Education, Children and Young People Committee
Wednesday 5 June 2024
18th Meeting, 2024 (Session 6)

Pre-budget scrutiny 2025-26

Introduction

1. At its meeting on 17 April, the Committee agreed its approach to pre-budget scrutiny of the Scottish Government's 2025/26 budget. It agreed to focus on college and university funding and will look at the current funding settlement. The Committee will also consider the sustainability of funding in the years ahead, taking into account the impact of tightening public spending and potential upcoming reforms.

2. This is the first session of its pre-budget scrutiny. The Committee will focus on college funding with panel 1 and then university funding with panel 2. The Committee will take evidence from the following witnesses—

Panel 1

- Mark MacPherson, Audit Director, Audit Scotland
- David Belsey Assistant Secretary, EIS-FELA
- Professor Mairi Spowage, Director Fraser of Allander Institute

Panel 2

- Dr Gavan Conlon, Partner, London Economics
- Ellie Gomersall, Scotland President, National Union of Students
- Mary Senior, Scotland Official, University and College Union

Background

3. SPICe has prepared a background briefing note which is attached at **Annexe A**.

Budget scrutiny

4. The Committee is required to carry out pre-budget scrutiny every year and to produce a letter or report six weeks before the publication of the Scottish Government's draft budget, which is normally published in mid- December.

Evidence

Written evidence

5. Written evidence provided by the following witnesses is set out in **Annexe B**—

   Panel 1

   - Audit Scotland
   - EIS-FELA
   - Fraser of Allander Institute (The Technical Annex A and Technical Annex B of the report have not been reproduced in this note)

   Panel 2

   - London Economics
   - University and College Union

6. SPICe has produced a summary of the written submissions which is attached at **Annexe C**.

Correspondence

7. On 9 May 2024, the Public Audit Committee wrote to the Committee on its scrutiny of Audit Scotland's briefing on Scotland's colleges 2023. This letter is attached at **Annexe D.**

Next steps

8. The Committee will continue to take evidence on its pre-budget scrutiny 2025-26 at its next meeting on 12 June 2024.

Committee Clerks

May 2024

Annexe A

Education, Children and Young People Committee

Wednesday 5 June 2024

Pre-budget scrutiny: College and university funding

Introduction

This briefing has been prepared to support the Committee's Pre-budget scrutiny of college and university funding. A summary of submissions received is provided in a separate SPICe paper at Annexe C.

The briefing recaps on the Scottish Government's current programme of post-school reform, sets out current budgets for colleges and universities and summarises developments around sustainability of funding.

This week the focus will be on consideration of financial sustainability in the immediate and longer terms, and exploration of future funding arrangements. Panel 1 will cover college funding and panel 2 will cover university funding.

Post-school reform: Background summary

During the COVID-19 pandemic, concerns around the future sustainability of college and university finances led the Scottish Government to commission the Scottish Funding Council's (SFC) 2021 Review of Coherent Provision and Sustainability.

The SFC review report set out recommendations for change to the college and university landscape and called on the Scottish Government to establish an overall vision and strategy for further and higher education, increase collaboration between colleges and universities and move to multi-year funding assumptions.

In 2022 and 2023, this Committee held an enquiry on college regionalisation ten years on. The Committee's final report raised concern about colleges' ability to deliver learning and support for learners in light of "significant financial challenges", and about the impact of college estate maintenance backlogs on achieving net zero targets. It recommended that, to help meet financial challenges, colleges should be given "as many financial and operational flexibilities as possible", including flexibility on year end, SFC outcomes, and access to additional funds. This report also concluded that a clear vision and steer from SFC and the Scottish Government was needed to help colleges prioritise.

The 2023 Independent Review of the Skills Delivery Landscape carried out by James Withers set out recommendations for transforming the skills delivery landscape. Among the recommendations, the review called for the Scottish Government to:

- Take responsibility for skills planning at national level.
- Create a single funding body bringing together many of the functions of the SFC, Skills Development Scotland (SDS) and the Student Awards Agency Scotland (SAAS) and taking in all learning pathways and flexible and part-time modes of study.
- Introduce a universal skills framework with consistent language around qualifications and develop a clear map of the post-school system to help learners navigate it.
- Explore greater private sector investment in the post-school learning system, for example through in-work learning opportunities.

In evidence to the Committee on 15 November 2023, James Withers told Members that a ten-year timescale for skills reform is "not unrealistic", adding that "establishing a vision for what good looks like…should be the north star" so there is clarity about what the reform agenda seeks to achieve.

James Withers said that he did not think the problem facing the college and university sectors was underinvestment, but duplication and inefficiency in the system. He added that "more can be done to release some of the shackles", for example by giving universities freedom to decide how much of their funding to allocate to graduate and degree apprenticeships.

Scottish Government actions

Following these reviews, the Scottish Government published 'Purpose and Principles for Post-School Education, Research and Skills' in June 2023. This is a framework intended to set the overarching policy direction for HE and FE.

The Scottish Government's Initial Priorities document published alongside the Purpose and Principles document identifies development of a "a new model of public funding for all forms of provision". As part of this, the possibility of delivering a single funding body for the sector – taking in student support and funding for institutions – will be investigated. Further information about Purpose and Principles and Initial Priorities can be found in the SPICe paper for the Committee's 10 January 2024 meeting.

Reforms are intended to be aligned with reform of school education and the Scottish Government's National Strategy for Economic Transformation (NSET). NSET sets out priorities for economic and workforce development up to 2032. Further information is available in the SPICe briefing 'Key Issues Update'.

The Scottish Government has not responded to each of the Independent Skills review recommendations directly, however Minister for Higher and Further Education and Minister for Veterans Graeme Dey gave a statement to Parliament on 5 December 2023 updating on the progress of post-school reform plans.

Action outlined by the Scottish Government includes:

- A tripartite group between government, SFC and college principals has been established to improve direct engagement.
- A regional approach to skills planning with direction provided by the Scottish Government at national level will be developed, led by Scottish Government officials working closely with SFC, SDS and SAAS.
- Graduate Apprenticeships could be developed, and colleges could be given "an even more instrumental role" in Modern Apprenticeships.
- The creation of a single funding body will be explored and learner support and apprenticeship funding will be brought into one place as a first step.
- Discussions with businesses on where they can support the system and learners were being held, with employers embedded in "all aspects of the skills system", such as planning, qualifications and careers services.
- A timeline of reforms for Parliament and stakeholders will be provided as soon as possible.
- A review of Community Learning and Development (CLD) led by Kate Still will look at current CLD provision and how it aligns with skills priorities and provision. It will report in June this year.

The Minister provided a further written update to the Committee in March 2024. In this, he stated that: details on shortlisted options for simplification of the funding body landscape will be shared "shortly"; and options for support offered to part-time students and those in further education are being looked at.

On College Regional Boards, the Minister wrote to this Committee in May 2024 announcing Scottish Government plans to launch a consultation on the reform of Glasgow and Lanarkshire Regional Strategic Bodies in the weeks ahead. Legislative change will follow the consultation period. The Minister previously stated work on a recommended option for the Regional Board of the University of the Highlands and Islands is ongoing.

During the Public Audit (PA) Committee's 30 November 2023 evidence session there was discussion around the Independent Skills Review recommendation of an increased role for business investment in the skills system. EIS, UNISON and NUS Scotland raised concerns that private investment in the college sector may make it more difficult to achieve Scottish Government aims.

Budget 2024-25

The Scottish Government allocates funding for colleges and universities to the Scottish Funding Council (SFC) via the Budget. SFC then allocates this to institutions.

The 2024-25 Budget set out an overall budget of £1.9bn for SFC. The full SFC can be viewed in the Scottish Budget document at Table A5.07: Scottish Funding Council Spending Plans.

The Budget set out a decrease in college and university resource budgets for 2024-25 and an increase in capital budgets. Overall funding and SFC allocations to colleges and universities are discussed later in this briefing under the relevant headings.

The cut to resource budgets for 2024-25 follows a tightening of this budget in recent years for both sectors:

- The 2022 Resource Spending Review set out a flat-cash settlement for colleges and universities.
- While the 2023-24 Budget initially provided for an increase of £20m and £26m for university and college resource budgets respectively, this increase was later reversed, primarily to fund the teachers' pay settlement.
- In November 2023, Deputy First Minister Shona Robison wrote to the Finance Committee to set out further in-year budget changes for 2023-24. This included £56m of savings across demand-led programmes at SFC. The Deputy First Minister's letter cited "projected lower spending than forecast across a wide range demand-led programmes" as the reason for the saving.
- In total, savings identified across the 2023-24 college and university resource budgets see colleges and universities receive £102m less than what was initially allocated to them in December 2022.

Funding for colleges and universities was a focus of the Committee's pre-budget scrutiny in 2023. In its letter to the Cabinet Secretary for Education and Skills Jenny Gilruth MSP, the Committee called for clarification as to whether the Scottish Government remained committed to flat-cash allocations for both sectors until 2026-27, as set out in the 2022 resource spending review. The Cabinet Secretary's response stated that flat-cash resource allocations could not be maintained due to financial challenges facing the Scottish Government, capital allocations had increased.

The Cabinet Secretary's response also stated that the Scottish Government's focus has been to "minimise the impact on frontline allocations for learning and teaching and support for students" and committed to working with the sectors "to respond to both the necessity and opportunities for reform".

When asked at the Committee's 10 January 2024 evidence session whether in-year cuts to the further and higher education budget would happen in 2024-25 as they had in 2023-24, the Minister for Higher and Further Education; and Minister for Veterans Graeme Dey said “external factors” meant he could not rule this out. He cited the implications of the UK Government budget as an example of external factors.

In its detailed analysis of the Education and Skills Budget, the Scottish Government states that the reduction in college resource budget is likely to impact on course provision and poses an overall risk to the availability of education, skills and training places:

> “Changes in the college and HE resource budgets risk reducing education and skills training opportunities for young people, and for older people seeking to upskill.” – Annex B: Detailed Analysis by Portfolio, Scottish Government

The analysis also states there is “significant risk” that the reduction in HE resource budget will increase competition for university places and disadvantage learners from socio-economically disadvantaged areas. The analysis states this will require monitoring of widening access requirements on institutions.

Following the publication of the 2024-25 Budget, sector organisations raised concerns. Universities Scotland’s media release stated there would be “some inescapably hard choices for universities”. Colleges Scotland’s media release stated colleges faced “major changes” and “difficult choices”. NUS Scotland said the while the Scottish Government’s recent announcement of a rise in living support for students was welcome, “underfunding of universities and colleges is an increasingly acute issue” and cash terms cuts contained in the Budget will be “disastrous”.

Colleges

There are 24 colleges in total, 19 and ‘incorporated’ public bodies and five are unincorporated. SFC provides funding for all colleges and Audit Scotland audits incorporated colleges only. A map of Scotland’s colleges can be found on page 4 of Audit Scotland’s report on Scotland’s Colleges 2023.

Budget 2024-25 and allocations

For financial year 2024-25, the Scottish Government set a college resource budget of £643m and a capital budget of £84.9m.

In 2023-24, the resource budget was initially £701.7m. £26m was later removed by the Scottish Government to put toward the teachers’ pay deal. This left the total resource budget at £675.7m.

Between 2023-24 and 2024-25 the resource budget fell by £32.7m (-4.8%) when the removal of the £26m is factored in.

The net college capital budget increased by £2.5m (3.0%) from £82.4m in 2023-24 to £84.9m in 2024-25.

Table 1 below sets out college net resource and capital budgets from 2022-23 to 2024-25.

Table 1: College Resource and Capital Budgets (Level 3)

	2022-23 Budget £m	2023-24 Budget £m	2024-25 Budget £m
Net College Resource	675.7	*701.7 (675.7)*	643.0
Net College Capital	74.7	82.4	84.9

Source: Scottish Budget 2024-25, Table A5.07 Scottish Funding Council Spending Plans Level 3
Note: The initial 2023-24 Net College Resource is in italics and the final amount following the removal of £26m is in brackets.

The Scottish Funding Council SFC published College Indicative Funding Allocations for 2024-25 in March this year. At the time of writing, final allocations had not been published. The indicative allocations set out:

- Core teaching funding has been maintained for colleges.
- While SFC previously held back £12.3m on an annual basis for job evaluation, this year the Scottish Government has agreed this responsibility will lie with them.
- Lowered credit thresholds introduced in academic year (AY) 2023-24 will be retained to reduce the risk of exposure to funding recovery for under-delivery. SFC describe this as “a 10% reduction with some redistribution”.
- The total figure for the student support budget in AY 2024-25 is £123.0m, down 9% on the AY 2023-24 figure of £135.0m. SFC states the budget had been adjusted to reflect demands and recent spend, and “the allocation for each college will cover at least what was spent last year”.
- Bursary maintenance rates will not be uplifted in AY 2024-25, following an uplift of 11.1% in 2023-24.
- The Flexible Workforce Development Fund (FWDF) will not be funded. The Scottish Government did not provide funding for this for AY 2023-24. In 2022-23, £10m was allocated to colleges via FWDF.
- For the AY 2024-25 capital budget of £84.9m, £30.5m of this is allocated to capital maintenance, £51.9m is allocated to Fife College new Dunfermline Campus and £2.5m is allocated to high priority needs, including health and safety.
- There is no specific funding provided for digital poverty this year.

Financial sustainability of colleges

In the past year, reports from Audit Scotland and SFC have raised concerns about the financial outlook of colleges.

Audit Scotland's Scotland's Colleges 2023 report was published in September 2023. It looked at college accounts for AY 2021-22, highlighting that the risk to the college sector's financial sustainability had increased since the previous year, and that the sector's adjusted operating surplus for 2021-22 was likely to be "considerably less" than its surplus of £19.3m the previous year.

It found after taking account of inflation, the flat-cash settlements for college revenue budgets in 2021-22, 2022-23 and 2023-24 represent:

> "…a reduction in real terms of 8.5 per cent from 2021/22 to 2023/24." – Scotland's Colleges 2023, Audit Scotland

The report also found:

- Staffing costs making up more than 70% of college expenditure, with staff pay awards, increasing employers' pension contributions and the outcome of a job evaluation exercise among the factors contributing to increasing costs.

- Many colleges spent money on voluntary redundancies to reduce staff costs in the longer term, with some colleges anticipating the need for further staffing reductions. Audit Scotland states further reductions could "severely erode [colleges'] ability to deliver a viable curriculum".

- Colleges have a maintenance and lifecycle backlog:

    - Audit Scotland's 2022 report found that since 2018-19 capital funding for the college sector was £321 million short of requirements for lifecycle and backlog maintenance.

    - The 2023 report states that SFC set aside £4.7m in 2023-24 for urgent repairs, and this was in high demand with bids totalling £20m received from the sector. Bids had to be triaged "to a shortlist to fit the budget".

- All colleges with the exception of Sabhal Mor Ostaig received more than half their income from SFC, with seven receiving over three quarters of their income from the funding body.

Audit Scotland concluded that the Scottish Government and SFC:

> "…urgently need to build on their ongoing work with colleges and help them become sustainable now, while structural arrangements at a national level evolve." - Scotland's Colleges 2023, Audit Scotland

The Public Audit (PA) Committee held evidence sessions colleges finances on 26 October and 30 November 2023. During the 26 October session, Auditor General Stephen Boyle said "the viability of the college sector is challenged". He added:

> "…in order to address that challenge, the Government and the Funding Council need to have a clear plan for what the future model of provision looks like." – Official Report, 26/10/23

In January this year, SFC published its Financial sustainability of colleges in Scotland 2020-21 to 2025-26 report. This looks at the latest forecasts up to academic year 2025-26 but does not take into account the 2024-25 Budget announcement.

The report considers the challenges ahead for the sector, summarising them as follows:

> "There will be a significant leadership challenge for colleges to ensure that planned staff reductions do not adversely affect a college's reputation, student outcomes (quality, retention and other performance indicators) and the mental health, morale and turnover of remaining staff." - Financial sustainability of colleges in Scotland 2020-21 to 2025-26, SFC

The SFC report sets out sector forecasts of an adjusted operating deficit of £27.2m for 2022-23, due to "flat cash in SFC grants and reduction in tuition fees relating to higher education provision not matched by the same level of reductions in costs".

There is variation across the sector, and the report finds 24 colleges (92%) forecast adjusted operating deficits in 2022-23, with 17 (68%) forecasting these to continue over the next three years. The SFC report notes that colleges tend to take a cautious approach to forecasting, and actual results have improved against earlier projections in recent years.

Cash reserves are also forecast to deteriorate. While the sector reported an aggregate cash balance of £141.4m at the end of July 2022, this is forecast to be a cash deficit of £4.2m by the end of July 2026. Four colleges forecast a cash deficit by the end of July 2024, and this increases to six by end of July 2026. The SFC report states this will:

- Make it difficult for SFC to ensure colleges have sufficient grants to manage their liabilities.

- Become increasingly difficult for colleges to self-fund staff restructuring activity and rebalance their cost base.

On staff costs, which are expected to increase, the report states:

> "The sector reported staff restructuring costs of £6.7m in 2021- 22 and forecasts staff restructuring costs of £13.2m in 2022-23 and £8.2m in 2023-24. Based on current forecasts, significant staff reductions of 2,387 FTEs are projected over the period 2022-23 through to 2025-26, equating to the

> potential removal of 21% of FTE staff employed in the sector." – Financial Sustainability of Colleges in Scotland 2020-21 to 2025-26, SFC

SFC states these reductions are expected through: vacancy management (1,130 FTEs); voluntary severance schemes (1,103 FTEs); and compulsory redundancies (154 FTEs).

Most of the sector's borrowing relates to NPD/PFI commitments for three colleges. Borrowing reduced from £244.1m at the end of July 2021 to £232.1m by the end of July 2022, and is forecast to reduce to £186.4m by the end of July 2026. SFC highlights the increased risk of default on debt repayments because of reduced liquidity.

Other challenges identified in the report include: the impact of cost efficiencies on learning provision and student experience; the impact of reinforced autoclaved aerated concrete (RAAC) on the college estate; the impact of reform of the sector following on from the Independent Skills Review and Purpose and Principles framework; addressing the maintenance backlog and digital requirements needed to deliver learning; and any possible unanticipated in-year reductions in funding.

The report identifies staff costs as the main focus of savings, stating colleges have said their options for non-staff savings are limited "because of previous cost reductions and current inflationary pressures".

Options for colleges to explore include collaborations with other institutions or bodies, reviewing estate, reviewing teaching provision including closure of courses considered financially unsustainable, and developing more commercial income streams. However, the report is clear that achieving many of these efficiencies will require investment, and that there may be an impact on course choice and student experience. Further information about how colleges and Regional Strategic Boards determine course provision is available in SFC's recent letter to the PA Committee.

Among measures that could help the sector, SFC identifies: multi-year funding settlements; reduction in fragmentation of funding streams, year-end flexibility, and national-level infrastructure planning and procurement. These are measures SFC has been suggesting since its 2020 Review of Coherence and Sustainability.

Giving evidence to the PA Committee in January 2024, SFC Chief Executive Karen Watt said that her organisation was working closely with:

> "…four colleges that have what we would consider to be fairly significant cash-flow issues." – Official Report, 11/01/24

Work with these colleges included examining business plans, looking at bringing forward learning and teaching grant funding, and identifying cash-flow issues. Karen Watt added that SFC might give colleges a loan "in extreme situations" in order to "tide them over a particular period".

Following its evidence sessions on colleges, the PA Committee wrote to this Committee in May 2024 to highlight evidence gathered during sessions on the Scotland's Colleges 2023 report. The backlog of maintenance and repairs were among concerns raised, with PA Committee suggesting this Committee may wish to look at how the SFC's refreshed College Infrastructure Strategy, expected late Spring, and the Scottish Government's Infrastructure Investment Plan (IIP), due to be published in the Autumn, can deliver a sustainable college estate.

The letter also stated the PA Committee had written to the SFC and Scottish Government "to impress upon them the need for more urgency with any forthcoming changes or reforms that are planned for Scotland's college sector" in order to provide "more clarity to the sector in light of the significant changes that lie ahead".

Concerns about college finance were also raised by James Withers during his evidence session with this Committee on 15 November 2023. He described the college sector as a "jewel in our crown" but a "burning platform in relation to finance and sustainability". He added:

> "I worry that we might see a more chaotic reorganisation of the sector, based on the law of natural selection—who is most vulnerable, who might fall and who might not—which might need to be looked at in time." – Official Report, 15/11/23

During a Ministerial Statement on Skills Reform on 5 December 2023, the Minister said that while there were financial challenges facing colleges, he did "not recognise at all the representation that the college sector is broken".

During a debate on college funding on 8 May 2024, the Minister said that putting colleges on a "sustainable footing" would not be done by way of "an injection of public cash that is not available to us". He said that the Scottish Government was acting on reviews recommending change, and that the programme of reform will "will place colleges at the heart of post-16 skills delivery".

ONS reclassification

The Office for National Statistics (ONS) reclassified incorporated colleges as public sector bodies from April 2014. Colleges are now treated as part of central government for budgeting purposes.

Audit Scotland's 2013 report on Scotland's Colleges stated this change meant colleges had to operate within an annual budget reflecting their income and expenditure and "avoid creating a surplus or deficit within Scottish Government budget control limits". This put restrictions on colleges' scope to build up financial reserves.

This led to the creation of arm's-length, independent foundations to protect college financial reserves. The Articles of Association of these foundations stipulate transferred funds must be spent on further education in Scotland.

Student numbers

The latest college statistics from SFC published in March 2024 show the number of enrolments and students at colleges in Scotland increased between 2021-22 and 2022-23. The number of FTEs fell by 4,521 over the same period.

Student headcount was 248,907 in 2022-23, up from 236,730 the previous year. This is an increase of 5.1%.

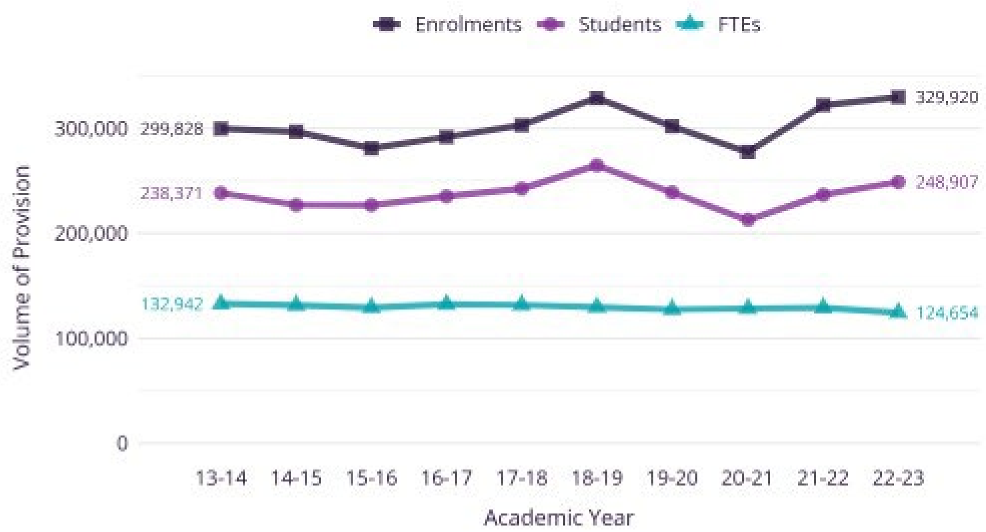
A total of 124,654 FTE places were delivered in 2022-23, compared to 129,175 the previous year. This is a fall of 3.5%.

The SFC report explains the rise in student headcount but fall in FTE numbers as follows:

> “The rise in student headcount and enrolments but fall in the total FTE is driven by an overall increase in the number of enrolments on part-time courses but decrease in enrolments on full-time courses.” – SFC College Statistics 2022-23

Figure 1 below shows the numbers over time.

Figure 1: Enrolments, FTE and Headcount 2013-14 to 2022-23 at Scotland’s colleges



Source: SFC College Statistics 2022-23

Fair work and redundancies

The position of the college sector in relation to the Scottish Government’s fair work and public sector pay policies has been an area of ongoing interest for this Committee.

The Minister wrote to the Committee in June 2023 stating that he had highlighted the importance of fair work practices in a letter to College Principals, making clear that “every effort should be made…to protect jobs”.

The Committee then wrote to the Minister seeking clarification on whether colleges were covered by the public sector pay strategy. In July 2023, the Minister responded, stating:

> "On staff pay and conditions, the SFC's Financial Memorandum (FM) sets out the formal relationship between SFC and colleges and the requirements with which they must comply as a term and condition of grant from SFC. This includes that colleges comply with the requirements of the Scottish Public Finance Manual, including requirements for obtaining approvals for voluntary severance schemes and settlement agreements. As part of this, colleges are aware that the policy of no compulsory redundancies is a key pillar of Public Sector Pay Policy which colleges are expected to adhere to, though they are responsible for negotiating their own NCR policies with the unions on behalf of their workforces.
>
> It is the responsibility of boards of management that colleges plan and manage their activities to remain sustainable and financially viable, with sufficient long-term planning in place to ensure that workforce levels match the financial capacity of the college. However, SFC requires assurance that any compulsory redundancies are a last resort and colleges must notify SFC of such intentions." – Letter to ECYP Committee, July 2023

The Minister said that Public Sector Pay Policy did not apply directly to colleges, but "acts as a benchmark".

In its pre-budget scrutiny letter to the Cabinet Secretary, the Committee asked what work the Scottish Government had done to look at the impact of staffing cuts across the sector, what would be done to monitor this situation and what the role of SFC is in relation to compulsory redundancies at colleges.

The Cabinet Secretary's response stated that operational decisions around staffing were a matter for colleges and the Scottish Government does not have access to data on this. On compulsory redundancies, the response stated that all options should be considered before turning to compulsory redundancies. While SFC should be informed at the "earliest opportunity", colleges are not required to seek approval or submit a business case.

During the PA Committee's 30 November 2023 evidence session, there was discussion of the number of colleges expected to be in a deficit position in the next financial year. Derek Smeall of Glasgow Kelvin College, representing the College Principals Group, said while he had not spoken to all college principals about this, the ones he had spoken to said "they post a deficit position".

Stuart Brown of the EIS expressed concern about the framing of staff costs as a financial pressure, stating "staff are [colleges'] greatest and most important resource", and that the sector was "contracting" meaning it will "deliver less".

John Mooney of Unison stated:

> "Severance is at an all-time high and is increasing, and compulsory redundancies are on the table in some places. That demonstrates the financial pressures that colleges are under." – Official Report, 30/11/23

The PA Committee's letter to this Committee highlighted the potential impact of staff reductions on the ability of colleges to deliver for students and local communities.

National bargaining

The Further and Higher Education Scotland Act 1992 gives Ministers the powers to require colleges to undertake national bargaining. This Act was amended by the Post-16 Education (Scotland) Act 2013 to make it explicit that regulations can be made for collective bargaining. However, to date these powers have not been used, and voluntary collective bargaining arrangements were agreed between colleges (as the employers) and the recognised trade unions.

The National Joint Negotiating Committee (NJNC) was established to jointly agree terms on issues including pay and conditions. It brings together colleges with unions EIS-FELA, GMB, Unite and UNISON and secretariat is provided by College Employers Scotland. The National Recognition and Procedure Agreement (NRPA) was agreed by all parties and endorsed by the Board of Colleges Scotland in January 2015.

In the years since the establishment of the NJNC and the NRPA, pay negotiations have been challenging. While the Scottish Government does not have a direct role in pay negotiations, it commissioned the Lessons Learned – resetting national collective bargaining in the colleges sector report seeking recommendations to improve the process in future years. This is known as the Strathesk report and was carried out in 2021-22.

The report found the issue of low trust between negotiating sides required to be addressed to make progress. It also found the "absence of a commonly accepted evidence base" posed a problem. It recommended that the national bargaining process should be reset, the Bargaining Agreement reviewed, a protocol on information sharing should be agreed, negotiating skills should be improved via training and behaviour should be reset away from "ill-tempered exchanges".

The Scottish Government has not formally responded to the Strathesk report. The Minister told Parliament during a Member's Debate on Further Education Pay on 7 May 2024:

> ""…the Strathesk Resolutions report was clear that Scottish Government interventions in previous industrial disputes in the sector have not been helpful…It is for college employers and trade unions to negotiate a settlement; it is not for the Scottish Government to do that. Our intervention would fundamentally alter the nature of the voluntary national bargaining process. What the Government can do is seek to actively encourage the employers and unions to find a resolution and, more generally, try to facilitate an improvement in the approach to interaction between them." – Official Report, 7 May 2024

A Written Answer from April 2024 states that the Minister had met with stakeholders in March "to commence a dialogue around next steps for the Sector" and would continue to engage with this group.

The current round of pay negotiations in the college sector began in 2022. The initial pay offer was rejected by unions. Following this, a number of renewed offers have been made by College Employers Scotland and rejected by the unions.

The current offer being put forward by employers is £5,000 over three years. EIS-FELA is undertaking a programme of rolling strike action and has tabled a four-year pay claim. College Employers Scotland has said this will be “carefully considered”. For support staff, at the time of writing, UNISON, Unite and GMB are balloting their members on the three-year deal and have suspended proposed strike action.

Financial flexibilities

This Committee’s pre-budget scrutiny letter to the Cabinet Secretary asked for information about how new flexibilities requested by the college sector around the allocation and delivery of credits were being used. The Cabinet Secretary’s response stated it was too early to provide detail on this, but feedback from the Tripartite Group suggested colleges “are already seeing the benefits of the changes”.

During the Committee’s 10 January 2023 evidence session, the Minister said colleges had not been able to utilise credit flexibilities as expected and:

> “…a lot of that was down to what that meant in reality on both sides and a lack of explanation…essentially they had asked for one size fits all approach that didn’t entirely suit all of the individual colleges…” – Education, Children and Young People Committee, 10/01/24

During the PA Committee’s 30 November 2023 evidence session on colleges, the College Principals Group said the flexibilities were “very minor”, while EIS said it was not clear what the impact will be. Colleges Scotland said it wanted to see the new funding flexibilities embedded, but the “more fundamental point is about examining the underlying funding model” and considering fundamental changes.

Following its evidence sessions on colleges, the PA Committee wrote to SFC seeking further information on the funding distribution model for colleges. SFC responded setting out further information about the changes to credit thresholds. The response highlighted that these changes are in their first full year and a full assessment of the financial impact cannot yet be produced.

During a debate on college funding on 8 May 2024, the Minister said colleges were to be given further flexibilities around disposal of assets:

> “Following advice from the sector on the assets that are likely to become available for disposal, the Cabinet Secretary announced at the recent Colleges Scotland annual conference that we will embed changes so that colleges can retain a significant proportion of the value of any sale to invest locally.” - Official Report, 8/05/24

Universities

Budget 2024-25 and allocations

For financial year 2024-25, the Scottish Government set the university resource budget of £760.7m and a capital budget of £356.9m.

In 2023-24, the resource budget was initially £809.2m. £20m of this was later removed by the Scottish Government to put toward the teachers' pay deal. This left the total 2023-24 resource budget at £789.2m.

Between 2023-24 and 2024-25 the resource budget fell by £28.5m (-3.6%) when the removal of the £20m is factored in.

The capital budget increased by £16.2m (4.8%) from £340.7m in 2023-24 to £356.9m in 2024-25.

Table 2 sets out university (HE) resource and capital budgets from 2022-23 to 2024-25.

Table 2: HE Resource and Capital Budgets (Level 3)

	2022-23 Budget £m	2023-24 Budget £m	2024-25 Budget £m
HE Resource	789.2	*809.2* (789.2)	760.7
HE Capital	348.0	340.7	356.9

Source: Scottish Budget 2024-25, Table A5.07 Scottish Funding Council Spending Plans Level 3
Note: The initial 2023-24 HE Resource is in italics and the final amount following the removal of £26m is in brackets.

SFC published University Indicative Funding Allocations in April this year. This set out how the 2024-25 "challenging funding settlement" will be split between institutions. At the time of writing, final allocations had not been published. The indicative allocations set out: Key points from the indicative allocations are as follows:

- Teaching funding for AY 2024-25 has reduced by £26.7m (-3.6%).
- Research and innovation funding has increased by £12.6m (4.2%).
- Capital funding has increased by £2.6m (10.2%).
- The 1,289 FTE funded student places introduced from AY 2020-21 following the revised SQA results have been removed. The impact of this is explored further under the 'Student numbers' section of this briefing.
- Graduate Apprenticeship (GA) funding is wrapped into overall funded student places, and the expectation is that 1,378 GA places will be delivered.
- The Fee Anomalies Grant (for compensation where tuition fees received do not match the assumptions made by SFC's Main Teaching Grant) has been paused, and SFC plans to "liaise with the sector about our future approach".
- Widening access remains a priority and colleges and universities should continue to encourage articulation between college and university courses. This is where students can begin studying a university course from second or third year upon completion of a relevant college course.

- Funding for Small Specialist Institutions (SSIs) has increased by £1.7n to £13.8m "to mitigate changes to other elements of funding".

- Upskilling funding (worth £7.0m in 2023-24) has been removed.

- Core Research and Innovation (R&I) grants have been increased by £12.6m (4.2%) to £317.2m for 2024-25. This includes a £9.5m increase to the Research Excellence Grant (REG), bringing this funding to £256.3m for AY 2024-25. An additional £1.0m for the Research Postgraduate Grant (RPG) increases this to £37.9m and a £2.2m increase to the new Knowledge Exchange and Innovation Fund (replacing the University Innovation Fund) brings this to £23.0m.

- SFC will match-fund £18.8m of expected Higher Education Research Capital grant from the UK Department for Science, Innovation and Technology for financial year (FY) 2024-25, bringing the total to £37.6m.

- The Capital Maintenance Grant for FY 2024-25 has increased by £1.2m to £5.0m.

- Digital poverty funding (worth £1.6m to universities in FY 2023-24) will not be available in 2024-25.

- Funding toward pensions contributions will not be continued. This was £4.8m in 2023-24, having been introduced in 2019 to recognise an increase in pension contributions. The SFC's report on universities financial sustainability states the sector's pension liability was £1,479m at the end of July 2022, up from £1,295m at the end of July 2021.

Financial sustainability of universities

SFC published its report Financial Sustainability of Universities in Scotland 2020-21 to 2025-26 in January 2024. The report looks at the latest forecasts up to academic year 2025-26 but does not take into account the 2024-25 Budget announcement.

The report finds the sector forecasting:

- An underlying operating surplus of £226.5m for 2022-23 – a reduction of 41% on the previous year's underlying surplus of £385.2m.

- An adjusted deficit of £3.3m for 2023-24, going back into surplus of £44m for 2024-25.

- Net liquidity days to fall to 125 in 2024-25, from 156 in 2023-24 and 187 in 2022-23.

- Net liquidity to fall from £2,063,469 in 2023-24 to £1,790,676 in 2024-25.

Annexe 1, Table 3 sets out financial data and forecasts from 2020-21 to 2024-25. SFC states increases in staff costs (including pay), utilities and other operating costs, combined with a reduction in income from EU funds, capital grants and City Deal funding are behind the decline in operating surplus.

SFC also highlights that the financial position varies by institution and is challenging for some (for example, recently reported challenges facing the University of Aberdeen). Five universities reported underlying deficits in 2021-22, and between six and ten universities are projecting underlying deficits in the following three years.

On sector income, the report found:

- Universities' reliance on SFC grants reduced from 31% in 2020-21 to 27% in 2021-22. It is expected to reduce further to 23% by 2024-25.

- Tuition fees represent the largest source of income for the sector (see **Annexe 1, Figure 2**).

- The proportion of international fee income was expected to exceed SFC grants in 2023-24, however early international recruitment data shows international student numbers lower than projected.

Data on sector expenditure is set out at **Annexe 1, Figure 3.** The report notes universities are taking actions to mitigate falling income, and efforts include expanding digital delivery, overseas markets and partnerships. Staff restructuring, vacancy management/removing posts, freezing non-essential spend, undertaking benchmarking exercises, reviewing course portfolios, reviewing estates strategies and delaying capital spend are among measures universities are taking forward.

The principals of the University of Aberdeen and Robert Gordon University wrote to MSPs in April calling for funding cuts to the sector to be reversed. In May, chief executive of Scottish Chambers of Commerce Liz Cameron said:

> "Cuts to the education budget and changes to the UK immigration system are placing our world-leading university sector at risk. Steps must be taken to address the funding gap that is growing as a result." – The Scotsman, 6/05/24

UCU's submission to this Committee highlights the impact of financial pressures on university staff, stating that a "decade of underinvestment" in university education "are inevitably impacting upon staffing levels, jobs and workload, and on the student experience".

UCU states that voluntary severance schemes have been open at four universities, jobs have been lost elsewhere and non-renewal of fixed-term contracts is also an issue. Remaining staff face an increased workload and the ratio of students to staff is increasing.

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

> "There are no easy answers to increasing university funding, without increasing Scottish Government spending on higher education or requiring

some contribution from students towards the costs of their tuition." - IFS Higher education spending report, February 2024

Student numbers, funding for places and international students

Funding for teaching of students

Funding for teaching of Scottish-domiciled university students is provided to Higher Education Institutions (HEIs) via a combination of teaching grant funding from the Scottish Funding Council (SFC) and tuition fee income from the Student Awards Agency Scotland (SAAS):

- A block teaching grant is provided to each HEI by SFC to support delivery of agreed teaching delivery as set out in institutions' published Outcome Agreements.

- A tuition fee of £1,820 for undergraduate (first) degree courses or Professional Graduate Diploma in Education (PGDE) courses is paid by SAAS to the institution for each eligible Scottish-domiciled student accepting a full-time place.

SFC allocates funding provided by the Scottish Government through the university resource budget to institutions. SFC provides for around 120,000 full-time equivalent (FTE) funded places for eligible students each year. Each university is allocated a number of these FTE places and can recruit up to 10% over allocation. This is set out in the SFC's conditions of funding for 2023-24.

In a Parliamentary Written Answer in May last year, the Scottish Government set out the process for allocating funded places. In this response, Minister said:

> "Scottish Universities are autonomous institutions and as such, except for controlled subjects, the Scottish Government and Government Ministers do not set a student cap or direct individual universities on the number of funded places for individual subjects, available for eligible Scottish and EU domicile students.
>
> Universities are allocated a finite amount of money and it is for universities themselves to decide how to distribute these places between faculties; the courses they offer; and how many of the total funded places will be available on each course." – Parliamentary Written Answer

While universities are not subject to a formal cap on student places, institutions pay the tuition fee of students recruited over and above the 10% threshold in any subject.

Universities Scotland's pre-budget submission to the Scottish Government in September 2023 stated that the last decade has seen "substantial real terms cuts" in funding, with funding per student falling by 39% in real terms between 2014-15 and 2023-24.

In its February 2024 report, the IFS compared data over a ten-year period and found that:

> "Together, Scottish universities received direct public funding of around £900 million for teaching home undergraduate students in academic year 2023–24, or £7,610 per student…this was around 19% less in real terms per student than in 2013–14, as the tuition fee has been fixed in cash terms at £1,820 since 2009–10 and the main teaching grant per student has risen by less than inflation." – IFS Higher education spending report, February 2024

The universities sector has stated for a number of years that the funding provided for each 'home fee' student does not fully cover the costs of teaching. This has resulted in many institutions using the income generated from international student fees to 'cross-subsidise' research funding and the teaching of 'home fee' students.

SFC's Financial Sustainability of Universities report published in January this year cites 'an over-reliance on income from international students to remain financially sustainable' as a risk to universities' financial health. The report states:

> "According to forecasts, international fee income is expected to increase from £1,144m in 2021-22 to £1,289m in 2022-23 and to £1,617m in 2024-25, a 41% increase on 2021-22. Universities rely on this source of income to remain financially sustainable and to support other areas of their operations such as research which can be a loss-making activity. But international fee income is an area of significant fluctuation and risk due to the competitive nature of international markets and geopolitical changes. As noted above, early data on international recruitment shows a less positive position in 2023-24 than expected." - Financial Sustainability of Universities report, SFC

Uncertainty over future numbers of international applicants is causing further concern. Universities Scotland's response to the Scottish Government's 2024-25 budget said the sector faces "serious headwinds in international student recruitment", and these risk leaving "universities exposed on multiple fronts". A breakdown of students at Scottish institutions by domicile can be found at **Annexe 2, Table 5.**

During Education and Skills Portfolio Question Time on 16 May 2024, the Minister announced that SFC plans to carry out a review of its approach to teaching funding during the next academic year.

Funded student places

The 2024-25 SFC University Indicative Funding Allocations set out that the number of FTE funded student places will fall from 120,829 in AY 2023-24 to 119,540 in AY 2024-25. This is due to the removal of 1,289 FTE funded places initially introduced in AY 2020-21 following revised 2020 SQA results. Allocations by institution can be found in SFC's Indicative Allocations Table 3.

The indicative allocations document explains that institutions reporting the highest levels of under-delivery of funded student places in AY 2023-24 have had the most places removed. This has seen reductions for the following institutions:

- University of the West of Scotland has the highest number of places removed, with a proposed reduction of 734.6 (-8.1%). University of the Highlands and Islands has a proposed reduction of 141.7 (-2.5%); University of Aberdeen 178.6 (-2.3%); University of Abertay 76.4 (-2.2%); Robert Gordon University 116.2, Heriot-Watt University 87.7 and Queen Margaret University 51.9 (all -1.7%; and Edinburgh Napier University 122.0 (-1.6%).

- Glasgow Caledonian University has been given an additional 220.4 places, the only institution to have an increase for AY 2024-25.

SFC's Indicative Funding Allocations document states that the changes to funded places for AY 2024-25 will not adversely impact Scottish students:

> "Given that we are removing some funded places that have not been filled, and that European Union students are graduating from the system, this will not reduce places or opportunities for Scottish students. In addition, as we are not removing the full level of under-delivery, universities that have had funded places removed will need to increase intake for AY 2024-25 to fill their overall number of funded places." – University Indicative Funding Allocations, SFC

A table setting out the proportion of Scottish domiciled applicants to university from 2018 to 2023 can be viewed at **Annexe 2, Table 4** of this briefing. It shows that the proportion of placed applicants was 75.7% in 2023 – the highest proportion in recent years. The table also shows the total number of applicants fell from a high of 53,920 in 2021 to 46,655 in 2023. Despite this fall, the total number of accepted applicants remained at 35,320 in 2023.

In April this year, Universities Scotland provided written evidence to the Citizen Participation and Public Petitions (CPPP) Committee in response to a petition on fair access to Scottish universities for Scottish students. The response highlighted that the number of funded undergraduate places for Scottish-domiciled applicants in 2024-25 "sits above the pre-pandemic, high watermark level" with funding for 119,540.2 non-controlled places, compared to 107,982.0 non-controlled places in 2019/20.

Universities Scotland's submission stated:

> "It is important to set out the data on funded places, as relevant to this petition, as there is a public narrative emerging that Scotland has a problem regarding the total number of funded places available for Scottish-domiciled students. The data shows that this is not the case, and we are keen to take this opportunity to share information with the Committee to ensure that misleading narratives do not take hold and serve to deter applicants." – Universities Scotland submission to CPPP Committee, April 2024

Average expenditure per funded place

Scottish Government figures show the average expenditure per funded university place (Teaching Grant plus assumed tuition fee income) for 2022-23 was £7,558; in

2012-13, the figure was £7,139. Universities Scotland has been calling for an increase in teaching resource per student for several years.

In its submission to the CPPP Committee, Universities Scotland stated:

> "Scotland has a far more acute problem in regard to the scale of underinvestment made in every Scottish domiciled place than the total number of places available, relative to overall demand from Scottish students." - Universities Scotland submission to CPPP Committee, April 2024

UK universities use the Transparent Approach to Costing (TRAC) methodology for costing activities. This approach was introduced in 2000 to enable institutions to identify the Full Economic Costing (FEC) of activities. TRAC is used to inform decision making and improve accountability for use of public funds. TRAC analyses activities under the headings of Teaching, Research and Other.

The latest TRAC data can be found in SFC's Financial Sustainability of Universities in Scotland 2020-21 to 2025-26 report. A graph showing TRAC income and full economic cost by activity for Scottish institutions can be found at **Annexe 1, Figure 4.**

The report states that in 2021-22, Scottish universities recovered 99.2% of FECs (though this varies across institutions). The recovery percentage for the UK as a whole was 95.6%. Figure 4 in Annexe 1 of this briefing shows that in 2021-22, the income brought in through publicly funded teaching did not make up the FEC of delivery. However, the chart also shows that the income brought in through non-publicly funded teaching was higher than the FEC of delivery. The SFC report concludes from this:

> "…contributions generated by non-publicly funded teaching and other income generating activities are being used to meet these costs. In other words, privately funded teaching and other income generating activities subsidise publicly funded teaching and research." - Financial Sustainability of Universities in Scotland 2020-21 to 2025-26, SFC

Lynne Currie, Senior Researcher (FE/HE, Children's social work, child protection and adoption)

30 May 2024

Annexe 1

University income and expenditure

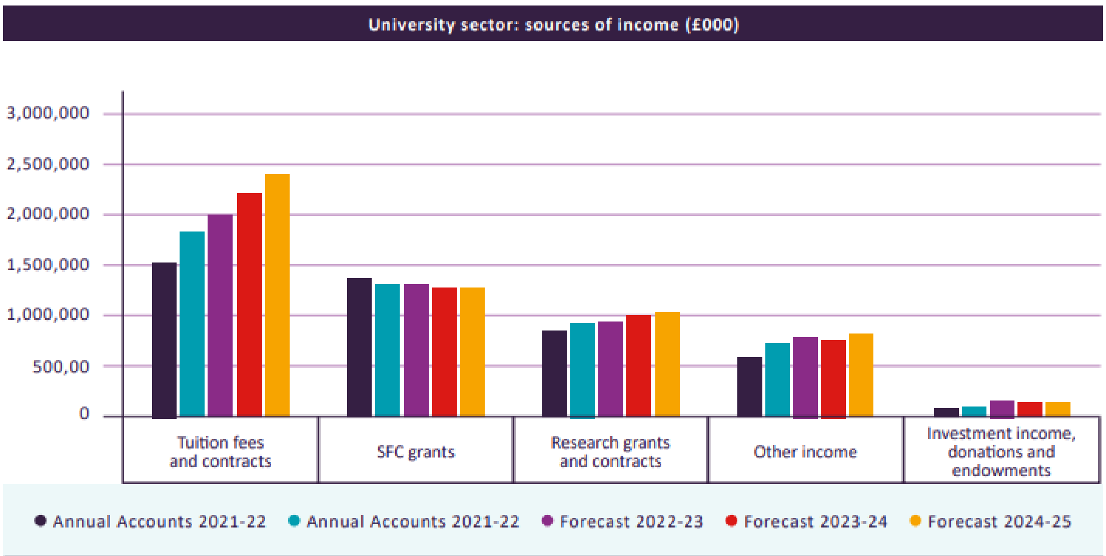
The tables below are from the SFC's [Financial Sustainability of Universities in Scotland 2020-21 to 2025-26.]

Table 3: Summary of university sector aggregate financial data

Summary of university sector aggregate financial data	2020-21 Actual	2021-22 Actual	2022-23 Forecast	2023-24 Forecast	2024-25 Forecast
Total income (£000)	4,380,347	4,856,985	5,179,645	5,364,482	5,621,459
Total expenditure (£000)	4,098,891	5,344,411	4,946,854	5,177,827	5,576,523
Adjusted surplus/(deficit) (£000)	313,298	385,219	226,463	(3,286)	43,953
Adjusted surplus/(deficit) as % of total income	7.15%	7.93%	4.37%	(0.06%)	0.78%
Cash flow from operating activities (£000)	680,227	558,057	328,387	233,103	292,079
Cash flow from operating activities as % of total income	14%	11%	6%	4%	5%
Net liquidity (£000)	2,136,041	2,259,072	2,370,612	2,063,469	1,790,676
Net liquidity days	193	155	187	156	125
Total borrowing (£000)	1,728,055	1,656,227	1,562,837	1,531,794	1,612,980
Total borrowing as a % of total income	39%	34%	30%	29%	29%

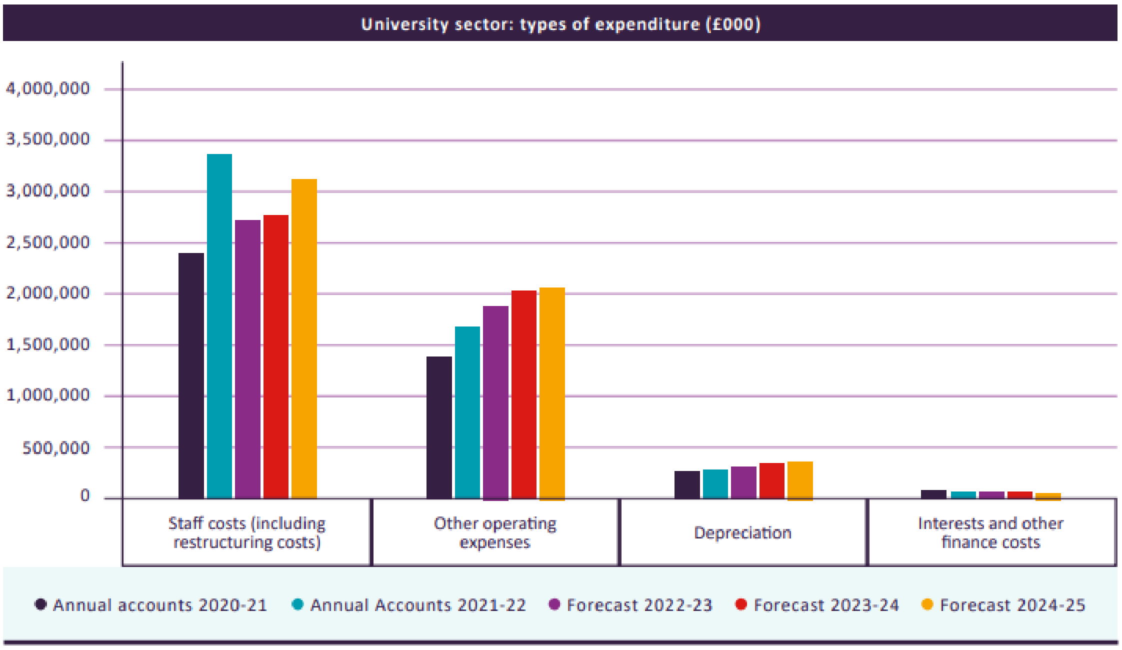
Source: SFC

Figure 2: University sector: Sources of income



Source: SFC

Figure 3: University sector: Types of expenditure



Source: SFC

Figure 4: TRAC income and Full Economic Cost by Activity for Scottish HEIs 2021-22

Source: SFC

Annexe 2

UCAS Applicant numbers

Table 4: Scottish domiciled applicants and acceptances to Scottish universities (All age groups)

	2018	2019	2020	2021	2022	2023
Total no. applicants	50,665	48,790	49,780	53,920	49,620	46,655
Total no. accepted applicants	35,515	34,095	36,930	37,520	35,690	35,320
Proportion of applicants accepted (%)	**70.1%**	**69.9%**	**74.2%**	**69.6%**	**71.9%**	**75.7%**

Source: UCAS End of Cycle data (Filtered by 'Country of provider' and 'Domicile')

Student numbers

Table 5: HE student enrolments in Scottish institutions by domicile
Academic years 2017/18 to 2021/22

	2017/18	2018/19	2019/20	2020/21	2021/22
England	26,720	26,715	26,780	29,520	30,665
Wales	850	875	870	1,000	1,105
Scotland	160,875	163,470	167,030	180,170	183,025
Northern Ireland	4,175	4,050	3,940	3,755	3,670
Other UK	250	245	245	250	290
Total UK	**192,865**	**195,355**	**198,865**	**214,690**	**218,755**
European Union	21,605	21,505	20,895	20,550	17,140
Non-European Union	32,740	36,570	40,695	47,630	65,300
Total Non-UK	**54,345**	**58,075**	**61,590**	**68,180**	**82,440**
Not known	10	45	35	5	35
Total	**247,220**	**253,475**	**260,490**	**282,875**	**301,230**

Source: HESA

Annexe B

Scotland's colleges 2023

A briefing paper

AUDITOR GENERAL

Prepared by Audit Scotland
September 2023

Key messages

1 Scotland's colleges are vital to learners and local communities. Risks to the college sector's financial sustainability have increased since we reported in 2022. Rising staffing costs are colleges' biggest financial pressure.

2 The Scottish Government's funding for the sector has reduced by 8.5 per cent in real terms between 2021/22 and 2023/24, while the sector's costs have increased. Effective, affordable workforce planning is now a greater than ever priority and challenge for colleges.

3 Significant changes to how the college sector operates have been recommended by recent reviews. However, the Scottish Government and the Scottish Funding Council urgently need to build on their ongoing work to help colleges plan for change now, and make best use of available funding so that they are sustainable for the future.

Accessibility

You can find out more and read this report using assistive technology on our website.

For information on our accessibility principles, please visit: www.audit-scotland.gov.uk/accessibility.

Scotland's colleges have a vital role

Colleges provide valuable learning and facilities, support economic growth and help people achieve wider outcomes

1. Scotland's colleges offer academic and vocational courses to develop people's skills and knowledge for work, continued study or general interest. Students can choose to study full-time, day release, evenings, block release or on an open learning basis. The courses that college students undertake contribute not only to their own development but also to Scotland's sustainable economic growth. Colleges are valuable hubs whose facilities may also be used for local community purposes, including as meeting spaces and sports venues.

There are different types of colleges

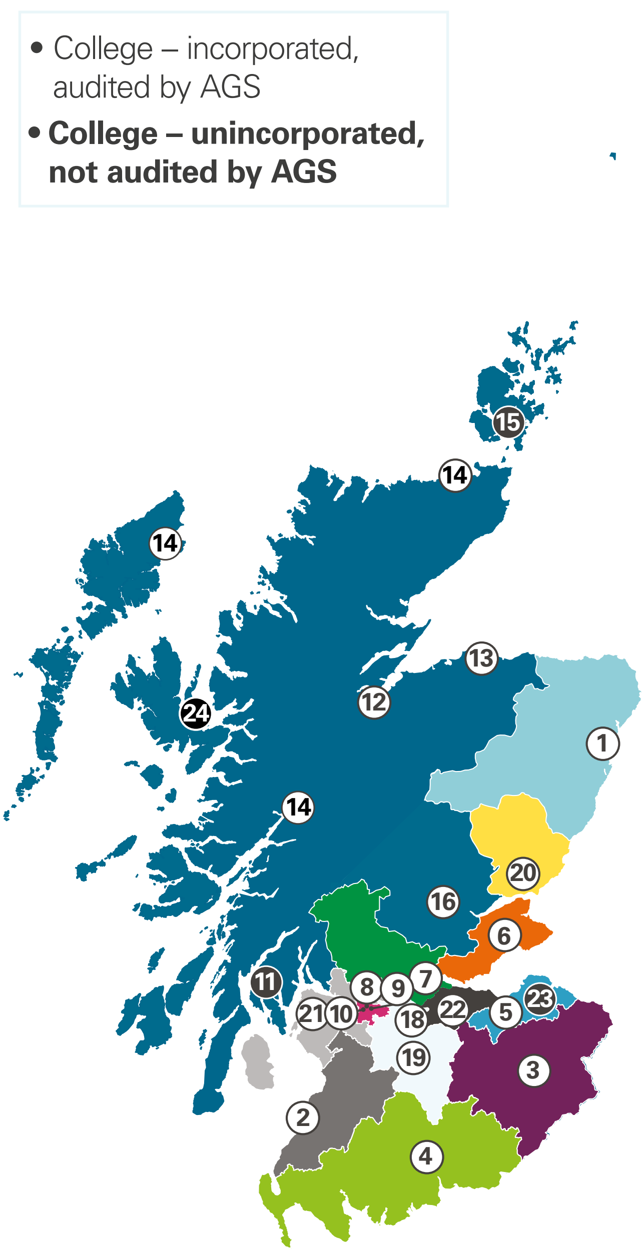
2. Of the 24 colleges in Scotland, 22 sit in college regions that have one or more colleges. Nineteen colleges are classed as 'incorporated' and are public bodies that are subject to audit by the Auditor General for Scotland (AGS). As public bodies, incorporated colleges are not permitted to retain reserves at the end of their financial year. The five unincorporated colleges (shown in bold in Exhibit 1 (page 4)) are not audited by the AGS and have a range of constitutional arrangements. Two establishments are outside colleges' regional arrangements. Sabhal Mòr Ostaig offers further and higher education opportunities through the medium of Scottish Gaelic. Newbattle Abbey College is an unincorporated residential college that caters largely for students returning to education in adulthood. In addition, Scotland's Rural College is a higher education institution that contributes to the national target for colleges.

3. On 1 August 2023, UHI North Highland and UHI Lews Castle, both of which were incorporated, merged with each other and with UHI West Highland, which was previously unincorporated. The new, merged college is known as UHI North, West and Hebrides. It is expected to be assigned to the University of the Highlands and Islands (UHI) and incorporated. This merger is designed to create an institution of scale which will improve sustainability and create benefits for students, staff and stakeholders across a wide region of Scotland.

4. This briefing paper draws on our analysis of auditors' annual audit reports (AARs) about incorporated colleges.

Exhibit 1.
Scotland's colleges as at 1 August 2023
The colleges not listed in bold are subject to audit by the Auditor General.

- 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 & 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**

Source: Audit Scotland

The Scottish Government has a central role in setting policy and funding the college sector

5. The Scottish Government sets national policies for learning and provides over three quarters of the college sector's funding, through its financing of the Scottish Funding Council (SFC). It does this in financial years (FY) that run from April to March.

6. The SFC works with colleges to set thresholds for the amount of course provision that colleges should deliver and provides the funding to each college, or regional strategic body in multi-college regions. It does this to fit with the college sector's academic year (AY) from August to July. A regional strategic body allocates funding to the colleges within its area. The SFC holds colleges and regions to account for what they deliver through Outcome Agreements. These set out what colleges plan to deliver in return for their funding from the SFC. Its Outcome Agreement Managers work with each college to develop their individual Outcome Agreement.

Risks to the college sector's financial sustainability have increased

In 2022, we reported that change was needed to ensure the sector's financial sustainability in the long term

7. Scotland's colleges 2022 drew on colleges' accounts for AY 2020-21 and concluded that it will be difficult for colleges to balance delivering high-quality learning at the volume expected while contributing to other Scottish Government priorities. We said change was needed to ensure more students are successful; and also that the Scottish Government and the SFC should support colleges to plan for change now to make best use of available funding and ensure the sector is financially sustainable in the long term.

Risks to the sector's financial sustainability have increased since then

8. Auditors' AARs on incorporated colleges for AY 2021-22 highlighted sustained risks to colleges' financial sustainability, and an increased level of risk in most of them.

9. The SFC requires a college to report its adjusted operating position (AOP), to reflect its underlying operating performance after allowing for material one-off or distorting matters outside its control. This helps to assess a college's underlying financial strength and to provide figures which are readily comparable among colleges.

10. The sector reported an adjusted operating surplus of around £8 million in AY 2021-22. The SFC has not yet concluded its assessment of the sector's finances for AY 2021-22. While early analysis indicates that the sector's adjusted operating surplus is slightly better than forecast, the surplus for AY 2021-22 is likely to be considerably less than its surplus of £19.3 million for the previous year.

11. The anticipated reduction in the surplus is partly due to increases in staff costs, reflecting the impact of the sector's pay award in AY 2021-22 and some additional recruitment as well as rising inflation, fuel costs and other pressures. Other operating costs increased by around £10 million (six per cent) on AY 2020-21 levels. The return to campus activity – following the impact of the Covid-19 pandemic – saw an increase in teaching, teaching support and administration costs plus increased catering, student residence and utilities costs. More colleges reported an adjusted operating deficit in AY 2021-22 than in AY 2020-21.

Rising staffing costs are colleges' biggest financial pressure

12. Staff costs accounted for more than two thirds (around 70 per cent) of the sector's expenditure in AY 2021-22. Changes to their staffing are one of the main levers for colleges to manage their costs. Staff pay awards remain a pressure on college finances. Trade unions are continuing to pursue their pay claim for AY 2022-23. Employers' pension contribution costs are increasing. The outcome of a job evaluation exercise for support staff will also increase staff costs when completed.

13. Colleges have already sought voluntary redundancies to reduce their staff costs. While final figures for the sector are not yet available, we know that many colleges have spent money on staff restructuring costs – that mainly involve voluntary redundancies – to help save money in the longer term. The SFC reported that there were no compulsory redundancies during AY 2021-22. Some colleges anticipate the need for further, significant staffing reductions which could severely erode their ability to deliver a viable curriculum.

14. Glasgow Kelvin College has indicated that it may need to reduce its workforce by 21 per cent from AY 2022-23 to AY 2024-25. Ayrshire College, in preparing its 2022 financial forecast, also calculated a set of financial projections using an alternative, more pessimistic planning scenario (compared to the planning assumptions provided by the SFC). This scenario found the college may need to lose 70 per cent of its staff over a five-year period – a scenario in which it could no longer function.

15. All colleges provided updated financial forecasts to the SFC at the end of June 2023 along with additional planning scenarios that they considered appropriate for their operating environment and circumstances. The updated forecasts and additional planning scenarios supersede the 2022 equivalents. These are currently being reviewed by the SFC.

16. The strategic workforce pressures facing the college sector are more challenging than before, as colleges seek to reduce their costs. Some colleges have said that they are considering implementing compulsory redundancies. In June 2023, the Minister for Higher and Further Education and Minister for Veterans informed the Scottish Parliament's Education, Children and Young People Committee that he had written to all college principals to 'reiterate the importance the Scottish Government places on the use of fair work practices in the college sector …My officials are engaging with the SFC to build a picture of the scale of redundancies facing the sector and whether there is any impact on provision.' In July 2023, the Minister wrote to the Committee, indicating that colleges should only seek compulsory redundancies as a last resort and should notify the SFC of such intentions.

Colleges also have other pressures

17. Without investing in maintenance, colleges risk their estate becoming a worsening environment for learning. Scotland's colleges 2022 noted that capital funding for the college sector was £321 million short of requirements for lifecycle and backlog maintenance, and that capital funding from the Scottish Government, administered through the SFC, had consistently fallen short of the level colleges have needed.

18. The SFC developed the College infrastructure strategy for 2023-33 in consultation with the sector and it recognises the urgent need for significant investment in the college estate. The Scottish Government increased the sector's capital funding from £74.7 million in FY 2022/23 to £82.4 million in FY 2023/24. After taking account of inflation, this represented an increase of 7.6 per cent in real terms. Recognising the increasing number of urgent calls for assistance on repairs/works of a health and safety or business continuity nature, the SFC set aside £4.7 million in AY 2023-24 to support the sector. The SFC received expressions of interest to a value of approximately £20 million and is currently triaging these to a shortlist to fit the budget. Emerging issues around Reinforced Autoclaved Aerated Concrete will only add to this pressure.

19. Numerous colleges have highlighted impacts from the Covid-19 pandemic on their financial position and sustainability. These include reductions in their non-SFC income sources in AY 2021-22 due to pandemic-related restrictions, such as constraints on pursuing commercial opportunities. Other risks are summarised in Exhibit 2.

Exhibit 2.
Significant areas of risk for colleges
This is a cross-section of the numerous risks affecting colleges.

- Inflation, interest rates and energy costs.
- The investment required to achieve public sector net zero targets, especially in relation to the college estate.
- Investment required to invest in digital.
- Difficulties in attracting and retaining students and staff.
- The requirement for colleges to self-fund staff restructuring and voluntary severance package costs.
- Competition from private sector training providers.
- Competition from some universities.
- The challenges of raising income from non-teaching activities.
- The impact of cost efficiencies on staff wellbeing and the student experience.

Source: Scottish Funding Council, Audit Scotland

Colleges rely heavily on Scottish Government funding

20. The Scottish Government's budget works in financial years (FY) that run from April to March, such as April 2022 to March 2023. The Scottish Government has budgeted revenue funding for the college sector comprising £675.7 million in each of 2021/22, 2022/23 and 2023/24. After taking account of inflation, this represents a reduction in real terms of 8.5 per cent from 2021/22 to 2023/24.

21. The SFC uses the Scottish Government's funding to provide grants to colleges within their academic year (AY) that runs from August to July. This means that a college year spans two years of the Scottish Government's budget. For example, the college sector's AY 2022-23 year spanned the Scottish Government's financial years FY 2022/23 and FY 2023/24. The SFC has set a college revenue budget for AY 2022-23 of £675.3 million, a reduction of £36.5 million (5.1 per cent) from AY 2021-22.

22. Grant funding provided via the SFC accounted for around three quarters of the college sector's total income in AY 2021-22. One college relied on the SFC for less than half its income (Sabhal Mor Ostaig). All other colleges relied on the SFC for more than half their income, including seven that obtained over three quarters of their income from the SFC. Colleges' main source of non-SFC income was tuition fees and education contract income, with other income-generating activities, including catering, making up the bulk of the balance.

Significant changes lie ahead

The Scottish Government recognises that changes are needed

23. Several national reviews have recently recommended major changes that would affect the college sector, and these sit alongside other significant developments (Exhibit 3). They all bring both challenges and opportunities for the Scottish Government. There are questions about what can realistically be achieved in the short term and what may require a longer timescale, possibly involving new legislation.

Exhibit 3.
Recent major developments affecting the college sector

These bring challenges and opportunities.

29 June 2021	The SFC's review of tertiary education and research included a recommendation to the Scottish Government that there should be more flexibility in how colleges are funded.
7 June 2023	The Withers review of the post-school learning system urged the Scottish Government to think creatively about how to secure the sustainability of the post-school skills delivery system. It included a recommendation that the Scottish Government should redesign the process for how funding of all learning and training provision, including apprenticeships, is allocated to ensure it is prioritised to deliver strategic outcomes and best value for public investment. It also recommended the establishment of a single funding body and parity of esteem between colleges and universities.
22 June 2023	The Hayward review of qualifications and assessment will have implications for the qualifications that colleges consider when selecting students and employees, and for the courses that colleges provide.
28 June 2023	The Scottish Government's Purpose and Principles for post-school education, research and skills includes a target outcome that the system is 'financially and environmentally resilient; trusted to deliver, and subject to effective governance'. The programme of reform, signalled through the Scottish Government's Initial priorities for implementation and the Purpose and Principles, outlines the key actions that the Scottish Government will be taking forward to deliver on the vision and outcomes it has set for the system.

Source: Scottish Government

24. In May 2023, the Scottish Parliament's Education, Children and Young People (ECYP) Committee concluded that 'If additional funding is unavailable, and flexibility within current funding arrangements is also not forthcoming, then the Scottish Government and the Scottish Funding Council need to provide colleges with a clear steer on what they should be prioritising.'

25. In June 2023, the Scottish Government took some initial steps in response to these developments:

- It advised the Scottish Parliament's ECYP Committee that it had 'heard loud and clear the calls for reform and won't shy away from decisions which will deliver better services for learners and employers and simplify the operating environment for our colleges, universities and training providers.'
- It advised the ECYP Committee that it is considering ways to give colleges more financial flexibility. It also asked the SFC to play an active role in helping colleges to use their funding allocations more flexibility; and to intervene in the sector where necessary.
- It announced that it plans to take over national responsibility for skills planning, and that there will be a new national model of public funding for all colleges, universities, apprenticeships and training.

26. The SFC has introduced a new funding distribution model and associated guidance for AY 2023-24. This is to provide colleges with enhanced flexibility and greater opportunity to decide how best to respond to local, regional and national needs. The Scottish Government is exploring the potential for further changes in colleges' funding arrangements.

The Scottish Government and the SFC urgently need to build on their ongoing work with colleges and help them become sustainable now, while structural arrangements at a national level evolve

27. Overall, 25.5 per cent of school leavers went into further education at college in AY 2021-22, compared to 35.6 per cent from the most deprived areas (Scottish Government statistics, February 2023). These figures exclude school leavers undertaking a higher education course in a college. Colleges therefore play a vital role in providing people, particularly those from more disadvantaged areas, with the training, qualifications and life-skills that can help them to succeed in life and make a valuable contribution to society. More widely, colleges also contribute to achieving the Scottish Government's three national 'missions':

The Scottish Government's three missions

1. **Equality:** tackling poverty and protecting people from harm.
2. **Opportunity:** a fair, green and growing economy.
3. **Community:** prioritising our public services.

28. A significant reduction in a college's range of courses, student capacity, or its closure altogether could have an unequal impact on students from more deprived areas, plus ramifications for the wider community. In many rural, remote and island communities, there is no alternative college nearby.

29. Policy and structural changes by the Scottish Government have the potential to improve colleges' operating environment but colleges face daunting challenges now to their business models and finances. For example, colleges need to maintain and, if possible, enhance the learning they provide and improve outcomes for their students. At the same time, they are managing complex change across the college sector and considerable strain on their finances.

30. Addressing the challenges facing the college sector cannot be avoided or postponed. While recognising the role of college leadership teams in managing their finances, it is also critical for the Scottish Government to work with the SFC during AY 2023-24 to support colleges in planning for change now and making best use of available funding. This should help to secure colleges' future while the Scottish Government considers its response to the reviews featured in Exhibit 3 (page 10), and the funding it allocates to the sector.

Next steps

31. We report annually on the audits of Scotland's incorporated colleges. We will continue to monitor and report on developments across the sector as their impacts become clearer.

Scotland's colleges 2023

A briefing paper

Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500 Email: **info@audit-scotland.gov.uk**
www.audit-scotland.gov.uk

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EIS-Further Education Lecturers Association (EIS-FELA)

Parliamentary Submission - ECYP Committee - Pre Budget Scrutiny

The EIS-FELA is gravely concerned about the financial circumstances the Further Education sector in Scotland finds itself in currently and the impact of a serious reduction in funding over the last few years.

The response submitted by the EIS-FELA focuses on the areas sought by the committee, which are:

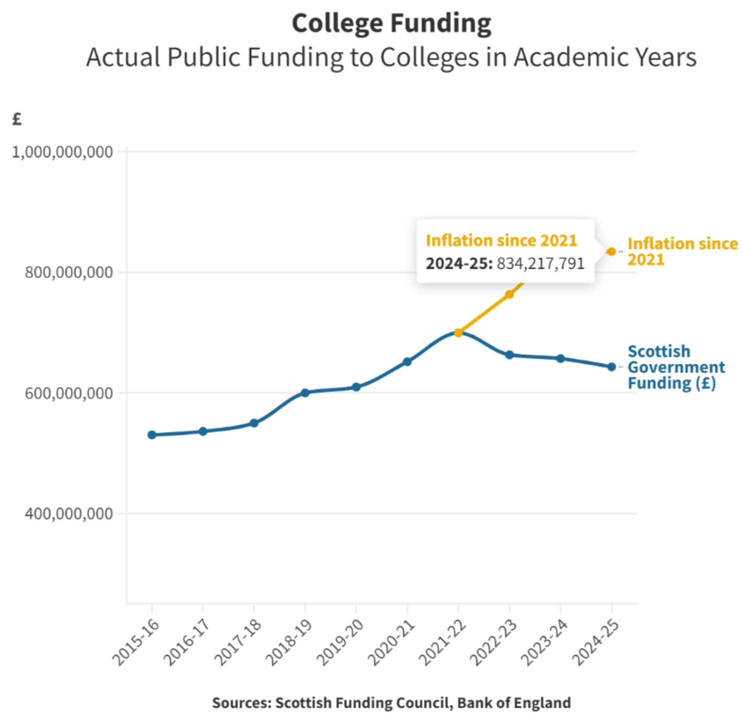
- Financial Sustainability of colleges (inc current funding settlement and longer-term sustainability)
- Social and economic impact of sector funding

<u>Financial sustainability of colleges</u>

Colleges in Scotland are classified as public bodies, as such, they are predominantly funded from the Scottish Government, via the Scottish Funding Council (SFC), and their financial sustainability largely depends on the public funding they receive.

In recent years, the level of funding given to the Further Education sector has significantly reduced, either in terms of an actual reduction of the budget given or in real terms with respect to inflation. Since the academic year 2021/22, sector funding has reduced in real terms by 8.5% (Auditor General Report, Scotland's Colleges 2023) while the sectors costs have increased, according to the Auditor General's most recent report on colleges. This percentage represents a £57.4M loss of funding, given that the college sector has received £675.7M for each of the financial years from 2021/22 through to 2023/24 inclusive. The 2024/25 SFC indicative funding settlement for colleges is, in actual terms, a reduction of £32.7M compared to the 2023/24. An actual reduction in funding will undoubtedly mean that colleges will be unable to adequately and appropriately meet the needs of their students and deliver the services that they expect of them.

However, in articles published by The Herald newspaper, they have reported that using the Bank of England's inflation data, the cumulative effect of "flat cash" budgets for the sector equates to a shortfall in funding of almost £200M over the past three years.



The article then reports that the combined college sector funding gap stands at nearly £500M when taking into account numerous voluntary severance schemes as well as other cost saving measures taken by colleges in an attempt to reduce their deficits.

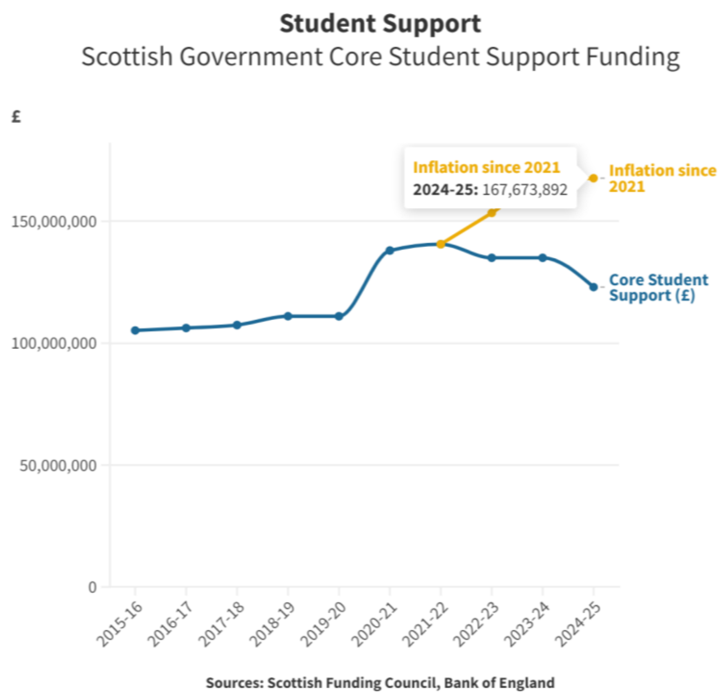
College budgets are further broken down into other constituent parts, such as teaching allocation, student support, capital expenditure etc.

The teaching funding has seen some changes on how it is presented by the SFC. For 2021/22, this figure was £527.1M. For 2022/23 and 2023/24, the figure was £521.6M. the previous figures included £12.3M for job evaluation for support staff. For the 2024/25 indicative budget, this sum has been excluded from the overall budget figure. However, the Flexible Workforce Development Fund, which has seen an extra £10M in funding for the sector in previous years is no longer being made available for next year's budget. Fundamentally, the teaching funding element of the budget has stagnated between 2021/22 to 2023/24 and is set to decrease in actual terms next year. All of this set in the context of rising inflationary pressures and a workforce who have yet to receive a cost-of-living pay uplift.

Within the Auditor General's report (Scotland's Colleges 2023), exhibit 2 lists several identified risks to colleges regarding their financial sustainability. While the report states that rising staff costs are the colleges' biggest financial pressure, they are also their most important resource. Staff within the sector have been pursuing a fully funded cost-of-living pay increase going as far back as a settlement for 2022/23, with EIS-FELA still in dispute over a final resolution, during the worst cost-of-living crisis in recent memory. Once resolved, this will require financial investment from the Scottish Government to ensure that colleges are not expected to find further savings from within their current budget settlements to ensure that they can adequately afford this.

Student support funding for colleges has seen a reduction in actual terms in recent years. It has also been suggested by the SFC that an “anticipated downturn in the proportion of full-time activity” could mean that the £135M budget set for this in 2023/24 could balance “significant cost of living pressures”. This is now compounded by the fact that the budget proposed for next year has been reduced to £123M, a reduction of just under 10%.

Eligibility for bursary funding for students is dependent on their household income. Students who need bursary funding to support themselves and ensure they can attend and progress at college are usually from the lowest income households. The Herald has reported that to keep up with inflation since 2021/22, there would need to be an additional £40M of funding for 2024/25. Taken as a cumulative across the past three years, this figure is £95M.



This funding gap is affecting the most financially vulnerable students in Further Education and appears to contradict the Scottish Governments campaign to lift people out of poverty.

Colleges also face further financial pressure when dealing with their estates and capital expenditure. Without the required investment in maintenance, colleges are at risk of not being able to offer their staff and students an adequate environment for working and learning. As of 2022/23, capital funding for the college sector has been reported as being £321M short of what is required for lifecycle and backlog maintenance, where funding by the Scottish Government and administered by the SFC, has consistently fallen short of the level needed.

For 2023/24, the capital budget for all colleges in Scotland was £82.4M. However, £41.5M of this was designated to a new college campus building and £5.0M was designated to digital poverty, which is also accessible by universities and community learning and development providers. This means that the total available college capital expenditure for all other aspects of running colleges totals

£35.9M, which includes £4.7M of funding allocated to "high priority needs, inc health and safety issues". At the time of the Auditor General's report, the SFC have received approximately £20M of requests from colleges for high priority needs for their estates and is triaging these requests into a shortlist to fit this budget. This demonstrates how woefully short the funding has been for colleges, where the funding allocated to essential estate repair is approximately 25% of what has been requested.

The budget for 2024/25 is £33M, with a reduction of £2.9M. £2.2M has been cut for high priority issues and £0.7M from the overall maintenance budget.

The EIS-FELA are of the view that the financial sustainability of colleges is dependent on the funding they receive from the Scottish Government. This is the correct funding mechanism, given their classification by the ONS as public bodies. In order for colleges to function properly and maintain the high standards of learning and teaching they provide, the sector requires significant financial investment over and above the current funding they receive from the Scottish Government.

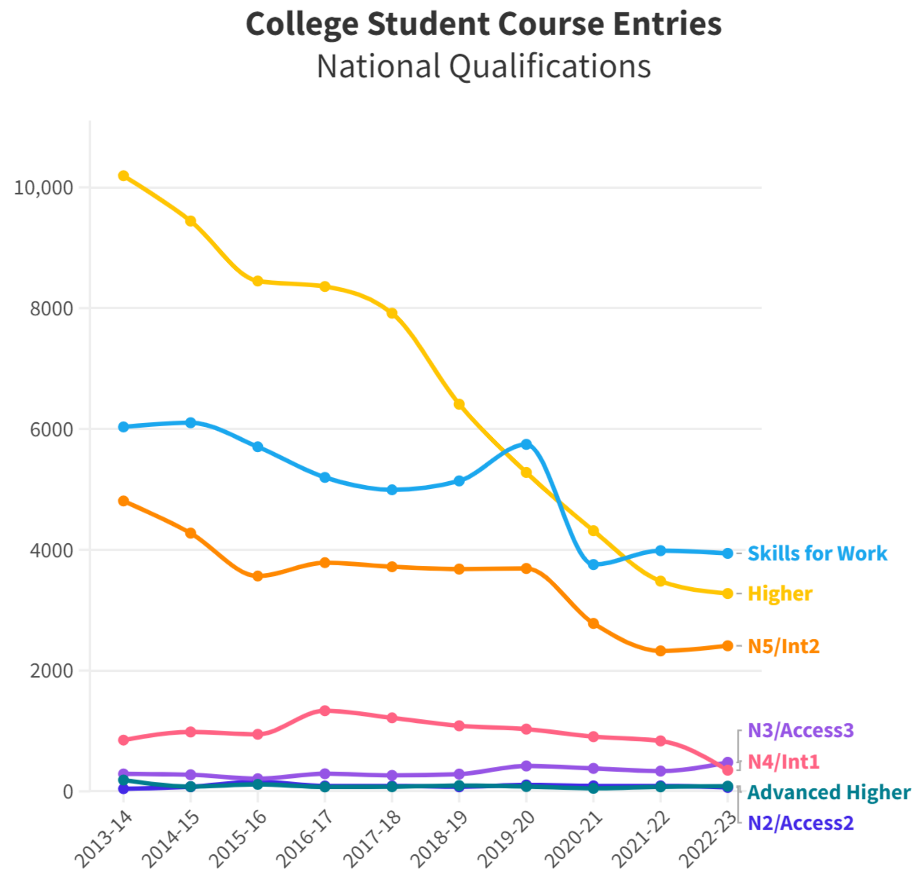
Social and economic impact of sector funding

The social impact of cutting sector funding can be seen in the reduction of students and courses across colleges in Scotland.

The Herald newspaper reports that there has been a dramatic drop in the number of college students and enrolments since 2008/09, with almost 375,000 students that year compared to just under 249,000 students in 2022/23.

They also report that there have been significant changes to course provision across the college sector. Colleges provide courses across a large number of sectors but also at different levels. In almost all cases, the number of entries of National Qualifications courses has decreased in the last ten years, up to 2022/23.

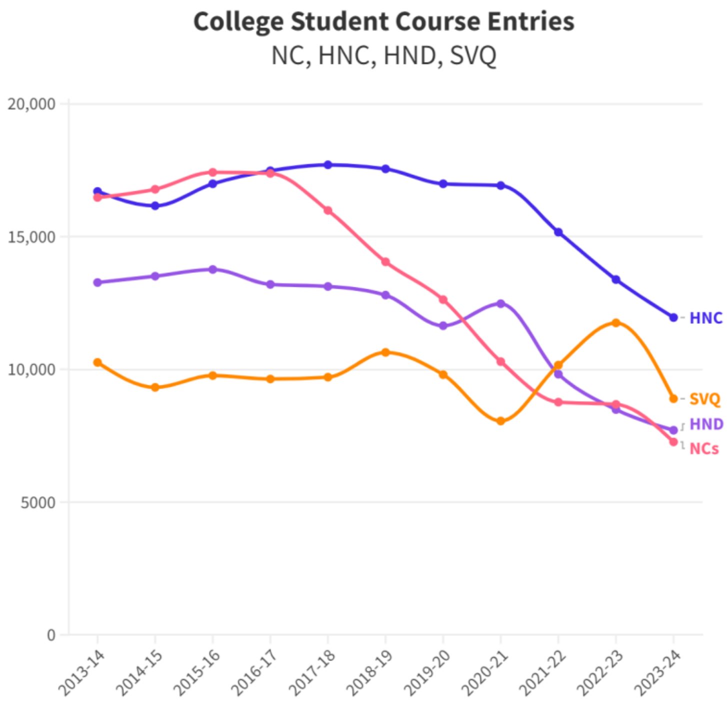
When looking at the figures they report, entries for Higher courses have reduced by nearly 70%, National 5 level course entries have halved, and entry level National 4 courses have seen a reduction in number of almost 60%. Skills for work courses, which are set up to provide students with generic employability skills, have seen their entries decrease by almost 35% also.



Within the same article, the number of NC (National Certificate), HNC (Higher National Certificate), HND (Higher National Diploma) and SVQ (Scottish Vocational Qualification) course entries have also decreased substantially over the past ten years too.

The reduction in course entries is:

- NC – 56%
- HNC – 28%
- HND – 42%
- SVQ – 13%



Most students who come to college usually enrol on these levels of courses, where they have a clear pathway to progress in their academic career. As such, the reduction of entries to them signifies that colleges are unable to meet the social needs of the communities they serve by offering a wide and diverse range of courses for students.

The EIS-FELA have not conducted any research on the economic impact of Further Education funding. However, the Fraser of Allander Institute recently published a report which calculated that between 2016/17 and 2021/22, every college graduate in Scotland creates an additional £72,000 boost to productivity for the Scottish economy as a result of going to college.

It is also stated in the report that the Scottish economy will be £52bn better off cumulatively over the 40-year working life of college graduates. In 2021/22 alone, the Scottish Government invested £740M into colleges which is projected to lead to a £8bn boost to the economy and a £2.8bn income in revenue for them over the coming 40-year period.

It is also widely recognised that Scotland's colleges will be needed in order to meet the priorities of the Scottish Government such as the targets which have been set within the green agenda, digital innovation and developing a skilled workforce.

University of Strathclyde Glasgow

Fraser of Allander Institute

The economic contribution of colleges in Scotland

October 2023

Cover images courtesy of Dundee & Angus College and West College Scotland.

UNIVERSITY of STRATHCLYDE
FRASER OF ALLANDER INSTITUTE

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The Fraser of Allander Institute

Disclaimer

The analysis in this report has been conducted by the Fraser of Allander Institute (FAI) at the University of Strathclyde. The FAI is a leading academic research centre focused on the Scottish economy.

The report was commissioned by Colleges Scotland and the College Development Network.

The analysis and writing-up of the results was undertaken independently by the FAI. The FAI is committed to providing the highest quality analytical advice and analysis. We are therefore happy to respond to requests for technical advice and analysis. Any technical errors or omissions are those of the FAI.

Colleges Scotland

cdn College Development Network

Executive Summary

- Scotland's colleges are anchor institutions within the regions where they operate, helping to support employment and generating significant economic activity in the sectors that are most important to Scotland's current and future prosperity.
- This research involves an extensive review of the contribution of college graduates to the Scottish economy and the economic impact of the money that colleges spend.
- For the 2021/22 graduation cohort, we estimate that:
    - The Scottish economy, in terms of GDP, will be cumulatively better off by £8 billion in present value terms over the long term, when compared to an economy without these skilled graduates.
    - This is equivalent to a £73,000 boost in productivity per graduate to the Scottish economy.
    - The uplift in productivity is estimated to support over 31,000 FTE jobs across the Scottish economy.
    - The Scottish Government's £740m investment, via the The Scottish Funding Council in colleges in in 2021/22, led to a £8bn boost to the GDP of the Scottish economy and a £2.8bn boost to government revenues. The investment in this college cohort therefore represented 9% of the return in terms of the boost in GDP, and 26% in terms of the boost to government revenues.
- We estimate that the 2016/17 – 2021/22 graduation cohort:
    - Make the Scottish economy cumulatively better off by around £52bn over their 40-year working life, when compared to a scenario without these skilled graduates.
    - Help to boost labour productivity by 2% in the long run across the Scottish economy.
    - These graduates also help to support an additional 203,000 FTE jobs in the Scottish economy over their 40-year participation in the labour force.
    - The Scottish Government's £4.1bn investment, via The Scottish Funding Council between 2016/17 and 2021/22, led to a £52bn boost to the GDP of the Scottish economy and a £18.2bn boost to government revenues. The investment in multiple years of college graduates therefore represented 8% of the return in terms of boost in GDP, and 22.5% in terms of the boost to government revenues.
    - As well as their supply of highly skilled graduates, the money colleges spend also supports significant economic activity and employment across the Scottish economy, which is additional to the 10,700 FTE employment already supported by the college sector.
- Our modelling suggests:
    - College spend helps to support an additional 4,400 jobs across the Scottish economy, of which 2,700 are directly supported by college supply chain spending, and the remaining 1,700 are supported across the wider economy.
    - Their spend also generates substantial additional economic activity, with £225m supported in GVA[1], and colleges having the second highest GVA output multiplier (the measure of GVA supported for every £1m of final spend) when compared to the other 97 sectors of the economy.

1 Gross Value Added is a measure of the value of goods and services within a sector.

THE ECONOMIC CONTRIBUTION OF COLLEGES

The labour productivity uplift from multiple years of college graduates makes the economy cumulatively better off by **£52bn** in the **long run**

In **addition** to the **10,700 FTE jobs** supported within the college sector, their spend helps to support

£225m GVA

& an additional

4,400 FTE jobs

College graduates support **203,000 FTE jobs** over their **40-year** period of participation in the Scottish labour force

Colleges had the **2nd** highest **GVA-output** multiplier and the **14th** highest **employment-output** multiplier

The 2021/22 college graduation cohort makes the Scottish economy cumulatively better off by **£8 billion**, equal to around **£73,000** per college graduate

95% of care-experienced individuals went onto a **positive destination** after completing their college course

Multiple years of college graduates boost investment and exports by **1.8%** during their working life

1,700 FTE jobs &

£109m GVA

supported across the **wider sectors** of the Scottish economy by **college spend**

College graduates made up **46%** of the **5,600 first degree entrants** to Scottish universities in 2021/22 by individuals living in the 20% most deprived areas of Scotland

1. Introduction

Scotland's colleges make a significant contribution to the Scottish economy.

Each college not only acts as a vehicle to train and educate highly skilled individuals for the workforce, but also act as anchor institutions within the areas they are located, helping to support and boost economic growth within those regions.

Beyond growth, colleges also provide significant opportunities to everyone in society, helping to widen access to individuals facing significant barriers to their education and helping to close the attainment gap across Scotland.

Given this, colleges are therefore fundamental in helping the Scottish Government achieve its policy aims, particularly those outlined as part of the National Strategy for Economic Transformation published in March 2022.

In this report we model the contribution of college graduates to the Scottish economy and find that those graduating between 2016/17 and 2020/21:

- Make the Scottish economy cumulatively better off by around £52bn over their 40-year working life, when compared to a scenario in which these skilled graduates had not entered the labour market.
- Help to boost labour productivity by 2% in the long run across the Scottish economy.
- Support an additional 203,000 FTE jobs in the Scottish economy over their 40-year participation in the labour force.
- The Scottish Government's £4.1bn investment, via The Scottish Funding Council between 2016/17 and 2021/22, led to a £52bn boost to the GDP of the Scottish economy and a £18.2bn boost to government revenues. The investment in multiple years of college graduates therefore represented 8% of the return in terms of boost in GDP, and 22.5% in terms of the boost to government revenues.

As well as their educational offerings and the contribution of the hundreds of thousands of college graduates entering the labour force, college spend also supports vast economic growth and employment in the Scottish economy.

Colleges spent over £200 million in 2019-20[1], helping to support an additional 4,400 FTE jobs and £225 million in Gross Value Added (GVA) across the whole Scottish economy

The structure of this report is as follows. In Section 1 we provide a brief overview of the colleges sector in Scotland.

In Section 2, we present our modelling results of the system-wide impacts of college learners, both for a single graduation cohort and multiple year cohort.

For the remaining sections of the report, we align the contribution of colleges to the pillars of the Scottish Government's National Strategy for Economic Transformation, highlighting the role colleges have to play in supporting The Scottish Government's policy ambitions.

Section 4 therefore provides insight to the role of colleges in developing a skilled workforce and Section 5 highlights the significant contribution of colleges to widen access to education.

Finally, Section 6 explores the ability of colleges to foster innovation and boost entrepreneurship in Scotland.

1 This only accounts for capital and operating expenditure, hence does not including staffing costs, which accounts for the majority of college spend as shown in Table 3.

2. An overview of the college sector in Scotland

Colleges provide a diverse range of courses and qualifications to individuals across the whole education spectrum, from school learners to postgraduate degrees.

Colleges are also uniquely placed to provide both further and higher education to all regions of Scotland, helping to boost educational attainment across the country.

In 2021/22, there were 321,850 enrolments in recognised college qualifications across Scotland, which has grown significantly since 2016/17.

Table 1: Number of enrolments in Scotland's colleges by National Vocational Qualification (NVQ), 2016/17 – 2021/22

SCQF Level	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021	2021/2022
1	5660	10,020	8,455	6,515	4,660	7,850
2	25,360	23,950	21,395	18,750	20,525	22,125
3	24,310	23,425	31,705	22,495	15,200	25,355
4	51,685	55,525	63,250	55,450	38,610	56,750
5	57,110	61,525	75,640	77,310	74,465	86,125
6	57,625	62,580	69,885	65,845	66,020	70,485
7	30,425	30,545	30,075	29,240	31,610	29,705
8	22,520	22,505	22,710	21,430	23,080	20,300
9	2,135	2,135	2,035	2,070	2,105	2,285
10	425	450	630	680	745	785
11	45	60	40	65	100	85
Total	**277,300**	**292,720**	**325,820**	**299,850**	**277,120**	**321,850**

**excludes those funded outside of Scotland, rUK and EU*

***Source:** Scottish Funding Council*

As well as these courses provided, colleges also generate and spend significant amounts of money across Scotland.

In 2020/21, colleges spent around £841 million, generating income of over £792 million[2].

Table 2: College income for 2019/20 and 2020/21 (£ million)

Type of Income	2019-20	2020-21
SFC/RSB grants	595	622
Tuition fees and education contracts	114	114
Donations, endowment and investment income	0.15	0.24
Research grants and contracts	2	3
Investment Income	0.13	0.52
Other income	64	54
Total income	775	792

***Source:** Scottish Funding Council*

2 Colleges also made profit on several sources such as revaluation of assets and actuarial gain on pension schemes therefore overall income was over £1 billion once these are accounted for.

Table 3: College expenditure for 2019/20 – 2020/21 (£ million)

Type of Spending	2019-20	2020-21
Staff Costs	566	586
Other exceptional costs	2	7
Other operating expenditure	171	165
Depreciation	60	58
Interest Payable	26	27
Total spending	826	841

***Source:** Scottish Funding Council*

Colleges also help to support substantial employment in a variety of different forms.

There were 10,700 Full-Time Equivalent (FTE)[3] staff in Scottish colleges in 2021/22, of which 4,540 were teaching staff, and the remaining 4,500 were non-teaching staff.

Whilst employment in colleges has fallen slightly since 2016/17, the nature of employment has changed.

In recent years, there has been a major shift to more permanent full-time and part-time employment, with a large shift away from temporary members of staff.

Table 4 provides an employment comparison between 2016/17 and 2021/22, highlighting the nature of jobs in Scotland's colleges.

Table 4: FTE staff by occupation and mode of employment, 2016/17 – 2021/22

			2016/17	% of staff	2021/22	% of staff	% change between years
Teaching	Permanent	Full-time	3,570	33%	3,500	33%	-2%
		Part-time	1,280	12%	1,710	16%	34%
		Total	***4,850***	***44%***	***5,200***	***49%***	***7%***
	Temporary	Full-time	75	1%	80	1%	4%
		Part-time	470	4%	220	2%	-53%
		Total	***540***	***5%***	***300***	***3%***	***-45%***
Teaching total			5,400	49%	5,510	51%	2%
Non-teaching	Permanent	Full-time	3,720	34%	3,540	33%	-5%
		Part-time	1,275	12%	1,375	13%	8%
		Total	***4,990***	***46%***	***4,910***	***46%***	***-2%***
	Temporary	Full-time	320	3%	274	3%	-15%
		Part-time	230	2%	7	0%	-97%
		Total	***550***	***5%***	***281***	***3%***	***-49%***
Non-teaching total			5,550	51%	5,190	49%	-6%
Staff total			**10,940**		**10,700**		

**Numbers may not sum due to rounding*

***Source:** Scottish Funding Council*

3 See Scottish Funding Council

3. System-wide impacts of college learners

In this section we summarise our modelling results of the economic contribution of both a single and multiple years of graduation cohorts.

Using our AMOS model for the Scottish economy, we simulate the long-term contribution of both a single-year graduation cohort (2021/22) and multiple years of graduation cohorts (2016/17 - 2021/22).

Throughout this report we refer to the 'long-run' which refers to the assumed **40-year** period post-graduation in which graduates participate in the labour force.

After 40 years, we remove the estimated uplift in productivity and model for a further 45 years, meaning in total we can examine the contribution of graduates over an 85-year period.

Our estimates of the uplift in GDP are also presented in net present value (NPV) terms, meaning we have expressed the future values in current prices.

Table 5 shows the number of successful completions of graduates by year of qualification[4] that we model, and includes only an individual's highest qualification within that given year i.e., where an individual achieves an HNC and HND in a given year, then we include only the HND.

We also include in column 2 estimates of the wage premia associated with each level of National Vocational Qualification (NVQ). These premia are taken from McIntosh and Morris (2016) which uses pooled Labour Force Survey data for 1997-2015 and provides estimates of the wage premium for each NVQ level achieved when compared to individuals with no qualifications.

We provide a more detailed description of our methodology in Technical Annex A, which is appended to this report.

Table 5: Number of recognised completions of qualifications by college graduates by NVQ level, 2016/17 – 2021/22

	Wage Premia	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021	2021/2022
NVQ1	2.7%	31,815	28,335	29,065	23,710	18,140	21,055
NVQ2	7.2%	28,295	27,345	30,515	29,090	24,945	25,900
NVQ3	31%	55,120	58,040	59,185	57,515	56,185	52,060
NVQ4	48%	10,960	11,895	11,425	10,730	11,335	10,295
NVQ5	41%	10	10	20	25	65	55
TOTAL	-	126,200	125,625	130,210	121,070	110,670	109,365

Source: *Scottish Funding Council, Mitchell and Morris (2016)*

Disclaimer: The results in the following section are not directly comparable to those in our previous report given that the college completion estimates used excluded qualifications that related to school-level qualifications. In this report, given that these qualifications are still recognised, we have included them. Hence, whilst the effect might appear significantly larger in comparison to our previous report, this is because we are considering a much larger cohort of students.

4 We are grateful to the Scottish Funding Council for their support and delivery of these qualification figures.

Economic impact of single graduation cohort

Our modelling suggests that a single year graduation cohort:

- Makes the Scottish economy cumulatively better off by £8bn over their 40-year working life, when compared to a economy without these skilled graduates.
- Help to support an additional 31,000 FTE jobs in the Scottish economy over their 40-year participation in the labour force.
- The Scottish Government's £740m investment, via the The Scottish Funding Council in colleges in 2021/22, led to a £8bn boost to the GDP of the Scottish economy and a £2.8bn boost to government revenues. The investment in this college cohort therefore represented 9% of the return in terms of the boost in GDP, and 26% in terms of the boost to government revenues.

Table 6 provides detailed long-run effects of changes to labour productivity reflecting the impacts of a single graduation cohort of college students for the year 2021/22.

The increase in the productivity of the Scottish labour force generated by the 2021/22 college graduation cohort is 0.31%. This increase is fed into our model of the Scottish economy and is held from year 1 to year 40, when this uplift is removed, to reflect the likely 40-year participation in the workforce of the average college graduate.

Our results suggest that over their 40-year working life, college graduates help to boost employment (hence reduce unemployment), increase real wages and help to increase investment and exports, both globally and to the rest of the UK.

The uplift in productivity from the addition of the 2021/22 college graduation cohort makes the Scottish economy cumulatively better off by around £8bn when compared to an economy without these skilled graduates.

This corresponds to a £73,000 per college graduate uplift across their 40-year working life, calculated by dividing the overall uplift in GDP by the total number of graduates (£8bn/109,365).

Furthermore, the total employment boost to the economy over the long run is equal to an additional 31,000 FTE jobs across the whole Scottish economy, when compared to an economy without the contribution of these graduates.

Table 6: Single cohort analysis for 2021/22: long-run (40-year) effects of a change in labour productivity (in percentage changes from base year values unless otherwise stated).

	Long-run
GDP	0.31
Consumer price index (CPI)	-0.17
Unemployment Rate (pp difference)	-0.08
Total employment	0.04
Nominal gross wage	-0.09
Real gross wage	0.08
Households Consumption	0.04
Investment	0.28
Capital Stock	0.28
Exports rUK	0.29
Export ROW	0.29
Total GDP (£bn)	8
Number of graduates	109,365
GDP per Graduate (£)	73,000

Source: *FAI Calculations*

Chart 1 highlights the long-run percentage changes in GDP and employment against their base line levels.

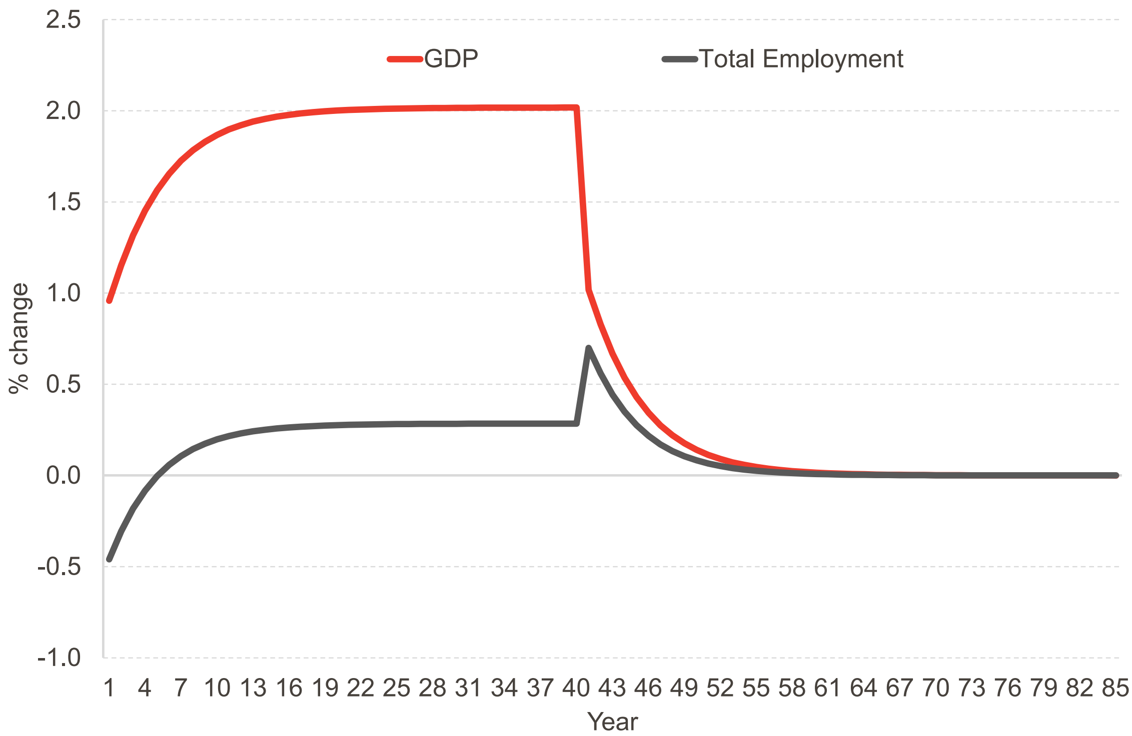
This shows that GDP reaches its equilibrium level around year 19, which is sustained until year 40, and then falls as a result of the individual likely leaving the labour market.

Employment changes initially fall and turn positive in year 6, where they remain positive until year 40.

After they leave the labour market, a 'legacy' effect of college graduates sets in, meaning that despite the labour productivity uplift in the economy being removed, employment will still likely remain higher than its baseline given the contribution of these graduates.

These employment changes therefore initially rise and then remain positive for a further decade, before the stock of human labour returns to its baseline values around year 55.

Chart 1: The impact on Scottish GDP and employment given an increase in labour productivity generated by the single 2021/22 college graduation cohort. (In percentage changes from base year values)



Source: *FAI Calculations*

We have also modelled the increased tax revenues that the boost in economic activity from college graduates supports.

Our estimates suggest that the government budget will likely be £2.8bn better off in the long run from the addition of a single year of college graduates to the Scottish economy.

In 2021/22, The Scottish Government via The Scottish Funding Council provided £740m in funding to colleges across Scotland.

This means that the 'cost' to the government of supporting colleges accounts for around 26% of the total uplift in the government's budget, and around 9% of the increase in GDP.

Economic impact of multiple graduation cohorts

Given that the number of college graduates and their associated skills likely change from year to year, our results are somewhat dependent on the choice of base-year analysed.

Furthermore, the working-age population of Scotland also changes in size each year, so there may be some room for variation in our estimates depending on the year set as the baseline.

We therefore model the contribution of multiple years of graduation cohorts, to understand the overall impact that several years of college graduates have on the economy.

The same method is used as our single graduate analysis, however here we stagger the entry and removal of the productivity uplift to reflect the different 40-year time periods in which graduates participate in the workforce (i.e., those graduating in 2016/17 will enter and leave the labour market earlier than those in 2021/22).

Our modelling suggests that multiple years of college graduation cohorts:

- Help to boost labour productivity by 2% in the long run across the Scottish economy.
- This makes the Scottish economy cumulatively better off by around £52bn over their 40-year working life, when compared to an economy without these skilled graduates.
- These graduates also help to support an additional 203,000 FTE jobs in the Scottish economy over their 40-year participation in the labour force.
- The Scottish Government's £4.1bn investment, via The Scottish Funding Council between 2016/17 and 2021/22, led to a £52bn boost to the GDP of the Scottish economy and a £18.2bn boost to government revenues. The investment in multiple years of college graduates therefore represented 8% of the return in terms of boost in GDP, and 22.5% in terms of the boost to government revenues.

Table 7 and Chart 2 provide detailed long-run effects of changes to labour productivity reflecting the impacts of multiple years of college graduation cohorts between 2016/17 and 2021/22.

The increase in the productivity of the Scottish labour force generated by multiple years of college graduation cohorts is 2%.

When fed into our model, this increase helps to boost GDP (and GDP per capita), supports additional employment and leads to increases in real wages across the Scottish economy. It also boosts investment and exports by more than 1.8%.

Our results suggest that over their 40-year working life, the uplift in productivity from the addition of the multiple cohorts of college graduates cumulatively make the Scottish economy better off by £52bn in the long run when compared to an economy without these graduates.

This corresponds to a £72,000 per college graduate uplift across their 40-year working life, calculated by dividing the overall uplift in GDP by the total number of graduates (£52bn/723,140).

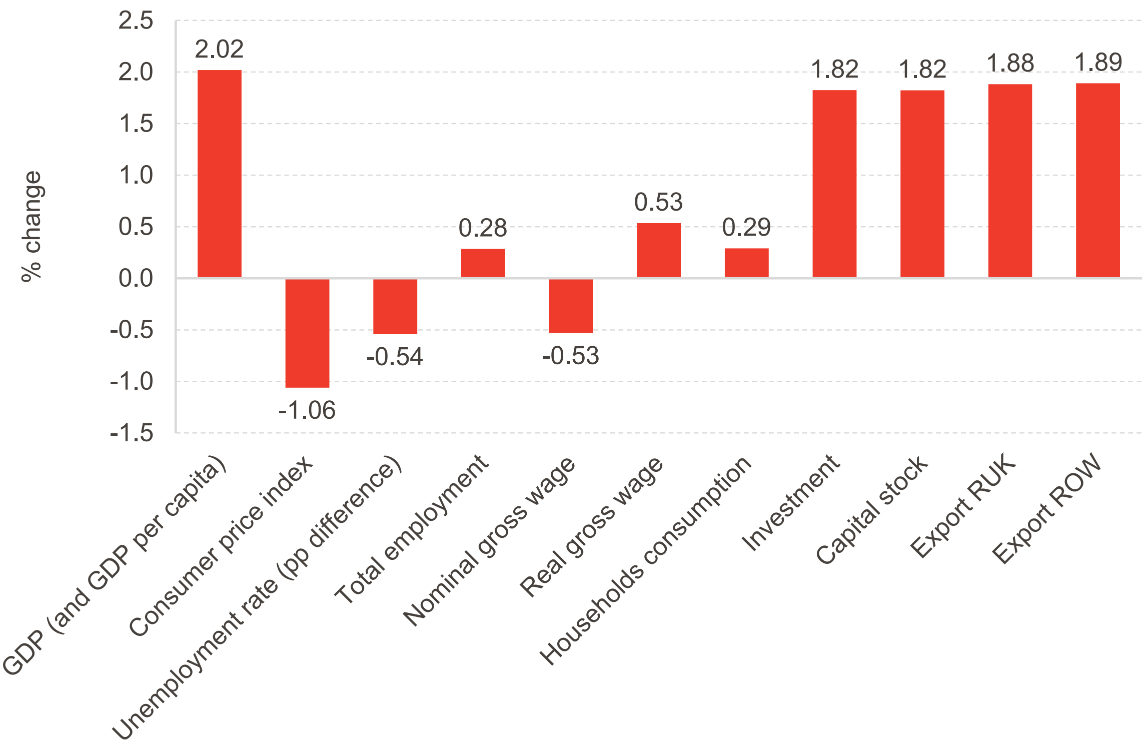
Furthermore, the total employment boost to the economy over the long run is equal to an additional 203,000 FTE jobs across the whole Scottish economy, when compared to an economy without these skilled graduates.

Table 7: Multiple cohort analysis between 2016/17 and 2021/22: long-run (40-year) effects of a change in labour productivity (in percentage changes from base year values).

	Long-run
GDP	2.02
Consumer price index (CPI)	-1.06
Unemployment Rate (pp difference)	-0.54
Total employment	0.28
Nominal gross wage	-0.53
Real gross wage	0.53
Households Consumption	0.29
Investment	1.82
Capital Stock	1.82
Exports rUK	1.88
Export ROW	1.89
Total GDP (£bn)	52
Number of graduates	723,140
GDP per Graduate (£)	72,000

Source: *FAI Calculations*

Chart 2: The impact on the Scottish economy given an increase in labour productivity generated by graduation cohorts between 2016/17 and 2021/22 (in percentage changes from base year values).



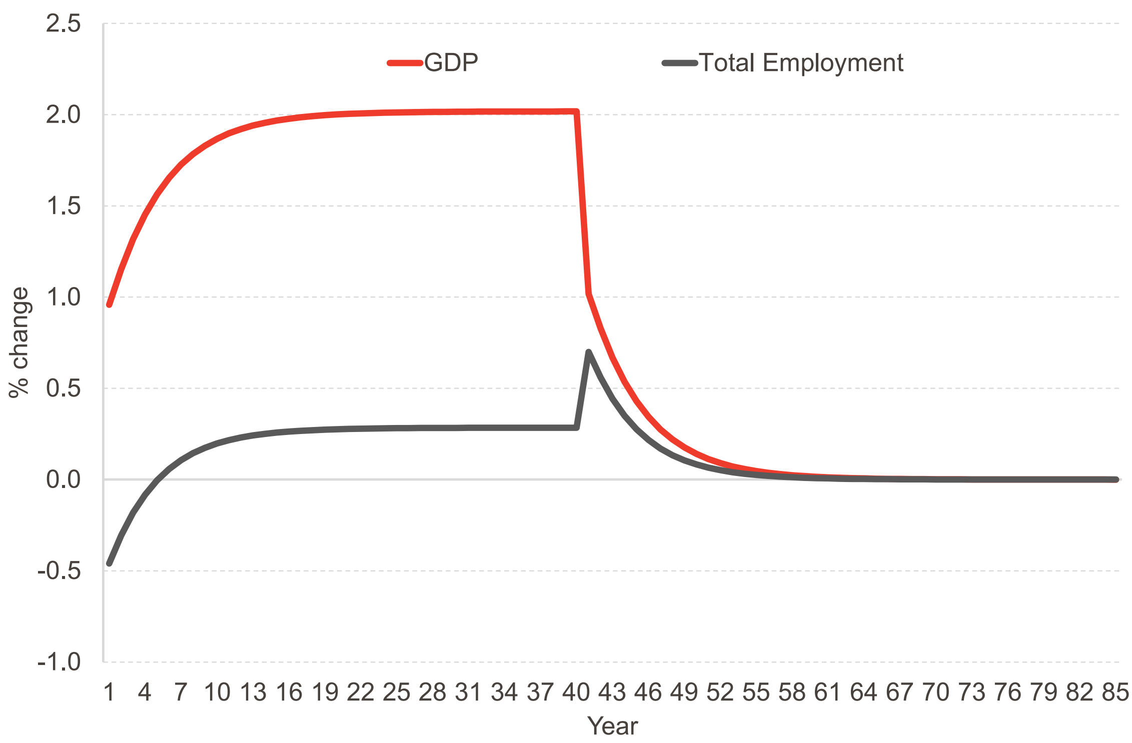
Source: *FAI Calculations*

Chart 3 then highlights the long-term percentage changes in GDP and employment against their base-line levels.

This shows that GDP reaches its equilibrium level around year 5, which is sustained until year 40, and then falls as a result of the individual likely leaving the labour market.

Again, the 'legacy' effect of these graduation cohorts is evident once the graduate cohorts leave the labour market. There is an initial stimulus to employment after the uplift in labour productivity is removed, which remains positive until Year 60 before returning to its baseline level.

Chart 3: The impact on Scottish GDP and employment given an increase in labour productivity generated by graduation cohorts between 2016/17 and 2021/22 (In percentage changes from base year values).



***Source:** FAI Calculations*

We, again, model the increased tax revenues that the boost in economic activity from college graduates supports.

Our estimates suggest that the government budget will likely be £18.2bn better off in the long run from the addition of multiple years of college graduates to the Scottish economy when compared to an economy without this productivity uplift.

Table 8 shows the total value of the grants paid by The Scottish Government to Scottish colleges via The Scottish Funding Council between 2016/17 and 2021/22, which total around £4.1bn.

We therefore estimate that the 'cost' to the government of supporting colleges accounts for around 22.5% of the total uplift in the government's budget, and around 8% of the increase in GDP.

Table 8: Scottish Funding Council grants paid to Scottish Colleges (£ million)

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	Total
SFC Funding	603.6	623.5	703.5	697.6	724.6	740.9	4,093

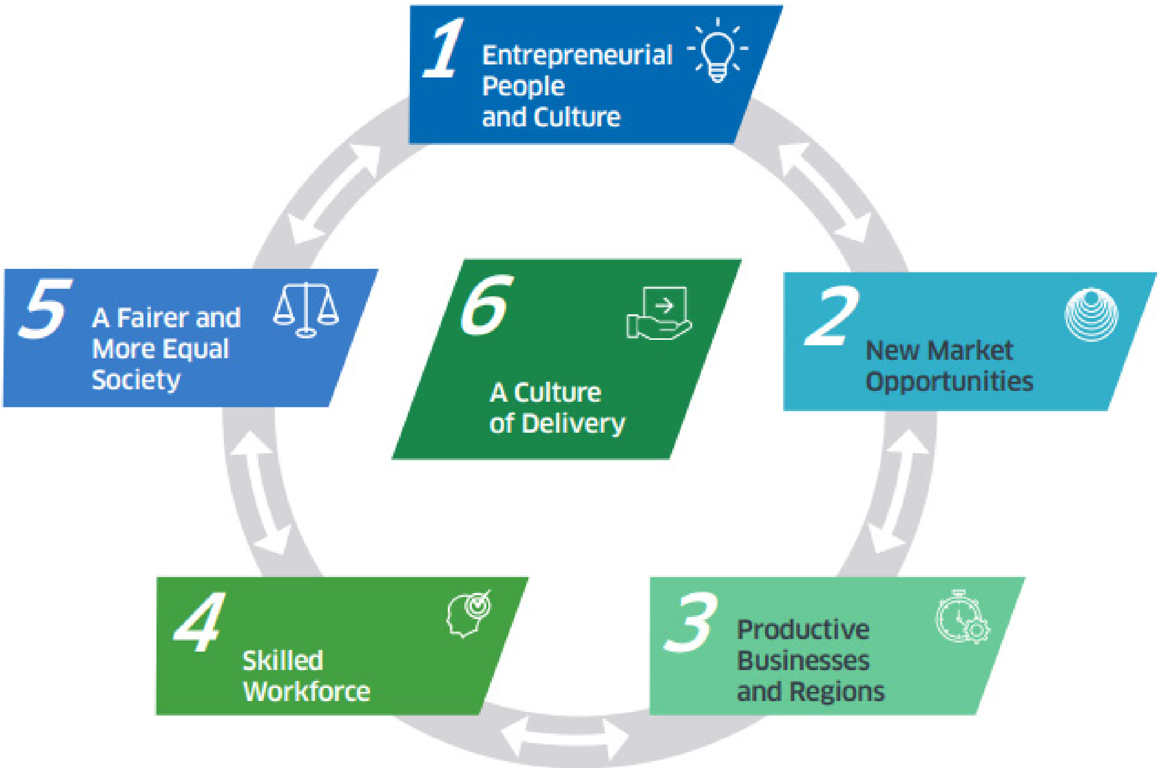
***Source:** Scottish Funding Council*

Delivering Scotland's National Strategy for Economic Transformation

In March 2022, The Scottish Government set out its National Strategy for Economic Transformation (NSET), with the aim to utilise Scotland's economic potential to its maximum and provide a more prosperous, productive and internationally competitive economy.

The strategy was set against six policy programmes of action, shown in Diagram 1. These 'pillars' aim to tackle long-term structural challenges, build on economic strengths, and position Scotland to utilise its economic opportunities over the next ten years.

Diagram 1: Pillars of Scotland's National Strategy for Economic Transformation



Source: *Scottish Government*

Colleges have a significant role to play in supporting the Scottish Government in strengthening the pillars of its economic strategy, particularly through their ability to provide essential skills and experiences for graduates entering the labour market.

In particular, colleges are in a unique position to help the government with its overall pillar of fostering a culture of delivery by utilising the interconnectedness of its five policy pillars.

Beyond their ability to provide essential skills and experiences, colleges also help to widen access and break down many of the barriers to education for vulnerable subgroups of the population.

Further to this, they can also help to skill individuals in areas that can help boost growth across all sectors of the economy, foster innovation and entrepreneurship, and boost regional economies.

Throughout this report we highlight the contribution of colleges to each of the policy pillars of Scotland's economic transformation strategy and provide insight into the role they have to play in supporting the government in achieving their policy goals.

4. Developing a skilled workforce for Scotland

One of the key pillars of Scotland's economic transformation strategy focuses on ensuring people have the skills required throughout life to have prosperous careers and meet the demands of an ever-changing economy.

As part of this, the government have prioritised adapting the current education and skills system to be more responsive to economic needs and ambitions.

Colleges play a crucial role in providing highly skilled, well-experienced graduate cohorts to the Scottish labour market, demanding high wage premia with each level of qualification attained.

Their role, in supplying fair and equal access to further and higher education means they are fundamental to supplying and maintaining the stock of skilled individuals within the Scottish labour force.

The ability of colleges to offer a diverse range of courses in all subject areas also means that all sectors of the economy benefit from their graduate cohorts.

Whether it be through the provision of more practical skills, to aid industries like construction or manufacturing; hands-on experience to boost skills in consumer-facing industries such as retail or hospitality, or providing platforms for creative individuals pursuing careers in the arts, theatre or television and film, colleges cater for all individuals and industries.

Supply of highly skilled graduates

There is body of evidence that measures the labour market benefits to an individual of education and training.

These studies find that beyond the obvious educational benefits of further and higher education, these qualifications benefit from a wage and employment premium when compared to those individuals without qualifications.

College qualifications tend to be associated with a higher probability of employment, given the associated higher level of skills that come with higher levels of qualifications.

Table 9 shows the number of college graduates successfully completing nationally recognised qualifications at Scottish colleges and the associated wage premia[5] to these qualifications.

This shows that higher qualification levels do demand higher wages when compared to individuals with no qualifications given the associated higher skill level.

5 Wage premia relates to the marginal returns on hourly earnings compared to individuals with below NVQ-1 level qualifications.

Table 9: Number of recognised completions of qualifications by college graduates by NVQ level, 2016/17 – 2021/22

	Wage Premia	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021	2021/2022
NVQ1	2.7%	31,815	28,335	29,065	23,710	18,140	21,055
NVQ2	7.2%	28,295	27,345	30,515	29,090	24,945	25,900
NVQ3	31%	55,120	58,040	59,185	57,515	56,185	52,060
NVQ4	48%	10,960	11,895	11,425	10,730	11,335	10,295
NVQ5	41%	10	10	20	25	65	55
TOTAL	-	126,200	125,625	130,210	121,070	110,670	109,365

Source: *Scottish Funding Council, Mitchell and Morris (2016)*

The wage premia estimates are taken from McIntosh and Morris (2016) and use pooled Labour Force Survey data for 1997-2015 to estimate the associated hourly wage returns by each level of vocational qualifications.

This research also explores marginal returns to education by subject for those holding National Vocational Qualifications at levels 2 and 3, providing insight as to what areas of study tend to have the highest estimated wage returns.

The results find that for those with an NVQ Level 2, despite having lower wage returns in comparison to higher levels of qualifications, occupations in management, secretarial and business-related subjects have returns as high as 10%.

For those with Level 3 NVQ's, the highest level of NVQ considered within this analysis, occupations in Engineering, Manufacturing and Construction have the highest marginal returns, with returns between 20% and 40%.

Employment supported by college spend

As detailed in Section 2, our cohort modelling highlights that there is a direct uplift in labour productivity resulting from a single year of college graduate cohorts of 0.31%.

When fed into our model, these highly skilled graduates help to make the Scottish economy better off by around £8 billion, demonstrating the significant contribution of college graduates to the economy.

However, as well as the contribution of skilled college graduates to the labour force, we also model the contribution of the money spent by colleges.

Using our Input-Output model of the Scottish economy for 2019, we model the contribution of both colleges' operating (OPEX) and capital (CAPEX) expenditures in the same year[6].

We collected these spending figures from both individual and consolidated college accounts published by the Scottish Funding Council.

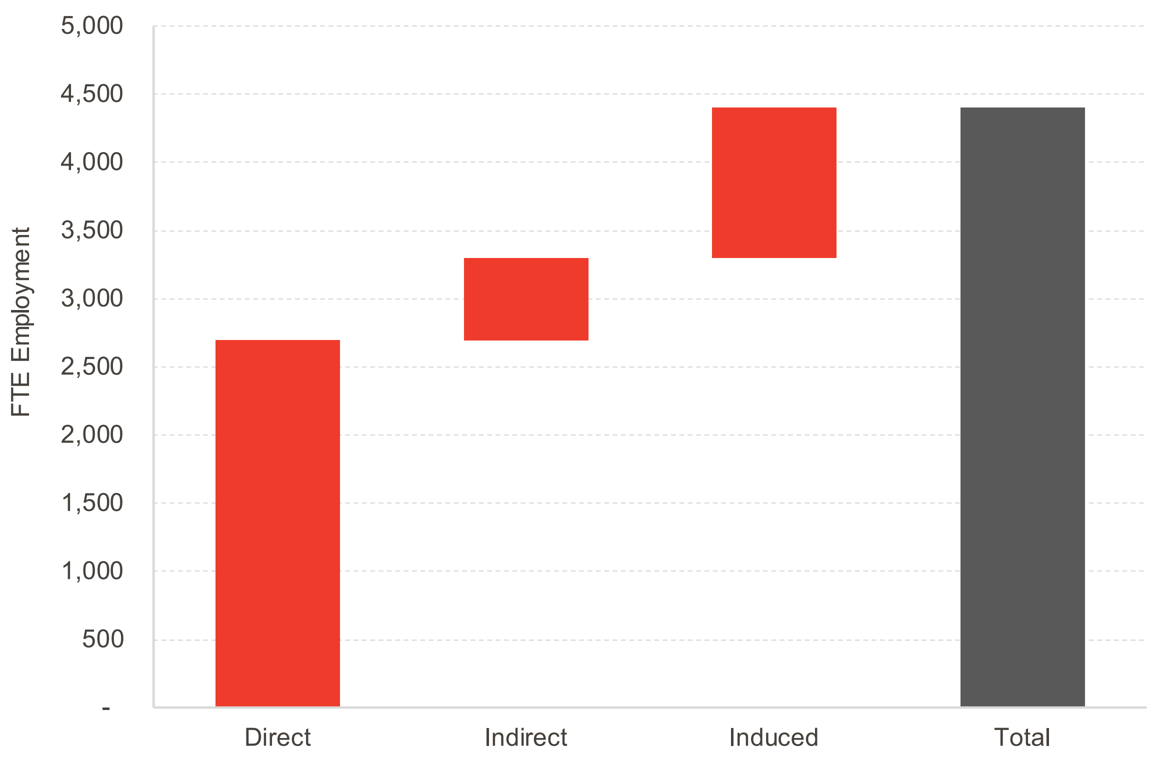
A more detailed methodology for this modelling is provided in Technical Annex B, appended to this report.

Our modelling suggests that on top of workers already employed within colleges, their spending helps to support additional employment across the Scottish economy.

We estimate that college spend supports an additional 4,400 FTE jobs across the Scottish economy, of which 2,700 FTE jobs are supported by the direct spending of colleges alone.

Chart 4 highlights the direct, indirect and induced FTE jobs supported by college spend across the economy.

Chart 4: Economic impact of colleges' spending, FTE employment (2019)



Source: *FAI Calculations*

6 We model college expenditure from 2019 given that our model uses Input-Output tables published by The Scottish Government, for which the latest year is 2019.

As well as the FTE employment supported by direct college spending, we estimate that an additional 1,700 FTE jobs are supported across the wider sectors of the Scottish economy.

These jobs are supported via the supply chains serving colleges and the spending of wages by workers within them i.e., the indirect and induced effects.

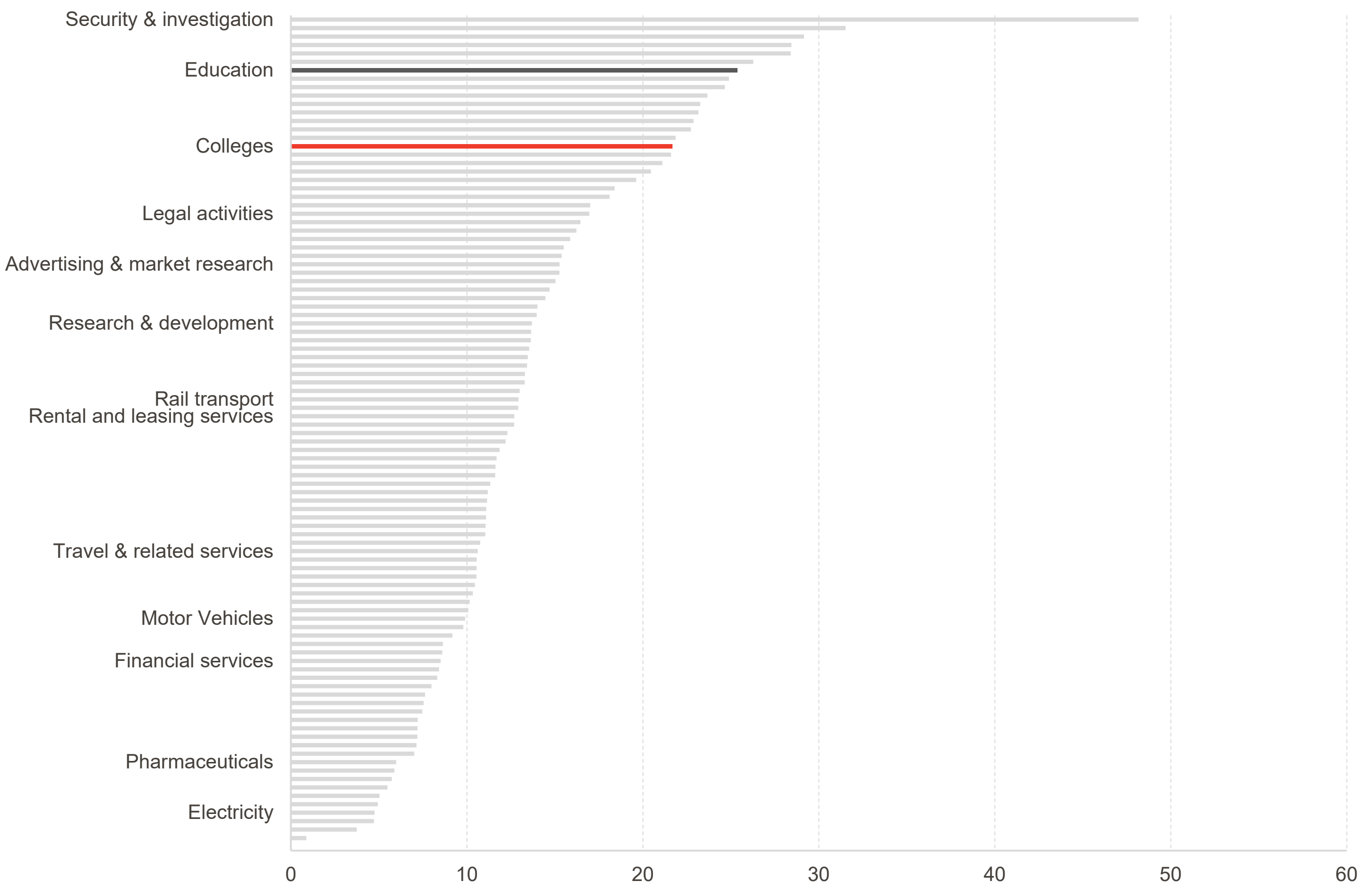
This means that for every 1 job supported by direct college spend, 0.6 jobs are supported elsewhere in the economy.

In fact, when we compare the employment-output multiplier of colleges – the measure of how many jobs are supported per £1m of output – to the other 97 sectors of the Scottish economy, they rank 14th, as shown in Chart 5.

Put simply, this means that similar to the education sector, college spending supports significant employment across the wider Scottish economy.

Unsurprisingly our modelling also suggests that colleges support high employment in the education sector, however also other sectors such as retail, real estate and food and beverage services.

Chart 5: Comparison of Type II FTE jobs-output multipliers across 97 sectors of the Scottish economy & college spend. Selected sectors labelled.



Source: *FAI Calculations*

CASE STUDY

Supporting the development of Scotland's maritime industry, North East Scotland College

Like most institutions across the country, the Scottish Maritime Academy (SMA), a part of North East Scotland College, faced an ongoing challenge of how best to organise its course provision to continue to support the Scottish maritime industry's training needs during, and in the aftermath of, the COVID19 pandemic.

A key element of their response to this challenge was the greater use of digital technology, and particularly hybrid learning, to better accommodate learners that are often spread across the UK and beyond. To support this approach, as well as making greater use of the College's virtual learning environment (VLE), the SMA installed a range of new digital technology, such as high-definition screens, microphones, cameras, and a range of new software, to support the creation of a future-proof hybrid classroom, as well as providing training for those who would be using the new classroom for course delivery.

The hybrid classroom proved a success and was particularly effective when used to deliver a number of the SMA's mandatory 12-week training programmes for learners hoping to progress in careers in fishing and the merchant navy. It allowed students restricted from travelling to join SMA programmes and showed no negative effect on outcomes or retention. Indeed, the success of this approach was recognised when the SMA's hybrid classroom was nominated for awards, by the Northern Star and Fishing News respectively.

While many at the SMA acknowledge that remote learning does have some remaining disadvantages versus face-to-face instruction, particularly around the socialisation and on-site collaboration that is particularly important in the maritime sector, the decision was made that hybrid learning should remain an option for SMA beyond the end of the pandemic. This allows SMA to continue to provide programmes for those in the sector who require upskilling or who want to change careers but for whom flexibility, especially around travel, is required in order to do this.

A huge success story was one fisherman student. He split his 12 weeks up into three different locations: sometimes at college, sometimes at home, and sometimes in the shipyards in Denmark, where he would be working. We said ok, as long as you log in – no problem. And he did, and he passed every exam with flying colours. ~ ***Christopher Bell, the Head of Scottish Maritime Academy***

Hybrid learning has therefore become an increasingly important tool for SMA in terms of attracting a wider range of students, including those from further afield which, in turn, allows it to do more to support the development of the maritime industry at a national rather than local level. Through its adapted digital delivery, the Scottish Maritime Academy is supporting a wider range of individuals with access to career progression opportunities in the industry, while also helping to ensure the Scottish fishing and maritime industry has the skills it needs to thrive and remain internationally competitive.

Addressing skills gaps

In recent years, one of the key policy aims in Scotland and the wider UK has been the need to address skills gaps particularly as the economy transitions to net zero, making many occupations, such as those in oil and gas obsolete.

Further to this, the transition to home and flexible working means the nature of many occupations has changed with a much higher reliance on digital and technology than was the case in the pre-Covid labour market.

As part of this, a recent review commissioned by the Scottish Government sought to explore the skills landscape in Scotland.

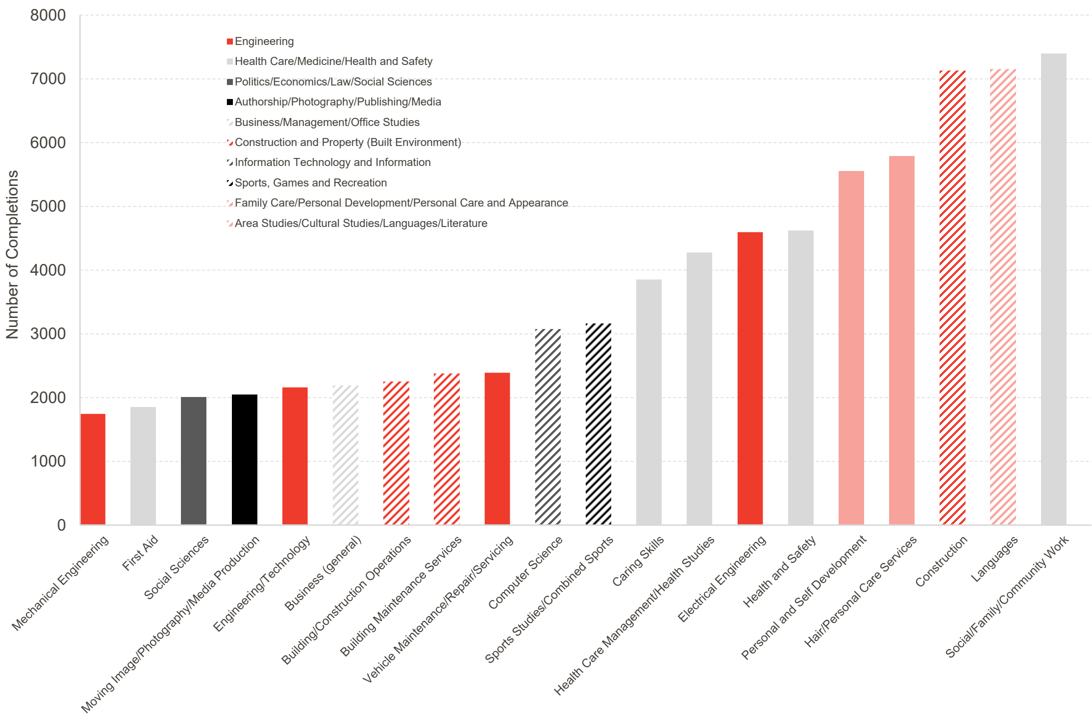
The Independent Review of Skills Delivery Landscape was conducted by James Withers, and provided major recommendations to the government on how to deliver skills in Scotland.

As part of the review, it was identified that skills should not sit separately to higher or further education but instead are a product of a good learning system and that colleges have a significant role to play in delivering skills in Scotland.

Colleges sit at the forefront of 'skilling up' the nation through its diverse and extensive selection of further and higher education courses.

Of the top 20 subjects in terms of number of completions, there are 10 different subject areas represented, as shown in Chart 6, highlighting the breadth and popularity in the variety of courses offered by colleges.

Chart 6: Most enrolled further education courses by subject and subject area, 2021/22



Source: *Scottish Funding Council*

As well as the further and higher education courses provided by colleges, qualifications achieved in Scotland's colleges are often used by individuals to gain entry to university and degree programmes, helping to further skill-up the labour force in Scotland and the wider UK.

An advanced standing is where an individual uses one qualification to gain entry to another i.e., using an HND to gain access to an undergraduate degree.

In 2021/22, 1 in 5 Scottish domiciled degree entrants were college students entering universities within 3 years of completing a college course, which rises to 1 in 3 students when we remove the within 3 years element.

CASE STUDY

Supporting Regional Economic Development through Digital Transformation, Edinburgh College

In October 2021, Edinburgh College launched a Digital Care Hub, in partnership with the University of Edinburgh, designed to provide greater skills and opportunities to health and social care students in the Lothians, with a focus on providing the digital skills required to work in the sector. The hub now sits within the College's School of Health Professions and Social Services, which provides a range of Healthcare, Social Services and Social Care routes for around 4500 students per year.

With the ongoing challenges in Scotland's health and social care system (staff shortages and increased demand, driven by an ageing population and exacerbated by the covid-19 pandemic), the College aimed to design a new future-proofed learning space that would allow an expansion and enhancement of the College's provision in this area. This resulted in the development of the Digital Care Hub, which provides an innovative, immersive space for health and care students (including school-college partnership pupils) - taking them out of the traditional classroom environment and into a state-of-the-art facility. The hub, within the College's Sighthill Campus, equips students with the transferable skills required to fulfil a successful career in areas including Health and Social Care, Dental and Pharmacy with a particular emphasis on technology-enabled care.

With funding support from the University of Edinburgh and several other sources, the Hub opened its doors in 2021. National skills gaps and challenges faced by the sector informed the design of the space, with a focus on technology-enabled care. The facility contains a replica ward with a patient room, a care at home room, a virtual reality suite and an oral health and pharmacy suite – all replicating workplace environments and enabling simulation of real-life situations, leading to a more practical learning experience.

The Digital Care Hub is already having an impact in several ways. Firstly, it encourages the delivery of curriculum with the support of state-of-the-art facilities, which also gives the means to exchange expertise between teams that were previously working in isolation. By extension, the Hub's spaces facilitate moving away from traditional closed book assessment and towards a more authentic, practical approach. Secondly, the Hub helps develop students' digital skills by meaningfully incorporating them within the learning process. In turn, this makes these skills a natural part of future practitioners' roles and helps support technology-enabled care.

At the heart of the hub's innovation, is the award-winning Dementia Care VR Programme, developed as part of a partnership with technology company Cadpeople to create a ground-breaking software programme which uses Virtual Reality to teach a key SQA Module in Dementia Care. This moved the Hub from being a physical entity to a digital learning framework and has supported the college in winning a contract with one of the biggest care providers in Edinburgh for dementia training for support workers. This highlights one of the key impacts of the Hub, as Caroline Hairs (the Head of School) explains:

The biggest priority when designing the spaces was about full-time students and students coming through school-college partnerships. It was about bringing learning to life for them, so that they come in, put their scrubs on, get into rooms and into character and learn about the professionalism. And that is all happening. But what has also happened is that regional employers are interested in our space. So, we have local authorities and NHS boards who are becoming increasingly interested in using our spaces for upskilling the existing workforce.

~ ***Caroline Hairs, Head of School***

As a result of the success of the Hub, the College now receives near-daily requests from external partners interested in the use of facilities and bespoke learning packages, demonstrating not only the Hub's potential in closing the regional skills gap but also in providing a future commercial income stream for the college.

With an increased focus on health and social care integration across Scotland, the Hub therefore enables the College to demonstrate the importance of health, social care, pharmacy, and other care areas working together and supports the college's ambition to provide a symbiotic and work-ready health and care workforce that supports the region's economic growth.

5. Widening access of education in Scotland

In line with the fifth pillar of Scotland's economic transformation strategy to support a fairer and more equal society, the work of colleges to widen access plays a significant role in broadening the accessibility of further and higher education to everyone.

The pillar aims to realign the economy towards wellbeing and fair work, deliver higher employment and wage growth, with the main aim to reduce structural poverty and improve outcomes for disadvantaged communities.

College's support of this is evident in the number of enrolments and completions by students who face barriers in their education due to certain characteristics or demographics.

In this section, we explore the work of colleges to widen access to further and higher education in Scotland.

Deprivation quintile

One of the main barriers to education in Scotland is location, particularly the deprivation and poverty rooted in many of the areas in Scotland.

The location of colleges is pivotal in Scotland, in order to bring education closer to all areas of the country, helping to make further and higher education accessible to everyone.

The 24 colleges are spread across 70 campuses in Scotland, with many having multiple campuses in several different areas.

Scotland's Index of Multiple Deprivation is the relative measure of deprivation in Scotland, which ranks an area's deprivation based on a number of factors such as crime, education and employment.

Table 10 shows that of the 70 college campuses in Scotland, 14 are located within the top 20% most deprived areas of Scotland, with a further 20 in the 40% most deprived areas.

Put simply, this means that around half of Scotland's colleges are located in areas with relatively high deprivation when compared to other areas across the country.

Table 10: College campuses located in top 20% and 40% most deprived areas in Scotland

	College	Campus
Top 20% most deprived areas	Ayrshire	Kilwinning
	Ayrshire	Ayr
	Borders	Galashiels
	Forth Valley	Falkirk
	Glasgow Kelvin	Easterhouse
	West Lothian	Livingston
	Dumfries and Galloway	Dumfries
	Fife	Glenrothes
	Forth Valley	Alloa
	Glasgow Clyde	Anniesland
	New College Lanarkshire	Motherwell
	UHI North Highland	Dornoch
	West	Clydebank
	West	Greenock
Top 40% most deprived areas	City of Glasgow	City
	City of Glasgow	Riverside
	Dundee and Angus	Arbroath
	Dundee and Angus	Kingsway
	Glasgow Kelvin	East End
	New College Lanarkshire	Cumbernauld
	Newbattle Abbey	Newbattle Abbey
	UHI Inverness	Balloch (School of Forestry)
	UHI Moray	Moray Street
	UHI Orkney	UHI Orkney
	UHI West Highland	UHI West Highland
	Edinburgh	Milton Road
	Fife	Kirkcaldy
	Fife	Rosyth
	Glasgow Kelvin	Springburn
	NESCOL	Aberdeen City
	SRUC	Aberdeen
	SRUC	Cupar
	UHI Shetland	UHI Shetland
	West	Paisley

Source: *SIMD 2020*

As well as bringing education closer to everyone in society, colleges also do well to support these individuals in achieving both further and higher education qualifications.

Chart 7 highlights that between 2013/14 and 2021/22, the completion rate of full-time further and higher education courses by those from the bottom 20% of the most deprived areas in Scotland was over 50%.

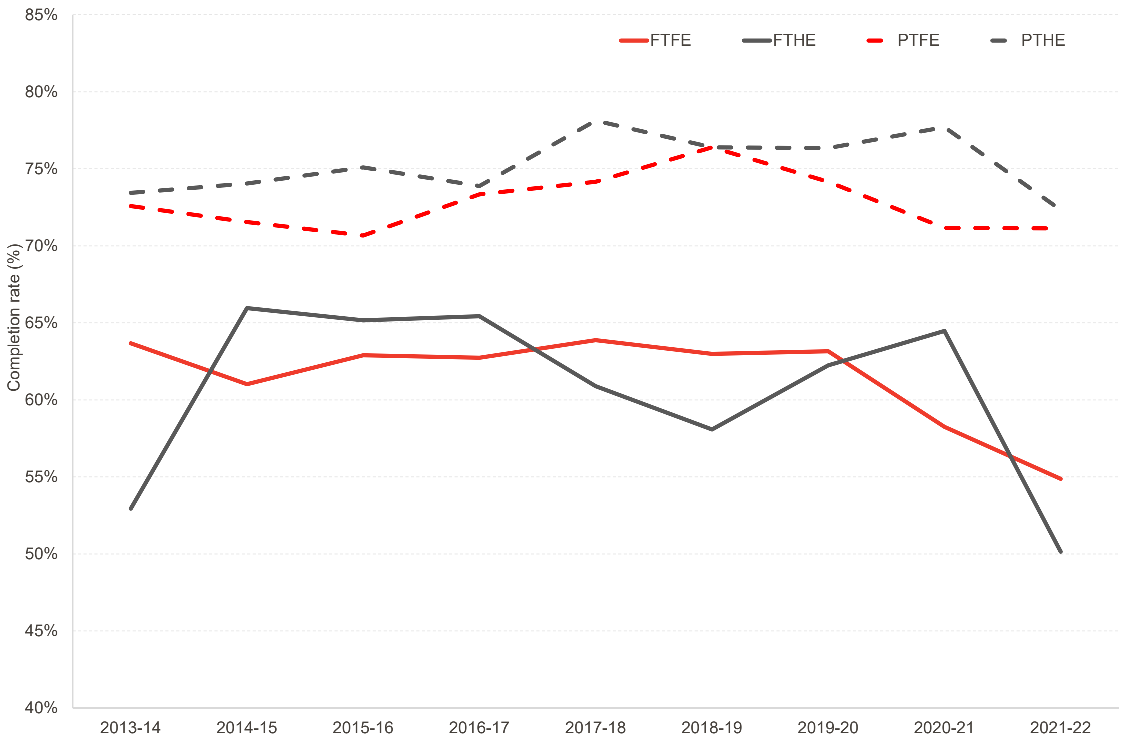
Completion of part-time courses was far higher for individuals from these areas, with a 71% completion rate for further education and 72% for higher education.

However, the significant impact the Covid-19 pandemic has had on individuals ability to complete further and higher education courses is evident, in particular for those from more deprived areas which have fallen around 8 percentage-points between 2019 and 2021.

A report by The Scottish Government in 2020 highlighted this issue further, showing that as many courses moved fully online, students from more deprived areas were more likely to be negatively impacted than peers given reasons such as access to IT, reliable Wi-fi and secure study spaces being more challenging for these individuals.

95% of individuals from the 20% most deprived areas, however, do reach a positive destination once leaving college, the same share of individuals from the top 20% least deprived areas, highlighting the opportunities colleges provide to close the attainment gap.

Chart 7: Completion rate of entrants at Scotland colleges from SIMD0-20 quintile, 2013/14 – 2021/22



Source: *Scottish Funding Council*

Furthermore, the role of colleges in providing opportunities for individuals to pursue further and higher education is also evident for those from more deprived areas.

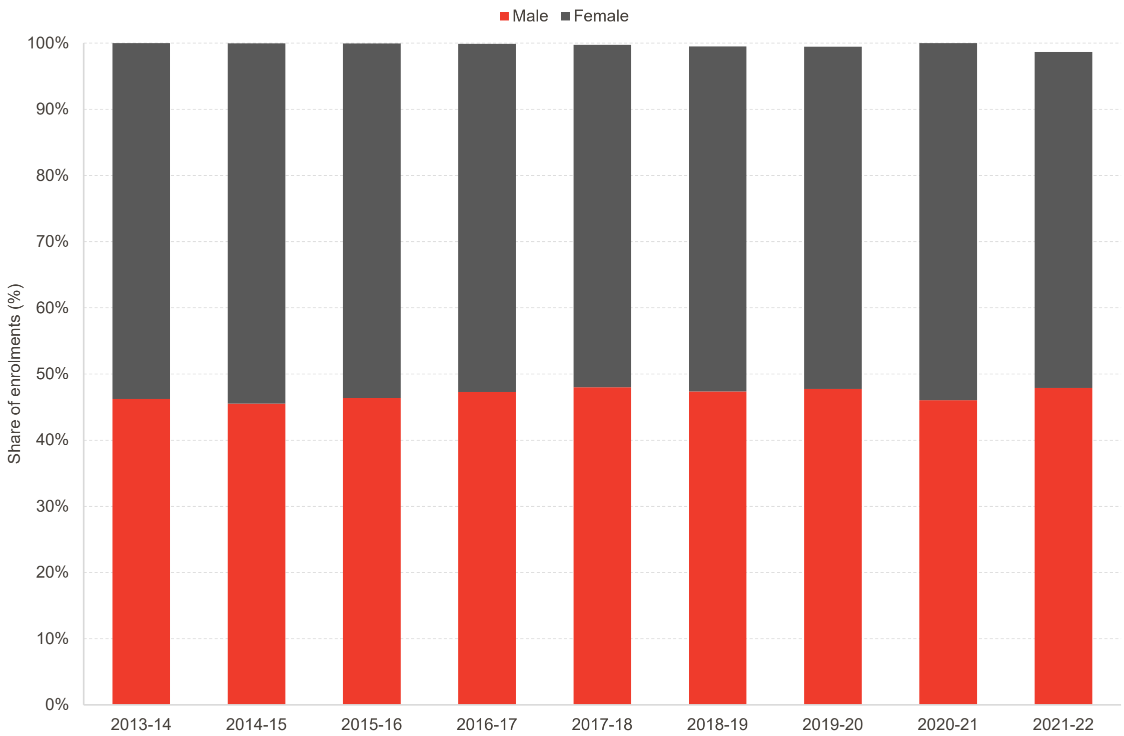
In 2021/22 there were around 5,600 first-degree entrants by Scottish domiciled students from the most deprived areas of Scotland, which had grown around 40% since 2015/16. Of these students, 46% entered university for their first degree through college routes.

Gender, ethnicity and disability status

Colleges also do well to maintain gender balance in their student cohorts. Chart 8 highlights that since 2013/14, the split of male and female enrolments has been relatively balanced, with slightly more females enrolled in full-time further education than males.

Both males and females were also equally likely to reach a positive destination after college, with 95% of individuals going onto a positive outcome.

Chart 8: Proportion of enrolments to full-time further education courses 160+ hours by gender, 2021/22



Source: *Scottish Funding Council*

College students are also diverse in terms of race and ethnicity.

60% of individuals from black and ethnic minority groups completed both full-time higher and further education courses in 2021/22, with this around 76% for part-time enrolments.

As part of its widening access commitments, colleges also offer accessible pathways to further and higher education to those with disabilities.

Economic inactivity is a pressing issue for both the Scottish and UK Governments. The inactivity rate in Scotland is higher than in the UK, with 22.3% of the Scottish working age population currently inactive compared to 20.8% in the UK.

One of the most common reasons for economic inactivity in Scotland is those with long-term illness or health conditions, with around 32% of working-age individuals inactive due to this reason.

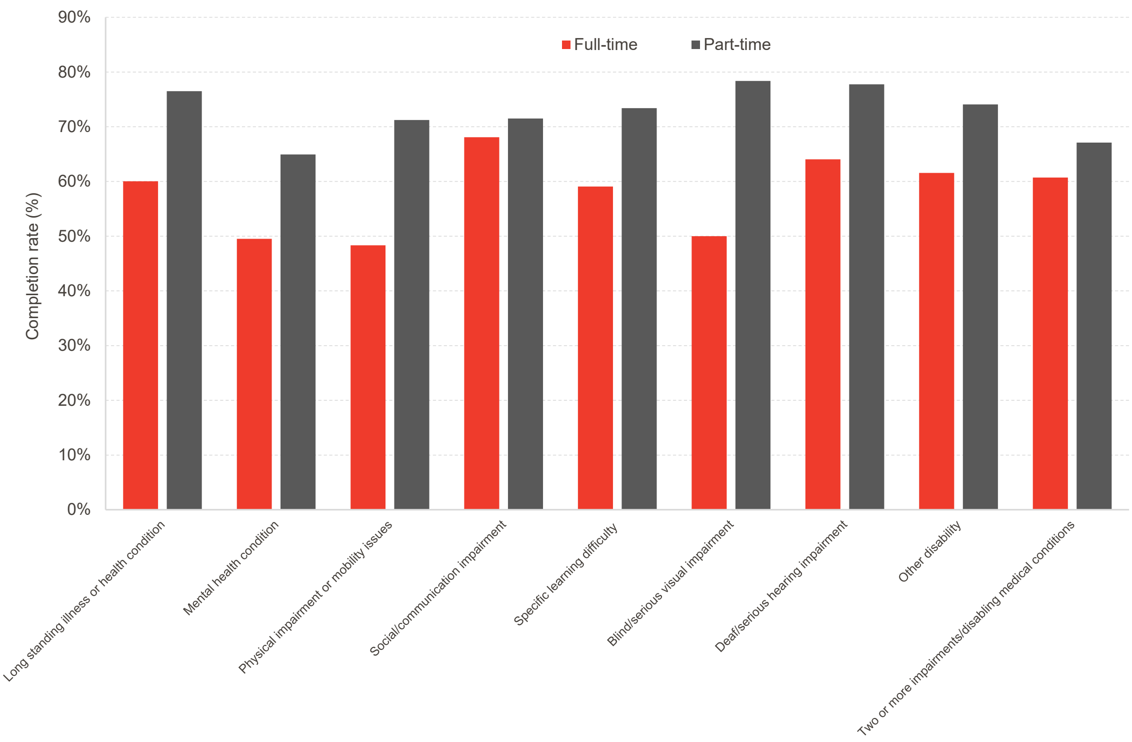
Individuals with disabilities face greater barriers to most education too, given reasons such as physical accessibility, inadequate funding opportunities and lack of one-to-one teaching, particularly in bigger education institutions with high student numbers.

Around 60% of individuals enrolling with a disability completed either full-time higher or further education. This increases to 70% when considering part-time education.

Further to this, the Fraser of Allander Institute has done extensive work into the [employment landscape for people with learning disabilities], with the research finding that employment outcomes for these individuals are poor, with little progress made.

Colleges directly support these individuals, with 73% of enrolments of people with specific learning difficulties completed in 2021/22. This was as high as 80% for those enrolling in part-time higher education courses, and 60% for those in full-time higher education courses.

Chart 9: Successful completion rates of further education courses by individuals, by disability, 2021/22



Source: *Scottish Funding Council*

Care-experienced young people

As part of the Scottish Funding Council's National Ambition for Care-Experienced Students, colleges in Scotland also have a requirement to aid the SFC in ensuring that there is no difference in outcomes between care-experienced and non-care-experienced students by 2030.

As part of this, the SFC commissioned a survey of care-experienced students in Scotland's colleges and universities, with a set of recommendations provided to assist the SFC in meeting their national ambition.

Care-experienced young people are far more likely to have a disrupted educational experience, with attainment not only linked to other health and economic outcomes but can also have negative implications for an individual's prospects in later life.

A report by the Scottish Government in 2019 found that despite many care-experienced individuals having positive experiences with the education system, 44% of these children left school at the age of 16, compared to 11% of all school leavers.

Further to this, only 39% of these individuals had one or more qualifications at SCQF level 5 compared to 86% of all pupils.

The same research found that in 2017-18, around 21% of cared-for young people were classed as unemployed nine months after school, highlighting the domino effect on education and labour force participation that being a care-experienced individual can have.

Colleges do well to provide opportunities to care-experienced people, particularly given their ability to provide both part-time and full-time higher and further education courses.

Further education also provides an opportunity for these individuals to attain qualifications that they may not have otherwise done at school, helping to close the attainment gap between care-experienced young people and their peers.

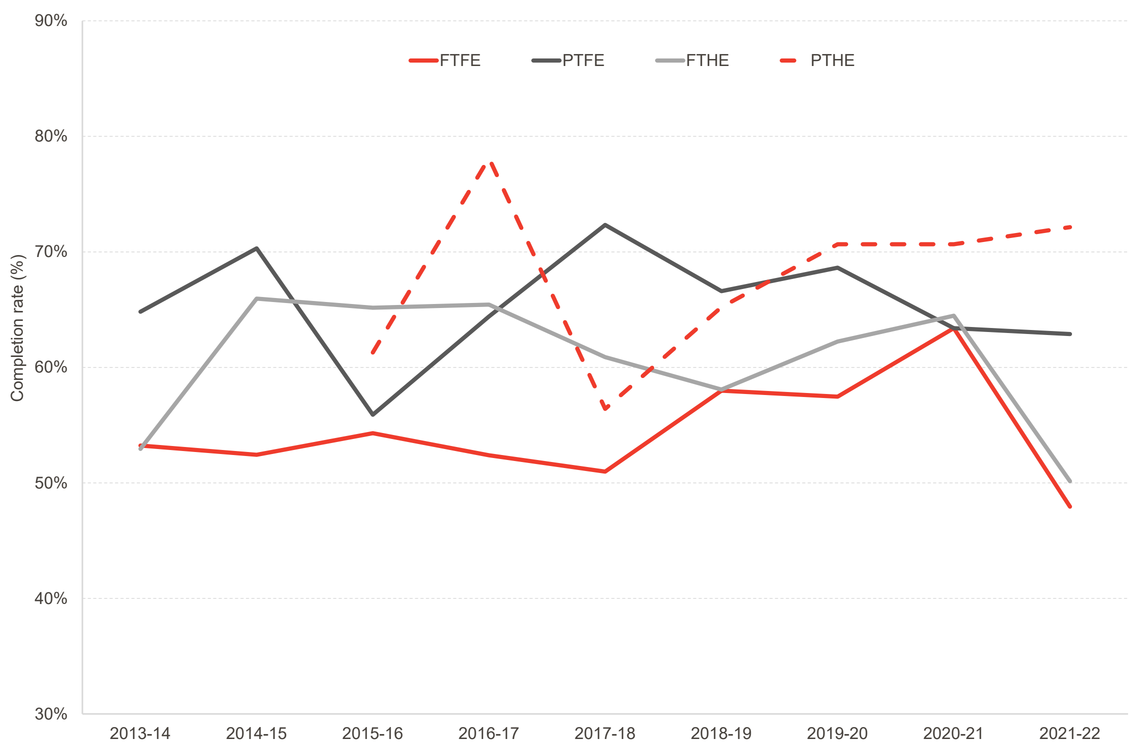
For 2021/22, completion of enrolments by care-experienced individuals was 72% for part-time higher education courses, with completion at 63% for part-time further education courses, Chart 10.

Furthermore, both full-time further and higher education courses had completion rates of around 50%.

However, despite a relatively high share of full-time and part-time completions between 2013 and 2021, the pandemic, again, had a significant impact on those individuals on full-time courses with caring requirements.

Care-experienced individuals were however highly likely to go onto a positive outcome after college, with 95% of these students going on to a positive outcome.

Chart 10: Successful completion rates by care experienced individuals, 2013/14 - 2021/22



Source: *Scottish Funding Council*

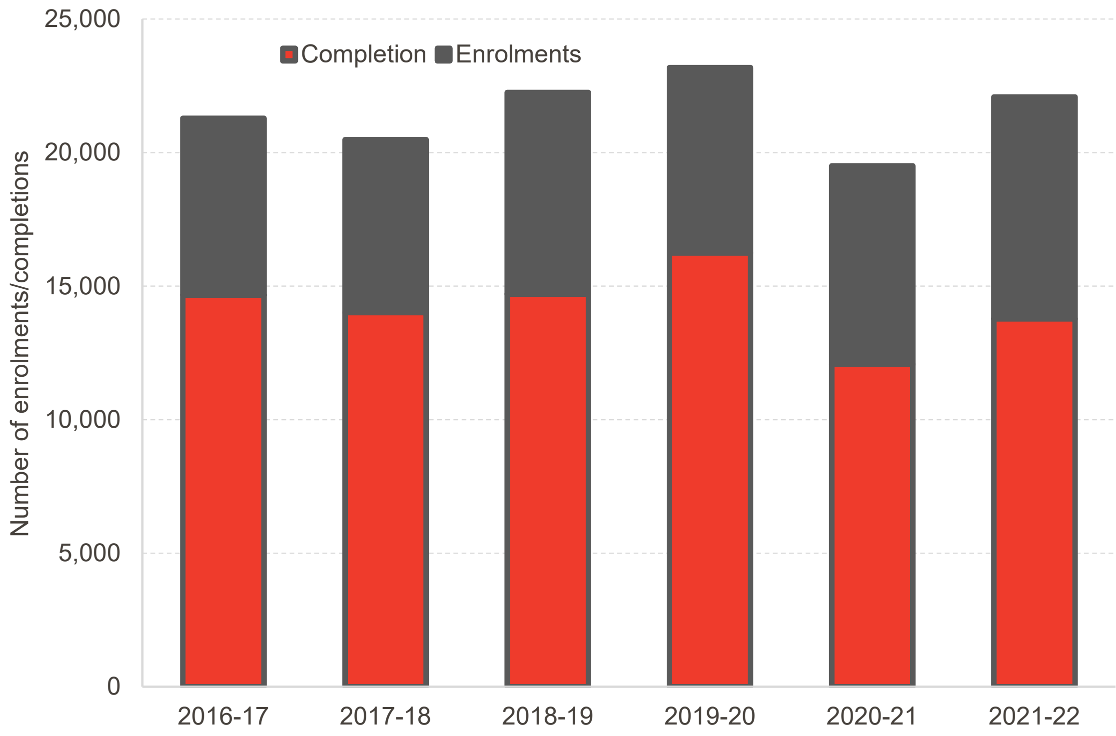
Schools outreach

Another way that Scotland's colleges meet their widening access ambitions is through their school's outreach programmes, delivering further education to students earlier in their learning experience to improve outcomes later in life.

There were over 20,000 school pupils enrolled in Scottish college courses in 2021/22, with around 62% of pupils fully completing these qualifications and a further 21% partially completing these courses, Chart 11.

By offering further education opportunities so early in a young person's life, colleges not only help to strengthen these individuals' skills and human capital, but also provide an opportunity to encourage students to pursue careers in professions where there are skill shortages.

Chart 11: School pupil college enrolment and completions, 2016/17 – 2021/22



Source: *Scottish Funding Council*

6. Productivity, Innovation and Entrepreneurship

With colleges located in all areas of Scotland, both rural and urban, the potential to boost skills and productivity across all regions is vital for colleges to support this pillar.

Boosting the productive and innovative capacity of Scotland's firms, industries, regions, communities and public services is the third pillar of Scotland's national strategy.

Colleges are anchor institutions within their regional economies, helping to drive regional economic and inclusive growth, attracting and retaining talent and expertise to all areas of Scotland.

Throughout this section, we find that:

- College spending helps to support an additional £225m in Gross Value Added (GVA) across the Scottish economy.
- When compared to the other 97 sectors of the economy, colleges have the second highest GVA-output multiplier, the measure of GVA supported per £1m of output.
- The college sector has the same GVA-output multiplier as the education sector, helping to support both growth regionally in the areas they are located and nationally in Scotland as a whole.

At present, there are 24 colleges across Scotland, offering both higher and further education opportunities to all individuals in most areas.

As part of The College Sectors Statement of Ambition these institutions are seen as a vehicle to accelerate strategic partnerships in an area, helping to boost growth locally and regionally, which in turn helps to boost national growth.

Recognising the strength colleges play in regional economies, the Scottish Government have set a number of regional partnerships between schools, colleges and employers.

For example, the Developing the Young Workforce Regional initiative has led to the creation of 21 industry-led regional groups with the aim to encourage and support employers to engage directly with schools and colleges to challenge and support employers to recruit more young people.

The location of colleges is crucial, both in terms of the accessibility it provides, but also the economic activity it helps to generate in that area.

Using our Input-Output model for the Scottish economy we estimate that college spend directly supports an additional £116 million in Gross Value Added, which rises to £225 million when we consider the wider spill over effects across the economy, Table 11.

Table 11: Number of recognised completions of qualifications by Scottish domiciled graduates by NVQ level, 2016/17 – 2021/22

	GVA
Direct	116
Indirect	34
Induced	75
Total	225

Source: *Scottish Funding Council*

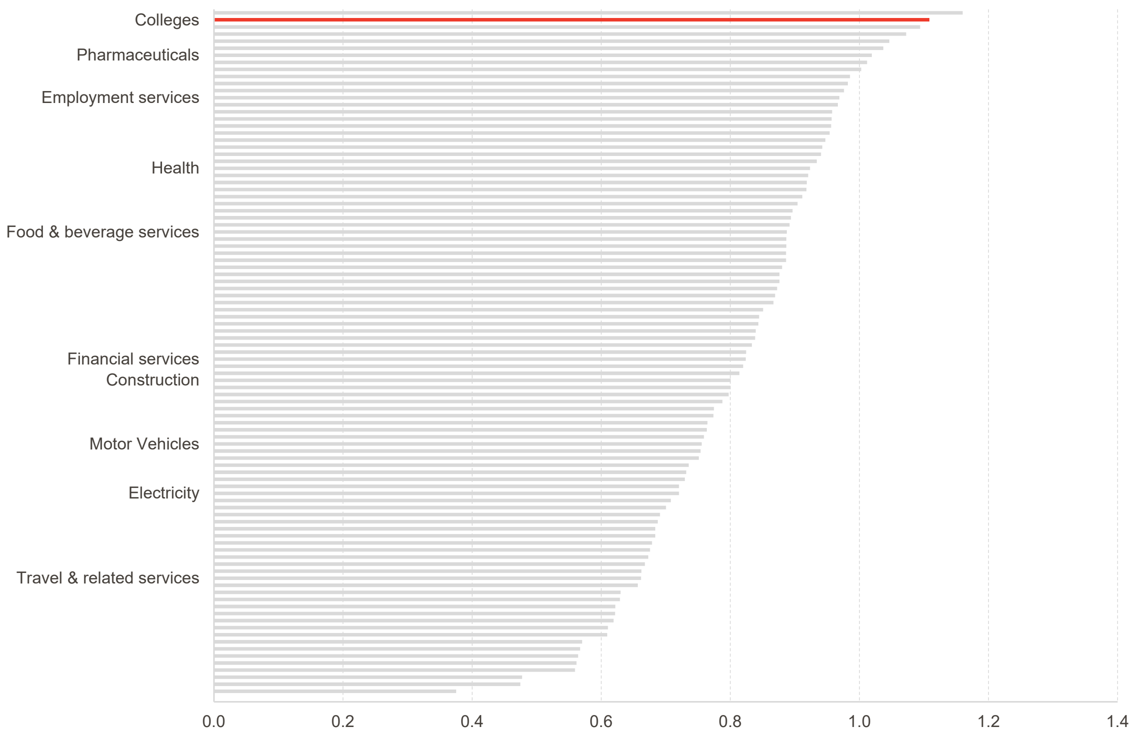
When compared to the other sectors of the economy, colleges are at the forefront of the economic activity they generate.

Chart 12 shows the GVA-output multiplier for colleges when compared to the 97 sectors of the Scottish economy[7]. This multiplier highlights the economic activity generated per £1m of spend by colleges.

Colleges rank 2nd with the same multiplier as the education sector, falling only behind the Security and Investigations sector.

This suggests that as an industry, colleges support significant amounts of value added within the economy, and hence generate substantial economic activity, both regionally where they are located, and nationally within the economy as a whole.

Chart 12: Comparison of Type II GVA-output multipliers across 97 sectors of the Scottish economy & college spend. Selected sectors labelled.



Source: *Scottish Funding Council*

7 The 'Households as employers' sector has been excluded as it is not a conventional industry.

CASE STUDY

Supporting regional economic growth through the development of the aerospace workforce, Ayrshire College

Ayrshire College's Engineering Centre provides a range of courses and bespoke training for those seeking to gain employment, change industry or advance their careers. The centre is known for its authority to carry out Civil Aviation exams, as well as providing specialist apprenticeship training to support the aerospace industry. These longstanding links with the industry were recognised when the College became a platinum partner of the Royal Airforce. In the future, the centre aims to build on these links by becoming a national composites centre for Scotland.

The above highlights the importance of Ayrshire College to the region's economic development. Aerospace engineering is an industry that is anticipated to grow in the years ahead and a crucial part of ensuring the region realises its economic potential lies in ensuring that this industry has the highly skilled workforce required to support that anticipated growth. Currently, this presents a challenge. As explained by Alastair Heron, Ayrshire College's Project Head of Aerospace, around 30% of the current engineering workforce is expected to retire in the next 10 years. At the same time, there are expected to be between 500 and 1300 new vacancies next year at Prestwick airspace cluster – a set of manufacturing, maintenance, repair, and overhaul companies at Prestwick airport. Other notable local companies are also growing. In the years ahead, Excel cables and satellite manufacturer, Mangata, for example, are planning to create 900 and 570 jobs respectively. While welcome, these developments raise the prospects of future skill shortages. Ayrshire College is therefore accelerating its efforts to meet this future skills demand by working on a more targeted approach to training and upskilling people locally and to supporting jobseekers in the Ayrshire area.

To do this, the college maintains a continuous dialogue with a range of employers and local companies and has developed a more strategic needs-discovery-based collaboration with industry partners. In practice, this approach means the college is in discussion with industry partners on the development and delivery of potential bespoke courses to supplement the College's mainstream offer. For example, the College also regularly holds meetings with Prestwick Airspace Operations Group (PAOG) aimed at servicing the Prestwick airspace hub – an important economic player on a national level.

Coupled with this approach, Ayrshire College also looks to address potential barriers to local people entering the industry by, for example, providing better information on job opportunities, delivering more specialised high-quality training, and offering more flexibility on the format and timing of classes. Alastair Heron suggests that the key to this employer engagement approach is communication around what the qualification needs of the industry are and the number of people likely to be required by the industry in the future. To illustrate this point, he gives the example of a partnership with Ryanair whereby three cohorts of learners trained in the evening, outside the normal college schedule.

Through this approach, Ayrshire College is acting as a key economic facilitator at a regional level, playing an active role in ensuring skills supply and skills demand are aligned in a way that both supports the economic development of the region and provides opportunity for people locally to pursue or develop their career in a growing industry.

Supporting Scotland's growth sectors

As well as the economic activity and growth colleges already supported, there are also opportunities for colleges to further support the Scottish Government in achieving its aims within the economic strategy.

In particular, as discussed in Section 3, the ability of college learners to develop skills and become better equipped for the labour market, can help the government address skills gaps and boost sectors where Scotland has a comparative advantage.

As part of its 2015 Economic Strategy, the Scottish Government identified six key growth sectors where Scotland holds a competitive advantage.

The strategy highlighted that if Scotland were to build on this existing strength in these sectors and harness their potential, then this could lead to increased productivity and economic growth.

These sectors include:

- Food and Drink
- Creative Industries (including digital)
- Sustainable tourism
- Energy (including renewables)
- Financial and Business Services
- Life Sciences

Colleges, given the variety of courses that they provide, are well suited to support the government in its ambition to harness the potential in these sectors.

In this section, we highlight the growth sectors in which colleges have a significant role to play in supporting the Scottish government to increase growth through its further and higher education offerings.

Food and Drink

The food and drink industry was identified given Scotland's strengths in agriculture, fishing and aquaculture, as well as the strong food and drinks manufacturing sector with goods such as whisky and fish exported globally from Scotland.

Sectors such as the manufacturing of food and beverage products, contain professions that colleges are already equipped to train people for.

The sector is a £15 billion industry in Scotland, employing over 120,00 people. Given this, the Scottish Government recently published an industry-led strategy for the food and drink industry in Scotland.

The strategy which aims to support a 25% increase in turnover for the sector by 2028, highlights restoring promotional activity to pre-pandemic levels, and recruiting and retaining a highly skilled workforce to adapt and tackle skill shortages in the sector.

Given the offerings of colleges in food and drink-related subjects, the opportunity for further and higher education to be a vehicle for highly skilled, enthusiastic individuals to support growth in the food and drink sector is high.

This is evident in Table 12, which highlights not only the breadth of related subjects available for study in Scotland's colleges, but also the identified growth sectors.

Between 2018/19 and 2021/22, there were over 21,000 completed qualifications in food and drink-related courses in Scotland's colleges, highlighting the high number of individuals entering the labour market trained with the appropriate skills to work in this sector.

In particular, the ability of colleges to boost skills whilst providing opportunities to gain the relevant experience before entering the labour market is invaluable.

This is evident in initiatives such as The Academy, based at the Kirkcaldy campus of Fife college. The restaurant provides dining experiences to the general public and is staffed by students as part of their coursework, meaning students can gain real-world experience of working within a hospitality setting.

Table 12: Growth sector and college course offering comparison in food and drink-related industries

Growth Sectors	College courses
Crop and Animal production, Hunting and related service activities	Baking/Dairy/Food and Drink processing
Fishing and Aquaculture	Cookery
Manufacture of Food products	Hospitality operations
Manufacture of beverages	Hospitality/catering
	Catering services
	Home Economics
	Food Sciences/Technology
	Food and Drink services

Source: *Scottish Funding Council, Scottish Government*

This is even more pivotal as the country looks to shift away from the reliance on oil and gas-related sectors in the face of its net-zero ambitions.

This shift means that the expectation for already strong sectors, like food and drink, will be to utilise its competitive advantage and help to support higher economic growth and employment across the economy.

Colleges, therefore, are already well primed to support both the government and sector in boosting economic activity, helping to train people with the appropriate skills and experience for a career in the food and drink industry.

Sustainable Tourism

This holds in tourism-related offerings too. Scotland has a thriving tourism sector, with its stunning scenery, historic landmarks, and thriving hospitality venues pitching Scotland as one of the most desirable locations to visit globally.

The sector in Scotland currently supports 200,000 jobs, generating over £4 billion in gross value added.

However in recent years, the sector has struggled, particularly over the pandemic, and the ongoing staff shortages seen across the industry.

Colleges already offer a plethora of courses such as Tourism and Travel and hospitality-based courses, helping to provide the essential skills for these individuals to support employment in tourism-related sectors.

Scotland is also currently working towards its Outlook for 2030 strategy, which sets the nations ambition to be the world leader in 21st century tourism.

Despite being set in March 2020, with the world plunged into the Covid-19 pandemic, the strategy was re-launched in November 2022, with input from most industry players as a means to place Scotland as a top tourist destination as we emerged from the pandemic.

As part of the strategy, a number of opportunities for Scotland were identified. Whilst most identified inward investment to Scotland and the means to make the country more attractive, two of the key opportunities were job creation in the sector and making the sector a career of choice.

In our recent article on the future of hospitality in Scotland, the institute found that despite 1 in 14 jobs in Scotland being in the food and accommodation sector, average pay was significantly lower than the Scottish average, with occupations in these sectors seen as less prosperous.

In order for long-term sustainability of these sectors, tourism-facing sectors must be seen as a lucrative career, with an attitude shift required, to see these industries as a long-term career path.

The need for this shift is evident in the 'Rise Fast, Work Young' campaign launched by over 300 businesses and successful hospitality leaders in 2022.

The strategy aims to tackle the significant shortages across the sector by highlighting the opportunities that come with a career in hospitality and attracting a new generation of workers.

Colleges therefore have a pivotal role in not only training future workers in these sectors with the appropriate skills and experience, but also keeping people in these jobs long term and ensuring the sustainability of the tourism sector.

However, they can also help to highlight the long-term positive careers that can be achieved in these industries, driving more individuals into tourism-related occupations and boosting growth in the sector.

Creative Industries

Perhaps some of the most impacted sectors in recent years are those related to creativity. The Covid-19 pandemic had a significant impact on the industry, particularly the arts, theatre and film and TV, as the shutdown of leisure venues, studios and film sets, ground the sector to a near standstill.

In recent years, the sector has been a key player within the Scottish economy, with over 15,000 firms employing more than 70,000 people, as well as a high number of free-lance workers and students also operating within the sector.

The Scottish Government have committed their support to the sector in recent years with the creation of Creative Scotland, the national public body for arts, screen and creative industries, as well as funding projects for film and TV production in Scotland.

One of Scotland's colleges' greatest offerings is the extensive range of courses covering a number of different art forms and creative courses.

Table 13 highlights the sectors defined under the government's growth sector definition for the creative industries, with a list of creative subjects offered currently by Scotland's colleges.

However, creative-related industries are unique, meaning whilst training and experience are essential, the ability to showcase talents or demonstrate your art is essential.

Colleges across Scotland do well to provide this platform, including:

- The provision of The Performing Arts Studio Scotland Theatre, The Music Box and CRE:8, all based at Edinburgh College, provides state-of-the-art facilities for students to use. These create an environment to encourage creativity and allow for talent to flourish[8].
- The delivery of Scotland's only Physical Theatre qualification provided at Fife College. Also the provision of Studio 38 Youth Theatre and Young Professionals, a group designed to offer fun and creative classes to help build confidence and develop new skills for young people pursuing creative professions[9].
- The delivery of a 2-year HND in Musical Theatre and Acting & Performance at North East Scotland College, the only performing art college in the North East of Scotland. The course offers the individuals to participate in weekly singing and choreography classes, and exposure to professionals who have performed in the West End, Broadway and mainstream media[10].

Table 13: Growth sector and college course offering comparison in creative-related industries

Growth Sectors	College courses
Advertising	Journalism
Architecture	Writing (authorship)
Visual Art	Musical Instrument Making/Repair
Crafts and Antiques	Music Technology/Production
Fashion and Textiles	Music Studies
Design	Communication/Media
Performing Arts	Arts and Crafts: Leisure/Combined
Music	Glass/Ceramics/Stone Crafts
Photography	Art Techniques/Practical Art
Film and Video	Music Performance/Playing
Computer Games	Art Studies
Radio and TV	Design (non-industrial)
Writing and Publishing	Moving Image/Photography/Media Production
Libraries and Archives	Print and Publishing
Software/Electronic Publishing	Fashion/Textiles/Clothing (craft)
Cultural Education	Decorative Metal Crafts/Jewellery
	Performing Arts
	Communication Skills
	Dance
	Theatre Production
	Theatre and Dramatic Arts
	Decorative Crafts
	Wood Cane and Furniture Crafts

Source: *Scottish Government, Scottish Funding Council*

8 See Edinburgh College
9 See Fife College
10 See North East College

Energy

Green skills will be at the heart of the Scottish Government's plan to reach net zero by 2045.

Colleges in Scotland are well placed to scale up the provision of these skills in areas that are critical to meeting the governments targets.

As part of this, the need to transition to more renewable forms of energy, and away from the use of fossil fuels in a bid to reduce emissions has become a priority for government.

However, at present, oil and gas-related industries support over 195,000 jobs in Scotland, with many of these occupations at risk of being left obsolete once the economy has fully transitioned to more renewable sources of energy.

This has posed substantial concerns for both these industries and the individuals working in them, with the need to upskill and retrain now a priority to ensure these individuals aren't left behind in the transition.

The role of colleges in aiding the Scottish and UK governments in this transition is crucial.

Mainly through their role in equipping individuals with the essential skills in the energy sector, whether that be through the provision of modern apprenticeship schemes, helping young learners develop the appropriate on-the-job skills whilst achieving qualifications, or via their specific courses such as oil and gas operations, offshore engineering and power/energy engineering.

However, it is not just their ability to service existing skills demand, but also the potential for colleges to implement the relevant skills and experience for individuals to pursue future 'green' jobs, in both their existing courses, but also the development of new courses.

One of the most cited issues with servicing these green jobs is the ability to define what these jobs actually are.

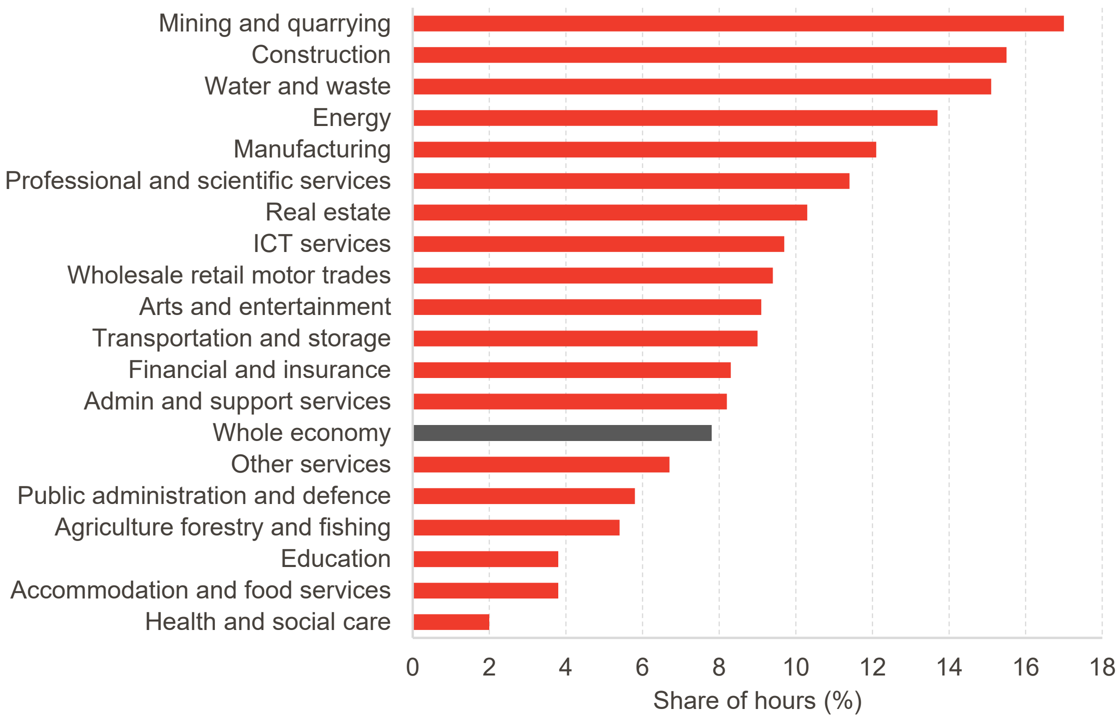
The Office for National Statistics has done extensive work to begin to capture jobs classified as green and understand what tasks within all roles are related to green initiatives.

Chart 13 highlights the share of hours worked that are spent on green tasks by industry for the UK as a whole in 2019.

These results highlight that occupations in Mining and Quarrying, Construction and Water and Waste have the highest proportion of hours worked, spent on green tasks.

However, this also shows that even in industries such as Health and Social Care, and Arts and Entertainment, there are still some parts of the occupations within them that require consideration for green-related tasks.

Chart 13: Proportion of hours worked spent on green tasks, by industry, UK, 2019



Source: *ONS*

When considering Chart 14, which highlights the share of completed qualifications by subject area, it is clear that some of the most commonly completed courses at colleges are in subject areas where occupations tend to have a higher share of hours spent on green tasks.

This is particularly evident for subjects such as engineering and construction, with around 1 in 10 individuals successfully completing courses in either of these subjects.

As well as this, despite occupations in sectors such as health and social care having a lower share of hours spent on green tasks, these are some of the most commonly completed courses at colleges.

Therefore, as the transition to net-zero continues, and the prevalence of green tasks increases, colleges are well primed to continually grow the 'green skills' base across all sectors.

Furthermore, in recent years colleges have recognised the emergence of specialised related occupations in the energy sector and have done substantial work to cater to the ever-changing needs of the industry.

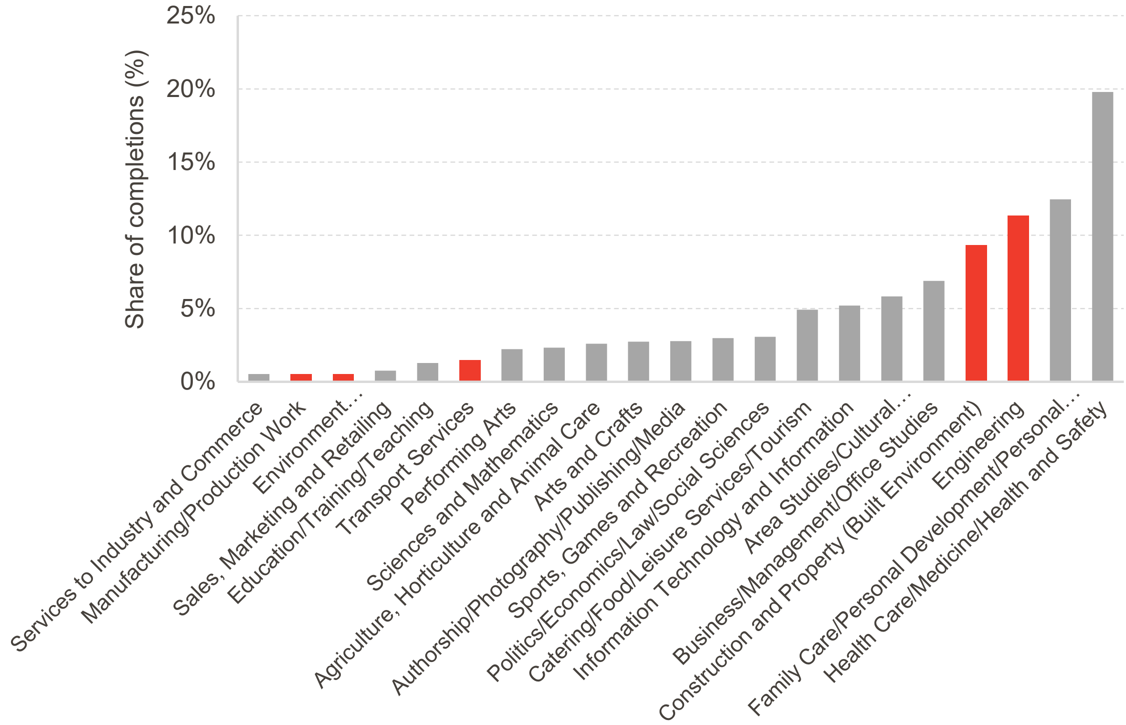
This is particularly evident in the offering of courses in more specialised areas such as environmental protection and conservation, environmental health and safety, and pollution control.

As well as this, the creation of The Renewables and Energy Efficiency Training Centre based at Edinburgh College is another example of how colleges are continually adapting the provision of green skills in Scotland.

The centre aims to provide students, apprentices and industry professionals with the relevant skills and experience required to build low energy homes and help to modify existing homes to be more energy efficient. This includes equipping students with skills to use ground source heat pumps, solar thermal systems and rain/grey water harvesting, among others, to ensure these individuals are provided the essential green skills to energy sector in its transition to net-zero.

This shows that colleges not only help to skill up more obvious industries servicing the energy sector such as construction and engineering, but are also helping to widen the underlying skills base to ensure all sectors are developing green skills in Scotland.

Chart 14: Share of completed successful college qualifications, 2018-19 - 2021/22, Scotland



Source: *Scottish Funding Council*

All of this means that as the Government's goals loom nearer, the role colleges have to play becomes more fundamental, with the need for them to understand the changing nature of skills and how the courses they offer can be tailored to equip the appropriate skills.

This was recognised as part of Scottish colleges' commitment to the climate emergency in the wake of COP26. The statement recognises what colleges have to offer in tackling the climate crisis, identifying 10 key actions.

These include deploying expertise and experience, and working with industries, public sector bodies and employers to improve working practices to make the planet safer.

Therefore, the role that both further and higher education has to play is fundamental to ensure that the government are supported in their net zero ambitions. In particular, it ensures that the skills and training offerings of colleges are continually developed to suit the ever-changing demand on the energy sector.

However, the government must also recognise this, allowing colleges to be part of the discussion on net-zero to ensure the transition is successful and most importantly, ensure that no individual is left behind and can develop the skills to integrate into the energy industry in Scotland.

Fostering innovation and supporting entrepreneurship

One of the key pillars of Scotland's strategy for economic transformation is to establish Scotland as a world-class entrepreneurial destination that seeks to encourage and support entrepreneurial activity in every sector of the economy.

Colleges play a significant role in fostering entrepreneurship in Scotland, given their ability to encourage innovation, teach and develop skills, and overall improve the human capital stock of college graduates.

As part of this aim to foster entrepreneurship, the government's first objective is to embed first-rate entrepreneurial learning across the education and skills systems.

The strategy aims to deliver this aim in the following ways:

- Promote the best available project-based entrepreneurial learning across the school and post-16 education curricula.
- Embed entrepreneurship in the Young Person's Guarantee to cultivate the business leaders of tomorrow.
- Adapt and review Scotland's apprenticeship system so that it is available for start-ups and early scale-ups to use.
- Develop an entrepreneurial campus infrastructure, working with the college and university sector to establish campuses as hotbeds of start-up creation.
- Develop innovative, industry-led pathways to redirect the best entrepreneurial talent into building new companies.

As well as this, the Scottish Government also recently published its National Innovation Strategy, setting out its vision to make Scotland one of the most innovative small nations over the next decade.

The strategy, which aims to build successful innovation clusters, boost investment in innovation and entrepreneurship, and raise productivity through innovative practices recognises the importance that both colleges and universities have to play in improving innovation in Scotland.

The role of colleges, in particular, their higher education offerings, was also recently recognised as a key driving force in creating entrepreneurial campuses across Scotland.

The Blueprint Report, conducted by Ross Tuffee and Professor Joe Little, sets out several actions required by higher education institutions over the next 10 years to help the government strengthen its entrepreneurial aims within the economic strategy.

These include inspiring young people to engage in entrepreneurial activity, establishing policies that support the development of an entrepreneurial mindset in students, and developing support networks for college and university spinouts for staff and students.

Further to this, when the Scottish Government set out its previous innovation and entrepreneurship strategy, Scotland: CAN DO, in 2013, The Scottish Funding Council also set out its ambition for the further and higher education sector to support this.

Over the past 10 years, this has involved setting up funded Innovation Centres across Scotland's universities and, the creation of the Converge Challenge, a programme for students, graduates and staff across Scottish Higher Education providers to accelerate their ideas into businesses.

CASE STUDY

Cross-college collaboration for more effective servicing of industry qualification needs in Scotland, UHI Inverness

Increasing demand for planning and development specialists, coupled with a large proportion of the existing workforce coming towards retirement age, has led a number of local authorities, especially in remote areas of Scotland, to consider ways to tackle the challenge of employing sufficient specialists with new building standards training. Against this backdrop, the Energy Skills Partnerships (ESP) approached UHI Inverness about the possibility of designing and delivering a new flexible qualification that would help to mitigate future skills shortages in the industry while also addressing the existing challenge of individual colleges in Scotland sometimes struggling to recruit a viable cohort in this subject area.

To do this, UHI Inverness partnered with Fife College to design and pilot the required training programme without creating an entirely new apprenticeship. The former already has a successful partnership with ESP, while the latter has longstanding experience in providing building construction apprenticeships in their locality. This unique collaboration was supported by Local Authority Building Standards Scotland (LABSS) and the pilot of the programme is currently in its first year of delivering training for a cohort of apprentices. The partnership sees Fife College deliver the HNC element online over two years while UHI Inverness supports the SQA assessment element, including the processes and reviews required by Skills Development Scotland.

The collaboration with LABSS ensures that there is industry support for the programme, with LABBS providing input on the development of the content, guest lecturers, and mentoring for students. Carrie Higgins, Tertiary Education Leader at UHI Inverness, suggests that, although they need to wait for the first cohort to finish the programme before assessing KPIs, early indications in terms of retention rate and feedback from apprentices and employers, as well as recruitment for the second cohort, point to the fact that the programme is delivering on its objectives.

The programme has also served as an effective case study of how targeted ESP-college partnership and cross-college collaboration can be effective both in directly addressing local economic needs and, at the same time, supporting colleges in preserving programmes that might otherwise be facing closure due to low student numbers. This has inspired plans to look at opportunities for future collaboration using this model. For example, UHI Inverness, UHI Argyle, UHI West Highland and Fife College have come together in response to a similar request from the Civil Engineering Contractors Association (CECA) for ESP support in addressing skills gaps in the civil engineering workforce in Scotland. In response, the four colleges have joined forces in designing a 6-month CECA Scotland Academy qualification. The division of workload in material development meant that colleges that had never delivered the programme before were able to use the expertise of colleges that have, including the opportunities to upskill their staff through the sharing of resources and best practices.

It is quite a breath of fresh air, and there has also been impact beyond the creation of these apprenticeships and opportunities. It has also kick-started a culture where college managers across Scotland are more open to work together, to share resources, which, to be honest, is the only way the colleges will be able to move forward. ~ ***Carrie Higgins***

In recent years, many reports have highlighted the disparity in investment for innovation between colleges and universities, particularly those home to innovation centres.

This was first highlighted in the Independent Review of Innovation Centres conducted by Professor Graeme Reid in 2016, and was again discussed in The Cumberford-Little report commissioned in 2020 by The Scottish Government.

In summary, these reports find that current investment in innovation is primarily funnelled into universities, and there is much less acknowledgement of the potential role that colleges could have as centres of innovation.

Colleges already help to foster innovation in a number of ways, including the support they provide to local businesses to innovate and improve their productivity, but are also enthusiastic to contribute more.

One way they do this is through the provision of Innovation vouchers which provide funding and support to help with the creation of relationships between small and medium enterprises, and colleges in Scotland.

These vouchers are often either specific to a product or process, helping individuals to develop their ideas into goods and services, or are provided to help firms develop their workplace processes and practices.

The Interface programme has helped to significantly boost the innovative capacity of Scotland's colleges over the past few decades.

The nationwide programme, which works with firms to match them to the academic expertise available within Scotland's further and higher education, provides funding and support to help build a relationship and foster new and innovative practises.

A great example of the success of this programme was the matching of James Frew Ltd, a large building services company in Scotland, with West College Scotland supported by an SFC innovation voucher[11].

This partnership utilised the expertise of West College Scotland to help James Frew Ltd design a new planning process for training staff, which involved the monitoring of certification renewals, the development of individual training plans, and the measurement of the impact of this training.

The consensus therefore is that in order to utilise the untapped potential of colleges as drivers of innovation, it requires a change in perception.

This change should see that in order to boost innovation and help create new and innovation products and processes, it will require an improved diffusion of skills and knowledge between business and education providers.

Colleges are therefore pivotal in helping to boost the diffusion of these skills and knowledge, through the partnerships already forged, but also through a better provision of support and funding to allow firms to benefit from the expertise and skills contained in colleges across Scotland.

11 See Interface

Next generation of entrepreneurs

As well as boosting investment in innovation and entrepreneurship, colleges also play a significant role in providing the necessary skills and experience to prime the next generation of entrepreneurs.

Table 14 highlights that there are several entrepreneurial and business-related subjects on offer at Scotland's colleges, with high levels of completion by students.

In particular, these subjects include courses in business-related subjects such as enterprises and financial management, but also more specific business courses such as E-commerce and marketing courses.

The ability for colleges to provide the essential learning and skills for future entrepreneurs, whilst also providing the appropriate funding to allow individuals to pursue their ideas, means they are well primed to support the Scottish Government in strengthening Scotland as an entrepreneurial nation.

Table 14: Number of completions by business and entrepreneurial subject, 2021/22

Subject Area	Course	Number completed successfully
Business/Management/Office Studies	Administration/Office Skills	2,050
	Business (general)	8,505
	Enterprises	205
	Financial Management/Accounting	2,335
	Financial Services	590
	Human Resources Management	1,180
	Management (general)	4,765
	Management Planning and Control Systems	290
	Management Skills (specific)	3,235
	Public Administration	615
	Typing/Shorthand/Secretarial Skills	120
Sales, Marketing and Retailing	E-commerce	25
	Marketing/Public Relations	625
	Retailing/Wholesaling/Distributive Trades	125
	Retailing: Specific Types	25
	Sales Work	20

Source: *Scottish Funding Council*

CASE STUDY

Supporting Business through Innovation and Knowledge Exchange, City of Glasgow College

Since 2017, City of Glasgow College (CGC) played host to the Institute of Innovation and Knowledge Exchange (IKE) – the UK's only professional body for innovators. The institute was set up to formalise the College's approach to innovation support and acts as an institutional link between the College, industry, and the business community, as well as being a key driver of the College's engagement with national economic priorities, opportunities and challenges.

The institute's activity at CGC started with the launch of a suite of professional development programmes featuring certification and accreditation that are offered to businesses and organisations looking to benchmark their innovation performance and capabilities. One of these, the Investor in Innovation certification, looks at an organisation's innovation strategy, culture, skills and capabilities, as well as how well the operating environment and user base are understood, and how innovation within the institution is measured. Following this programme, the IKE supports these private and public sector organisations with the internal development and improvement of their innovation skills and capacities.

As well as supporting local businesses in this way, IKE also allows the College to develop its own innovation activity and enhance its own innovation performance. As explained by Stuart McDowall, the Head of Innovation in STEM and the Institute's Manager:

Innovation, enterprise, and start-up support usually align more with universities rather than colleges. Therefore, the Scottish Innovation and Knowledge Exchange allows the City of Glasgow College access to wider support for things like innovation vouchers and external funds that then can help support the SME community, build new products, new services, new business models.

Although he admits that the scale is unparalleled to universities, through IKE, the City of Glasgow College makes their expertise and curriculum available to businesses and individuals who need academic support for the development of new products and services.

IKE now has several successful examples of this approach in practice. One former engineering student at CGC for example, came to IKE with a request for assistance relating to a mobile device set to monitor water quality, subsequently known as the Aquabot. The IKE team has worked with this new business and initially secured an innovation voucher through the Scottish Funding Council and Interface to help develop the first prototype. The project was recently taken to its next stage which involves building-in sensors for real-time data capture. This was done by approaching sensor technology innovation centre Censis and securing additional funds for the prototype, highlighting IKE's capabilities in supporting small businesses to tap into funding and expertise to drive forward innovative new products.

IKE also supports applied research. In 2019, CGC conducted a research project, with support from IKE, on oxygen depletion in enclosed spaces – a common issue on board ships. The project was funded through the Maritime Education Foundation and conducted by the College's Nautical and STEM faculty who ran a series of experiments culminating in a research paper that won the Research Project of the Year at the Herald Higher Education Awards in 2021.

These examples demonstrate the impact that IKE has had since its inception and hint at the potential for its expansion, through supporting more businesses and organisations to tap into expertise and funding to drive their ideas and innovations. This, coupled with the Institute's focus on applied research, is key to IKE's approach to addressing industry problems and identifying solutions, including closing skills gaps through workforce training and supporting innovation by acting as a hub for the development of new ideas. The College is now looking to expand its work in this area and is currently considering the development of an innovation centre at its Riverside campus. This would create more space for experimentation, the incubation of businesses, and pedagogical innovation development for curriculum teams – all of which CGC considers critical to expand its support for local businesses within Glasgow and beyond.

Conclusions

Colleges are a significant contributor to the Scottish economy, both in the highly skilled graduate cohorts they provide to the labour market and the economic growth their activity generates.

In this report, we modelled the economic contribution of a single and multi-year graduation cohort to Scotland's economy.

Our modelling finds that a single year of college graduates helps to boost labour productivity by 0.31%, making the Scottish economy cumulatively better off by £8bn in the long run when compared to an economy without the contribution of these graduates.

This uplift in productivity also boosts employment by 31,000 FTE jobs, and increases investment, real wages and exports across Scotland.

This makes government revenues £2.8bn better off in the long-run as a result of the productivity uplift. Given that in 2021/22, the Scottish Government via the Scottish Funding Council provided £740m in funding, we estimate that this accounts for 26% of the total uplift in government revenue and 9% of the uplift in GDP.

When considering multiple years of graduate cohorts we find that the uplift in labour productivity is 2%, which makes the economy £52bn better off than if this productivity uplift had not occurred.

This boost in productivity from these graduates also helps to support 203,000 additional FTE jobs.

Overall we find that the direct uplift in productivity from several years of college graduate cohorts helps to boost government revenues by £18.2bn in the long run.

Therefore, given that over the same period the Scottish Government via the Scottish Funding Council funded around £4.1bn, we estimate that the 'cost' to the government of supporting these graduates accounts for 22.5% of the total uplift in revenue and 8% of the uplift in GDP.

As well as this, we find that the money colleges spend helps to support additional Gross Value Added and employment across the economy.

College spending can be seen to support an additional £225 million in GVA across the Scottish economy, and on top of the 10,700 FTE jobs already supported within colleges, supports an additional 4,400 FTE Scottish jobs across the economy.

They also make a significant contribution to the wider sectors of the Scottish economy, particularly in terms of employment, with the 14th highest employment-output multiplier, and 2nd highest GVA-output multiplier, when compared to the other 97 sectors of the Scottish economy.

These results demonstrate the substantial economic contribution that colleges make in all sectors of the economy and highlight the crucial role colleges have to play in helping The Scottish Government meet the aims of their National Strategy for Economic Transformation.

This includes the continual provision of highly skilled and experienced individuals to boost the overall skills of the Scottish workforce, but also through their widening access goals to make education more accessible to under-represented groups in society and breaking down barriers to education.

Colleges are therefore fundamental to the prosperity of the Scottish economy on top of their role to ensure that every individual in Scotland has access to education and can achieve the qualifications that will allow them to lead prosperous lives.

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Nuffield Foundation

Higher Education Policy Institute

Examination of higher education fees and funding in Scotland

London Economics, 4th March 2024

Introduction

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Informing policy makers and the public ahead of the General Election.

- **Four separate policy notes on higher education fees and funding** published in February
- **Three other public events** - in London, Cardiff, and Belfast
- **Engagement with major political parties** to offer analytical support for policy understanding and development
- **Assessment of manifesto commitments** ahead of the General Election

We gratefully acknowledge the support of the Nuffield Foundation, which is funding this project.

Introduction

Higher education funding policy has diverged significantly since devolution.

	Summary by Home Nation		HEI income (relative terms)	Cost split Exchequer vs. students
	**England**	▪ Replacement of student grants with loans only ▪ High fees with low TGs	High	Cost mostly borne by students
	**Wales**	▪ Replacement of fee grants with generous maintenance grants ▪ High fees with low TGs	Medium	Roughly 50/50
	**Scotland**	▪ Very low fees (funded by grants) ▪ High TGs + student number controls	Low	Cost borne by Exchequer
	**Northern Ireland**	▪ Low fees (funded by loans) ▪ High TGs + student number controls	Low	Roughly 50/50

Ongoing challenges:

- Stagnant economy/ fiscal constraints
- Low fees/low unit of resource
- Student number controls in Scotland
- Policy environment/ international students
- Public understanding/ political constraints

Introduction

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HE funding is hugely complex. Today, we are covering four questions.

TODAY

- What is the impact of the current (2023-24) Scottish funding system on the Exchequer, HEIs, and students/graduates?
- How does this compare to England, Wales, and Northern Ireland?
- What would the adoption of the English fee system in Scotland look like?
- What would be the impact of introducing real loan interest rates under the Scottish system?

Our analysis is based on the **2023-24 cohort of first-year Scottish domiciled UG students studying anywhere in the UK** (including FT and PT and all types of UG qualifications). We include Scottish HE students enrolled at **UK HEIs *as well as* Scottish FE colleges**.

1

What is the impact of the current funding system on the Exchequer, HEIs, and students/graduates?

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Baseline (current system): Overview

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Compared to other Home Nations, the Scottish HE funding system is most complex:

CURRENT SYSTEM

- **Tuition fees of £1,820/£1,285** per FT first degree/sub-degree student in Scotland, and **£9,250** in RUK.
- **FT students**: Full **fee grants** in **Scotland** (free fees), and **fee loans** for students in **RUK**. **PT students**: **Means-tested fee grants** for students in Scotland (no fee support for PT students in RUK).
- **Means-tested maintenance loans + grants for FT students of up to £9,000** (irrespective of living circumstances). **No maintenance support for PT students**.
- **Repayment threshold of £27,660**, uprated with RPI inflation over time. Repayment rate of **9%** of earnings above this threshold. **0% real interest** (nominal interest = 0% + RPI). Repayment period of **30 years**.

Baseline (current system): Total costs for cohort

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Current system

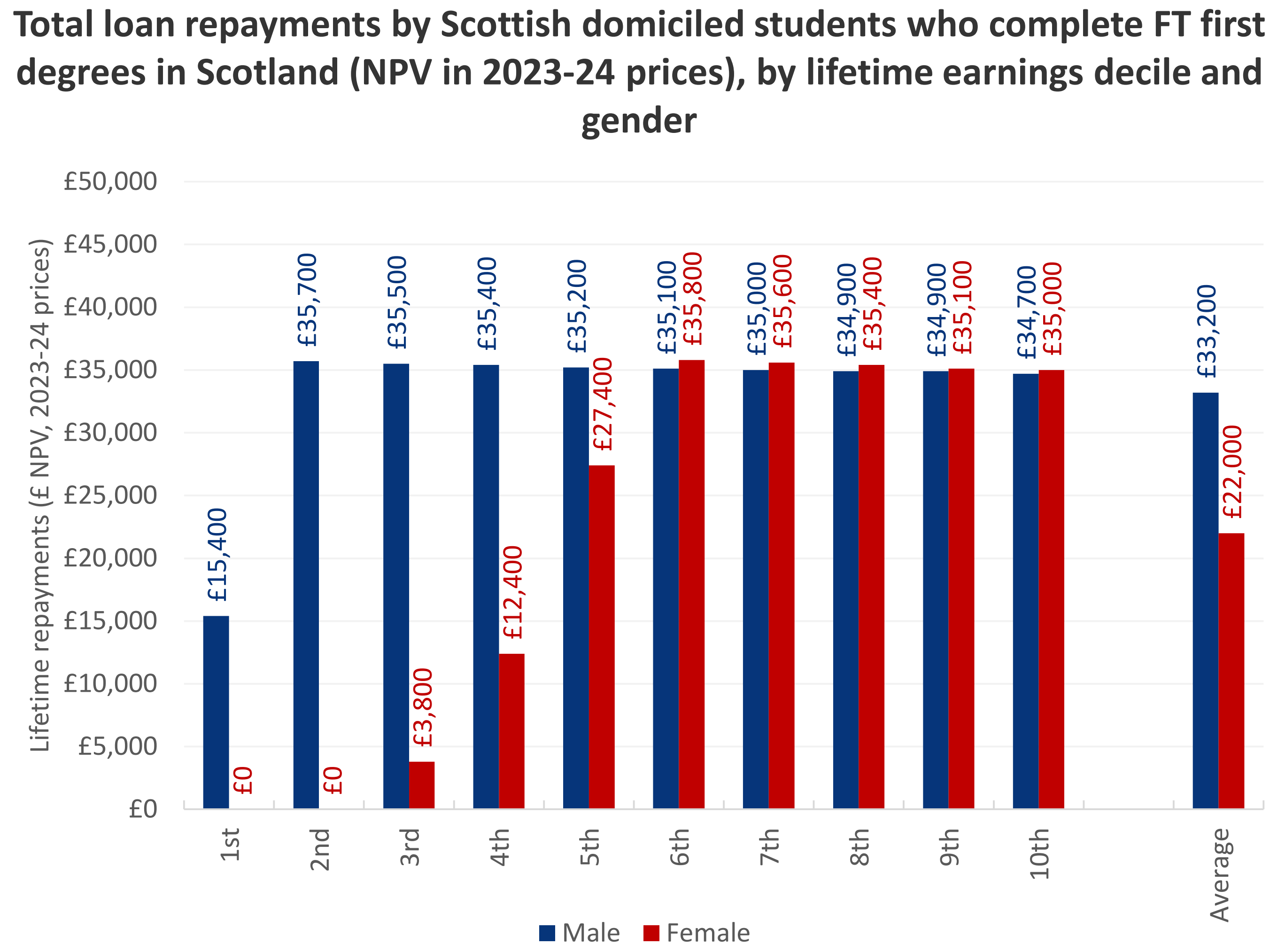
Resource flows (£/£m/%)	Baseline
Net Exchequer cost (adjusted for RAB)	
Cost of maintenance grants	(£76m)
Cost of maintenance loans	(£147m)
Cost of tuition fee grants	(£247m)
Cost of tuition fee loans	(£12m)
Cost of Teaching Grants	(£884m)
Total	**(£1,366m)**
RAB charge (%)	**20.6%**
Net HEP income (UK HEIs and Scottish colleges)	
Gross fee income	£326m
Teaching Grant income	£884m
Cost of bursary provision	(£1m)
Total	**£1,210m**
Students/Graduates (FT first degree students from Scotland studying in Scotland)	
Average debt on graduation	**£32,600**
Average lifetime repayments (M/F)	**£33,200/£22,000**

Note: All monetary values have been discounted to net present values and are presented in constant 2023-24 prices. Values per student have been rounded to the nearest £100, and totals have been rounded to the nearest £1m.

- The Exchequer currently contributes c.**£1.37bn per cohort** (**£9,130** per FT Scottish student at a Scottish HEI per year).
- **HE providers** receive **£1.21bn** in net income per cohort (**£7,870** per FT Scottish student at a Scottish HEI per year).
- The average **debt on graduation** per FT first degree student from Scotland studying in Scotland is **£32,600**.
- Average lifetime repayments stand at **£33,200** for male graduates and **£22,000** for female graduates.

Baseline (current system): Graduate loan repayments

Current system



- The current repayment system is **locally regressive**. Many graduates will repay **c.£35,000** over their lifetimes, irrespective of their earnings.

Note: All values have been discounted to net present values, are presented in constant 2023-24 prices, and have been rounded to the nearest £100.

2

How does the Scottish system compare with other Home Nations?

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How do the Home Nations differ in terms of funding? Substantially!

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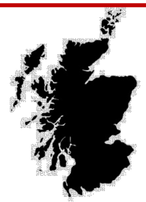
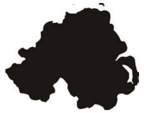
The public cost of the Scottish system is more than 5x that in England (highest in the UK), but Scottish HEIs receive 23% less income than English HEIs:

	Exchequer cost	HEI income
	**£1,630**	**£10,220**
	**£3,780** (>2x England)	**£9,290** (9% < England)
	**£9,130** (>5x England)	**£7,870** (23% < England)
	**£4,810** (c3x England)	**£7,620** (25% < England)

£ per full-time 'home' student per year in 2023-24

Item	English in England	Scottish in Scotland	Welsh in Wales	NI in NI
Net Exchequer cost per student				
Maintenance grants	-	£550	£3,800	£1,140
Maintenance loans	£240	£720	(£240)	£330
Tuition fee grants	-	£1,790	-	-
Tuition fee loans	£330	-	(£270)	£310
Teaching grants	£1,060	£6,080	£490	£3,030
Total	**£1,630**	**£9,130**	**£3,780**	**£4,810**
Net HEI income per student				
Gross fee income	£9,250	£1,790	£9,000	£4,710
Teaching grant income	£1,060	£6,080	£490	£3,030
Cost of bursaries	(£90)	-	(£200)	(£120)
Total	**£10,220**	**£7,870**	**£9,290**	**£7,620**

Note: All values are for 'home' domiciled full-time undergraduate students (including first degrees *and* other undergraduate) in the 2023-24 entry cohort (where 'home' domicile refers to English domiciled students studying in England, Welsh domiciled students studying in Wales, etc.). Values are rounded to the nearest £10.

How do the Home Nations differ in terms of funding? Substantially!

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Balance of total contribution between the Exchequer vs. students/graduates

	Exchequer	Students/Graduates
	16%	84%
	44%	56%
	113%	-13%
	51%	49%

- In **England**, most of the cost of HE is borne by students/graduates.
- In **Scotland**, students are effectively *paid* to attend HE (as they typically pay no fees but receive maintenance funding).
- In **Northern Ireland and Wales**, the split between Exchequer vs. student/graduate cost is roughly even.

Note: The balance of contribution between the Exchequer and students/graduates was calculated across *all* students in the relevant 2023-24 entry cohort of English, Scottish, Welsh, and Northern Irish domiciled undergraduate students (studying anywhere in the UK and including both full-time and part-time students).

3

What would be the impact of adopting the English fee system in Scotland?

Implementing the English fee system in Scotland

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To illustrate the impact of different aspects of the funding system, we model the **impact of applying the English fee system to Scotland** (i.e. removing free fees):

CURRENT SYSTEM

- **Tuition fees of £1,820/£1,285** per FT first degree/sub-degree student in Scotland, and **£9,250** in RUK.
- **Fee support for FT students**: Full **fee grants** in **Scotland** (free fees), and **fee loans** for students in **RUK**.
- **Fee support for PT students**: **Means-tested fee grants** for students in Scotland (no fee support for PT students in RUK).

APPLYING THE ENGLISH FEE SYSTEM IN SCOTLAND

- **Increase in fees to £9,250 per FT student in Scotland.**
- Fee increase backed by **fee loans for all students** (and no more fee grants).
- **Reduction in SFC Teaching Grants paid to Scottish HEIs and FE colleges** (to account for the increase in fees).

Implementing the English fee system in Scotland

English fee system (higher fees + lower TGs in Scotland)

Resource flows (£/£m/%)	Baseline	English fees	Difference
Net Exchequer cost (adjusted for RAB)			
Cost of maintenance grants	(£76m)	(£76m)	-
Cost of maintenance loans	(£147m)	(£233m)	(£85m)
Cost of tuition fee grants	(£247m)	-	£247m
Cost of tuition fee loans	(£12m)	(£433m)	(£421m)
Cost of Teaching Grants	(£884m)	(£70m)	£815m
Total	**(£1,366m)**	**(£812m)**	**£554m**
RAB charge (%)	**20.6%**	**31.7%**	**+11.1 pp**
Net HEP income (UK HEIs and Scottish colleges)			
Gross fee income	£326m	£1,556m	£1,230m
Teaching Grant income	£884m	£70m	(£815m)
Cost of bursary provision	(£1m)	(£1m)	-
Total	**£1,210m**	**£1,625m**	**£416m**
Students/Graduates (FT first degree students from Scotland studying in Scotland)			
Average debt on graduation	**£32,600**	**£69,900**	**£37,300**
Average lifetime repayments (M/F)	**£33,200/£22,000**	**£64,600/£36,800**	**£31,400/£14,800**

Note: All monetary values have been discounted to net present values and are presented in constant 2023-24 prices. Values per student have been rounded to the nearest £100, and totals have been rounded to the nearest £1m.

- The Exchequer costs would ***decline substantially*****, by £554m** per cohort **(41%)**.
- The RAB charge would **increase by 11.1pp.**
- Scottish HEP income would ***increase*** **by £416m** per cohort (34%). RUK HEIs would be unaffected.
- The average debt on graduation per FT first degree student studying in Scotland would increase by **£37,300**.
- Average lifetime repayments would increase by **£31,400** for male graduates and by **£14,800** for female graduates.

Implementing the English fee system in Scotland

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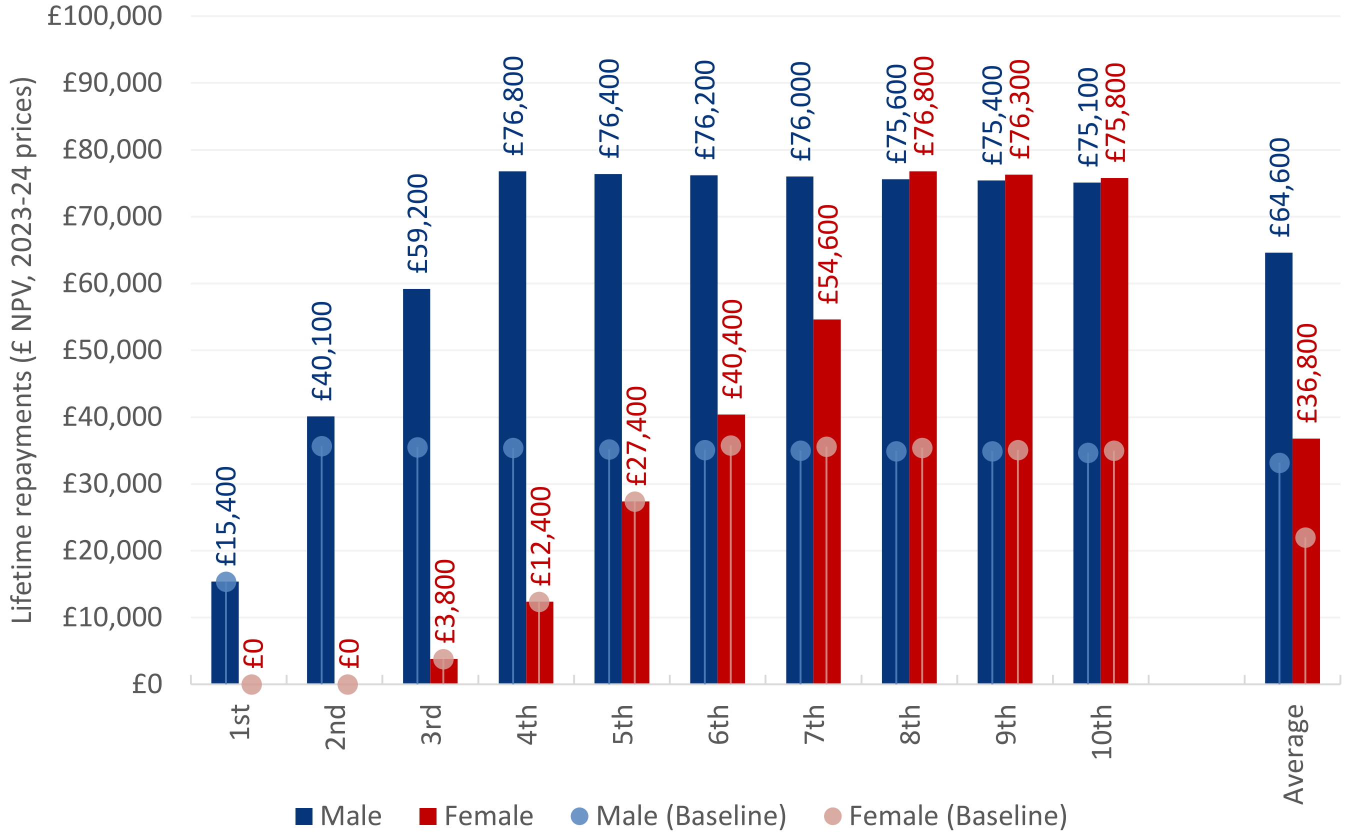
English fee system (higher fees + lower TGs in Scotland)

Total loan repayments by Scottish domiciled students who complete FT first degrees in Scotland (NPV in 2023-24 prices), by lifetime earnings decile and gender



- Lifetime repayments would ***increase*** **(substantially) for middle- and high-income graduates.**
- In contrast, **graduates at the lower end of the income distribution would be *unaffected*.**
- This is one of the (many) widely misunderstood aspects of the HE fees and funding system.

Note: All values have been discounted to net present values, are presented in constant 2023-24 prices, and have been rounded to the nearest £100.

4 What would be the impact of introducing real interest rates?

London Economics

Introducing real interest loan rates

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Finally, we also consider how much the Exchequer cost would be reduced under the **introduction of real loan interest rates**:

CURRENT SYSTEM

- **Repayment threshold of £27,660**, uprated with RPI inflation over time.
- **Repayment rate of 9%** of earnings above this threshold.
- **0% real interest** (nominal interest = 0% + RPI).
- Repayment period of **30 years**.

INTRODUCING REAL LOAN INTEREST RATES

- **Real loan interest rate of 1% during study; 0%-1%** post-graduation for earnings **between £27,660 and £47,660**; and **1%** for earnings of **more than £47,660**.
- All other repayment terms are the **same as under the current system**.

Introducing real interest loan rates

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Introducing real loan interest rates

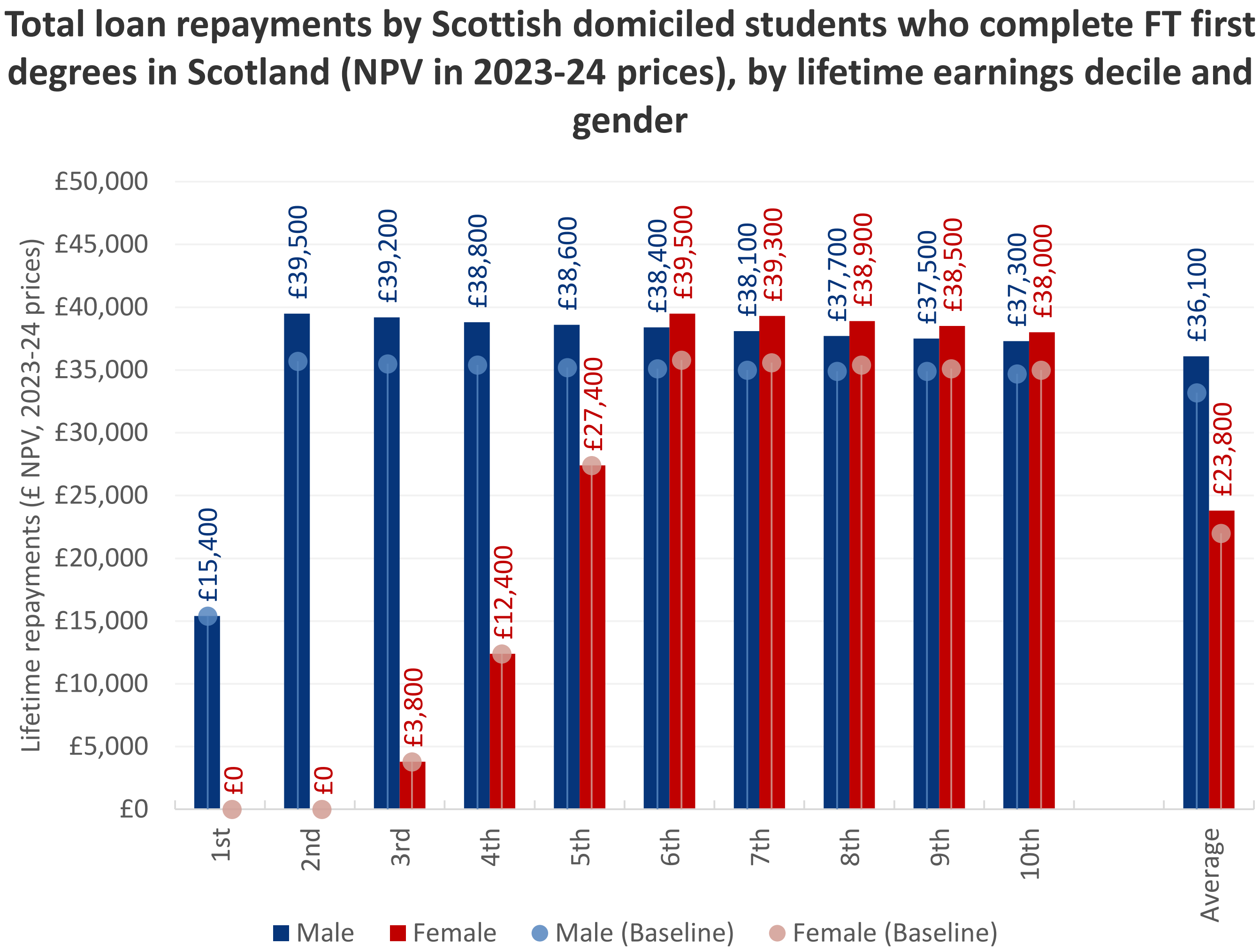
Resource flows (£/£m/%)	Baseline	Real loan interest	Difference
Net Exchequer cost (adjusted for RAB)			
Cost of maintenance grants	(£76m)	(£76m)	-
Cost of maintenance loans	(£147m)	(£104m)	£43m
Cost of tuition fee grants	(£247m)	(£247m)	-
Cost of tuition fee loans	(£12m)	(£9m)	£2m
Cost of Teaching Grants	(£884m)	(£884m)	-
Total	**(£1,366m)**	**(£1,321m)**	**£45m**
RAB charge (%)	**20.6%**	**14.7%**	**-5.9 pp**
Net HEP income (UK HEIs and Scottish colleges)			
Gross fee income	£326m	£326m	-
Teaching Grant income	£884m	£884m	-
Cost of bursary provision	(£1m)	(£1m)	-
Total	**£1,210m**	**£1,210m**	**-**
Students/Graduates (FT first degree students from Scotland studying in Scotland)			
Average debt on graduation	**£32,600**	**£33,000**	**£400**
Average lifetime repayments (M/F)	**£33,200/£22,000**	**£36,100/£23,800**	**£2,900/£1,800**

Note: All monetary values have been discounted to net present values and are presented in constant 2023-24 prices. Values per student have been rounded to the nearest £100, and totals have been rounded to the nearest £1m.

- **Real interest rates of up to 1% would only have a relatively marginal impact.**
- The Exchequer costs would ***decline* by £45m** per cohort (**3%**).
- The RAB charge would **decline by 5.9pp.**
- **HE providers would be unaffected.**
- The average debt on graduation per FT first degree student in Scotland would increase by **£400**.
- Average lifetime repayments would increase by **£2,900** for male graduates and by **£1,800** for female graduates.

Introducing real interest loan rates

Introducing real loan interest rates



Note: All values have been discounted to net present values, are presented in constant 2023-24 prices, and have been rounded to the nearest £100.

- Again, **middle- and high-income graduates would repay *more*** - but much smaller increase than under the introduction of the English fee system.
- **Graduates at the bottom of the income distribution would again be *unaffected*.**
- As with fees, the impact of changing loan interest rates is often misunderstood.

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Conclusion

Conclusion

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CURRENT UNDER-FUNDING

- Current system of free fees + high TGs with student number controls
- Huge public cost of the system (>5x as high as England) - *but* Scottish HEIs are underfunded (23% less income than English HEIs)
- Large real-terms erosion of HEI resource over time

PUBLIC FUNDING CONSTRAINTS

- Significant pressures on Scottish Budget (e.g. 3.6% cash-terms cut in HE resources in 2024-25 budget[1] alone)
- Very difficult decisions on how to allocate limited resources

POLICY OPTIONS?

- Wide range of potential policy options to consider
- Will need to be thought through carefully: Even 'small' changes have large impacts, and winners and losers are not intuitive
- No short-term 'sticking plasters'

[1] Institute for Fiscal Studies (2024). 'Scottish Budget: Higher education spending' (here).

Thank you.

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Full details of all the publications produced as part of this project are available here:
https://londoneconomics.co.uk/blog/publication/general-election-briefings-examination-of-higher-education-fees-and-funding-across-the-uk/

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UCU Scotland briefing for the Education, Children and Young People Committee: Pre-budget scrutiny

About UCU

The University and College Union (UCU) is the largest trade union in the post-16 education sector in the UK, representing 110,000 academic and related members across the UK, and is the largest union in the higher education sector in Scotland with 9,000 members in Scotland's universities.

UCU represents academic workers (including lecturers, researchers, professors, teaching fellows, graduate teaching assistants, post-graduate researchers and other "early careers" academics, etc.), as well as professional support staff (including librarians, administrators, IT staff, student support staff, human resources staff etc.) in Scottish higher education institutions. UCU does not organise in the college sector in Scotland and our submission therefore focuses on higher education funding and sustainability.

Higher education funding and cuts: A decade of underinvestment

The current financial settlement for higher education for academic year 2024/25 comes on the back of year-on-year real-terms cuts. UCU represents staff in Scottish universities. While we have an obvious interest in the state of the higher education estate and the capital budget, our primary interest in the budget is in the revenue rather than capital side, and the teaching grant and research funding which are the main financial contributors to delivering education and maintaining the jobs that provide higher education. Universities Scotland in its submission[1] to the Scottish Government ahead of the draft 2024/25 budget quoted research showing that Scottish universities had seen a decade of underinvestment for both teaching and research, with funding per student falling by 39% in real terms, and the Scottish Funding Council's (SFC) Research Excellence Grant – the main research source of funding at a Scottish level – falling by 43% in real terms since 2014/15.

Regrettably the most recent budget did absolutely nothing to address this underfunding, instead it cut the resource budget by 5.9%. In this context we have the SFC indicative funding allocation leaving universities to work through cuts. Funding for teaching, research and innovation is cut for academic year 2024/25 for all institutions in real-terms with absolute cuts of up to 7.8% for the majority of

[1] https://www.universities-scotland.ac.uk/wp-content/uploads/2023/10/Publication-Budget-Case-for-2024-FINAL.pdf

institutions (12 out of 19). Even those receiving an increase, not taking into account inflation, saw only a very small increase with only one getting more than 1%. UCU is deeply concerned at the impact these cuts will have upon universities and the teaching, student support, research and knowledge exchange they deliver.

UCU is often critical of university senior management and the decisions taken, nevertheless, we can see the immense financial challenges that are currently being faced year on year given the diminishing budget. The cuts of the magnitude seen over the past decade, and currently being compounded in this year's budget, are inevitably impacting upon staffing levels, jobs and workload, and on the student experience. Poor management decisions are often the root cause of universities needing to make cuts, but at least some responsibility for the current round of job losses, job insecurity, and increasing workloads, lies at the door of Scottish Government ministers.

While we do not agree on everything, Universities Scotland, as the collective body representing Scottish university principals, and UCU, representing academic and related staff, have consistently argued that the current level of underinvestment in the university sector is unsustainable. We cannot maintain world leading higher education on a reducing budget. Both our organisations say that if politicians and ministers want Scottish higher education to maintain its international reputation then it needs to be properly funded.

Post 92 universities and the Scottish Teachers Pension Scheme

A worrying consequence of the most recent cuts to the higher education sector is the impact on the modern post-92 institutions. These institutions are more reliant on public funding given their higher dependence upon Scottish domiciled students than the pre-92 institutions, and they have traditionally done much of the heavy lifting on widening access, ensuring that students from non-traditional backgrounds, reach, progress and graduate successfully from their institutions. Post-92 universities by law enroll their teaching staff in the Scottish Teachers Superannuation Scheme (STPS). STPS is a government backed pension scheme and while the Scottish Government and Scottish Public Pensions Authority administers the scheme and there is a Scheme Board, the UK Treasury has the final say on the scheme. The recent STPS valuation has led to the employer pension contributions to STPS increasing by 3% bringing it to 26%, this is on the back of a previous increase in employer contributions back in 2019 when the employer contribution was 17.2% In 2019, UCU along with Universities Scotland asked the Scottish Government to support post-92s to cover the additional pension costs, which was agreed. Universities Scotland and UCU adopted the same approach in 2023, and in October wrote to the higher education minister seeking Scottish Government support for post-92s for the further increases.

The SFC announcement of the indicative funding allocations on 18 April 2024 was the first substantive response to us on the STPS issue, that there would be no new money and, worse, that the 2019 money was being withdrawn. This is deeply disappointing and something that UCU described as 'a slap in the face for post-92 universities and the vital widening access work that they do...'.

Impact of cuts

The funding pressures on institutions have become more apparent over the past year where job insecurity in the sector has risen. Voluntary severance schemes have been open at the University of Aberdeen, Glasgow Caledonian University, Queen Margaret University and Robert Gordon University. The scheme at Aberdeen saw threatened industrial action over cuts to modern languages which was only lifted when the threat to jobs in modern languages was lifted. The voluntary severance scheme there, as elsewhere, continued and comes on top of disputes and job cuts in 2023 including at University of the Highlands and Islands where at least 22 jobs were lost and others faced redeployment in the university's executive office. When the University of Aberdeen finally published its accounts for 2022-23 in May 2024, the extent of its financial crisis was apparent for all to see. Auditors[2] had flagged up their concerns at the institution's financial recovery plan, a document that has not been shared with UCU. The Scottish Funding Council's report[3] on financial sustainability of universities in January 2024, similarly flagged up a concerning picture for many institutions in Scotland.

The voluntary severance schemes, the redundancies, and the non-renewal of fixed term contracts that is happening across the sector, represents a deeply worrying hollowing out of the educational offer and student experience at each institution. The university sector is a people-dependent business, and once jobs go, there is a reduction in the teaching and support offered to students, and an impact on the breadth of research being carried out. Diminutions in capacity harm both the institutions and the reputation of Scotland and increases the ratio of students to staff. For the staff who remain, experience shows that already excessive workloads become even more unsafe, with resulting impacts upon health and wellbeing. Back in 2021 UCU's workload survey[4] revealed that staff in higher education are working on average more than 2 unpaid days a week, with subsequent impacts upon wellbeing.

Defending and protecting members' jobs is core trade union business but it is also important to defend staff numbers in universities because higher education is largely a people dependent activity and cutting staff numbers diminishes the

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[2] https://www.scotsman.com/education/aberdeen-university-has-warned-financial-pressures-could-leave-its-future-in-significant-doubt-4635636

[3] https://www.sfc.ac.uk/wp-content/uploads/2024/01/202312_FinancialSustainbability_Universities.pdf

[4] https://www.ucu.org.uk/media/12905/UCU-workload-survey-2021-data-report/pdf/WorkloadReportJune22.pdf

quantity of the teaching, research and knowledge exchange taking place. For example, a priority for both universities and the Scottish Government is the fair access of students to university and, critically, their retention to successfully complete courses and degrees. Staff have a crucial role in this, and if student to staff ratios increase then this impacts upon the student experience. We know that students from non-traditional backgrounds do need more one-to-one academic and pastoral support to access, progress and complete their studies, and we also know that post-pandemic, students are coming to higher education with lost learning, mental health anxieties and more complex needs. So, at a time when budgets are being reduced, the demands placed on universities and the staff delivering education and student support have never been higher.

The Scottish Government regularly declares that the public purse is not the only source of funding for higher education and that government provides over £1billion of public funding to higher education annually. Both are true, but the fact is that a decade ago they were citing the same £1billion figure while inflation and costs have risen year-on-year. As to other sources of income, universities have been adept at leveraging other sources of income including recruiting internationally. While the international nature of higher education and the benefit culturally and educationally that students from outside Scotland and UK bring is well documented, this cannot be a long-term or growing solution and, as can be seen currently, overreliance on international fee income puts at risk security of funding as a result of circumstances outwith universities' control, such as the political and economic situation in students' home countries and the policy decisions of the UK government on immigration and student entry to the UK. In addition, it is concerning that international students are viewed primarily as an income source because of the substantially higher fees they can be charged over that paid by students from the rest of the UK. Universities competing with one another, globally, for international students has simply moved higher education further towards an increasingly competitive, marketised system which does not reflect the purpose and value of education or do anything for the sector in the long term.

As a side note, and notwithstanding the current imbalance necessitating cross-subsidisation, it is worth pointing out that many politicians in the Scottish Parliament have maintained, in contrast to the UK Government, a broad cross-party consensus around welcoming and attracting international students to study in Scotland. UCU welcomes this and again calls on all parties to advocate for more open policies on access to students from overseas, particularly in light of the Migration Advisory Committee report recommending the retention of the graduate visa.

While UCU has been content to join university principals in arguing for required funding for the sector, the relationship in other contexts has been less collegiate. For the past five years and before, we have seen repeated industrial action in the sector. Much of this has focused on the working conditions of university staff including year-on-year below inflation pay increases. For the two years prior to August 2023, pay for the majority of staff in the sector fell[5] by 11.7% in real terms against RPI. That was a fall on top of another previous thirteen years of declining pay, with pay falling by 19.7% in real terms against RPI between 2008 and 2021, but the past two years has seen a rate of decline more than three times greater than the previous decade. The cost-of-living crisis has accentuated the demands for fair pay from our members working in the sector.

This decline in the value of pay has been in addition to increasing workloads, the widespread use of casualised staff on insecure and precarious contracts, and gender, race and disability pay gaps. At the root of these issues and disputes is the common thread of lack of resources and funding.

Benefits of higher education

Earlier in this briefing we touched on the disproportionate impact of Scottish government cuts to post-92 institutions and the impact on widening access. UCU has pushed for fair and widening access before there was a consensus across the sector, and we are determined to see progress towards the Commission on Widening Access targets. Put simply though, we will not continue to make progress if we continue to underfund the sector generally, and particularly those institutions with most expertise and experience in delivery for students from deprived backgrounds.

As well as benefiting the individual and their earning and life chances, access to university also has wider societal benefits. These include universities as important local employers, and as drivers of economic growth locally and nationally. Indeed, the Scotsman newspaper reported[6] as recently as 6 May on concerns from business leaders that the international standing of universities was being put at risk through underfunding. Universities, and the disciplines of arts, social sciences and humanities, are important in training students to be citizens capable of the critical thought necessary in a functioning democracy. If we value these impacts then we need to pay for them.

Free tuition

[5] https://www.ucu.org.uk/media/14399/JNCHES-2024-25-HE-joint-union-claim/pdf/JNCHES_2024-25_HE_joint_union_claim.pdf
[6] https://www.scotsman.com/education/scotland-universities-business-chiefs-fear-international-standing-of-universities-being-put-at-risk-4615042

UCU has longstanding policy supporting free tuition, most recently reaffirmed at our 2024 policy congress. But we are clear that if politicians want to take credit for what remains a popular policy, then they need to properly fund that policy. UCU conducted research in Scotland in 2020, due to the then-increasing number of reports and papers questioning the sustainability of free tuition. The polling[7] we carried out found that two-thirds of university applicants would put off going to university if fees were introduced. Similarly to 2020, the recent Scottish budget process and underfunding of universities has led to reports again questioning the policy and looking at what different funding models would do to student debt and universities' incomes. There is a benefit to the individual to going to university but there is also a public benefit as students become employees contributing directly to society through the roles and jobs many of them will take in public service and beyond but also by them paying tax on incomes enhanced by their degrees and education. That balance of private and public benefit is reflected in the public funding Scotland gives to students.

A question is often asked by government politicians of "where the extra money should come from to better fund universities?" UCU is a trade union representing our members in Scottish universities. We believe this is a question that should be answered by the politicians setting the policy. UCU does support the impressive work[8] of the STUC around tax and funding in Scotland. UCU has also undertaken its own research[9] around an employers' levy to fund education spending, that is relevant to the committee.

Conclusion

After a decade of underinvestment, compounded by this year's savage cuts, UCU is calling for real investment in Scotland's universities. We are urging the committee to see that the sector will face genuine threats if the year-on-year underfunding is not addressed, and a reversal of these cuts begins. Universities' collective ability to mitigate cuts to their public funding through other income sources are constrained and, in any event, bring inherent instabilities.

UCU will continue to fight for decent properly funded education, we will continue to fight against job cuts and for fair work. We will continue to seek the support of policy makers to oppose job cuts and to support university teaching, student support, and research in higher education institutions across Scotland. We are calling on MSPs to ensure that the funding is there for universities that have such a

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[7] https://www.ucu.org.uk/article/10862/Two-thirds-of-Scottish-university-applicants-would-put-off-going-to-university-if-tuition-fees-were-introduced

[8] https://www.stuc.org.uk/news/news/stuc-launch-tax-proposals-to-save-scotlands-public-services/

[9] https://www.ucu.org.uk/article/13571/Report-shows-employer-education-levy-could-replace-university-student-fees

critical role in enabling social mobility, driving economic growth, and in carrying out world leading research that boosts Scotland's international reputation.

Annexe C

Education, Children and Young People Committee

Wednesday 5 June 2024

Pre-budget scrutiny: College and university funding – Summary of submissions

A summary of reports and submissions received in advance of this session is included below. This looks at each submission in turn, rather than arranging by theme.

Colleges

Audit Scotland: Scotland's Colleges 2023

The Scotland's Colleges 2023 report was published in September 2023. It looked at college accounts for AY 2021-22, highlighting that the risk to the college sector's financial sustainability had increased since the previous year, and that the sector's adjusted operating surplus for 2021-22 was likely to be "considerably less" than its surplus of £19.3m the previous year.

It found after taking account of inflation, the flat-cash settlements for college revenue budgets in 2021-22, 2022-23 and 2023-24 represent:

> "…a reduction in real terms of 8.5 per cent from 2021/22 to 2023/24." – Scotland's Colleges 2023, Audit Scotland

The report found:

- Staffing costs making up more than 70% of college expenditure, with staff pay awards, increasing employers' pension contributions and the outcome of a job evaluation exercise among the factors contributing to increasing costs.

- Many colleges spent money on voluntary redundancies to reduce staff costs in the longer term, with some colleges anticipating the need for further staffing reductions. Audit Scotland states further reductions could “severely erode [colleges’] ability to deliver a viable curriculum”.

- Colleges have a maintenance and lifecycle backlog:
    - Audit Scotland’s 2022 report found that since 2018-19 capital funding for the college sector was £321 million short of requirements for lifecycle and backlog maintenance.
    - The 2023 report states that SFC set aside £4.7m in 2023-24 for urgent repairs, and this was in high demand with bids totalling £20m received from the sector. Bids had to be triaged “to a shortlist to fit the budget”.
- All colleges with the exception of Sabhal Mor Ostaig received more than half their income from SFC, with seven receiving over three quarters of their income from the funding body.

Audit Scotland concluded that the Scottish Government and SFC:

> “…urgently need to build on their ongoing work with colleges and help them become sustainable now, while structural arrangements at a national level evolve.” - Scotland’s Colleges 2023, Audit Scotland

Fraser of Allander Institute: The economic contribution of colleges in Scotland

The Fraser of Allander Institute published its report on the economic contribution of colleges in Scotland in October 2023. This looks at the contribution of college graduates to the Scottish economy and the economic impact of the money colleges spend.

Fraser of Allander’s modelling suggests that:

- For a single graduation cohort (in this case, the 2021-22 cohort), in terms of GDP, an estimated £8bn is added to the Scottish economy compared to an economy without these graduates. This £8bn figure equates to a £73,000 boost per graduate and is estimated to support over 31,000 FTE jobs over the approximately 40 years these graduates spend in the labour market.
- The same single graduation cohort is estimated to contribute £2.8bn to Scottish Government revenues.

The report sets this out as follows:

> “The Scottish Government's £740m investment, via the Scottish Funding Council in colleges in in 2021/22, led to a £8bn boost to the GDP of the Scottish economy and a £2.8bn boost to government revenues. The investment in this college cohort therefore represented 9% of the return in terms of the boost in GDP, and 26% in terms of the boost to government revenues.” - The economic contribution of colleges in Scotland, Fraser of Allander Institute

Looking at college graduate cohorts over multiple years (2016-17 to 2021-22), the report finds this group:

- Cumulatively adds an estimated £52bn to the Scottish economy over their 40-year working lives.
- Boosts labour productivity by 2% in the long run across the Scottish economy.
- Help to support an additional 203,000 FTE jobs in the Scottish economy over their 40-year participation in the labour force.

The report states:

> “The Scottish Government's £4.1bn investment, via The Scottish Funding Council between 2016/17 and 2021/22, led to a £52bn boost to the GDP of the Scottish economy and a £18.2bn boost to government revenues. The investment in multiple years of college graduates therefore represented 8% of the return in terms of boost in GDP, and 22.5% in terms of the boost to government revenues.” - The economic contribution of colleges in Scotland, Fraser of Allander Institute

The report modelling finds the money colleges spend in the economy helps to support an additional 4,400 jobs. Around 2,700 are directly supported by college supply chains and 1,700 are supported across the wider economy.

In addition, the report finds colleges “at the forefront of the economic activity they generate”:

> “Colleges rank 2nd with the same multiplier as the education sector, falling only behind the Security and Investigations sector. This suggests that as an industry, colleges support significant amounts of value added within the economy, and hence generate substantial economic activity, both regionally where they are located, and nationally within the economy as a whole.” - The economic contribution of colleges in Scotland, Fraser of Allander Institute

The report concludes that colleges are “fundamental to the prosperity of the Scottish economy on top of their role to ensure that every individual in Scotland has access to education and can achieve the qualifications that will allow them to lead prosperous lives”.

EIS Further Education Lecturers Association (EIS-FELA) submission

EIS Further Education Lecturers Association (EIS-FELA) submission to the Committee focuses on the financial sustainability of colleges and the social and economic impact of sector funding.

EIS-FELA states it is “gravely concerned about the financial circumstances” of colleges and states the “sector requires significant financial investment over and above the current funding”.

The submission states that SFC's indicative teaching funding allocations for colleges being set at the same level as 2023-24 "is, in actual terms, a reduction of £32.7m is, in actual terms, a reduction of £32.7m" and this will mean:

> "…colleges will be unable to adequately and appropriately meet the needs of their students and deliver the services that they expect of them." – EIS-FELA submission

EIS-FELA highlight figures from [The Herald on 29 April 2024]() which set out that the cumulative effect of flat cash budgets over three years equates to "a shortfall in funding of almost £200m over the past three years" rising to £500m when voluntary severance schemes and other cost saving measures are taken into account.

In addition, EIS-FELA highlights the loss of the Flexible Workforce Development Fund, worth £10m in previous years.

EIS-FELA's submission states that staff are colleges' "most important resource", and once the ongoing pay dispute is resolved, investment will be required from the Scottish Government:

> "…to ensure that colleges are not expected to find further savings from within their current budget settlements to ensure that they can adequately afford this." – EIS-FELA submission

EIS-FELA notes the cut to the college student support budget, stating this contradicts Scottish Government efforts to lift people out of poverty and impacts the "most financially vulnerable students".

On capital investment, while the overall budget for 2024-25 has increased, £51.9m of this is for Fife College's new Dunfermline Campus. EIS-FELA's submission states the capital budget available to colleges not counting funding for the Dunfermline Campus will be £33m, and this is £2.9m less than last year. EIS-FELA states:

> "Without the required investment in maintenance, colleges are at risk of not being able to offer their staff and students an adequate environment for working and learning." – EIS-FELA submission

It also states that the high demand for SFC's urgent repairs fund in 2023-24:

> "…demonstrates how woefully short the funding has been for colleges, where the funding allocated to essential estate repair is approximately 25% of what has been requested." – EIS-FELA submission

EIS-FELA raises concerns about the impact of funding reductions on student numbers and college courses, citing an article from the Herald newspaper highlighting SQA statistics on college course entries between 2013-14 and 2022-23:

> "When looking at the figures they report, entries for Higher courses have reduced by nearly 70%, National 5 level course entries have halved, and entry level National 4 courses have seen a reduction in number of almost 60%. Skills for work courses, which are set up to provide students with generic employability skills, have seen their entries decrease by almost 35% also.

Within the same article, the number of NC (National Certificate), HNC (Higher National Certificate), HND (Higher National Diploma) and SVQ (Scottish Vocational Qualification) course entries have also decreased substantially over the past ten years too." – EIS-FELA submission

A graph showing this data – titled College Student Course Entries - can be viewed in the full EIS-FELA submission. EIS-FELA conclude from this data that: "the reduction of entries…signifies that colleges are unable to meet the social needs of the communities they serve by offering a wide and diverse range of courses for students."

Universities

London Economics: Examination of higher education fees and funding in Scotland

The London Economics presentation on higher education fees and funding in Scotland was made in February 2024. It looks at the impact of the current Scottish funding system on the Exchequer, HEIs and students/graduates, as well as comparing it to the systems in the other nations of the UK.

The presentation highlights that higher education funding policy has diverged significantly since devolution. When looking at the current system in Scotland, London Economics concluded that:

- Scottish HE funding is the most complex of the four nations, with differing fees being paid based on nation of residence. Fee grants are provided to students in Scotland while only fee loans to RUK students.

- The Exchequer currently contributes £1.37bn per cohort (£9,130 per FT Scottish student) and HE providers receive £1.21bn in net income per cohort (£7, 870 per FT Scottish student).

- The average debt on graduation per FT Scottish student is £32,600 and that the current repayment system is locally regressive, meaning that many graduates will repay c.£35,000 over their lifetimes irrespective of their earnings.

The presentation also reached a number of conclusions regarding the Scottish funding system when compared to RUK. They found that:

- The public cost of the Scottish system is more than 5x that in England making it the highest in the UK, but Scottish HEIs receive 23% less income than English HEIs

- In England 84% of the cost of HE is borne by students/ graduates (56% in Wales and 49% in Northern Ireland.) In comparison, in Scotland students are "effectively *paid* to attend HE (as they typically pay no fees but receive maintenance funding)"

The presentation concluded by making suggestions on what may happen in Scotland should the English system of HE funding be applied. They stated that in this situation:

- The cost to the exchequer would decline by £554m per cohort (41%)
- Income to Scottish HEIs would increase by £416m per cohort (34%)
- The average debt on graduation per FT student would increase by £37,300 and lifetime repayments would increase by up to £31,400 on average. However, repayments would significantly differ based on the earnings of graduates. Those in middle and high income brackets would repay far more, but those at the lower end of the income distribution would repay a similar amount as they currently do.

UCU Scotland submission

The University and College Union (UCU) submission to the Committee looks at the impact of a "decade of underinvestment" in university education. UCU states it is "deeply concerned at the impact these cuts will have upon universities and the teaching, student support, research and knowledge exchange they deliver."

On the impact of recent financial challenges, the UCU submission states:

> "The cuts of the magnitude seen over the past decade, and currently being compounded in this year's budget, are inevitably impacting upon staffing levels, jobs and workload, and on the student experience. Poor management decisions are often the root cause of universities needing to make cuts, but at least some responsibility for the current round of job losses, job insecurity, and increasing workloads, lies at the door of Scottish Government ministers." – UCU submission

UCU goes on to warn: "We cannot maintain world leading higher education on a reducing budget".

The impact of cuts on post-92 institutions is highlighted by UCU, as these are often more reliant on public funding and do more of the "heavy lifting on widening access". In addition, UCU states progress on fair access to university may also be impacted by staffing cuts.

On the removal of SFC funding for additional Scottish Public Pensions Authority pensions costs, UCU states this is "deeply disappointing" and:

> "'a slap in the face for post-92 universities and the vital widening access work that they do...'." – UCU submission

On the impact of financial pressures, UCU states that voluntary severance schemes have been open at the University of Aberdeen, Glasgow Caledonian University, Queen Margaret University and Robert Gordon University, and jobs had also been lost at the University of the Highlands and Islands. Non-renewal of fixed term contracts is also identified as an issue. UCU warns of the lasting impacts of these measures:

> "The university sector is a people-dependent business, and once jobs go, there is a reduction in the teaching and support offered to students, and an impact on the breadth of research being carried out." – UCU submission

UCU also highlights the impact on remaining staff citing a 2021 UCU workload survey which found staff in higher education working on average more than 2 unpaid days per week.

On international students, UCU is clear that overreliance on international fee income "cannot be a long-term or growing solution", stating this leads to international students being viewed "primarily as an income source". UCU warns this increases competition and marketisation of higher education.

Polling carried out by UCU in Scotland in 2020 found "two-thirds of university applicants would put off going to university if fees were introduced". UCU states that while it supports free tuition, full funding for free tuition must be provided. UCU also highlights research carried out by London Economics on behalf of UCU published in May this year looking at how a levy of around 1% on employer National Insurance contributions for graduates could replace student fees across the UK.

The UCU submission concludes:

> "We are urging the committee to see that the sector will face genuine threats if the year-on-year underfunding is not addressed, and a reversal of these cuts begins. Universities' collective ability to mitigate cuts to their public funding through other income sources are constrained and, in any event, bring inherent instabilities."   – UCU submission

Lynne Currie, Senior Researcher (FE/HE, Children's social work, child protection and adoption); and Laura Haley, Researcher, SPICe Research

29 May 2024

Annexe D

The Scottish Parliament
Pàrlamaid na h-Alba

Sue Webber MSP
Convener
Education Children and Young People Committee

Public Audit Committee
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9 May 2024

Dear Convener,

Scotland's colleges 2023

At its meeting on 26 October 2023, the Public Audit Committee (the Committee) heard evidence from the Auditor General for Scotland (AGS) on his briefing on Scotland's colleges 2023. The Committee heard further evidence in the form of a roundtable evidence session with stakeholders on 30 November 2023 and from the Scottish Government and the Scottish Funding Council (SFC) at its meeting on 11 January 2024.

The Committee considered follow-up written evidence from the Scottish Government and the SFC at its meeting on 25 April 2024 and agreed to write to the Education, Children and Young People (ECYP) Committee to highlight key issues arising from its scrutiny that may be of relevance to your future work, and in doing so, close its scrutiny of the briefing.

Financial sustainability

The AGS's briefing states that risks to the financial sustainability of the college sector have increased since his last briefing in 2022. The briefing also states that more colleges reported an adjusted operating deficit in AY 2021-22 than in AY 2020-21. During evidence an Audit Scotland official confirmed that nine colleges returned an operating deficit in AY 2021-22, compared to three the year before. The Committee also heard from the Principal of Glasgow Kelvin College, representing the College Principal's group that—

> "Colleges and the college sector, as they are just now, are certainly not sustainable."

In advance of the evidence session on 11 January 2024, the SFC provided a written submission which stated—

> "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."

The AGS's briefing states that the SFC has introduced a new funding distribution model and associated guidance for AY 2023-24. This is to provide colleges with enhanced flexibility and greater opportunity to decide how to best respond to local, regional and national needs. The Committee explored the new funding distribution model with the SFC at its meeting on 11 January 2024. Following the meeting, the Committee wrote to the SFC seeking further detail on the practical impact of the new funding distribution model and how it will help resolve the financial position of Scotland's colleges.

The Committee draws your attention to the response from the SFC, which sets out information on its funding distribution model, to help inform your future scrutiny of Scotland's college sector.

Rising staffing costs

Key message 1 one of the briefing states that rising staffing costs are colleges' biggest financial pressure. The briefing states that staff costs accounted for around 70 per cent of the sectors expenditure in AY 2021-22, and that colleges have already sought voluntary redundancies to reduce their staff costs. The briefing notes that the SFC has reported that there were no compulsory redundancies during AY 2021-22, however it goes on to state—

> "Some colleges anticipate the need for further, significant staffing reductions which could severely erode their ability to deliver a viable curriculum.

During evidence the Committee heard from Unison that—

> "Severance is at an all-time high and is increasing, and compulsory redundancies are on the table in some places. That demonstrates the financial pressures that colleges are under."

The Committee also considered the SFC's report on the Financial Sustainability of Colleges in Scotland 2020-21 to 2025-26, which states that there is an expected reduction of 2,387 full-time equivalent staff over the period of the report. The Scottish Government's Director-General Education and Justice commented—

> "Our expectation would be that, working with colleges, they will continue to do that and to look at different ways in which they provide their offer and deliver. That is about how education is provided, and about looking at the courses that colleges offer and whether all of them meet the needs of learners and the local economy."

The Committee draws your attention to the potential impact of staff reductions on the ability of colleges to deliver a viable curriculum that meets the needs of students and local communities.

Responding to local demand

Key message 1 in the AGS's briefing states that colleges are vital to leaners and local communities.

During evidence, the Committee heard from Colleges Scotland that—

> "Colleges have always engaged with businesses in looking at curriculum development in order to ensure that people who come through a particular course are work ready."

The Committee explored how, in the face of current financial challenges and potential staffing reductions, colleges would be able to continue to meet the needs of their students and local communities. The Director-General Education and Justice responded—

> "Obviously, decisions about the curriculum, staffing and how that is organised are taken by individual colleges. We would not dictate which courses colleges should prioritise over others. It is clear that they will do that in engagement with local businesses, the regional boards and so on".

The SFC went on to state—

> "The mix of provision in a college is particular to that college's region. It will have been based on what a college has provided historically; however, as a college has developed relationships with local employers and schools, it will

> have shifted some of its provision, to adapt and adjust it to the regional needs that it has found."

Following the evidence session on 11 January 2024, the Committee sought additional information from the SFC on how Scotland's colleges are being supported to help meet the current needs of students and employers in their local communities while awaiting the Scottish Government taking over national responsibility for skills planning.

The Committee draws your attention to the response from the SFC, which sets out information on the support provided to colleges to enable them to respond to local, regional and national priorities, which may help inform your future scrutiny of Scotland's college sector.

The college estate

The AGS's briefing states that without investment in maintenance, "colleges risk their estate becoming a worsening environment for learning". The AGS's Scotland's colleges 2022 briefing noted that capital funding for the college sector was £321 million short of requirements for lifecycle and backlog maintenance and that capital funding from the Scottish Government, administered through the SFC, had consistently fallen short of the levels needed. These are issues that have been repeatedly highlighted by the AGS in previous reports on Scotland's colleges.

During the roundtable evidence session, the Committee heard from the Education Institute of Scotland that—

> "Lecturers cannot deliver quality learning and students cannot learn in any sort of quality way in substandard or unsafe environments. That just cannot happen."

The SFC also confirmed that it would publish its College Infrastructure Strategy in late Spring 2024. The Committee understands this is now available on the SFC's website. The Committee also heard from the SFC that the Scottish Government's Infrastructure Investment Plan (IIP), due in Autumn 2024, 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."

The Committee remains concerned about the college sectors ongoing backlog of maintenance and repairs and draws your attention to the Scottish Government's forthcoming Infrastructure Investment Plan (IIP). The Committee suggest that you may wish to consider the extent to which the IIP delivers a sustainable college estate as part of your future scrutiny of Scotland's college sector.

Finally, following the evidence session on 11 January 2024, the Committee wrote to both the SFC and the Scottish Government to impress upon them the need for more urgency with any forthcoming changes or reforms that are planned for Scotland's college sector. The Committee believes this is required to provide more clarity to the sector in light of the significant changes that lie ahead.

Yours sincerely

Richard Leonard MSP,
Convener