Audit Scotland – Scotland's Colleges 2023 Analysis – September 2023

Audit Scotland published its annual report on the college sector in Scotland on Thursday 7 September 2023.

Key Messages

- Scotland's colleges are vital to learners and local communities. Risks to the college sector's financial sustainability have increased since we reported in 2022. Rising staffing costs are colleges' biggest financial pressure.
- The Scottish Government's funding for the sector has reduced by 8.5 per cent in real terms between 2021/22 and 2023/24, while the sector's costs have increased. Effective, affordable workforce planning is now a greater than ever priority and challenge for colleges.
- Significant changes to how the college sector operates have been recommended by recent reviews. However, the Scottish Government and the Scottish Funding Council (SFC) urgently need to build on their ongoing work to help colleges plan for change now, and make best use of available funding so that they are sustainable for the future.

Financial Sustainability

- Audit Scotland has identified that the risks to the college sector's financial sustainability have increased since their previous report in 2022, in which they reported that change was needed to ensure the sector's financial sustainability in the long term.
- It is advised that the sector reported an adjusted operating surplus of around £8 million in AY 2021/22, considerably less than its surplus of £19.3 million for the previous year.
- Audit Scotland is of the view that the anticipated reduction in the surplus is partly due to increases in staff costs, reflecting the impact of the sector's pay award in AY 2021/22 and some additional recruitment as well as rising inflation, fuel costs and other pressures.
- With regards to Scottish Government funding, Audit Scotland has noted the revenue funding for the college sector comprising £675.7 million in each of 2021/22, 2022/23, and 2023/24, and has advised that "After taking account of inflation, this represents a reduction in real terms of 8.5 per cent from 2021/22 to 2023/24".
- Grant funding provided via the SFC accounted for around three quarters of the college sector's total income in AY 2021/22. One college relied on the SFC for less than half its income, whilst all other colleges relied on the SFC for more than half their income, including seven that obtained over three quarters of their income from the SFC.

Staff Costs

- It is noted that rising staff costs are colleges' biggest financial pressure, with staff costs accounting for more than two-thirds (around 70%) of the sector's expenditure in AY 2021/22, whilst staff pay awards remain a pressure on college finances.

Infrastructure

- The report makes clear that “Without investing in maintenance, colleges risk their estate becoming a worsening environment for learning” and that “Emerging issues around Reinforced Autoclaved Aerated Concrete will only add to this pressure”.

Significant Areas of Risk for Colleges

Audit Scotland also articulate a cross-section of the numerous risks affecting colleges, composed of the following:

- Inflation, interest rates and energy costs
- The investment required to achieve public sector net zero targets, especially in relation to the college estate
- Investment required to invest in digital
- Difficulties in attracting and retaining students and staff
- The requirement for colleges to self-fund staff restructuring and voluntary severance package costs
- Competition from private sector training providers
- Competition from some universities
- The challenges of raising income from non-teaching activities
- The impact of cost efficiencies on staff wellbeing and the student experience.

Education Reform Agenda

- Audit Scotland is of the view that the recent reviews associated with the Education Reform Agenda bring both challenges and opportunities for the Scottish Government, and advises that there are questions about what can realistically be achieved in the short term and what may require a longer timescale, possibly involving new legislation.
- Against the context of reform, Audit Scotland has recommended that “The Scottish Government and the SFC urgently need to build on their ongoing work with colleges and help them become sustainable now, while structural arrangements at a national level evolve”.
- In particular, Audit Scotland is clear that it is “critical for the Scottish Government to work with the SFC during AY 2023-24 to support colleges in planning for change now and making best use of available funding”.
- The role of colleges in delivering the Scottish Government ambitions of Equality, Opportunity and Community is also touched on, with it being noted that “A significant reduction in a college’s range of courses, student capacity, or its closure altogether could have an unequal impact on students from more deprived areas, plus ramifications for the wider community”
- Audit Scotland believes that “Policy and structural changes by the Scottish Government have the potential to improve colleges’ operating environment but colleges face daunting challenges now to their business models and finances” and that “Addressing the challenges facing the college sector cannot be avoided or postponed”.

Colleges Scotland
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