspects that they **should** comply with. The materiality of the non-compliance to good governance in an institution will also be a consideration.
- Consideration of breaches of Financial Memorandum (FM) that are required to be reported to the SFC – these may include issues such as failure to observe statutory regulations or obligations, mismanagement of funding, financial irregularity, fraud,

systems failures, breakdown of management or governance relations, etc. SFC is considering publication of further guidance about events that are notifiable by institution. The institution must refer itself to SFC if a breach of the FM has occurred.

- Consideration of the opinions in internal and external audit reports that are already submitted to the SFC by institutions insofar as these are relevant to governance effectiveness – this will include whether there have been internal control failures, qualifications or matters emphasised in the overall audit opinions, and the materiality and scale of any audit recommendations (including whether these are being addressed in a timely way).
- Requirement that institutions have clear and appropriate whistleblowing policies that are readily accessible to staff and students and clear communication to alert staff to these. The policies should clearly state that if the matters staff members wish to report involve the person they would normally report to under the policy, who they should contact instead (e.g., the Chair of the institution's Audit Committee or SFC directly if no possible alternative internal reporting lines remain).
- Scrutiny of institutional strategies, which SFC will undertake for a variety of purposes, including any implications for governance. These aspects might include the alignment between the institution's goals and its mission and vision, challenges in decision-making processes, consistency of information provided (such as in financial forecasts) with the institution's strategic plan, the quality of risk management within the strategic plan, stakeholder engagement, and the inclusion of appropriate performance metrics that align with the institution's goals.

31. Other activities that SFC plans to undertake in future to strengthen governance in the sectors include:

- The process set out in the Higher Education Governance (Scotland) Act 2016 requires an election by governing body members, staff and students of the Chair. However, it is vital to ensure that those put forward for election have the requisite and appropriate experience and skills to undertake the role and responsibilities of the Chair. Therefore, SFC will work with the Committee of Scottish Chairs and Universities Scotland to support the development of guidance about the process for recruiting Chairs of Court. This process will be compliant with the 2016 Act's statutory requirements but will also include steps to assess the applicants such that all candidates for the election are suitable.
- Working with relevant sector bodies (such as Advance HE and CDN) to provide training for new governing body members and continuing governing body members at the start of new terms as a refresher. Although training is already provided for governing body members, we plan to supplement this with SFC-presented training

about our expectations of members and the role and responsibilities of governing bodies, the accountable officer and executive teams. SFC recognises that governing body members are unpaid volunteers, but they are also charity trustees of the institution and have personal liabilities in this regard. Undertaking suitable and appropriately frequent training is important in both ensuring that institutions have good oversight and that governing body members are supported in undertaking their work as trustees. SFC will also work with Universities Scotland and Colleges Scotland to agree a way forward to ensure that all governing body members undertake this training, including whether this should be made mandatory under the FM or whether this would be better placed withing the sector governance codes.

- Enhance SFC's routine engagement with auditors to include internal auditors in addition to ongoing engagement with external auditors – this will bring additional sector intelligence and enhance the assurance available to SFC.
- Consider with external auditors how they can ensure that they identify and surface issues of governance and financial control – this will not require any additional audit work to be undertaken but is focused on external auditors raising these matters through their usual reporting mechanisms.

32. We recognise that SFC may be notified of issues concerning governance through complaints, allegations or media reporting. However, we would always encourage institutions to speak with their Outcome Manager if it identifies issues with governance, as with any other matter. The upcoming revised OFAM guidance will contain further detail on how SFC will monitor and engage with institutions across all outcomes, including Good Governance.

33. We will review our approach to good governance annually to ensure it remains fit for purpose.

Dr Jacqui Brasted
Director of Access, Learning and Outcomes

Annex A: Recommendations re: University GER reports

Annex A sets out the recommendations for SFC from On Board from its review of the university sector GER reports.

1. The Funding Council should remove any current ambiguity and make it a clear requirement that all Universities must send their GER reports to the Funding Council and publish them online.

2. The Funding Council should tighten up its monitoring of the GER process to (1) ensure that GERs are commissioned, undertaken and submitted in line with the deadlines set out in the Code and that (2) what is submitted is the actual GER report and not a summary/cover report, a PowerPoint presentation on the findings, feedback from Governing Body or a Committee on the GER report's recommendations, a self-evaluation etc.

3. GER reports should be accompanied by a rolling action plan to track the implementation of recommendations from previous GERs (whether external or self-evaluation). The testing of this should be a clear component of the GER process.

4. The Funding Council should provide greater clarity to Universities on what assurances are needed or desired. This would enhance the process (both internal evaluations and externally facilitated evaluations) and provide benefit not just to the Funding Council but also to Governing Bodies. Such an approach would support the requirement on Governing Bodies to comply or explain compliance with the Code in their Annual Governance Statement and the Funding Council's new Assurance Model. This clarity may form part of a new Guidance Note which sets out best practice in undertaking externally facilitated effectiveness reviews. This would serve as a 'standard' and bring the University sector into line with the College sector.

5. Going forward, the Funding Council should review each GER for evidence of strengths and weaknesses in governance (including cases of non-compliance with the Code) and take appropriate follow-up action to address any issues raised. The current process of reviewing GERs within the Funding Council needs to be strengthened.

6. Universities should be asked to benchmark their current GER practices against the findings in this report.

Annex B: Recommendations re: College GER reports

Annex B sets out the recommendations for SFC from On Board from its review of the college sector GER reports.

1. Colleges should be asked to benchmark their current GER practices against the findings in this report.
2. Revisions to the CDN Guidance Note should be considered to take account of the observations in this report and the accompanying report on individual Colleges. Revisions to the Guidance Note should set out clear expectations around the importance of evidence.
3. Instructions to Reviewers should include the requirement to follow the CDN Guidance Note in full or equivalent best practice.
4. Consideration should be given to mandating that externally facilitated GERs are required every three years. GERs which are currently overdue should be prioritised.
5. The Scottish Funding Council should clarify that GERs should be approached as both a developmental tool for College Boards and as a means of providing assurance to Boards and the funding bodies. In doing so, the Scottish Funding Council should specify its assurance requirements, including in relation to compliance with the Code of Good Governance.
6. Assessing the quality of financial oversight exercised by the Board and Finance Committee should be a clear component of the GER process, and revised guidance should highlight this requirement.
7. Where this is not already in place, Colleges should develop a process to assess, monitor and report compliance with the Code of Good Governance. The testing of this process should be a clear component of the GER process.
8. GER reports should be accompanied by a rolling action plan to track the implementation of recommendations from previous GERs (whether external or self-evaluation). The testing of this should be a clear component of the GER process.

Briefing

Scotland's colleges 2025



AUDITOR GENERAL

Prepared by Audit Scotland
October 2025



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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 Katy Wilson, under the direction of Mark MacPherson.

Key messages

1. Scotland's college sector continues to operate in an extremely difficult financial landscape. There was a 20 per cent real-terms reduction in funding for colleges between 2021/22 and 2025/26. Two targeted funding packages for colleges in 2023/24 were also withdrawn. Without changes to baseline funding, colleges will have to deliver even less to remain sustainable at a time when demands from students and employers are not being met. As college funding is also dependent on credit delivery, there is a risk that colleges prioritise courses that are less expensive to deliver over those that meet local need.

2. The sector reported a small surplus of £0.4 million in 2023/24, although there was significant variation between colleges. While the surplus is an improvement on the £14.5 million deficit reported in 2022/23, the finances of some colleges remain challenging and further deficits are anticipated. Savings have mostly been achieved through voluntary severance schemes, and the college workforce shrank by over seven per cent in 2023/24. Despite these cost-cutting exercises, seven colleges reported a deficit in 2023/24, and two colleges required liquidity support from the Scottish Funding Council (SFC).

3. The need to cut costs has impacted on college staff and students. Although student satisfaction rates are high and the proportion of students going on to positive destinations has increased, overall student numbers are down, and colleges are unable to meet student and employer demand for some courses and apprenticeship programmes.

4 The demands on the college sector are changing, with fewer older students enrolling, increasing competition from universities for students and the impact of digital technology on how teaching is delivered. Due to continuing financial pressures, colleges will have to align themselves with wider public service reform activity and plan for the demands of the future rather than try to deliver more of the same with decreasing resources.

Recommendations

The Scottish Government should:

- 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 (paragraph 87).
- 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 (paragraph 61).

Within 12 months the Scottish Funding Council should:

- 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 (paragraph 60).
- 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 (paragraph 39).
- 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 (paragraphs 32–36).

The Tripartite Alignment Group should:

- 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 (paragraphs 42–45).
- 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 (paragraphs 49 and 51, paragraphs 84–85).

Colleges should:

- 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 (paragraph 87).

Introduction

1. Scotland's colleges play a significant role in the post-school skills and education sector. They provide learners with a wide range of academic and vocational courses that can provide pathways to employment, further or higher education, and apprenticeships. Scotland's colleges have an important role to play in supporting Scotland's sustainable economic development.

2. Scotland's colleges cover 13 regional areas as shown in Exhibit 1 (page 8). The Scottish Government provides funding for Scotland's colleges via the Scottish Funding Council (SFC).

3. This report provides an overview of the financial and operational performance of Scotland's colleges in 2023/24 and what this means for colleges in the future.

4. In previous years, we have reported on the financial challenges facing the college sector, and in our Scotland's colleges 2024 report we highlighted the slow pace of reform in the wider sector. Progress in implementing recommendations made are summarised at Appendix 1. We intend to report separately on education and skills reform in due course and do not cover this in detail in this report.

5. This report draws on analysis of the 2023/24 annual audit reports (AARs) and accounts for 18 of the 19 incorporated colleges in Scotland. The AAR and accounts for UHI North, West and Hebrides have been delayed and are not included in our analysis.

6. 2023/24 is the latest year for which audited accounts are available for Scotland's colleges. This means that some of the information available to us is historical, and we make clear that this is the case in the body of the report. Up-to-date information is used where available to us.

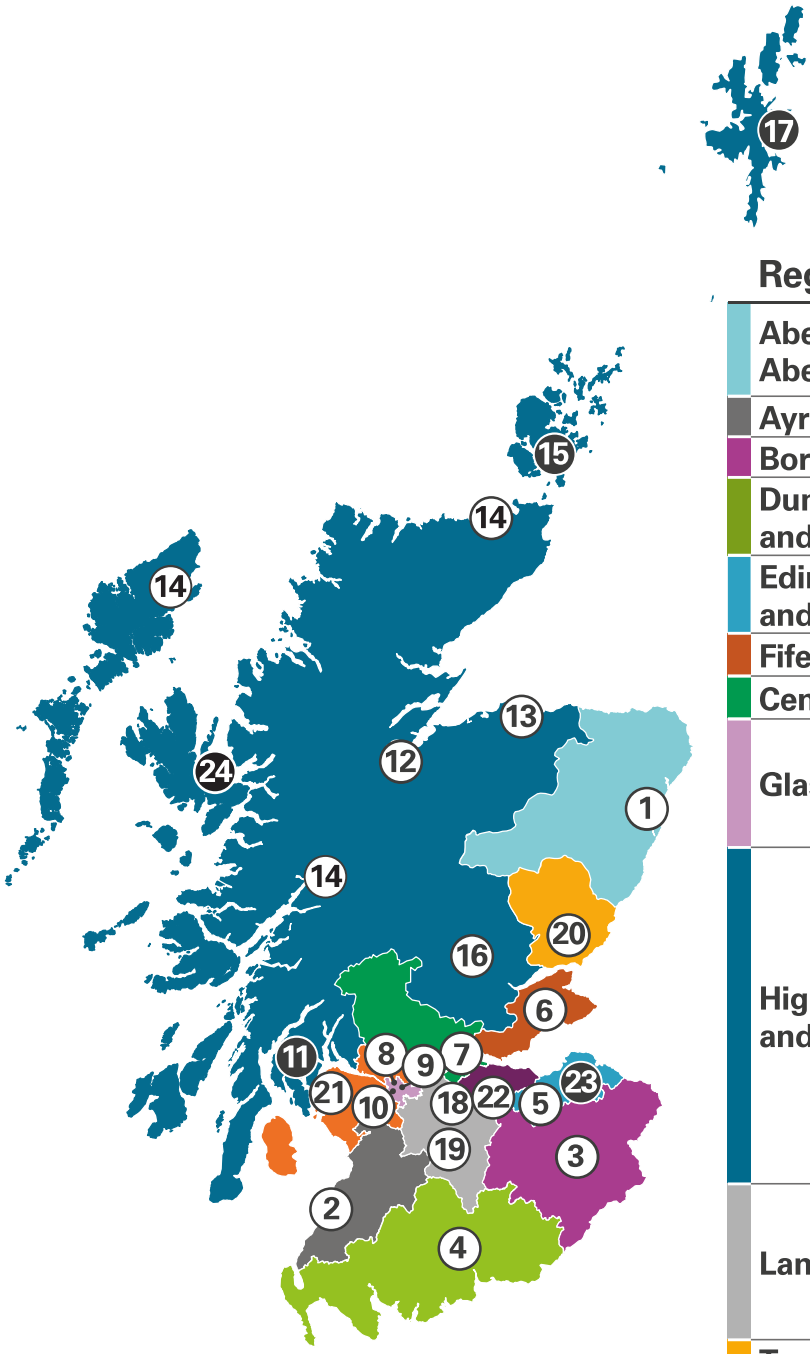
7. This report also draws upon evidence obtained from other sources including:

- interviews with the Scottish Government, the SFC, Colleges Scotland, College Employers Scotland (CES), trade unions (EIS-FELA and UNISON Scotland) and meetings with some college principals and senior leadership teams
- reports produced by the SFC, Scottish Government and Colleges Scotland
- evidence to Scottish parliamentary committees.

Exhibit 1.

Scotland's colleges as at 1 August 2025

The colleges listed in bold are subject to audit by the Auditor General for Scotland (AGS).



- **College – incorporated, audited by AGS**
- College – unincorporated, 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

Note. On 1 August 2023, UHI North Highland, UHI Outer Hebrides (formerly Lews Castle College) and UHI West Highland merged to form UHI North, West and Hebrides. Data prior to this date reflects the legacy institutions.

Source: Audit Scotland

1. Colleges continue to face significant financial challenges

The college sector has seen a 20 per cent real-terms funding reduction over the last five years

College finances have come under increasing pressure in recent years

8. Scottish Government funding, distributed by the SFC, is the primary source of income available to colleges.

9. In our Scotland's colleges 2024 briefing we highlighted that colleges were operating in an increasingly challenging financial landscape, having seen a 17 per cent real-terms reduction in their funding between 2021/22 and 2024/25. Colleges reported a £14.5 million deficit in 2022/23, illustrating the urgent need for savings in 2023/24 and beyond.

The sector reported a small surplus in 2023/24 but performance between colleges varied significantly

10. In 2023/24, Scotland's colleges' net resource allocation from the Scottish Government was set at £675.7 million for the third consecutive year.[1] Colleges had expected to receive an additional £26 million of transition funding following an announcement made by the Scottish Government as part of the draft budget in December 2022. This was subsequently withdrawn in May 2023 when the Scottish Government redirected this money to fund the teachers' pay deal agreed in March 2023.[2]

11. Based on the audited accounts of 18 of the 19 incorporated colleges, the sector reported an adjusted operating surplus of £0.4 million in 2023/24 compared to a £14.5 million deficit reported in 2022/23. This is an improvement but represents a turnaround of only two per cent of colleges' net resource allocation. Much of this improvement resulted from colleges' use of redundancy schemes to reduce staff costs.

12. The financial outturns and health of colleges varies significantly. In 2023/24, Dundee and Angus College reported a surplus of £1.9 million (3.8 per cent of income) while UHI Perth reported a £1.7 million deficit in the same period (-7.0 per cent of income). Appendix 2 shows the **Adjusted Operating Position (AOP)** for each of Scotland's colleges in 2023/24. Despite the overall surplus reported above, seven colleges reported a deficit in 2023/24. These deficits can in part be attributed to voluntary severance costs. Colleges collectively reported £9.7 million of voluntary and compulsory severance costs in 2023/24, as set out in Appendix 2.



Adjusted Operating Position (AOP) removes the effects of volatile accounting entries required by the colleges reporting framework ,eg pension valuations that do not reflect performance within managements control.

Cash balances are decreasing, and arm's-length foundation balances are nearing exhaustion

13. Cash held by colleges at each year end provides a snapshot of the college's financial health and ability to continue to operate, and a measure of the overall liquidity across the sector. This is subject to fluctuation due to the timing of payments around year-end and the earmarked nature of cash balances to cover staff pay settlements and other commitments. For example, although Edinburgh College had a £4.2 million cash balance at the end of 2023/24, £3.7 million of this was earmarked to cover lecturers' pay awards for 2022 and 2023.

14. Colleges reported a small decrease in the cash held at 31 July 2024 (£118.4 million) compared with the prior year end (£119.5 million). The SFC's Financial Sustainability of Colleges in Scotland 2020/21 to 2025/26[3] report, published in January 2024, projects that colleges will be in a cash-deficit position by the end of July 2026. The SFC published its 'Financial Sustainability of Colleges in Scotland 2022/23 to 2027/28' report on 26 September 2025, too late for inclusion in this report. Colleges Scotland told us that it anticipates the reduction of college cash balances to accelerate in the next few years.

15. Colleges established **arm's-length foundations (ALFs)** as charitable bodies in 2014 when incorporated colleges were reclassified as public bodies. A combined £99 million was transferred from colleges to these foundations when they were set up. This balance had decreased to £8 million by the end of 2023/24 as colleges applied for and were granted ALF funding aligned with the foundation's charitable objectives. These have included voluntary severance schemes and student support services. The remaining balance equates to just over one per cent of the £784 million expenditure by colleges in 2023/24. As ALF balances near exhaustion, colleges will need to make difficult decisions about whether to fund these services.



Arm's-length foundations (ALFs) are independent, charitable bodies set up by colleges to hold cash reserves for use by the college in future years.

Two colleges required liquidity support from the SFC in 2023/24

16. The SFC uses a range of methods to support colleges facing financial challenges. These are set out in the SFC's Outcomes Framework and Assurance Model and include requesting recovery plans from colleges, and the provision of loans or advances in funding.

17. Two colleges reported receipt of liquidity support from the SFC in their 2023/24 financial statements:

- The SFC committed to providing £2.1 million liquidity support to UHI Moray during 2023/24, and the college received an initial £0.9 million (7.1 per cent of income) advance during 2023/24.
- New College Lanarkshire received an additional £4.5 million (8.7 per cent of income) in 2023/24. The college is in the process of agreeing repayment arrangements with the SFC.

18. The Outcomes Framework and Assurance model does not map out how the SFC will escalate its monitoring and supportive activity in line with colleges' need. There is a risk that an increasing number of colleges may request liquidity support from the SFC. It is unclear whether the SFC will be able to meet increased demand for support. As the SFC has not set repayment terms, it is unclear when loans and cash advances will be repaid.

Responsibility for funding the outcome of a non-teaching job evaluation was returned to the Scottish government in 2023/24

19. National bargaining was reintroduced in Scotland's colleges in 2015, leading to an agreement to undertake a national job evaluation exercise for in-scope support staff roles. The cost of funding back pay has been estimated by CES at over £86 million to date. Progress to complete the job evaluation has been very slow with current and former staff expected to be owed back pay to 2018.

20. In March 2023, the SFC returned £56.1 million to the Scottish Government that it had held in reserve to fund the outcome of the job evaluation. In November 2024, the Director General for Education and Justice agreed that responsibility for job evaluation funding commitments now rests with the Scottish Government.

21. Colleges updated their financial statements in 2023/24 to comply with accounting standards and reflect this change in funding responsibilities. This meant that each college included a provision in its accounts to reflect the possible cost of compensating staff affected by the evaluation. Colleges could no longer recognise their share of SFC monies to pay for this, leading to colleges reporting lower income in 2023/24 in their financial statements. Each college's AOP, as reported at Appendix 2, reverses the impact of accounting processes such as the job evaluation and provides a measure of financial performance that is within college management's control.

22. The Scottish Government has not yet set out the mechanism by which it will fund colleges and no provision for this has been included in Scottish Government accounts for 2023/24. Colleges have expressed concern at being required to include a provision in their accounts for the cost of the job evaluation without recognising associated income to meet that provision. Several colleges reference the job evaluation as a significant risk to their financial sustainability.

A 20 per cent real-terms funding reduction since 2021/22 is placing significant financial pressure on the college sector

23. Following the flat cash settlement for colleges (paragraph 10), the Scottish Government decreased the college resource budget for 2024/25 by £32.7 million. £12.3 million of this reduction arose from the Scottish

Government taking on liability for future costs associated with the support staff job evaluation. Funding was then increased by £13.2 million (2.1 per cent) to £656.2 million in 2025/26. This means that between 2021/22 and 2025/26, funding for colleges has decreased by almost £20 million (three per cent) in cash terms and by 20 per cent in **real-terms** (Exhibit 2).

24. Funding for 2025/26 includes a £13.2 million increase (2.6 per cent) to the teaching grant allocation to £522.5 million. This includes an additional £8.3 million to help colleges meet rising employer pension contribution costs, £4.5 million to support lecturer pay increases, and £0.4 million additional teaching funding. Colleges have not received a funding uplift to cover general inflationary pressures, meaning that colleges must find savings to match rising costs. The student support services grant awarded in 2025/26, distributed by colleges directly to students, remained at £123 million.

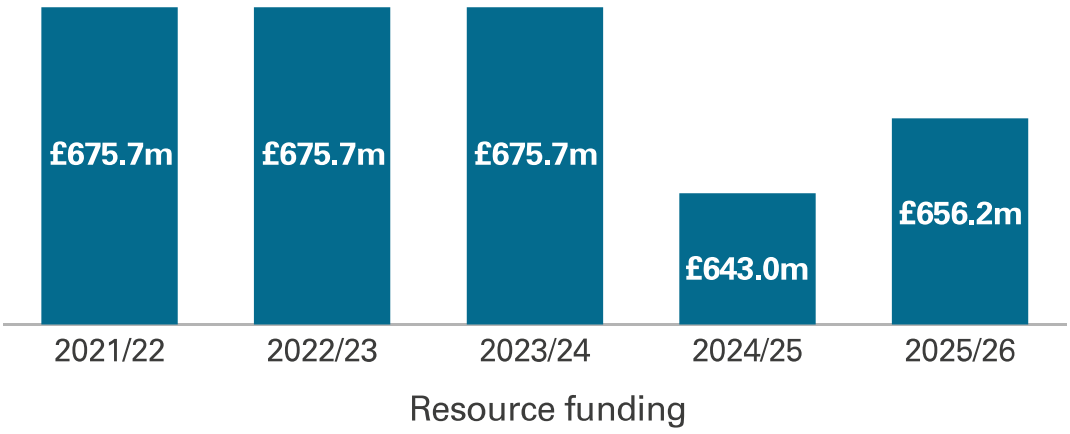


Real-terms adjusts the cash value of money for inflation to allow a more accurate comparison of funding over time.

Exhibit 2.

Net resource allocation for the college sector since 2021/22

College funding has reduced by 20 per cent in real-terms between 2021/22 and 2025/26.



20%
Real-terms reduction in funding

Source: Audit Scotland analysis of Scottish Government budgets

25. Financial risks reported by colleges continue to include inflationary increases in costs, the need to self-fund severance packages, and costs to maintain and modernise their estate. Colleges we spoke to also highlighted the risk to financial sustainability of future staff pay settlements and the outcome of the ongoing job evaluation (paragraphs 19–22). These may impact on the volume and range of courses they can afford to provide.

26. In addition to managing a real-terms reduction in funding, colleges have had to meet higher national insurance costs following a rise from 1 April 2025. There is ambiguity over the extent to which the Scottish

Government is supporting colleges to meet this additional cost. The Scottish Government has allocated colleges an additional £5.5 million to meet 60 per cent of the cost impact to the sector. Colleges say this covers less than half of the increased costs. For example, Ayrshire College was allocated £0.35 million but claims its need for the financial year 2025/26 is more than double the funding provided (£0.76 million). This cost increase presents an additional risk to colleges already experiencing real-terms cuts to their funding.

27. The SFC requires that each college sets a balanced budget each year that is approved by its board. As this becomes more challenging, colleges and their boards must explore all options open to them to prevent the prospect of budgets being presented to them with an underlying deficit. In 2023/24, UHI Perth did not have a budget approved by its board. The options open to college boards where college management are unable to set a balanced budget are unclear.

A clear plan for the future of college estates is vital as capital budgets become stretched

28. Each college receives a share of a capital maintenance fund distributed by the SFC. This fund is used by colleges to undertake building repairs, replace teaching equipment, and upgrade digital infrastructure. In 2023/24, £35.9 million of capital maintenance funding was available to colleges. Colleges shared £31.2 million of combined backlog and lifecycle maintenance funding and the SFC ringfenced £4.7 million. This was allocated throughout the year to colleges with the highest priority needs.

29. Capital maintenance funding allocations to colleges were reduced to £33.0 million in 2024/25, then increased to £34.5 million for 2025/26. In both years, the SFC retained £2.5 million for emergency capital works, with the remainder shared among colleges for maintenance works. Between 2021/22 and 2025/26, capital maintenance funding has increased by £5.1 million but funding in 2025/26 was £1.4 million lower than the £35.9 million allocated in 2023/24. The SFC told us that long-term under-investment in estates is now leading to major costs to colleges, which is adversely impacting their long-term financial health.

30. Colleges indicated to us that they can only address higher priorities, such as emergency repairs, with the funds at their disposal. City of Glasgow College told us that its four-year capital plan outlines a need for £3-4 million spending per annum that exceeds its £1.3 million allocation. Planned work includes a complete replacement of its digital network at a cost of £2 million. North East Scotland College estimated its capital maintenance allocation was around half of what it requires.

31. Colleges Scotland undertook a review of the college estate in 2022, which indicated that the cost to bring the college estate back up to baseline condition was £775 million. The chair of the College Principals' Group

recently told MSPs that the cost to cover backlog maintenance costs and transform campuses to meet net zero emission targets is now estimated by colleges at close to £1 billion.[4]

32. Given the scale of the estimated costs to maintain college estates in their current form, colleges are widely considering physical and digital estate rationalisation to help achieve savings. It is increasingly important that colleges do so in line with wider public sector reform activity. Where needed, the SFC should provide support to colleges to prepare plans for the future of their estates considering changes affecting the sector, such as demographics, increased competition from universities for students, net zero targets and developments in digital technology.

33. The SFC published its College Infrastructure Strategy (CIS) in November 2022, setting out its approach to determining future investment in Scotland's college estate and other college infrastructure.[5] This was followed in December 2023 with the College Infrastructure Strategy Delivery Plan. The SFC published the College Infrastructure Investment Plan: Progress Report on 31 July 2025, delayed from February 2025. The SFC intends to publish the Infrastructure Investment Plan (IIP) in autumn 2026, almost four years after the strategy was first published. The SFC changed its approach to delivering the IIP following the identification of gaps in data not routinely collected by colleges. The SFC believes that delays in progress to support colleges to provide comprehensive data will improve the accuracy and integrity of the IIP.

34. Alongside this, the SFC published updated college disposals guidance. The disposals guidance provides additional flexibility to colleges by allowing them to keep the first £1 million of net proceeds and 70 per cent of the remainder (subject to ministerial consideration). Glasgow Kelvin College has closed one if its four campuses to cut costs and will retain proceeds from its sale to fund remedial works at its Springburn campus, subject to ministerial approval. Other colleges are also considering the sale of buildings or campus closures.

35. While estate rationalisation is an important consideration for colleges as they seek financial sustainability, colleges recognise that campus closures can remove a link to the communities they serve. Campus closures can disproportionately impact more deprived students who often travel further and rely on public transport to attend classes. Despite this, colleges say they increasingly must consider campus and building closures to maintain sustainability.

36. The Scottish Government told us that, although it believes colleges are already operating in a lean way, there are further opportunities for colleges to consider their estate, curriculum planning and digital capabilities. UHI colleges are looking at how they can deliver more courses digitally rather than on campus. Ayrshire College has achieved space and money savings by moving away from traditional desktop computer provision.

The college sector workforce contracted by eight per cent in 2023/24 as colleges reduced staff costs to ease financial pressures

37. Almost all colleges reduced employee numbers in 2023/24. Voluntary severance was the most common approach colleges used to reduce costs. Colleges also utilised compulsory severance, vacancy management, role development and senior management restructuring. Our analysis suggests that redundancies have been broadly consistent between teaching and non-teaching staff. A summary of the change in workforce and use of voluntary and compulsory severance is set out at Appendix 3.

38. The SFC's College Staffing Data 2023-24 report stated that 10,112 full-time equivalent (FTE) staff were employed at colleges in 2023–24 (including unincorporated colleges).[6] This is a decrease of 845 (7.7 per cent) from the previous year. Staff costs still accounted for 65 per cent of expenditure in 2023/24 (67 per cent in 2022/23) as pay rises offset savings achieved from reducing staff numbers.

Colleges have refined their curricula to make savings, but cost-cutting is impacting staff and students

39. Across the sector, colleges have introduced a range of curriculum changes to reduce their costs. These include reduced class times, larger classes and revised timetables to maximise the use of space. Some colleges have reduced their English for Speakers of Other Languages (ESOL) provision to make savings. This is despite high demand for these courses across the country. The principal of Glasgow Kelvin College told the Education, Children and Young People Committee in June 2025 that the college had received 700 applications within 24 hours for a 24-person ESOL class.

40. Across the sector, we heard that remaining staff have seen increased workloads and stress as college workforces have been reduced. Some staff have been redeployed or have taken on additional roles. EIS-FELA told us that the number of additional support needs (ASN) staff has been cut, leading to fewer bespoke courses, less support available to those students who require it, and additional pressure on lecturers.

41. City of Glasgow College told us that severance schemes had been difficult for staff, causing a loss of trust and goodwill, and increased job insecurity. The college undertook a staff survey at the end of their organisational change programme and used this data to produce an action plan to support staff. Some colleges have adopted innovative initiatives to help improve staff wellbeing (Case study 1, page 16).

Case study 1.
West Lothian College

West Lothian College commissioned a pilot scheme to explore how staff wellbeing could benefit from compressed hours working.



Participation was open to all non-lecturing staff and feedback from the first phase was positive. 92 per cent of survey respondents said they were satisfied or very satisfied with the experience of taking part, and 96 per cent wanted the scheme to continue. 96 per cent also reported an improvement to their work-life balance. A majority of staff said that quality had been maintained or increased in areas such as team delivery, collaboration and cross-college working. A second phase is under way. College Employers Scotland has shared the results with other colleges.

Source: Audit Scotland

Colleges are trying to find additional income sources to support sustainability

42. The Scottish Government is keen that colleges identify additional ways of generating income to help achieve financial sustainability. Some colleges have established subsidiaries to generate surpluses that can be used to cross-subsidise the college's core provision. But opportunities to generate income vary across the sector and some colleges will find it more difficult to generate significant additional income.

43. Colleges that have explored opportunities to set up a subsidiary identified the benefits as:

- ability to deliver year-round training for employers
- more flexible employment practices, working hours and terms of employment
- marketability of trading subsidiaries that differentiates them from the college
- lower cost bases leading to financial surpluses
- colleges can reclaim VAT on their subsidiaries' activities.

44. College subsidiaries, including those of Ayrshire College and North East Scotland College, faced barriers that could potentially prevent other colleges from setting up their own subsidiaries. These include lengthy set-up times, the need to accumulate sufficient set-up funds and secure staff with the required expertise, and years of relationship build-up with industry.

45. Our recent statutory reporting on Forth Valley College, Lews Castle College (now part of the merged UHI North, West and Hebrides) and UHI Perth provides some examples of colleges that have faced issues related to subsidiaries or commercial initiatives. Colleges should consider and manage the potential risks associated with any means of generating new sources of income. The Scottish Government should consider how it can support the college sector to identify new income sources and effectively manage the associated risks.

2. Colleges are delivering less teaching to fewer students

Colleges taught fewer students in 2023/24, but exceeded agreed targets and continued to support a high proportion of college leavers into positive destinations.

Colleges exceeded their credit target for 2023/24, but delivered fewer credits than in 2022/23

46. 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 sets a price per credit that it pays to colleges for the delivery of teaching hours and uses credit delivery as a means of monitoring performance.

47. In May 2023, the SFC made changes to its funding approach to support colleges to meet their agreed objectives in the context of reductions in funding. The SFC:

- reduced the number of credits colleges were required to deliver by ten per cent and increased the credit price to ensure that total funding was unchanged from 2022–23
- allowed colleges to miss their credit target by up to two per cent without funding being recovered
- increased flexibility in how capital funding allocations could be used.

48. Colleges collectively delivered 1.565 million credits in 2023/24, exceeding the 1.553 million credit target set. But credit delivery in 2023/24 was almost ten per cent lower than the 1.731 million credits delivered in the previous year. The SFC attribute much of this decrease to updated guidance it issued to colleges, which led to fewer credits being claimed for each full-time student's learning. Despite the reduction, five colleges did not meet their credit target. Four of these were within the two per cent tolerance allowed by the SFC and funding was not recovered. West Highland College (now part of the merged UHI North, West and Hebrides) delivered 93 per cent of its credit target, but funding was not recovered because recovery is assessed at a regional level and the UHI colleges delivered 106 per cent of their combined target credits.

49. Colleges told us that a credit-based funding model is output driven. This means they must ensure they meet their credit target to avoid funding being recovered by the SFC. As the delivery cost of courses can vary significantly, colleges strike a balance between what may be in-demand

but high-cost courses and those that they can afford to provide in order to maintain financial balance. This can lead to lower cost courses being offered to help ensure credit targets are met and to subsidise those that are more expensive for colleges to deliver.

50. New College Lanarkshire introduced a new Curriculum Delivery Planning model in 2022/23. This showed that courses that the college regarded as most efficient had an average class size of 27 and the least efficient an average below eight. The model estimated that the most efficient courses delivered an average of 625 credits per **full-time equivalent (FTE)** teaching staff member compared with just 179 credits per FTE teaching staff member for the least efficient. The college noted that the least efficient curriculum area is Supported Learning. While the college could achieve further efficiency savings by decreasing its offering in this area, the college believes that this would come at a significant social cost. There is a risk that the funding system distorts the courses that colleges provide. As colleges come under increasing financial pressure, some courses could become unaffordable, or colleges could prioritise the delivery of courses that are the most affordable or sustainable over those that meet local need.



Full-time equivalent is a way to measure how many full-time students or staff there are, even if some learners or staff members are only part-time.

Funding premiums were consolidated, and a transformation framework was launched in 2025/26

51. The funding changes implemented in 2023/24 (paragraph 47) have been retained. In addition, in 2025/26, the SFC made changes to its allocation model that were intended to improve transparency and funding comparability between learners on similar courses.

52. Prior to 2025/26, the teaching funding allocation model had developed from a core credit allocation plus separate **premium funding** (covering areas such as rurality, access and social inclusion) to a single allocation per college with the premiums embedded. From 2025/26, the SFC:

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



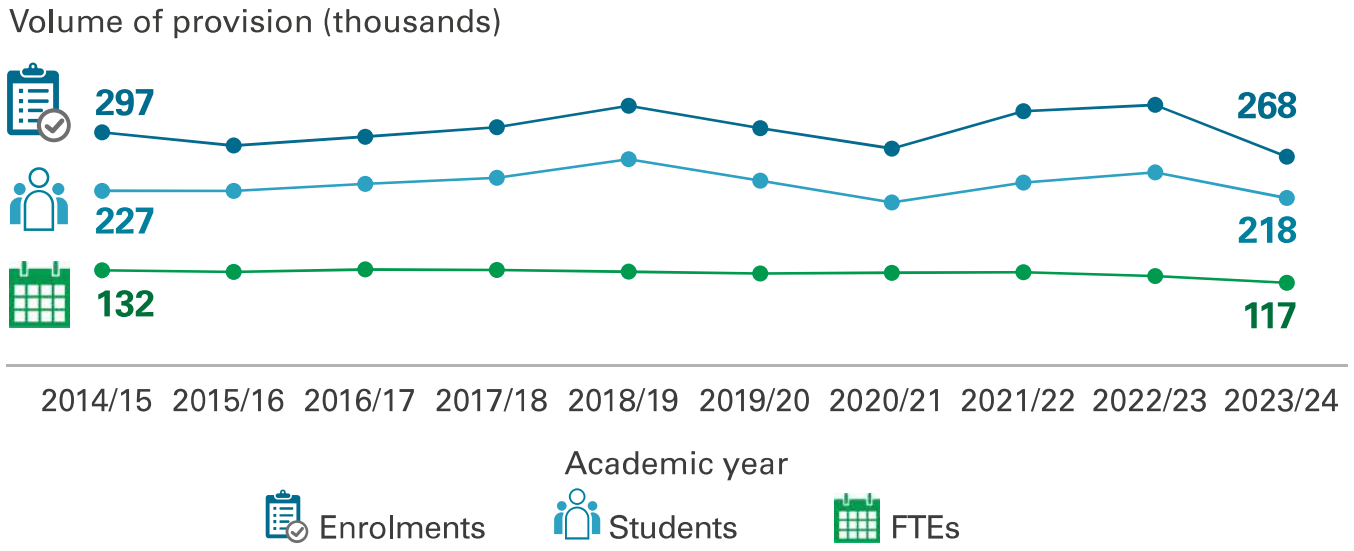
Premiums are additions to credit prices paid to colleges to support equity and inclusion of students, including those from deprived backgrounds. They also offset additional delivery costs for some courses.

53. In 2025/26, the SFC launched its College Transformation Framework. This aims to help colleges transition towards longer-term financial sustainability, within existing financial resources, by permitting colleges to under-achieve credits by up to ten per cent without penalty. This may create capacity for transformation but may also incentivise colleges to deliver fewer credits in order to invest in transformation and will likely be less suitable for colleges that already have unmet demand.

Over 30,000 fewer students were taught in 2023/24

54. College enrolments, student headcount and FTE student numbers all decreased in 2023/24; 30,762 fewer students attended college in 2023/24 than in 2022/23, a decrease of 12.4 per cent (Exhibit 3).

Exhibit 3.
Enrolments, headcount and FTEs 2014/15 to 2023/24 at Scotland's colleges



Source: SFC College Statistics 2023–24

55. Students can attend college on a full-time or part-time basis. The number of FTE students taught in 2023/24 was 116,602, a decrease of 8,052 (6.5 per cent) from the previous year and the fewest in the last ten academic years.

56. The number of students attending college fell in 2023/24, whether they were part-time, full-time or studying further or higher education courses. Part-time further education students saw the largest year-on-year decrease (11.9 per cent) following three years of increases. The SFC says that this reduction was to be expected and attributes reductions to reduced availability of funding, such as the Flexible Workforce Development Fund (FWDF).[7]

57. Fewer students are leaving college to take up a university place, employment, training or voluntary work. This is because of the lower overall numbers of students on college courses and an increasing number of school leavers now enrolling directly to a university rather than going to college first. The percentage of college leavers entering a positive destination increased from 86.0 per cent in 2021–22 to 86.7 per cent in 2022–23 (the latest year for which data is available). The remaining 13.3 per cent are categorised as unemployed or unavailable for work.

Enrolments: the number of registrations for courses at college. Some learners may sign up for more than one course.

Students: the number or headcount of students attending college.

Satisfaction rates among college students remain high, but data on the views of college staff is not collected at a national level

58. The 2023/24 SFC student satisfaction survey found that 92 per cent of students are satisfied with their college experience.[8] Satisfaction rates decreased slightly for part-time higher education students (-2.5 per cent), full-time higher education students (-0.9 per cent) and full-time further education students (-0.2 per cent). They increased for part-time further education students (+0.2 per cent).

59. Declines in satisfaction rates are small, suggesting that colleges largely continue to meet students' needs despite having to make savings. These figures only reflect the views of students currently enrolled. They do not capture the views of college applicants unable to access college or apprenticeship opportunities due to a reduction in courses offered.

60. Staff satisfaction is more difficult to assess at a national level. Currently, there is no standardised national survey for college staff. Individual colleges conduct their own surveys using different methodologies. The trade union, EIS-FELA, is developing a fair work toolkit that can be shared with colleges to be used by staff.

61. As colleges reduce the number of students they teach and the number of courses on offer, there is a risk that the longer-term impacts on students, staff, local employers, and on the wider economy are not fully captured and understood to enable the sector to respond appropriately.

Colleges supported fewer students from deprived backgrounds to access university in 2022/23

62. Colleges play an important role in supporting students to access university, despite more school leavers now enrolling to university directly. In 2022/23, the latest year for which data is available, 8,790 students (22.4 per cent) enrolling in a first degree university course had previously achieved an HNC or HND qualification at college. Around half (50.7 per cent) of college students entering university within three years of completing their college course progress directly into year two or three in recognition of their college qualification.

63. In 2016, the Scottish Government accepted a recommendation made by the Commission on Widening Access that by 2030, students from the 20 per cent most deprived backgrounds (SIMD20) should represent 20 per cent of entrants to higher education.[9] In 2022/23, just over a third (33.5 per cent) of Scottish domiciled full-time first degree entrants who entered via college were from SIMD20 areas. This highlights the important role of colleges in meeting this target. But this is the lowest contribution recorded by the SFC since 2015/16, with a high of 45.9 per cent reported in 2017/18. The SFC attributes this decrease to more school leavers from SIMD20 enrolling directly to university.

64. Colleges believe they are increasingly competing with universities for student enrolments. For example, Ayrshire College told us the number of higher education FTE students they have enrolled decreased by 19 per cent from 1,372 in 2022/23 to 1,113 in 2024/25. The college attributes this to students taking up places at university. Income to the college for teaching students decreased from £1.8 million to £1.5 million as a result.

65. Increasing competition from universities may, in part, explain the decrease in the proportion entering university via college routes noted above. Other external factors such as the cost-of-living crisis may also contribute to fewer SIMD20 college students moving on to university.

66. Colleges are concerned that as financial pressures on universities increase, competition for student enrolments will heighten. They must consider their role in the wider tertiary education sector and target what they can offer students accordingly.

Full-time 18–19-year-old students at college increased for the first time since 2016/17, but colleges are teaching fewer students in older age groups

67. In February 2025, the SFC reported an increase in the numbers of 18–19-year-olds attending college full-time in 2023/24.[10] From a high of 27,162 students by headcount in 2014/15, the numbers steadily declined to 20,234 in 2022/23 before rising to 21,291 in 2023/24.

68. Nineteen per cent of Scottish 18–19-year-olds participated in a full-time college course in 2023-24, up from 17.6 per cent in 2022–23.[11] This is due to an increase in the number of 18–19-year-olds in the student population and a decrease in the number of 18–19-year-olds in the general population.

69. Colleges are teaching fewer students in older age groups. Year-on-year comparisons are complicated by a change in methodology used by the SFC for 2023/24. But age group data for academic years 2019/20 to 2022/23, as published in SFC performance indicator reports, show that for courses of over 160 hours:

- 18–20-year-olds enrolling at college decreased by 4.7 per cent
- 21–24-year-olds enrolling at college decreased by 6.4 per cent
- 25–40-year-olds enrolling at college decreased by 10.9 per cent.

70. Colleges must align their provision with the changing demographic of their student population to meet the need of their students and support student retention. They should consider how they can attract more students that are seeking to skill or re-skill at a later age.

Course non-completion rates increased in 2023/24, and fewer full-time higher education students successfully completed their courses

71. In July 2025, the SFC published student outcomes data for academic year 2023/24.[12] The SFC reports student outcomes as 'completed successful', 'partial success' or 'non-completion'. **Successful completion** rates improved for students on part-time courses but decreased for those on full-time courses. Around two-thirds (66.9 per cent) of students successfully completed full-time higher education courses in 2023/24, the lowest successful completion rate in the last five years. For comparison, over three-quarters (77.4 per cent) successfully completed their full-time higher education courses in 2019/20. We were told that colleges employed policies in this year to ensure students were not unfairly disadvantaged due to remote learning challenges, which may have led to higher successful completion rates for that year.

72. Non-completion rates measure the proportion of students who withdrew from their course after a minimum of five weeks. They increased across all modes and levels of study. Students from more deprived communities (17.9 per cent), care experienced students (21.4 per cent) and those with a disability (17.8 per cent) were all more likely to drop out of a course than the general student population (14.6 per cent). Withdrawal rates measure the proportion of students leaving college within the first five weeks. Those for students from the ten per cent most deprived areas (5.9 per cent) and care experienced students (5.7 per cent) were higher than the 4.2 per cent reported for all enrolments (on courses lasting over 160 hours).



Successful completion requires course completion and gaining the target qualification while **partial success** applies to students who completed the course only.

Colleges are taking action to reduce attrition rates, but funding for mental health support has been withdrawn

73. Colleges take steps to help students stay in college, including the use of systems to identify learners at risk of withdrawal and providing training to staff on mental health, first aid and trauma-informed response practice. All colleges have established designated quiet spaces to provide respite for learners. Support staff plan and deliver sessions for students on funding and finance, and how to access the range of supports available to them.

74. The Scottish Government provided £15.7 million of Programme for Government funding for colleges and universities between 2019/20 and 2022/23 to recruit 80 new mental health counsellors.[13] The number of college students accessing counselling during this time increased from 1,273 in 2018/19 to 2,786 in 2022/23. Average waiting times decreased from 21 days to 11.5 days over the same period.

75. When Programme for Government funding came to an end, a final £3.2 million of transition funding was provided for the academic year 2023/24. This was to provide financial support to colleges to transition from the previous arrangement to one that helps institutions diversify their support offering to students and explore delivery models that integrate with local services and meet students' needs. City of Glasgow College and West Lothian College told us that they have protected services as students are increasingly requesting mental health and other supports. This means colleges have to make savings from other services. UNISON Scotland told us that colleges are reviewing their mental health support staffing and the SFC has stated that the number of counsellors in the college sector is likely to decrease.[14]

76. The Scottish Government published its Student Mental Health Action Plan in 2024. The plan sets out five priority areas for action by stakeholders. It also outlines the framework for future action in this area, informed by Public Health Scotland's Three Levels of Prevention.[15] There is a risk that, as colleges make necessary savings, the provision of support services and support staff may decrease, placing delivery of the action plan at risk.

Colleges have a good understanding of the skills employers need, but withdrawal of key funding has contributed to colleges struggling to meet demand for apprenticeship places

77. The college sector has well-established links with local and national employers and industry representatives and use these to align college curricula with employers' skills needs. These include:

- forums such as Regional Economic Partnerships and regional skills groups
- regional investment groups and tertiary pathfinders
- colleges employing business engagement teams, curriculum managers and lecturers, who build relationships with local employers to identify skills gaps that curricula can address.

78. The Scottish Government say that some colleges are better than others at using conversations with employers and Regional Economic Partnerships to tailor courses to employer needs. Education Scotland's college sector overview report for 2023–24 noted that colleges proactively adjust their curriculum to align with the needs of both learners and employers.[16]

79. New College Lanarkshire expanded its undergraduate school in 2024 to deliver a further six undergraduate courses that are specifically aligned to local skills needs. City of Glasgow College has a business development team that works with faculties to ensure course provision meets employers needs and has a range of apprenticeship contracts supporting over 1,000 apprentices.

80. The Scottish Government's Flexible Workforce Development Fund (FWDF) was launched in 2017 and ran until 2023. The annual budget changed throughout its lifespan, but it provided no less than £10 million per annum to employers to procure workforce training and skills development.[17] Employers who paid the UK Government Apprenticeship Levy could apply for up to £15,000 to create bespoke and tailored training opportunities delivered predominantly by Scotland's college sector. From 2020, the programme eligibility changed, and small- and medium-sized enterprises could apply for up to £5,000.

81. Colleges welcomed the additional opportunities the FWDF presented to them to work with local employers and provide courses that would otherwise not be possible. Colleges told us that employers who benefitted from the FWDF scheme were increasingly open to working with the college again in the future but were less willing to do so once the FWDF was withdrawn.

82. The Scottish Government funded 25,365 modern apprentice places in 2023–24 and 25,507 in 2024/25, but demand exceeds funded placements.[18],[19] Learning providers requested around 34,000 places in 2024/25.[20] Colleges Scotland believe annual demand for apprenticeships from industry may be higher in future years. Demand is highest in sectors such as engineering, construction, digital, healthcare and renewable energies, such as off-shore and on-shore wind energy.[21]

83. Colleges believe that increased flexibility within the funding system, as recommended by the Skills Delivery Landscape Report (also known as the Withers Review) in 2023, would allow them to provide further education, higher education and apprenticeships to meet local demand and provide a skilled workforce that meets industry's needs and supports net-zero ambitions.

84. The college sector has raised concerns over the proportion of apprenticeship funding reaching colleges. In May 2025, the Scottish Parliament's Education, Children and Young People Committee heard that in some frameworks where colleges are sub-contracted to deliver training, only 40 per cent of Scottish Government funding reaches the college that delivers the training.[22] Skills Development Scotland (SDS) advised the Committee that funding retained by management agents was for qualification and certification, employer support and apprentice support costs.[23]

85. The Tertiary Education and Training (Funding and Governance) (Scotland) Bill proposes transferring responsibility for funding apprenticeships from SDS to the SFC. The Scottish Government believe the bill will simplify and strengthen the funding and governance system for post-school education and training.

The college sector must adapt to a changing landscape and plan for the future

86. The college sector is strongly linked to the wider tertiary education sector and public sector, the economy and to the communities it serves. All of these, and the financial position of colleges, are changing, and the college sector must adapt accordingly.

87. In June 2025, the Scottish Government published Scotland's Public Service Reform Strategy: Delivering for Scotland. It calls for public services to be efficient, fiscally sustainable, good quality and effective. It states that public service providers should collaborate, prioritise prevention and empower people and communities to shape services. Colleges must follow these principles.

88. Our report has shown that colleges are generally providing good-quality services and are effective at delivering for their current students. It is less clear that they are effective in meeting the needs of their communities and industry, as financial pressures restrict what colleges can offer.

89. For colleges to plan effectively they must consider the changing needs of their communities and industry. They must be aware of changing demographics and the changing skills needs of industry and consider what that means for the balance of teaching they provide. They must also consider the changing structure of the tertiary education sector and their role within that as universities adapt to changes in their own student profile.

90. For colleges to remain financially sustainable they must recognise how best they can meet the needs of their communities and industry within the finances available to them. They should plan for a range of medium-term funding scenarios and tailor their workforce and estates in a way that maximises their offering to students and is aligned with industry's skills needs and Scotland's economic objectives.

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Appendix 1

Scotland's colleges 2024 recommendations follow up

Recommendation	Progress
By the time it issues the 2025/26 Letter of Guidance to the Scottish Funding Council (SFC), the Scottish Government should set out the priorities that colleges are expected to deliver, so that the SFC and colleges can manage their funding to meet those priorities.	The SFC has developed a new Outcomes Framework and Assurance Model for 2025/26 setting expectations of colleges that align with the Scottish Government's Purposes and Principles for Post-School Education, Research and Skills. Views of the college sector on the need for further strategic direction are mixed. While some colleges are clear on their priorities, others felt the Scottish Government needs to be more transparent about what colleges should de-prioritise in light of real-terms funding cuts.
The Scottish Government should have early engagement with colleges and the SFC about these priorities so that they have as much time as possible to plan.	The Scottish Government, the SFC and Colleges Scotland consider funding, reform and strategic alignment through the Tripartite Alignment Group, established in 2023. The Scottish Government has offered further engagement with college principals, either individually or via Colleges Scotland.
The Scottish Government should increase the pace of reform that impacts on the college sector, by ensuring all groups involved are clear on what is expected of them and by when. By the end of 2024, the Scottish Government should set out detailed and timely milestones to deliver the programmes of work to reform the post-school skills sector.	Following the publication of the Skills Delivery Landscape Report in 2023, the Scottish Government introduced the Tertiary Education and Training (Funding and Governance) (Scotland) Bill in February 2025. This will consolidate funding provision through SFC and student support funding through SAAS. The Programme for Government 2025-26 includes a commitment to implement a new Scottish Government-led approach to national skills planning.

Cont.

Recommendation	Progress
The SFC, working with Colleges Scotland and colleges, should highlight good practice and share learning on how colleges are innovating and finding opportunities to do things differently to address the financial challenges. This should happen on an ongoing basis.	The SFC has shared a Working Together resource and released findings from the Regional Tertiary Pathfinders programme. College Development Network's STEP Programme, part of the SFC's new Tertiary Quality and Enhancement Framework (TQEF), has encouraged collaboration between tertiary education institutions, and the SFC plans to conduct thematic reviews as part of the Outcomes Framework and Assurance Model, with findings to be shared with the sector once the format is agreed.

Source: Accounts and AARs 2023/24

Appendix 2

Adjusted operating position and cash balances by college 2023/24

College	2023/24 Adjusted operating position		Compared to 2022/23	Cash balance at 31 July 2024 £m
	Total surplus or (deficit) £m	Surplus or deficit as % of income		
Ayrshire College	(0.336)	-0.6%	Better	11.048
Borders College	0.065	0.4%	Better	3.554
City of Glasgow College	0.130	0.1%	Better	12.363
Dumfries & Galloway College	0.007	0.0%	Same	1.120
Dundee & Angus College	1.869	3.8%	Better	6.777
Edinburgh College	(0.495)	-0.7%	Worse	4.185
Fife College	0.920	1.6%	Better	19.878
Forth Valley College	0.985	2.2%	Better	4.446
Glasgow Clyde College	0.192	0.4%	Better	11.617
Glasgow Kelvin College	0.199	0.6%	Better	3.493
UHI Inverness	(0.621)	-2.0%	Worse	8.619
UHI Moray	(1.050)	-6.9%	Worse	1.460
New College Lanarkshire	(0.243)	-0.4%	Better	1.726
North-East Scotland College	0.515	0.9%	Better	7.961
UHI Perth	(1.700)	6.5%	Worse	1.460
South Lanarkshire College	0.378	2.0%	Better	4.691
UHI North, West & Hebrides				
West College Scotland	0.100	0.2%	Worse	13.801
West Lothian College	(0.532)	-2.3%	Better	0.185

Notes:
1. To allow consistency, the figures used are for the college only and do not include balances related to group entities. This means figures may differ from SFC data or colleges' internal reporting.
2. Data does not include one college for which we did not have a completed set of accounts and AAR at the time of reporting: UHI North, West and Hebrides.

Source: Accounts and AARs 2023/24

Appendix 3

Severance numbers and cost by college 2023/24

College	FTE staff in July 2024	Difference in FTE July 2023 to July 2024	VS/CS take-up (staff) 2023/24	VS/CS cost 2023/24 £m
Ayrshire College	650	-17	20	0.638
Borders College	202	-13	5	0.076
City of Glasgow College	963	-164	73	1.569
Dumfries & Galloway College	191	-11	7	0.153
Dundee & Angus College	617	-16	10	0.231
Edinburgh College	907	-50	31	0.590
Fife College	801	-42	22	0.939
Forth Valley College	499	-57	22	0.640
Glasgow Clyde College	720	+11	47	1.024
Glasgow Kelvin College	389	-35	20	0.629
UHI Inverness	348	-2	0	0
UHI Moray	212	-27	0	0
New College Lanarkshire	706	-64	53	1.171
North-East Scotland College	484	-7	14	0.473
UHI Perth	343	-11	50	0.965
South Lanarkshire College	286	+1	0	0
UHI North, West & Hebrides				
West College Scotland	780	-12	21	0.387
West Lothian College	300	-1	10	0.201
Total	**9,398**	**-517**	**405**	**9.686**

Notes:
1. To allow consistency, the figures used are for the college only and do not include balances related to group entities. This means figures may differ from SFC data or colleges' internal reporting. Figures include direct employees as well as seconded and agency staff where applicable.
2. Data does not include one college for which we did not have a completed set of accounts and AAR at the time of reporting: UHI North, West and Hebrides.

Source: Accounts and AARs 2023/24

Briefing

Scotland's colleges 2025

AUDIT SCOTLAND

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ITEM 7.2 (B)

COMMENT ON SFC'S FINANCIAL SUSTAINABILITY OF COLLEGES REPORT

WRITTEN ON 26 SEPTEMBER 2025.

Commenting on the Scottish Funding Council's report on the Financial Sustainability of Colleges in Scotland published today (Friday 26 September 2025), Gavin Donoghue, CEO of Colleges Scotland, said:

"Today's report is incredibly stark. The SFC is rightly highlighting that most colleges are not financially sustainable within the current level of investment from the Scottish Government. This is why Colleges Scotland is calling for a step-change in funding at the next Budget. Further flat-cash funding, or even just an inflationary uplift, are not sustainable options.

"The SFC highlights the imminent risk that a number of colleges may be insolvent by the end of this academic year, without urgent action from Scottish Government. Many colleges are clearly in a perilous financial position, and this must be quickly addressed through a significant increase in core funding.

"The harsh reality is that chronic under-investment over many years in has led to college leaders having to consider deeply unpalatable decisions about courses, campuses, and curriculum, while at the same time people of all ages are increasingly looking for opportunities to upskill and reskill themselves at college, and employers are crying out for a skilled workforce.

"This report makes clear colleges have done absolutely everything they can – including educating 12.4% less students, and reducing staff numbers by 8.7% since 2021 – in an effort to balance the books, but they cannot self-fund any further restructuring activity.

"Colleges are Scotland's skills engines, and important local community anchors which act as places of hope and opportunity to help move people out of poverty. Scotland's people need and value colleges, and students who come to college have an overwhelmingly positive experience leading to good jobs and great careers.

"It is now past time for proper investment to come to colleges, so they can continue to deliver world-class education and training to over 218,000 people in Scotland each year."

Resources and General Purposes Committee – 8th September 2025

Item 8 NCL College Registrar Update

This paper provides a summary of current and planned activity in the areas above to provide an update for the Resources and General Purposes Committee. Where the approval/ratification of the Committee is required, this is highlighted at the appropriate points.

1. NCL Strategy 2030

As the refinement activity of our strategic proposals has concluded, it has been deemed appropriate that approval for Strategy 2030 should now be sought at the first meeting of the New College Lanarkshire Board on 6th October 2025.

2. Professional Services Review

Informal consultation has taken place with the Estates and Finance teams over the summer months, with both business cases nearing completion for sharing with the trade unions.

The priority in Estates has been to achieve commonality of working practices and team structures as far as practical across the three main campuses. Within Finance, there has been a focus on establishing clearer delineation between Financial Management and Financial Operations roles, as well as building stronger relationships between the team and the departments they support by offering a named Finance Team contact for each department.

Discussions also continue with the Brand team, and the review remains on target to be completed at the end of this academic year.

3. College Employers Scotland (CES)

3.1 National Recognition and Procedure Agreement

A new National Recognition Agreement (NRA) – Professional Services Staff (PSS) has been agreed with UNISON and Unite. It is the intention that this document will be shared to allow colleges to take it through individual governance arrangements before signing the new agreement. However, the new NRA – PSS, cannot be implemented until a subsequent new NRPA for the EIS-FELA only, is agreed or until colleges consider what steps to take if a new NRPA cannot be agreed with the EIS-FELA.

Positive discussions have taken place between the CES Team and the EIS-FELA to consider revising the existing agreement in a way that would allow a continuation, with common principles and protocols but splitting into two appendices, each of which details the agreements on scope, structures, processes and procedures, separately for each bargaining group (PSS and the Lecturing Staff Side). Good progress has been made with this document, and it is currently with the EIS-FELA to review and comment. It has also been shared with the GMB to ensure they are aware of the new NRA – PSS. UNISON and Unite are currently supportive of this approach.

The new agreement will be tabled formally at the upcoming Central Committee and Side Tables in early September 2025.

3.2 Support Staff Pay Claim

On 19th June 2025, the Joint Secretaries wrote to the Minister for Higher and Further Education seeking financial support to agree a multi-year (2025-2028) Pay Agreement for support staff.

It is understood that UNISON and Unite will be ready to ballot quickly if financial support is confirmed and provided. However, it should be noted that a Pay Agreement will not now be able to be in place for 1 September 2025.

3.3 Job Evaluation (JE)

The CES Team continues to work closely with the employers' only working group on Job Evaluation and Pay and Grading. The following draft documents have been developed and are currently being discussed with UNISON, Unite and the GMB. They are also being shared and discussed with the wider HR Strategic Group before being presented to CES in September 2025 for full discussion:

- Project Governance Structure
- College Preparation Guidance (issued)
- Pay Principles
- Appeals Process and Procedure
- Risk Register

In addition, discussions have commenced with the Scottish Funding Council on the Business Case and procurement discussions with APUC.

A new joint communication has been agreed by the Joint Secretaries and added to the NJNC Website.

Work is underway in each college to map job history from 2018, ensure Job Descriptions and Organisation Charts are updated and confirm the number of roles to be evaluated.

3.4 CES Funding

An early meeting is being sought by the CEO of Colleges Scotland with the SFC regarding the proposed alternative funding model for AY 2026/27. Colleges Scotland will also pursue written confirmation from SFC on the proposed future funding approach and guarantees.

3.5 Updated CES Executive Group Remit

At a meeting on 25th June, CES was advised that, as part of recent governance reforms within Colleges Scotland, a streamlined committee structure has been introduced, including the disbandment of the Sector Finances Committee. The CES Executive Group remit and membership has therefore been updated to reflect the removal of the Chair of the Sector Finance Committee, reducing permanent members from nine to eight. The number of ex officio members in the remit has also increased from two to three. This corrects a previous error.

It was noted that further discussions will take place to explore how CES governance arrangements align with the broader Colleges Scotland structure. While the current changes are largely administrative, it was acknowledged that there is a need to clarify roles and responsibilities going forward.

4. Joint Negotiating Committee Update

4.1 JNC Academic

A meeting of the JNC Academic was held on 27th May 2025. Discussion topics covered:

- Absence Management Guidelines
- Professional Services Review
- Impact of VS settlements

- Professional Development Policy
- Staff Bursary Procedure
- Student Satisfaction and Engagement Survey
- Temp staff and permanisation

The next meeting of the JNC Academic has yet to be scheduled.

4.2 <u>JNC Professional Services</u>

There has been no further meeting of the JNC Academic since it was last convened on 30th April 2024.

6. Employment Tribunal Update

There are six claimants in total and the claims remain sisted. The Employment Tribunal has recently requested an update which we have provided. Discussions with UNISON are underway to find resolution.

Elaine Turkington

College Registrar

September 2025

NEW COLLEGE LANARKSHIRE
Bringing Education Closer

Scheduled Board and Committee Dates 2026

The NCL Board

Board Strategic Planning Meetings

TBC	Motherwell Campus / Teams

Board Meetings

Monday 16th March 2026	Cumbernauld Campus/ Teams
Monday 8th June 2026	Motherwell Campus/ Teams
Monday 5th October 2026	Coatbridge Campus/Teams
Monday 7th December 2026	Cumbernauld Campus/Teams

Curriculum, Student Affairs and Outcomes Committee (CSAO)

Monday 16th February 2026	Cumbernauld Campus/Teams
Monday 11th May 2026	Motherwell Campus/Teams
Monday 31st August 2026	Coatbridge Campus/Teams
Monday 9th November 2026	Cumbernauld Campus/Teams

Audit and Risk Committee (ARC)

Monday 16th February 2026	Cumbernauld Campus/Teams
Monday 11th May 2026	Motherwell Campus/Teams
Monday 31st August 2026	Coatbridge Campus/Teams
Monday 30th November 2026	Cumbernauld Campus/Teams

Resources and General Purposes (RGP)

Monday 23rd February 2026	Cumbernauld Campus/Teams
Monday 18th May 2026	Motherwell Campus/Teams
Monday 7th September 2026	Coatbridge Campus/Teams
Monday 16th November 2026	Cumbernauld Campus/Teams

Diane McGill Board Secretary
Regional Strategic Body: Registered Charity Number SC021206

NEW COLLEGE LANARKSHIRE
Bringing Education Closer

Finance Committee

Monday 23rd February 2026	Cumbernauld Campus/Teams
Monday 18th May 2026	Motherwell Campus/Teams
Monday 7th September 2026	Coatbridge Campus/Teams
Monday 17th November 2026	Cumbernauld Campus/Teams
Monday 30th November 2026	Cumbernauld Campus/Teams

Notes:

1. The Board and committees will be from the relevant campus and there will be an option to attend on-line via Teams.

2. The Board meetings will be at 5.00 pm apart from **the December meeting which will be at 10.30 am with Christmas Lunch to follow.**

3. The CSAO Committee will be at 12.30 pm.

4. The Audit Committee will be at 5pm after the CSAO Committee except for the December meeting where it will meet at 4pm before the December Meeting of the Finance Committee which will be at 6pm.

5. The RPG will be held at 3.00 pm followed by the Finance Committee.

6. The Finance Committee will be at 5.30pm. The meeting of the Finance Committee at 6 pm on the 30th November 2026 is a special meeting to consider the annual accounts and to make a recommendation to the Board at its meeting on the 7th December 2026.

7. There will be ad hoc meetings of the Chairs' Committee and the Remuneration Committee to be announced during the year.

8. There may be additional special meetings of the Board and it's committees if required.