Finance and Public Administration Committee Pre-Budget Scrutiny Call for Views – August 2026

Questions – to be submitted via Citizen Space

1. Are the spending allocations outlined in the 2026 Scottish Spending Review the most effective approach to strengthen public finances?

The Scottish Government recognised the rising cost pressures on colleges through a 10% increase in the college budget for 2026/2027. After years of funding falling in real terms, this increase has helped mitigate some of the sector's immediate financial pressures, but if this only represents a one-off increase, as opposed to marking a step-change in approach to investing in the college sector which has seen a 20% reduction in real terms since 2021/22, this will not support the full restoration of above-inflation investment in the college sector or the delivery of skills by the college sector that Scotland requires. This funding uplift needs to be sustained to enable reform of the college sector to continue.

The Scottish Spending Review (SSR) commits to allocating Scotland's colleges with £146 million of additional resource funding over the spending review period, which is intended to create "a strong foundation for the sector to come together to deliver an ambitious body of reform and transformation alongside delivering vital services and opportunities for people and employers across Scotland". The Scottish Government has so far allocated an additional £61.4m of this SSR allocation in the 2026/27 Budget, meaning there is still a further £84.6m to be allocated in the remaining SSR period.

Whilst this spending allocation is a positive step forward in strengthening the finances of the college sector in Scotland, without genuine ambitious reform, and the funding to support it, co-produced by the college sector with the Scottish Government and Scottish Funding Council, including through the College Sector of the Future workstream, this will not provide an effective approach with which to strengthen the financial sustainability of the college sector and will subsequently impact on public finances and the ability of colleges to deliver for Scotland's learners and employers. Recommendations from the workstream will be jointly presented to Ministers by Winter 2026, and in order for these to be implemented there will be a need to re-order existing investment or leverage new investment into the tertiary sector in order to provide the most effective approach to strengthening public finances within the SSR spending allocations.

Audit Scotland and the Scottish Funding Council in their reporting on the college sector have both raised concerns on the financial resilience of institutions and structural financial pressures relating to real-terms funding reductions and rising operating costs, alongside ongoing estates maintenance and backlog costs.

In spite of these pressures, colleges continue to deliver for their students and in delivering Scottish Government policy ambitions around economic growth, workforce development and reducing Child Poverty. To fully enhance this role, the spending allocations outlined in the SSR need to be combined with broader transformation measures, including multi-year funding and funding flexibilities to provide longer-term certainty to the sector which can support financial planning and strengthen college finances. Without this package of reform, colleges will not be able to continue to deliver positive outcomes for students and employers.

Alongside these reform measures, there are policy levers which could be used by Scottish Government to fully enable the role of Scotland's colleges in delivering wider policy objectives across Government portfolios on a Cross Portfolio basis. This is currently the case with the commitment of funding to the college sector through the RISE (Raising Income through Skills and Education) initiative to support families at greatest risk of poverty to access the skills and education they need to enter, sustain and progress in work, as part of the Tackling Child Poverty Delivery Plan. Such developments should be expanded across all Cabinet Secretary portfolios, utilising colleges as public sector assets. Colleges Scotland has produced work evidencing the role Scotland's colleges can play in this role, and can share this with the Committee.

Independent economic analysis by the Fraser of Allander Institute also highlighted the significant role colleges play in reducing poverty and strengthening Scotland's public finances. The report stated that in 2026/27 colleges will:

- Increase tax revenues by **£170 million** and reduce the cost of benefits by **£25 million** – delivering a **£195 million** net positive contribution to the fiscal balance.
- Keep **15,000** out of absolute poverty, and **10,000** out of severe poverty.
- Benefit **400,000 households** – including **250,000 children** – from the higher incomes earned by those with college-level education.

2. What are the biggest risks to the spending plans outlined in the 2026 Scottish Spending Review?

For the college sector the greatest risk to spending plans is the potential for Scottish Government efficiency savings to not be delivered and the requirement for additional savings to be across the public sector to Scotland.

Whilst the Scottish Government increased the overall college budget by £70 million, representing a 10% uplift from the previous year, for Academic Year 2026/27, this was delivered in response to a 20% real-terms reduction in funding for colleges between 2021/22 and 2025/26, as evidenced by Audit Scotland. In the absence of continued sustained real-terms investment, funding increases will not translate into improved financial resilience for institutions across the Spending Review period, with a further £84.6m still to be allocated in the remaining SSR period for the college sector.

Scotland's college sector continues to operate in an extremely difficult financial landscape and the potential impacts of real-terms reductions and/or very low growth in spending for the college sector within the SSR period will have subsequent impacts on staffing and resourcing levels and upon student outcomes and student satisfaction whilst impacting on the ability of the sector to deliver on the outputs of the College Sector of the Future workstream, which is due to report on recommendations for future action in the winter of 2026.

The college sector has experienced significant workforce reductions over the past decade, in contrast to growth across other areas of Scotland's public sector. Scottish Funding Council statistics show a 9.9%% fall in FTE since 2015/16 and a 3.4% decrease between 2023/24 and 2024/25 alone. Audit Scotland has also highlighted substantial workforce contraction across the sector, reporting an 8% reduction in staffing during 2023/24.

These trends reflect the measures colleges have had to take to manage a challenging financial environment, including rising staffing and energy costs and wider inflationary pressures. Voluntary severance schemes have been a key mechanism for delivering savings. In contrast, Scottish Government data show that public sector employment across Scotland increased by 8.2% between the first quarter of 2019 and the first quarter of 2025.

The divergence between workforce trends in colleges and the wider public sector underlines the sustained financial pressures facing the sector and the significant organisational changes colleges have made in response, with colleges have already undertaken significant reform.

The SSR assumes delivery of efficiency and reform, which has been the case in the college sector. However, if pay settlements exceed budget assumptions in response to inflationary pressures, a significant proportion of additional funding would be absorbed by staff costs rather than service improvements. This risk is underscored by the [National Lecturing Staff Pay Agreement] (2026-29). While it provides consolidated pay increases of 3.75% in AY 2026/27, 3.25% in 2027/28, and 3.2% in 2028/29, it also builds in a reopener clause for the final two years of the agreement. If mean CPI inflation over the preceding 12 months sits at or greater than 0.5% above the agreed award for a pay year, the award will be renegotiated. This creates a potential vulnerability for institutions if inflation trends upward.

Simultaneously, there is a risk to the college sector of decreasing infrastructure investment through the SSR. The upcoming College Infrastructure Investment Plan, developed by the Scottish Funding Council with the college sector to address long-standing backlog and lifecycle maintenance issues, will evidence the required scale of investment for the sector. There will be a need to ensure investment is available for colleges to act on the Plan.

Whilst at the time of this submission, inflation is reducing and college funding has increased, future inflationary pressures and external shock factors within the Spending Review period may continue to erode the value of that funding. The sector in the last five years has seen increases in staff costs, energy bills, digital infrastructure costs, estates maintenance costs and procurement costs remain significantly higher than they were several years ago, with colleges being particularly exposed because staffing typically accounts for the majority of expenditure.

3. **Does the 2025 Medium-Term Financial Strategy (MTFS) recognise and clearly set out the scale of the fiscal challenges facing the Scottish budget, and are the actions identified in the Fiscal Sustainability Delivery Plan (FSDP) likely to address the forecast shortfall?**

The MTFS evidences the priorities for Scottish Government spending, creating the risk of increasing pressure on the revenue budget available for colleges during future spending reviews and budget announcements, alongside uncertainty around future infrastructure investment at a time when the sector is engaged in developing the College Infrastructure Investment Plan with the Scottish Funding Council.

The MTFS also presents the scale of the fiscal challenges facing the Scottish budget, in terms of projected spending increases in health, social care and social security and the associated creation of a fiscal gap. In order to reduce this fiscal gap, and in line with the FSDP, there is a need to support and grow the tax base in combination with public service reform.

Skills should be seen as an intersecting issue, with colleges having a role to play in delivering workforce development, upskilling and reskilling to enable individuals to enter the labour market, contributing to economic growth and productivity whilst reducing social security costs.

4. **What do the next MTFS and update to the FSDP need to include to show that the Scottish Government is on track?**

Both documents need to evidence the progress the Scottish Government is making towards delivering the intended outcomes established in the 2025 MTFS. For the college sector this should include evidence of how Scotland is investing effectively in skills and economic development, including through the college sector, with funding that increases in line with inflation, in order to create stronger economic and tax-revenue performance.

The next MTFS should also recognise how investment in colleges contributes to tackling skills shortages and supporting economic growth, with colleges positioned as a strategic investment and as part of the solution to Scotland’s fiscal challenges, not merely as a spending pressure, supporting the wider preventative agenda being led by the Scottish Government.

5. **What actions should the Scottish Government take to grow the tax base and increase labour market participation, productivity, and Scotland's economic growth?**

   To increase labour market participation means dealing with the following:

   - Gaining participation in the labour market of those who are currently not in work, education or training, and with support for people who face barriers to work such as neurodiversity or disability, rurality or other barriers. Barriers to work in Scotland are well understood and preventative spend, including investment in childcare, mental health and wellbeing services, student support funding, transport and ASN services would bring about more labour market participation. Colleges are responding to some of these challenges, for example offering courses which start after school drop off time and end before pick up time, allowing parents (predominately mothers) to participate in training. These types of adjustments are not widespread due to lack of investment in the college sector and the additional costs involved in these course offers.
   - Ensure access to appropriate training, qualifications and upskilling which are aligned to Scotland's economic needs. There should be a close understanding and a will to increase upskilling and retraining capacity across Scotland, to quickly help people stay in employment, change role, or re-join the labour market. This should be informed by National Skills Planning as led by Scottish Government.
   - If the aim is to keep people in work for more years then many publications and reports have evidenced the absolute need to invest in people in terms of upskilling and retraining. Colleges are the place in Scotland where that activity should be taking place, however there is not currently a policy which comes with investment which would see a national roll out of these opportunities to people aged 55+ who are still in work. A guaranteed lifelong learning commitment would be needed to enable this to occur. For people starting their working lives, colleges would support more apprenticeship places being available, and more access to work-based learning which is supported by Scotland's colleges. This requires preventative spend and investment.

The Scottish Government should continue to collaborate with the college sector in Scotland to continue the delivery of targeted upskilling and reskilling initiatives to both support individuals to enter key sectors of the Scottish economy whilst reducing sector shortages in areas including Health and Social Care, supported by flexible funding approaches. This should be informed by ongoing developments related to the implementation of National Skills Planning and Skills Needs Assessments.

As part of the 2026/27 Budget the Scottish Government is investing £9 million in the college sector through the RISE (Raising Income through Skills and Education) initiative to support families at greatest risk of poverty to access the skills and education they need to enter, sustain and progress in work, alongside introducing a £2 million Training Access Fund to provide access to training opportunities for people in low-paid work and a £10m Flexible Workforce Development Fund to incentivise employers to support employment and progression opportunities for individuals.

This should be combined with a focus on continuously improving Careers Information, Advice and Guidance to ensure that young people at school and college have awareness of the opportunities through Pre-Apprenticeship and Modern Apprenticeship pathways, whilst better preparing and enabling learners to succeed. This should include college engagement for all school pupils on a mandatory basis. Taken together these actions will enable more people to enter the labour market and grow the tax base whilst contributing to Scotland's economic growth.

These actions will also begin to offer a response to the challenges identified in the Milburn Report regarding young people and work, and in particular to enabling those young people currently classed as NEET (Not in Education, Employment, or Training to gain access to upskilling and reskilling with which to enter the labour market and contribute to the tax base and support economic growth. This response should also incorporate additional core revenue investment for colleges which will enable them to accommodate the demand for college places including in priority sectors for the Scottish economy. Colleges are currently unable to do this which may in part account for increased inactivity levels for young people.

6. Are the planned efficiencies realistic and deliverable at a scale sufficient to make public services sustainable?

The proposed savings outlined within the SSR are still potentially achievable, but only if sustained progress is made in delivering effective public service reform. In regard to the college sector, Audit Scotland has evidenced that the Scottish Government's intentions to reform post-school education and skills lack a clear delivery plan, progress is slow and that the government needs to make stronger links with its wider plans across economic transformation, climate change, education and skills.

The College Sector of the Future workstream being jointly progressed by Scottish Government, Scottish Funding Council and Colleges Scotland offers an opportunity to make progress in delivering potential efficiencies as part of a broader future-proofing exercise to shape colleges for the next generation of learners and to position them to deliver what Scotland needs.

Through the intended outputs of a co-designed set of actions there could be opportunities to deliver a college system that is more equitable, future-proofed, empowering, and financially sustainable, and which allows colleges to continue to serve as anchor institutions in communities across Scotland whilst contributing to public service reform and delivering operational efficiencies through service re-design and reducing duplication of activity.

For these outputs to be fully realised, there will be a requirement to enable upfront investment requirements, combined with greater financial flexibilities for institutions, to enable reform within the college sector to take place at pace. There will also need to be clear leadership and linkages to wider public service reform provided by Scottish Government.

7. What are the main risks to revenues from devolved taxes?

N/A

8. Preventative spend has been a goal for several years, but the intended outcomes have not been fully achieved. Why do you think this is the case and how might a Preventative Budgeting Tool help track progress with achieving outcomes?

Short-term financial pressures facing the Scottish Government have impacted on the ability of the college sector to plan for the longer-term and reduce costs through a spend to save approach.

Colleges had expected to receive an additional £26 million of transition funding following an announcement made by the Scottish Government as part of the draft budget in December 2022. This was subsequently withdrawn in May 2023 when the Scottish Government redirected this money to fund the teachers' pay deal agreed in March 2023.

Whilst the Scottish Government has provided for transformation funding for the college sector as part of the 2026/2027 Budget and the wider Public Service Reform agenda, this will need to be provided in future years within the Spending Review period in order to ensure a sufficient level of resource is available to enable colleges stabilise and transform.

The college sector has been delivering activity in a challenging operating environment, working in single-year rather than multi-year funding windows which has limited their ability to deliver prevention focused spending due to the short-term financial pressures they have faced. This has created the conditions wherein colleges are prioritising core teaching provision with which to deliver for students as opposed to longer-term investment in their estates, their student support programmes and their ability to meet employer demand.

A Preventative Budgeting Tool delivered as part of the wider ongoing review of the college funding model in Scotland could provide clearer and stronger connections between investment and outcomes, supporting the wider shift desired by the sector for a funding model based on outputs as opposed to inputs.

The funding committed to the college sector by the Scottish Government as part of the Tackling Child Poverty Delivery Plan 2026-2031 offers a prime example of how the sector can be invested in through an outcome-focused lens, and with the recognition that investment in education and colleges can serve to reduce costs elsewhere in the system, including health and justice, by addressing barriers to employment and supporting families at greatest risk of poverty to access the skills and education they need to enter, sustain and progress in work.

As per our response to question one, independent economic analysis by the Fraser of Allander Institute also highlighted the significant role colleges play in supporting preventative spending, whilst reducing poverty and strengthening Scotland's public finances. The report stated that in 2026/27 colleges will:

- Increase tax revenues by **£170 million** and reduce the cost of benefits by **£25 million** – delivering a **£195 million** net positive contribution to the fiscal balance.
- Keep **15,000** out of absolute poverty, and **10,000** out of severe poverty.
- Benefit **400,000 households** – including **250,000 children** – from the higher incomes earned by those with college-level education.

9. In which areas should the Scottish Government prioritise its capital spend to best support economic growth?

Provision of skills is key to economic growth and inward investment. Investment in college infrastructure delivers not only inclusive economic growth but maximises the opportunities for innovation and entrepreneurship in Scotland's businesses, as well as skilling up the workforce required to increase industrial competitiveness and underpin wellbeing in society.

This capital investment would allow confidence in the progressing of the College Infrastructure Strategy and anticipated implementation of the College Infrastructure Investment Plan currently underway by the Scottish Funding Council. New forms of service delivery and new and agile forms of learning enabled by digital integration of learning experiences and the creation of new and diverse skills, must be considered alongside the use of digital technologies as part of the planning of the future estate and to support the development of the college of the future

Investment in the college estate and Information and Communications Technology (ICT) capital is vital in order to ensure learners have the best possible learning experience; to make sure they are being taught in appropriate and safe facilities; to bring equity to the learner experience; and to allow colleges to fully contribute to Scottish Government priorities in their role as community anchors, enabling individuals to access co-located services hosted within college campuses.

10. How effective are the Scottish Government's existing financial flexibilities - including borrowing and the Scotland Reserve - in managing fiscal pressures, and what limitations, if any, should be addressed?

Colleges Scotland has been engaging with Scottish Government and Scottish Funding Council through the Tripartite Alignment Group and other forums to identify increased flexibilities which could be applied for colleges within their classification as public sector bodies, and the associated arrangements for borrowing, reserves and investment in estates and commercial related activity.

This classification has had the effect of leaving colleges more exposed to fiscal pressures facing the Scottish Government.

Expanding financial flexibilities for the college sector are predicated to strengthen the sector's ability to plan, invest and respond to future skills and economic challenges.

11. What role should alternative financing approaches – such as bonds, the mutual investment model, or other mechanisms – play in supporting public investment and strengthening Scotland's financial resilience?

Colleges are public bodies and alternative financing approaches should play an important supporting role in enabling the Scottish Government to invest in colleges as civic anchors, alongside wider investment in Scotland's infrastructure, skills delivery landscape and innovation ecosystem within which colleges are key partners, while maintaining long-term financial sustainability.

As public finances remain constrained, mechanisms such as bonds, the Mutual Investment Model (MIM), public-private partnerships, and blended finance can help unlock additional sources of capital and accelerate investment that might otherwise be delayed for large scale projects. This is of particular importance to the college sector where partners should be looking at all potential funding vehicles with which to support infrastructure investment in colleges in response to the College Infrastructure Investment Plan, and to enable colleges as public sector bodies to meet their Net-Zero targets. We believe there would be benefit in the Scottish Government hosting a unit with the required knowledge and skills needed to support the delivery of Net-Zero targets, including through the refurbishment of existing infrastructure, that could be utilised from across the public sector and bring efficiencies.

Colleges Scotland
August 2026