

Public Audit Committee
Thursday, 3 October 2024
25th Meeting, 2024 (Session 6)

Scotland's colleges 2024

Introduction

1. At its meeting today, the Public Audit Committee will take evidence from the Auditor General for Scotland (AGS) on his briefing, [Scotland's colleges 2024](#), which was published on 19 September 2024.
2. The AGS has prepared a briefing paper on the key messages and recommendations from the briefing, which can be found at **Annexe A**. A copy of the briefing can be found at **Annexe B**.
3. The Committee will decide any further action it wishes to take following the evidence session today.

Clerks to the Committee
September 2024

Annexe A: Briefing Paper by the Auditor General for Scotland

1. The Auditor General's briefing paper Scotland's Colleges 2024 was published on 19 September 2024. The paper focuses on the financial sustainability of the college sector and comments on progress with reform of the post-school skills landscape.
2. In Scotland's Colleges 2023, we reported that change was needed to ensure the sector's financial sustainability in the long term. Since then, the scale of the financial challenge has increased. Last year, we also said that addressing the challenges facing the college sector cannot be avoided or postponed. In this year's briefing we comment that reform of the post-school skills landscape has not yet been implemented, causing continuing uncertainty and making it more difficult for colleges to plan effectively.
3. This year's briefing paper includes the follow key messages:
 - The financial challenges facing colleges have increased since we reported in 2023. More colleges reported deficits in 2021/22. Cash and real-terms

funding have reduced since 2021/22, with real-terms resource funding reducing by 17 per cent between 2021/22 and 2024/25.

- Reducing staffing costs through voluntary severance schemes is a key focus for colleges. This resulted in 496 staff leaving colleges in 2022/23, with colleges forecasting further reductions in the coming years.
 - The financial challenges and reductions in staff mean that colleges may not be able to do everything that they have done in the past. We have recommended that the Scottish Government should set out the priorities that colleges are expected to deliver, so that the SFC and colleges can manage their funding to meet those priorities. We have also recommended that the Scottish Government should have early engagement with colleges and the SFC about its priorities.
 - Colleges and the Scottish Funding Council are taking action to help alleviate the financial challenges. We have recommended that the SFC should work with Colleges Scotland and colleges to highlight good practice and share learning on how colleges are doing things differently to address the financial challenges.
 - The Scottish Government needs to respond to the independent reviews affecting the post-school landscape more quickly. This is causing continuing uncertainty for colleges and making it difficult for them to plan effectively. We have recommended that the Scottish Government should increase the pace of reform and set out detailed and timely milestones to deliver reform.
4. Audit Scotland will monitor developments through the annual external audit of incorporated colleges and will continue to engage with key stakeholders – including the Scottish Government, the Scottish Funding Council, and Colleges Scotland.

Briefing

Scotland's colleges 2024



AUDITOR GENERAL 

Prepared by Audit Scotland
September 2024



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Accessibility

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

Audit team

The core audit team consisted of: Tricia Meldrum, Shelagh Stewart and Katy Wilson, under the direction of Mark MacPherson.

Key messages

- 1** The financial challenges facing colleges have increased since we reported on [Scotland's colleges in 2023](#). While only 14 of 20 college accounts were available at the time of preparing this report, 11 reported deficits in 2022/23, which is already more than the eight in 2021/22. Scottish Government funding for colleges reduced by £32.7 million in cash terms in 2024/25, and has reduced by 17 per cent in real terms since 2021/22. Colleges are also forecasting reducing cash balances, which may present a risk to their ability to continue in their current form.
 - 2** Across Scotland, colleges employ 10,957 whole-time equivalent staff. Staffing costs make up around 70 per cent of colleges' expenditure and are a key focus for them as an area for cost reduction. Across the 14 colleges, this resulted in 496 staff leaving colleges through voluntary severance in 2022/23. Colleges are predicting further reductions in staff numbers in the coming years.
 - 3** The financial pressures and reductions in staff mean that colleges may not be able to do everything that they have done in the past, which will impact on the learning they provide. Colleges are taking steps to identify efficiencies and they are working with the Scottish Funding Council on actions to help them remain sustainable. But they also need more clarity from the Scottish Government on the aspects of their role to prioritise, given the scale of the challenges, to help them manage their funding.
 - 4** Last year we said that addressing the challenges facing the college sector cannot be avoided or postponed. But reform of the post-school landscape has not yet been implemented, causing continuing uncertainty and making it more difficult for colleges to plan effectively.
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Recommendations

- By the time it issues the 2025/26 Letter of Guidance to the Scottish Funding Council (SFC), the Scottish Government should set out the priorities that colleges are expected to deliver, so that the SFC and colleges can manage their funding to meet those priorities.
- The Scottish Government should have early engagement with colleges and the SFC about these priorities so that they have as much time as possible to plan.
- The Scottish Government should increase the pace of reform that impacts on the college sector, by ensuring all groups involved are clear on what is expected of them and by when. By the end of 2024, the Scottish Government should set out detailed and timely milestones to deliver the programmes of work to reform the post-school skills sector.
- The SFC, working with Colleges Scotland and colleges, should highlight good practice and share learning on how colleges are innovating and finding opportunities to do things differently to address the financial challenges. This should happen on an ongoing basis.

1. Scotland's colleges deliver vital services

Colleges are vital to learners, communities and the economy

1. Our previous reports on the college sector have highlighted the vital role that colleges play.

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.¹

2. Scotland's colleges are situated in 13 regional areas ([Exhibit 1, page 6](#)), serving diverse communities. In 2022/23, Scotland's colleges delivered education to 248,907 students who enrolled in 329,920 courses. The sector employed 10,957 whole-time equivalent (WTE) members of staff. Courses are available at a range of levels and include further education qualifications, higher education qualifications and apprenticeships.

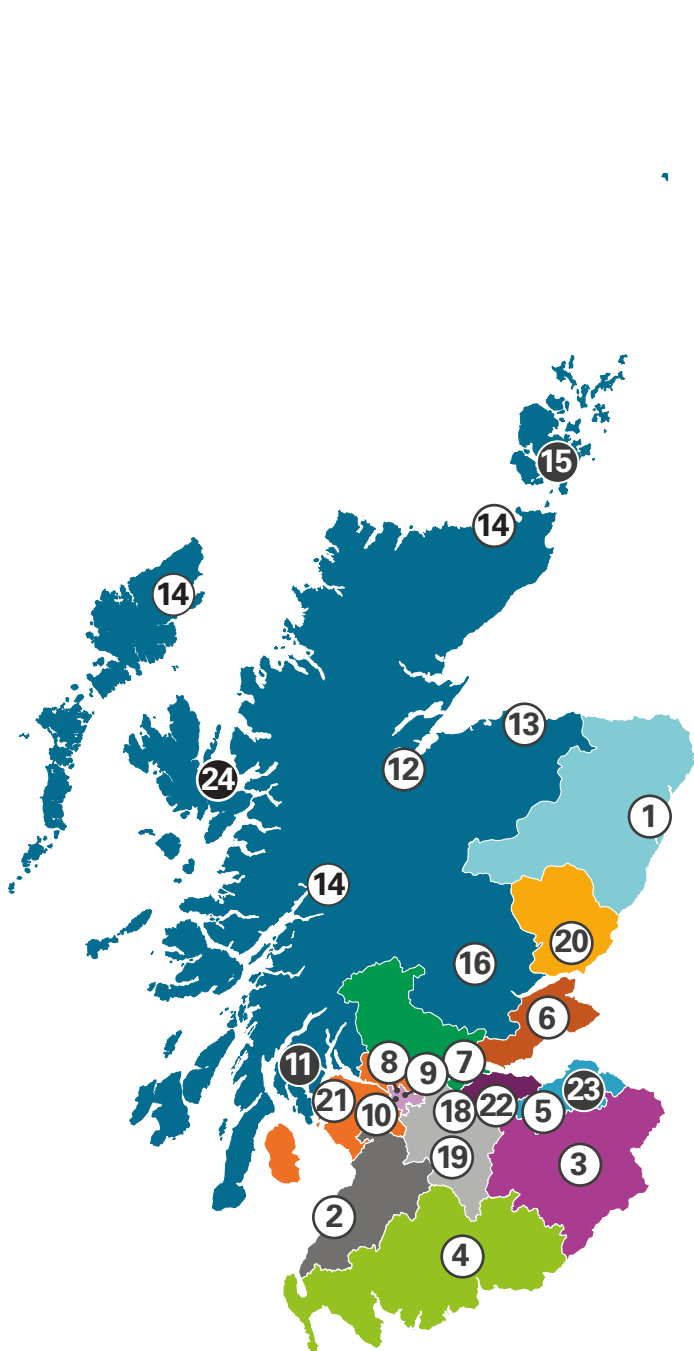
3. Scotland's colleges play a particularly important role in supporting learners from more deprived communities to access learning. In 2022/23, 26.6 per cent of all school leavers went into further education at college, rising to 36.8 per cent of school leavers from the most deprived areas.² Scotland's colleges are similarly a valuable route to university. In 2021/22, 46 per cent of learners from the lowest socio-economic backgrounds who went to university progressed there from college.³

4. The Scottish Government sets national policies for learning and provides over three-quarters of the college sector's funding, which is allocated by the Scottish Funding Council (SFC) to colleges or Regional Strategic Bodies (RSB). SFC funding to colleges is based on outcome agreements. These set out the courses the college will deliver and how many students they can teach. The new outcomes framework and assurance model has replaced outcome agreements from academic year 2024/25.

Exhibit 1.

Scotland's colleges as at 1 August 2024

The colleges not listed in bold are subject to audit by the Auditor General for Scotland (AGS).



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

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

Note: On 1 August 2023, UHI North Highland and UHI Lews Castle became part of a new college called UHI North, West and Hebrides.

Source: Audit Scotland

5. The Fraser of Allander Institute has quantified the contribution Scotland's colleges make to sustainable economic growth.⁴ It estimated the 2016/17 to 2021/22 college graduate cohort would make the Scottish economy better off by around £52 billion over their 40-year working life, when compared to a scenario without these skilled graduates. They would help to boost labour productivity by two per cent across the Scottish economy in the long run.

6. This briefing is based on analysis of the 14 college Annual Audit Reports (AARs) and accounts for 2022/23 that were submitted by the end of June 2024. Six AARs and accounts were delayed for a variety of reasons including capacity pressures and further work to investigate specific issues. These delays meant that some audits were then impacted by the outcome of the triennial valuation of the local government pension scheme, which includes colleges as members. The triennial valuation at some of these colleges resulted in material change to the pension information disclosed in the accounts. This meant that further audit work needed to be completed before the auditors could conclude the audit.

7. The briefing also draws on other sources including:

- reports produced by the SFC, Scottish Government and Colleges Scotland
- evidence to Scottish parliamentary committees
- reports by other academic institutions.

2. The financial challenges facing colleges have increased

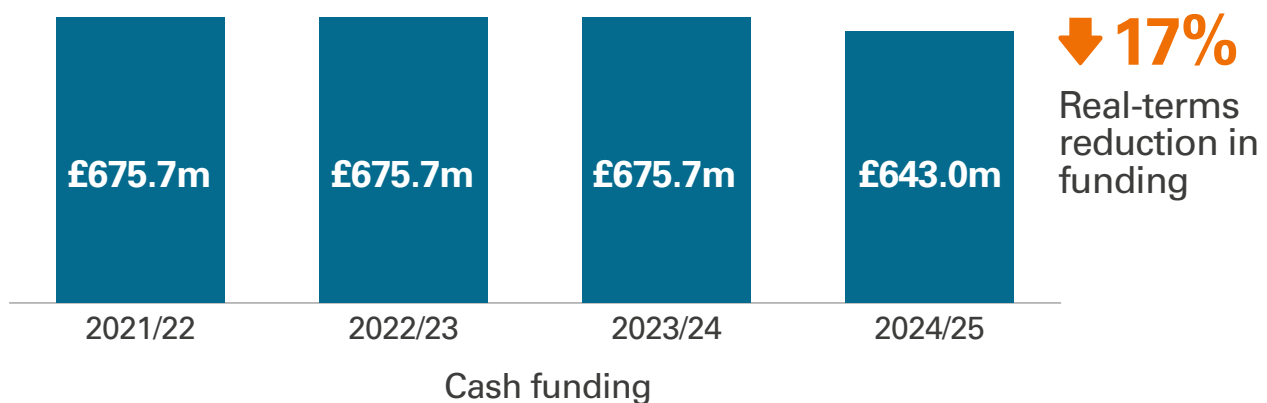
Real-terms resource funding for the sector has reduced by 17 per cent since 2021/22

8. Colleges rely heavily on Scottish Government funding. The Scottish Government's resource funding for the sector was static for three years from 2021/22, followed by a cash-terms reduction of £32.7 million in 2024/25 ([Exhibit 2](#)).

Exhibit 2.

Cash and real-terms resource funding for the college sector 2021/22 to 2024/25

Cash and real-terms funding have reduced since 2021/22.



Source: Audit Scotland analysis of Scottish Government budgets

9. The Scottish Government has also removed specific resource funds from its budget:

- An uplift of £26 million to support strategic change, additional to core college sector funding, was announced in the 2023/24 budget but later withdrawn to support pressures elsewhere.
- The £10 million flexible workforce development fund was removed in December 2023, impacting on the 2023/24 and 2024/25 budgets. This was used by eligible employers and small and

medium enterprises (SMEs) to fund retraining or upskilling of their employees. Training could be delivered in partnership with local colleges, providing them with additional income.

The financial health of the sector has deteriorated since 2021/22

10. The adjusted operating position, reported in college accounts, provides a measure of the underlying financial health of the college. An adjusted operating surplus is generally positive, while an adjusted operating deficit may be indicative of financial challenges. More colleges reported a deficit in 2022/23 than in the previous year ([Appendix 1](#)). Across all 20 colleges, eight reported a deficit in 2021/22. Across the 14 colleges where we have figures for 2022/23, 11 reported a deficit.

Colleges and the SFC are becoming increasingly concerned about cash balances and the liquidity of the college sector

11. Colleges report their end-of-year cash balance within their annual accounts and in financial returns to the SFC. This measure is only a snapshot in time and can fluctuate depending on when payments are due. A large payment could quickly reduce an end-of-year cash balance. It can also include cash that is not available to a college. For example, Edinburgh College had a cash balance of £5.7 million at 31 July 2023, but only £0.7 million was available for operational purposes. Five million pounds was reserved for reasons including pay award arrears ([paragraph 19](#)) and student support.

12. That said, the cash balance is a useful indicator of financial flexibility, which can demonstrate whether there is enough money available in the sector to deal with unpredictable challenges. [Appendix 1](#) shows cash balances across colleges. Some college auditors highlighted concerns about cash balances ([paragraph 25](#)).

13. The SFC's report, [Financial Sustainability of Colleges in Scotland 2021/22 to 2025/26](#), also expressed concerns about cash balances. It stated the sector had an aggregate cash balance of £141.4 million at the end of July 2022 but that was forecast to deteriorate to a cash deficit of £4.2 million by the end of July 2026.⁵ The SFC will report the cash balance at end of July 2023 in its next annual report on the financial sustainability of the sector.

Colleges are facing other significant challenges

14. In the context of real-terms reductions in funding, Scotland's colleges continue to experience challenges containing costs ([Exhibit 3, page 10](#)). Many of these challenges are not new but are becoming increasingly difficult to manage.

Exhibit 3.

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.
- Infrastructure costs and maintaining the estate in good order.
- 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 are making redundancies to reduce their costs but funding them is a further short-term financial pressure

15. Staff costs account for around 70 per cent of colleges' expenditure and we have reported in previous years that managing staff numbers is an approach to reducing costs. Colleges are seeking to reduce costs by offering voluntary severance schemes to staff.

16. In 2022/23, across the 14 colleges we have data for, 496 staff left through voluntary severance schemes. This is in addition to the 231 members of staff who left these colleges through voluntary severance in 2021/22. The Scottish Government and SFC do not provide specific funds for staff severance costs through the funding model. Meeting the costs of staff restructuring and voluntary severance packages is a significant cost pressure for colleges. Across the 14 colleges, the cost of voluntary severance packages in 2022/23 was £12.2 million. [Appendix 2](#) shows the number of staff that have accepted voluntary severance and the cost at each college where we have data.

17. Colleges plan to continue running voluntary severance schemes to help deliver savings. Some colleges report that voluntary severance is part of a transformation plan ([paragraph 25](#)). As a sector, colleges have not ruled out the need to turn to compulsory redundancy schemes to deliver the savings required. The Scottish Government's policy of no compulsory redundancies does not formally cover colleges; however colleges need to have regard to the policy. Colleges need approval from the SFC before they can launch a voluntary severance scheme. The colleges in a regional strategic body (RSB) ([paragraph 44](#)) also need approval from the RSB. SFC approval is based on assessing the college's business case that sets out the rationale for the scheme and includes the terms available, estimated cost and savings. Colleges need to consult the SFC in all cases where compulsory redundancies are being considered.

18. The SFC's [financial sustainability report](#) sets out colleges' forecasts for the reduction in staff required to balance their budgets. These estimated a required reduction of 2,387 WTE staff across the sector between 2022/23 and 2025/26.⁶ This equates to the potential removal of 21 per cent of WTE staff. Colleges highlighted the impact this would have on the student experience and the risks to them being able to provide the same breadth and quality of courses.

Failure to agree pay deals has impacted on learners but agreement has been reached recently

19. Pay deals are negotiated through the National Joint Negotiating Committee. This brings together College Employers Scotland, the representative body of colleges as employers, and the college sector unions. Uncertainties around staff pay are a pressure on planning college finances. From September 2022 there was no agreed pay deal for college support staff or lecturing staff. The sector has seen industrial action, such as strike action, for several years, and action short of strike (including a resulting boycott since 2022, where the results of assessments were not entered into a college results system). These have impacted on learners.

20. In June 2024, support staff agreed a three-year pay offer covering 2022/23 to 2024/25. Lecturing staff agreed a four-year pay offer in September 2024, covering 2022/23 to 2025/26, after the Scottish Government made an additional £4.5 million available to the sector for this purpose. These agreements provide colleges with certainty about pay costs over these time periods.

21. The need for a job evaluation process for support staff roles was first identified in 2015/16 and progress has been very slow. College Employers Scotland is now developing a critical path and milestones for this work, and agreeing with the unions how they will work together to meet the milestones. Resolving this issue will allow support staff to have certainty over the grading of their role and provide colleges with more certainty on pay costs.

There has been a steady decrease in the funds held in ALFs

22. Colleges can apply for funds from arm's-length foundations (ALFs). These are independent, charitable bodies that were set up when incorporated colleges were reclassified as public bodies and could no longer retain significant cash reserves. Colleges can donate funds into ALFs and can also apply to ALFs for funding for specific purposes. Other organisations can also donate to, and apply for funding from, ALFs.

23. The SFC has reported that there has been a steady decrease in the funds held in ALFs over the last decade, from £99 million in 2014 when they were first established to £12 million in 2023.⁷ Forecasts show £9 million is expected to remain in ALFs in 2024, nine per cent of the original balance after ten years. This means that colleges are less able to consider ALF funding as part of their planning.

Colleges and the SFC are taking action to help alleviate the financial challenges but need more clarity from the Scottish Government on priorities

24. As the scale of the challenge to their financial sustainability continues to increase, colleges need to make difficult savings decisions to manage their financial positions. These will impact on students, staff and local communities. There are examples of colleges making changes to what they deliver, such as consolidating campuses or stopping nursery care for student parents. Colleges state they are trying hard to minimise the impact on learners and deliver the same levels of service. However, concerns are growing within the sector about their ability to deliver high-quality learning experiences in the coming years. The National Union of Students has also raised concerns about colleges' ongoing ability to provide students with the additional support they need to learn.⁸

25. Colleges are responding to the financial challenges in different ways. This includes implementing financial recovery plans to reduce their cost base. Below we list some examples of the financial challenges colleges are experiencing and how they are responding:

- **Dumfries and Galloway College** had a small surplus AOP of £7,000 for 2022/23. The college planned to save £0.511 million in 2022/23 and this was delivered in full through closely monitoring costs and by reducing additional staff hours. Nine members of staff (four per cent) took voluntary severance in 2022/23 costing £0.186 million. The college forecasts it will make a surplus of £34,000 in 2023/24 and a higher surplus for the following two years.

The college is currently implementing a transformation plan to help safeguard financial sustainability. It has reported that current staffing levels are not sustainable, and voluntary severance is part of the

transformation plan. The college aims to make savings by reducing manual processing, investing in digital learning, service redesign and increasing commercial income developments. The college reports it regularly evaluates its curriculum to identify the scope for any efficiencies in what it delivers.

- **Dundee and Angus College** had a deficit AOP of -£0.086 million for 2022/23, an improvement on the previous year's deficit of -£1.450 million. It is forecasting a deficit in 2023/24, moving to a surplus from 2024/25. Cash balances were £5.533 million in 2022/23, a decrease from £6.248 million the previous year.

The college reported it achieved £1.8 million in cuts through a major savings plan implemented in April 2022 for 2022/23. Fifty-seven staff took voluntary severance in 2022/23 costing £1.501 million. The college launched a further major savings plan in April 2023 to reduce expenditure by a minimum of £2.5 million for 2023/24. This includes looking at areas of the curriculum where student credits (the volume of activity) have reduced by 10 per cent, changes to support services and a restructure of senior promoted posts.

- **Glasgow Kelvin College** had a deficit AOP of -£1.266 million for 2022/23. This was partly due to costs associated with voluntary severance and the relocation of courses from its west campus. This campus will close, to be sold or leased, to help support financial sustainability. Twenty-seven staff took voluntary severance in 2022/23 costing £0.792 million, with further schemes planned for 2023/24 and 2024/25. Cash balances were £4.154 million at end of year, a very small decrease from £4.157 million the previous year.

The college forecasts a further deficit for 2023/24 of -£0.5 million, returning to a surplus in the following two years. The forecast for a surplus assumes the college will achieve its planned voluntary severance schemes from 2023/24 to 2024/25. Savings are also required through the college estate and other costs, with a drive to increase income.

- **New College Lanarkshire** had a deficit AOP of -£3.6 million for 2022/23, an increase from -£1.8 million the previous year. Sixty staff left the college under voluntary severance in 2022/23 at a cost of £1.286 million but the college reported that this did not deliver the recurring savings budgeted.⁹ Voluntary severance schemes have taken place in the last three financial years resulting in 118 staff leaving. The college forecasts it will break even in 2023/24 but be in a deficit position up to 2025/26.

The 2023/24 budget paper contained cashflow projections and emphasised the college's precarious liquidity position. Cash balances were £1.985 million at year end, a decrease from the previous year's £5.561 million. At the time of completing the 2022/23 audit, New College Lanarkshire was in early discussions

with the SFC around a financial recovery plan. The college reports it plans to arrive at medium-term financial sustainability through focusing on improvements in resource and curriculum planning, further cost control measures in non-staff expenditure and increasing other income streams.

26. The SFC offers additional help and advice to colleges when required. It is currently working at a higher level of engagement with a small number of colleges to help them understand and assess their problem areas. The SFC has a range of options available when a college is experiencing financial difficulty, including helping to develop a recovery plan or providing loans or temporary cash funding when cash levels are of concern. The SFC requires colleges to develop plans to bring them back to a sustainable financial position.

27. The Scottish Government published its [Purpose and Principles](#) document and an initial priorities statement, in June 2023. At [paragraphs 38–42](#) we discuss the ongoing reform of the sector. More immediately, colleges need more clarity from the Scottish Government on the aspects of their role to prioritise, in light of the increasing financial challenges and the breadth and diversity of their role. Colleges are currently making fundamental decisions about their future services without this clarity.

28. The SFC is introducing a new [Outcomes Framework and Assurance Model](#) from academic year 2024/25. This is intended to give colleges more freedom to develop their own strategic plans and more flexibility around their own priorities. The SFC will set out its expectations of colleges, but these are intended to be less prescribed in advance with a greater focus on outcomes.

The SFC introduced changes to the funding model to ease financial pressures

29. The SFC has taken some action to alleviate colleges' financial challenges through changes to the funding model, introduced in 2023/24, with some applied retrospectively to 2022/23. These include:

- Lowered thresholds (the minimum required level below the target) for the number of credits (the volume of activity) that colleges are required to deliver. This is intended to reduce the risk of colleges being required to pay back money to the SFC for under-delivery against the target and to give colleges more certainty for planning.
- Teaching funds were protected in college allocations alongside these lowered credit thresholds. This means that while teaching funds remain the same, colleges have lower targets for the learning activity they need to deliver. This effectively results in a consequent increase in the price that the SFC pays per credit.

- 20 per cent of colleges' teaching funding will not be associated with the delivery of credit thresholds and so protected from any under delivery of credits (also applied retrospectively).
- A change to the 'required date' when a full-time student can be counted, in line with the university sector (also applied retrospectively).

30. It is too early to say whether these changes will help colleges to reach a more sustainable financial position. The SFC has confirmed that funds for teaching have been protected in college allocations for 2024/25, alongside maintaining the lowered credit thresholds.

It is taking a long time for the SFC's strategic approach to infrastructure to result in priorities for investment decisions

31. The SFC published a [College Infrastructure Strategy](#) (CIS) in November 2022, setting out the SFC's approach to determining future investment in Scotland's college estate and other college infrastructure. This was followed in December 2023 with the [CIS Delivery Plan](#), which supports the development of an Infrastructure Investment Plan (IIP) for the sector. The aim of the IIP is to help prioritise infrastructure investment decisions through considering all college requirements against the funding available.

32. The IIP was originally due in November 2024 but will now be later. The SFC has stated it will publish revised timescales for the IIP in an updated delivery plan in October 2024. When complete, the IIP will set out infrastructure investment need and include the options for alternative funding models. It is taking a long time for this strategic approach to help prioritise investment decisions within available funding.

33. The SFC has still to publish a plan for monitoring this work, but the commitment within the initial CIS is to report within three years. It has stated that an evaluation report against the delivery plan will be available in December 2026, with the intention to update on progress every three years.

The college sector has been affected by issues with Reinforced Autoclaved Aerated Concrete (RAAC)

34. Colleges continue to report on the challenge they face in maintaining their estate in good order. The SFC has identified that seven colleges have RAAC.¹⁰ Three college auditors reported on the implications of RAAC within their buildings. Dundee and Angus College has not needed to implement any restrictions on use; however, the remaining economic life of the affected buildings has been reduced and their value has decreased. West College Scotland has not needed to implement restrictions but the whole building has been impaired to nil from its net

book value of £1.8 million. Glasgow Clyde College has implemented restrictions at its Cardonald Campus and it has seen a reduction in value. There is a risk that RAAC will impact on the value of the college estate and on a college's financial position. The financial impact of RAAC may not be fully felt until a college needs to undertake restorative works or try to sell affected buildings. The impact of RAAC on college estates will be covered within the ongoing CIS work and considered as part of the strategic approach to prioritising investment decisions.

Colleges are working with other organisations in their region

35. Colleges are working with other organisations in their regional economic partnerships. Examples of collaborations include:

- **Ayrshire College** is involved in partnership working through various initiatives, including chairing the Regional Economic Strategy Skills Delivery Group. It has developed bespoke training opportunities through the Ayrshire Growth Deal and Regional Economic Strategy, including fast-track programmes for aerospace and high-speed cable manufacturing. The college is also a key provider for the Ayrshire Skills Investment Fund, a £3.5 million Ayrshire Growth Deal funded project to develop skills in growth sectors.
- **Dumfries and Galloway College** works in partnership with University of West of Scotland (UWS). This includes UWS using a college building, so estates costs are shared, and the college receives income for the use of the building. The college is also active with other partners within the South of Scotland Regional Economic Partnership.
- **Dundee and Angus College** works with partners across the Tay Cities region. This includes the Michelin Scotland Innovation Parc Skills Academy, which opened in October 2023, and the college reports it is the lead skills partner, delivering skills including low carbon, green energy, hydrogen and offshore wind.
- **North East Scotland College (NESCol)** works with groups focused on stimulating regional economic transformation in the North East, including on the Regional Economic Strategy, Regional Learning and Skills Partnership, Aberdeen City Council's Multi-Agency Transformation Management Group and the National Energy Skills Accelerator (NESA).

36. The SFC initiated a programme in September 2022 to explore improved joint working through regional tertiary pathfinder projects. The aim of this pathfinder work is to secure simpler pathways and improved outcomes for learners and to align provision with the needs of the region, including employer needs. Seven pilot projects are taking place in North East Scotland and South of Scotland and evaluation reports are due in

autumn 2024. The pilots are not yet fully complete but have produced some outputs already, including:

- Scotland's Rural College (SRUC) and Borders College launched a [joint prospectus for 2023/24](#) on rural skills, with learning opportunities available from SCQF Level 4 (National 4) to Level 12 (Doctoral Degree) and an enhanced curriculum across various areas.
- An Energy Career Pathways [Tool](#) and [Website](#) were launched in March 2024 by Robert Gordon University, University of Aberdeen and NESCol on behalf of NESAs. NESAs help the energy industry access training and skills development programmes in its partner institutions. The tool identifies the qualifications required for specific jobs in the renewable energy sector and sets those within a learning pathway.

The Tripartite Alignment Group has helped collaborative working

37. A [Colleges: Tripartite Alignment Group](#) was initially established as a three-month initiative in summer 2023, but has been extended. Members are the Scottish Government, SFC and the college sector, through Colleges Scotland. It was established to bring together senior leaders with the right experience and knowledge to work through the urgent pressures and opportunities facing colleges.¹¹ It has worked on the following areas:

- **Credit flexibilities.** Developments in 2022/23 are mentioned at [paragraph 29](#). Further work by SFC is planned in 2024 on the model used to allocate funds to colleges, including liaison with the Tripartite Group on proposed changes. This will feed into the Scottish Government budget-setting process and college budget allocations for 2025/26.
- **Asset disposal.** This work is developing an agreement and guidance on what happens to the funding when a college sells an asset, such as a building. It is considering the circumstances where a college might retain a proportion of the sale proceeds, while the remaining money goes into a shared pot. The group hopes to trial new arrangements on asset disposal to encourage colleges to make more flexible use of their assets and it will issue refreshed guidance after that.
- **Cost methodology.** A benchmarking programme to better understand costs and develop a consistent method for calculating the full cost of delivering the range of college services to learners is at an early stage.

3. There is continuing uncertainty about reform of the college sector

The Scottish Government needs to respond to the independent reviews affecting the post-school landscape more quickly

38. Two major independent reviews were published in June 2023 making recommendations for the post-school skills delivery system: the [Withers review](#) of the post-school learning system and the [Hayward review](#) of qualifications and assessment. The Withers review recommended 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 establishing a single funding body and ensuring that colleges and universities are equally valued and afforded equal esteem within the system.

39. There has been limited progress in implementing these recommendations, causing continuing uncertainty for colleges. In June 2024, the Scottish Government launched a consultation that will impact on reform of the sector. The [Post-school education and skills reform legislation: consultation](#) asks for views on changing what public bodies do in the post-school system in order to simplify responsibilities for apprenticeships and student support. The consultation ends in September 2024.

40. The Scottish Government announced the groups it has put in place to take forward reform across the education system in November 2023, sitting under an Education and Skills Reform Ministerial Group. The governance structure includes a Post-school Education and Skills Reform Programme Board (the Programme Board). These arrangements are fairly new, with the Programme Board meeting since autumn 2023, the Education and Skills Reform Chief Executive Forum meeting since January 2024 and the Ministerial Group only meeting since May 2024. These arrangements are running in parallel with the Tripartite Alignment Group ([paragraph 37](#)).

41. The Programme Board currently has five areas of work: simplification of the funding body landscape; national and regional skills planning; apprenticeship reform; careers; and post-school qualifications. The Scottish Government is developing an overall plan setting out the

workstreams, responsibilities, interdependencies, phasing and timeline for a programme of post-school skills reform over a ten-year period. At this stage, it has not yet confirmed what is expected to be achieved in the short term and longer term.

42. The groups tasked with taking forward reform are expected to monitor progress, but the Scottish Government has not yet set out how it will report on this publicly. It has provided recent updates to the Scottish Parliament Education, Children and Young People Committee, in March and June 2024.

43. Updates on areas of reform include:

- **Simplification of the funding body landscape.** This work takes forward the ministerial commitment to bring learner support funding and apprenticeship provision together in the one place. The Scottish Government's consultation ([paragraph 39](#)) seeks views on two options which will impact on the role of the SFC, Skills Development Scotland (SDS) and the Student Awards Agency Scotland.
- **A new national skills planning approach** is to be designed by March 2025. This will be a Scottish Government-led skills planning function.
- **An approach for strengthening regional skills planning.** The Scottish Government has been engaging with the college sector and Regional Economic Partnerships to understand different models of setting skills priorities according to local strategies. It intends to share guidelines for developing a regional skills planning approach in September 2024.
- **Apprenticeships.** The Scottish Government has taken a staged approach to identifying improvements in the approach to funding apprenticeships. The current consultation is seeking views on this.

The Scottish Government has made slow progress in taking forward recommendations on regional arrangements

44. There are three regional arrangements, known as Regional Strategic Bodies (RSBs), in place in Lanarkshire, Glasgow and the Highlands and Islands. In 2020, the SFC published reviews on each of the regional arrangements. It recommended that the Lanarkshire RSB should be dissolved and that the three Glasgow colleges and the Glasgow RSB should explore other organisational options. In June 2024, the Scottish Government launched a consultation on changes to regional arrangements in Glasgow and Lanarkshire which closes in September 2024.

45. The regional arrangements for the Highlands and Islands colleges are very different from Lanarkshire and Glasgow because they involve a model where the University of Highlands and Islands (UHI) is the RSB. In March 2024, the Minister for Higher and Further Education; and Minister for Veterans stated that the colleges were to work constructively together, with the support of SFC and the UHI, to bring forward a recommended option for reform that will put them on a more sustainable footing for the long term. UHI and the colleges are working to develop a target operating model which they plan to discuss with the SFC towards the end of 2024. UHI will then consult on proposals before a new operating model is agreed.

Endnotes

- 1 [Scotland's colleges 2023](#), Audit Scotland, September 2023.
- 2 [Summary Statistics for Attainment and Initial Leaver Destinations](#), Scottish Government, February 2024.
- 3 [Report on Widening Access 2021–22](#), Scottish Funding Council, July 2023.
- 4 [The economic contribution of colleges in Scotland](#), Fraser of Allander Institute, October 2023.
- 5 The SFC asks colleges to submit financial forecasts. These figures include unincorporated colleges ([Exhibit 1, page 6](#)), not audited by the AGS. As with any forecast, what happens can be different to what was forecast.
- 6 This figure is from the forecasts for all 26 colleges included in the SFC report. It includes the six unincorporated colleges that are not audited by the AGS.
- 7 Data provided by the SFC, June 2024.
- 8 [Broke Students, Broken System – NUS Scotland](#), February 2024.
- 9 Figures included in the text relate to the college only and might not match internal reporting or reporting to the SFC as this includes the group subsidiary.
- 10 [Reinforced Autoclaved Aerated Concrete \(RAAC\), SFC, February 2024](#).
- 11 [Colleges – Tripartite Alignment Group: terms of reference](#), January 2024.

Appendix 1

Adjusted Operating Position and cash balances across colleges, 2022/23

College	2022/23 Adjusted operating position		Compared to 2021/22	Cash Balance at 31 July 2023 £m
	Total surplus or (deficit) £m	Surplus or deficit as % of income		
Ayrshire College	(1.153)	-2.2%	↓ Worse	11.685
Borders College	(0.050)	-0.3%	↓ Worse	3.881
City of Glasgow College	(2.836)	-2.9%	↓ Worse	10.559
Dumfries and Galloway College	0.007	0.0%	↑ Better	2.053
Dundee and Angus College	(0.086)	-0.2%	↑ Better	5.533
Edinburgh College	(0.063)	-0.1%	↑ Better	5.706
Fife College	0.284	0.5%	↓ Worse	23.409
Glasgow Clyde College	(0.496)	-0.9%	↓ Worse	10.143
Glasgow Kelvin College	(1.266)	-3.9%	↓ Worse	4.154
New College Lanarkshire	(3.573)	-6.3%	↓ Worse	1.985
North East Scotland College	(0.180)	-0.3%	↓ Worse	7.887
South Lanarkshire College	(0.253)	-1.3%	↓ Worse	3.263
West College Scotland	0.400	0.6%	↓ Worse	11.080
West Lothian College	(1.717)	-8.6%	↓ Worse	1.575

Notes:

1. To allow consistency, the figures used are for the college only and do not include balances related to group entities. This means figures may differ from SFC data or colleges' internal reporting.
2. This does not include the six colleges for which we did not have completed accounts and AARs at the time of reporting: Forth Valley, Inverness, Lews Castle, Moray, North Highland, Perth.

Source: Accounts and AARs 2022/23

Appendix 2

Voluntary severance numbers and cost

College	WTE staff at July 2023	VS take-up (staff) 2022/23	VS cost 2022/23 £m
Ayrshire College	667	53	1.385
Borders College	214	12	0.176
City of Glasgow College	1127	88	2.155
Dumfries and Galloway College	202	9	0.186
Dundee and Angus College	633	57	1.501
Edinburgh College	957	47	1.278
Fife College	843	26	0.753
Glasgow Clyde College	709	45	1.092
Glasgow Kelvin College	424	27	0.792
New College Lanarkshire	912	60	1.286
North East Scotland College	491	20	0.636
South Lanarkshire College	285	Not applicable at this time	0
West College Scotland	824	50	0.861
West Lothian College	293	2	0.111
Total	8,581	496	12.212

Notes:

1. To allow consistency, the figures used are for the college only and do not include balances related to group entities. This means figures may differ from SFC data or colleges' internal reporting.
2. This does not include the six colleges for which we did not have completed accounts and AARs at the time of reporting: Forth Valley, Inverness, Lews Castle, Moray, North Highland, Perth.

Source: Accounts and AARs 2022/23

Briefing

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