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Press release

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Scotland's colleges are in better financial shape but there may be challenges ahead

Scotland's colleges are in a healthier financial state overall, and financial performance has improved in the past five years. However colleges will need to respond to cost pressures and tighter funding in the next few years.

An Audit Scotland report published today, *Financial overview of Scotland's colleges 2006/07*, says the college sector has moved out of a position of overall deficit through increased funding, better management, peer support and learning lessons from the past difficulties.

Scotland's 39 incorporated colleges have moved from an overall operating deficit of £6 million in 2002/03 to an overall surplus of £16.9m in 2006/07. The number of colleges recording operating surpluses has increased. The overall accumulated reserves have grown to £98.9 million, although almost half of that is held by two colleges.

Auditor General for Scotland Robert W Black said: 'The past five years have seen an improvement in the financial performance of Scotland's colleges. This is good news given the difficulties of the past, and colleges, the Scottish Funding Council and the Scottish Government have worked hard to learn lessons.

'However, seven colleges forecast deficits over the next few years and there are challenges ahead. These include changes in funding from both the Government and the European Union, and other cost pressures. We would like to see colleges and the Scottish Funding Council continue to work together to improve financial sustainability in the sector and to improve financial forecasting.'

In recent years, the SFC has set up a system whereby colleges looking for support and assistance can draw on the knowledge and experience of their peers. The sector also invested in and re-launched networks to share financial knowledge and experience, and to discuss common issues.

There has been a significant increase in funding since 2001/02, with revenue funding rising by £79 million and capital funding up by £67 million in cash terms. However, the Scottish Government's current budget proposals will see smaller funding increases in the future. Also, colleges may get less money from other income sources. For example, European Union funding is to drop by 50% over the next three years as the EU diverts money to new member nations.

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Notes to editors

1. Audit Scotland's earlier report, *Financial performance of the further education sector in Scotland*, was published in December 2003 and can be found [here](#) on the Audit Scotland website.
2. The college sector's financial year runs from August to July, compared with most other sectors which run from April to March.
3. This report covers the 39 colleges incorporated under the Further and Higher Education (Scotland) Act 1992. There are four other colleges not incorporated under the Act. These are: Orkney College; Shetland College of Further Education; Newbattle Abbey College; and Sabhal Mór Ostaig.
4. In 2006/07 the 39 colleges received £22.3 million in European Union funding. This has dropped to £13.6 million in 2007/08 and is to continue decreasing over the next five years.
5. All Audit Scotland reports published since 2000 can be found on Audit Scotland's website www.audit-scotland.gov.uk

6. Audit Scotland is a statutory body set up in April 2000, under the Public Finance and Accountability (Scotland) Act, 2000. Audit Scotland has prepared this report for the Auditor General for Scotland.
7. The Auditor General is responsible for securing the audit of the Scottish Executive and most other public bodies in Scotland, except local authorities. He investigates whether spending bodies achieve the best possible value for money and adhere to the highest standards of financial management. The Auditor General is independent and is not subject to the control of the Scottish Executive or the Scottish Parliament.