



# Helping to Transform Scotland

## 2007 Spending Review: Universities Scotland's case

The core argument of this submission is that the Scottish Executive should use the 2007 Spending Review to make a substantial increase in the resources which it allocates to higher education institutions, which represents however a modest and affordable proportion of total Scottish Executive expenditure. We believe that this is an essential step in the process of transformational change to create a modern, aspirational, sustainable, internationally competitive Scotland.

There are four main arguments which underpin this case for investment in Scotland's higher education institutions.

### **The contribution of the higher education sector is central**

Higher education is the primary vehicle for ensuring that Scotland has the people, skills and knowledge required for it to become a high growth, fast lane economy, and is central to the overall aim of the Scottish government to achieve improved and sustainable economic growth. It makes a vital contribution to every one of the five strategic objectives to create a Scotland which is:

- wealthier and fairer;
- smarter;
- healthier;
- greener;
- safer and stronger.

It has a large and indispensable part to play in fulfilling national ambitions for all the characteristics which are essential for a modern, sustainable, internationally competitive Scotland:

- its economy must be vibrant, high skill, high value, knowledge-based, creative, enterprising, innovative, productive and growing;
- it must be culturally rich, socially cohesive and inclusive, and able to realise the potential of its people;
- it must be outward-looking and increasingly respected and valued as an international partner, achieving world class standards of excellence in key areas of strength.

Universities Scotland has identified six specific challenges, the meeting of which is critical for Scotland's future, and for the meeting of which it is essential that the higher education sector makes a major, or even leading contribution. These challenges, described more fully in Section Two, are:

- sustained, equitable economic growth;
- innovation;
- achieving the full potential of our people;
- creativity;
- social responsibility; and
- Scotland's world standing.

## **The impacts of higher education are substantial**

Public money invested in higher education makes a real impact, delivering a return which exceeds most or all alternative forms of investment, and making a measurable difference to Scotland. This includes making a major impact on all five governmental strategic objectives. To demonstrate this impact Universities Scotland has produced two reports, which include only measurable and verifiable evidence:

- **Prosperity Scotland measures the economic impact of higher education;**
- **Wellbeing Scotland measures the social, cultural and environmental impact of higher education**

## **Scottish higher education has an excellent track record**

Scotland's universities and other higher education institutions have a proven track record of world class achievement and of delivering excellence in return for the investment made in them:

- in learning and teaching, surveys of students and graduates have indicated very high levels of satisfaction; and rigorous external scrutiny of academic quality has found provision in Scotland to be of a very high standard;
- in research Scotland leads the world in the numbers of academic papers and citations per unit of expenditure, and on commercialisation and knowledge transfer its universities perform well on key measures, even when comparisons are made with the US universities widely considered to be the most successful.

## Scottish higher education is efficient and productive

Scottish higher education institutions are outstandingly efficient in the use they make of public investment, and deliver exceptional value for money:

- they have delivered massive increases in efficiency, having improved productivity more than any other Scottish public service sector between 1997/98 and 2004/05;
- they are highly, and increasingly, successful in using public investment as a lever to secure similar or even larger amounts from other sources, with the consequence that, over the sector as a whole, nearly 50 per cent of income now comes from sources other than funding council grants and government-paid tuition fees, a proportion which has been steadily increasing over several decades.

These claims are not made lightly. They are based on solid evidence. Although only one year of data on the use of investment from the last Spending Review is available, this still provides an indication of how effectively it has been used. For every pound of public investment in infrastructure higher education will deliver £4 of new development. For every pound of extra investment in research universities generated an extra £3 worth of activity. For every pound of investment in knowledge transfer universities carried out £10 worth of extra activity. For every pound invested in pay modernisation, only 50 pence came from the public purse. A fuller account of the evidence is contained in two Universities Scotland publications:

- **Making Every Penny Count: Efficiency and effectiveness in Scottish higher education;**
- **Paying Dividends: How higher education creates Scottish wealth.**

These are the compelling reasons why a substantial increase in public investment in Scottish higher education institutions should be a priority in the current Spending Review. In a tight spending round shifts in the pattern of expenditure are not easy, but it will not be enough simply to increase the cash allocation roughly in line with inflation. That will not drive change, and risks weakening Scotland's position while more ambitious competitors forge ahead.

A realistic target, which is capable of helping drive the change process, is to increase the funding council grants to Scotland's higher education institutions by 15 per cent in real terms by 2010/11. The increased public investment needed by 2010/11 would be £168 million, but this would deliver £336 million in added public benefit, because the sector itself would deliver the balance through efficiencies and leverage. This sector contribution represents the equivalent of more than seven per cent of the sector's overall resourcing, delivered through efficiency and effectiveness.

The public contribution is manageable and affordable within the overall public expenditure envelope, increasing the proportion of total Scottish Executive expenditure invested in higher education institutions by approximately half of one per cent, and crucially it is sufficient to make a real impact towards creating a modern, sustainable, internationally competitive Scotland.

## Section Two: Challenges, contribution and impact

Universities are ready to deliver more for Scotland. They already contribute in a number of vital ways to Scotland's society, culture and economy but they can and want to do more. Universities Scotland has identified six key challenges for Scotland, the crucial contributions which higher education institutions can make to meeting each of them, and the impact which their contributions will have.

### Sustained, equitable economic growth

**The challenge** The achievement of all five of the Scottish Executive's strategic objectives depends on stimulating sustained, equitable economic growth. In an environment in which international competition is becoming increasingly intense, competing at the low value end is not a sustainable economic strategy for Scotland. The trend for industries and services which mainly use unskilled or semi-skilled labour to relocate to countries where labour is cheapest will continue and may accelerate. As emerging economic giants like China, India and Brazil grow stronger, this trend will extend to jobs requiring intermediate skills. For Scotland sustainable success depends on moving up the value chain, creating a genuinely knowledge driven economy characterised by continuing innovation and supported by a workforce which includes a high proportion with the highest level of skills.

As the international studies summarised in Prosperity Scotland demonstrate, higher education also delivers the skills and knowledge on which a thriving economy depends. FutureSkills Scotland's projections of Scotland's labour market, which are consistent with OECD projections for other developed economies, indicate that within ten years almost all the net new jobs in Scotland's economy will be in higher skilled professional and managerial occupations: it estimates that by 2017 Scotland will need an additional 138,000 workers with first degree qualifications and 198,000 more with postgraduate qualifications. A significant proportion of graduates in the workforce is one of the key indicators of advanced economies. The proportion of graduates in the Scottish workforce has risen from 16 per cent in 1999 to just over 20 per cent in the most recent published figures, but this falls short of the UK average and corresponding figures for other developed economies. Compared with other OECD nations Scotland comes 12th out of 25 countries for the proportion of its workforce with degree level qualifications, placing it at the bottom of the second quartile, and underscoring powerfully the need to expand both first and higher degree provision. An important part of the challenge is to reach the first quartile as soon as possible.

**The contribution** It is degree level education which provides people with highest level of skills, among which the most vital is the capacity to innovate. It is innovation which is the main driver of economic growth and improvements in productivity. Higher education can contribute in

two main ways. First, it can provide the human capital needed, in the form of more graduates both at first degree and higher degree level, to drive a high-skill, high-value, knowledge-based, creative, enterprising, innovative and productive economy. Second, it can support this by further strengthening its research activity, providing Scotland with the knowledge and innovative drive required to underpin and sustain the economy, and able to attract talent and investment to Scotland.

**The impact** The international evidence that investing in higher education has a positive impact is compelling. The OECD found that, in advanced economies with good levels of intermediate education, investment in tertiary level education results in greater economic benefits than investment in any other level of education. A study of 25 OECD nations found that a one per cent increase in tertiary level human capital could lead to as much as a 5.9 per cent increase in the per capita GDP growth rate. It is advanced human capital which accounts for up to 86 per cent of the labour variable in total factor productivity assessments in advanced economies.

In the case of Scotland there is strong existing evidence of economic impact. Key economic impacts of higher education include research and development and the knowledge base to support industrial clusters. Universities disseminate the knowledge and research they produce to a wide range of sources, among the most important of which are consultancy services to industry. The income from consultancy contracts increased by 76 per cent between 2001 and 2004 and is currently worth at least £19 million. 27 per cent of consultancy work is done for SMEs.

The economic value to Scotland of higher education as a business in its own right should not be overlooked. It is itself a leading high skill, innovative business, directly contributing to Scotland's economy through its role as a producer and employer. It is worth £1.9 billion to the Scottish economy, employs over 34,000 people directly and is one of Scotland's major foreign currency earners, generating £381 million per annum. An independent economist has assessed five alternative uses of public investment in Scotland and found that higher education produces short term benefits as good as or better than the alternatives, and that the medium to long term benefits exceed any other form of investment. A fuller account of this work is included in Prosperity Scotland.

## Innovation

**The challenge** The capacity to innovate on a continuous basis is a prerequisite for sustained and sustainable economic growth.

Developing economies have expanded their higher education rapidly. What will set small, advanced economies like Scotland apart is their ability to make innovation a core economic driver for the continuous renewal of products, services, and industries. This requires expansion of research and

development, nurture of emergent industry clusters, rapid and effective transfer of knowledge to business, government and communities where it can make a difference, and a strong international reputation to attract talent.

A key part of this challenge is the relatively low investment in research and development in Scotland by business and industry. It is lower than the UK average, and the UK is below the OECD average, Only 40 per cent of all expenditure on research and development comes from business in Scotland compared with around 70 per cent in Finland and Sweden. This puts Scotland in the bottom quartile of OECD nations.

**The contribution** Higher education is crucial for innovation in Scotland and compensates for the shortfall in industry-financed R&D. The Scottish universities' contribution to the commercialisation of research is also crucial: they applied for and were granted 15.2 per cent and 10.5 per cent of UK patents compared to 6.1 per cent and 5.1 per cent for industry respectively. Because there is no short-term prospect of correcting this imbalance, investment in basic research in academic institutions is doubly vital if Scotland is to have the necessary innovation to drive a competitive knowledge economy.

Scotland's universities are ready to, and have the capability to do more. This applies to research breakthroughs not only in science and technology, but also in innovations in social policy, the creative arts and industries, and environmental technologies and processes. They are ready to make a step-change in how and how quickly and effectively they transfer ideas to the parts of the economy where they can make a difference.

Knowledge-driven economic advances are rooted in basic research which produces the major scientific breakthroughs. The universities are the major contributors to Scotland's strength in basic research. The quality of basic research in Scottish higher education institutions is demonstrated by the fact that the work of over 85 per cent of academic staff entered in the UK Research Assessment Exercise is rated as being largely or wholly of international excellence. Relative to population size, research papers produced in Scottish universities are cited more frequently than those produced in any other OECD country.

**The impact** The sector has adopted a radical and innovative approach in order to increase substantially the impact of investment in basic research. Working in partnership with the Scottish Funding Council it initiated and has rapidly expanded research pooling, which has strengthened the nation's critical mass and enhanced its international competitiveness in key areas of research activity. Although the initiative is only a few years old, it already covers about half the basic research activity in the sector, and is helping to build a strong and sustainable research community with a high level of international recognition and credibility.

A collaborative approach has delivered comparable benefits in the development of strategic research development, where the sector and its funding body have adopted a pan-institutional approach to optimise resources, facilities and expertise in a research stream that is highly attuned to the nation's priorities. A recent survey by Universities Scotland found that 18 of Scotland's higher education institutions worked on 31 different strategically important research projects funded by the Strategic Research Development Grant in 2005. In addition there are other active collaborative projects being undertaken outwith these funding streams.

The commercialisation of basic and applied academic research plays a vital role in technological advances in the private sector, enabling product and process innovation and ensuring a competitive advantage amongst high-wage economies. This is recognised in small but advanced European countries such as Finland and Denmark that identify a strong role for universities in their economic growth. Higher education helps to improve the innovative nature of the industry base: a recent assessment of innovation showed that Scotland's most innovative companies are most likely to be involved in cooperative arrangements with the university research base. Knowledge transfer has already delivered exceptional returns on investment, adding value to the Scottish economy ten times that of the public investment made in it. The sector's record on responsiveness also stands out, adapting to suit the needs of Scotland's business model and increasing the value of work with small-medium size enterprises by 40 per cent in the last year alone.

## **Achieving the full potential of our people**

**The challenge** People and the realisation of their full potential lie at the heart of creating a smarter Scotland.

Productivity increases in Scotland will be driven by new technology, innovation and a more educated population. In advanced economies, it is degree-level education developing highly skilled, motivated and creative people which has a significant effect on productivity, and this is particularly true of the important emerging industries. Labour market projections are that demand for graduates will increase substantially, demand for workers with intermediate skills will be flat, and demand for workers with low or no skills will fall sharply. The challenges are to ensure that all our people are given the opportunity to realise their full potential, and that Scotland has the labour force it needs.

**The contribution** High quality, well motivated staff in Scottish universities already support over 200,000 students, and the universities are ready to deliver an extra 1,000 graduates and 3,000 postgraduates for Scotland every year so that we have the people with the skills and knowledge to build Scotland's economy and enrich its society. Higher education develops higher levels of

general and social skills in its graduates, which translate into the flexible and responsive human capital that small knowledge economies need to be enterprising, creative and innovative and to compete successfully in the global market. Scotland's universities can thus deliver substantial benefits both to the economy and to the individual, enabling more Scots to enjoy fulfilling and challenging careers.

One of the priorities for expansion is to widen participation so that untapped talent in under-represented social groups is released and allowed to flourish. Scotland has a record which is 50 per cent better than other parts of the UK for bringing in students from under-represented areas. However, the universities want to do more, for example by providing more flexible learning opportunities and learning resources. Widening access is crucial to social mobility and tackling poverty, and to building a fairer Scotland.

**The impact** One of the positive but often unrecognised impacts is the benefit delivered through the mobility of graduates. The large majority of Scottish graduates remain and work in Scotland, but significant numbers are employed throughout the world because they have the skills that are required by global industries. This benefits Scotland both because global companies discover the strength and depth of the knowledge base available in Scotland, and because most of these graduates continue to identify with Scotland and many of them return later, bringing with them the wider experience they have gained. The universities are also central to attracting talented people from around the world to come to Scotland to study and work.

The opening up of access to increased numbers from social groups which previously have been under-represented in higher education has very significant impacts, including the personal development of the individual, improved social cohesion and mobility, and the economic gain from making better use of valuable human resources.

Another indicator of impact is the benefits enjoyed by the graduates themselves. They have a significantly higher rate of employment, and command substantially higher than average earnings. Despite the increase in the number of students in higher education in the last ten years, higher learning still offers a return in higher earnings of between 11 to 17 per cent or up to £160,000 over the course of a working life.

## **Creativity**

**The challenge** Economies, communities and individuals flourish in an atmosphere of creativity. A vibrant culture and thriving creative arts of all types make Scotland a better place to live and work, and a magnet to attract talent from all over the world. Creativity of all sorts, covering a wide spectrum from the performing and creative arts through to the high level intellectual development

which enables individuals to innovate and to respond effectively to scientific and public policy challenges and problems which could not have been foreseen, can drive Scotland forward.

**The contribution** Universities provide the stimulus for intellectual development and creativity, and they provide secure employment to many of Scotland's most innovative and creative people, not just in the creative arts themselves but in every branch of the economy and society. There is probably no other sector in Scotland in which investment can stimulate such a far-reaching creative impetus, extending to business, society and culture. They also have the potential to increase the provision of the many resources they already offer to the wider Scottish community, from lectures and libraries to exhibitions and studio space.

**The impact** Scotland excels in the creative industries. It is worth £5 billion to the Scottish economy, and in UK market share is second only to London and the south-east. Scotland's specialist higher education institutions, the art schools, the RSAMD and those integrated into universities play a vital role inspiring and generating, developing and supporting this thriving and diverse range of creative industries. The Scottish higher education sector invested well over £10 million on cultural engagement in Scotland last year; equivalent to one sixth of the Scottish Arts Council budget. A total of one million people enjoyed cultural opportunities hosted by universities in the last year alone; visitor numbers to university galleries and museums represented a significant proportion of the total numbers visiting galleries and museums throughout Scotland. This is the combination of factors which the American economist, Professor Richard Florida, has cited as necessary to attract and retain creative talent beyond the higher education sector and to spur growth elsewhere in the economy. The creative people responsible for driving forward the modern economy favour tolerance, diversity and a wide variety of social and cultural opportunities, clustering where these conditions exist.

The importance of creativity extends well beyond the creative arts themselves to all parts of the economy and society, and in these areas too higher education has a proven track record. Scotland's universities have created the positive externalities which enabled the development of some of Scotland's most important industry clusters, such as those life sciences, optoelectronics and energy, including renewables. They help new industries to emerge where there has been no previous technological antecedent, and they help with the creation of new 'location economies' in Scotland. The evidence is that where universities play a central role in these industry clusters they are more likely to offer long-term sustainability for the region and nation.

## Social responsibility

**The challenge** Scotland will benefit from a strong and vibrant cultural life which engages people, promotes identities and nurtures rounded and questioning citizens. Such citizens look after their health better, have more enlightened attitudes to environmental issues, and in numerous other ways display a stronger sense of social responsibility. Tackling the social and economic causes of poverty requires better social policy, wider access to opportunity, and support for the social infrastructure which strengthens communities.

**The contribution** The more learning people undertake, the more they become aware of how their behaviour affects their health, the environment and their community. Higher education helps to encourage people to be healthier and more engaged and informed. Universities will also prepare the people and the technologies which will improve the health service, protect the environment by undertaking research into climate change and develop better social policies and practices. They have intensified their widening access and outreach work, giving more people an opportunity to study at university, and they are committed to mainstreaming and embedding these activities.

**The impact** The societal impact of higher education in improving people's lives is very clear, and it not purely economic. The Wellbeing Scotland report found that graduates are healthier, less obese, have longer life expectancies, commit less crime, and participate more fully in civic society. Experience of higher education plays a major part in creating effective, confident, good citizens. A recent study by the OECD concluded "the social benefits are large – possibly larger than the direct labour markets and macroeconomic effects". On average graduates contribute more to the creation of social capital: societies with higher proportions of graduates demonstrate higher proportions of volunteerism, higher prioritisation of and action on environmental issues, and more positive attitudes towards race and gender equality. These trends are evident even after adjustment for other factors such as differences in income and wealth. In combination they help create positive environments and safer and stronger communities which benefit all citizens. The sociologist Robert Putnam found direct connections, so-called 'virtuous circles', between human capital and social capital leading him to conclude that higher education can play a role in reversing the deterioration in Scotland's stock of social capital.

Universities are closely connected with their local and regional communities. The Economic and Social Research Council suggests that one reason these relationships have strengthened is the diversification of institutions and the student body as a result of the sector's expansion in the early 1990s. Institutions add value to the excellent work done by agencies tasked with strengthening communities, reducing inequalities and promoting sustainability. They also lead a range of initiatives of their own that are driven by the needs of their local areas and as diverse as the people in them.

## Scotland's world standing

**The challenge** Increasing globalisation means that it is essential that Scotland can attract the best people to live and work here, and that it can export successfully to the world's fast-growing economies. Building Scotland's reputation as a home of enterprise, of learning and discovery, of creativity and innovation, of dynamic cities and environmental integrity, is central to developing a strong international profile. Other key elements in the profile include establishing Scotland as a good global neighbour, promoting Scotland's culture, and enhancing mutual understanding and friendship between the people of Scotland and the rest of the world.

**The contribution** Scottish higher education is one of the most outward looking sectors in Scotland, rich in its international connections. International collaboration is increasingly important both in learning and teaching and in research and commercialisation. Through maintaining and strengthening its international competitiveness Scottish higher education has built a strong global profile, and has been able to attract talented people and valuable research contracts to Scotland. Higher education is amongst the strongest contributors to Scotland's international reputation. The high regard for its learning and teaching provision is demonstrated by Scotland's 1 per cent share of the global market relative to the country's 0.1 per cent share of the global population. The sector is uniquely well placed to open up further opportunities for co-operation in diverse fields, including trade and investment, science and technology, culture, education, tourism and the environment.

**The impact** Scotland's higher education institutions are central to Scotland establishing itself within the wider international community. One major impact relates to people: universities have the greatest potential, amongst all of Scotland's organisations, for attracting highly talented people, staff and students, from all parts of the world. The strong international reputation of Scottish higher education also has a wider impact on the promotion of Scotland overseas and the attractiveness of Scotland to industry, tourists and students.

## Section Three: Investment targets

Section Two of this submission highlighted the challenges of transformational change for Scotland, and in particular in its economy, and explained why higher education institutions are central to meeting these challenges. This section provides more detail on the investment which is needed and on how it would be targeted by the sector.

The transformation will not happen spontaneously, and it will not be completed during the current Spending Review period. This is a medium and long term vision looking ten to twenty years ahead.

The first steps towards achieving that vision need to be taken now, but they have to be seen as only the initial phase of a sustained programme to create a country that has a strong and distinctive place in an increasingly competitive world.

The first steps are crucial because inertia has to be overcome and momentum has to be established. This requires reprioritising of public spending over the three years from 2008 to 2011 to stimulate progress. In total the additional investment in the higher education sector would amount to approximately 0.5 per cent of total Scottish public expenditure. The projected return is a transformational impact of much greater magnitude.

The main investment needs can be summarised under four target headings:

- developing human capital;
- driving innovation;
- building internationalism; and
- sustaining progress.

The first three relate to the core missions of universities: education; research; and knowledge transfer. The fourth theme is a prerequisite for the achievement of the objectives under the other three headings.

Universities Scotland's proposals are summarised below under each of the four headings, and a fuller account is contained in the Annex.

## **Developing human capital**

By 2010/11 we want to create 4,000 additional first degree places, delivering 1,000 extra graduates in Scotland every year, plus 2,000 additional taught postgraduate, and a 30 per cent increase in research postgraduate places. By the final year of the Spending Review period the approximate annual cost of these increases would be £24 million, £12 million, and £9 million respectively.

This moderate expansion will help to widen access for people of all backgrounds and drive up Scotland's Age Participation Index, increasing the number of young Scots who enter higher education, and ensuring that the direct and indirect benefits of higher education are spread as widely as possible through society. This investment will increase the number of graduates and postgraduates in the workforce (those educated to SVQ levels 4 and 5) preparing a highly-skilled and responsive workforce that Scotland will need to compete amongst other knowledge-driven economies.

It is vital that the student learning facilities and infrastructure in Scottish institutions should match the best international standards, and that they should be regularly refreshed and renewed so that

they remain state of the art. In order to achieve this, the Learning and Teaching Infrastructure Fund (LTIF) should be embedded at its current value in real terms as the public sector contribution towards a much larger total investment, the greater part of which institutions will secure from other sources using the public contribution as leverage. Embedding the fund will enable universities to build a new generation of learning and teaching facilities and also to equip them with modern learning facilities. Using sustainable design and construction will produce more energy efficient buildings and enable better use of renewable energy, leading to more environmentally-friendly universities and better space utilisation.

## **Driving innovation**

An increased investment in basic research of £60 million per annum by 2010/11 would significantly drive up both the quality and increase the size of the research base securing the future of innovation in Scotland. Of the total amount we propose a contribution of £40 million from public funds, which represents a 20 per cent real terms increase on the current level of the main quality research grant. This would result in more scientific breakthroughs and research outputs capable of shaping and influencing public policy. It would also give higher education institutions leverage with other funders offering a greater return on public investment.

The Strategic Research Development Grant (SRDG) unites the strategic interests of Scotland's universities with the strategic interests of Scotland. This is a fairly modest grant at present but helps to support research projects of great importance. A 25 per cent increase in SRDG, costing only £6 million per annum by 2010/11, is needed from public funding to help to develop this research stream and enable further collaborations between academic and business research bases.

More effective knowledge transfer between the academic community and the Scottish economy and society is needed for Scotland to achieve its aspirations for economic progress and social equity. The last five years have seen a big step forward in knowledge transfer activity and where it is happening it is showing exceptional returns on investment. To enable universities to make a step change towards more efficient and effective commercialisation of knowledge the total income for knowledge transfer activities, as raised from all sources, should increase to the equivalent of 25 per cent of the value of the main quality research grant by 2010/11. A step change in the public contribution by £30 million per annum would enable the Scottish Funding Council to raise its knowledge transfer grant to £50 million per annum by 2010/11. The sector will seek to raise a further £10 million per annum through efficiencies and by using the public contribution as leverage to secure income from other sources.

The quality of infrastructure is as important for research as it is for learning. Therefore it is equally important that the Strategic Research Investment Fund (SRIF) should be embedded at its current value in real terms.

## **Building internationalism**

The internationalism of Scottish higher education has been led by the institutions themselves, and has been almost entirely self-funding. This is a healthy pattern, and Universities Scotland believes that it should continue. However, these activities bring considerable benefit to Scotland both in terms of earnings (£381 million per annum which can readily be measured, but a good deal more which is less readily measurable) and international reputation, and there is an opportunity for substantial growth which would further increase the return to Scotland. We therefore propose a very modest short term public investment of £7 million per annum in a flexible fund as a contribution towards assisting Scottish higher education to make a step change in the scale of its international activities. This fund could be deployed in a strategic way to provide incentives for collaboration, and pump-priming funding for the projects which promised the strongest impact and the highest rate of return. It could, for example, help with the generic marketing of the Scottish higher education brand, and with the extension of market intelligence and in-country presence. This initiative would be particularly well timed, since the universities have very recently taken a leading role, with government and with other stakeholders, in establishing an internationalisation strategy for Scottish post-school education; and it would not compromise the principle that the primary responsibility for the development and expansion of their international activities should remain firmly with the institutions themselves. In addition to the obvious economic return, such a programme would help institutions to reach out more to other nations and increase the number of international networks, and an increase in Scotland's market share of international students would add diversity and cultural enrichment.

## **Sustaining progress**

Progress on these issues depends on the sector working from a sound and sustainable financial base. It must be in a position to recruit and retain the best possible research, teaching and support staff in order to sustain and improve Scotland's reputation as a leader in higher education. Students deserve a full range of support services to help them to make the most of their educational experience and emerge fully rounded and ready to contribute to Scotland's economy and society. There need to be solid, sustainable foundations so that we can look forward and outward. Pressure on this financial base has increased with the cost of pay, pensions and utilities all rising at a rate above inflation. Universities Scotland has made a conservative estimate of the minimum additional expenditure required to meet these pressures of £110 million. We are calling for a public contribution towards this cost of £40 million. This will help to ensure that the progress made in Scottish higher education over recent years is sustainable in the medium and long term.

## **Funding the investment targets**

The total increase in the sector's annual resourcing in order to achieve the investment targets

identified above will reach £336 million by the final year of the Spending Review period, measured in 2010-11 prices. However, although this is the value of the increased public benefit, the sector asks only for approximately half that amount to be provided from public funds. Institutions will act innovatively and imaginatively to bridge the gap between the public contribution and the total requirement, using a combination of their proven record of deploying public funding as a lever to secure additional funding from other sources, and of their ability to realise efficiencies so that the savings made can be redirected to front-line services. It is essential that certain items are fully funded, such as increases in student numbers, but in the case of other items institutions will make a majority contribution by seeking additional funding from private, commercial and charitable sources, and by continuing to achieve efficiencies. The larger part of the investment in internationalisation, for example, will be made by the institutions themselves. They will also meet the larger part of the cost pressures on pay, pensions and utilities, and will secure from other sources part of the increases for research and knowledge transfer.

The total public funding of higher education in Scotland distributed in funding council grants will be £1028 in 2007-08. If this funding was to rise purely in line with inflation it would be worth £1112 in 2010-11. The increase in public investment of £168 million per annum by 2010-11 would take total funding council grants to £1280 million by that year, an increase of 15 per cent during the Spending Review period. It is feasible for this to be phased in over the period, but because of the importance of creating momentum for the change process, the investment should be front loaded, so that approximately half of the new money comes on-stream in the first year and the other half is spread over the subsequent two years. This would also help adjust for the hiatus caused by the postponement of the 2006 spending review. The resultant total funding council grant for the university sector over the three years would then be as follows:

| <b>2008-09 (2008-09 prices)</b> | <b>2009-10 (2009-10 prices)</b> | <b>2010-11 (2010-11 prices)</b> |
|---------------------------------|---------------------------------|---------------------------------|
| <b>£1,130 million</b>           | <b>£1,200 million</b>           | <b>£1,280 million</b>           |

## **Summary of investment**

The table below summarises Scottish higher education sector's list of investment priorities. It also indicates where new and increased public investment is needed and where institutions will raise additional resource through efficiency or other sources of income. The total package is worth £336 million per annum by 2010/11, of which higher education is committed to contributing half. The public contribution of £168 million represents about 0.5 per cent of the Scottish Parliament's budget. The investment priorities are not separate or unconnected and the ability to achieve the outcomes listed above is significantly undermined if the package is not viewed, and funded, as a whole.

|   | Real terms per annum increase in resources required by 2010/11 | Real terms increase in per annum public contribution by 2010/11 | SFC grant | HEI contribution (efficiencies and leverage) per annum by 2010/11 |
|---|--|---|-----------|---|
| Increase of 4,000 undergraduate funded places             | 24   | 24  | T         | 0   |
| Increase of 2,000 funded taught postgraduate places       | 12   | 12  | T         | 0   |
| Increase of 30 per cent in postgraduate research students | 9  | 9   | PGR       | 0   |
| Increase in investment in estates and infrastructure      | 50   | No increase: embed at current level                             | LTIF/SRIF | 50  |
| Basic research, including quality research grant          | 60   | 40  | QR        | 20  |
| Strategic research development                            | 6  | 6   | SRDG      | 0   |
| Knowledge transfer  | 40   | 30  | KTG       | 10  |
| Internationalisation                                      | 25   | 7   | new fund  | 18  |
| Pay, pensions and utilities                               | 110  | 40  | T         | 70  |
| <b>Total</b>  | <b>336</b>   | <b>168</b>  |           | <b>168</b>  |

## Section Four: Conclusion

Scotland's future must be a high-skill, high-value future. This requires transformations in Scotland's economy and its society, not only to achieve a high growth, fast lane economy, but also to make Scotland wealthier and fairer, smarter, safer and stronger, healthier and greener. Higher education is the prime agent of transformation in advanced economies and must be at the centre of national strategy in Scotland. Much has been achieved, but more is needed. This requires significant and continuous investment, which will create national value many times the size of the investment itself. Scotland's universities stand ready to play their essential and leading role in helping achieve the transformational change on which Scotland's future depends.

For more information please contact:

53 Hanover Street, Edinburgh EH2 2PJ. Tel 0131 226 1111

Email [info@universities-scotland.ac.uk](mailto:info@universities-scotland.ac.uk). [www.universities-scotland.ac.uk](http://www.universities-scotland.ac.uk)