



A Budget to Save Scotland's Colleges

Investing in Skills, Communities
and Opportunities for All in 2026/27



Introduction

Colleges are vital to Scotland’s national ambitions on economic growth, skills, social mobility, public service delivery, and tackling poverty. Scotland’s 24 diverse colleges are the best places to give people opportunities, add to Scotland’s economic wealth, strengthen communities across the country, and fulfil the needs of employers. People of all ages access a huge range of learning and training opportunities each year at college, including further and higher education, upskilling, retraining, and learning for work.

Demand for skilled workers in critical sectors has never been higher, and colleges are part of the positive solution for Scotland to meet that demand. With campuses in every community, online learning, short courses and industry-focused qualifications, colleges can play a bigger, bolder and brighter part in delivering success, adding to Scotland’s economic productivity and lifting people out of poverty, including child poverty. However, the number of learners that colleges are educating is reducing due to funding reductions, and there is unmet demand for the teaching of skills.

In order for colleges to maintain their roles as valuable anchor institutions in their communities, and skills engines of the Scottish economy, they require sustainable and equitable funding in this Scottish Government Budget.

Overall Investment

Currently, government investment in Scotland’s colleges is inadequate, and inequitable with other parts of the education and skills landscape.

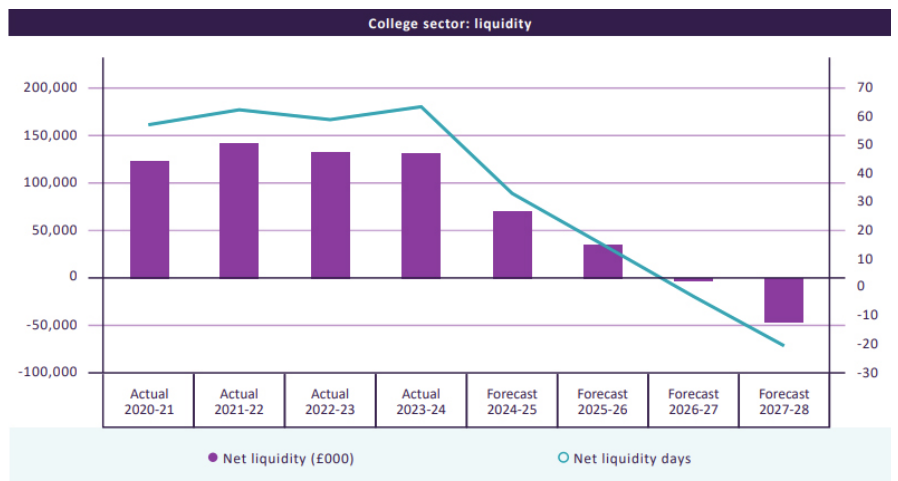
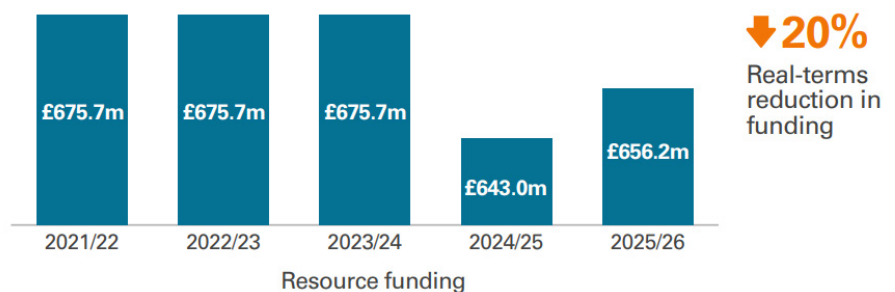
Over the lifetime of this Parliament, Scotland’s colleges have experienced a real-terms **fall in government investment of 20% since 2021/22**, according to Audit Scotland’s latest report.¹

The Scottish Funding Council (SFC) has also recently set out the stark reality of the impact of this continued reduction in funding in a report which concluded “most colleges are not sustainable” under current funding assumptions, and there is “an imminent risk of some colleges becoming insolvent by the end of 2025/26”.²

Exhibit 2.

Net resource allocation for the college sector since 2021/22

College funding has reduced by 20 per cent in real-terms between 2021/22 and 2025/26.



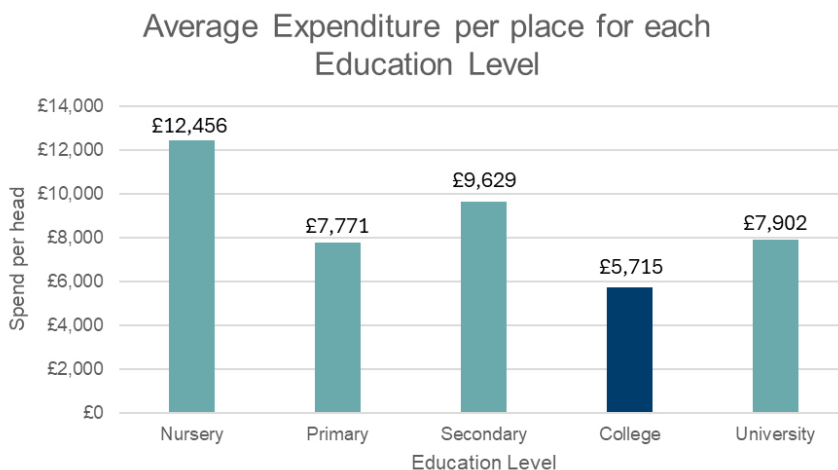
* There are no figures for UHI North West and Hebrides in 2023-24 as its annual report and accounts had not been finalised at the time of writing this report.

1 *Audit Scotland briefing: Scotland’s colleges 2025*

2 *Financial Sustainability of Colleges in Scotland 2022-23 to 2027-28*

Funding for Learners

Funding for individual college learners is also the lowest across all parts of the education system, an inequality which is difficult to understand given that many learners at college are studying the same level of qualification as students in other parts of the system.³



Removal of Additional Funding

Several strategic funding streams have also been withdrawn from the college sector over recent years:

- **£26m College Transition Fund** – proposed in 2023/24. This was meant to support college transition projects to address their financial challenge but was removed between the Draft Budget and the final Budget agreed by Parliament.
- **£10m Flexible Workforce Development Fund** – withdrawn mid-year in December 2023. The fund supported employer-led training via colleges and was widely regarded as effective and valuable.⁴
- **£4m Mental Health Counsellor Funding** – ended in 2023/24. The termination of this fund marked the final year of a four-year Programme for Government commitment, which aimed to deliver more than 80 additional counsellors across the tertiary sector. By the end of the programme, 89 full-time equivalent counsellors had been added, which some colleges have subsumed into existing budgets rather than remove a core student support service.
- **£2.9m Digital Poverty Support** – ended in 2023/24. This was provided to address digital access, equipment and skills which is seen as essential for students. The discontinuation of this funding has resulted in colleges addressing this key government priority from within existing budgets.

A Fork in the Road

Over many years colleges have adapted as best they can, within the limited means at their disposal, notably consolidating parts of the curriculum, reducing student numbers, reducing staff headcount, closing buildings which are no longer affordable, finding efficiencies, reducing community opportunities to use college spaces, and leveraging private sector investment where possible.

The Scottish Government can, however, choose to make a clear commitment in the 2026/27 Budget to halt the ongoing decline in real-term investment, and to begin a recovery programme for colleges with above inflation investment in both resource and capital budgets.

Increased investment in colleges will help the Scottish Government deliver on its four outlined priorities: eradicating child poverty; growing the economy; tackling the climate emergency; and delivering high quality and sustainable public services.

³ [Parliamentary Question S6W-36497](#)

⁴ <https://www.gov.scot/publications/evaluation-flexible-workforce-development-fund-fwdf/>

Fair and Strategic Investment

- Increased investment into Education and Skills being prioritised through the next Scottish Spending Review to ensure multi-year commitments.
- Sustainable core funding – rather than segregated smaller pots of funding.
- Provision for the lecturers pay award for 2026/27.
- Commitment to fairly allocating Barnett Consequentials from UK Government spending, signalling an investment in skills delivery in Scotland, and which will also offset additional costs of delivery in rural areas, including the Highlands and Islands.
- Introduction of a fund specifically to allow workforce development within companies through funded training utilising the college sector, targeted at key gaps in skills areas.
- Consideration of alignment of skills provision through closer connection to the Economy portfolio.

The college sector has outlined below four potential Scottish Government Budget funding scenarios and the potential outcomes linked to specific levels of investment:

Scenario	Revenue Investment £/m	Capital Investment £/m
Decline	668.1	64.8
Diminished	728.2	67.4
Survivable	780.5	99.5
Sustainable	819.0	131.6

The **Decline** scenario – flat cash – will cause enormous damage and will lead to college closures.

The **Diminished** scenario does not alleviate risk and does not allow for sector transformation.

The **Survivable** and **Sustainable** scenarios lessen risk for colleges by achieving levels of investment which are appropriate to meet unmet demand, sustain colleges as organisations, allow for transformation, and fill labour market shortages.

Funding Scenarios

Decline

Revenue	£'m
2025/26 SFC core teaching grant	656.2
Employers National Insurance at 48%	5.5
Offshore Wind and Social Care Skills Partnership	3.5
Support Staff pay award (in-year funding requested for 2025/26)	2.9
Total Revenue	668.1
Capital	64.8
Total Capital	64.8

Revenue

- A flat cash level of investment will lead to many colleges becoming insolvent⁵, and would represent a reduction in revenue income since the start of this parliamentary session of £100.5m.
- Flat cash is a real term cut and would mean from 2026/27 most colleges would have to move to significant cost saving programmes including job losses, campus consolidation, and shrinking student numbers.

Capital (excluding NPD)

- Flat cash received by the college sector to be used for backlog and lifecycle maintenance, and to focus on other urgent campus projects.

Outcome

- 11 colleges, without Scottish Government intervention, are at risk of running out of cash and not being able to cover operational costs. These 11 colleges employ around 6,500 staff and teach around 115,000 learners.
- The Decline scenario is unplanned decline of the college sector, with some colleges closing.
- The overall college sector cash position would become a deficit of £5.5m as a result of a forecasted reduction of £37.9m in cash held by colleges in 2026/27.

5 *Financial Sustainability of Colleges in Scotland 2022-23 to 2027-28 - Scottish Funding Council*

Transformation Examples / Opportunity Cost

- Significant job losses in 2026/27, including potential compulsory redundancies, leading to likely significant industrial action.
- Campus closures, meaning a reduction of the sector's geographical footprint.
- Reduction in opportunities for students, including those in Scotland's most deprived and rural communities.

Regional Impact

- Negative regional skills impact, as core skills providers go out of business.
- Job losses at large regional employers.
- Some areas left with no alternative training options.

Governance

- College boards may be unable to sign off deficit budgets and would face serious governance challenges.

Diminished

Revenue	£'m
Baseline flat cash settlement	668.1
4% CPI increase to match inflationary pressures	26.7
Employers National Insurance to 100%	6.5
Support Staff pay award (from 2026/27 onwards)	0.9
College Transition Fund	26.0
Total Revenue	728.2
Capital	
Baseline capital funding 2025/26	64.8
4% CPI increase to match inflationary pressures	2.6
Total Capital	67.4

Revenue

- The Diminished scenario for 2026/27 would reduce the risk of college closures and reduce the risk of insolvency for 2026/27 only, but SFC action would still be required, including in-year cash support for some colleges, to enable sufficient working capital.
- This is a vital first step, with further increases in government investment still required in 2027/28, but the reality is still a diminished sector due to job losses and other difficult decisions by colleges that would remain necessary due to the years of chronic underinvestment in the sector. This, at a time where the skilled workforce produced by colleges is needed more than ever to help contribute to Scotland's economic success.
- Inflation was measured at 4% as predicted peak in 2025.
- 100% reimbursement to cover additional employer National Insurance Contribution (eNIC) costs, which equates to £12m, so an additional £6.5m required.
- Colleges in England, unlike colleges in Scotland, have received cost cover for increased eNIC which the UK Government introduced in April 2025.
- Providing for a College Transition Fund – there is a requirement for colleges to transition whilst also maintaining delivery. This fund will allow each college to start to focus on what is required in their particular region in order to pivot to provision that will have the greatest impact for learners and the local and national economic and skill needs: £26m.

Capital (excluding NPD)

- An inflationary uplift of £2.6m.

Outcome

This level of funding would, for one-year, mitigate the immediate college insolvency issues for 2026/27.

- However, some colleges would still require action from SFC including in-year cash support for some colleges.
- Further increases would still be required in 2027/28 to ensure continued sustainability.

Transformation Examples / Opportunity Cost

- Potential job losses but likely avoiding compulsory redundancies.
- Campus locations impacted, but most closures avoided.
- Opportunities for students impacted – potential students still being turned away by colleges.

Regional Impact

- Colleges would still struggle to meet employers' skills needs in their regions.
- Continued risk of reduced levels of credit delivery.

Governance

- Some colleges may still need input from SFC to manage cash flow issues.

Survivable

Revenue	£'m
Baseline flat cash settlement	668.1
4% CPI increase to match inflationary pressures	26.7
Employers National Insurance to 100%	6.5
Support Staff pay award (from 2026/27 onwards)	0.9
Lecturers pay award (for 2026/27)	13.6
Subtotal	715.8
Flexible Workforce Delivery Fund 2.0	10.0
College Transition Fund	26.0
Professional Registration of college lecturers	2.7
College Student Experience Fund	24.0
Digital Strategy Fund	2.0
Subtotal – additional resource investment	64.7
Total Revenue	780.5
Capital	
Baseline capital funding 2025/26	64.8
4% CPI increase to match inflationary pressures	2.6
Funding to address historic backlog investment / RAAC	32.1
Total Capital	99.5

Revenue

- This level of investment substantially reduces the risk of colleges closing or becoming insolvent. However, the £64.7m increase would still only represent a recovery of less than two-thirds (64.4%) of the reduction in revenue income since the start of this parliamentary session.
- This level of funding would also allow a better level of support for staff and students, including seeking increase in student support levels.
- Provision for Lecturers pay award for 2026/27: £13.6m.
- The additional £64.7m would cover the delivery of the following activities, allowing colleges to meet their respective regional needs:
 - Introduce funding for a targeted Flexible Workforce Delivery Fund (FWDF) 2.0 to enable colleges to connect more smoothly with employers and deliver diversifying income for the college sector (ensuring a policy environment to encourage increased employer contributions to training needs): £10m.
 - Providing for a College Transition Fund – this fund will allow each college to start to focus on what is required in their particular region in order to pivot to provision that will have the greatest impact for learners and the local and national economic and skill needs: £26m.
 - Professional Registration of college lecturers ensures colleges are delivering a high quality of learning and teaching to some of Scotland’s most vulnerable learners. The Scottish Government is asked to support the registration process by investing in funding for college lecturers to access the Teaching Qualification in Further Education (TQFE). By investing an additional £2.7m per year, for a four-year period (from AY 2026/27), this will support transitional arrangements in colleges to offer more access to TQFE to allow Professional Registration and a professionalised workforce. This is an investment in college lecturers, in learners and in widening access and addressing the poverty related attainment gap. This investment demonstrates the Scottish Government’s commitment to enhancing positive outcomes for learners, investing in communities, and contributing to skills development and economic growth in Scotland.
 - Providing for a College Student Experience Fund – colleges would be able to access a proportionate share per college of £24m based on student headcount. The Student Experience Fund would allow colleges to adequately pay for the following: mental health; careers information, advice and guidance; gender-based violence; active campus; digital poverty; international education activity; and food poverty. This would enable learners to thrive.
 - Digital Strategy Fund (an initial contribution to start to develop a coherent approach to digital provision): £2m.

Capital (excluding NPD)

- To make a start on resolving the £321m of backlog and lifecycle maintenance (Audit Scotland calculation up to 2022/23), as well as RAAC, which exists across college estates, the sector is asking for 10% of this to be funded in 2026/27, as well as 4% inflationary uplift, therefore the Capital requirement in this scenario would be £99.5m.

Outcome

- Colleges move closer to sustainability and viable for the future.
- Risk of colleges closing or becoming insolvent reduces substantially.
- Partial implementation of the Withers review.
- The outcomes would include positive contribution to key Scottish industries in areas set out in the UK Industrial Strategy such as: Defence; Offshore Wind and other Renewables; Health and Social Care; Chemical; Childcare; Construction; Creative Industries; and Digital.
- Allows for increased professional registration of college lecturers.

Transformation Examples / Opportunity Cost

- Colleges are able to work successfully with employers, balance their books, and provide opportunities to students.
- Allow better support for staff and students, including student support levels for areas such as mental health, active campus, digital poverty, careers, gender-based violence, food poverty etc.
- Digital Strategy Fund to develop a coherent approach to digital provision.
- Contributions to staff pay awards.

Regional Impact

- Puts colleges closer to sustainability and viability for the future but is still effectively standstill in terms of volume of students.
- A targeted FWDF 2.0 would enable colleges to connect more smoothly with employers.
- College Transition Fund to allow each college to start to focus on what is required in their particular region.

Governance

- Difficult, but manageable, decisions still require by Boards.

Sustainable

Revenue	£'m
Baseline flat cash settlement	668.1
4% CPI increase to match inflationary pressures	26.7
Employers National Insurance to 100%	6.5
Support Staff pay award (from 2026/27 onwards)	0.9
Professional Registration of college lecturers	2.7
Lecturers pay award (for 2026/27)	13.6
Subtotal	718.5
Subtotal - return colleges to close to 2021/22 levels	100.5
Total Revenue	819.0
Capital	
Baseline capital funding 2025/26	64.8
4% CPI increase to match inflationary pressures	2.6
Funding to address 20% of historic backlog investment / RAAC	64.2
Total Capital	131.6

Revenue

- This scenario would enable colleges to respond to increased skills needs over the coming years, whilst also delivering the support for both staff and students set out in the Survivable scenario, and would also be the only scenario that brings revenue levels back to those at the start of this current parliamentary session.
- This would put funding to colleges back to 2021/22 levels i.e. putting back to institutions the £100.5m which has been removed from the college sector over the lifetime of this current parliament. The return on this investment would help deliver the following Scottish Government priorities: eradicating child poverty; growing the economy; tackling the climate emergency; and ensuring high quality and sustainable public services.

Capital (excluding NPD)

To make a start on resolving the £321m of backlog and lifecycle maintenance (Audit Scotland calculation up to 2022/23), as well as RAAC, which exists across college estates, the sector is asking for 20% of this to be funded in 2026/27, as well as 4% inflationary uplift, therefore the Capital requirement in this scenario would be £131.6m.

Outcome

- Colleges remain open, operating and are financially sustainable.
- Recommendations from the Withers Review implemented.
- People are lifted out of poverty.
- Colleges would be in a 'generational change' position of truly serving the needs of learners in Scotland with interesting, novel modes of learning delivery and training matched closely with employer needs, locally, regionally, and nationally.
- The return on this investment would help deliver the following Scottish Government priorities: eradicating child poverty; growing the economy; tackling the climate emergency; and ensuring high quality and sustainable public services.

Transformation Examples / Opportunity Cost

- This would put funding to colleges back to 2021/22 levels, at the start of this current parliamentary term.
- Enable colleges to respond to increased skills needs over coming years.
- Allow better support for staff and students, including in student support levels for areas such as mental health, active campus, digital poverty, careers, gender-based violence, food poverty etc.
- Colleges digitally fit for the future.

Regional Impact

- Skills shortages in the labour market closed, especially in critical industries i.e. construction, health, net zero, and hospitality.
- Colleges serving as community anchors are secure.

Governance

- Unlikely to be significant Board issues related to going concern of the institutions.



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