Colleges Scotland

A Positive Choice – Delivering for Scotland

Draft Budget Submission 2027/28



Delivering for Scotland

Colleges are Scotland's skills engines and vital community anchors. Every year, colleges across the country educate and train over 200,000 young people and adult learners, providing them with the skills they need to get good jobs and rewarding careers.

Colleges are critical to delivering on the ambitions of **eradicating child poverty**, **growing the economy**, **tackling the climate emergency**, and **delivering high quality and sustainable public services.**

Colleges provide vocational and technical education which increases economic growth, and equips people with the skills they need to gain employment in large and growing industries such as construction, low-carbon energy, and health and social care.

Colleges are simultaneously tackling poverty whilst reducing the benefits bill, and supporting sustainable public services, by increasing household incomes.

The investment provided by the Scottish Government for 2026/27 has provided colleges with the capacity to take part in and contribute to the delivery of key government priorities, including tackling child poverty, contributing actively to the College Sector of The Future workstream, submitting Public Sector Reform bids, and participating in Defence Technical Excellence Colleges (DTECs).

Inflation-proofed investment has the potential to continue the journey for colleges towards sustainability. This allows them to move towards positive transformation, building on the progress made and helping to avoid a financial crisis in the sector.



Eradicating Child Poverty

- Analysis by the Fraser of Allander Institute stated that in 2026/27 colleges will keep **15,000 out of absolute poverty**, and **10,000 out of severe poverty**. Over 400,000 households – **including 250,000 children** – will benefit from the higher incomes earned by those with college-level education.
- Scotland's colleges are providing **15,500 free meals to students every week**.
- Research published by Public Health Scotland found that "Further education also appears to be a critical pressure point, with its students more likely to be living in areas of higher deprivation and having additional support needs, while reporting high levels of poor mental health and wellbeing".

Growing the Economy

- The Fraser of Allander Institute calculated that **every college graduate in Scotland creates an additional £72,000 boost to productivity** across their 40-year working life for the Scottish economy, as a result of going to college. Separate research also shows that in 2026/27 **colleges will deliver a £195m net positive contribution to the fiscal balance**, by increasing tax revenues by £170m and reducing the cost of benefits by £25m.
- **Colleges delivered 14,420 Modern Apprenticeships in 2023/24**. Through the Apprenticeship Accelerator Grant, colleges can work with employers to address capacity issues for SMEs, including through capital investment and incentivised recruitment for priority groups in targeted sectors.



Tackling the Climate Emergency

- The final report of Scotland's Just Transition Commission highlighted that "**colleges provide vital skills and training that are essential for delivering a Just Transition**" and that "Colleges should be at the heart of an enhanced skills strategy with **their funding made commensurate with the sector's strategic importance nationally**".
- The Scottish Government's Offshore Wind Skills Priorities and Action Plan recognises the importance of colleges in unlocking the economic opportunity of offshore wind, with **the report outlining seven key priority job roles which are all college-educated.**

Delivering High Quality and Sustainable Public Services

- Colleges have already undertaken significant reform dating back to regionalisation in 2014 and have **cut their workforce by 13% since 2019, compared to a 12% increase across the devolved public sector in Scotland**. They have still delivered incredibly high student satisfaction rates (94% for full-time and 96% for part-time students) and positive student destinations (85%).
- **Preventative upfront spend in colleges can also prevent higher social, economic, and public-service costs later**. The interim report by Alan Milburn into those Not in Education, Employment or Training (NEET) stated that colleges "should be the main sector delivering vocational education and preparation for the workplace" and that they are "the primary recovery layer for those who leave school without strong academic results."
- Colleges are already working in partnership with the Scottish Government and the Scottish Funding Council (SFC) through the **College Sector of The Future workstream to deliver a college system that is more equitable, future-proofed, empowering, and financially sustainable**.



Sustainable Investment

Despite the solutions that colleges provide to meet Scotland's ambitions, in the last parliament they experienced year-on-year reductions in investment totalling 20% between 2021 and 2025, resulting in student enrolments falling by 20%.

This parliamentary session has started on a more positive note for colleges with additional investment delivered in 2026/27, thanks to strong cross-party support in the last Budget.

The Scottish Spending Review 2026 allocates an additional £84.6m still to be distributed to colleges over the next two years of the Spending Review period. A budget in 2027/28 which reflects the Scottish Spending Review would pull colleges into the more sustainable Amber scenario and away from the risks identified in the Black and Red scenarios.

This additional investment has provided some financial stability to colleges, helped them undertake their vital anti-poverty work through programmes such as the Raising Income through Skills and Education (RISE) Fund, and allowed them to positively participate in the College Sector of The Future workstream with the Scottish Government and the SFC.

However, even with the additional investment this year, colleges have still experienced a 7.5% real-terms cut. This means many colleges remain financially unsustainable, according to Audit Scotland and the SFC, who reported that 11 colleges (46%) are forecasting adjusted operating deficits in 2026/27. This increases to 19 colleges (79%) in 2027/28 and 2028/29.

> Paul Devoy, Interim Chief Executive of the Scottish Funding Council said: "Scotland's colleges and universities are operating in one of the most challenging financial environments the sector has faced for many years."

There is a significant risk of further destabilisation to the college sector if there is a below-inflation revenue settlement in the 2027/28 Budget. Every college in Scotland needs an above-inflation revenue increase.

> Stephen Boyle, Auditor General for Scotland, said: "The financial pressure on Scotland's colleges is increasing, and their situation remains extremely challenging."

The October 2026 Financial Sustainability of Colleges in Scotland report from the SFC notes: "Estates issues are directly driving financial issues in many colleges. Issues such as extensive backlog maintenance, reinforced autoclaved aerated concrete (RAAC), and defective cladding are key drivers of costs in this area. However, the estates also require to be modernised and rationalised in some colleges to meet current teaching, curriculum and regional skills needs."

The College Infrastructure Investment Plan, published in November 2026 by the SFC, estimates that around £2.5bn is required to keep college campuses maintained, and to invest in estates and buildings for the future. Scotland's 24 colleges face well-known challenges, including ageing infrastructure, rising maintenance costs and the need to support future skills delivery, digital learning and net zero ambitions. The report notes that £1.3bn is needed for maintenance and estate condition works alone, with a further £1.2bn required for transformational projects. The report makes clear that investment in the college estate needs to start in the next financial year. The Scottish Government's draft 2027/28 Budget will be the first opportunity to begin that investment. A flat cash settlement for college estates would barely allow some institutions to address their most urgent issues – statutory backlog and maintenance.

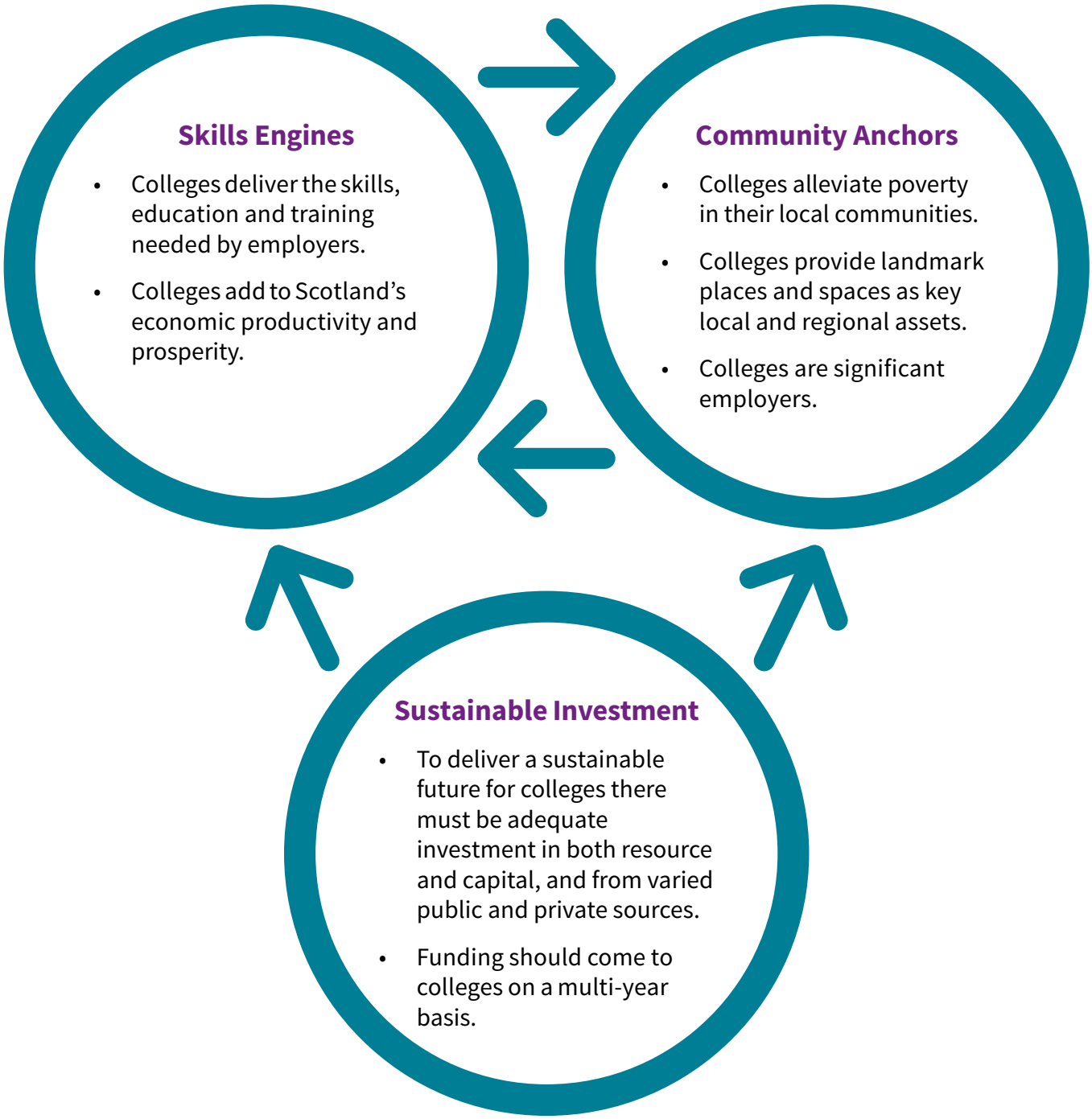
College learners deserve to be taught in modern, state-of-the-art net-zero and industry-standard facilities, which are wind and watertight.

A Positive Choice

Investing in colleges is a positive choice. And, while budgets are tight, increasing the investment in our colleges is also a popular one.

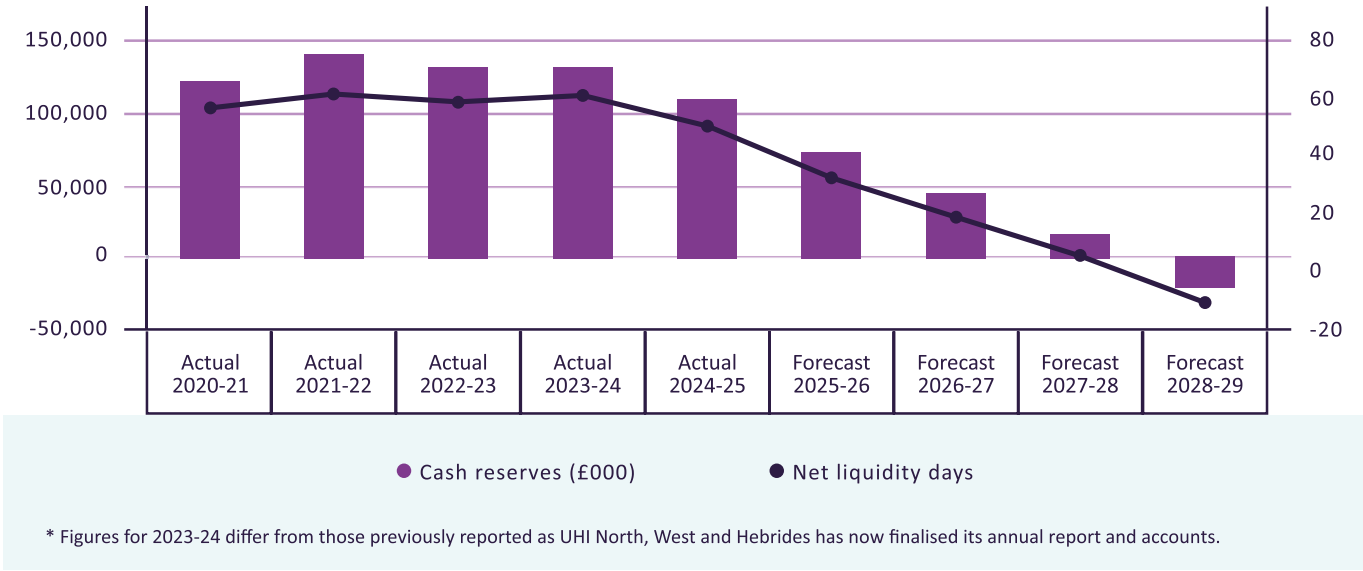
Recent YouGov polling commissioned by Colleges Scotland shows that two-thirds (67%) of people living in Scotland back the prioritisation of technical and vocational qualifications – providing hands-on, job-specific training – and around three quarters of respondents (77%) say too few individuals are entering apprenticeships.

The citizen jury that the Carnegie Education Fund convened for its recent work on priorities for higher education funding also recommended that more public investment is urgently needed in Scotland's colleges to help deliver technical skills and widen access, and this should come from reprioritisation of government budgets and/or taxation.



Investment Choices

College sector: cash reserves and net liquidity days



* Figures for 2023-24 differ from those previously reported as UHI North, West and Hebrides has now finalised its annual report and accounts.

The SFC indicates that the sector financial resilience is forecast to deteriorate sharply, with cash reserves and net liquidity days declining across the forecast period. The investment choice made by the Scottish Government will influence the future financial sustainability of the sector.

Broadly, four investment choices are available to the Scottish Government. These will either continue enabling colleges to stabilise and transform, or to return to crisis and decline:

Scenario	Revenue	Capital
Decline – flat cash, leading to college campus risks, reduced curriculum, and reduced opportunities	**£743.1m**	**£44.8m**
Unsustainable – flat cash plus inflation buys survival time for colleges	**£792.5m**	**£46.1m**
Sustainable – increased investment brings financial sustainability for colleges and more opportunities for more people	**£832.0m**	**£159.1m**
Growth – significant investment brings a substantial return and secures the future of Scotland's colleges	**£933.4m**	**£263.0m**

Financial sustainability is key to mitigating risk. Each of these investment choices will have the following impacts on the key themes below:

Theme	Decline	Unsustainable	Sustainable	Growth
Financial Sustainability	Significant Risk	Risk	Sustainable	Strong
Eradicating Child Poverty – including the Raising Income through Skills and Education (RISE) Fund	↓	↔	↑	↑↑
Economic Growth Impact – meeting employer skills gaps	↓↓	↓	↑	↑↑
Tackling the Climate Emergency – including Net Zero commitments	↓↓	↓	↑	↑↑
Public Service Reform – including College Sector of The Future	↓↓	↓	↑	↑↑
Learner Experience – including impact on student numbers	↓↓	↓	↑	↑↑
College Infrastructure and Estates	↓↓	↓	↑	↑↑

Strategic Choices

Decline	
Revenue	
Baseline	£721.1m (including Student Support funding of £123m)
Mainstreamed Tackling Child Poverty Funding	£22.0m
Total Revenue	**£743.1m**
Capital	
Baseline	£43.8m net college Capital
FRS 102 Section 20 Lease Accounting – additional capital budget requirement	£1.0m
Total Capital	**£44.8m**

Revenue

A flat-cash level of investment will create a crisis situation in the college sector in Scotland and threaten the stability of individual colleges. Despite an uplift in SFC funding, 19 colleges (79%) in both 2027/28 and 2028/29 are predicting adjusted operating deficits.

There is a significant risk of further destabilisation to the college sector if there is a flat-cash or below-inflation revenue settlement in the 2027/28 Scottish Government Budget.

Every college in Scotland needs an above-inflation revenue increase. In the absence of this increase, several colleges will become unsustainable, campuses will close and compulsory redundancies may be required.

This will create a situation where colleges are unable to adapt and transform in line with the outputs of the College Sector of The Future workstream.

Colleges would be unable to meet the economic and social demands for apprenticeships and lifelong learning for individuals.

This would diminish the role and reach of every college in delivering Scottish Government policy priorities of tackling child poverty, growing the economy, tackling the climate emergency, and supporting Public Service Reform.

Capital

Flat cash received by the college sector would only allow institutions to address some urgent backlog and lifecycle maintenance and would not allow them to implement the College Infrastructure Investment Plan.

The new international accounting standard, IFRS 16 brings changes to how operating leases will be accounted for and will result in additional capital on institutions' balance sheets. From 1 August 2026, the new standards, outlined in the revised FRS 102 Section 20 on lease requirements, mean that most leases which were previously treated as operating leases, will now be recognised as right-of-use assets and have corresponding lease liability. This means they will now be recorded on the balance sheets when previously they were accounted for differently. For incorporated colleges, this creates both capital and revenue budget consequences. Additional capital budget provision is therefore required to accommodate the accounting treatment of qualifying leases; this provision does not represent additional discretionary capital available for investment in the college estate. The budget submission includes an indicative £1m, which the SFC should investigate further.

Unsustainable	
Revenue	
Baseline	£743.1m (Including Tackling Child Poverty Funding of £22m and Student Support funding of £123m)
3.5% CPI increase (September 2026) to match inflationary pressures	£26.0m (of which £3.8m is additional Student Support funding)
Distant Islands Allowance	£1.0m
College Infrastructure Strategies Business Cases	£3.0m
CES Pay Agreement	£19.4m
Total Revenue	**£792.5m**
Capital	
Baseline	£45.1m
FRS 102 Section 20 Lease Accounting – additional capital budget requirement	£1.0m
Total Capital	**£46.1m***

*Made up of Backlog Maintenance: £32.5m; Compliance: £12.6m; and SFC accountancy ask: £1m

Revenue

To secure inflation-proof investment and enable the college sector to deliver its existing commitments to learners, staff and economies, we are seeking revenue funding of £792.5m.

This increase would reduce the risk of college closures and reduce the risk of insolvency but would put at risk those gains made in the 2026/27 Budget given the real-terms reduction identified by Audit Scotland in its Scotland's colleges 2026 report and would still risk learner experience by colleges having to manage existing levels of student support at a time of rising challenges for learners with additional support needs (ASN) and mental health pressures.

The inclusion of the Tackling Child Poverty Funding as part of the baseline revenue funding will enable colleges to continue to help unlock the labour market for more parents and to help parents in work to increase their earnings, contributing to Scotland's mission to eliminate child poverty.

This level of investment would enable colleges to maintain, if not increase, their existing level of support for local and regional economic growth and the delivery of the Just Transition to Net Zero, whilst also contributing to Public Service Reform through the initial delivery of the outputs of the Colleges Sector of The Future workstream from March 2027.

This level of investment is the equivalent of an even distribution of the unallocated level of resource previously announced within the Scottish Spending Review.

In order to enable colleges to progress their business plans through the Scottish Capital Investment Manual process, revenue funding will be required for colleges.

Following the conclusion of pay negotiations for both professional services staff in 2025 and lecturing staff in 2026, we now know the workforce costs facing the college sector over the next two years. To ensure that these costs are met and there is no negative impact of student outcomes, the sector requires an additional £19.4m compared with what was provided last year. This will allow the sector to meet staff costs, although it doesn't provide any capacity to reverse the staffing reductions that have taken place over recent years.

Capital

In the College Infrastructure Investment Plan, capital costs for backlog maintenance and compliance come to £45.1m. This is a minimum and would not support implementation of other important parts of the Plan, or address inflationary estates costs.

The new international accounting standard, IFRS 16 brings changes to how operating leases will be accounted for and will result in additional capital on institutions' balance sheets. From 1 August 2026, the new standards, outlined in the revised FRS 102 Section 20 on lease requirements, mean that most leases which were previously treated as operating leases, will now be recognised as right-of-use assets and have corresponding lease liability. This means they will now be recorded on the balance sheets when previously they were accounted for differently. For incorporated colleges, this creates both capital and revenue budget consequences. Additional capital budget provision is therefore required to accommodate the accounting treatment of qualifying leases; this provision does not represent additional discretionary capital available for investment in the college estate. The budget submission includes an indicative £1m, which the SFC should investigate further.

Sustainable	
Revenue	
Baseline	£743.1m (Including Tackling Child Poverty Funding of £22m and Student Support funding of £123m)
3.5% CPI increase (September 2026) to match inflationary pressures	£26.0m (of which £3.8m is additional Student Support funding)
Distant Islands Allowance	£1.0m
College Infrastructure Strategies Business Cases	£3.0m
CES Pay Agreement	£19.4m
Colleges Scotland Manifesto asks on Student Experience Fund (ASN/Digital/ESOL)	£18.0m
Learner Equity Attainment Programme (LEAP)	£18.0m
DTEC	£3.5m
Total Revenue	**£832.0m**
Capital	
Baseline	£158.1m
FRS 102 Section 20 Lease Accounting – additional capital budget requirement	£1.0m
Total Capital	**£159.1m***

*Made up of Backlog Maintenance: £32.5m; Compliance: £12.6m; Planned Maintenance: £17m; Reactive Maintenance: £15m; Lifecycle: £81m; and SFC accountancy ask: £1m

Revenue

The Sustainability Scenario combines inflation protection for the baseline with funding for existing commitments and targeted additional investment, producing a total revenue requirement of £832m.

An above-inflationary increase of this level would mitigate the 7.5% real-terms reduction in funding over the last five years for the sector as identified by Audit Scotland.

In this scenario, the risk of colleges closing or becoming unsustainable reduces substantially, enabling them to continue delivery of activity which supports economic growth, challenges child poverty, tackles the climate emergency, and complements Public Service Reform, whilst creating the conditions for every college to transform in line with College Sector of The Future.

This level of investment would move the sector closer to sustainability and viability for the future and would in part create the “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", as outlined in the Scottish Spending Review. This level of investment is the equivalent of front-loading the unallocated amount announced in the 2026 Scottish Spending Review, as part of Public Service Reform call for preventative spend.

Investment of this extent will enable and empower colleges to deliver genuine additionality to the education system in Scotland including through the delivery of a Learner Equality Attainment Programme (LEAP) – a new approach designed to complement the Pupil Equity Fund as allocated to schools, to enable colleges to alleviate the impact of poverty on learners.

LEAP recognises colleges as part of Scotland's anti-poverty infrastructure and aims to enable more learners facing disadvantage to access, remain in and succeed in education.

Element	Primary Purpose	Distinctive Feature
RISE	Skills, qualifications, and employment.	Targeted funding for eligible parents/carers.
Student Experience Fund	Removing barriers to participation and success.	Flexible college-led support around the learner.
LEAP	Tackling the educational effects of poverty.	Dedicated equity investment for additional interventions beyond mainstream provision.

Colleges would also be enabled and empowered to grow the Scottish economy through the establishment of DTECs. Please note that the figure for 2027/28 is calculated on UK Government investment and Scottish Government match-funding, of £10m each, over three years.

Capital

The College Infrastructure Investment Plan could be partially started with this level of investment which would allow for backlog, planned, and reactive maintenance plus compliance and lifecycle costs.

The new international accounting standard, IFRS 16 brings changes to how operating leases will be accounted for and will result in additional capital on institutions' balance sheets. From 1 August 2026, the new standards, outlined in the revised FRS 102 Section 20 on lease requirements, mean that most leases which were previously treated as operating leases, will now be recognised as right-of-use assets and have corresponding lease liability. This means they will now be recorded on the balance sheets when previously they were accounted for differently. For incorporated colleges, this creates both capital and revenue budget consequences. Additional capital budget provision is therefore required to accommodate the accounting treatment of qualifying leases; this provision does not represent additional discretionary capital available for investment in the college estate. The budget submission includes an indicative £1m, which the SFC should investigate further.

Growth	
Revenue	
Baseline	£743.1m (Including Tackling Child Poverty Funding of £22m and Student Support funding of £123m)
7.5% Uplift	£55.7m (of which £9.2m is additional Student Support funding)
Distant Islands Allowance	£1.0m
College Infrastructure Strategies Business Cases	£5.0m
CES Pay Agreement	£19.4m
Colleges Scotland Manifesto asks on Student Experience Fund (ASN/Digital/ESOL)	£24.0m
LEAP	£24.0m
DTEC	£3.5m
Green TEC	£3.5m
Additional Modern Apprenticeship Starts – CS Manifesto Ask *Subject to Contribution Rates Review	£35.0m
Apprenticeship Accelerator Grant	£7.0m
Regional Economic Partnership Skills Streams	£8.0m
TQFE Funding	£2.7m
Job Evaluation Project Remobilisation	£1.0m
National College Marketing Campaign	£0.5m
Revenue Total	**£933.4m**

Capital	
Baseline	£262.0m
FRS 102 Section 20 Lease Accounting – additional capital budget requirement	£1.0m
Total Capital	**£263.0m***

*Made up of All categories: £262m; and SFC accountancy ask: £1m

Revenue

This scenario restores the revenue baseline in real-terms and provides additional targeted investment for expanded learner support, technical excellence, regional skills activity and sector reform. In this scenario, every college is fully empowered as the jewels in the crown of the Scottish Government's skills agenda, delivering an additional 10,000 Modern Apprenticeships alongside progressing the Technical Excellence College Model to service industry demand in the Defence and Green Energy sectors, whilst providing world-class learning experiences for students.

The Apprenticeship Accelerator Grant will be fully developed to incentivise businesses to take on apprentices, with an amount comparable to the UK Government commitment of £100m across 14 strategic authority mayors in the new "Local Apprenticeship Service".

This level of investment would enable every college in Scotland to respond to increasing skills needs in the coming years, support economic growth, eliminate child poverty, and tackle the climate emergency, alongside actively contributing to public service reform in their capacity as civic anchors, including in relation to College Sector of The Future.

This level of investment builds on the front-loading of the unallocated amount announced in the Scottish Spending Review, as part of the Public Service Reform shift to preventative spend. It will enable every college to deliver increased and improved outcomes for the benefit of learners, communities, and economies across Scotland, including through the LEAP and Regional Economic Partnership Skills Streams.

A job evaluation exercise by College Employers Scotland and professional service trade unions, that began as a commitment to develop a job evaluation route map within the 2015/16 support staff pay agreement, is still to be completed. Early estimates suggested annual implementation costs of £12.4m, and with the Scottish Government having committed to meeting backdated costs through to 2018 there is the potential that historic costs could reach £100m. The sector's position is that job evaluation requires a clear commitment to fund its outcomes and a review has been commissioned by the SFC to determine how to re-start the project — this will report in 2027. Without this, already stretched college budgets will face additional pressure. However before any implementation costs £1m is required to remobilise the job evaluation project.

Capital

The SFC notes that an investment of £262m in 2027/28 would appropriately fund the categories noted in the Amber scenario plus investment in physical projects, digital projects, and decarbonisation projects.

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capital and revenue budget consequences. Additional capital budget provision is therefore required to accommodate the accounting treatment of qualifying leases; this provision does not represent additional discretionary capital available for investment in the college estate. The budget submission includes an indicative £1m, which the SFC should investigate further.

Conclusion

Scotland's colleges are a proven investment in economic growth, social mobility, public service reform and the transition to net zero. The Scottish Government's core priorities depend on a skilled, adaptable and resilient workforce, and colleges are central to delivering it.

The 2027/28 Draft Budget provides a clear opportunity to put the sector on a sustainable footing. By delivering the additional £84.6m identified for colleges in the Spending Review and providing an above-inflation settlement in 2027/28, the Scottish Government can move the sector towards sustainability, protect opportunities for learners, and strengthen Scotland's future skills pipeline.

Conversely, a below-inflation settlement would increase financial pressures across the sector, putting provision, access and outcomes at risk. Investment in colleges is an investment in Scotland's people, communities and economy, and is essential to securing a fairer, greener and more prosperous future.

We urge the Scottish Government to make a positive choice to invest in colleges so they can continue to deliver for Scotland.

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When Colleges Thrive, Scotland Thrives.

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