

## **Universities Scotland written submission to support consideration of the Audit Scotland Audit of Higher Education in Scottish Universities. September 2016**

This summer's audit of higher education funding in universities is the first Audit Scotland examination of the university sector in nine years. It is the only audit that Audit Scotland has undertaken of Scottish Government funding for teaching and research in Scotland's universities.

The findings are significant. It highlights that university funding for teaching, research and capital has been cut in real terms. It poses a challenge that: *"The Scottish Government needs to ensure its approach to funding higher education is sustainable in the medium to longer term if policy priorities are to be delivered."*<sup>1</sup>

It points to 'underlying risks' to Scotland's university sector as a result of mounting funding pressures.<sup>2</sup>

- For these reasons we ask the Public Audit Committee to give this report its full consideration.
- We ask the Committee to consider calling witnesses from the university sector. Doing so would provide a clear and realistic illustration of the impact this difficult funding environment is having on university teaching, research and the estate.

This short brief sets out:

1. the funding pressures causing 'underlying risks' for Scotland's 19 higher education institutions (HEIs).
2. University action on the recommendations that Audit Scotland set out for the HE sector.
3. the international context in which universities operate.

### **1. The funding pressures causing 'underlying risks' for Scotland's 19 higher education institutions**

Funding for higher education has faced successive cuts over recent years:

- Universities faced a 6% real terms cut to their revenue funding (for teaching and research) between 2010-11 and 2014-15. This was compounded with a further 6% real terms cut between 2014-15 and 2016-17. The sector has therefore seen a total real terms cut in the SFC budget of 12% over the last 6 years.
- Teaching funding for Scottish-domiciled students does not meet the cost of teaching them. Audit Scotland points to data showing that in 2014/15 every Scottish domiciled student was under-funded at only 94% of full costs. The teaching grant has been cut again since then. Funding per student is now likely to be closer to 90% of full costs.
- Reflecting on pressures on the teaching budget Audit Scotland state: *"In 2016, the SFC reduced the price per funded place for 2016/17 by 2.9 per cent compared to the previous year. This*

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<sup>1</sup> Audit Scotland (2016) p52. It is worth clarifying at the outset that Universities Scotland is not questioning the policy of public investment in university teaching for Scottish-domiciled students. Our focus is on securing sustainable and competitive levels of public investment.

<sup>2</sup> Audit Scotland (2016) p5

*was due to budget pressures, rather than a reduction in the cost of teaching.... there is a risk that the SFC's long-term outcome of 'high-quality learning and teaching' will not be achieved.*"<sup>3</sup>

- Research funding has reduced in real terms by 7% since 2014/15. This cut comes despite significantly improved performance by Scotland's universities in the 2014 Research Excellence Framework. This has meant even deeper cuts to research budgets for some universities.
- The number of undergraduate degree places made available is not keeping pace with the number of qualified applicants. Audit Scotland points to the fact that *'it has become more difficult for Scottish applicants to be offered a place at a Scottish university'*. The offer rate to Scottish-domiciled students has fallen to 50% in 2015. This is down from 57% in 2010.<sup>4</sup> The 'offer rate' is the number of applications to university divided by the number of offers made. Audit Scotland states: *"the offer rate is recognised as a measure of how difficult it is to get into university."*<sup>5</sup>
- Universities saw their capital funding cut in real terms by 69% between 2010/11 and 2014-15.<sup>6</sup>
- The sector faces increasing cost pressures. Audit Scotland identifies employer increases to USS and other pension schemes to address deficits, a backlog in maintenance of the university estate and increasing national insurance and wage bills. It also highlights the transfer of pension liabilities to university balance sheets which could make borrowing more difficult and more expensive.<sup>7</sup>
- Audit Scotland notes data showing that at the sector level a surplus of 6.5% is required to cover long-term costs. Audit Scotland has warned that the sector surplus is only 2.6%. This sustainability 'gap' has grown over recent years.<sup>8</sup>

## **2. University action on the recommendations that Audit Scotland set out for the HE sector**

The Audit Scotland report makes two clear recommendations for the university sector. It encourages further efficiencies in delivery of teaching, research and innovation. It suggests further collaboration could be key to this. The report also encourages universities to work further diversify sources of income.

We recognise these areas as important responsibilities and priorities for the university sector. Higher education is very alive to efficient practice, to collaboration and to income generation. The following sets out university actions in this area:

### Efficiencies

- Universities take their responsibilities to deliver their outcomes efficiently very seriously.

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<sup>3</sup> Audit Scotland (2016) p29

<sup>4</sup> Audit Scotland (2016) p43.

<sup>5</sup> Audit Scotland (2016) p41

<sup>6</sup> £25m of capital funding was announced for universities in Sept 2016 Scottish Government Legislative Programme. It must be match-funded by the universities themselves.

<sup>7</sup> Audit Scotland (2016) p37-8

<sup>8</sup> Audit Scotland (2016) p49

- Audit Scotland notes universities' strong performance on efficient practice noting that they exceed the public sector target.<sup>9</sup>
- Universities have generated £200 million of new efficiencies over the last four years.
- Scotland's HE sector was one of the very first to establish a collaborative procurement service, APUC, with colleges back in 2007. Doing so now means that 30% of spend in the HE and FE sector is through joint procurement (cf. around 25% in English HE).
- Collaborative procurement generates annual efficiencies of £31 million, relative to market price, for HE and FE. This is in addition to figures immediately above.
- There are over 170 examples of collaborative or shared services in the HE sector, including partnerships with other organisations across the public and private sectors.
- Universities Scotland has run a sector-wide efficiencies taskforce, led by Professor Sir Ian Diamond, since 2011/12. The group works to identify and deliver efficiencies and increased productivity in four areas: business processes, shared services, ICT and the university estate. It has reported annually to the Scottish Government and online.<sup>10</sup>

### Collaboration

- Collaboration is a defining feature of Scottish higher education. This has been observed and commented on by external evaluations on more than one occasion. As follows:

*"A joined-up and collaborative sector...Evidence for this includes innovations in teaching, Scottish research pools, a collaborative approach to quality assurance... It is strongly felt that working in partnership is 'part of the DNA of the Scottish sector'".*

British Council, 2013, Assets report.<sup>11</sup>

*"While collaboration has always been a core part of academic development, in this challenging financial environment and a competitive market, the sector is becoming increasingly ambitious and innovative".*

Ernst & Young, 2013<sup>12</sup>

### Income generation & diversifying income streams

- Universities generate £2.4 billion of income from competitively-won and private sources every year in return for the £1.1 billion on investment from the Scottish Funding Council. That is an impressive leverage that makes every public pound invested into HE go a lot further. As a sector, our ability to generate leverage does depend on having public funding there at the core.
- In 2014/15, universities' income from non-EU student fees was £445m. This made up 47% of their total 'tuition fee and educational contract' income (up from 42% in 2009-10).
- Universities will continue to pursue international student recruitment but their potential to do so is limited because of the anti-competitive nature of UK immigration policy which sees Scotland (and the UK) make a less attractive offer to prospective international students than our key English-language speaking competitors of Canada, Australia, New Zealand and the US.
- Research is another area in which Scotland uses the core public funding to generate significant volumes of external funding. Scotland wins around 10% of the total funding from UK Research Councils worth £323.5m. Scottish HEIs also win 14% of competitive

<sup>9</sup> Audit Scotland (2016) p35

<sup>10</sup> Universities Scotland (2012-16) Working Smarter <http://www.universities-scotland.ac.uk/publications/>

<sup>11</sup> British Council Scotland (2013) A Strategic Analysis of the Scottish Higher Education Sector's Distinctive Assets

<sup>12</sup> Ernst & Young (2013) An Assessment of Shared Services in Scotland's Higher Education Sector

funding from UK-based charities – well above proportional returns, in terms of population size. The dual-support funding model is key to this. The Research Excellent Grant (REG) from the Funding Council is core funding for universities. It supports the research teams and infrastructure. Having this in place also helps universities to go out and win research grants from other sources.

### **3. The international context in which universities operate**

Higher education is global and Scotland's universities are currently very successful on the world stage.

Scotland has 5 universities in the top 200 in the world and 12 universities in the top 5% of universities across the world.<sup>13</sup> That is a phenomenal achievement. This performance in rankings is based on the quality of teaching, research, and income from industry amongst other factors.

It is this level of quality that makes staff and students from across the world choose Scotland over other options. The quality of HE on offer is one of the reasons that Scotland is chosen as a location for inward investment by multi-national companies. Scottish research and our graduate talent pools beat that which is available in other nations.<sup>14</sup>

It is this level of quality that means universities take every £1 of Scottish Government investment and go out and win another £2.40 direct from other sources. Investment in research has an immediate 3:1 leverage. It is what makes our contribution of £7.2 billion GVA to the Scottish economy every year.<sup>15</sup> We can only make public investment go that much further because we are successful when we compete nationally and internationally.

Universities' competition isn't in the next city, or even the next country. Their competition is the best there is across the world. We need to be ambitious to be the best and to stay the best. Doing so will deliver the biggest returns for Scotland.

The 2017 world rankings are a great achievement but they do contain a warning. Four of Scotland's five universities in the top 200 fell in the rankings this year.<sup>16</sup> International competition is fierce. That is why sustainable public investment is so important to the sector. Our ambition has to be that we are funded at a level that is sustainable and internationally competitive.

Thank you for the consideration you have given to these points.

**Ends**

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<sup>13</sup> Times Higher World University Rankings (2007, September)

<sup>14</sup> Universities Scotland (2014) Grow, Export, Attract Support. FMC Technologies, Daktari, Toshiba Medical, Samsung, GlaxoSmithKline have all invested in recent years citing university R&D and graduates as key factors.

<sup>15</sup> Biggar Economics (2015)

<sup>16</sup> Times Higher World University Rankings (2007, September)