

Public Audit Committee: Scotland's Colleges 2023

13 December 2023

Introduction

1. Scotland's colleges are fundamental to social, economic, and environmental wellbeing and prosperity. They are anchor institutions in their regional economies, creating a pipeline of skilled and educated people, responding to employers' needs, and providing opportunities for those furthest from the labour market. They help shape local places and communities through the jobs and opportunities they offer, and they act as a lifeline for individuals, tackling inequality through widening participation in tertiary education and by engaging in partnerships with the senior phase in secondary schools.
2. We welcome Audit Scotland's briefing 'Scotland's Colleges 2023' and the Public Audit Committee's scrutiny of its findings.

About SFC

3. The Scottish Funding Council (SFC) is the national, strategic body that invests around £2 billion in tertiary education, research, and knowledge exchange, through colleges and universities. Our ambition is to make Scotland an outstanding place to learn, educate, research, and innovate – now and for the future. In pursuit of our ambition, we invest in tertiary learning and teaching; skills and apprenticeships; student support and participation; discovery research; innovation and knowledge exchange; data collection and dissemination; national quality assurance and enhancement processes; campus estates; essential digital infrastructure and collective procurement for the sector; and strategic change, and responsive provision and research priorities.
4. SFC is responsible for the effective and efficient distribution of around £2bn of public money, annually. We deliver on our distinct statutory remit efficiently, with a very small staff base and modest operating costs. We invest in 24 colleges and 19 universities that educate and upskill Scotland's population. Colleges employ over 11,000 FTE staff, and they provide over 236,000 students with the opportunity to study further and higher education, providing a lifeline for social mobility and a pipeline of skilled graduates. They also make a significant contribution to the economy. According to the Fraser of Allander Institute¹, Scottish Government investment of £740 million in 2021-22 is projected to lead to an £8 billion boost to the Scottish economy, and a £2.8 billion boost to government revenues over the coming 40-year period.

¹ The Economic Contributions of Colleges in Scotland, Fraser of Allander, 2023

Financial sustainability

5. Colleges are operating in a challenging fiscal environment, with a flat cash settlement in Scottish Government funding for 2023-24, alongside other issues such as increased staff costs, inflationary pressures and the problems associated with Reinforced Autoclaved Aerated Concrete (RAAC).
6. The financial sustainability of the college sector remains extremely fluid, with assumptions being constantly updated as circumstances change. The sector is not homogenous and there continue to be variations between institutions in terms of their financial performance that are not reflected in aggregate figures.
7. It is the responsibility of individual colleges to respond to this challenging fiscal environment. Colleges' Boards of Management (along with the Regional Strategic Body in multi-college regions) are responsible for ensuring that their college is financially sustainable and that there is in place a robust business plan to secure appropriate staffing levels, course provision and delivery.
8. Financial sustainability is a condition of grant, set out in SFC's Financial Memorandum with colleges. We increase our levels of engagement and monitoring activity for those colleges facing risks to their financial health. We work closely with such colleges to understand and assess the problem areas; and we require colleges to develop plans to bring them back to a sustainable position.
9. We will publish our report on the financial sustainability of the college sector in early January 2024. This report is based on colleges' annual accounts for Academic Year (AY) 2020-21 and AY2021-22, and the latest forecasts for the period from AY2022-23 to AY2025-26 from the most recent Financial Forecast Returns (FFRs). We will receive colleges' annual accounts for 2022-23 at the end of December 2023, and given the fluidity of the situation, there may be some movement between forecast figures in the FFRs and actual results.
10. FFRs are prepared using planning assumptions developed with the college sector and reflect Scottish Government advice. These assumptions are relevant at the point at which they are prepared but are likely to be affected by staff pay negotiations, uncertainty in the wider economy and the government's budget settlements and savings requirements. Institutions are also encouraged to develop any additional planning scenarios they consider appropriate for their operating environment and circumstances.
11. Some of the key findings from our most recent analysis include:
 - a. The financial position of colleges continues to deteriorate, with the sector forecasting an adjusted operating deficit of £27.2m for 2022-23.
 - b. An increased number of colleges are forecasting adjusted operating deficits in 2022-23 with further substantial adjusted operating deficits projected in the next three years.
 - c. Colleges remain highly reliant on SFC grant which is expected to remain at 78% of total income across all forecast years.
12. It is challenging for colleges to pursue commercial income in the current financial environment, mainly due to:
 - a. the difficulty of competing with private sector providers with lower fixed cost bases;



- b. reducing cash balances limiting colleges' ability to expand their offer where additional investment is required; and
 - c. the lack of fiscal flexibilities to exploit further commercial opportunities.
13. Some of the key risks for the college sector include increasing staff costs, difficulties in meeting activity thresholds due to demographic changes and learner pathway trends, challenges in achieving net zero targets, and the macro-economic outlook with high inflation and rising interest rates.
14. We continue to work closely with the college sector and engage with individual institutions to monitor financial health and sustainability.
15. Part of this work, and given the fluidity of the external environment, includes analysis of how colleges' previous financial forecasts have compared against the outturn.

College Funding

16. The Scottish Government is scheduled to publish its budget for 2024-25 imminently.
17. Our approach to investment distribution across both colleges and universities is driven by a range of high-level principles, which include: the interests of current and future students and researchers; the promotion of equal opportunity; and the need to balance stability, responsiveness, and change.
18. Our college allocations for AY2023-24 provided individual funding for colleges based on the Scottish Government's Budget for Financial Year 2023-24, where the Scottish Government invested £701.7m resource and £82.4m capital in the college sector.
19. Our allocations for AY 2023-24, which included a process of engagement with the college sector in advance of distribution decisions, demonstrate our transition towards a more dynamic and forward-looking funding distribution system. This new approach will move the funding distribution model away from a retrospective, recovery-based model towards a forward-looking model where credits will be allocated to reflect delivery and demographic trends.
20. In order to minimise volatility and external funding shocks to colleges, the following elements underpinned our AY 2023-24 funding allocations:
- a. We maintained investment in teaching funding for AY 2023-24 at £521.6m, in line with AY 2022-23.
 - b. We maintained our student support funding at £135m in line with AY 2022-23. Through careful management of this budget, we have been able to increase the bursary rate per student by 11%.
 - c. We provided increased planning certainty for colleges by setting a more realistic credit allocation, which also served as a minimum threshold of credit-bearing activity. Together, these measures help avoid volatility and therefore undue exposure to the recovery of funds where activity levels in the past have not been met. Colleges also have the flexibility to deliver in excess of this threshold to meet local needs as directed by their boards of management.



- d. We provided a balancing price increase per credit to ensure that overall SFC funding was unchanged from AY 2022-23.
 - e. In recognition of the semi-fixed costs that colleges face, we agreed that 20% of a college's teaching funding will not be directly related to the delivery of credits and will therefore not be subject to recovery if there is under-delivery against the credit threshold.
21. We continue to engage with the college sector directly, and through the College Tripartite Alignment Group which comprises the Scottish Government, SFC and Colleges Scotland (including representatives from colleges). The Tripartite Alignment Group was set up to consider urgent pressures and opportunities facing colleges and provide options on enhancing college financial flexibilities.

College Estates and Infrastructure

22. The college estate is a major strategic asset. In aggregate, it is a critical part of Scotland's infrastructure and integral to the success of the communities and economy that colleges serve. Attractive, technologically current, and fit-for-purpose estates are essential to deliver colleges' core purpose in delivering successful outcomes for their students.
23. There is significant variety in Scotland's colleges, comprising a mix of large, multi-campus, metropolitan institutions, and those of a smaller, rural nature.

College Estates Funding

24. Since 2007, the Scottish Government has allocated over £823m to college capital projects including new campuses and buildings. Colleges received a further £330m in Non-Profit Distributing (NPD) revenue-funded investment.
25. The Scottish Government's FY 2023-24 budget provided a college capital budget of £82.4m, which was an increase of 10% (£7.7m) on the previous year. This included:
- a. £35.9m for capital maintenance (which includes £4.7m ringfenced funding for priority maintenance)
 - b. £41.5m for the capital project at Dunfermline Learning Campus
 - c. £5m for supporting digital poverty across colleges, universities and community learning and development (CLD) providers.
26. Following consultation with the college sector, in our College Funding Allocations AY 2023-24, we:
- a. provided increased operational flexibility by combining the backlog and lifecycle maintenance elements into one capital maintenance allocation, to provide colleges with greater flexibility and control over the use of this funding.
 - b. prioritised high priority maintenance by ringfencing £4.7m of the capital maintenance budget to support the highest priority needs, including known and emerging health and safety issues, during 2023-24.

College Infrastructure Strategy

27. Our National 2021 Review recommended developing a national vision and strategy for college estates. In 2022, we published our College Infrastructure Strategy which sets out a collective approach between SFC and colleges to develop a 10-year Infrastructure Investment Plan for Scotland's colleges. Our ambition is for a college estate that delivers a high quality, technologically advanced and sustainable learning environment enabling and enhancing successful learning and skills outcomes for students, staff, and communities.
28. This strategy was developed by SFC in consultation with the college sector, and it recognised the need for significant investment to ensure the delivery of a college estate fit for the future.
29. Our Delivery Plan for the College Infrastructure Strategy will be published in December 2023.
30. A key milestone in our College Infrastructure Strategy will be the publication of a report in late Spring 2024 that will provide a comprehensive understanding of the college estate across Scotland in terms of the status of buildings, suitability of the current estate including its utilisation and digital capability, and the expected estate use in the future.
31. This will be followed by the publication of the Infrastructure Investment Plan (IIP) in Autumn 2024. The plan, which will cover the period from 2024 - 34, will identify infrastructure investment need, which includes investment for net zero, RAAC, training equipment and digital needed for a sustainable college estate to deliver the desired outcomes for students, staff, and communities.

Reform

32. Colleges were already facing financial sustainability pressures when the Covid-19 pandemic sent shock waves through the sector here and across the world. In June 2020, in response to this external shock, Ministers commissioned the SFC's Review of Coherent Provision and Sustainability to review how we could best fulfil our mission of securing coherent provision by post-16 education bodies, and the undertaking of research.
33. We published our National Review recommendations in June 2021 and our recommendations for the college sector included:
 - a. the development of longer-term public funding assumptions;
 - b. development of a more systematic approach to the way we collectively plan coherent tertiary education and skills provision and investment, so that it responds better to current and future needs of pupils, students, employers, and broader economic and social drivers;
 - c. finding better ways to support learning throughout life; protecting the interests of current and future students;
 - d. recognising the importance of international education connections;



- e. and galvanising current and future leaders across tertiary education, skills provision, and research.
- 34. The Scottish Government broadly accepted our recommendations but recognised it “has big ambitions against fairly constrained resources” and that we need to prioritise time, resources, and effort to best effect. Since then, the Independent Review of the Skills Delivery Landscape (June 2023) and the Scottish Government’s Purpose and Principles (June 2023) have been published, both of which align with many of our recommendations, and there have been subsequent updates to parliament by the Cabinet Secretary for Education and Skills, and Minister for Further and Higher Education.
- 35. We continue to engage closely with the Scottish Government, particularly around education reform, future budget assumptions and the government’s strategic direction for publicly funded tertiary education.

Further information: corporateaffairs@sfc.ac.uk