

## Public Audit Committee

### 31st Meeting, 2023 (Session 6), Thursday 30 November 2023

## Scotland's colleges 2023

### Introduction

1. At its meeting today, the Public Audit Committee will take evidence in a roundtable format on the Auditor General for Scotland's (AGS) briefing on [Scotland's Colleges 2023](#) which was published on 7 September 2023.
2. The Committee took evidence from the AGS on the briefing at its meeting on [26 October 2023](#). At that meeting, the Committee agreed to hold a roundtable evidence session with relevant stakeholders on issues raised in the briefing, before taking evidence from the Scottish Government and the Scottish Funding Council (SFC) at a future meeting.
3. The AGS has provided follow up information in writing and this can be found at **Annexe C**.
4. Those attending are—
  - College Principals' Group - Derek Smeall, Principal, Glasgow Kelvin College
  - Colleges Scotland - Andy Witty, Director of Strategic Policy and Corporate Governance
  - Educational Institute of Scotland - Stuart Brown, National Officer (Further Education)
  - National Union of Students Scotland - Ellie Gomersall, President
  - Unison Scotland - John Mooney, Regional Organiser
5. The key themes for discussion for the session today are structured around specific areas of the briefing as follows—
  - Financial sustainability **(40 minutes)**
    - Increased risks
    - The college estate
  - Reliance on Scottish Government funding **(20 minutes)**
    - Other income-generating activities
  - Future challenges **(30 minutes)**

- New funding distribution model and guidance for academic year (AY) 2023-24
  - New national model of public funding for all colleges, universities, apprenticeships and training.
6. Background information on each of the key areas for discussion, along with suggested questions to help structure the discussion, can be found at **Annexe A**.
7. A copy of the Scotland's Colleges 2023 briefing can be found at **Annexe B**.

**Clerks to the Committee,  
27 November 2023**

## **Annexe A**

### **Key themes for discussion**

#### **Background**

1. The key messages from the AGS's briefing state that:
  1. Scotland's colleges are vital to learners and local communities. Risks to the college sector's financial sustainability have increased since we reported in 2022. Rising staffing costs are colleges' biggest financial pressure.
  2. The Scottish Government's funding for the sector has reduced by 8.5 per cent in real terms between 2021/22 and 2023/24, while the sector's costs have increased. Effective, affordable workforce planning is now a greater than ever priority and challenge for colleges.
  3. Significant changes to how the college sector operates have been recommended by recent reviews. However, the Scottish Government and the Scottish Funding Council urgently need to build on their ongoing work to help colleges plan for change now, and make best use of available funding so that they are sustainable for the future.

#### **The role of Scotland's colleges**

2. Paragraph 1, page 3 of the briefing sets out the vital role that Scotland's 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".

## Financial sustainability

### Increased risks

3. The AGS's briefing states that in [Scotland's colleges 2022](#), it was reported that change was needed to ensure the sector's financial sustainability in the long term. The briefing goes on to highlight a concern that risks to the college sector's financial sustainability have increased since 2022—

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

4. Paragraph 10, page 6 of the briefing, states that the SFC had not yet concluded its assessment of the sector's finances for AY 2021-22. This work will provide a figure for the sector's adjusted operating surplus which was forecast to be around £8 million. The briefing highlighted that while early analysis indicates that the sector's adjusted operating surplus is slightly better than forecast, it is likely to be considerably less than its surplus of £19.3 million for the previous year.
5. The [SFC has now published its "College consolidated Accounts 2021-22"](#). This confirms that the college sectors' operating surplus for AY 2021-22 is £7.2 million.
6. At the evidence session on 26 October 2023, the Committee heard from Audit Scotland that in 2021-22, nine colleges out of a total of 24 reported an operating deficit compared to three colleges in 2020-21.
7. Page 7 of the briefing states that "rising staff costs are colleges' biggest financial pressure", with staff costs accounting for more than two thirds (70%) of the sector's expenditure in AY 2021-22. Paragraph 13 of the briefing states that while final figures for the sector are not yet available, it is known that "many colleges have spent money on restructuring costs – that mainly involve voluntary redundancies – to help save money in the longer term". The paragraph concludes by stating that—

"Some colleges anticipate the need for further, significant staffing reductions which could severely erode their ability to deliver a viable curriculum".

8. In addition to the college estate, which is discussed separately below, Exhibit 2, page 8 of the briefing lists a cross section of significant areas of risk for colleges—

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

9. **Participants may wish to discuss—**

- 1) **The extent to which the increased risks to financial sustainability will have an impact on the college sector’s ability to deliver a viable, quality curriculum, including the implications of a potentially reducing workforce and reported operating deficits.**
- 2) **The impact of other significant areas of risks for colleges, identified at Exhibit 2 of the briefing.**

### **The college estate**

10. An additional financial pressure facing colleges is the college estate. Paragraph 17, page 8 of the briefing states that without investing in maintenance, colleges risk their estate becoming a worsening environment for learning. The AGS’s [Scotland’s colleges 2022 briefing](#) noted that capital funding for the college sector was £321 million short of requirements for lifecycle and backlog maintenance and that capital funding from the Scottish Government, administered through the SFC, had consistently fallen short of the levels needed.

11. The AGS’s section 23 report on [Scotland’s colleges 2018](#) stated that an estates condition survey, carried out by the SFC in 2017, indicated that college buildings required urgent and significant investment. The 2017 survey estimated a backlog of repairs and maintenance over the next 5 years, at a cost of up to £360 million. The urgency of the need to address the college sector’s backlog of maintenance and repairs was highlighted in subsequent reports by the AGS in [2019](#) and [2022](#).

12. Paragraph 18 of the Scotland’s Colleges 2023 briefing states that the SFC developed the College infrastructure strategy for 2023-33 in consultation with the

college sector, in November 2022, which recognises the urgent need for significant investment in the college estate. Paragraph 18 also states—

“Recognising the increasing number of urgent calls for assistance on repairs/works of a health and safety or business continuity nature, the SFC set aside £4.7 million in AY 2023-24 to support the sector. The SFC received expressions of interest to a value of approximately £20 million and is currently triaging these to a shortlist to fit the budget. Emerging issues around Reinforced Autoclaved Aerated Concrete will only add to this pressure”.

13. During the evidence session on 26 October 2023, the AGS stated that students in Scotland—

“need to have a safe learning environment in which to pursue their studies, and operating with £300 million of maintenance requirements puts at risk the sector’s ability to have a safe environment in which to provide people with that. There is much work to be done”.

14. The Committee also heard during the evidence session that the SFC plans to report on the baseline condition of the college estate and infrastructure in late Spring 2024 and to publish the final phase of the Infrastructure Investment Plan in Autumn 2024.

15. **Participants may wish to discuss—**

- 3) **The impact of the £321 million maintenance backlog (as reported in the Scotland’s colleges 2022 briefing) on the learning and working environment.**
- 4) **The Scottish Funding Council’s progress with triaging applications for the £4.7 million earmarked for supporting colleges in AY 2023-24.**
- 5) **The Autumn 2024 timescale for the publication of the final infrastructure plan, given the infrastructure strategy was published in November 2022.**
- 6) **The impact of Reinforced Autoclaved Aerated Concrete (RAAC) on the existing urgent need for significant financial investment in the college estate.**

## **Reliance on Scottish Government funding**

16. The AGS’s briefing states that colleges rely heavily on Scottish Government funding. Paragraph 20, page 9 of the briefing states—

“The Scottish Government’s budget works in financial years (FY) that run from April to March, such as April 2022 to March 2023. The Scottish Government

has budgeted revenue funding for the college sector comprising £675.7 million in each of 2021/22, 2022/23 and 2023/24. After taking account of inflation, this represents a reduction in real terms of 8.5 per cent from 2021/22 to 2023/24”.

17. Paragraph 21 of the briefing further explains that—

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

18. Paragraph 22 of the briefing states that “Grant funding provided via the SFC accounted for around three quarters of the college sector’s total income in AY 2021-22”.

19. **Participants may wish to discuss—**

- 7) The impact of reduced revenue funding since 2021/22 on the college sector.**
- 8) Risks associated with ongoing reliance on Scottish Government funding.**

**Other income generating activities**

20. Paragraph 19, page 8 of the briefing states that numerous colleges have highlighted the impact of the Covid-19 pandemic on their financial position and sustainability. This includes reductions in their non-SFC income sources in AY 2021-22 due to pandemic-related restrictions, such as constraints on pursuing commercial activities.

21. Paragraph 22, page 9 of the briefing states that colleges’ main source of non-SFC income was “tuition fees and education contract income, with other income-generating activities, including catering, making up the bulk of the balance”.

22. **Participants may wish to discuss—**

- 9) The extent to which colleges are pursuing non-SFC income generating activities, following the lifting of Covid-19 restrictions.**

## Future challenges

23. Page 10 of the briefing states that significant challenges lie ahead for Scotland's college sector, and that the Scottish Government recognises that changes are needed. Exhibit 3, page 10 of the briefing provides a list of recent major developments affecting the college sector, that will bring both challenges and opportunities.

### **New funding distribution model and guidance for 2023/24**

24. Paragraph 26 of the briefing states that—

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

25. In its [2 November 2023, Pre-Budget Scrutiny 2024/25 letter](#) to the Cabinet Secretary for Education and Skills, the Education Children and Young People (ECYP) Committee recognised the financial and operational flexibilities that the SFC have introduced to help colleges deliver on the various strands of their work. In its letter, the ECYP Committee states that it is clear that the “financial landscape for the college sector continues to be incredibly challenging” and it urges the Scottish Government to consider what further flexibilities it can give to colleges in the shorter-term.

### **New national model of public funding for all colleges, universities, apprenticeships and training**

26. Paragraph 25 of the briefing lists the steps taken by the Scottish Government in June 2023, in response to the developments listed in Exhibit 3. One such step was an announcement by the Scottish Government to—

“to take over national responsibility for skills planning, and that there will be a new national model of public funding for all colleges, universities, apprenticeships and training”.

27. **Participants may wish to discuss—**

**10) Views on the Scottish Funding Council's new funding distribution model, including the extent to which it provides colleges with enhanced flexibility and greater opportunity to decide how best to respond to local, regional and national needs.**

**11) The Scottish Government's plans to take over national responsibility for skills planning and to establish a new national model of public**

**funding for all colleges, universities, apprenticeships and training, and the extent to which these changes will help to address some of the challenges facing the colleges sector.**



# Scotland's colleges 2023

A briefing paper



AUDITOR GENERAL 

Prepared by Audit Scotland  
September 2023



# Key messages

- 1** Scotland's colleges are vital to learners and local communities. Risks to the college sector's financial sustainability have increased since we reported in 2022. Rising staffing costs are colleges' biggest financial pressure.
- 2** The Scottish Government's funding for the sector has reduced by 8.5 per cent in real terms between 2021/22 and 2023/24, while the sector's costs have increased. Effective, affordable workforce planning is now a greater than ever priority and challenge for colleges.
- 3** Significant changes to how the college sector operates have been recommended by recent reviews. However, the Scottish Government and the Scottish Funding Council urgently need to build on their ongoing work to help colleges plan for change now, and make best use of available funding so that they are sustainable for the future.

## Accessibility

You can find out more and read this report using assistive technology on our [website](#).

For information on our accessibility principles, please visit: [www.audit-scotland.gov.uk/accessibility](http://www.audit-scotland.gov.uk/accessibility).

# Scotland's colleges have a vital role

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

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

## There are different types of colleges

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

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

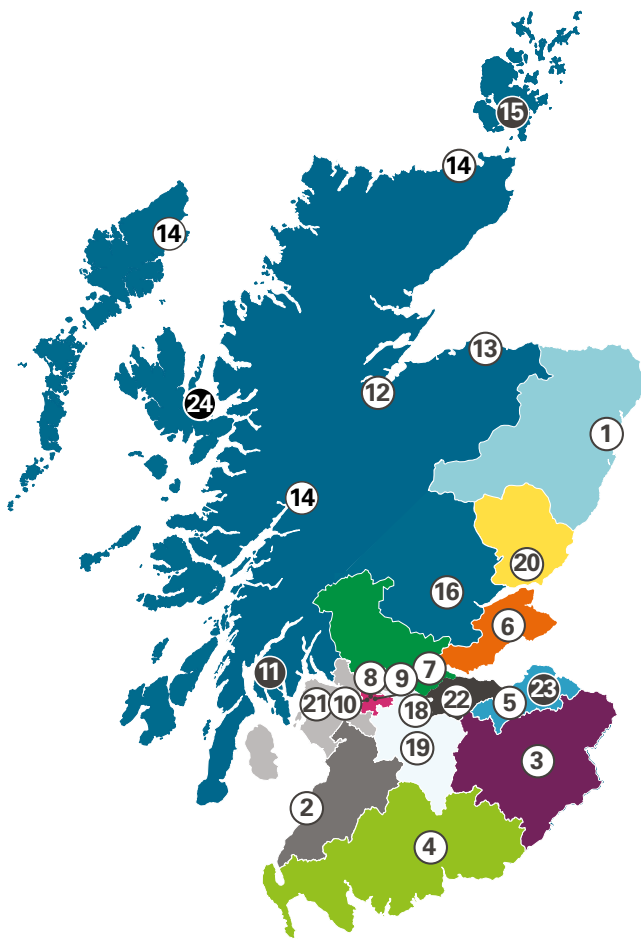
4. This briefing paper draws on our analysis of auditors' annual audit reports (AARs) about incorporated colleges.

# Exhibit 1.

## Scotland's colleges as at 1 August 2023

The colleges not listed in bold are subject to audit by the Auditor General.

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



Region	College
Aberdeen and Aberdeenshire	1 North East Scotland College
Ayrshire	2 Ayrshire College
Borders	3 Borders College
Dumfries and Galloway	4 Dumfries & Galloway College
Edinburgh and Lothians	5 Edinburgh College
Fife	6 Fife College
Central	7 Forth Valley College
Glasgow	8 City of Glasgow College
	9 Glasgow Clyde College
	10 Glasgow Kelvin College
Highlands and Islands	<b>11 UHI Argyll</b>
	12 UHI Inverness
	13 UHI Moray
	14 UHI North, West and Hebrides
	<b>15 UHI Orkney</b>
	16 UHI Perth
	<b>17 UHI Shetland</b>
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	<b>23 Newbattle Abbey College</b>
n/a	<b>24 Sabhal Mòr Ostaig</b>

Source: Audit Scotland

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

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

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

# Risks to the college sector's financial sustainability have increased

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

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

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

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

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

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

**11.** The anticipated reduction in the surplus is partly due to increases in staff costs, reflecting the impact of the sector's pay award in AY 2021-22 and some additional recruitment as well as rising inflation, fuel costs and other pressures. Other operating costs increased by around £10 million (six per cent) on AY 2020-21 levels. The return to campus activity – following

the impact of the Covid-19 pandemic – saw an increase in teaching, teaching support and administration costs plus increased catering, student residence and utilities costs. More colleges reported an adjusted operating deficit in AY 2021-22 than in AY 2020-21.

## Rising staffing costs are colleges' biggest financial pressure

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

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

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

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

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



## Colleges also have other pressures

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

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

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

## Exhibit 2.

### Significant areas of risk for colleges

This is a cross-section of the numerous risks affecting colleges.

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





# Colleges rely heavily on Scottish Government funding

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

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

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

# Significant changes lie ahead

## The Scottish Government recognises that changes are needed

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

## Exhibit 3. Recent major developments affecting the college sector These bring challenges and opportunities.



**29 June  
2021**

The SFC's [review of tertiary education and research](#) included a recommendation to the Scottish Government that there should be more flexibility in how colleges are funded.



**7 June  
2023**

The Withers [review of the post-school learning system](#) urged the Scottish Government to think creatively about how to secure the sustainability of the post-school skills delivery system. It included a recommendation that the Scottish Government should redesign the process for how funding of all learning and training provision, including apprenticeships, is allocated to ensure it is prioritised to deliver strategic outcomes and best value for public investment. It also recommended the establishment of a single funding body and parity of esteem between colleges and universities.



**22 June  
2023**

The Hayward [review of qualifications and assessment](#) will have implications for the qualifications that colleges consider when selecting students and employees, and for the courses that colleges provide.



**28 June  
2023**

The Scottish Government's [Purpose and Principles for post-school education, research and skills](#) includes a target outcome that the system is 'financially and environmentally resilient; trusted to deliver, and subject to effective governance'. The programme of reform, signalled through the Scottish Government's [Initial priorities for implementation](#) and the Purpose and Principles, outlines the key actions that the Scottish Government will be taking forward to deliver on the vision and outcomes it has set for the system.

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

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

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

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

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

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

### **The Scottish Government's three missions**

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

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

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

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

## Next steps

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

# Scotland's colleges 2023

A briefing paper



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20 November 2023

By email

Richard Leonard MSP  
Convener  
Public Audit Committee  
Scottish Parliament

Dear Convener

### **Scotland's Colleges 2023**

I welcomed the opportunity to participate in the committee's consideration on 26 October 2023 of my briefing paper [Scotland's Colleges 2023](#).

During the meeting, I committed to provide further information on several topics relating to the college sector:

- Willie Coffey and you asked for further information on how risks associated with the **European Social Fund** are affecting colleges.
- Graham Simpson and Sharon Dowe asked about colleges' use of **arm's length foundations**.
- Willie Coffey asked how **Ayrshire College's PFI project** may affect its financial sustainability.
- Colin Beattie asked whether colleges' **August-July financial year**, to align with their academic year, causes difficulty.
- Colin Beattie asked how **reinforced autoclaved aerated concrete (RAAC)** affects colleges.
- You also asked for a **timeline of anticipated developments**.

#### European Social Fund

The Scottish Funding Council (SFC) managed and jointly funded programmes of European Social Fund (ESF) activity in colleges and universities across Scotland between the academic years (AY) 2015-16 and AY 2022-23. We have no further details on ESF as it affects the college sector. The SFC should be able to support the committee's interest in this area.

#### Arm's length foundations

Prior to becoming public bodies in 2014, Scotland's colleges could build up reserves. This ended when they were reclassified by the Office for National Statistics (ONS) as public sector bodies.

Colleges were permitted to establish arms-length foundations (ALFs) as independent, charitable bodies with their own objectives, and they can donate money into ALFs from their operating surplus.<sup>1</sup> SFC capital grants to colleges cannot be transferred to an ALF. Colleges can apply to ALFs for funding to support investment in education. However, there is no guarantee that these applications will be successful. Other organisations that can also donate to, and apply for funding from, ALFs include schools, voluntary sector organisations, and private sector educational providers.

Over time, ALFs have become a reducing source of income. For [Scotland's Colleges 2022](#), Audit Scotland ran a survey to collect data on ALFs. The report noted that in AY 2020-21, just under £19 million was held across 14 ALFs, including £12 million within ALFs linked to the three Glasgow colleges. The figure of £19 million is equivalent to around two per cent of the sector's overall income of £792 million in AY 2020-21.

In May 2023, the SFC issued a [Call for Information](#), requesting colleges to complete a financial forecast return (FFR) for the period AY 2022-23 to 2025-26, by 30 June 2023. It said:

- *Colleges are encouraged to maximise ALF funding to support their financial position, where appropriate. Any donations to ALFs should only be made where budget cover is available from net surpluses arising from commercial activity during the financial year to 31 March. Government funds cannot be donated in this way. Please contact SFC if your college is considering an ALF donation.*

Audit Scotland did not repeat its survey in 2023, and so we do not have current information on the funds held by ALFs. The SFC has not yet published an analysis of colleges' FFRs but may be able to assist the committee.

### Ayrshire College

As part of the merger that created Ayrshire College in 2013, it inherited a Private Finance Initiative (PFI) scheme from the former James Watt College for its Kilwinning campus. The 25-year PFI scheme started in 1999-2000, with annual payments due until 2024-25. The college is the only one in Scotland to make PFI payments.

The college's independent external auditor covered the PFI contract in their [annual audit report](#) on the college's AY 2021-22, noting:

- *The PFI contract for the Kilwinning Campus is due to expire on 14 August 2025... the college obtained legal advice to understand any obligations and actions that should be taken in relation to the expiry. The legal advice sets out that the college has three options at the end of the contract – make a final payment to purchase the campus, extend the term of the PFI contract or exit the contract with no asset.*
- *A decision was made by the college's Business, Risk and Infrastructure Committee, endorsed by the board in December 2022, that the college's preferred option is to make a final payment and purchase the campus, subject to a business case for the expenditure at the appropriate point.*
- *As such, a £1.3 million final payment will be required to be paid at this point (25 August 2025). The college are highly likely to have to fund this from their own funds and this should be factored into future financial plans. This will either be through additional SFC funding or further cost-cutting measures than have already been planned.*



The college's auditor is currently preparing their annual report on AY 2022-23. Meantime, the college and the SFC would be best placed to provide an update on the college's financial position and Kilwinning Campus.

### Colleges' financial year

A significant issue arising from colleges' reclassification as public bodies was uncertainty about the period that financial statements would have to cover. HM Treasury confirmed to the Scottish Government in May 2012 that retaining a 31 July year-end for colleges was not possible and recommended that colleges would need to move to a March financial year-end to align their financial year with the rest of the public sector. The SFC informed colleges in May 2013 that their financial year-end would be changing to March from 2014. In November 2013, HM Treasury offered the option for colleges to retain the academic year for financial reporting. However, this required additional negotiations between HM Treasury and the Scottish Government, and consultations between the SFC and colleges, which were not concluded until June 2014. As a result, colleges were required to prepare accounts covering differing time periods during 2013 to 2014. Colleges reverted to a 31 July year-end from 2015.

The current arrangement sees the SFC source its funding for the colleges' academic year from across two Scottish Government years. The SFC and colleges would be best placed to comment on how any changes to colleges' accounting period may affect the sector.

### RAAC

As I stated on 26 October, three colleges have already said publicly that they have RAAC – Dundee and Angus College, Glasgow Clyde College and Edinburgh College. However, we do not yet know the full extent of RAAC across the college sector. The SFC's report on the baseline condition of the college estate and infrastructure in late Spring 2024 will take account of RAAC.

### Anticipated developments

Exhibit 3 in my briefing paper [Scotland's Colleges 2023](#) shows some significant recent developments, including national reviews. During the committee's meeting on 26 October, the audit team and I referred to further developments. Their detail and timelines, where known to us, are as follows:

- 24 November 2022 – the SFC published the [College Infrastructure Strategy](#), which describes the SFC's approach to determining future investment in the college estate and other college infrastructure.
- By the end of 2023 – the SFC is writing a report on the college sector's financial sustainability, combining its analysis of colleges' accounts for AY 2021-22 and colleges' recent financial forecasts. The SFC also expects to publish a Delivery Plan for the College Infrastructure Strategy.
- Late Spring 2024 – the SFC plans to report on the baseline condition of the college estate and infrastructure.
- Autumn 2024 – the SFC plans to publish the final phase of the Infrastructure Investment Plan.
- In June 2023, the Scottish Government [announced](#) two significant matters for which we await a timeline:



- *A new national model of public funding for all colleges and universities, as well as apprenticeships and training, will be developed as part of widespread reforms across the education and skills sector.*
- *The Scottish Government will also take over responsibility for skills planning, with the new national qualifications body overseeing all publicly funded post school qualifications, except degrees.*
- The Scottish Government is considering the implications of a range of recent national reviews for its reform programme. On 7 November 2023, the Scottish Government [announced](#) that legislation will be introduced to Parliament in 2024 to implement its commitment to replace the Scottish Qualifications Authority with a new organisation. It is also consulting on a new approach to education inspection.

The Scottish Government and the SFC are best placed to provide additional detail on their plans.

I hope that committee members find this additional information helpful.

Yours sincerely

**Stephen Boyle**  
**Auditor General for Scotland**

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<sup>1</sup> Bullet 1 and paragraphs 165-174, from page 71 (as printed) [Financial Guidance on Reclassification for Incorporated Colleges](#), Scottish Funding Council.