

US Finance & Public Administration Committee submission on SG resource spending review framework

Universities Scotland approaches the multi-year resource spending review with both hope and concern. We welcome the consultative approach that the Scottish Government is taking.

Our separate joint submission with Colleges Scotland to the Committee (17 January) on the draft Scottish Budget set out the severe financial challenges that are facing the university sector and compromising its capacity to drive Scotland's recovery and transformation. A Scottish Budget that continues the Scottish Government's pattern of year-on-year real terms cuts to funding per student, funding for research, and funding for interaction with business makes universities unable to deliver their full benefit for our nation.

We look forward to a multi-year spending review settlement **if** it is one that reverses this trend and invests in universities' contribution to the nation's success, but we are concerned the review will not achieve this.

Summary points:

- The three priorities in the Resource Spending Review Framework are undoubtedly important but they appear to have been defined very narrowly, if the 2022/23 budget decisions are to be used as an indicator, and to the exclusion of many sectors – including higher education – that can make an integral contribution.
- Based on the statement of priorities, if the outcome of the resource spending review extends the same trajectory of funding for higher education as the 2022/23 budget (which will be real-terms cuts to core grants after adjusting for increased volume) Scotland's universities will have experienced a decade of declining budgets from 2014/15 to 2024/25. By 2022/23, Scottish Government spending decisions mean that universities have £1,000 less to spend on every student's undergraduate education in 2022/23 compared with 2014/15. It is impossible to insulate students and the full spectrum of university outcomes from the impact of that scale of erosion of funding.
- The Framework appears to overlook some of the Scottish Government's existing ambitions, such as widening access to university by 2030, which have previously had the First Minister's personal commitment.
- The graduates and high level skills developed by our universities, our world-leading research, innovative partnerships with business and vast international connections, all support Scotland's economic growth. However, as universities are part publicly funded they do rely on a competitive level of public funding to retain that excellence and compete globally to bring those wider economic benefits to Scotland. We fear that public investment in universities is being deprioritised and that will be to Scotland's detriment in terms of economic potential.
- Universities contribute to nine of the Scottish Government's 11 outcomes in the National Performance Framework, and 29 of the 81 indicators.
- The Framework doesn't give sufficient focus to Scotland's place in the world, or how Scotland's internationalisation and success on the world stage, through export and foreign direct investment, can and will support the economic growth that is vital to the achievement of domestic priorities.

How clearly does the framework set out the Scottish Government's priorities for the resource spending review?

The Resource Spending Review Framework is clear on its three priorities of addressing child poverty, addressing climate change and securing a stronger, fairer, greener economy. This largely mirrors the priorities already indicated in the Scottish Government's budget for 2022/23, spending plans which will deliver a real terms cut to higher education funding (after adjusting for inflation, the financial year to academic year conversion and adjusting for an increase in volume between 2021/22 and 2022/23¹). As a result, the Framework gives universities little prospect of a different outcome from the spending review process.

In practical terms, the framework document is clear about the scale of commitment of resources for health, social care and social security. We recognise the importance of all these areas to social and individual well-being. However, when these commitments are coupled with the negative Block Grant Adjustments, owing to slower growth in employment and earnings than the rest of the UK, the Framework document offers sobering illustrations of the impact that may have on the rest of the Scottish Government budget.

The combination of commitments and projections of economic underperformance leaves very little assurance for other sectors, including higher education. Put bluntly, other areas of Scottish public life that should be prioritised for investment, including higher education, look as if they will have to fight for the leftovers from the highest-priority commitments. As stated in section 2.2.4 of the framework:

'With limited resources, increased investment in the Scottish Government's priorities will require efficiencies and reductions in spending elsewhere.'

As an area not singled out for priority in the framework, we are seriously concerned that higher education will be a victim of Scottish Government's 'hard choices'. The result will be a sector that is less well-equipped to drive progress in several outcomes across the Framework, including enhancements to employment and earnings growth which would help to address the projected negative block grant adjustments.

Investment in Scotland's people and in high-level skills. For smaller economies such as Scotland, high-level skills are a necessity to ensure we can continue to compete in a globalised context where artificial intelligence, big data, digital and creativity drive innovation. It is very difficult if not impossible to predict the precise skills needs for a given industry - let alone the Scottish economy as a whole. Even if we could, people will need to adapt to different roles and skills over time. Over and above specific disciplines, it is higher-order cognitive skills that are in increasing demand as evidenced from sources like the World Economic Forum, Institute for Business Value and CBI/Pearson demonstrate. Undergraduate provision is a key part of that contribution, with the capacity to cultivate exactly that sought-after cognitive skill set. Higher education also has a key role to play in upskilling and reskilling, the provision of short courses and micro-credentials and in highly-focused postgraduate degrees and work-based learning models like graduate apprenticeships. Prior to the pandemic, universities were a growing source of professional development for Scotland's workforce, with a 23% increase in the number of people choosing a university to progress their CPD. Universities delivered CPD to more than

¹ Universities have also had to absorb the removal of £7.4 million of funding for Graduate Apprenticeships in 2022/23, which was covered by COVID consequential funding in 2021/22 and has not been met by additional baseline funding in 2022/23 despite the multi-year commitment that graduate apprenticeships represent.

31,000 people in 2016/17.² The data picture is not yet available at a sector level since 2020 but universities have seen demand for short, professional and re-training courses soar since the pandemic and have been able to scale-up to meet this demand.

The role of research and innovation in growth. Part of universities' contribution to Scotland's growth flows from the higher education sector's excellent research and innovation activity. The Framework document is focused solely on resource spending whilst funding for university research and innovation is now categorised as capital funding and so is covered by the Government's separate and earlier review, as published last year. That capital review projects further real terms erosion of support for research and innovation over the coming years. Whilst capital funding is not in scope of this consultation, we think this is highly relevant given the role capital spending (on infrastructure and research) will inevitably have in meeting at least two of the Scottish Government's priorities of climate change and greener, fairer growth.

University research and innovation make a significant contribution to economic growth and to achieving the Scottish Government's net zero ambitions. Scotland's innovative capacity in hydrogen and the potential growth for green manufacturing and jobs creation ([projected in the region of 300,000](#)) in hydrogen as a green fuel is vast and underpinned by research strengths in universities. This is just one example. However, as the level of public investment in university research (through the Research Excellence Grant [REG]) falls, so too does Scotland's ability to leverage additional inward investment into Scotland from competitively-won UKRI funding and other sources. To illustrate this numerically, as real-terms investment in REG has fallen, Scotland's share of UKRI funds has fallen from 15.4% in 2013/14 to 12.96% in 2019/20. Every percentage point lost equates to a loss of £20 million of resource that could have come to Scotland, supporting the economy and jobs. We have to note the comparative picture of investment in research in Scotland relative to England where there is a UK Government commitment to increase spending on research and development to 2.4% of GDP. Due to underinvestment, Scotland is losing an opportunity to maximise the sector's contribution to the goal of fairer and greener economic growth. Enhanced support for REG may flow from either resource or capital sources.

What should be the overarching priorities in the resource spending review and how adequately are these currently covered in the framework?

Without detriment to any of the important priorities set out in the framework, they represent only a subset of the priorities the the government needs to address to achieve inclusive economic growth.

Additionally, it is less clear on what basis, or through what process, the priorities are being defined, beyond their high-level articulation, and therefore applied to funding decisions. It appears that definitions have been drawn very narrowly so far, to the exclusion of many other sectors capable, if not integral, to the realisation of these priorities. We believe higher education has a role to play in contributing to the achievement of all three stated priorities, but one that is not perhaps recognised with the parameters as currently drawn.

We have already illustrated this above in regard to green economic growth and addressing the climate challenge. As a further example, in relation to the priority of child poverty, there are related and pre-existing Scottish Government flagship societal priorities which are now left in doubt following the new

² Universities Scotland (2019) [Tomorrow's People](#)

Framework. To name just one, the First Minister’s “national mission” of widening access to university, which is consistent with addressing inequalities and achieving inclusive growth and was clearly defined in 2016, with numerical targets of 20% of entrants to university from SIMD20 areas by 2030, are generational in timeframe. Universities have applied themselves to this priority, meeting interim milestones in 2021, but still face the “hardest mile”³ ahead, in the words of the Commissioner for Fair Access, to hit the 2030 targets. Further action and additional investment (which has so far been lacking) will be necessary to achieve this. We are concerned that this will be de-prioritised because it addresses the life-chances of adults (17+) rather than children, though in practice universities’ outreach and engagement with schools and pupils starts many years before the student reaches university. Moreover, opportunities for university education are a clear path to breaking generational cycles of poverty. The de-prioritisation of the university Teaching Grant, which has fallen in real terms by 13% between 2014/15 and 2021/22 and was cut further in the 2022/23 budget, would suggest that the Scottish Government’s priority of addressing inequalities is being redrawn very narrowly, as the Teaching Grant is the main route through which universities deliver widening access activities and support for access students.

National Performance Framework

It would appear to us to be preferable to judge investments against wider criteria to avoid inadvertently de-prioritising important investments. The Scottish Government’s own stated purpose in the National Performance Framework would provide a broader evaluative framework, i.e. to:

- create a more successful country
- give opportunities to all people living in Scotland
- increase the wellbeing of people living in Scotland
- create sustainable and inclusive growth
- reduce inequalities and give equal importance to economic, environmental and social progress

Universities Scotland previously mapped the higher education sector’s contribution against the National Performance Framework, which can be found online⁴, and found that higher education had a role to play in nine of the eleven national outcomes, from economy and education to culture, international and business. In total, there is a quantifiable university contribution to 29 of the 81 national indicators.

Does the framework properly reflect the current economic and political context?

The framework makes a fair recognition of the challenges to the Scottish budget arising from socio-economic factors such as an increased proportion of the population with significant health and social care needs, and the pressures arising from low growth in Scottish tax revenue (associated with lower-than-UK demographic and economic growth).

What it does not do is set out ambitions to address those socio-economic challenges. For instance:

- if the relative decline of the working-age population in Scotland is a problem, as identified in the framework, shouldn’t the Scottish Government set a priority of making Scotland more competitive in attracting a working-age population from outside our borders, and stimulating

³ [Scottish Government Commissioner for Fair Access \(2019\) Annual Report 2019](#)

⁴ Universities Scotland (2019) [The Future of Scotland’s Universities](#).

robust economic growth to create jobs that attract them? As magnets of student talent from the rest-of-UK and internationally, universities would be delighted to see more students choose to stay and make their careers in Scotland.

- The framework doesn't set out ambitions to make investments that will address the political and economic challenges by enabling growth that increases people's taxable earnings. See the economic analysis in [Universities in Advanced Economies](#) for a range of evidence of how investment in universities' contributions to economic growth result in increased revenue for the Scottish Exchequer – a consideration that SG Spending Reviews do not take account of.

How does the framework approach cross-cutting issues, long-term challenges such as demographic trends, and preventative approaches?

See answers above.

It is good to see revived interest in the findings of the Christie Commission and we hope these will be taken into full account.

Demographic trends. The Framework considers Scotland's demographics in relation to the working age population and our ageing population. However, there are other demographic factors that create additional pressure points. Over the period of the multi-year spending review, to 2025/26, Scotland is projected to see a demographic increase in the number of 17 and 18 year-olds. This is likely to increase demand for access to undergraduate degrees within the Scottish-domiciled population and further increase competition on places. Scottish-domiciled students already have far lower entry rates to university (measured for 18 year olds) relative to English-domiciled at 28.3% compared to 37.9% for entry in 2020.⁵ Within the current spending envelope, there are no funds to expand undergraduate provision and funding an increase in places (as recently occurred to address the school-leaver situation during the pandemic) would be the wrong priority, only putting further strain on a higher education sector that is likely to see the level of public investment per Scottish-domiciled student decline by £1,000 against a 2014/15 baseline within the 2022/23 budget year.

The challenge and opportunity of continued internationalisation. The wider, strategic context of Scotland's place in the world and internationalisation is lacking sufficient profile in the Framework. Scotland should aspire to be a major player increased global collaboration to create opportunities for growth and address shared global challenges, such as climate change, COVID-19 etc. Creating and taking these opportunities for the good of Scotland, and strong, fair economic growth, requires us to be globally connected and competitive on the world stage and that requires investment on the domestic one. The Scottish Government does have a Global Capital Investment Plan, an Inward Investment Plan and is expected to publish its first ever International Education Strategy in 2022, which is much anticipated within higher education, but success in all of these areas this takes resource and a long-term commitment. The future commitment to these Plans and Strategies is not clear within the new Framework.

Specifically, in respect of higher education, the sector has been able to generate over £2 billion of export income for Scotland's economy through the inward recruitment of international students, based on higher education's reputation for teaching excellence. Whilst the pandemic did highlight the fragility of over-reliance on this model, it nevertheless remains a significant element of Scotland's

⁵ [UCAS \(2021\) UCAS Undergraduate Sector End of Cycle Data Resources 2020](#)

export revenue, contributing an estimated net £1.94 billion to the Scottish economy.⁶ Other important aspects of universities' role in Scotland's export portfolio include transnational education (TNE) and the attraction of foreign direct investment (FDI), where high-level skills and universities as clusters of world-leading research and innovation frequently feature as part of FDI decisions in Scotland (particularly as reasons to invest in the UK but outside of London)⁷. TNE is an area which offers steady growth, with Scotland's market growing by 3.6% annually between 2018/19 and 2019/20.⁸ Again, the ability to grow Scotland's international profile and market share in both TNE and FDI is predicated on the quality and competitiveness of our higher education and research.

We don't believe that the priorities, as currently defined or explained in the Framework, take sufficient account of the opportunities for growth that arise from Scotland's place in the world and international connections. This will be important whatever Scotland's constitutional future.

How well do the priorities in the framework link in with National Performance Framework outcomes?

They appear to be a much narrower subset and redefinition of parts of the National Performance Framework – giving rise to the concerns expressed above about de-prioritisation of important areas of public life.

It can be challenging for Scotland's sectors and public/private/third sector organisation at any one time to work out what is the accurate definition of the Scottish Government's priorities since these are set out differently e.g. in the National Performance Framework, Programme for Government, Resource Spending Review Framework, and (potentially) the impending Economic Transformation Strategy.

⁶ Scottish Government (2019) [Scotland: A Trading Nation](#)

⁷ Ernst & Young (2021) [Attractiveness Survey Scotland](#).

⁸ Universities UK International (2022) Scale of UK Higher Education Transnational Education 2019/20: Scottish Providers