

Universities Scotland evidence to support pre-budget scrutiny

We welcome the Committee's pre-budget scrutiny of university funding and the opportunity to provide both written and oral evidence.

By investing more in real terms in higher education, the Scottish Government can choose to make investments that boost the National Strategy for Economic Transformation's vision of an inclusive, innovative and prosperous nation. It can continue to widen opportunities for people to realise their full potential throughout their lives, and build a virtuous cycle of economic growth and growth in the public finances. It can invest in higher education as a driver of wellbeing, prosperity and inward investment.

This brief sets out seven key messages.

1. Universities make a significant economic return to Scotland because of their teaching and research at a time when Scotland needs to drive inclusive economic growth. That should be a determinant of investment decisions. £15.3 billion is a conservative estimate of the university sector's contribution to the Scottish economy in 2019.¹
2. Scottish universities' contribution to our nation's success is severely undermined by funding cuts. By 2024/25, universities' teaching grant will have been cut by 37.4% in real terms over ten years and the research budget will have been cut by 41%.² This cannot continue. We are asking for an increase in funding of £171.7 million in 2023/24, with greater detail provided below.
3. Universities enter a period of spiralling inflation in a highly exposed position; they are the only part of Scotland's education sector to experience a pattern of sustained real-terms decline up to 2022.³
4. In addition to spiraling costs, faced by all sectors, universities are supporting students with increasingly complex needs, and meeting key Scottish Government agendas, with significantly less public funding per student.
5. Scotland is falling behind England on research competitiveness due to consistently lower levels of public investment in university research. Increases to Research England's budget of 34.8% over the next three years, from 2022, are expected to generate circa £45 million extra in Barnett consequential for Scotland. We want to see this ring-fenced for the Research Excellence Grant.
6. We understand reform goes hand-in-hand with resource. Universities have a decade-long track record of self-propelled reform via efficiencies and collaboration.

¹ London Economics (2022). This is a conservative estimate because it takes account of university expenditure on staff and non-staff expenditure only and as such it is not a complete picture of the economic impact of HE. It does not take account of the economic impact of international students or the lifetime productivity gains that the Scottish economy generates through enhanced earnings and taxation receipts

² This calculation is our best, conservative but robust assessment of the real-terms decline in funding, using externally verified data and approaches. The decline was calculated over a ten-year period from 2014/15 to 2024/25 using the GDP deflator for the period 2014/14 to 2020/21. This is consistent with the Scottish Government data provided in response to parliamentary question: S6W-01165. Thereafter, from 2021/22 we have applied RPIX, drawing on the latest OBR figures – figures that are now seen as significantly underestimating likely future rates of inflation. The Office for Students (working with the English HE sector) also uses RPIX in its consideration of costs

7. Whatever the outcome of the next Scottish budget for universities we urgently need the Scottish Government and the Scottish Funding Council to assess the scale of financial challenge facing the sector over the next five years, and to come up with a plan for sustainable funding for the sector's contribution. The scale of the financial challenge facing the sector means Scotland cannot continue to engage with it on an annual basis.

1. Universities make a significant economic return to Scotland at a time when Scotland needs to drive growth. That should be a determinant of investment decisions.

- For every 1,000 graduates that universities are able to support through to successful outcomes, the Scottish Government gains £22.4 million in net present value through the additional income tax contributions.⁴
- Investment in university research and development crowds-in private investment generating a bigger economic return on a multiplier of 8:1. An investment of an additional £45 million into core research staff and infrastructure has the potential to generate an additional £364.5 million of economic impact for Scotland.⁵
- The economic multiplier effect of research income won specifically from UKRI, and levered into Scotland from the rest of the UK, is estimated to be amongst the highest order of return, at 12.7. With a 12.7 multiplier, for every £10 million of UKRI funding that Scotland's universities miss out on, because public investment in Scottish research doesn't keep track with English counterparts, Scotland is missing out on £127 million of economic benefit.⁶
- Beyond research, Scotland's universities are a major source of entrepreneurialism and innovation. Universities currently support over 20,000 Scottish organisations each year with innovative consultancy, professional development and research projects. Universities are a major part of Scotland's start-up infrastructure, with around 1,240 active university spin-out companies in Scotland generating around £613 million. This is 19% of the UK total. Universities are Scotland's principal incubator space for innovative new businesses.⁷
- The economic impact of international students in Scotland is valued at £1.94 billion.⁸ This is broadly equivalent to Scotland's wholesale and retail sector exports, to give it context.⁹ This includes the impact of fees, in-country expenditure (outwith universities) and a costed impact of study-related tourism. International students choose Scotland's HE sector based on the quality of teaching, student experience and reputation for research. It is vital, for universities but also the economic contribution universities make to Scotland, that these core elements of Scottish HE remain world-class.

2. By 2024/25, universities' teaching grant will have been cut by 37% in real terms over ten years and the research budget will have been cut by 41% . This cannot continue.

⁴ Biggar Economics (2020) Universities in Advanced Economies. Recovery and Transformation, Productivity Growth & Fiscal Returns.

⁵ London Economics for Universities Scotland (2021).

⁶ London Economics for Universities Scotland (2021)

⁷ Universities Scotland (2021) Prosperity & Inclusion

⁸ Scottish Government (2019) Trading Nation

⁹ [Scottish Government \(2019\) Export Statistics](#)

Detail on the scale of cuts to teaching:

- Between 2014/15 and 2022/23, the teaching grant has been cut by 27% in real terms. This is projected to grow to a 37% cut in real terms by 2024/25.¹⁰
- £2,325 is how much the Scottish Government's funding per Scottish-domiciled student has fallen in real terms since 2014/15.¹¹
- £4,000 - £7,000 is the funding gap per student (the range is due to subject studied) in 2022/23 between what it actually costs a university to teach a Scottish-domiciled student and the level of funding universities receive from Scottish Government.¹²
- The risks posed by this funding situation are not new. Audit Scotland's 2019 report warned: "*Universities face future cost pressures, and there is significant uncertainty around some important areas of activity*"¹³. The erosion of funding has continued since 2019 and the scale of cost pressures now facing institutions is much more severe than Audit Scotland could have anticipated.
- Cross-subsidy from international student fees is the only reason that under-funding hasn't yet reached a critical point. But, without action, Scotland is approaching that. Scotland's funding model now bakes-in a structural reliance on international fees to such an extent that this source of revenue is forecast to overtake Scottish Government funding as a percentage of the sector's total income in 2023/24, reaching 27% of the sector's average income compared to 25% for SFC grants.¹⁴ See figure 2. Some institutions are better placed than others to grow international income. Even without the perpetual risk of a geopolitical shock, the extent of cross-subsidy now jeopardises the quality of education, experience and support that universities are able to offer all students. When that happens, international students will exercise their choice to go elsewhere.

Detail on the scale of cuts to research:

- Between 2014/15 and 2022/23, the research excellence grant has been cut by 31% in real terms. This is projected to grow to a 41% cut in real terms by 2024/25.¹⁵
- Despite a sector-best performance in the Research Excellence Framework (REF), with 84.8% of Scotland's research judged as "world-leading" or "internationally excellent", eight universities face cuts to their Research Excellence Grant in 2022/23. Four high-performing research universities have seen cash cuts of more than £1 million. All of Scotland's universities risk losing competitive edge relative to their comparator institutions in England.
- Looking ahead, and without action, this pressure is likely to intensify. Research cuts are capped at a maximum of -10% per institution in 2022/23 as part of a "transition" year.¹⁶ Some HEIs might see cuts to their core SFC research funding of more than 30% in 2023/24.
- Despite a sector-best performance in the REF in Scotland, Scotland is losing its edge relative to institutions in England and Wales. That comes down to relativities in public investment between assessment periods. The next REF is six years away in 2028. We need to use the next couple of

¹⁰ See footnote #2

¹¹ This sum represents the average real terms decline in funding, calculated per student place, for a non-controlled subject. The figure was reached using the GDP deflator to 2020/21 and RPIx thereafter.

¹² These figures have been calculated replicating the data and approach of the Office for students in England, which publishes data on costs in higher education, drawing on TRAC data. The gap is shown as a range of between £4-7,000 because the cost to teach varies between subject, a factor that is partially recognised by having different teaching price groups (in both Scottish and English HE sectors).

¹³ [Finances of Scottish universities \(audit-scotland.gov.uk\) the 2019 report used funding data from 2017/18 which indicates that the underfunding of universities has been highlighted as a problem for many years.](https://www.audit-scotland.gov.uk/the-2019-report-used-funding-data-from-2017/18-which-indicates-that-the-underfunding-of-universities-has-been-highlighted-as-a-problem-for-many-years)

¹⁴ Scottish Funding Council data using HESA. The remaining 48% of income is derived from rest of UK fees, from UK and privately-won research grants and contracts (including UKRI), from conferences/events and other income generating activities and endowments.

¹⁵ See footnote #2.

¹⁶ SFC (2022) [Announcement of Final Funding Allocations](#). SFC/AN/15/2022. Page 16, para 70.

years to invest more (in real terms) in core research staff and infrastructure in institutions to protect this economic asset for Scotland's future and for delivery of the National Strategy for Economic Transformation.

3. Universities enter a period of spiralling inflation in a highly exposed position; they are the only part of Scotland's education sector to experience a pattern of sustained real-terms decline up to 2022.

- We believe that education is a priority and every level of the education sector should be sustainably supported.
- Data produced by the Scottish Government which models the average expenditure per pupil/student place between 2014/15 and 2020/21 shows that public expenditure per university student had fallen by 10% in real terms, even before the current period of high inflation.¹⁷ See figure 1.
- In contrast to universities, expenditure per pupil/student has increased, in real terms, at all other levels of education in Scotland over the same period, from early years to other post-16.
- Scottish Government investment decisions to this point mean that universities are poorly placed to endure what is about to come in terms of increased costs, increased inflation and further real terms cuts in public funding.
- Universities are subject to commercial energy supply contracts with no price cap. The immediate impact of rising energy costs in HE will be felt across a wide range of teaching, research and facilities. For instance, the cost of energy consumption in university-owned student residences will rise significantly over 2022/23 but annual contracts, and costs, with students were agreed well in advance of the academic year. Whilst this affords students welcome protection against rising costs this year, the steep rise in costs will need to be met by institutions.

4. In addition to spiraling costs, universities are supporting students with increasingly complex needs and meeting Scottish Government agendas, with significantly less resource to spend per student.

Universities have a duty of care to their students and want to provide a rounded and supportive student experience. Yet they must try to meet these needs with £2,325 less per student in real terms.¹⁸ Increasingly complex student needs include:

- **a COVID legacy of lost learning and confidence** amongst school-leavers has a "pipe-line" legacy effect which must be addressed by universities. It's estimated that 1 in 6 school days were missed in Scotland over 2021/22.¹⁹ Amongst undergraduate students learning during the pandemic, 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 to invest more to support students with their retention and toward successful outcomes.
- **a mental health crisis amongst students** and growing demand for mental health services as provided for by universities in lieu of the NHS. Demand for counselling is rising very swiftly,

¹⁷ The figure of real terms cuts of 10% differs to figures elsewhere in this document as other sums project forwards from 2020/21 using RPIX rather than GDP deflator.

¹⁸ Compared to the baseline of 2014/15.

¹⁹ [The Times Newspaper, Scottish edition.](#)

where institutions have calibrated this they note a rise of >25% in the last year alone. Research published in late 2021 found 36% of respondents had moderately severe or severe symptoms of depression and 45% of respondents reported that they had experienced a serious psychological issue.²⁰ Universities are not the NHS and cannot support clinically complex cases but are increasingly compensating for over-loaded services elsewhere as well as trying to deliver preventative, personal resilience techniques and support to students. A recent FoI suggested that 1,874 students were on university waiting lists for counselling in March 2022.²¹ Universities have received a stand-alone grant for the employment of additional counsellors since 2019²² but the vast majority of funding for student mental health has to be met from within the Teaching Grant.

- **A continuing commitment to reach widening access goals.** Universities have achieved the 2021 interim milestone on the hugely ambitious social mobility target as set by the First Minister; to ensure that 20% of entrants to university are from the 20% most disadvantaged areas of Scotland by 2030. Universities remain committed to further progress from the current figure of 16.7%²³ to 20% in 2030 but we acknowledge (and agree) with Sir Peter Scott, former Fair Access Commissioner's observation that the "hardest mile" remains ahead of us.
- There has been no additional funding for universities for the realisation of this long-term policy goal since it was defined in 2016. This is despite the established principle that it requires additional resource to attract and adequately support access students.²⁴
- A sample of institutions, which have some distance still to travel to reach the 2030 access target, estimate that over the next eight years to 2030, they will need to increase their investment by an average of 75%, relative to the last five years, to hit the goal of 20%.
- Access is a shared goal but it is not a reasonable or sustainable position to ask institutions to continuously do more with less. As well as the increased cost (already absorbed) mentioned above, there is an intersectionality between widening access and mental health pressures amongst pupils/student community. A much greater proportion of secondary school pupils eligible for free school meals had a probable mental health disorder compared with those who were not eligible (28.3% compared with 12.4%).

5. Scotland's universities are falling behind England on research competitiveness due to consistently lower levels of public investment in research

- In contrast to projections of real-terms cuts to research in Scotland over the next three years, Research England's Quality Research Grant²⁵ for HEIs has risen by 10.4% in cash terms between 2021/22 and 2022/23²⁶ and is forecast to increase by 34.8% (cash terms) for the three year period from 2022.²⁷
- We estimate that this rising in investment will generate an additional £45 million of Barnett consequential for Scottish Government in 2024/25.²⁸ We want to see this sum ring-fenced and passed on to Scottish HEIs. Doing so, will give Scottish HE a chance to leverage more resource into Scotland, creating economic impact, high-skill jobs and supporting the ambition in NSET. The

²⁰ Mental Health Foundation (2021) *Thriving Learners*

²¹ [Returns to Freedom of Information request as reported by STV, August 2022.](#)

²² Scottish Funding Council (2021) [Funding announcement for student mental health](#). £1.74 million for universities in 2021/22. However, this funding was time-limited for 4 years and the final year of funding allocations for the full AY2022/23 has not yet been confirmed (only the FY22/23).

²³ [Universities Scotland media release, 2022.](#)

²⁴ [See Scottish Funding Council Widening Access Retention Fund.](#)

²⁵ The Quality research Grant is England's equivalent to Scotland's Research Excellence Grant.

²⁶ [UKRI \(2022\) Funding Budgets 2022-25](#) Table 1

²⁷ BEIS (2022) [research and development allocation 2022 - 2025](#) Table 1.

²⁸ Universities Scotland's estimate based on the Barnett formula.

economic multiplier that results from UKRI funds is one of the highest returns that HE can deliver at a ratio of 12:1.²⁹

- The relative underfunding of university research in Scotland is already a problem and is negatively impacting on the success of Scotland's institutions in winning competitive research grants from UKRI. Scotland used to out-perform the rest of the UK and win 15.4% of the UK share, based on excellence, in 2014/15. That has fallen to a 12.9% share. Universities' success in bringing this resource into Scotland - worth £1.8 billion in 2019/20 - creates highly-skilled jobs and wider economic impact.

6. Universities have a decade-long track record of self-propelled efficiencies and collaboration.

There's a willingness to continue "reform" as per the Scottish Government's resource spending review, but there are no easy wins in HE that haven't already been realised. Universities have also borrowed heavily over recent years to maintain services. Overall sector borrowing increased by to around £1.7 billion in 2019/20. Loan interest payments for the sector increased from £40.5m in 2018/19 to £43.8m in 2019/20.³⁰ There needs to be realism about the extent of further Government "efficiencies" without major impact on students and staff.

Universities' work to date aligns very closely with the Scottish Government's stated priorities and can be summarized as:

- **Public procurement:** The Advanced Procurement for Universities and Colleges (APUC), as owned by universities and colleges, is a national leader in collaborative procurement. It secures over £25.5 million of savings every year, relative to market prices or, £13.1 million relative to prices previously paid. APUC agreements cover over 40% of the procurement spend of Scottish HE and FE.
- **Digitalisation:** UK -wide collaboration through Jisc and the Janet network is estimated to be create savings and avoidance of costs to the value of approximately £13.8 million per annum, based on 2020/21 figures.
- **Maximising revenue through public sector innovation:** only 26% of universities' average total revenue came from the Scottish Government via the Scottish Funding Council in 2022/23.³¹ The core principle underpinning universities' ability to maximise their revenue is the ability to compete based on excellence. Without sustainable and competitive levels of core public funding, our ability to maximise revenue streams will decrease, not increase.

More detail on universities' success at self-directed efficiency and reform over the last ten years can be found [here](#).

7. Conclusion

- Universities are a significant asset for Scotland and have a record of high performance on key Government agendas including innovation, enterprise and social justice. Universities' broad scope of delivery across skills, research and innovation and their international profile gives them a unique ability, as a recipient of public funding, to leverage external funding. This fuels economic growth, with multipliers as high as 12:1 in some aspects of research activity. Universities can be key actors in the delivery side of the NSET.

²⁹ London Economics (2022)

³⁰ SFC (2021) [Review of Coherent Provision and Sustainability](#). Pg 125.

³¹ See figure one at the end of the document.

- Yet, Scotland’s universities have been progressively under-funded since 2014/15. This has left the sector with no choice but to become increasingly reliant on international fee income to cross-subsidise undergraduate education of Scots and to keep Scottish research world-class. As public funding for universities has been eroded gradually, rather than in a sudden fall, it has largely gone unnoticed despite warnings from Audit Scotland, universities and Universities Scotland since 2016.
- The pattern of the last eight years means the sector is now very poorly equipped to support increased student needs and endure the rising costs and inflation that lies ahead. Spiraling inflation no longer looks to be a one-year economic “blip” which will make it very difficult for several institutions to manage.
- Universities require an initial increase in investment of £171.7 million in the next budget. This is comprised of:
 - £400 in teaching and supporting each student, particularly to address students’ increased post-pandemic learning and welfare needs. This would require an estimated £55.2 million.
 - Specific support for the costs of the mental health counsellors funded on a year-by-year basis by SG (£3.8m).
 - Investment in research and innovation, to reverse the decline in Scotland’s competitive position and to increase the economic impact of research. We are seeking £52.7 million to boost research competitiveness and support innovation. This could be funded principally by the Barnett consequentials of parallel investment in England.
 - A capital transformation fund of £60m that institutions could use flexibly to help attain net zero and to invest in high-quality digital innovation.

Whatever the outcome of the next Scottish budget for universities, we urgently need the Scottish Government and the Scottish Funding Council to assess the scale of financial challenge facing the sector over the next five years, and to come up with a plan for sustainable funding for the sector’s contribution. The scale of the financial challenge facing the sector means we cannot continue to engage with it on an annual basis.

Figure 1: Average expenditure per place for each education level in Scotland in real terms (2020-21=100).³²

³² Data from Scottish Parliament Question S6W 01165

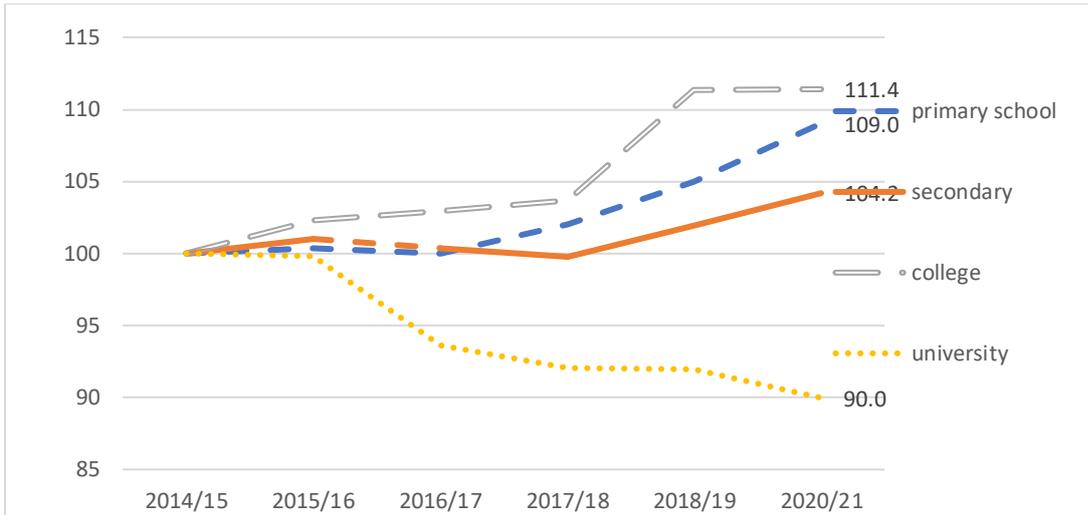


Figure 2: University sector reliance on international student fee income and SFC grant.

