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Chair  
Scottish Funding Council

By Email:  
chair@sfc.ac.uk

25 March 2026

Dear Cara,

### **Scottish Funding Council (SFC) Letter of Guidance 2026/27**

On behalf of the Scottish Government (SG), I am writing to provide strategic guidance to the Scottish Funding Council (SFC) for the financial year 2026/27, in your role as the national body for tertiary education, research, and knowledge exchange.

Let me begin by expressing my appreciation to you, the Board, and all SFC staff for your continued commitment and leadership: your work is instrumental to our shared goals for Scotland's tertiary education system.

As a Ministerially appointed Chair, alongside the Board, I know that you are very aware and diligent about the fact that you are responsible for ensuring that SFC's policies and actions support Ministerial priorities and decisions, and Ministers are relying on you to do that as we collectively progress our priorities. Further guidance may be issued during the year as priorities evolve, or pressures on capacity arise.

#### **Strategic context**

Ministerial priorities and the [National Performance Framework](#) continue to set the Scottish Government's strategic vision for Scotland. Eradicating child poverty is of particular importance, alongside growing a fair, green economy, responding to the climate emergency and ensuring sustainable public services. These ambitions also support the [National Strategy for Economic Transformation \(NSET\)](#).

SG is committed to delivering Public Service Reform (PSR) that is person-centred, fiscally sustainable, and focused on improving outcomes and reducing inequalities, particularly those linked to child poverty. The 2025 [Public Service Reform Strategy](#) sets out a system-wide approach built on three pillars: prevention, joined-up services, and efficiency.

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In line with these pillars, SFC should continue to lead by example and is expected to deliver its services efficiently and operate within a constrained fiscal environment. The strategy also emphasises the importance of collaboration and shared services across the public sector. Ongoing work to simplify the post-schools funding body landscape provides a clear opportunity to deliver PSR across public bodies in this space. SFC should continue to strengthen relationships, particularly across the education and skills landscape, to develop opportunities for strategic alignment, operational collaboration, and shared-service delivery models that reduce duplication and enhance impact. In doing so, SFC should draw on examples of good practice from other public bodies, and work closely with Skills Development Scotland (SDS).

The PSR strategy includes a commitment to reduce SG and public body corporate costs by £1 billion over the next five years, representing around 20% of the identified public body corporate and core government operating costs (or 4% per year). We expect SFC to make savings in line with this commitment, whilst recognising the additional functions being transferred to SFC with the passage of the [Tertiary Education and Training \(Funding and Governance\) \(Scotland\) Act \(TET Act\)](#).

### **Change and collaboration**

Scotland faces a time critical opportunity to address skills challenges being raised by industry and business. Immediate interventions and long-term reform are needed to support productivity, secure economic growth and inward investment, and position Scotland to seize future economic opportunities.

Ministers have outlined an ambitious body of change across the post-school education and skills landscape. We expect SFC and SDS to embrace the opportunities presented by this, responding with urgency and focus to deliver structured change. SFC and SDS should fully engage with the governance structures established around the reform programme, which will continue to be reviewed as reform work progresses.

The framework established by the TET Act creates new responsibilities for SFC, including onboarding apprenticeships, creating new business/employer networks, and redesigning the organisation.

This transformation positions SFC to become a more outward facing and strategically influential body, with a central role in Scotland's regional economic partnership arrangements. This includes making a clear contribution to one of Scottish Government's most important priorities; eradicating child poverty. This should be achieved by ensuring that learners can access pathways that lead to secure and well-paid employment.

Direct engagement with employers and industry will be critical in shaping provision and guiding efforts to address skills shortages. SFC will need to operate with confidence and clarity of purpose as it expands its responsibilities and strengthens its contribution to economic growth.

Work on the National Training Programme will continue and transfer to the redesigned funding body as required by legislation. SFC and SDS should jointly develop transition plans that ensure continuity, maintain staff confidence, and provide clear communication throughout the process.

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As the reform programme progresses, SFC must maintain a high standard of delivery across its core functions, with continued focus on improving services for learners, institutions, and stakeholders. Any proposed changes to business-as-usual activity during this transitional phase should be shared with your sponsor team through established governance and assurance channels to ensure best value and alignment with the reform agenda.

Learners, employers, and communities remain at the heart of Scotland's tertiary education and skills system. SFC should continue broadening its focus to engage more actively with the wider world of work - business, employers, and the apprenticeship system; and foster the shift in organisational culture needed to lead the next phase of reform with confidence and clarity.

As SFC transforms into a redesigned funding body, it must engage meaningfully with these groups - listening, responding, and demonstrating how their insights shape policy and delivery. This includes embedding learner voice and employer feedback into planning and decision-making to ensure provision is accessible, equitable, and aligned with both economic priorities and wider learner needs.

SFC and SDS should work with sector partners to improve access, outcomes, and system responsiveness, promoting apprenticeships and other pathways as high-quality options. SFC should also show leadership in using new technologies, such as digital platforms for blended learning and real-time feedback, while recognising that delivery rests with institutions and providers.

We are confident in your capability, and in the leadership of the Board and senior team, to drive this work in partnership with my officials and to help create a resilient, dynamic tertiary system that is able to meet Scotland's needs now and in the future. Further details of my expectations of SFC in this space are set out in **Annex A**.

### **SFC delivery priorities**

The [Purpose and Principles for Post-School Education](#) provide the long-term framework for decision-making across the tertiary system and ensure public investment delivers meaningful social and economic benefit.

SFC's Board is responsible for ensuring the organisation delivers its statutory functions and Ministerial priorities in line with its Framework Document, providing robust, timely advice to Ministers and maintaining effective oversight in a challenging environment. As we continue to reflect the Ryan Review recommendations, your sponsor team will work with the SFC to update your Framework Document. As Chair, we rely on you to ensure the Board provides strong leadership, clear direction, and effective support, with appropriate risk management through established reporting and escalation arrangements.

The Scottish Budget for 2026/27 reinforces the Scottish Government's commitment to supporting learners, amid ongoing cost-of-living pressures. This includes maintaining free tuition, which helps more than 115,000 full-time undergraduate university students each year.

We continue to operate within tight funding constraints and must continue to ensure maximum value for money within agreed budgets. It is crucial that SFC clearly evidences

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how investment in the post-school system is achieving the intended outcomes and impact, including how this contributes to national priorities such as eradicating child poverty. Demonstrating clear alignment with Ministerial priorities will be essential as we progress.

SFC should continue to ensure compliance with all SG procedures for spend approval, including the requirement for Accountable Officer (AO) templates, and ensure that any risks in relation to the budget are managed within approved risk processes/procedures.

### Creating a transparent, resilient and trusted tertiary system

SFC should focus on funding high quality, responsive provision across further and higher education that meets learner, employer, and regional and national economic needs.

The success of Scotland's college and university sectors is vital to Scotland's strategic priorities, with fiscal constraints and demographic shifts creating a more complex and difficult operating environment. This requires a proactive and strategic approach to ensure the long-term viability of institutions and the coherence of provision across the system.

We welcome SFC's strengthened oversight arrangements and expect these to continue to provide timely, transparent intelligence to Ministers on sector risks. SFC should engage decisively with institutions facing difficulties, use its statutory powers where necessary, and support credible transformation plans that protect learners and maintain stability. Robust contingency and resilience planning must also be in place to ensure continuity of learning in the event of disruption.

SFC should ensure all spending represents best value for the public purse. While individual institutional sustainability remains critical, SFC must also take decisions that reflect wider system needs and maintain a balanced, resilient, and future focused tertiary landscape. SFC should also continue to act on lessons from Professor Gillies' report on the University of Dundee and consider any enhancements to its approach to monitoring good governance across the sector, including through the Financial Memoranda and Outcomes Framework and Assurance Model (OFAM).

In August 2025, Ministers issued a direction under section 25 of the Further and Higher Education (Scotland) Act 2005 requiring SFC to make up to £40 million of funding available to the University of Dundee, following the appearance of financial mismanagement at the University.

Under this direction, SFC must attach robust conditions to any release of funds. Once the University accepts a formal offer based on these conditions, we expect SFC to implement a needs-based payment process that ensures no more funding than is strictly necessary, supported by strong oversight and the requisite expertise. SFC must also ensure meaningful engagement with staff and students and work with the University to secure a stable financial platform and establish permanent, effective leadership by the end of the funding period.

When considering future college capital investment, we expect SFC to continue its collaborative approach with the sector. This should make the most of opportunities for place based co-investment and be aligned with the Learning Estate Strategy.

A programme business case for future college investment, including the potential for alternative funding models will be a key outcome of SFC's work in this area to feed into SG infrastructure investment planning. SFC should continue to work closely with SG officials and

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the Scottish Futures Trust (SFT) on the development of the asset strategy and the related programme business case for funding. This should include how SFC intends to prioritise projects that deliver the greatest impact for learners and communities and support long-term transformation of the college estate.

Clear alignment with skills priorities will be essential as system wide reform progresses, supported by close working with SDS and other partners to ensure the system adapts to current and future demand. This will flow from the skills planning reform, and SFC should fully respond once that work concludes. Strengthening the skills outcome within the OFAM will support this alignment while avoiding unnecessary disruption to institutions.

Significant sectoral transformation has been initiated across the college and university sectors which has the potential to fundamentally reform the sectors for future generations, and the SFC has an important role in supporting, strategic leadership across these areas:

- The Framework for Sustainability and Success of Scotland's Universities is considering the future purpose of Scotland's university sector and the reforms necessary to deliver a sustainable sector. Delivering across three *pillars* of work, it will quantify the scale of funding challenge facing universities and focus on positioning institutions ahead of the curve of anticipated changes to demographics, workforce needs, emerging industries and digital advancements. We look to SFC to play a leading role, via engagement in relevant project groups, as this work develops. SFC will continue to provide Ministers with a valuable source of objective advice, as options and recommendations generated through this work, are considered. I appreciate there is constructive dialogue ongoing on these matters.
- Building on the College Tripartite work, the college sector is establishing a body of work to drive forward strategic change across the sector. SFC leadership and analytical rigour will be instrumental in bridging visionary thinking with real-world implementation. The Fundamental Review of the Funding Allocation Model (referred to as the Credit Model Review in the TET Act), and the development of a College Infrastructure Investment Plan and associated business case will be foundational to the effective and meaningful reform of the college sector.
- The University of the Highlands and Islands (UHI) transformation programme represents an opportunity to lead the systemic changes required across Scotland's tertiary education landscape. We expect SFC to provide timely, high-quality advice, intelligence, and support on UHI developments and any consequential changes to higher and further education provision across the region and nationally throughout 2026 and 2027. It is imperative that we are alerted to issues as they emerge - well in advance of public disclosure - and that early warnings and informed advice are provided, even where evidence is limited. This work is critical to the successful reform of the wider sector, given its central role in driving regional economic development and Scotland's long-term prosperity.

### Apprenticeships

#### *Modern Apprenticeships (MA)*

During 2026, SFC should work with SG officials, SDS, and stakeholders to shape the new MA contract for implementation from April 2027. Preparatory work should also begin on reviewing the MA delivery model, including funding, contribution rates (with this review

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beginning by April 2026 and linking with the Fundamental Review of the Funding Allocation Model) and cost of delivery, with most changes implemented after April 2027.

### *Graduate Apprenticeships (GA)*

We are looking to SFC to play a leading role in delivering a more agile GA framework development process. Working with SDS and partners, this must ensure a reformed process is agreed with stakeholders and ready for implementation by Spring 2027.

### *Foundation Apprenticeships (FA)*

We expect SFC to remain fully engaged in reviewing FA delivery models to strengthen work-based learning for senior phase pupils. Current funding arrangements with SDS will continue until April 2027, after which changes to funding and delivery should be implemented promptly.

### Delivering high quality tertiary education

We welcome SFC's continued implementation of the OFAM, underpinned by the Tertiary Quality Enhancement Framework and Research Assurance guidance, which provides the foundation for coherent, high-quality provision.

Opportunities for Scottish domiciled students should remain protected, alongside commitments on widening access and improving the student experience.

Strengthened oversight arrangements between SFC and SG now provide a clearer framework for monitoring financial sustainability and performance and should support all collaborative work.

SFC should also continue to draw on the expertise of SDS, the SFT, the enterprise agencies, and industry partners to ensure funding diversification aligns with Scotland's economic priorities and workforce needs.

### A supportive and equitable system

Creating high-quality jobs is at the heart of Scottish Government policy, with new education measures such as Colleges RISE and the Training Access Fund working to support families to accelerate our effort on tackling the blight of child poverty. Education is a central theme that has the capability to positively impact on people and communities.

We look to SFC to closely engage with the Programme Steering Group through Colleges Scotland and with my officials, to ensure a targeted distribution of the available funding with an exclusive focus on the existing eradicating child poverty targets.

We appreciate SFC's contribution to the Community Learning and Development Strategic Leadership Group's action focused response to [The Learning: For All. For Life. report](#) following the Independent Review of CLD.

Colleges and universities receiving SFC funding must already meet two mandatory [Fair Work First](#) criteria - the real Living Wage and effective worker voice - and are encouraged to adopt the remaining criteria. The report highlighted ESOL as requiring immediate action with the Strategic Leadership Group identifying ESOL as one of their immediate priorities. As set out in the [supplementary letter of guidance](#) issued on 4 March 2025, we look to SFC to ensure colleges are engaging with local authorities on ESOL provision to agree how local need is collectively met. We look forward to working constructively together as further

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progress is made on the CLD review report recommendations to strengthen CLD provision and support for learners and communities across Scotland.

Ministers remain committed to embedding Fair Work across the public sector and the wider tertiary system. SFC should continue to demonstrate Fair Work First principles in its own practices and ensure fundable bodies do the same, monitoring compliance through annual reporting and OFAM and taking action where needed.

From April 2027, all SFC funded institutions are expected to meet all Fair Work First criteria. SFC should prepare to make this a grant condition while allowing proportionate transition periods where institutions, working with trade unions or staff representatives, can demonstrate a justified need for more time.

While universities are autonomous and responsible for their own pay and remuneration decisions, I expect universities to exercise restraint in setting Principals' pay, which should be in step with the salary, terms and conditions offered to other staff. SFC should seek assurances that universities are compliant with the relevant sections of the Scottish Code of Good Higher Education Governance as a condition of grant funding, and take appropriate interventions to address non-compliance if necessary. This includes the extent to which universities are considering value for money and the public interest, avoiding inappropriate use of funds, and seeking the views of students and staff in relation to decisions regarding Principals' remuneration. As part of this, I support SFC's Accounts Directions requirement for colleges and universities to disclose senior staff remuneration in their annual reports and accounts. To support transparency and enable sector wide comparison, SFC should collate and publish these remuneration details annually, based on the information disclosed under its Accounts Directions.

SG has committed, as a matter of policy, to ensure that the pay for new appointments of college principals is subject to the requirements of SG's Public Sector Pay Policy for Chief Executives.

For clarity, this change will not apply to principals already in post. It does not require any change to legislation nor to the framework. We expect it to be implemented through requirements placed on colleges in their appointment processes and through grant conditions on colleges after the policy comes into effect. My officials will work with SFC with a view to implement this policy as soon as practicable.

SFC's Accounts Directions already require colleges and universities to disclose senior staff remuneration in their annual reports and accounts. To support transparency and enable sector wide comparison, SFC should collate and publish these remuneration details annually, based on the information disclosed under its Accounts Directions.

We expect SFC to continue to strengthen its leadership and oversight in tackling persistent inequalities through its oversight role with colleges and universities. This will include updating your partnership with the Equality and Human Rights Commission (EHRC) as the current Memorandum of Understanding concludes.

#### A globally respected tertiary system

We look to SFC to continue prioritising investment in core university research and knowledge exchange to strengthen competitiveness and deliver economic and social benefits. This includes supporting research capacity through the Research Excellence Grant, developing

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talent via the Research Postgraduate Grant, and driving collaboration and commercialisation through the Knowledge Exchange and Innovation Fund.

SFC should also consider how its work aligns with the International Education Strategy and the National Innovation Strategy, while fostering a positive research culture, enhancing knowledge exchange, and enabling universities to contribute to local economic growth. We are grateful for the continuing efforts made by SFC to better evidence the flow of funding and impact of investment in research on Scottish Government ambitions and look forward to seeing the outcomes of this work in due course.

SFC should continue to invest funding strategically in areas that encourage collaboration and partnerships across academia and beyond, sharing expertise and driving efficiency. We ask SFC to continue to represent Scotland's interests in development of the next Research Excellent Framework. SFC should continue to work with Government and the sector to identify and consider how best to capitalise on the opportunities in the broader research and innovation ecosystem, including via UK Research and Innovation, Horizon Europe and internationally.

#### An agile and responsive system

Strong, aligned leadership from SFC and SDS will be central to ensuring the system remains responsive and focused on Scotland's long-term social and economic goals, with a particular focus on eradicating child poverty.

SFC and SDS must deliver a 'Team Scotland' approach, breaking down cultural and operational barriers to collaboration at every opportunity. Strong collaboration between both organisations, together with the enterprise agencies and wider partners, will be central to setting the future direction of the tertiary and skills system and progressing key Ministerial priorities, including efforts to eradicate child poverty, which must remain at the core of all activity.

#### **Conclusion**

We are keen that we maintain regular and open dialogue to navigate these challenges together. Your leadership and commitment will be critical in ensuring that priorities are met and resources are used efficiently.

Thank you once again for your continued dedication and leadership as we navigate this period of significant fiscal challenge and uncertainty. If you have any questions or require further discussion, your Sponsor Team will be able to support you in the first instance.

Best regards,



**BEN MACPHERSON MSP**  
**Minister for Higher and Further Education**

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## REFORM AND CONTINUOUS IMPROVEMENT

SG will continue to work with SFC on this programme of work to set out policy objectives and long term plans. However, SFC will be responsible for reshaping itself to deliver change.

As we continue to progress this programme of work, my officials and I will stay connected with you and the Chief Executive through the Reform Programme Board, Chief Executive Forum, and regular meetings. We are encouraged by the Board's engagement on the Programme Board, and I would like us to continue to work together on making decisions. You are best placed, however, to lead in reassuring your colleagues and supporting their wellbeing as we move towards delivering shared priorities.

### Reform projects

We are delivering an interconnected series of reforms that will make the post-school education and skills system simpler, more responsive, and more agile. We are encouraged by SFC's commitment in driving this forward and expect this to continue as we deliver these changes. We expect SFC to play a central role in advancing the following priorities:

**Funding Landscape Simplification:** Transition from three funding bodies to two, with a redesigned SFC responsible for all provision and Student Awards Agency Scotland (SAAS) for student support.

**Skills Planning Reform:** Take lead responsibility for provision planning, delivery, and reporting; collaborate to ensure employer engagement across the skills planning model, and take collective efforts to improve underlying data, evidence, and intelligence systems.

**Apprenticeship Reform:** Simplify the apprenticeship model and target priority sectors of the economy and essential public services.

### Tertiary Education and Training Act

The Act received Royal Assent in Spring 2026, with phased implementation culminating in SFC assuming responsibility for securing and funding national training programmes, apprenticeships, and work-based learning in April 2027. These functions will remain in SDS until that time. The Bill, when enacted, will consolidate funding streams, establish a statutory framework for apprenticeships, and enable a more coherent and transparent tertiary education and skills system. In the meantime, SFC and Universities Scotland have been asked to work together to simplify and agree the future process for developing Graduate Apprenticeship frameworks.

### Preparing for change

To ensure a smooth transition, we expect SFC to:

- Work collaboratively with SDS and SG on the implementation plan.
- Share expertise and build capacity to support the redesigned funding body, recognising that this requirement must take precedence over efficiency savings if SFC is to fulfil its new responsibilities.
- Engage with trade unions to develop a clear consultation plan, underpinned by Fair Work First principles.

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- Collaborate on digital, data, and technology solutions for service transfer, considering costs, dependencies, and staff impacts.
- Model cultural and operational changes, which may include working with partners on areas where secondments and other flexible workforce steps can enable change, in line with Fair Work First principles.

SG also recognises its responsibility to ensure that the principles of fair work underpin any plans for reform of the skills delivery landscape, which may impact the future work of SFC. Although SFC is not expected to take on these new additional functions until April 2027, SFC must remain actively involved in governance structures, including the Simplification Project Board, to support successful delivery. Over time, we anticipate that efficiencies can be achieved in the delivery of the apprenticeship programme.

### **Redesigned funding body**

Delivering these changes will require significant organisational transformation. We expect work to begin immediately to ensure SFC is fully prepared and equipped to take on new functions. This includes developing a new mission, vision, and culture, reflecting input and expertise from SDS staff, and ensuring strong capacity within the Board and leadership team. SG will lead on ensuring the Board has the right mix of skills and experience. Your Sponsor Team will work with you as work progresses.

It is vital that SFC builds and maintains confidence across the tertiary education and skills sector. Engagement with employers and industry must deepen, with their voice fully integrated into shaping the vision, priorities, and delivery approach for the redesigned funding body. Their input should inform strategic decisions to ensure the system reflects the needs of industry and learners alike. SFC should continue engagement with key stakeholders, including employers and training providers, to support the development of plans for the apprenticeship committee.

SFC should remain closely engaged in skills planning reform work being led by SG and collaborate actively with SDS and partners to explore approaches to enable the system to respond to current and future skills priorities. This includes on-going work on current funding models and exploring how better data and evidence on provision can support future skills planning processes at the national and regional levels. The knowledge, networks, and expertise of SFC staff will continue to be essential in supporting this work.

The Skills Planning Reform Project Board has been established to ensure this project is delivered in a timely and effective manner. SFC is represented on the Board, and responsibilities should be discharged in accordance with the Terms of Reference.

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