

## Universities Scotland submission of evidence to support pre-2020/21 Budget Scrutiny

Many thanks to the Committee for its focus on the sustainability of higher education funding and for the invitation to submit evidence. There are five key points we would like to address which are summarised below and then elaborated on in the rest of the submission:

- 1. Principals believe that higher education funding in Scotland is at a pivotal point.** University funding has been cut in four of the last five budget settlements. The sector risks a gradual downward slide. But, there is still time to turn it around now without lasting damage to the sector. This is why the next budget is crucial for our universities. We have asked for a realistic and achievable 2% real terms increase on the teaching and research grants. This is needed in 2020/21 to reverse a pattern of slow decline. We ask all parties to support this in their approach to the next budget.
- 2. There are particularly acute pressure points in the sector but all institutions suffer as a result of underfunding of their core grants.** Whilst some institutions have been more equipped at managing the impact of cuts so far, Scotland needs a fully funded higher education sector. The reality is, that whether a Scottish-domiciled undergraduate student is studying at a modern or an ancient institution, they now have almost £700 less Scottish Government funding invested in every year of their higher education than five years ago.
- 3. Post Brexit, the resource currently funding EU undergraduate students must stay in HE.** Universities would cite this as one of the biggest risks hanging over them as a result of Brexit. When we know what kind of exit the UK will have from the EU, it will be in the Scottish Government's hands to resolve this as a matter of urgency.
- 4. The sector's potential for leverage of external funds is being undermined by underfunding.** Universities are able to use their public funding to attract private and competitively won sources of income. The relationship between public funding and competitively-won funding is symbiotic, not substitutional. When core public funds decline, universities' potential to generate other funds declines. There is evidence of this happening.
- 5. Universities make a significant contribution to Scotland and want to keep delivering.** In the first attempt to map universities' contribution against the Scottish Government's National Performance Framework, we believe it's possible to single out and quantify the distinct HE contribution to 29 indicators in nine of the national outcomes within the Framework.

This submission will now elaborate on each of these key messages in turn.

Additionally, we wanted to acknowledge the Chancellor of the Exchequer's recent announcement that the UK Government's budget planned for 6 November has been cancelled. At the time of writing there is no certainty of a new date (with the possibility of a

delay until after a potential general election) and therefore no certainty what this will mean for the Scottish Government's budget for 2020/21, as expected in December. If last year's Scottish Government budget settlement is rolled on, in lieu of a budget from the UK Government that would mean a further real terms cut to higher education funding by default.<sup>1</sup>

## 1. Principals believe that higher education funding in Scotland is at a pivotal point.

- Universities now receive £127.6 million less public funding in real terms than five years ago (2014/15 – 2019/20) which equates to a 11.6% decrease. Budget settlements have meant cuts to university funding for four of the last five years. Higher education is at risk of sliding into a long-term pattern of underfunding and slow decline.
- Principals are not alone in seeing the issue in these terms. NUS Scotland and UCU Scotland share this view and all three of our organisations have shared platform in Holyrood in September and the SNP conference in October to raise the issue of underfunding of higher education.
- This view is also supported by independent evidence. In the spring, the European Universities Association identified higher education funding in Scotland as a system in “sustained decline” and put Scotland’s HE in a category called: “declining system under pressure” along with Italy, and the Czech Republic.<sup>2</sup>
- As further evidence, Audit Scotland’s report on university finances from September 2019 compounds its earlier 2016 assessment of the sector’s financial situation. In 2016 it HE funding as having “underlying risks”. It now finds it has worsened, with universities facing increased costs, increased cuts and increased borrowing. The timeline that Audit Scotland uses to track the impact of funding cuts differ slightly to the ones we have used but it reported 12% cuts to funding over 7 years to 2017/18, found that more than half of Scotland’s universities are now in deficit and found that the ability to financially weather short-term and unexpected cost pressures (at one of the most unpredictable times in recent history) via cash, savings and investments, has fallen for 8 institutions between 2014/15 and 2017/18.<sup>3</sup>
- Universities Scotland has submitted a funding bid to Government setting out higher education’s alignment to and deliver against the National Performance Framework, as was the Finance Secretary’s advice to all recipients of public funding. We have asked for a 2% real terms increase in public funding in 2020/21. This bid is pitched at a level we believe is realistic and achievable. It is not what the sector needs to get on a sustainable financial footing but we recognise the current limits of public finances and the fact that there is no way that this is achievable in one year. What universities need this year, is a real terms increase and a commitment from Government to return to annual real terms increases in funding over a number of years, which will allow the

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<sup>1</sup> The 2019/20 budget settlement was a cut of 1.79% which was the GDP deflator at the time. The current GDP deflator is 1.84% according to the October 2019 [UK Government National Statistics](#).

<sup>2</sup> European Universities Association (March 2019) [Public Funding Observatory Report 2018](#) Figure 1.3.2. pg 14.

<sup>3</sup> Audit Scotland (2019) [Finances of Scottish Universities](#)

sector to build towards financial sustainability, at a level that supports our contribution to Scotland's success.

- It is important that we address an apparent anomaly in HE funding. The funding pressures that universities face are seemingly at odds with the sector's continued strong performance in league tables and progress on key policy agendas such as widening access. Scotland's recent success in the Sunday Times UK league table has been highlighted as evidence that Scottish HE continues to do well despite cuts. Universities have been able to keep the show on the road thanks to (a) universities' commitment to put student interests first even when funding is tight (b) institutions increasing recourse to borrowing. Audit Scotland found that borrowing is up 114% since 2014/15 and is now a bigger source of 'income' for universities in 2017/18 than Funding Council grants. Finally, (c) there is an inevitable time-lag before the impact of funding cuts becomes evident in indicators like student satisfaction. By the time that impact is measureable it will be much harder to turn that round.

## 2. There are particularly acute funding pressure points in the sector but all institutions suffer as a result of underfunding of their core grants.

- The Audit Scotland report pointed to a reduction in total income for nine universities, including five modern universities between 2014/15 and 2017/18. It said that the aggregate sector picture (of all sources of income) "*masks significant variation*".<sup>4</sup>
- Whilst some institutions have been more equipped at managing the impact of cuts so far, Scotland needs a fully funded higher education sector. The reality of the current funding situation is, that whether a Scottish-domiciled undergraduate student is at a modern or an ancient institution, they now have almost £700 less Scottish Government funding invested in every year of their higher education than five years ago.<sup>5</sup> That situation needs to be corrected.
- Audit Scotland's report acknowledges that there are what it calls "cross-flows" of funding within universities to support their activities.<sup>6</sup> When public funding for teaching so underfunded per student, the result is that the quality of education has to be propped-up by international student fees. Institutions with a much lower ratio of Scottish and EU domiciled students to international students will have access to much smaller "cross-flows" of other resource. Public funding for higher education should not lead to an outcome where the institutions who educate the highest proportions of Scottish (& EU) domiciled students have some of the most difficult funding challenges to manage.
- On the research side of universities' activity, Scotland's universities go up against universities across the rest of the UK, in open competition for research grants from UKRI. In that competitive situation, the SFC's research funding for Scottish HEIs has

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<sup>4</sup> Audit Scotland (2019) p5.

<sup>5</sup> Universities Scotland (2019)

<sup>6</sup> Audit Scotland (2019) p16.

been cut by 12% in real terms since 2014/15 and is now funded at 87.2% of the level it was in 2014/15.<sup>7</sup> In contrast, universities in England (who are publicly funded for research via the Quality Research (QR) Grant, the English equivalent to Scotland's Research Excellence Grant) have seen a £45 million increase to the QR Grant announced in July 2019, equivalent to a 4.3% increase.<sup>8</sup> That's not a situation Scottish universities can continue to compete and succeed in.

- When it comes to institutions' balance sheets, 15 out of 18 institutions were in a worse position in 2017/18 than the year before, with 10 of them in deficit at that point.<sup>9</sup>

### 3. Post Brexit, the resource currently funding EU undergraduate students must stay in HE

- Brexit certainly poses many challenges to universities but one of the biggest financial risks to Scotland's universities post-Brexit is the potential loss of the resource that currently funds EU-domiciled undergraduate students. Every institution in Scotland would be affected by this and it would have major knock-ons for the experience of Scottish domiciled students. The removal of funded places currently held by EU students risks the unsustainability of some courses in parts of the country, many of them in STEM subjects. We should be unequivocal in our message here: removal of that resource from the higher education sector would have a catastrophic impact on universities, on staff, on the student experience. It is not a financial shock that the sector can absorb on top of existing financial challenges.
- Alastair Sim gave evidence to the Committee's No Deal Brexit Inquiry on 18 September. Speaking on the possible loss of the funds for EU undergraduates from the HE sector he said: *"I think that it would be absolutely essential to keep the money that is currently committed to EU students in the system... There are so many important things we can do for Scotland that, to my mind, it is incredible that we are even talking about the possibility of that money being taken away from an underfunded higher education sector."*<sup>10</sup> Sharing the same view, Liam McCabe, President of NUS Scotland said: *"You will find unanimity across the three of us on that point. We have all, collectively and separately, made overtures to the Government about the requirement to maintain within the education sector what I think is in the realm of £90 million worth of funding... If it is removed, that will create a £90 million black hole. Considering that there are going to be a multitude of black holes appearing all over the education sector in the event of a no-deal Brexit, we should at the very least try to stop the creation of another one, given that it is within our power not to create it."*<sup>11</sup>
- Once it is clear what kind of exit the UK will have from the EU, it will be imperative to institutions that the Scottish Government acts quickly to set out its policy and funding

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<sup>7</sup> US SR submission. Figure 6 on pg 54

<sup>8</sup> UKRI (2019) [News](#)

<sup>9</sup> US SR submission p52

<sup>10</sup> Scottish Parliament [Education & Skills Committee evidence session, official report](#), 18 September 2019.

<sup>11</sup> Scottish Parliament [Education & Skills Committee evidence session, official report](#), 18 September 2019.

intentions in regards to the funding of EU undergraduate students and any redirection, within higher education, of that resource. The Scottish Government will have to make a policy choice about (a) whether to continue EU students existing entitlement to be treated on the same fees basis as Scottish-domiciled students, or (b) to stop funding EU student to study here on this basis. If they choose the second option, it is imperative that any resources released from funding EU students are re-invested in higher education.

#### 4. The sector's potential for leverage of external funds is being undermined by underfunding.

- Universities are able to use their public funding to attract private and competitively won sources of income. As a sector, it's something we've promoted heavily as we're proud to be able to multiply the benefit to Scotland of Scottish Government investment. In 2017-18 with an investment of £1.1 bn of public funding from the Scottish Government, universities were able to lever in another £1.8 bn of competitively-won funds from other sources and generate a total of over £7 billion of gross value added for Scotland. However, that leverage success is possibly working against higher education if key stakeholders see it as a substitution for cuts to public funding. Whilst there may be some "cross flows" of HE funding in the short term, as acknowledged by Audit Scotland, competitively-won sources of income cannot be relied upon as a long-term strategy to plug gaps in a publicly funded higher education sector. Over the long-term, if core public funds decline, universities' potential to generate other funds will decline.
- This can already be seen playing out in university research funding. Using the SFC's research funding as an essential foundation (at a value of £236 million<sup>12</sup>) each year the sector has leveraged more than £797m per year (2017/18) of competitively won research funding from UK, business and international sources. This is more than a three-fold return on investment even before the wider economic impact is taken into account. The public funding and additional leverage combined supports more than 15,000 researchers and 13,000 research students.
- The leverage effect is scaleable in both directions: increased Scottish Government investment offers the potential to increase the leverage of these funds into Scotland; conversely reduced Scottish Government funding will reduce Scottish universities' ability to compete for these funds, and reduce Scottish universities' economic impact.
- Right now, our success in research leverage is being constrained by cuts. SFC research funding has been cut by 12% in real terms since 2014/15. And as a result, we believe we are already seeing a fall in Scotland's share of competitive UK Research Council funding. Looking back to 2013/14, Scotland won 15.1% of all UK Research Council funds, much higher than you might expect based on Scotland's population share.<sup>13</sup>

<sup>12</sup> [Scottish Funding Council Final Funding Announcement for universities for 2019/20](#). Table 6

<sup>13</sup> Universities Scotland (2019) [The Future of Scotland's Universities](#) Figure 7, pg55.

We've seen that percentage share fall over recent years to 13.9%. The difference of 1.64 percentage point is a loss to Scotland of tens of millions in funding, hundreds of researcher posts and the wider benefits that flow from the work of those staff.<sup>14</sup>

- Scotland's world-class research is a fundamental part our country's international brand proposition. It is a key export earner, and is at the core of our ability to attract high-value ideas-driven foreign direct investment and high-talent inward migration.
- The research grants that universities win from industry and charities have never covered full economic costs. Audit Scotland's report finds that on average, universities receive only 80% of the full cost of research activities (when REG funding and other research grants are taken together).<sup>15</sup> The resource available to universities to fund research funding is now so far from the full economic costs of research that institutions are in some cases choosing not to compete for research grants in key areas of their strength because it is not financially sustainable for them to do so.
- The same principle holds on the teaching side of university activity. The quality of education, wider student experience and learning environment needs to be highly competitive in order to attract fee-paying international students from around the world (though it is worth stating we believe that's what every Scottish-domiciled student deserves anyway). Under-resourcing every funded place for Scottish domiciled students and expecting institutions with low numbers of international students (as a percentage of their total student population) to be able to grow their international student recruitment is unrealistic given the nature of the market.

## 5. Universities make a significant contribution to Scotland and want to keep delivering.

- In the first attempt to map universities' contribution against the Scottish Government's National Performance Framework (NPF), we believe it's possible to quantify the distinct contribution of higher education to 29 indicators in nine of the national outcomes within the Framework.
- HE makes the biggest contribution to the education and economy outcomes, as you might expect. But it also contributes to the fair work and business outcome, the international outcome, the culture, health and human rights outcomes. You can find an infographic that summarises this contribution in Universities Scotland's short submission to the Scottish Government's spending review in annex A and at page 6 of [this document](#) on Universities Scotland's website.
- Higher education's performance is improving on 19 of these indicators, it is mixed or maintaining on 7 indicators and worsening on two. The data is too new on one measure to be able to confirm a direction of performance.
- Universities Scotland made an assessment of contribution using the NPF earlier this summer in response to the Finance Secretary's advice, to all recipients of public funding, that this would be one of the key tests for public funding. Universities have always recognised the responsibility to demonstrating their return on public

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<sup>14</sup> US SR submission Figure 7 p55.

<sup>15</sup> Audit Scotland (2019) p16.



investment and wanted to respond to this request to give greater visibility of this contribution.

- Looking ahead, we also use our submission to Government to indicate what further activity higher education would like to deliver, mapped against each of the outcomes in the short to medium term.

**ENDS**



**Annex A**



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