Financial sustainability of colleges in Scotland 2022-23 to 2027-28

Scottish Funding Council
Comhairle Maoineachaidh na h-Alba

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Introduction

The Scottish Funding Council (SFC) has a key role in ensuring that the colleges we fund plan and manage their activities in a way which ensures their sustainability and financial viability. This report provides an aggregate picture of the financial health of Scottish colleges, based on their annual accounts for academic years 2022-23 and 2023-24, and the latest forecasts for the four academic years from 2024-25 to 2027-28.

Incorporated colleges, non-incorporated colleges and Glasgow Colleges' Regional Board (up to 2024-25) are all included in the analysis[1]. The one exception to this is UHI North, West and Hebrides, established on 1 August 2023 following the merger of UHI Outer Hebrides, UHI North Highland and UHI West Highland. This report includes the 2022-23 results of the three legacy colleges, but the 2023-24 result for the merged college has been excluded as its annual report and accounts had not been finalised at the time of writing this report. This needs to be taken into account when comparing 2022-23 and 2023-24 results, and the 2023-24 result with the 2024-25 forecast for the sector.

An explanation of the college regional arrangements is provided in **Annex B** and a map of the college regions in **Annex C**.

The report also considers key risks that could have a significant impact on colleges' financial sustainability and mitigating actions colleges are taking to remain financially sustainable. In the context of our assessment of sector finances, SFC engages regularly with the Scottish Government, sector bodies and auditors.

SFC has previously reported on the financial sustainability of the college (and university) sectors in SFC/CP/02/2020, SFC/CP/05/2020, The Financial sustainability of colleges and universities in Scotland – Review report in October 2020, Coherence and Sustainability: Financial Sustainability of colleges and universities in June 2021, SFC/CP/02/2022, and more recently SFC/CP/01/2024 and the May 2025 financial sustainability analysis.

1 Scotland's Rural College (SRUC) is classed as a higher education institution and is covered in the publication Financial sustainability of universities in Scotland 2022-23 to 2026-27.

SFC monitoring and engagement

SFC monitors and assesses the financial health (sustainability and viability) of colleges and supports them in making the best use of their resources through regular engagement and analysis of financial returns which colleges are required to submit to SFC each academic year. SFC also considers colleges' individual circumstances and exposure to risk, capacity to respond to financial challenges and other relevant available information.

Financial sustainability is a condition of grant set out in SFC's Financial Memorandum with colleges. Colleges are responsible for their own financial sustainability and are required to notify SFC if they identify material risks to their financial viability or sustainability.

SFC increases levels of engagement and monitoring activity for those colleges facing significant risks to their financial health. SFC works closely with such colleges to understand and assess the problem areas and requires colleges to develop transformation plans to bring them back to a sustainable position. This informs SFC's overall Outcomes Framework and Assurance Model, which sets out SFC's expectations of colleges and universities in return for the funding that they receive.

Photo: Sabhal Mòr Ostaig

Photo: Dumfries and Galloway College

Financial health of the college sector

Key messages

Colleges continue to operate in an extremely tight fiscal environment alongside many challenges such as increasing staff costs, general cost pressures and high energy costs. Increasing staff costs are the largest factor and are likely to remain a significant pressure as they constitute over two thirds of colleges' expenditure.

The financial position of colleges continues to be extremely challenging. The sector reported an adjusted operating deficit of £1.2m in 2023-24. This represents an improvement against the 2022-23 result (£14.7m deficit) due to reductions in staff costs reflecting voluntary severance activity. Nine colleges reported adjusted operating deficits in 2023-24.

The sector's adjusted operating deficit is expected to increase to £10.7m in 2024-25. This deterioration against 2023-24 reflects higher staff costs (due to pay pressures) partly offset by higher tuition fees and other operating income and lower other operating costs. Seventeen colleges (68%) expect to report adjusted operating deficits in 2024-25.

Further substantial adjusted operating deficits are forecast over the next three years. Twenty-two colleges (92%) are forecasting adjusted operating deficits in 2025-26, reducing to 21 colleges (88%) in 2026-27 and 20 colleges (83%) in 2027-28. **These forecasts show that most colleges are not sustainable.** We have previously reported that colleges take a cautious approach to forecasting, often resulting in better than anticipated results. This position has changed due to the current challenging financial environment and improvements on forecast will be extremely difficult to deliver.

Colleges remain highly dependent on SFC grant which is forecast to remain at 77% of total income. Forecasts include relatively flat SFC grant set against pay pressures including annual pay awards and rising employer National Insurance contributions and pensions. As a result of these pressures, many colleges have highlighted that savings required to balance their operating position would have profound negative impacts on curriculum delivery, student numbers and quality of provision, staff numbers and morale, and local communities. **An increasing number of colleges have reported that continued savings of that scale will not be achievable.**

Staff costs continue to be the largest element of colleges' spend at just under 70% of total costs. These costs are the focus of savings as colleges urgently try to balance their budgets in the current fiscal environment. Colleges have limited flexibility on pay deals due to national bargaining and public sector pay policy, staff savings are necessarily focused on reducing staff numbers. The sector reported staff restructuring costs of £10.2m in 2023-24 and forecasts staff restructuring costs of £7.4m in 2024-25 and £1.9m in 2025-26. Based on current forecasts, staff reductions of 667 Full Time Equivalents (FTEs) are projected over the period from 2024-25 to 2027-28, equating to the potential removal of 6.6% of FTE staff employed in the sector. Staff reductions are expected to be achieved through a combination of vacancy management, voluntary severance schemes and, as a last resort, compulsory redundancy.

Estates issues are directly driving serious financial issues in many colleges. Issues such as extensive backlog maintenance, RAAC, and defective cladding are key drivers in this. However, the estates also require to be modernised and rationalised in some colleges to meet current teaching, curriculum and regional skills needs. The ongoing work on the College Infrastructure Investment Plan (College IIP), due to be published in Autumn 2026, will allow SFC to better prioritise expenditure on estates in the future.

The sector reported an aggregate cash balance of £130.5m at the end of 2023-24 but cash reserves are forecast to deteriorate to £35.1m by the end of 2025-26 and a negative position of £46.2m by the end of 2027-28. This reflects colleges' weak operating position and there is an imminent risk of some colleges becoming insolvent by the end of the 2025-26. While no college reported a cash deficit at the end of 2023-24, four colleges are forecasting a cash deficit by the end 2025-26, increasing to 12 colleges by the end of 2027-28. This deterioration in liquidity makes it increasingly difficult for colleges themselves, and SFC, to support the financial sustainability of colleges. It also makes it difficult for colleges to rebalance their cost base requiring self-funding staff restructuring activity.

Net cash flow from operating activities is also deteriorating. The number of colleges reporting net cash outflows is expected to increase from twelve (48%) in 2023-24 to eighteen colleges (75%) by 2027-28. This reflects their weak operating position and indicates that most colleges do not expect to generate enough cash to repay debt or invest in their estates.

As expected, overall sector borrowing (loan debt, finance leases and Non-Profit Distributing (NPD) commitments) reduced from £220.2m at the end of 2022-23 to £207.6m by the end of 2023-24. Borrowing is forecast to reduce further to £164.9m by the end of 2027-28. Most of the sector's borrowing is in the form of NPD commitments relating to three colleges. The remainder is legacy borrowing, in existence prior to the reclassification of colleges to the public sector, which has to be repaid over the term of the borrowing. Colleges haven't been able to undertake any new external borrowing since their reclassification. The borrowing figures exclude cash deficits projected by many colleges. **The weakening liquidity increases the risk of covenant breaches and heightens the risk of colleges defaulting on debt repayments including NPD commitments.**

The position beyond 2025-26 is uncertain. The assumptions used for these forecasts included:

- Unchanged SFC grant (core teaching funding) for 2026-27 and 2027-28 with mitigations included in 2025-26 funding allocations to be unwound over the three academic years 2026-27 to 2028-29.
- Pay awards of 9% (in line with public sector pay policy) covering the three years 2025-26 to 2027-28.
- Local assumptions for non-staff costs.

Colleges have also provided SFC with alternative scenarios based on more pessimistic planning assumptions which show an even greater deterioration in the sector's financial position.

It is important to note that:

- The sector is not homogeneous and there is significant variation in the financial position of individual colleges that is not reflected in the aggregate indicators.
- The financial sustainability of the sector remains extremely fluid with assumptions being constantly updated as circumstances change. The results can only be viewed as a snapshot in time and are historic. Forecasts are not a guarantee of future performance returns and are highly likely to change over the planning period.

Audit Scotland is also expected to highlight a challenging financial position for the college sector in its overview report due to be published in early October.

Photo: Forth Valley College

Risks to colleges' financial health

Colleges identified many risks in their returns which could adversely affect their financial health and ability to achieve student activity and other income targets. The most significant risk areas for colleges relate to:

Increasing staff costs, despite planned restructuring activity. This is due to cost of living pay awards and national pay bargaining, increases in employer contributions to National Insurance (NI) and pension schemes, and the outcome of the job evaluation exercise for support staff.

Difficulties in meeting activity thresholds due to demographic impacts and prospective students securing employment or obtaining places at universities instead of going to college, albeit this has been ameliorated by the 10% reduction in SFC's credit thresholds in 2023-24.

The requirement for colleges to self-fund the staff restructuring costs with no funding available from SFC or Scottish Government to support these costs and very limited cash in the college sector.

Further flat cash funding or unanticipated reductions in capital and revenue funding which would put significant added pressure on colleges to maintain a sustainable trajectory. This risk is increasingly likely to materialise given the current fiscal pressure facing the Scottish Government.

The uncertain macro-economic outlook, rising inflation and persistently high interest rates coupled with the fact that the UK has been in a technical recession.


Photo: UHI Inverness

Energy costs remain high against historic levels after substantial spikes in recent years.

The impact of cost efficiencies (including reduced staff numbers, frontline student services and potential closure of campuses) on the quality of student experience, the health and wellbeing of college staff, and breadth and depth of the curriculum offered to students.

The impact of the outcome of the Independent **Review of Skills Delivery and Purpose and Principles.**

The uncertainty of the UK Government's policies designed to mitigate the effects of leaving the European Union.

The lack of ability to address **backlog estates maintenance and digital requirements** to deliver a 21st century learning and teaching requirement.

The requirement for colleges to invest in the **achievement of public sector net zero targets** with the recent estimate of the costs of achieving net zero targets across the UK FE sector being £6.7bn[2].

The impact of reinforced autoclaved aerated concrete (RAAC) on the college estate with remediation and potential building closures required to make affected buildings safe for use.

Diversifying income and generating commercial surpluses is difficult due to:

- Increased competition from external providers with lower cost bases.
- Forecast funding limiting the sector's ability to expand their offer which may require additional investment.
- The lack of fiscal flexibilities to borrow and exploit further commercial opportunities.

2 The Cost of Net Zero | EAUC

Mitigating actions

From 2023-24 onwards, SFC has extended the following flexibilities to colleges to help limit their exposure to recovery of funding:

- A reduced credit threshold while maintaining broadly the same level of funding as in 2022-23.
- A 2% tolerance on the reduced credit threshold.
- The alignment of the required date with universities for claiming credits.
- The decoupling of 20% of the value of credits to represent colleges' semi-fixed costs.

Colleges have provided assurances that they are addressing the risk of under-delivering against student activity thresholds through the following:

- undertaking scenario and contingency planning;
- proactive budget monitoring;
- effective curriculum planning and management;
- developing stronger partnerships with schools, universities, employers and industry;
- increased marketing activity;
- implementation of business process improvement initiatives; and
- shift in delivery patterns.

Specifically, colleges are using a broad range of measures including:

- more online/blended learning, more part time and short courses (responding to learner demand);
- curriculum rationalisation and consolidation (including removal of low-demand courses) and development of new curriculum areas;
- reduced teaching time;
- larger class sizes; and
- closer engagement with local employers.

Colleges remain heavily reliant on SFC grant which accounts for 77% of their total income. They are continually seeking to increase levels of alternative income streams. However, generating commercial income in the current fiscal environment can be challenging as outlined earlier in the report.

Staff costs represent the largest element of college expenditure and are therefore the focus of savings. Colleges have been achieving the required savings largely through voluntary severance means. Several colleges have raised the possibility of compulsory redundancies as a last resort should they not achieve the savings through voluntary severance. They have also highlighted that operational impacts of staff reductions are serious in terms of the impact on student outcomes (quality, retention and other performance indicators), the impact on mental health, morale and turnover of remaining staff, as well as the college's reputation.

Other mitigating actions include: tighter controls on expenditure (including review of all purchase orders and cutting back on temporary staff costs); freezing non-essential expenditure; and delaying capital expenditure plans. Colleges have indicated that the capacity for the generation of non-staff cost savings is limited because of past actions to reduce these costs and continuing inflationary pressures.

Colleges are also actively reviewing their estates to identify disposals that could generate cash to fund restructuring activities. To this end, a number of colleges are actively reviewing whether one or more of their campuses require to be closed. SFC has recently published revised disposals guidance. This guidance also covers the arrangements in relation to the use of proceeds from disposals of land and buildings, providing more flexibility.

To support colleges in their transformation within the currently available funding, SFC launched the College Transformation Framework (CTF) in May 2025. Recognising the current fiscal pressures, the key focus of the CTF is to secure a sustainable college sector with a flexible funding model and curriculum. The CTF allows colleges to vary, for a fixed period, the delivery of credits from the thresholds set during the annual funding round, without impacting their core teaching grant. It provides a mechanism that could be used to support colleges to transition to a more sustainable footing from within existing budgets.

It is important that colleges take decisive action to adapt to specific financial challenges and other uncertainties. This may need to include very difficult decisions for some colleges. Financial challenges will affect individual colleges differently and each college will have its own range of mitigating actions available. We expect colleges to be alert to the risks to their financial health and have contingency arrangements in place to address them. We encourage colleges to constantly review and consider the range of options available to them so they can take corrective action rapidly as and when risks begin to emerge. However, as the scale of financial challenges has increased, colleges are finding it more difficult to make savings without undertaking more significant strategic changes to the way they operate.

Photo: West Lothian College

Financial performance of the college sector

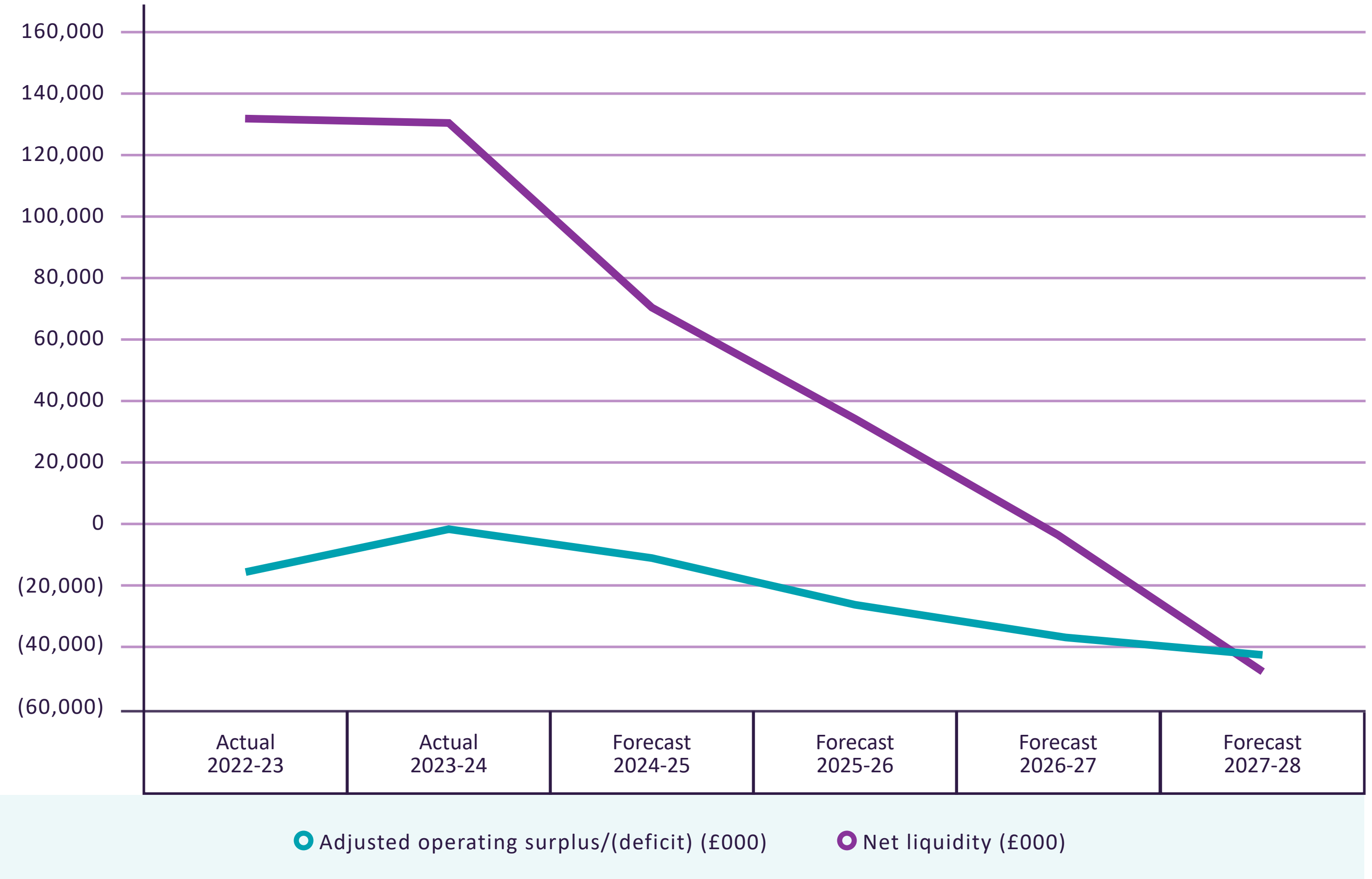
This section reports on the results of our analysis of data from colleges' 2022-23 and 2023-24 annual accounts returns and the 2025 Financial Forecast Return (FFR) which provides forecast data for the academic years from 2024-25 to 2027-28. The table below provides a summary of key financial information for the college sector over these six years.

Summary of college sector aggregate key financial health indicators						
	2022-23 Actual	2023-24 Actual	2024-25 Forecast	2025-26 Forecast	2026-27 Forecast	2027-28 Forecast
Total income (£000)	835,341	749,721	803,864	807,897	810,180	817,424
Total expenditure (£000)	882,606	824,297	846,583	866,779	879,773	893,799
Adjusted operating surplus/ (deficit) (£000)	(14,687)	(1,198)	(10,680)	(25,484)	(36,004)	(42,039)
Adjusted operating surplus/ (deficit) as % of total income	(1.8%)	(0.2%)	(1.3%)	(3.2%)	(4.4%)	(5.1%)
Cash flow from operating activities (£000)	24,062	26,311	(38,981)	(10,041)	(15,062)	(20,984)
Cash flow from operating activities as % of total income	2.9%	3.5%	(4.8%)	(1.2%)	(1.9%)	(2.6%)
Net liquidity (£000)	131,947	130,482	70,414	35,117	(2,921)	(46,165)
Net liquidity days	59	63	33	16	(1)	(20)
Total borrowing (£000)	220,214	207,624	197,031	186,175	175,839	164,893
Total borrowing as a % of total income	26%	28%	25%	23%	22%	20%

*There are no figures for UHI North West and Hebrides in 2023-24 as its annual report and accounts had not been finalised at the time of writing this report.

The table above and graph below show the deteriorating financial health of colleges after 2023-24 as indicated by increasing deficits and deteriorating liquidity. Within the overall sector trend, there remains a significant variation in financial performance for individual colleges across all years.

College sector adjusted operating position and net liquidity (£000)



* There are no figures for UHI North West and Hebrides in 2023-24 as its annual report and accounts had not been finalised at the time of writing this report.

The substantial deterioration in the sector's operating position and liquidity over the forecast period is largely due to: increases in pay inflation agreed through National Bargaining exceeding savings from staff restructuring; self-financed severance costs; forecast flat SFC grants; and reduced other income. It is important to note that a portion of the college cost base is fixed or semi-fixed as it forms part of the infrastructure for curriculum delivery. This makes further cost reductions more difficult for colleges to achieve. Increasing commercial income is also challenging due to the fixed cost base which makes it difficult for colleges to compete with alternative providers.

A table showing 2022-23 and 2023-24 operating position, adjusted operating position, liquidity and borrowing for each college is at Annex A.

Adjusted operating position

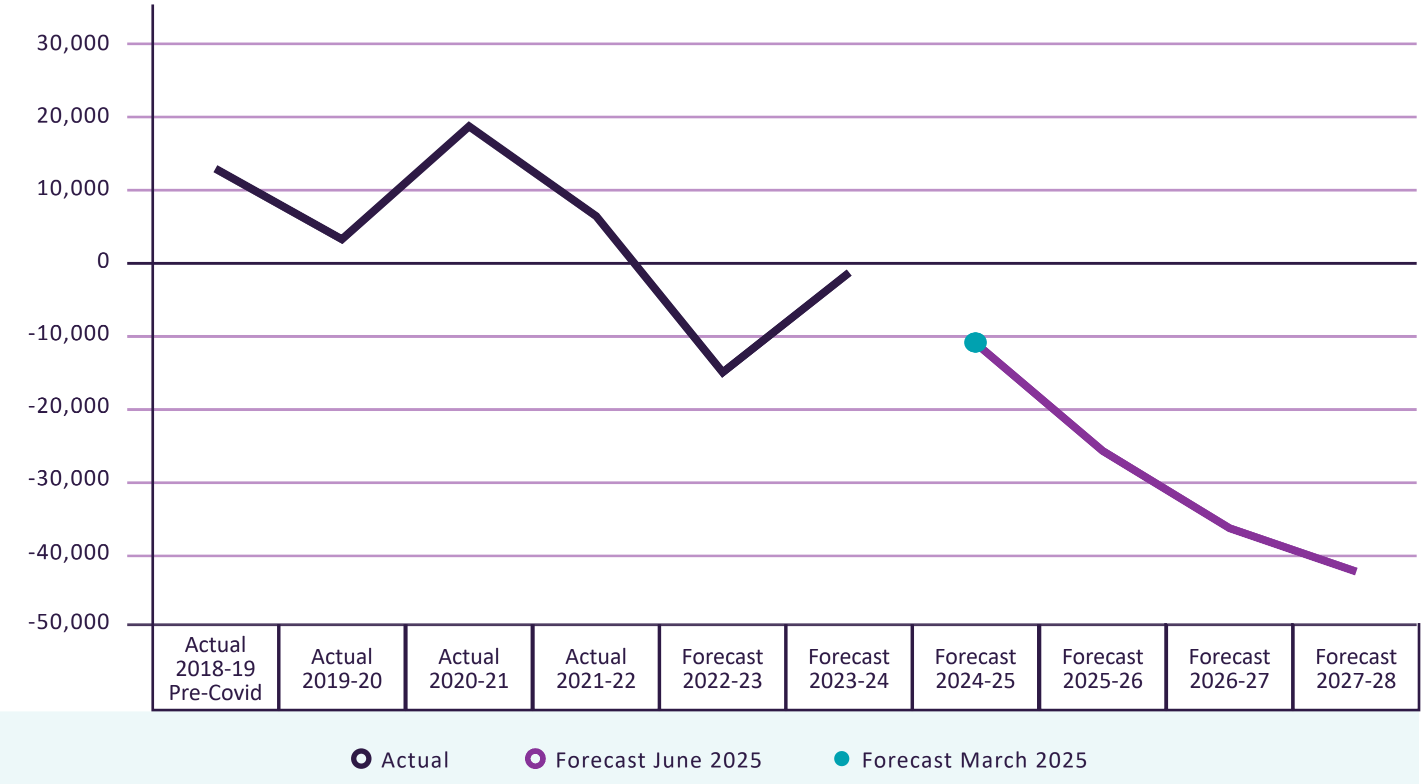
The adjusted or underlying operating position reflects the financial performance of colleges after allowing for non-cash adjustments and other material one-off or distorting items required by the FE/HE Statement of Recommended Practice (SORP). This smoothes volatility in reported results arising from the implementation of Financial Reporting Standard 102 and recognises that some of the reported costs do not have an immediate cash impact on the colleges. This gives a better indication of colleges' operational cash generating capacity and a clearer picture of colleges' short-term financial health.

The methodology for calculating the adjusted operating position, outlined in Annex D, has been agreed with the sector to ensure a consistency of approach in the interpretation of colleges' financial performance.

Depreciation and pension adjustments (non-cash items that are beyond a college's immediate control) account for most of the difference between the operating position and the adjusted operating position. Incorporated colleges receive a 'non-cash' budget to cover depreciation, but this additional budget is not recognised under the FE/HE Statement of Recommended Practice (SORP) accounting rules. Annual Managed Expenditure (AME) pension adjustments may also impact on the reported operating position. Consequently, we expect to see continuing operating deficits reported across the college sector.

The graph below illustrates the marked deterioration in the operating performance of the college sector since 2018-19.

College sector: adjusted operating position 2018-19 to 2027-28



* There are no figures for UHI North West and Hebrides in 2023-24 as its annual report and accounts had not been finalised at the time of writing this report.

The sector reported an adjusted operating deficit of £1.2m for 2023-24 which represents an improvement against the previous year's result (£14.7m deficit). This improvement is mainly due to reductions in staff costs reflecting savings from voluntary severance activity. Staff restructuring costs of £10.2m were reported as the sector took action to mitigate the impact of pay awards. Other operating costs increased by 3% overall. Sector income decreased largely due to a reduction in SFC grant income related to the change in accounting treatment following Scottish Government confirmation that responsibility for Job Evaluation funding commitments rested with them until the process is complete. Consequently, colleges were required to remove the assumed SFC grant income with the current year cost provision being adjusted through the adjusted operating position calculation.

Income from tuition fees and education contracts increased by 3% with a rise in FE fees and education contract income offsetting reduced HE fees. Other operating income reduced by 7% mainly due to a fall in grants from arms-length foundations, where funds are largely depleted, and residences and catering income.

The 2024-25 forecast shows a sector adjusted operating deficit of £10.7m. The deterioration against the 2023-24 outturn reflects higher staff costs (due to pay pressures) partly offset by higher tuition fees and other operating income and lower other operating costs. Further substantial operating deficits of £25.5m, £36m and £42m are projected for 2025-26, 2026-27 and 2027-28 respectively.

We have previously reported that colleges take a cautious approach to forecasting, often resulting in better than anticipated results. This position has changed due to the current challenging financial environment and improvements on forecast will be extremely difficult to deliver.

Nine colleges reported an adjusted operating deficit in 2023-24 compared to 21 colleges in 2022-23 (including 3 colleges that merged on 1 August 2023). A total of 17 colleges (68%) expect to report adjusted operating deficits in 2024-25, increasing to 22 colleges (92%) in 2025-26 before reducing to 21 colleges (88%) in 2026-27 and 20 colleges (83%) in 2027-28.

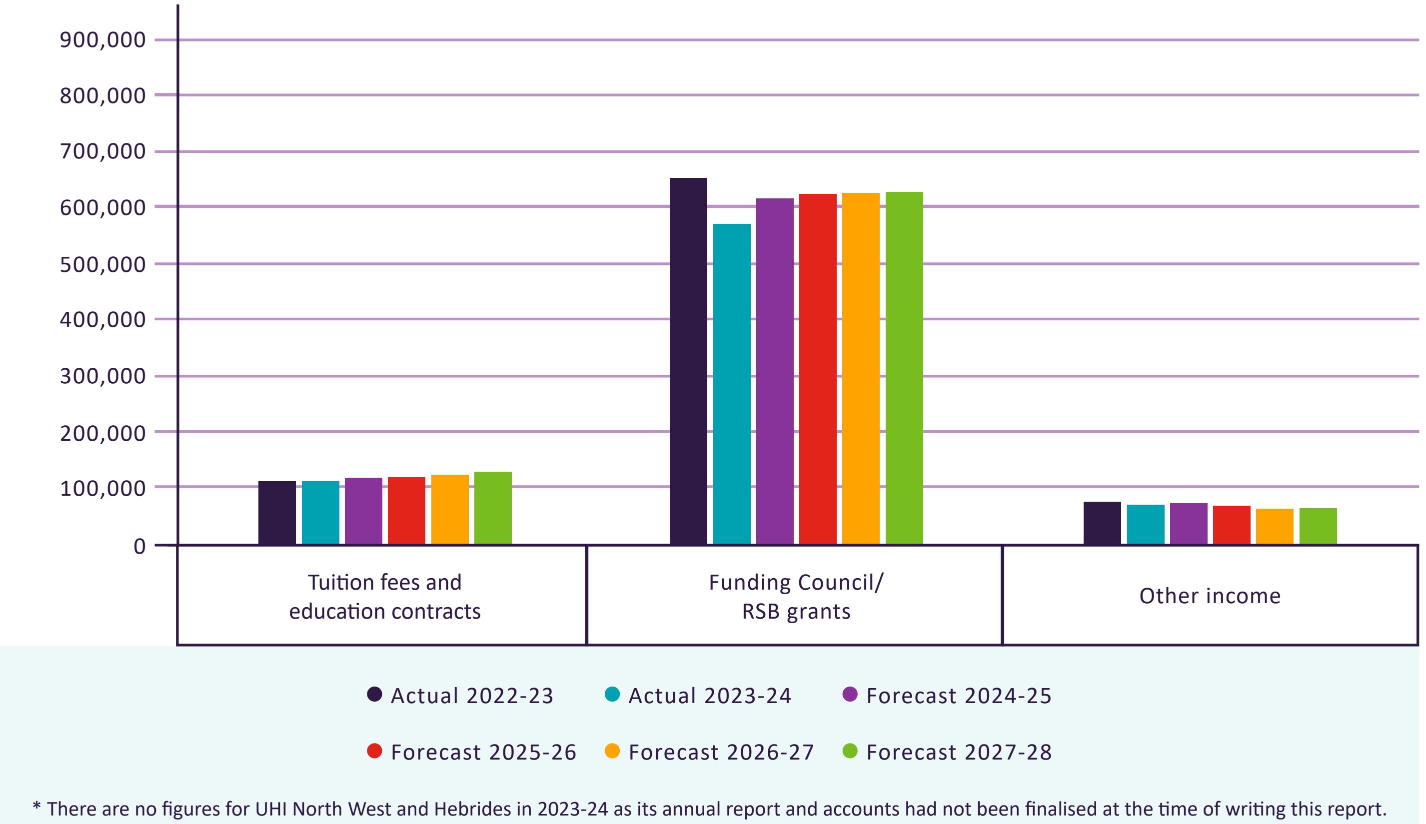
Whilst recognising that forecasts reflect a snapshot in time, the number of colleges forecasting adjusted operating deficits is of real concern with most colleges not sustainable on the basis of these forecasts. Alternative scenarios with more pessimistic planning assumptions put forward by some colleges show an even greater deterioration in the sector's financial position.

Photo: Dundee and Angus College

Income

The graph below shows the projected movement in sector income over the period from 2022-23 to 2027-28.

College sector: sources of income (£000)



* There are no figures for UHI North West and Hebrides in 2023-24 as its annual report and accounts had not been finalised at the time of writing this report.

Total sector income decreased by £85.6m (10%) in 2023-24 due to a change in accounting treatment for support staff job evaluation grant. From 2017-18 onwards, colleges had been providing for the estimated costs of support staff job evaluation and associated SFC grant funding. During 2023-24 the Scottish Government confirmed that responsibility for Job Evaluation rested with them until the process is complete. Consequently, colleges were required to remove the assumed SFC grant income with the current year cost provision being adjusted through the adjusted operating position calculation.

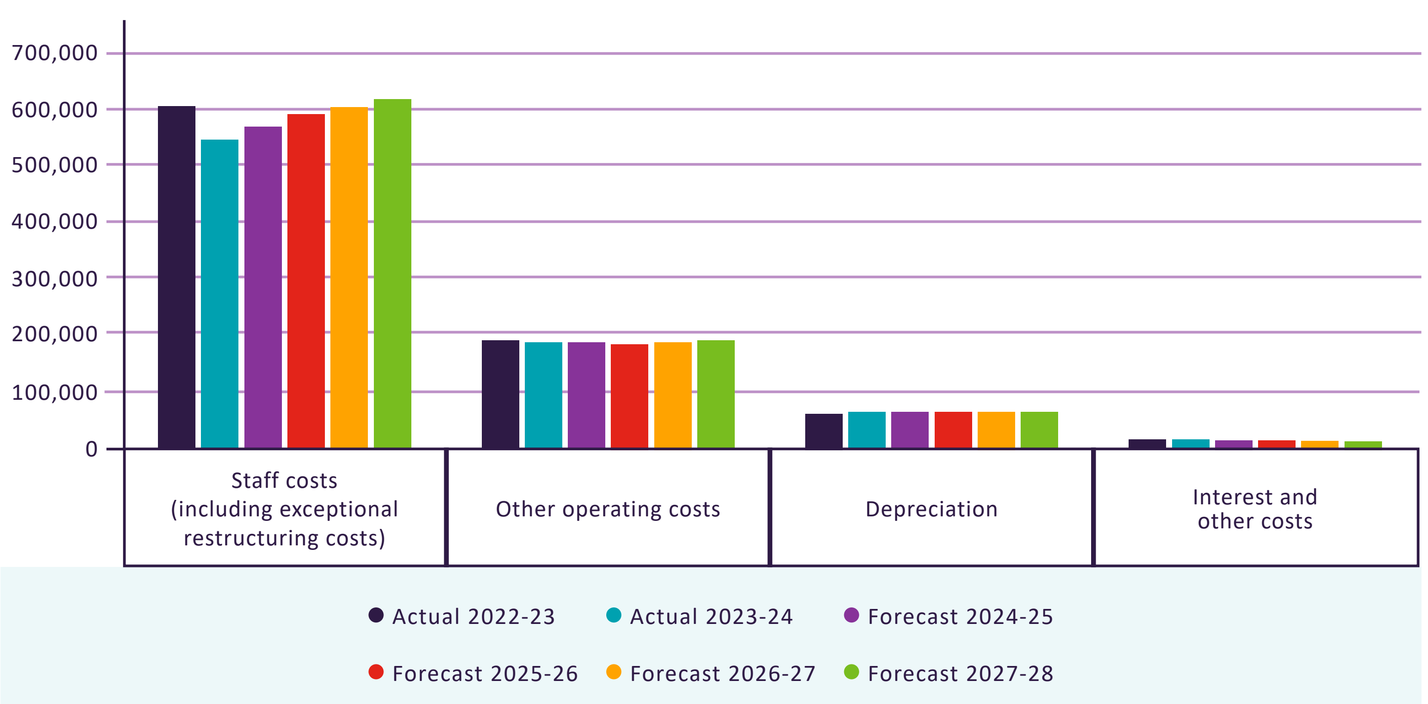
Income is forecast to increase by £54.1m (7%) in 2024-25 with further marginal increases projected over the remainder of the planning period. This is due to an expected increase in tuition fees and education contract income, which is the primary source of non-SFC income. Colleges received additional SFC funding to cover increased employer pension contributions to the Scottish Teachers Pension Scheme (STPS) in 2024-25, and additional funding in 2025-26 to cover a proportion of the costs arising from the rise in employer National Insurance contributions from April 2025. Colleges remain heavily dependent on SFC grant. This is projected to remain at around 77% of total sector income throughout the forecast period although there is some variation in grant reliance across the sector. In 2024-25, all colleges forecast achieving their credit thresholds (within the 2% tolerance) and are therefore not expected to be subject to recovery of funds. This was also the case in the previous year.

Other operating income including residences and catering income as well as income from trading subsidiaries, is expected to reduce from 2024-25 levels over the forecast period. Other operating income also includes grants from local arms-length foundations (ALFs) of over £4m in 2024-25 and £2.1m in 2025-26. The bulk of the grants provided by ALFs are expected to be used for funding revenue projects (for example covering salary costs of student mental health mentors) and severance costs. A lesser amount is expected to be used to support estates plans and refreshing of colleges' digital infrastructure. There has been a steady decrease in ALF balances over the last decade from £99m in 2014 to £8m in 2024. With a further forecast reduction to £7m in 2025, only 7% of the original balance is expected to remain after 11 years.

Expenditure

The graph below shows the projected movement in sector expenditure over the period from 2022-23 to 2027-28:

College sector: types of expenditure (£000)



* There are no figures for UHI North West and Hebrides in 2023-24 as its annual report and accounts had not been finalised at the time of writing this report.

Staff costs represent the largest element of expenditure for colleges at just under 70% of total costs. These costs are the focus of savings as colleges urgently try to balance their budgets in the current fiscal environment. Staff costs are projected to increase over the forecast period. This reflects the continued impact of pay awards agreed through National Bargaining and rise in employer National Insurance contributions partially offset by continued savings generated from voluntary severance.

The pay award for 2022-23, 2023-24 and 2024-25 was agreed by support staff with an average increase of £5,000 for staff over that period. In August 2024, lecturing staff reached agreement with the same pay award in 2024-25 but with an additional 4.14% agreed for 2025-26 (effective from 1 September 2025). Three percent of this will be funded by Scottish Government.

Public Sector Pay Policy (PSPP) for the three financial years 2025-26 to 2027-28 was published by Scottish Government in December 2024. Colleges were asked to assume a total pay award of 9% over these three years within their forecasts, in line with PSPP.

Public sector pension costs for the Scottish Teachers Pension Scheme have increased from April 2024 following a rise in employer contribution rates from 23% to 26%[3]. Employer contributions to the Local Government Pension Schemes (LGPS) have decreased slightly with some variations between individual schemes.

Other operating costs increased by £6.4m (3%) in 2023-24 against 2022-23 levels reflecting continuing inflationary pressures. Other operating costs are forecast to reduce by £4.7m (2.4%) in 2024-25 and by £3.7m (1.9%) in 2025-26 due to lower premises costs and reflecting other cost efficiencies which are being sought by colleges as part of their plans to reduce the cost base. Achieving these efficiencies will be difficult considering current cost pressures.

Staff restructuring plans

As highlighted above, staff restructuring is the main route to achieving savings for colleges. Eighteen colleges spent £10.2m on staff restructuring costs in 2023-24 (2022-23: £13.5m across 13 colleges). Colleges intend to spend a further £10.9m on staff restructuring activity over the forecast period. This is expected to be funded from within colleges' existing resources. Several colleges have indicated that they may have to resort to compulsory redundancies to achieve the level of savings required to rebalance their financial position.

In addition to voluntary and compulsory severance, colleges are also generating savings through vacancy management. Vacancy management savings can be permanent through the deletion of posts after a member of staff leaves, or temporary by delaying the recruitment of the post for a period. Some colleges continue to report difficulties in filling vacant posts due to the current labour market.

Savings tend to be generated in the year after the voluntary severance investment is made due to departures occurring at or towards the end of the academic year. Voluntary departures are becoming more difficult for colleges to secure. This is due to the volume of severance activity previously undertaken and the perceived unattractiveness of the terms of schemes to those staff that remain. Some colleges are no longer able to afford voluntary severance. The compressed timeframe for achieving savings can also lead to institutions considering compulsory redundancies.

There is an expected reduction of 667 FTE over the forecast period which equates to the removal of 6.6% of FTE staff employed in the sector. Colleges have highlighted the impact of this level of staff reduction on student experience. This could compromise colleges' ability to deliver both the breadth and quality of provision and there is a risk to maintaining business as usual when undertaking such fundamental restructuring.

The level of staff reductions, including the potential for compulsory redundancies, has already led to industrial relations challenges at several colleges, including ballots for industrial action.

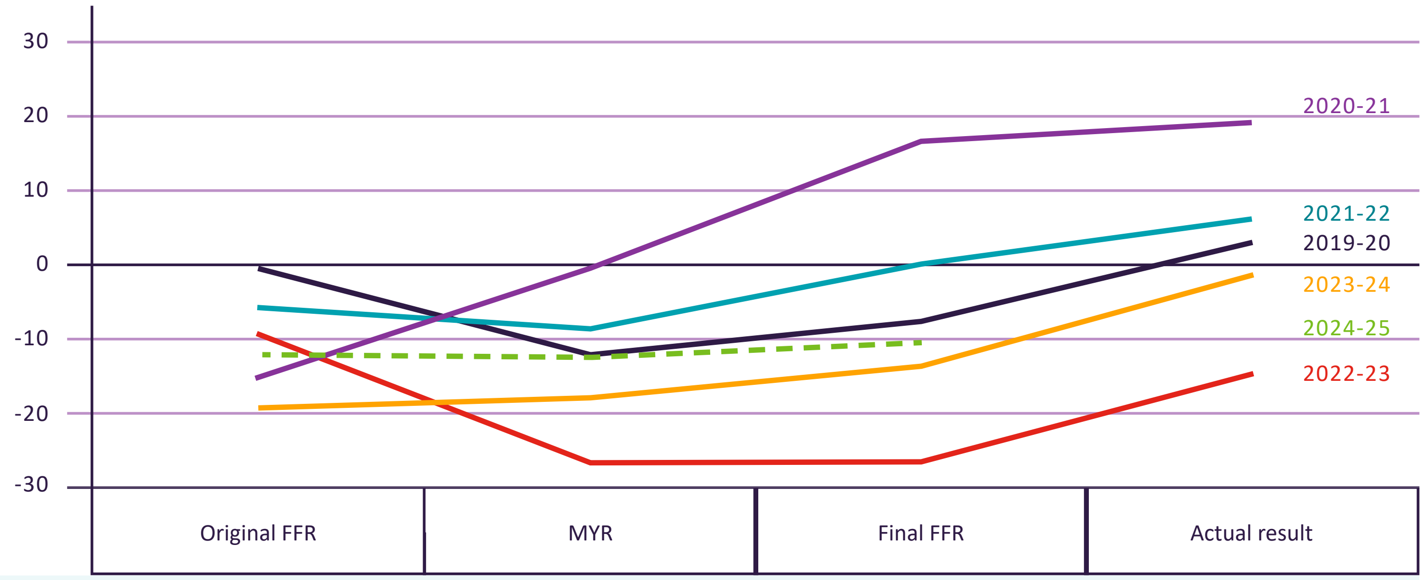
Accuracy of forecasting

For most colleges, movements between actual and forecast figures can largely be explained by adjustments being made as colleges react to new information. In the last few years, forecasting was difficult due to the uncertainty surrounding the impact of the pandemic, coupled with economic uncertainty. To consider the accuracy of forecasting we use historical forecasts and compare them to the actual results. The actual 2024-25 results will not be received until 31 December 2025.

3 Updated employer contribution rates for police, NHS and teacher schemes | SPPA (pensions.gov.scot)

The movements in the adjusted operating position for academic years from 2019-20 to 2023-24 and forecasts for 2024-25 are set out in the graph below:

College sector: adjusted operating surplus/(deficit) (£million)



2019-20 2020-21 2021-22 2022-23 2023-24 2024-25

* There are no figures for UHI North West and Hebrides in 2023-24 as its annual report and accounts had not been finalised at the time of writing this report.

Improvements in actual outturn against forecast have occurred in most years as shown in the graph above. These movements can be explained by adjustments colleges make to react to new information. For example, in-year allocations of SFC income which colleges were unaware of at the time of the preparation of their forecasts, reductions in provisions for recovery of SFC funding due to the timing of SFC assessments and changes in restructuring costs recognised at the year-end.

The graph shows that there have not been any significant variances between the forecasts provided to SFC in June 2024, March 2025 and June 2025. Unlike previous years, the three forecasts for 2024-25 are so far not hugely different. The final results, due at the end of December, will complete the picture on accuracy of forecasting for 2024-25.

We will continue to work with colleges on the accuracy of forecasting as part of our assessment of financial returns for 2024-25 and the current academic year. While SFC recognises that colleges need to make adjustments to their forecasts as they react to new information, they should ensure that their forecasts are as accurate and dependable as possible in future years.

Financial position – financial strength and resilience

Liquidity

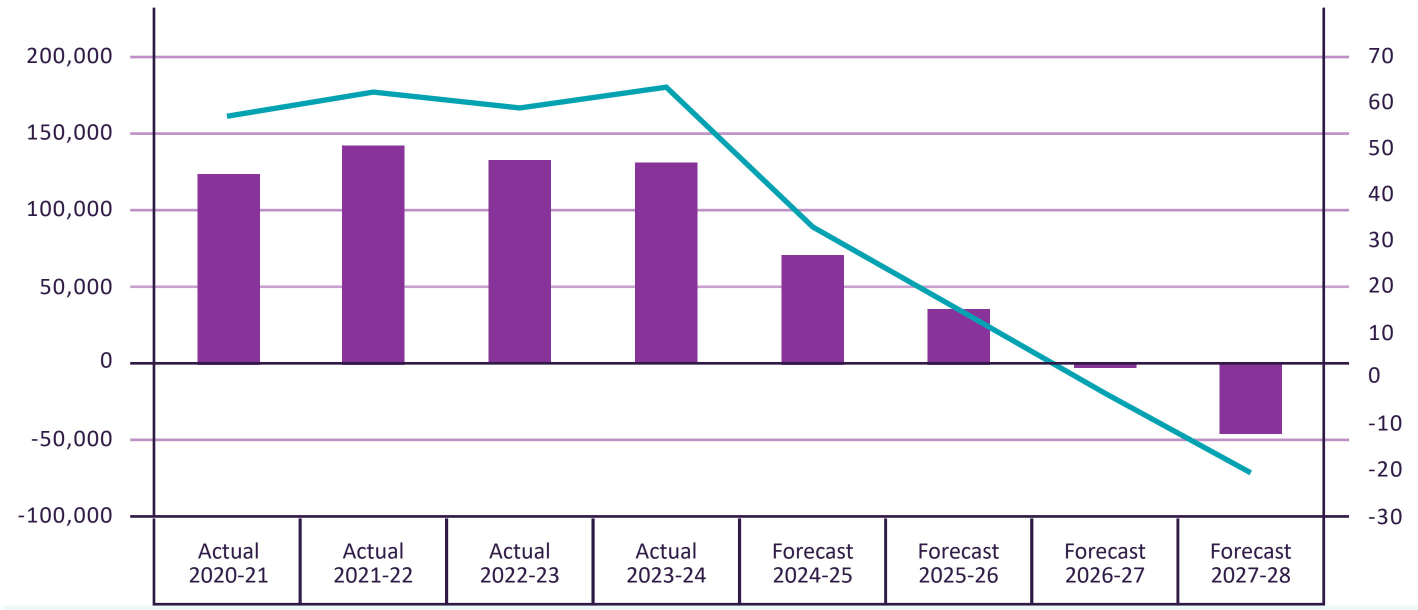
Adequate liquidity is vital for a college to remain solvent and continue their operations. It ensures the college has the necessary cash to cover short-term financial obligations, pay staff and manage any unexpected expenses. Low liquidity can cause a cash crisis and the inability to meet immediate financial needs putting the college at high risk of failing when faced with unexpected costs or liabilities. It can also restrict a college's ability to react quickly to market changes or seize new opportunities.

Liquidity of the college sector is forecast to deteriorate significantly over the three years of the planning period.

Cash balances

Cash balances (including short-term investments and overdrafts) and number of days expenditure held in cash reserves are key financial health indicators. The graph below shows the trend in levels of sector cash reserves and days ratio of cash to total expenditure over the period from 2020-21 to 2027-28.

College sector: liquidity



Net liquidity (£000) Net liquidity days

* There are no figures for UHI North West and Hebrides in 2023-24 as its annual report and accounts had not been finalised at the time of writing this report.

The sector reported a cash balance of £130.5m as at the end of 2023-24. Cash balances are forecast to reduce by 46% to £70.4m by the end of 2024-25 reflecting colleges' weak operating positions and the spend or return of unspent SFC ring-fenced grants (including the cash set aside for the lecturers' pay deal which was settled in September 2024). They are projected to further deteriorate to a negative balance of £46.2m at the end of 2027-28 (135% reduction on 2023-24 levels) reflecting continued weakening of colleges' operating positions.

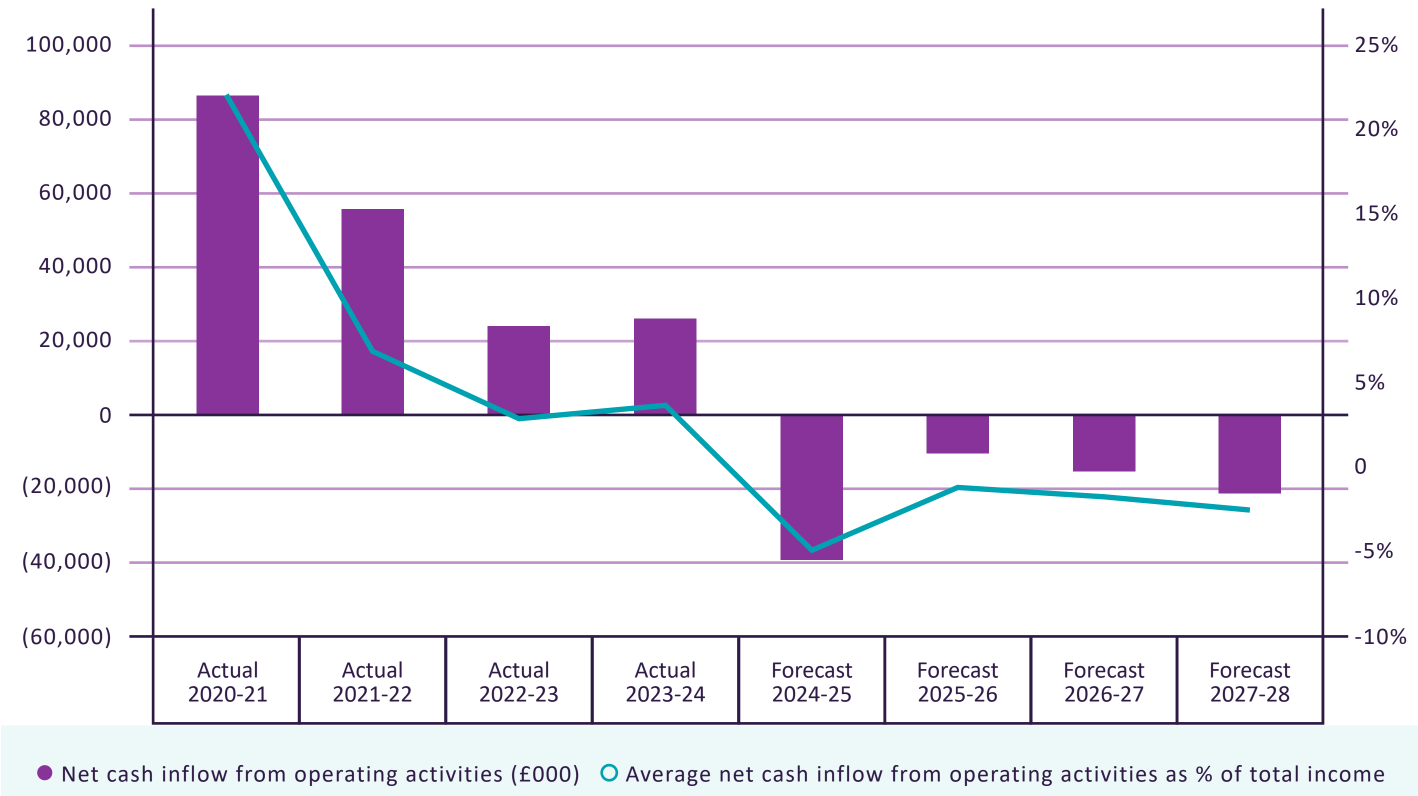
Seven colleges (28%) are forecasting less than 20 days' cash reserves at the end of 2024-25, increasing to 15 colleges (63%) by the end of 2025-26. Twenty days of cash or lower is an indicator of high financial health risk and therefore of concern to SFC. While no college reported a cash deficit at the end of 2023-24, 4 colleges are forecasting a cash deficit by the end of 2025-26, increasing to 12 colleges by the end of 2027-28.

Due to the increasing sector's cash deficit forecast from 2025-26 onwards, it will be increasingly difficult for colleges themselves, and SFC, to support the financial sustainability of colleges and for colleges to self-fund staff restructuring activity.

Cash flow

Net cash inflow from operating activities is an important measure of colleges' financial health. It illustrates a college's ability to generate sufficient cash to repay debt and invest in its estates. The graph below shows the trend of the sector's net cash inflow and net cash inflow as a percentage of total income over the period from 2020-21 to 2027-28.

College sector: net cash flow from operating activities



* There are no figures for UHI North West and Hebrides in 2023-24 as its annual report and accounts had not been finalised at the time of writing this report.

Photo: UHI North, West and Hebrides

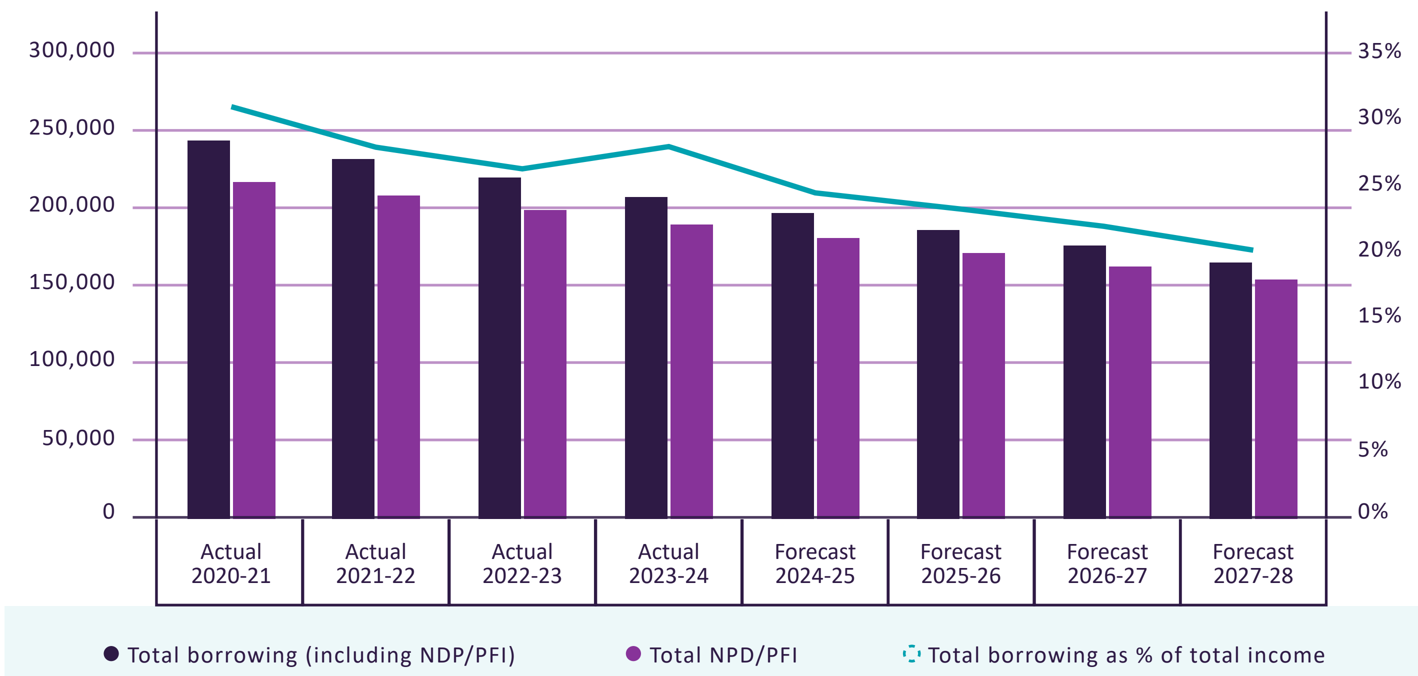
In 2023-24, there was an inflow of operating cash of £26m, equivalent to 4% of total sector income (2022-23: £24m inflow, 3% of income). The forecast for 2024-25 shows a net cash outflow of £39m (5% of total income) with further substantial net cash outflows projected in the next three years. Twenty colleges (80%) expect to report net cash outflows from operating activities in 2024-25, reducing to 18 colleges (75%) by the end of the forecast period.

This prolonged period of cash outflow in the college sector is unprecedented and indicates that most colleges do not anticipate being able to generate enough cash to repay debt or invest in their estates.

Borrowing

The graph below shows the trend in college sector level of borrowing and the ratio of borrowing as a percentage of total income over the period from 2020-21 to 2027-28.

College sector: borrowing



* There are no figures for UHI North West and Hebrides in 2023-24 as its annual report and accounts had not been finalised at the time of writing this report.

Total borrowing (including legacy bank loans, finance leases and Non-Profit Distribution (NPD)/Private Finance Initiative (PFI) commitments) is expected to reduce by 21% from £207.6m at the end of 2023-24 to £164.9m at the end of 2027-28 as expected. The bank loans relate to borrowing which existed prior to the reclassification of colleges to the public sector. This borrowing is forecast to decrease by 42% from £18.1m to £11m over the same period. Colleges have not been able to undertake any new external borrowing since reclassification. Eleven colleges (46%) are projecting outstanding borrowing at the end of 2027-28. It is important to note that the borrowing figures exclude any cash deficits projected by colleges in the forecast period.

The NPD model was used to procure buildings for three colleges (Ayrshire College, City of Glasgow College and UHI Inverness). The NPD model represented an alternative funding structure for public-private partnership projects that would previously have been carried out under the traditional PFI arrangement. Under the NPD model, colleges make monthly unitary charge payments which include the capital element of the loan together with interest, facilities management and building lifecycle costs. SFC provides the colleges with grants to fund the bulk of the unitary charge payments except for the facilities management costs and 50% of the building lifecycle costs.

There are no longer any PFI commitments in the college sector with the Ayrshire College Kilwinning campus PFI contract ended in June 2025.

No college reported any breach of bank covenants during 2024-25 or is forecasting doing so in 2025-26. Given the forecast deterioration in the sector's forecast operating and cash positions, there is a heightened risk of colleges breaching their covenants and defaulting on debt repayments in the later years of the forecast.

Capital Expenditure

Sector capital expenditure amounted to £81.1m during 2023-24, 117% higher than the previous year's total of £37.4m. The reason for the significant increase is expenditure on Fife College's Dunfermline Learning Campus. Capital expenditure of £148m is projected over the planning period. SFC capital grants are forecast to fund £134.2m of this expenditure with the remainder being financed through a mix of grants from arms-length foundations, non-SFC grants (such as City Deal funding) and colleges' own diminishing cash balances.

College Infrastructure Strategy

In November 2022, SFC published the College Infrastructure Strategy: The approach to delivering Scotland's College Infrastructure Plan. The strategy sets out the collective approach between SFC and colleges to develop a College Infrastructure Investment Plan (College IIP) for Scotland's colleges covering the period 2026-2036. The plan will identify infrastructure investment needs for the college sector, including investment in net zero, training equipment and digital infrastructure essential for a sustainable college estate.

In July 2025, SFC published the College Infrastructure Investment Plan: Progress Report providing an update on the first phase of work in the development of a 10-year College IIP. It outlined the significant work done to that date and, at a high level, the work to be progressed at pace, prior to publication of the full College IIP in Autumn 2026.

The baseline data obtained from colleges during the first phase of work provides SFC, for the first time ever, with a single comprehensive dataset of the entire college estate. This was a complex exercise with significant work done by colleges, SFC and others.

Photo: UHI Moray

Photo: UHI Perth

The following will be carried out in the next phase of work:

- Refresh college engagement process.
- Deploy the Scottish Capital Investment Manual (SCIM) processes for colleges including defining and testing objective evaluation criteria to progress and prioritise business cases and providing training for college estate teams in using the SCIM for colleges' documents.
- First annual update of baseline data using the Navigator tool including developing new sector guidance on measuring and capturing space utilisation, and exploring possible options for supporting colleges in providing data including space utilisation surveys, net zero data capture and measured building surveys.
- Updated infrastructure strategies for each college, noting that these are dependent on college curriculum plans.
- Explore Future Operating Models work.
- Continue research into alternative capital funding models with Scottish Government and Scottish Futures Trust (SFT).

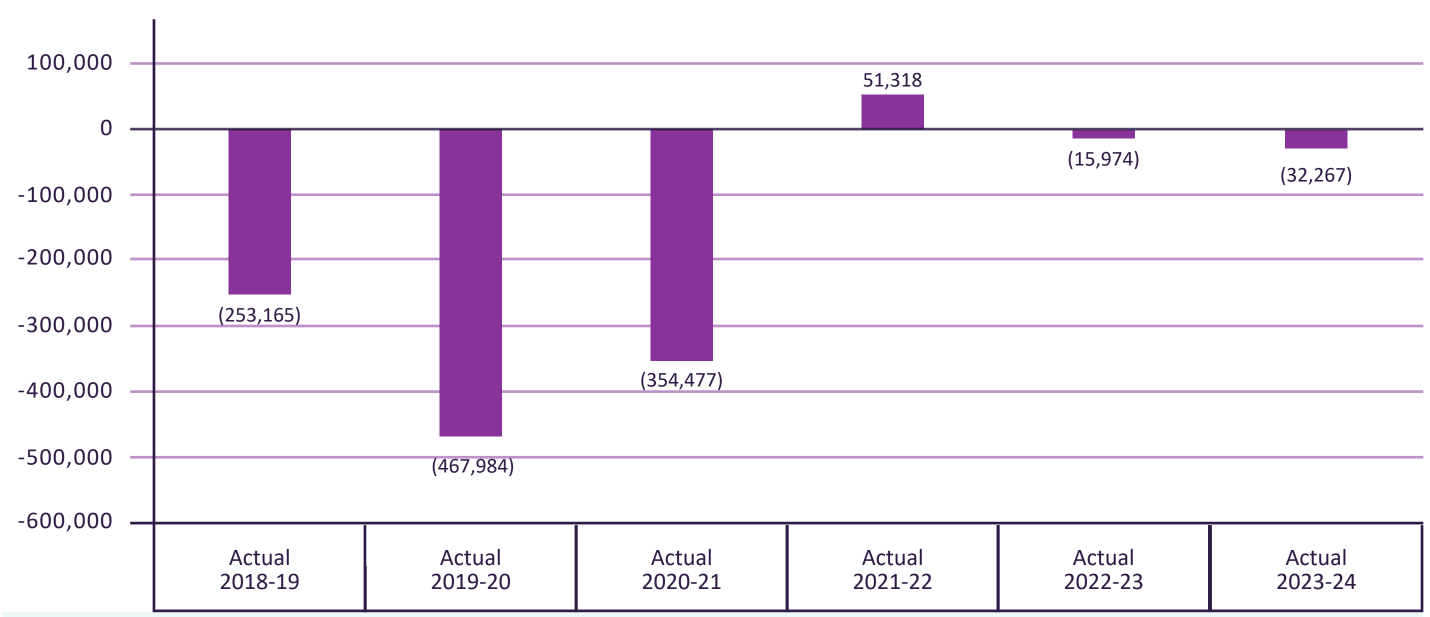
The full College IIP will be published in Autumn 2026.

Photo: Edinburgh College

Pension Liabilities

Nearly all college staff belong to one of the two pension schemes, the Scottish Teachers Pension Scheme (STPS) or the relevant Local Government Pension Scheme (LGPS). The STPS is a notional fund and, therefore, colleges are unable to identify and report their share of the underlying assets and liabilities. Pension liabilities reported in colleges' financial statements therefore relate to the LGPS multi-employer defined benefit schemes.

College sector: Sector Pension (Liability)/Asset (£000)



* There are no figures for UHI North West and Hebrides in 2023-24 as its annual report and accounts had not been finalised at the time of writing this report.

Pension liabilities are subject to often large fluctuations, caused by actuarial valuations of the pension scheme, as can be seen from the graph above. A pension liability is a future financial obligation to pay retirement benefits to current and former employees, not an immediate financial pressure. However, it does impact on the operating position of the colleges as any increases in pension liabilities have to be funded by increases in employer contributions, alongside employee contributions and investment returns generated by the pension fund.

The sector moved from reporting a pension asset of £51.3m at the end of July 2022 to a £32.3m liability at the end of July 2024.

Annex A: Summary: college sector operating position, underlying operating position, liquidity and borrowing

College sector: operating position, underlying operating position, liquidity and borrowing								
Incorporated colleges	Operating surplus/(deficit)		Adjusted operating surplus/(deficit)		Cash and cash equivalents less overdraft		Total borrowing	
	2022-23 Actual £000	2023-24 Actual £000	2022-23 Actual £000	2023-24 Actual £000	2022-23 Actual £000	2023-24 Actual £000	2022-23 Actual £000	2023-24 Actual £000
Ayrshire College	(3,896)	(7,267)	(1,153)	(336)	11,685	11,048	41,054	38,364
Borders College	(683)	(1,226)	(50)	65	3,881	3,554	0	0
City of Glasgow College	(3,219)	(827)	(2,836)	130	10,559	12,363	123,174	117,283
Dumfries and Galloway College	(999)	(2,151)	7	7	2,053	1,120	71	31
Dundee and Angus College	(2,406)	(3,895)	(86)	1,869	5,533	6,777	2,273	1,819
Edinburgh College	(3,003)	(7,080)	(63)	(495)	5,706	4,185	7,840	7,239
Fife College	(2,127)	(5,643)	284	920	23,409	19,878	3,239	2,898
Forth Valley College	(3,598)	(3,862)	164	985	5,300	4,446	2,984	2,772
GCRB	143	(183)	172	(193)	1,592	424	0	0
Glasgow Clyde College	(964)	(5,396)	(496)	192	10,143	11,617	0	0
Glasgow Kelvin College	(1,887)	(4,057)	(1,054)	426	4,154	3,493	227	227
UHI Inverness	(1,796)	158	(389)	(621)	6,775	8,619	34,771	33,830
UHI Outer Hebrides	(1,396)	n/a	(330)	n/a	206	n/a	0	n/a
UHI Moray	(971)	(2,513)	(408)	(1,050)	1,162	1,460	203	166
New College Lanarkshire	(4,622)	(4,412)	(3,196)	284	4,214	4,593	0	0
North East Scotland College	(1,186)	(2,850)	(180)	515	8,675	8,287	0	0
UHI North Highland	(2,922)	n/a	(767)	n/a	658	n/a	1,000	n/a
UHI North, West and Hebrides	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
UHI Perth	(3,169)	(5,851)	(1,582)	(1,768)	2,499	1,833	0	0
South Lanarkshire College	(1,023)	(1,677)	(254)	378	3,263	4,691	0	0
West College Scotland	(2,624)	(9,536)	398	56	11,080	13,801	774	456
West Lothian College	(2,796)	(3,033)	(1,717)	(532)	1,575	185	2,211	2,211
Total incorporated colleges	**(45,144)**	**(71,301)**	**(13,536)**	**832**	**124,122**	**122,374**	**219,821**	**207,296**
Non-incorporated colleges								
UHI Argyll	162	(1,292)	160	129	5,680	5,401	0	0
Newbattle Abbey College	105	96	132	117	387	649	0	0
UHI Orkney	(767)	(831)	(767)	(831)	n/a	n/a	n/a	n/a
SMO	(65)	36	(65)	36	1,077	792	393	328
UHI Shetland	(686)	(1,284)	(403)	(1,481)	342	1,266	0	n/a
UHI West Highland	(871)	n/a	(208)	n/a	339	n/a	0	n/a
Total non-incorporated colleges	**(2,122)**	**(3,275)**	**(1,151)**	**(2,030)**	**7,825**	**8,108**	**393**	**328**
Sector total	**(47,266)**	**(74,576)**	**(14,687)**	**(1,198)**	**131,947**	**130,482**	**220,214**	**207,624**

Annex B: College Regions

The college sector in Scotland comprises 19 incorporated colleges and five non-incorporated colleges[4]. Ten of the thirteen college regions consist of one college. The three remaining regions (Glasgow, Highlands & Islands, and Lanarkshire) had more than one college until 30 July 2025. The individual colleges in the Highlands & Islands are assigned to the Regional Strategic Body (RSB), University of the Highlands & Islands[5]. Similar arrangements in Glasgow and Lanarkshire were removed by the Regional Strategic Bodies and Regional Colleges (Glasgow and Lanarkshire) Order 2025[6], which came into force on 30 July 2025. The colleges formerly assigned to their respective RSBs are designated regional colleges. Details of all regions and colleges are set out on the next page.

Fundable bodies in the college sector can be incorporated or non-incorporated. Before the Further & Higher Education (Scotland) Act 1992, almost all publicly funded colleges in Scotland were run by local authorities. In 1993, most of these colleges were established with boards of management constituted under the 1992 Act. Colleges with a board of management constituted under the 1992 Act are commonly referred to as incorporated colleges. Incorporated colleges were reclassified as arms-length central government bodies in 2014 and are subject to Government budgeting and accounting requirements and are required to comply with the Scottish Public Finance Manual.

The 1992 Act does not govern the non-incorporated colleges which take a number of different legal forms and/or have differing constitutional arrangements. One non-incorporated college, Orkney College, is run by its local authority.

Photo: North East Scotland College

4 UHI Outer Hebrides, UHI North Highland and UHI West Highland merged to become UHI North, West and Hebrides from 1 August 2023.

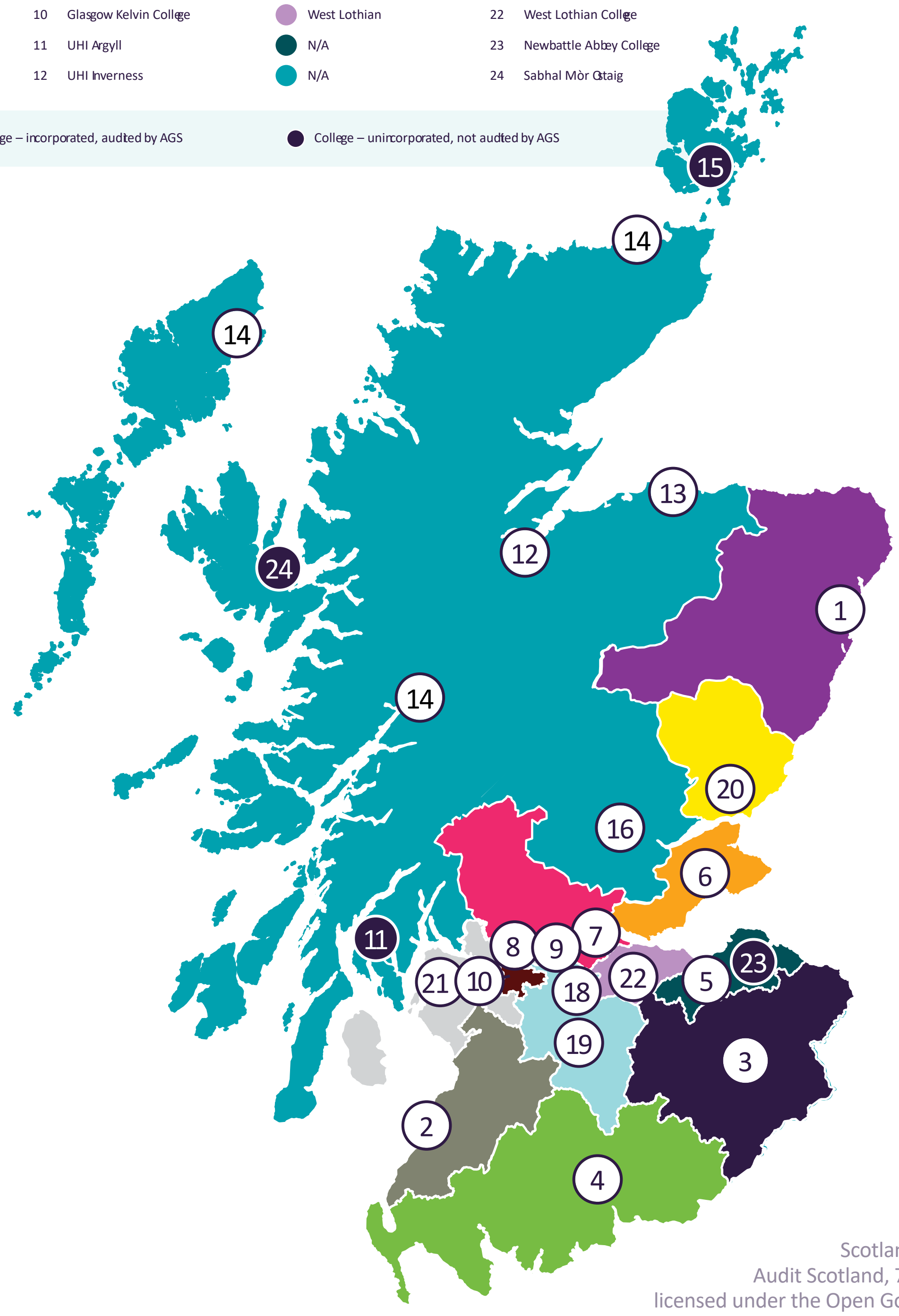
5 Six colleges (UHI Argyll, UHI Inverness, UHI Moray, UHI North, West and Hebrides, UHI Orkney and UHI Perth) are currently assigned to UHI with UHI Shetland due to be assigned in due course.

6 the Regional Strategic Bodies and Regional Colleges (Glasgow and Lanarkshire) Order 2025

Annex C:

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

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



Scotland's Colleges 2023,
Audit Scotland, 7 September 2023,
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Annex D: College adjusted or underlying operating position

The underlying operating position is a better indicator of colleges' operational cash generative capacity.

The adjustments to the operating position to arrive to underlying operating position for the colleges:

- Smooth the volatility in reported results arising from the FRS 102 accounting standard.
- Recognise some of the reported costs do not have an immediate cash impact.

The reported operating surplus/(deficit) figures have been adjusted for:

- Depreciation net of deferred capital grant (incorporated colleges only).
- Exceptional non-restructuring costs (impairments and lease dilapidation costs).
- Non-cash pension adjustments.
- Donations to arms-length foundations (ALFs) (incorporated colleges only).
- Non-Government capital grant (e.g. ALF capital grant).
- Exceptional income.
- Loan repayments (incorporated colleges only).
- Non-Profit Distributing Project (NPD) income applied to reduce NPD debt.
- Costs of job evaluation exercise not matched by revenue (from 2023-24 onwards).

Cover Photos:

Forth Valley College

UHI Inverness

UHI Perth

West Lothian College

Scottish Funding Council
Comhairle Maoineachaidh na h-Alba

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