Executive Summary

As we move out of the deep crisis caused by the global pandemic, we need to rebuild our capability to create more jobs, enhance social services, restore living standards and build an even more inclusive society.

Other advanced economies such as Switzerland, Denmark, Norway, Germany and Sweden have increased their levels of investment in universities significantly over the last decade, and have repeatedly demonstrated that investment in higher education is a critical catalyst for economic and social development. We recognise the long-standing support of Government. However, to achieve our shared goals we now need a new level of ambition for the university sector and its restoration as a key enabler of our future prosperity, sustainable growth and opportunities for all.

As a nation that aspires to global competitiveness and social inclusion, we see three key imperatives that must be considered in the 2021/22 budget round:

1) Sustainability of higher education as an enabler of recovery, social inclusion and growth through investment on a par with benchmark comparator countries.

2) Ambition for the graduates who will deliver the competencies and outcomes across the broad range of disciplines that power modern economies.

3) Access and successful outcomes for all socio-economic groups.

Scotland already has a competitive advantage. As a nation we are recognised as having some of the best universities in the world and a diverse and successful higher education sector. Our reputation for excellence draws talent to Scotland from around the world. Our research power, with the highest number of publications and citations among advanced comparator nations, gives Scotland a real competitive edge. We need to take the opportunity presented and ensure that this is not lost. Our case for enhanced funding is therefore founded on a commitment to excellence and internationally competitive higher education which is at the core of our nation’s renewal after the pandemic.

Our recovery narrative summarises how Scotland’s universities will contribute to the nation’s renewal. This paper sets out more fully our commitment to be a driving force and key partners in rebuilding our society and economy in a green and inclusive way.

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1 European Universities Association (2019) Public funding Observatory Report
2 Source: Scottish Science Advisory Council; a metrics-based assessment of Scotland’s science landscape (2019)
In summary:

- Higher education is an essential enabler in developing the talent that will drive the recovery.
- Higher education will provide the opportunity for more people to develop high-level skills and aptitudes for a changing economy and escape the scarring effect of unemployment.
- As ‘anchor institutions’ in communities, universities provide stability in the current storm, engaging closely with communities to promote cultural, educational and digital inclusion.
- Higher education will scale-up its offer of agile short courses and micro-credentials to help people develop new high-level skills in accessible and relevant ways.
- University research is vital in driving social, economic and cultural renewal.
- Universities’ global connectivity and collaborations provide a competitive advantage that needs to be leveraged further to promote Scotland internationally, attract talent and enhance inward investment.
- Businesses need universities now more than ever, as they seek to innovate their way out of the recession.
- Universities want to drive a green recovery through learning, research and business innovation.

Higher education is already adapting in a changing post-pandemic society and economy. We are delivering a host of fresh ideas and action to meet the changing needs of individuals and the economy during what the Scottish Funding Council (SFC) describes as the ‘emergency years’ of 2020/22. Looking ahead, we will continue the conversation about the evolution of higher education, informed by the findings of the SFC review.

As universities, our commitment to rebuilding Scotland is unconditional. How far we can deliver that commitment depends on decisions by the Scottish Government in this budget.

Universities start from a very challenging position. To offer a handful of illustrations:

- SFC estimate that public funding of university teaching in 2018-19 was £157 million per year below the full cost of provision. Since then the sector has faced further real terms cuts in Scottish Government funding alongside sharply increasing costs.
- In the same year research was funded at 80% of cost, a deficit of £340 million.
- The university sector’s debt has increased from £437 million in 2014/15 to £1.65 billion at the end of 2018/19.
- SFC estimate that the sector will face an overall deficit of £176 million in 2020/21.
In order for universities to make a full contribution to Scotland’s recovery and renewal, we ask that the 2021/22 Scottish Budget delivers:

1. Sustainable funding of our core teaching, research and knowledge exchange contributions.
2. Specific funding for additional action we want to take beyond that core.

Effective support by the Scottish Government for our core activities for the recovery will include:

- Rapid progress towards sustainable funding of every Scottish-domiciled student. If that cannot be achieved in one leap, we look at least for complete reversal of the £750 per student real terms erosion in funding since 2014/15.
- Rapid progress towards research being funded at full cost, so that Scottish universities can do the world-leading research and innovation that will help build a sustainable recovery. As a minimum, we seek restoration of the real-terms erosion of core SFC funding for research since 2014/15, at a cost of £43.5 million.
- Increased funding for universities’ knowledge exchange activities to support businesses at this critical time, which is typically done at a loss to universities. As a start, restoration of the erosion of this funding since 2014/15 would cost £6 million.
- Capital investment to address the sector’s £850 million maintenance backlog and reduce universities’ unsustainable reliance on debt for this.
- Specific tailored support for institutions hit by major losses of income during the pandemic, so that they can be a strong part of the recovery.

This case also asks Scottish Government to support our additional action to contribute to the recovery including:

- Short upskilling/ reskilling courses to meet the diverse needs of individuals and employers.
- Improved funding for people to do part-time courses.
- Improved funding so that more people can do postgraduate study to develop their skills for the new economy.
- An ‘adopt a business’ initiative for intensive support for business/university interaction to help businesses to reconfigure their products and processes.
- Support for business incubators in universities.

Our contribution and our case for investment is set out more fully in the rest of this paper.

We recognise that this an ambitious ask for support in a challenging time for the public finances. This reflects the university sector’s ambitions to be a core part of building Scotland’s inclusive recovery from the pandemic. This paper sets out Scottish universities’ case for support in the Scottish Budget for 2021/22.
This submission summarises:

Section A: Rebuilding better. Alignment between Scottish Government priorities for the recovery and higher education’s contribution, including work already in hand to co-design this, and

Section B: How the Scottish Budget can support higher education to make its full contribution to the recovery.

Section A: Rebuilding better: Alignment of priorities

We continue to be guided by the Scottish Government’s National Performance Framework, and to be inspired by its purpose to create a more successful country with opportunities for all of Scotland’s people to flourish through increased wellbeing, and sustainable and inclusive economic growth.

We strongly support the emphasis in the Scottish Government’s Economic Recovery Implementation Plan on building a Wellbeing Economy and our evidence sets out how we aspire to do this in the post-pandemic recovery. Our contribution will be essential to each of the four principles of the Wellbeing Economy:

- Building economic progress and prosperity through our development of the people and ideas to drive productivity and growth (set out further in Biggar Economics’ analysis paper: ‘Universities in advanced economies’).
- Building inclusion through our deep engagement with our communities and our committed work to open higher education to people from disadvantaged backgrounds.
- Building sustainability through research, innovation, education, and the transformation of our own operations towards net-zero carbon.
- Building resilience through the development of people with the ability to succeed in multiple careers and adapt to changed economic circumstances, and through the agility of our response to the crisis and recovery.

Universities will be essential co-creators of the Four Capitals that sustain the Wellbeing Economy, as key developers of high-level human capital; as anchor institutions building our communities’ social capital; as a critical part of Scotland’s economic capital; and through our research, innovation and environmental stewardship as custodians of our natural capital.

We are closely engaged already with Scottish Government and its agencies on action to build the recovery. This action is informed by our overall recovery narrative, and by our evidence to the SFC’s review of coherent provision and sustainability.
Our success in driving this forward will be dependent on the Scottish Budget outcome. Section B of this paper sets out our case for support so that the university sector can support Scotland to be an effective partner on the global stage and ensure that Scotland becomes a major contributor to building a better world.

Here are some ways in which we are already co-creating the recovery, at our own initiative and with Scottish Government and its agencies.
A1. An education-led recovery

“First, we must align skills with new high-growth sectors... data science and tech, life sciences, advanced manufacturing, quantum and nanotechnology, and the high-tech segments of the creative industries. Crucially, these require graduate and postgraduate skills and are sectors where Scotland genuinely leads the world.”

We strongly support the emphasis of the Advisory Group on Economic Recovery on building an education-led recovery. We also support the advice of the Enterprise & Skills Board’s labour market sub-group that flexible provision by higher education will be crucial to the recovery, and that the scaling-up of activity will require extra resource. We welcome the Logan Review’s emphasis on the entrepreneurial and digital skills of Scotland’s graduates as a driver of growth. We also strongly support the Young Person’s Guarantee developed by Sandy Begbie’s group, and its recognition of higher education’s critical role in supporting people through the post-COVID recession.

We have not yet seen the full impact on the labour market of the coronavirus emergency. That will become more apparent over the coming months. However, some features are already apparent:

- Diverse sectors of the economy will be impacted, though some are resilient (e.g. health and social care) and some that are currently severely impacted (e.g. the creative industries) are also expected by Skills Development Scotland (SDS) to be sources of future growth.
- The recession may deepen the disadvantage faced by groups who are already disadvantaged. However, it will also affect people who have not previously fallen into disadvantage e.g. through increased redundancies for mid-career professionals.
- Changes in the labour market are, among other things, likely to accentuate the move towards increased demand for high-level skills and flexible aptitudes, characteristic of graduates, including analytical skills, data literacy, digital skills, skills for a green recovery, leadership and the constant ability to learn and re-learn in a changing economy.
- While graduates will be well placed to contribute to the post-recession economy, they will not be immune from the effects of the recession, as shown for instance by the Institute for Fiscal Studies. There is a widening access element to this, as people who enter higher education with less social capital are likely to be hit hardest by the recession when they graduate – our work as a society to widen access to HE will lose its power if we’re not also able to support people into good opportunities if they graduate in the depths of the recession.

The changes in the economy and the labour market are not fully predictable. However, the contribution of higher education to building resilient and lifelong learners will be crucial.

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5 See also Policy Scotland’s remarks about high-level skills and Scotland’s recovery.
The contributions that universities can make to an education-led recovery include:

Core undergraduate provision

Increased numbers of Scottish learners are seeking the advantages of a university education. This is driven by a range of factors including:

- The beginning of sharp demographic growth in the school-leaver population (figure 2).
- Progressive improvement in school leavers’ attainment, including progress in reducing the poverty-related attainment gap: 43.5% of learners from the most deprived 20% of neighbourhoods now attain 3 or more passes at Highers compared to 33.6% in 2011/12.
- Increased demand from older learners, including those progressing from college to university: 9,763 learners progressed from college to university in 2017/18, an increase of 9% since 2014/15.
- The specific increase in demand from qualified learners arising from the changes to SQA grades in 2020: this has already enabled more than 2,100 additional Scottish-domiciled learners to enter university in 2020, and there will be second tranche of these learners in 2021 since many of the pupils who received centre-assessed grades were in S5 when their results were improved.

![Figure 2: demographic projections](image)

Meeting this increasing demand for undergraduate education will in itself be a major contribution to supporting individuals through the recession and building the recovery. All undergraduates will be following courses that develop their employability skills for diverse future careers, including the development of diverse digital skills.

In a highly unpredictable economy, all undergraduate disciplines will be relevant to future employment and success. Science, technology, engineering and maths (STEM) subjects are of course important to meeting Scotland’s skills needs, but even by the crude standard of measuring graduate income in professional-level jobs 18 months after graduation, a wide range of other subjects demonstrate strong employer demand (see table 1).

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6 Summary Statistics for Attainment and Initial Leaver Destinations, No. 2: 2020 Edition
7 Scottish Funding Council (2018) *Articulation from Scottish Colleges to Scottish Universities*
8 HESA: Median salary of UK domiciled full-time graduates who obtained first degree qualifications at Scottish institutions and entered full-time paid employment in the UK by subject area of degree, academic year 2017/18.
### Table 1: Median graduate salaries for those employed full-time by degree subject studied 2017/18.

<table>
<thead>
<tr>
<th>Subject area of degree</th>
<th>Median salary in high skill occupations</th>
<th>Subject area of degree</th>
<th>Median salary in high skill occupations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicine &amp; dentistry</td>
<td>£35,000</td>
<td>Architecture, building &amp; planning</td>
<td>£25,000</td>
</tr>
<tr>
<td>Education</td>
<td>£32,000</td>
<td>Historical &amp; philosophical studies</td>
<td>£25,000</td>
</tr>
<tr>
<td>Veterinary science</td>
<td>£31,000</td>
<td>Subjects allied to medicine</td>
<td>£24,000</td>
</tr>
<tr>
<td>Computer science</td>
<td>£28,000</td>
<td>Physical sciences</td>
<td>£24,000</td>
</tr>
<tr>
<td>Engineering &amp; technology</td>
<td>£28,000</td>
<td>Agriculture &amp; related subjects</td>
<td>£23,000</td>
</tr>
<tr>
<td>Mathematical science</td>
<td>£27,000</td>
<td>Business &amp; administrative studies</td>
<td>£23,000</td>
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<tr>
<td>Social studies</td>
<td>£27,000</td>
<td>Biological sciences</td>
<td>£22,000</td>
</tr>
<tr>
<td>Languages</td>
<td>£25,000</td>
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</tbody>
</table>

Source: HESA

### Meeting Scotland’s future skills needs

As well as the core contribution of our undergraduate programmes, we are accelerating the development of other programmes to meet the high-level skills needs of the future economy. In doing so, we are informed by demand from students and businesses, as well as by intelligence from SDS.

**Aspects of this include:**

- **Expansion of postgraduate courses.** This was recommended by the Advisory group on Economic Recovery and by Sandy Begbie as part of the Young Person’s Guarantee. We are seeing sharply increased demand for postgraduate courses, particularly at Masters level, to enable learners at diverse career stages to develop high-level skills. SAAS funding for PGT level study was expanded in 2017-18 and that year saw a 7.3% rise in the number of Scottish domiciled PGT students in Scottish institutions and a 54.1% increase in the number of PGT students supported by SAAS and this number has continued to grow every year. Universities are reporting a further surge in demand now. Research postgraduate degrees are also an important part of the pipeline of top-level talent and the Scottish Government should consider matching the package of postgraduate research loan support available to individuals elsewhere in the UK.

- **Shorter/modular provision for upskilling and reskilling.** We are developing further short courses at the high skills levels demanded by business (SCQF 8 and above) to enable people to upskill or reskill to meet their ambitions and meet employers’ changing needs. This builds on successful experience in 2019/20 when £6m SFC funding supported over 2,000 enrolments in short courses or micro-credentials in a range of specialisms including data management, advanced digital skills, and advanced practice in health and social care. We are also working on how to make these courses ‘stackable’ towards degrees.

- **Work-based learning.** We are in discussion with SDS and SFC about how to further develop work-based learning that combines work and advanced learning, building from the successful Graduate Apprenticeship model. For instance, we are discussing the development of shorter and part-time models of work-based learning, increased use of work-based learning in the public sector, and the use of this model for the delivery of further education qualifications.

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9 HESA: PGT first year marker, Scottish domiciled students at Scottish institutions.
10 SAAS [National Statistic Publications](#)
11 UK Government [Student Finance, Doctoral Loan](#)
sector (whose employment is likely to be more resilient in the recession) and certificated exit points below the full degree.

- **Pathways from college to university**, and from modern apprenticeship into higher education, will be widened in accordance with the recommendations of the National Articulation Forum’s 2020 report *Accelerating Articulation*.

**Supporting the Young Person’s Guarantee**

We are working with Scottish Government as part of the Young Person’s Guarantee Implementation Group, to ensure that access to higher education is a key part of meeting the Guarantee, and that there are agile ways of placing graduates into businesses that meet business’ needs while protecting graduates from unemployment in the depths of the recession. We welcome the intention that access to undergraduate and postgraduate education will be part of the implementation of the Guarantee, as will graduates’ access to paid internships – noting of course that these opportunities are also important to people outside the Guarantee’s age band.

**A2. An innovation-led recovery**

“The quality and productivity of Scotland’s research base is impressive... This research excellence should be nurtured, so that Scotland remains a great science and innovation nation”

Our world-class research and our ideas will be integral to the recovery – economically, socially and culturally.

**Scotland’s research excellence**

Scotland’s research excellence is a core national strength as we look to build the recovery.

We are staring from a remarkable position. The [Scottish Science Advisory Council](https://www.gov.scot/) found that, for instance:

- Scotland accounted for 10% of the UK researcher population and produced 12% of the UK research output;
- Scotland has the highest number of publications and citations per researcher amongst all UK nations and comparator countries;
- Scotland’s research is increasingly a joint venture with business, and this has 33% higher impact than the UK average;
- Scottish university research is a powerful for international connections, with 57% of publications involving international collaboration.

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12 Scottish Science Advisory Council (2019) *A Metrics-Based Assessment of Scotland’s Science Landscape 2007-2016*
We are also at a moment of real opportunity to lever additional resource into Scotland for research and innovation to ‘rebuild better’, and to create high-quality jobs while doing so.

While Brexit remains a threat to the research environment, the UK Research and Development Roadmap sets out a high level of ambition to increase research and innovation investment to £22 billion per year by 2024. Within this we expect prioritisation of investments to promote health, wellbeing, prosperity and building a green economy. There is also a strong ‘levelling up’ agenda to ensure this benefits all the nations of the UK, and Scotland should be ambitious to lever in resources. Research and innovation will also be critical to addressing Scotland’s enduring productivity challenge and transforming this post-pandemic. The Industrial Strategy Council of business and university leaders identified the impact of this through:

- turning ideas into products and services on which the industries of the future will be built;
- providing people with higher level skills that are needed by employers according to national and local needs;
- creating and helping businesses to support the business environment;
- being the centre around which places and local economies build rich innovation ecosystems of productive and innovative businesses.

Universities are already prioritising research that addresses the challenges of the pandemic. We are using our research capacity to build a social, economic and cultural recovery: this is a collaborative endeavour across the UK and international borders within which Scottish institutions’ diverse research strengths give us a crucial role.

A broad range of Scottish universities’ distinctive areas of research excellence will be important to driving a green and inclusive recovery. Areas where the leaders of Scotland’s university research community see exceptional potential to further develop our collaborative capacity and distinctive strengths include:

- promoting health, wellbeing and resilience;
- addressing the Climate Emergency;
- developing the Blue Economy, based on a wide range of Scotland’s strengths in marine science and energy;
- developing the Natural Economy of sustainable economic activity based on Scotland’s outstanding natural resources.

Beyond these specific areas, Scotland’s universities will prioritise research that has a real impact on rebuilding social and cultural capital in the post-pandemic environment and will work even more closely with policymakers.

We will support postgraduate research students and early career researchers as a pipeline of top-level talent for universities and the wider economy.

Universities will increase their collaborative initiative in developing mission-driven research proposals to address these and other challenges and opportunities – Scotland’s critical mass of institutions with excellent research gives us a strong platform for this.
Business recovery and reinvention

Universities will continue to accelerate the translation of research into business-facing innovation, responding to the needs and circumstances of post-pandemic businesses with further simplification of engagement and leverage of support. Universities work with more than 20,000 Scottish businesses each year in many cases leveraging funding from outside Scotland to deliver innovation projects. This is crucial at a time when businesses will have an urgent need to innovate and adapt but have never been so challenged in finding the capacity to invest.

Scotland’s business schools and the wider academic community want to increase their consultancy with business about the reinvention and digitisation of products and processes, and the development of business leadership skills in the changed environment. Scottish Government and its agencies should support this through incentives to universities and businesses to engage in this way, recognising that in the post-pandemic recession many businesses will not have cash to invest in consultancy that could transform their business prospects.

Universities will further develop their role as incubation spaces for high-skill/high-technology businesses, considering alongside government how to grow the important community of companies based in these spaces and how they can contribute to regional economic regeneration and to addressing strategic challenges.

We share the Logan Review’s ambition for a scale-up of accredited entrepreneurship education in universities, and work is currently in hand on a model to achieve a step-change in the proportion of students benefiting from this.

A3. An internationally connected recovery

“Feedback from investors reinforces that Scotland’s people and skills are key factors in investment decisions.”

Universities have a global as well as local perspective. Research partnerships are formed across the world. Students are attracted from every nation with a resultant alumni community with a lifelong connection to their institution and to Scotland. The quality of our research base and its global partnership, alongside the skills of our graduates, are foundations both to export and the growth of foreign direct investment (FDI).

The centrality of high-level skills and the knowledge-based infrastructure in each of the sectors identified Investment Plan places universities at the heart of Scotland’s approach to FDI. We look forward to working swiftly and impactfully so that Scotland attracts investment. Universities are inherently international in their outlook. We attract international talent to Scotland, with around 20% of academic staff coming from outside the UK. Our international students add hugely to the

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13 SFC University Innovation Funding
14 Scottish Government (2020) Scotland’s Inward Investment Plan p24
experience of all our students and to our cultural wealth. Their impact on the Scottish economy is also immense, estimated by Scottish Government at £1.94 billion per year.

We will use our breadth of international relationships to help rebuild Scotland’s connectedness after its temporary setback by the coronavirus emergency: developing Scotland’s connections with our European neighbours and the wider world.

We will:

- Increase collaboration between universities and with wider partners, to promote Scotland internationally.
- Build on our alumni networks as a force for Scottish exports and soft power.
- Use our wide international network, reputation and research partnerships to generate leads for foreign direct investment and, under the Investment Plan, contribute from the earliest stages in responding successfully to investment opportunities.

The strength of Scotland’s universities is already a key driver of Scotland being the most successful UK territory outside south east England in attracting foreign direct investment, and we look forward to building this further.

A4. Resilient communities

“Significant and welcome progress has been made towards meeting the Scottish Government’s interim 2021 and later targets on fair access. The higher education system is well on the way to meeting the challenge set by the First Minister.”

We will support the resilience of our communities, recognising that the recession will have the hardest impact on the socioeconomically disadvantaged and the digitally excluded.

We will:

- Maintain a relentless commitment to widening access to higher education for people from disadvantaged backgrounds.
- Reach out to communities and schools with access to cultural opportunities.
- Promote digital inclusion and make more of our resources digitally accessible to communities.
- Use City and Region deals as forces for social inclusion and to strengthen place-based collaboration.

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15 Scottish Government (2018) Response to the Migration Advisory Committee
Section B.
How the Scottish Budget can support higher education to make its full contribution to the recovery.

“We recognise that further support and actions will be necessary once the full impact is apparent so that colleges and universities can come through this unprecedented crisis and be key players in the nation’s recovery.”¹⁷

We call on the Scottish Government to use the full powers at its disposal so that Scottish higher education can help build an inclusive social and economic recovery and promote Scotland’s international competitiveness.

We acknowledge support offered by the Scottish Government in 2020/21 to help sustain universities’ contribution since the beginning of the current emergency, including:

- £75m to support research.
- £3.5m additional capital maintenance funding.
- £2.7m to help address students’ digital poverty.
- £1.7m for additional student counsellors.

However, looking to 2021/22 and beyond we need substantial progress towards sustainable funding if universities are to support Scotland to be an effective partner on the global stage and remain internationally competitive, while building the recovery.

The Scottish Government’s Further and Higher Education Sustainability Plan as published by Minister Lochhead commits the Scottish Government to further support once the full impact of the pandemic is apparent so that universities (and colleges) can be key players in the recovery.

As we continue to navigate through a period of crisis, we look to Scottish Government to honour that promise in the Scottish Budget.

We recognise the important context set by the SFC review of coherent provision and sustainability, which is due to report its conclusions in late Spring 2021. However, the decisions made now will fundamentally determine whether Scottish higher education will be a strong force in building the recovery and providing opportunity.

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¹⁷ Scottish Government (2020) COVID-19 Further and Higher Education Sustainability Plan
B1. Investing in universities’ core strengths

Universities’ contribution to building the recovery needs to be founded on a financially sustainable model for our contributions to the common good.

The unsustainability of current core funding must be addressed

Even before the COVID emergency, the strains on the Scottish higher education sector were clear. Institutions’ work to maintain a world-class higher education sector was being undermined by consistent underfunding of core activity, with teaching being funded at less than 90% of cost and research at less than 80% of cost\(^\text{18}\) in 2018/19. Even without the effects of the pandemic, further real terms cuts in funding and increases in costs since 2018/19 will have worsened this picture. Universities have been reliant on generating additional private income to cross-subsidise their publicly-funded teaching and research missions. Even with this additional income, Scottish universities have faced a deteriorating financial condition. SFC’s analysis of the 2018/19 annual accounts of universities shows serious indicators of financial stress:

- An operating deficit of £503 million for the sector, including pension scheme liabilities.
- Even without pension scheme liabilities, once the two largest institutions are taken out of the analysis the sector recorded an operating deficit of £2.9 million.
- Nine out of 18 institutions recorded underlying operating deficits, even without pension scheme liabilities. Institutions heavily reliant on SFC funding were worst affected, with all but one of the modern universities recording a deficit on this basis.
- On average, institutions held only 84 days cash, with 5 institutions holding less than 60 days cash.
- The sector’s debt increased in one year from £1.34 billion to £1.65 billion. For comparison, at the beginning of 2014/15 sector debt stood at £437 million.

Additionally, SFC’s phase 1 report of its coherence and sustainability review finds that teaching of Scottish and EU students in 2018-19 was done at a loss of £157 million.

These strains have been compounded by the COVID emergency. As well as severe challenges to international income, universities have lost almost all their trading income from conferences, festivals and hospitality. SFC’s 20 October report on the financial sustainability of colleges and universities estimates that income from residences, catering and conferences will fall from £253.8 million in 2018/19 to £202.6 million in 2020/21. Overall for 2020/21, SFC estimate that:

- The sector will record an underlying operating deficit of £176.1 million.
- Six universities will have less than 2 months of cash reserves by the end of the year.
- Borrowing will have increased to £1.735 billion.

A range of universities are now at the very limits of their borrowing capacity, which severely constrains how they can support core activities and maintain their facilities, let alone invest in change and improvement.

\(^{18}\) Scottish Funding Council TRAC data
Universities’ core teaching, research and knowledge exchange activities are fundamental to building the recovery. None of what we do for the common good can be achieved without a strong core. We are currently a long way from sustainable funding of that core.

Action Scottish Government should take to address these pressures

- **Rapid progress towards every undergraduate place at university being a fully funded place.** This means that the amount paid to each university by SFC and SAAS to teach every Scottish-domiciled student should quickly be increased to the full cost of teaching them. Dimensions of this include:
  - Increasing the funding level for every student. Currently the average funding for each funded place for a Scottish student is £7,100, through a combination of SFC funding and the SAAS fee¹⁹.
  - When the 13,000 students taught on a “fees only” basis of £1,820 per person per year are included in this calculation the average funding per Scottish domiciled learner drops further to around £6,500.
  - Average funding of £7,100 per funded place is £750 per student lower in real terms than it was in 2014/15, and £2,150 lower than the funding of students at English universities.
  - As well as the direct costs involved in teaching, university teaching funding supports a range of additional welfare, inclusion and careers support for students as set out in *The Real Value of T*. Current funding is inadequate for the quality of experience that students deserve. We seek urgent progress towards the levels of funding per student available to English institutions. If that cannot be achieved in one leap we seek at least the full reversal of the £750 cut in the average funding of each student. We also want to see the funding anomaly of 13,000 students funded on a “fees-only” basis addressed.

- **Increase the Research Excellence Grant for 2021/22 onwards so that, taken with competitively won funding, research is typically funded at a significantly higher percentage of full economic cost.** This would complement work by the UK Government to increase its contribution to the full economic cost of research (which should generate some Barnett consequentials) and also help to ensure that major life sciences research funded by charities can be done sustainably. This would help to sustain our research base, leverage additional research funding into Scotland and enable Scotland to rebound from the emergency as a competitive research power. It would support our research postgraduates as a pipeline of top-level talent for universities and the wider economy. As a minimum, we seek restoration of the real-terms erosion of core SFC funding for research since 2014/15, at a cost of £40m for REG and £3.5 million for the Research Postgraduate Grant.

- **Increase Universities Innovation Fund for 2021/22 onwards so that institutions’ knowledge exchange activities with business are funded at a higher percentage of full economic cost.** This would position universities to be able to help Scottish businesses to rebound post-crisis. As a very minimum, restoration of the erosion of this funding since 2014/15 would cost £6 million.

- **Capital investment** at a level that would make significant progress in addressing the maintenance backlog and reduce the reliance on loans to fund capital programmes. The current SFC £16.7

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¹⁹ Average for all non-controlled funded places
A £850 million capital maintenance budget is entirely inadequate to address a £850 million estates backlog, and the sector no longer has the borrowing capacity – exacerbated significantly by the pandemic - to make significant inroads on that backlog.

- **Specific support, tailored institution-by-institution as needed**, to compensate for the loss of international student income and other income that cross-subsidises research and the teaching of Scottish domiciled students, to protect the institution’s capacity to contribute to the recovery, to the extent that this isn’t addressed by the measures above.

### B2. Funding that would enable higher education to stretch beyond the core

The additional recovery-building activities that universities are planning require specific support, and **additional** funding, over and above improved support for the core of our contribution. There is demand and real benefit from supporting the following additional areas:

- **Fund an increase in short upskilling/reskilling courses.** The Scottish Government should decide how far it wants to expand this in 2021/22 to meet the needs of individuals and the economy and how it can support this in a way that is financially sustainable for individuals, employers and higher education institutions. In 2020/21, the upskilling fund is £6.6 million. Many of our members have commented that demand for courses like this are high and they could expand to meet more needs if more funding was available. We suggest that a doubling of this fund to £13.2 million in 2021/22 would enable higher education to address increased demand. It is important how this additional funding is allocated. We suggest that SFC invites bids for the funding but keeps the process light-touch.

  Our illustrative calculation assumes that the fee costs are also paid by the Scottish Government; if this is not the case, then we could support more individuals. However, the Scottish Government should look at how individuals and/or employers can be helped with the costs of fees, particularly since much of the existing student support for fees has minimum credit requirements which preclude support for studying micro-credentials.

- **Scottish Government should urgently review the part-time fee grant.** A revised grant model should ensure that it can support people doing short courses or micro-credentials and that it can support people who are now in disadvantaged circumstances, e.g. who have been made redundant, but whose income in the previous year may have been more than £25,000.

- **Review loan entitlements for postgraduate students.** Scottish Government should also urgently review whether the loan entitlements for postgraduate students are sufficient during the current emergency when (part-time) jobs may be harder to find. At the moment, full-time postgraduate taught students are entitled to a tuition fee loan of up to £5,500 and a Living cost loan of up to £4,500.

Scottish Government should urgently review whether this is sufficient for learners, many of whom will be in increasingly stretched financial circumstances and who may well be increasingly debt averse. This is important in ensuring that students from all backgrounds have the chance to access PGT study if they wish to. One specific necessary change is that support should be available for students undertaking upskilling/reskilling courses that meet their needs, but which do not lead to a postgraduate diploma or Masters degree.
Postgraduate research students are an important pipeline of top-level talent for industry, universities and the wider economy. Scottish Government should consider matching the loan provision available to those elsewhere in the UK wishing to pursue postgraduate research study.

- **A post-Brexit scholarship scheme for EU students & beyond.** We seek an urgent decision from Scottish Government on the scale and nature of a scholarship scheme that can be offered to EU and other students to ensure that we remain open to their talent even after the end of the Brexit transition period, for 2021 entry and beyond.

- **Support for HE-business partnerships to innovate and adapt in response to the pandemic.** We look to SG to fund our proposal, co-developed with SFC, for an investment in projects between companies and universities to support adaptation. There is an immediate opportunity to add momentum and scale to the ‘adopt a business’ initiative being supported by Interface and which is focused on the tourism and culture sectors and which has had Ministerial support. We believe that an intervention based on the successful Innovation Voucher model would support companies to survive and adapt at a time when they have significantly less capacity to invest in such innovation. Given the categorisation of university research and innovation an investment here could be supported by either resource or capital funding streams.

- **Put business incubators on a sustainable footing to support entrepreneurship.** Universities provide a significant proportion of the business incubator space in Scotland\(^20\) with early-stage entrepreneurial support being funded directly by universities. As the finances both of universities and of early-stage companies are challenged, the sustainability of these facilities is also coming under pressure. Meanwhile the Logan Review poses questions about how incubators might adapt and/or expand. The Scottish Government needs to decide how to support this.

### Fit for the future

As recognised in the Phase one report of the Scottish Funding Council (SFC) review of coherence and sustainability, universities will need to adapt their own businesses to be fully fit for the future, including enhanced collaborations.

We recognise that universities will themselves need to keep changing, to meet the changing needs of learners and society. We look forward to an intensified exploration of this as the SFC review of coherence and sustainability progresses.

To support institutions’ capacity for change, we urge SG to provide for investment by SFC to enable institutions to reconfigure provision or estates to help build a green, education-led recovery. We welcome SFC’s proposal for a **Transformation Investment Fund** to give effect to this.

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\(^{20}\) The Data Lab (2018) [*Scottish Entrepreneurial Ecosystem*](#)
Building a coherent package of support from the tools at the Scottish Government’s disposal

Our contribution to the recovery will require Scottish Government to be agile in building a coherent package of support from the various measures available to it and its agencies.

We look to Scottish Government to define how it will coherently use a range of the tools at its disposal to enable higher education to be a key part of the recovery. Resources available to the Scottish Funding Council will be a central part of this, but Scottish Government should also define how it will draw on the following elements which go beyond the scope of Funding Council alone.

Sources of support the Scottish Government can draw together to into a coherent package include:

- uprating of the “fees-only” element of teaching funding per student which is provided by the Student Awards Agency for Scotland and has been stuck at £1,820 since 2009/10 without any inflationary increases.
- A long-term commitment to retain in the university sector the resources released by the change in EU students’ fees status, estimated by SFC and SG as releasing up to £19 million in 2021/22 for redeployment to other university sector priorities. Universities need to see the resource released from all years of the transition to the new funding regime retained for higher education institutions. Alternative approaches mean disinvestment in higher education at a critical moment.
- Baselining for 2021/22 and beyond of the additional £75m of new capital provided earlier this year to support research infrastructure, to be used to support universities’ contributions to the recovery. The threat to Scotland’s research base, and the careers of those integral to it, is not a one-year problem and further investment will be required in years to come if we are to ensure that we remain globally competitive.
- Skills Development Scotland funding for universities’ contributions to skills development.
- Investments by the enterprise agencies, to support universities’ contributions to business creation, survival and growth.
- The National Transition Training Fund as a tool for investment in upskilling and reskilling.
- Further extension of the Flexible Workforce Development Fund to higher education.
- The Young Person’s Guarantee – which includes proposals for increased undergraduate and postgraduate provision and for graduate internships.
- The Scottish National Investment Bank’s capacity to invest in higher education as a force for sustainable growth.
- The UK Shared Prosperity Fund and its capacity to pick up on place-based and skills investments as a successor to the EU Structural Funds.

The complex interaction of the different potential sources of support is a challenge, but also an opportunity for Scottish Government to build a coherent package of complementary measures drawing on a range of budgets and initiatives.