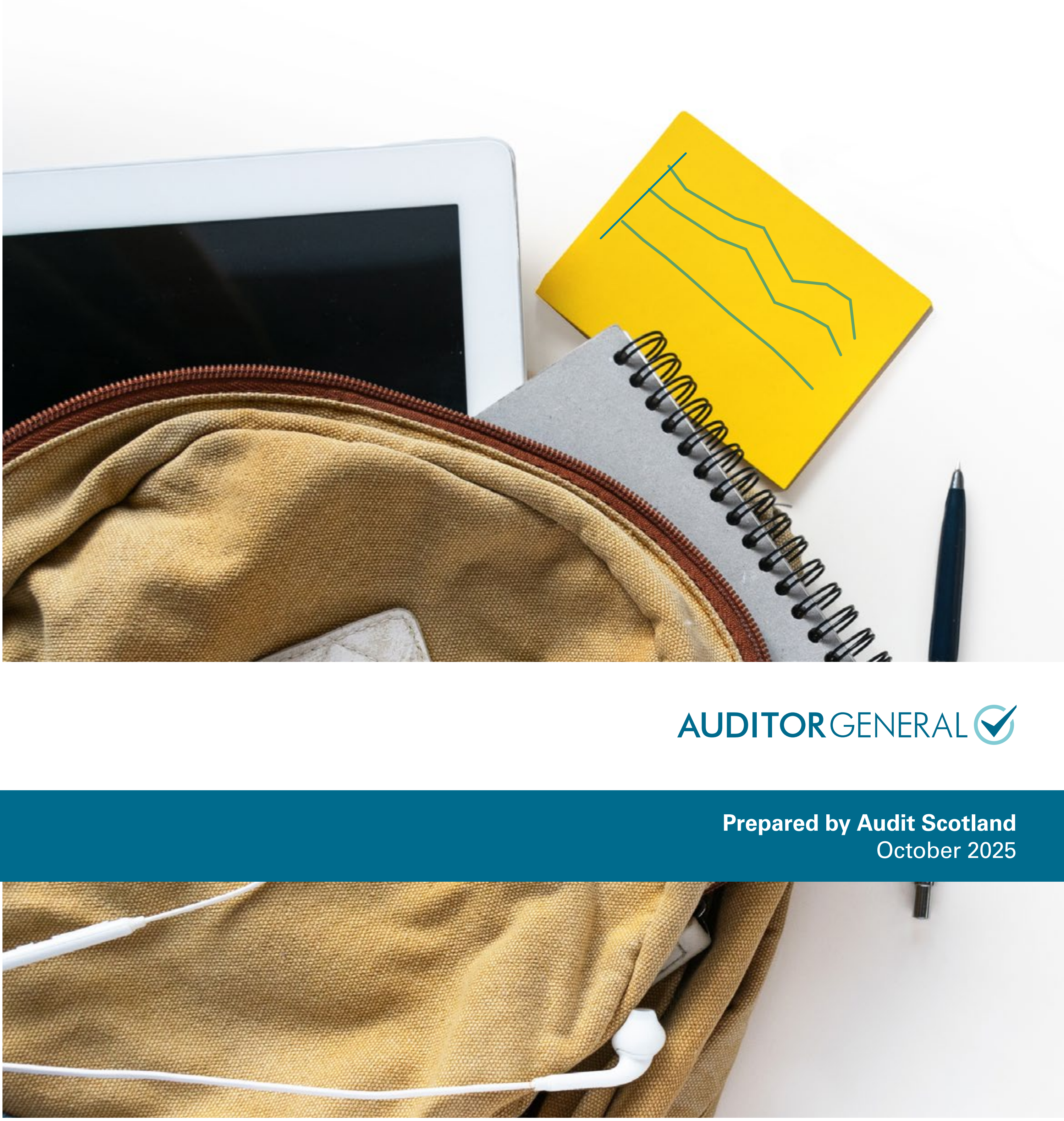
Briefing

Scotland's colleges 2025



AUDITOR GENERAL

Prepared by Audit Scotland
October 2025

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Audit team

The core audit team consisted of:
Derek Hoy, Ray Buist and Katy Wilson, under the direction of Mark MacPherson.

Key messages

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 Two targeted funding packages for colleges in 2023/24 were also withdrawn.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

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

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

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

Recommendations

The Scottish Government should:

- Within one year, issue clear guidance on its expectations of colleges in relation to its public sector reform ambitions to enable colleges to develop future-focused plans to attract and retain students that align with the wider public sector reform agenda (paragraph 87).
- Within six months, identify ways to analyse the economic impact of reducing funding to the college sector and carry out an analysis within the subsequent 12 months (paragraph 61).

Within 12 months the Scottish Funding Council should:

- Work with colleges to prepare a plan to collect views from college staff and collate these at a national level. This should identify the impacts on staff arising from college transformation, how this is being managed, and good practice that can be shared across the sector (paragraph 60).
- Prepare a plan to identify how it will measure unmet demand for college courses from students and carry out relevant analysis on an annual basis to help identify gaps in provision (paragraph 39).
- Where needed, provide support to colleges to submit updated infrastructure strategies that fully align with the college's strategic and curricula plans and are focused on future need to prevent delays to the publication of the Infrastructure Investment Plan in autumn 2026 (paragraphs 32–36).

The Tripartite Alignment Group should:

- Within six months, set out plans for colleges to diversify income streams, outline the associated risks, and set out what enabling support the Scottish Government and the SFC will provide to colleges (paragraphs 42–45).
- Within one year, review and begin to make changes to the funding model for delivery of higher education, further education and apprenticeships by colleges to ensure it reflects the current operating and funding environment, achieves

student equity, and creates the right incentives to deliver against the Scottish Government's strategic objectives for the college sector **(paragraphs 49 and 51, paragraphs 84–85)**.

Colleges should:

- Within the next academic year, identify new opportunities to collaborate through the sharing of assets, resources and systems, curricula design and sharing of good practice **(paragraph 87)**.

Introduction

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

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

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

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

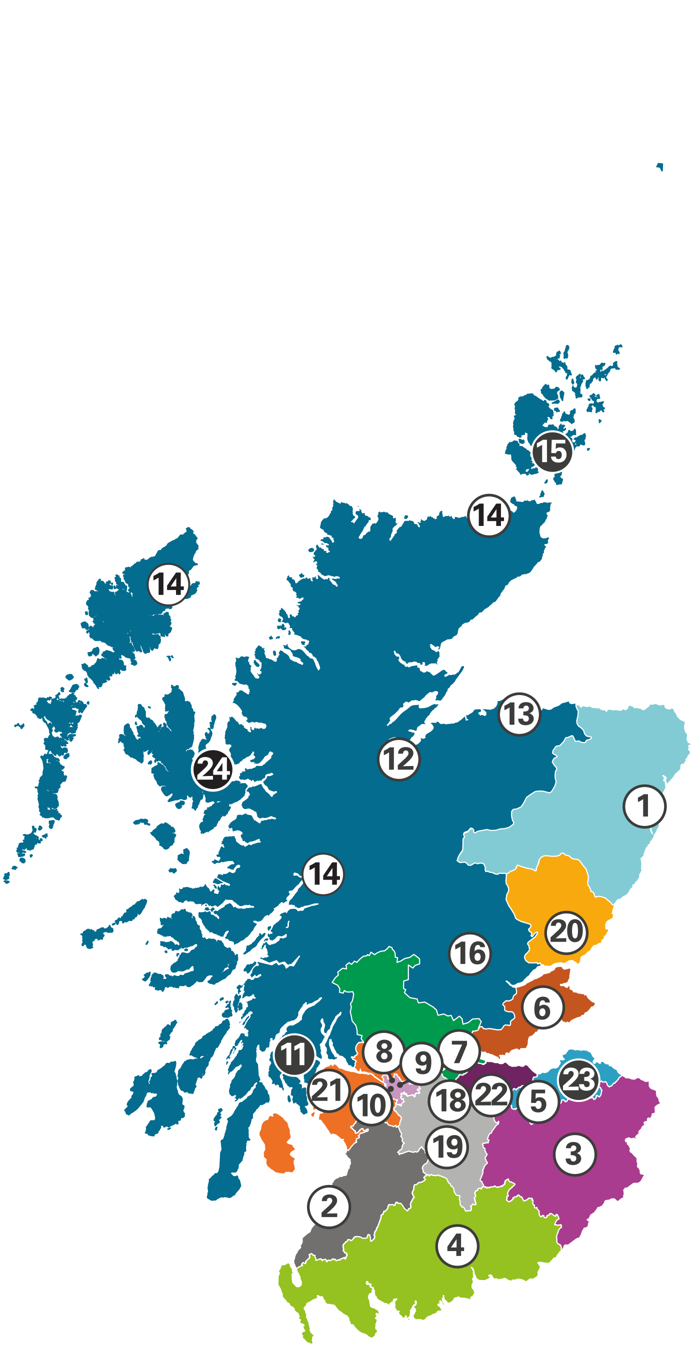
5. This report draws on analysis of the 2023/24 annual audit reports (AARs) and accounts for 18 of the 19 incorporated colleges in Scotland. The AAR and accounts for UHI North, West and Hebrides have been delayed and are not included in our analysis.

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

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

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

Exhibit 1.
Scotland's colleges as at 1 August 2025
The colleges listed in bold are subject to audit by the Auditor General for Scotland (AGS).



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

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

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

Source: Audit Scotland

1. Colleges continue to face significant financial challenges

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

College finances have come under increasing pressure in recent years

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

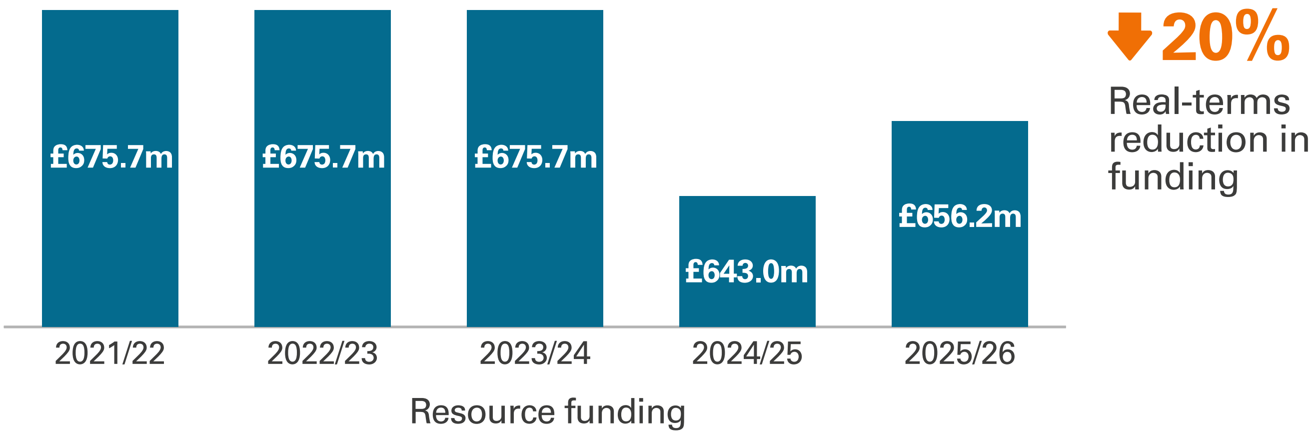
Real-terms adjusts the cash value of money for inflation to allow a more accurate comparison of funding over time.

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

Exhibit 2.

Net resource allocation for the college sector since 2021/22

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



Source: Audit Scotland analysis of Scottish Government budgets

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

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

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

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

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

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

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

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

31. Colleges Scotland undertook a review of the college estate in 2022, which indicated that the cost to bring the college estate back up to baseline condition was £775 million. The chair of the College Principals' Group recently told MSPs that the cost to cover backlog maintenance costs and transform campuses to meet net zero emission targets is now estimated by colleges at close to £1 billion.[4]

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

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

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

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

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

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

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

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

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

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

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

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

Case study 1.
West Lothian College

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

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

Source: Audit Scotland

Colleges are trying to find additional income sources to support sustainability

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

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

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

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

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

2. Colleges are delivering less teaching to fewer students

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

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

46. The SFC measures the volume of learning activity delivered by colleges using ‘credits’, with one credit typically equivalent to around 40 hours of learning. The SFC sets a price per credit that it pays to colleges for the delivery of teaching hours and uses credit delivery as a means of monitoring performance.

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

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

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

49. Colleges told us that a credit-based funding model is output driven. This means they must ensure they meet their credit target to avoid funding being recovered by the SFC. As the delivery cost of courses can vary significantly, colleges strike a balance between what may be in-demand but high-cost courses and those that they can afford to provide in order to maintain financial balance. This can lead to lower cost courses being offered to help ensure credit targets are met and to subsidise those that are more expensive for colleges to deliver.

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

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

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

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

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

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

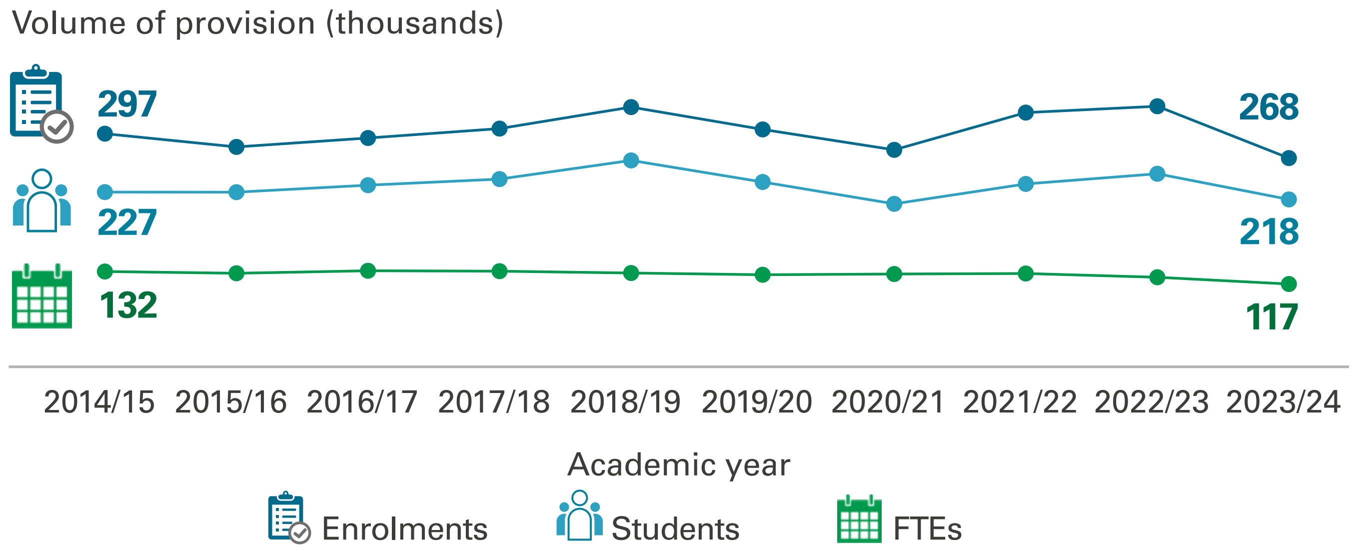
Premiums are additions to credit prices paid to colleges to support equity and inclusion of students, including those from deprived backgrounds. They also offset additional delivery costs for some courses.

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

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

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

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



Source: SFC College Statistics 2023–24

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

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

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

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

Students: the number or headcount of students attending college.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Appendix 1

Scotland's colleges 2024 recommendations follow up

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

Cont.

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

Source: Accounts and AARs 2023/24

Appendix 2

Adjusted operating position and cash balances by college 2023/24

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

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

Source: Accounts and AARs 2023/24

Appendix 3

Severance numbers and cost by college 2023/24

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

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

Source: Accounts and AARs 2023/24

Briefing

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