



Supporting Universities' Contribution to Recovery & Transformation

September 2021

Summary

Scotland's universities will be crucial to the nation's recovery and transformation.

As we look beyond the immediate Covid emergency, we will make a full contribution to building an inclusive, green and prosperous recovery.

Universities have ambitious goals. We will:

- Play our part in transforming the Scottish economy with universities at the heart of thriving local and regional communities.
- Support learners to develop broad skills and attributes for their future success, learning from great academics in world-class facilities.
- Be at the forefront of discovery through our research activity and position Scotland as a leader in addressing the great challenges facing our planet.
- Be magnets for talent from across the world, and beacons of Scotland's global recovery.
- Drive further progress in enabling learners from disadvantaged backgrounds to meet their full potential.
- Promote inclusivity, tolerance, and respect at every level of our institutions.
- Work closely with and support business and public services to enable their growth and transformation in an increasingly digital future.

Scotland's universities can be central to our nation's success as we rebuild. However, universities face several pressures. There is a real risk that our contribution will be constrained unless this Spending Review invests appropriately in universities.

The Spending Review is an opportunity to address some severe challenges. These include:

- The 13% erosion of teaching funding since 2014/15. While students' needs have increased, funding per student has been cut by £869 per student in real terms since 2014/15.
- The Scottish Funding Council estimate that research is carried out at an annual loss to universities of £328m.
- Over £800m of investment is needed to bring the university estate into fit-for-purpose condition, but universities only receive £17m per year for estates maintenance.

We are ambitious to make our full contribution to Scotland's recovery and transformation. We therefore seek the following elements of support:

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Settlement: Universities are asking for a 3-year budget.

Undergraduates: meet the aspirations of a widening community of learners.

Places: improve universities' infrastructure, and our contribution to our communities.

Pivot: extend universities' contribution to the transformation of businesses and public services.

Opportunities: for upskilling and reskilling for the existing workforce.

Research: Invest in research for renewal and transformation.

Talent: Attract talent and investment to Scotland.

Background: universities at the heart of policy on recovery & transformation

Scotland's higher education institutions will be crucial to the nation's recovery and transformation in this Spending Review, as we look beyond the immediate Covid emergency.

This has been recognised in multiple reports to Scottish Government. For instance:

- The [Advisory Group on Economic Recovery](#)'s recommendations for a green, education-led recovery emphasised the vital roles of universities as 'anchor institutions' for their communities, as the sources of high-level skills and aptitudes for the future economy, and as the generators of ideas that can drive business transformation.
- The Enterprise & Skills Strategic Board's report on [addressing the labour market emergency](#) recognised the importance of universities' contribution including the development of courses to up-skill and re-skill workers and the role of postgraduate education in developing high-level skills for the future.
- Sandy Begbie's report [No-One Left Behind](#) recommended an immediate increase in higher education provision for young people, to enable them to succeed in a changed economy.
- The [Logan Review](#) emphasised the crucial role of universities in developing digitally-adept and entrepreneurial graduates and organisations.
- The SFC's [Review of Tertiary Education and Research](#) set out evidence on a broad range of universities' contributions including renewal of 'place', leverage of talent and investment into Scotland, world-class research and its translation into real-world impact, and the development of graduates whose knowledge and attributes will drive the recovery.

The Scottish Government's programme for government '[A Fairer, Greener Scotland](#)' makes a commitment to 'strengthen our world-class further and higher education', saying that universities are:

"a significant driver of our economic success – we will support them to remain at the forefront of our economic recovery: undertaking research and development in the new and emerging low carbon technologies our net zero transition will rely on, training and educating the skilled workforce of the future, and contributing to the success of their communities."

This builds on a manifesto commitment to back Scotland's colleges and universities, specifically recognising that *'the financial sustainability and viability of Scotland's colleges and universities is vital for our national mission of social and economic recovery from the pandemic'*.

We hope these commitments will be given full effect in the outcome of the Spending Review.

What the Scottish Government can do

The Scottish Government stepped up with temporary support for universities during the most intense phase of the pandemic, including additional funded places to meet increased demand from school-leavers, investments in student welfare, and investment in research continuity. This was extremely welcome, and sustained universities' contribution through the depths of the emergency¹.

As the SFC Review emphasises, it is crucial that Scottish Government now sustains and grows its support for the university sector so that we can co-create the nation's recovery and transformation.

We seek the following elements of support for our contribution.

1. A 3-year financial settlement

The SFC review stresses the importance of universities being able to plan confidently with a multi-year perspective. This is important to our ability to make multi-year commitments to students, businesses and research partners. We strongly support this and we hope that UK-level and Scottish multi-year Spending Reviews will enable the Scottish Government to make a 3-year funding settlement for universities that invests in our capacity to drive Scotland's recovery and renewal.

2. Investment in a widening student population, at the quality they deserve

Universities are facing sharply increasing demand from learners of all ages and stages of life and for every means and model of learning from micro-credentials to postgraduate study. In contrast, our ability to support these learners is diminishing as funding per full-time undergraduate student has fallen by 13% since 2014/15 – a real terms cut of £869 per student².

We must also ensure that we meet the increased needs that our students now have following the unprecedented disruption to their education over the past two academic years. The pandemic has meant that many students have not had the full in-person learning experience necessary for success. This is true for learners progressing into university from school and college, with nearly half saying they feel unprepared³, as well for students already at university. Over the course of the spending review period, students will need extra teaching and support to meet their full potential. Our students have shown tremendous levels of resilience but eighteen months of impact on their education has had a scarring effect. A [survey of Scottish students](#) by Youthsight for Universities Scotland found that 80% of students felt that the pandemic had had a negative impact on their learning, and 74% had found it more difficult to stay focussed and engaged. Universities need increased investment per student to help them overcome this, to provide supported transitions and ensure continued high levels of retention and completion.

¹ The SFC first used the phrase "emergency years" in 2020 to describe the scale of the impact of the COVID-19 pandemic on higher education and to highlight that it would last for more than one year. The SFC repeats the phrase in its 2021 [Review of Coherence & Sustainability](#) with a section, from page 30, on "Dealing with the Emergency Years".

² Data drawn from parliamentary answer to Mr Marra MSP, [2 July 2021, Scottish Parliament](#).

³ 46% of students starting university said they were "unprepared" in a [2021 survey](#).

We also expect the mental welfare effects of the pandemic to be long-lasting, with students needing increased access to pastoral and mental health support.

Universities cannot do more to support our students to overcome the disruption they have faced. The significant risk here is a widening of educational inequality with a unit of resource per student that decreases every year in real terms. This must be addressed.

To enable this, we seek the following:

- **Funded places:** Scottish Government should accept the SFC's recommendation to sustain in future years the increased number of funded places for Scottish-domiciled students provided during the pandemic. This should be done in a way that takes account of changing demand so that universities collectively have access to enough funded places to meet demand from suitably-qualified learners. This is essential to ensure that universities are able to provide opportunity to future cohorts of learners and to drive further progress on widening access to higher education for learners from disadvantaged backgrounds.
- **Provision that meets learners' increased needs:** Recognising learners' increased needs, and all students' rights to a high quality of teaching and support, SG should at the very least increase funding per student to 2014/15 levels in real terms. This would increase average funding per student from £5,760 to £6,640, still significantly below the funding level Scotland invests in other parts of the education system. The annual cost of addressing this gap would be £120m⁴. This investment needs to be front-loaded to the earliest years of the spending review period, recognising the additional needs of students whose learning has been set back during the pandemic.
- Continuation of the specific additional funding awarded during the pandemic for **student counsellors and wellbeing**.

3. Agile provision for upskilling and reskilling

Universities have developed agile new provision to meet the needs of learners and employers at diverse career stages. Building on a substantial foundation of CPD work with businesses and individuals, this includes a range of short up-skilling and re-skilling courses, with a strong focus on the development of digital skills for the future. It also includes an increasing cohort of Graduate Apprentices, working for their degrees through a blend of work-based and university-based learning.

We want universities to be supported to develop this further building-block of the recovery, and look for:

- Continued specific funding of at least £7m per year for **Graduate Apprenticeships** so that they are fully funded without cuts to other provision.
- Funding for expansion of **up-skilling and re-skilling courses**: we propose a further £7m per year for this, additional to core funding for teaching programmes.

Recognising the crucial role of part-time provision in meeting the needs of learners from diverse backgrounds, the 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

⁴ In 2020-21 there were 136,665 FTE undergraduate students eligible for funding [Students Eligible for Funding 2020-21 \(sfc.ac.uk\)](https://www.sfc.ac.uk/Students-Eligible-for-Funding-2020-21) (para 5). Note £120m falls short of the deficit against the full economic costs of teaching of £157m in 2018-19 [Transparent Approach to Costing - Annual TRAC 2018-19 \(sfc.ac.uk\)](https://www.sfc.ac.uk/Transparent-Approach-to-Costing-Annual-TRAC-2018-19) (Table 2).

now in disadvantaged circumstances, for example who have been made redundant, but whose income in the previous year may have been more than £25,000.

The 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. We welcome recognition of this priority in the Programme for Government. 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 now 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 and develop high-level professional skills. 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.

4. Research for renewal and transformation

We strongly support the SFC Review's recognition of the importance both of fundamental discovery-led research and of mission-driven research to address critical issues facing the world.

A broad range of Scottish universities' 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;
- creativity and the humanities – research that supports our cultural wellbeing and puts Scotland at the leading edge of the creative industries; and
- 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.

The SFC Review is candid that the real-terms erosion of Scottish Government funding for research has corresponded with a reduced success rate of Scottish universities in leveraging-in competitively-won resources from UK sources, even at a time of opportunity presented by the UK Government's ambitious programme to increase R&D investment to £22bn per year by 2024. Where we should be getting ahead, we are instead falling behind, with Scotland's success in winning UK-level research funding having fallen from over 15% in 2013/14 to less than 13% in 2019/20. Every million pounds of funding not won by Scotland also means the loss of the high-value jobs they support, the loss of innovative potential and partnerships with business and industry and missed opportunities for Scottish trade and inward investment. The SFC Review notes that Scottish universities

are under-funded for research, from various sources, to an amount of c.£328m per year less than the full cost of carrying out that research.⁵

The SFC Review also emphasises the importance of developing early-career researchers, as a talent pool at the very highest skills levels of people who will go on to drive discovery and innovation in business and in universities.

We seek:

- Increase in the **Research Excellence Grant** (REG) so that, taken with competitively won funding, research is typically funded at a significantly higher percentage of full economic cost. 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. As a minimum, we seek restoration of the real-terms erosion of core SFC funding for research since 2014/15, at a cost of £36.5m for REG.
- Specific SFC funding for **mission-driven research** to address, at scale, challenges that have been accentuated by the pandemic, with SG investment leveraging more as envisaged in the SFC's Review.
- Increased investment in **early-career researchers** through the SFC Research Postgraduate Grant: at a minimum of an additional £3m per year, returning the level of funding available to the real terms value of its level in 2014-15 and enabling the sector to support this vital group who have seen such significant disruption to their careers over the last 18 months.

5. Attracting talent to Scotland

Scotland's universities are proudly European and international. While international student recruitment from beyond the EU has held up better than expected during the pandemic, the number of EU students coming to Scottish universities has declined sharply following Brexit with the most recent UCAS data for placements for AY2021-22 showing a 56% drop on the previous year⁶. This diminishes the student experience for home students and creates particular problems for sustaining Scottish universities' provision in subjects where EU students have been a major part of the student body, particularly in STEM and creative subjects.

We strongly regret the loss of Erasmus as a facilitator of inward mobility to Scotland.

In line with the SNP's manifesto commitment, we therefore seek SG investment in attracting student talent to Scotland with a particular focus on students from the EU. We welcome the 2021/22 intention for a £2.5m student scholarship scheme. Building from this, we seek a multi-year commitment to both the continuation of this scholarship scheme and a new mobility scheme that will give opportunity for reciprocal movement of Scottish domiciled and EU students. To do so Scottish Government will need to make an investment proportionate in scale to that made by the Welsh Government⁷. Taken together with an investment of £5m in an EU scholarship scheme, this will require a total investment of £19.7m per annum.

As Scottish Government develops and implements its International Education Strategy, there will be a need to invest in the international promotion of the sector. We have been pleased to invest in Scotland is Now and there is significant scope for further joint investment with government to position the sector overseas, improve its brand recognition and its online footprint and visibility.

⁵ SFC Coherence & Sustainability Review paragraph 6.41

⁶ UCAS data 10 August 2021

⁷ [New International Learning Exchange programme to make good the loss of Erasmus+ | GOV.WALES](#)

6. Supporting the transformation of businesses and public services

Universities will be important to businesses' recovery and transformation, not just through the graduate talent we develop but also through our rich interaction with businesses to transform products and processes and through our creation and incubation of new businesses. Universities work with more than 20,000 Scottish businesses⁸ 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. We additionally create >300 spin-out companies a year⁹.

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. Universities are also ambitious to co-create 'tech scalers' as recommended by Logan.

We strongly support the SFC review's emphasis on the importance of supporting universities to expand their interaction with business, which is typically done at financial cost to the university.

We will also be an important source of innovation as the third sector and public services transform their services.

We seek:

- An increase of £4.5m in the **Universities Innovation Fund** to restore the grant to its real terms value in 2014-15 and enable a step-change in our interaction with business.
- Further exploration with SFC of how to invest in **graduate entrepreneurship**, in the light of the Student Enterprise Scotland model currently being developed as a scaled-up successor to the Scottish Institute for Enterprise.
- A confirmation of resource across the spending review period for the continuation of the successful **Innovation Voucher** Scheme and the operation of **Interface**. This should be complemented by the creation of a parallel, pilot scheme, funded at £1m, to support 'business recovery vouchers' meeting the strong demand amongst businesses to draw on university expertise as they stabilise and transform.

7. Renewal of our places

Universities are at the heart of their communities, creating employment, drawing in talent, providing cultural opportunities and being the nucleus of clusters of high-skill businesses. Universities are core to every city and region deal in Scotland. Universities are increasingly redeveloping their estates to be open and welcoming spaces integrated with the surrounding communities.

The vitality of our universities will be crucial to the renewal of our towns, cities and regions.

The Spending Review can support this by:

⁸ SFC [University Innovation Funding](#)

⁹ There were 325 newly registered spin offs in 2019-20

- ensuring that there is Scottish Government funding to support the continued development of **city and region deals** and any further initiatives for the renewal of “place” that are made possible by the UK Shared Prosperity Fund.
- Supporting **universities’ own investments in their estates**, where a £850m maintenance backlog will never be addressed by the Scottish Government’s £17m per year funding for capital maintenance. Universities’ buildings and their facilities are investments in the wider community as sports and cultural facilities are proactively shared, collaborations with schools and community groups and local businesses deepen. We seek at least **£60m per year capital funding**.
- Building on the pilot ongoing for quantum technologies, work with the sector to create a mechanism to enhance Scotland’s **response to inward investment propositions**.
- Ensure that the **PBSA review** acknowledges and supports the role that ensuring that the capacity of student housing to meet a growing demand can have in reinvigorating our town and city centres.

Conclusion

All of these proposals are important to universities’ capacity to drive Scotland’s recovery and transformation.

None of them are achievable without investment in core teaching, research and knowledge exchange activities, which are the highest priorities within this case.

We are making an ambitious call for investment because we are ambitious for our nation’s success.

The scale of our call for investment also reflects the serious erosion of university funding since 2014/15, which prejudices our contribution, and which is set out more fully in [Annex B](#).

Here are the individual quantifiable elements of our case, where we are asking for specific increases in Scottish Government investment.

Priority	Annual investment needed
Core undergraduate education: increased funding per student	£120m
Graduate Apprenticeships	£7m
Upskilling/ reskilling provision	£7m
Core funding for research: Research Excellence Grant	£36.5m
Support for early career researchers: Research Postgraduate Grant	£3m
Student mobility internationally	£19.7m
Core knowledge exchange activity: Universities Innovation Fund	£4.5m
Innovation vouchers	£1m
Core capital maintenance	£43m
Total	£241.7m

Annex A: Universities’ impact on recovery and renewal

The [National Centre for Entrepreneurship in Education](#) has undertaken analysis of the impact that universities are expected to have on key aspects of building the recovery. This is summarised in [Getting Results in Scotland](#). At a quantified level, Getting Results offers the following summary:

Universities are here for:	Over the next five years universities are projected to:
Education and skills for people of all ages and stages of life	Provide close to 1.3 million days’ worth of training and upskilling – the equivalent of half a day for Scotland’s entire workforce.
World-leading research that changes lives and fuels sustainable growth	Attract national and international public funds to spend on collaborative research with businesses and non-academic organisations, worth £3.3 billion.
Business-focused innovation and enterprise creation	Provide £1.2 billion of not-for-profit support to businesses and charities. Help establish 1,000 new businesses and social enterprises.
Regional regeneration	Contribute to over £400 million of local regeneration and development funding.
Targeted support to address inequalities that the pandemic has exacerbated.	Move towards achievement of the 2030 target that 20% of entrants to university should be from SIMD20 areas.

This complements a range of analysis demonstrating the fundamental impact of universities on Scotland’s economic and social wellbeing. The SFC Review cites economic analysis demonstrating **£11 of economic growth for Scotland from every £1 of Scottish Government investment in universities**¹⁰.

Analysis by Biggar Economics, [Universities in Advanced Economies: Recovery and Transformation, Productivity Growth and Fiscal Returns](#), looks beyond the pandemic to universities’ role in recovery and transformation, finding that:

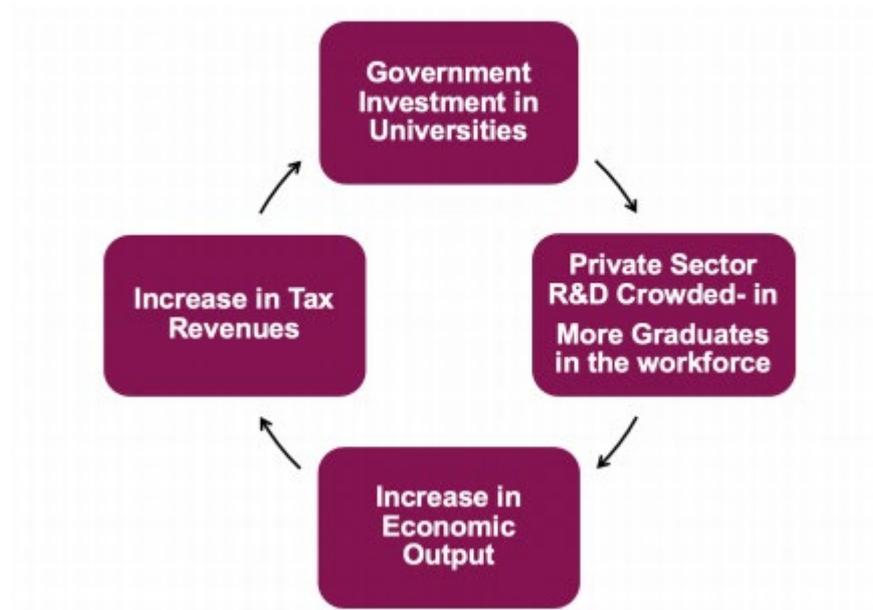
“Universities have a crucial role to play in any advanced economy and they are particularly important in a time of uncertainty and change, the environment we are all living in now and will continue to be for some years to come.

Economic recovery and transformation will need to be based on knowledge and innovation if it is to be sustainable and resilient.

The universities sector will be the primary source of the human and intellectual capital that will be required. Investments in higher education (HE) and in research and development (R&D) create a virtuous cycle. They stimulate and support higher levels of economic output, increasing tax revenues, which can be in turn be invested in universities and in other public services.”

¹⁰ SFC Review para 1.15

Figure 1-1: Virtuous Circle of Investment in Universities



The positive contribution of universities to economic performance can be seen in empirical data and economic theory explains how such mechanisms work.

Analysis of economic data from the advanced economies finds that higher investment in HE and in R&D as a share of Gross Domestic Product (GDP) are correlated with:

- *higher Gross Domestic Product per capita;*
- *higher growth in productivity;*
- *higher labour force participation; and*
- *lower youth unemployment.”*

The Biggar analysis also demonstrates the positive impact on the Scottish Exchequer of investment in universities, through increased tax revenues from graduates and from business.

However, data alone cannot capture the breadth of universities' contribution. A rich range of examples of how universities are building recovery and transformation is captured in 2021's *Getting Results for Scotland*, found [here](#).

Annex B: A sector under stress: why investment is needed

The University sector remains under critical financial stress.

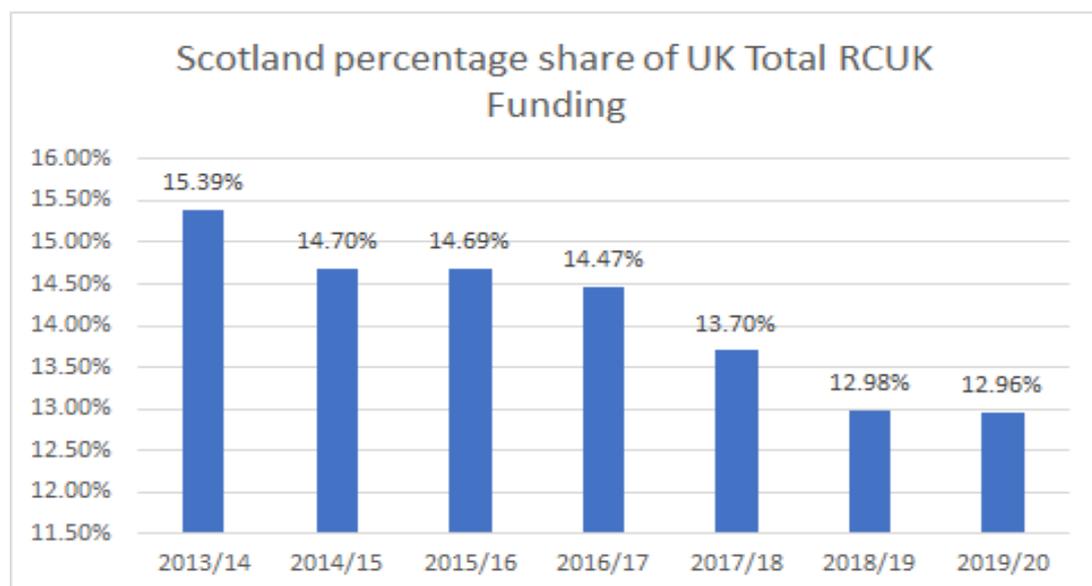
The SFC review was clear about this, noting for instance that:

- Sector borrowing has increased to £1.7bn – many institutions are at the limits of their capacity to borrow.
- 50% institutions are forecasting deficits in 2020-21 (para 6.44), whilst at the sector aggregate level there is only a 1% surplus for re-investment, far below the prudent minimum needed to support investment (para 6.37).
- Teaching is funded at £157m per year below full cost, and research at £328m per year below full cost (para 6.41) with the difference partly being made up from international student fees and partly from efficiency savings and severely constrained investment in staff and facilities.
- The unit of resource for teaching activity in the university sector has reduced in real terms compared with 2014-15. In 2014-15 SFC teaching funding per student place was £6,341 and this reduced to £5,378 in 2020-21 but increased in 2021-22 to £5,566. The SAAS undergraduate tuition fee component of the funding universities receive has also remained static at £1,820 since 2009-10 (para 6.25), reducing its real-term value by over 20%.

This compares unfavourably with changes in funding per learner across other levels of education¹¹: since 2014/15 funding per learner has increased in real terms:

- from £3,989 to £7,397 for pre-school learners;
- from £5,563 to £6,143 for primary school learners
- from £7,946 to £8,278 for secondary school learners.

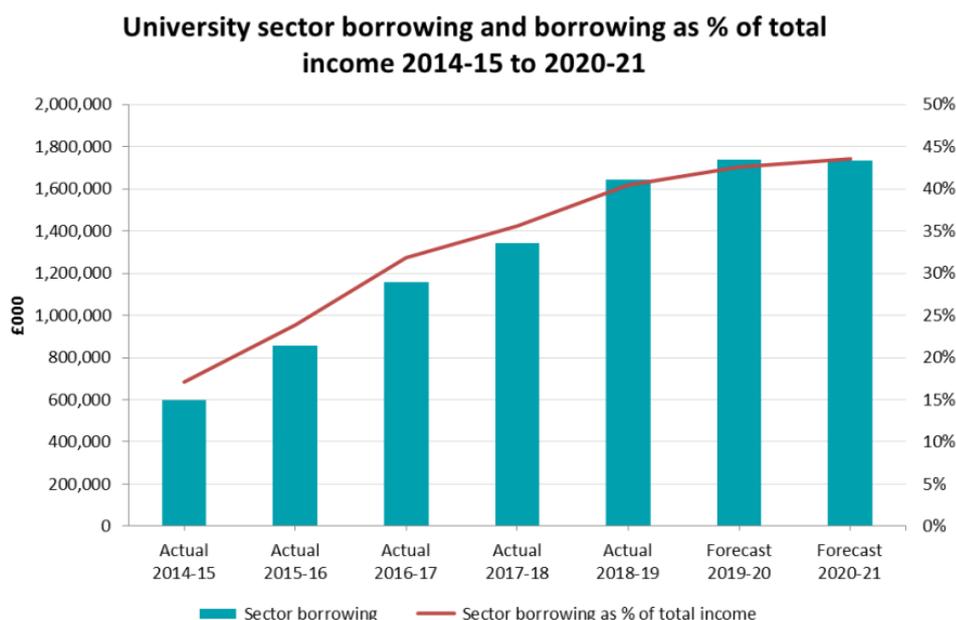
As SFC Research Excellence Grant has declined 13% in real terms since 2014/15, Scottish universities have had reduced success at leveraging competitively-won research resources into Scotland:



¹¹ source: S6W-01165 | Scottish Parliament Website

We also face an increasing problem of accumulating underinvestment in the university estate, to the detriment of how we can support students, researchers, and the wider community.

As noted by Audit Scotland, “in an increasingly competitive environment, universities need to maintain buildings and facilities at a high standard, to meet the specifications required for world-leading research and teaching, and to continue to be able to attract students, staff and researchers”. Moreover, universities’ ambitious action will play a key part, with partners in the private public and third sectors in creating a transformative recovery. In this context, universities are seeking to invest whilst seeing core funding fall far short of operational costs. Resultantly, institutions’ borrowing has increased significantly over recent years as total borrowing as a percentage of total income¹²



Relatedly, and concerning, whilst the estate condition has improved, almost a third remains either “operational but major repair or replacement needed in the short to medium-term (generally 3 years)” or “inoperable or serious risk of major failure or breakdown”. The cost of ensuring all the non-residential estate is at least “sound, operationally safe, and exhibiting only minor deterioration” has increased by 4% since 2014-15 and now stands at over £800m.

A university sector with reduced resources is also facing increased demands. Qualified demand from learners is increasing: the number of undergraduates eligible for funding increased by 9.5% from 2016-17 to 2020-21 and, within that increase, the number of ‘fees only’ students has increased by over 70% over the same period to 18,680 students (14.2% of all students eligible for funding)¹³. A further increase is projected for entry in 2021 and 2022 as a result of changed SQA assessment arrangements. These trends are reflected in demand for both full-time and part-time study with the number of part-time first-degree entrants increasing by 14.5% between 2015-16 and 2019-20.

While only around 75% of undergraduate entrants are young, the increase in Scotland’s school-leaver population is both an opportunity and a pressure. Current population predictions are for a 12.5% increase in

¹² Graph drawn from SFC Financial Sustainability Analysis (page 6): [The Financial Sustainability of Colleges and Universities in Scotland – review report \(sfc.ac.uk\)](https://www.sfc.ac.uk/~/media/2020/07/2020-21-Financial-Sustainability-Analysis.pdf)

¹³ Data from [Students Eligible for Funding 2020-21 \(sfc.ac.uk\)](https://www.sfc.ac.uk/~/media/2020/07/2020-21-Financial-Sustainability-Analysis.pdf)

the number of 18-year-olds¹⁴ in the Scottish population over the next 5 years. We would expect that the resultant increase in demand for university study to be amplified by continuing improvement in learners' attainment levels.

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¹⁴ Data drawn from the [Office of National Statistics](#), estimates/mid2020