Opportunity and inclusive growth in a time of challenge

Universities Scotland budget case for 2024-25
US Budget Case for 2024-25

Opportunity and inclusive growth in a time of challenge

Universities Scotland is pleased to offer the Scottish Government evidence and ideas to inform decisions on the 2024/25 budget.

Universities remain at the heart of the Scottish Government’s strategy and policy. We are ambitious to grow our contribution to Scotland’s creation of a wellbeing economy, driving a green economic recovery to meet climate and nature targets and ensuring that we maximise the benefits as part of a just transition.

That contribution is already significant. We:

- offer opportunity to tens of thousands of learners;
- imbue our graduates with the skills that employers need;
- are essential to Scotland’s vision to be one of the most innovative small nations in the world;
- are partners in our communities in eradicating poverty; and,
- are key to the staffing, skills, and enhancement of our public services.

This budget will be a challenging one for the Scottish Government and it comes at a time of challenge for the sector and its learners.

The pressures on the public finances mean that it is crucial that Scottish Government prioritises investments that will have a strong economic and social return. Investment in the higher education sector will generate a return that includes:

- the progression of more learners from socio-economic disadvantage to highly skilled and well-paid graduate employment, with the wide health, welfare and social benefits associated with that\(^1\).

- the economic impact of investment in research and innovation, estimated at £8 economic benefit for every £1 of Scottish Government investment\(^2\).

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\(^1\) [Benefits of post-18 education for individuals and society - GOV.UK](www.gov.uk)

\(^2\) [The economic impact of Scotland’s university research activity — Universities Scotland](universities-scotland.ac.uk)
- the up-skillling of our own population, creating a pool of graduate talent that powers business growth and attracts inwards investment.

- the attraction of graduate and staff talent to Scotland from around the world, to increase our highly skilled and innovative population, thereby also addressing Scotland’s demographic challenges.

- increased tax revenue from economic growth and from growth of our highly skilled and highly earning population.

- growth in Scottish universities’ impact on the economy. The direct impact of institutions’ own operations, the majority of which is supported by the leverage of resources beyond those provided by the SFC, is £11bn. To this can be added the impact in the economy of our outputs including graduates, innovation and spin out companies.

We ask Scottish Government to provide resources for delivering the outcomes that we all want to see. To meet the current challenges faced by our students and to our competitiveness; and to enhance our actions on skills, entrepreneurship, and innovation. Therefore, calibrated to the budgetary challenge, this paper identifies where:

1. **modest investments** can be made to help to protect outcomes for students and for our economy and communities, and where further investment would enhance these;

2. government can take **budget neutral action**, in partnership with the sector, to deliver impact; and

3. **government could foster innovative actions** with the sector and with the public, private and third sectors to enhance outcomes for all.

We also set out some of the significant and intensifying risks that the sector faces, driven in substantial part by cuts over the last decade. Whilst recognising that Scottish Government cannot address these fully within this budget, we ask that it commits to use the review processes that it has commenced, in particular actions under the ‘purpose and principles’, the Innovation Strategy and ‘Entrepreneurial Campus’ to address these risks meaningfully over the medium to long term, into the next Scottish Parliament. We note that a number of countries with which Scottish Government makes close comparison have invested significantly in their university sectors over the last decade. For those that face similar challenges to here, these have now embarked on reviews, or are implementing them, recognising the need for additional investment.

Scotland’s higher education sector is a key competitive advantage for our nation and is central to providing skills and opportunity for our people. We look for investment in the Scottish Budget that secures those outcomes.
A summary of the sector’s asks of, and offer to, government

Modest additional investments in 2024/25 for the benefit of students, our economy, and our communities

1. Investment to contribute to meeting the significant educational and welfare needs of students already in and those entering the sector; to act more fully to prevent the personal and financial impacts of falling retention and progression rates; and to enhance our educational offer to students and others, including creating truly entrepreneurial campuses across Scotland.

   • An additional £100 per student (£11.6m) from within the headroom in the budget level which was presented to parliament last year would offer the sector some support in offering current services in the face of significant financial pressures.

   • We look to the Scottish Government to build on that with an additional £165 per student (£18m) to enable institutions to make real progress in addressing both challenges and opportunities, particularly in realising the full benefits of student entrepreneurship and future opportunity.

   • When coupled with the flexibility in deployment of funded places noted in the next section, we are ambitious to use funds to maximise outcomes for Scotland’s skills needs and the opportunities of individuals.

2. Investment in SFC’s research and innovation funding to deliver results

   • We seek £4.8m spread across all of SFC’s research and innovation grants, to support institutions’ current contributions to Scottish Government ambitions including the Innovation Strategy and entrepreneurial campus, in the face of significant financial pressures. This would be achievable using the headroom within the 2023-24 resource budget presented to parliament.

   • However, we are ambitious to grow this contribution and we ask Scottish Government to invest to achieve this and lever further resources to Scotland. We are ambitious to restore rates of leverage of Horizon Europe and UKRI funds, in particular for Research Councils and Horizon Europe projects aligned closely to the sectors in the Innovation Strategy, and to bring us closer to our competitors for UK-wide funding outside Scotland; and ensure that institutions have levels of resources to support work with more businesses across Scotland. We therefore look to government to make a further investment of £7.4m across SFC’s grants. In doing so we note that the latest Capital
Spending Review\(^3\) set out a SFC HE Capital budget of £359.4m for 2024-25, £18.7m higher than the SFC’s HE Capital budget in the 2023-24 budget.

- The 2021 REF demonstrated Scotland’s research strength. However, it also pointed to erosion of its competitive position. Since the results were published there has been a particular focus on ‘research environment’ – the support for the development of people and the capital infrastructure – with a recognition that specific investment in this by Research England risks accelerating an erosion of Scotland’s relative position. As we look to the next REF, recognising the strategic need to invest in the research environment, we ask Scottish Government to provide an additional £2m in 2024-25 for a pan-sector collaborative initiative, noting that Research England is making a parallel £90m investment over 3 years to enhance research culture.

3. We ask SG to review rapidly and invest in support for living costs and tuition fees for part-time undergraduate students, in line with the recommendation in the Withers report, recognising that there has been no uplift on the income cap for accessing part-time undergraduate fee support for many years.

4. In the context of the significant estates needs faced by the sector, including RAAC, we ask that the SFC’s capital maintenance budget is restored to its cash level in 2022-23. This would require an additional £13m.

- We believe there is at least some budgeted scope for expansion in SFC capital support for universities. Scottish Government’s spring 2022 Capital Spending Review set out a Scottish Funding Council HE Capital budget of £359.4m for 2024-25\(^4\). This is £18.7m higher than the SFC’s actual HE Capital budget in the 2023-24 budget.

- We also ask that SFC’s capital budget in 2024-25 ensures that the SFC can again deliver the necessary match funding for UK Government science capital investment without detriment to other funding streams. In 2023-24 this required £17.4m.

5. We ask SG to commit to deploying Barnett consequentials arising from any additional funding by UK Government to meet rises in employer contributions to the public sector pensions in the sector to the same purpose in Scotland and, if no additional funds arise in England, to follow precedent and make a direct contribution to these costs. The impact on the sector of employer contribution changes for the STSS alone is estimated to be approximately £7m.

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\(^4\) Scottish Government (2022) *Outcome of the Capital Spending Review* pg. 16
We seek the following budget-neutral commitments to continue current levels of resources and to ensure flexibility in their deployment:

- sustain funding for the current number of SFC funded places for Scottish-domiciled students, while giving SFC the flexibility to manage the consequences of over-recruitment and under-recruitment without penalty to institutions, e.g., because of volatility in the number of students progressing from college or arising from growth in work-based learning courses. This would enable innovative use of places to grow graduate apprenticeship and related courses;

- as a foundation to the wider review noted below, look across government as to how universities might combine their own action and funding with that of government to deliver greater opportunity for work-based learning and actions under the innovation strategy;

- ensure that SFC retains the savings (estimated at £4m) in its budget arising from a change in taught postgraduate (TPG) fee assumptions and that this can be reinvested in enabling institutions to meet high level skills needs;

- sustain and deploy fully the Scottish Government’s Lifelong Learning and Science budget for international within the ‘Higher Education’ budget (£14.7m in 2023-24) linked to a new International Education Strategy and delivery of an exchange programme; and

- continue to invest in a partnership with the sector to support student mental health, in the context of a new Mental Health Strategy and awaited Student Mental Health Action Plan.

We offer the sector’s action in the following ways, working in partnership with government and others, to secure efficiency and better outcomes

Complementing these requests, we are keen to co-create with Scottish Government proposals for reform and novel action. The ideas presented below are a list from which we would want to work with the Scottish Government to prioritise and co-create. They are presented as potential ways of enhancing the contribution of universities to the Wellbeing Economy even during a period of continued public funding austerity.

- Complementing investment in REG, form a pan-government taskforce to reverse decline in share of Research Councils funding and maximise the opportunities from Horizon Europe secured by universities in Scotland so that greater resources flow into Scotland, delivering direct impact and supporting innovation in the sectors of the Innovation Strategy.

- Work in partnership to secure changes in Innovate UK funding policy so that it is better suited to places such as Scotland where universities are the key actors in pursuing projects to businesses’ benefit.
• An opening up of the Graduate Apprenticeship framework and support for the development of higher-level skills through work-based learning more broadly to enhance employer and student choice, including flexible use of SFC funded places, more flexibility with the frameworks and the subjects they cover, and productive use of other public and private resources.

• Joint work between universities, the Scottish Government, and its agencies to look at longer term funding for upskilling and reskilling short courses, considering how the costs might be shared between the state, individuals and (perhaps) employers.

• Work in partnership with Government to address recruitment challenges into key public sector professions, in particular nursing, midwifery, and education. This might include intensified work with schools to foster interest and applications from students.

• Explore with Government and local authorities whether there is scope to create further innovative, efficient models for delivery of Highers and Advanced Highers, building on initiatives such as OU’s YASS scheme, and Heriot-Watt’s SCHOLAR scheme.

• Foster collaboration between organisations providing entrepreneurship support in city regions / rural settings with the aim of enhancing the offer to students, staff, alumni, and the public and existing businesses. This would build on current infrastructure where in most places universities are the primary provider of such facilities and in many cases already open these to individuals and organisations out with the student and staff population. Over time we believe that this will offer greater efficiency and will enhance the connections within entrepreneurial communities.

• Explore with government and business organisations whether there is scope for the co-location of overseas offices, saving on capital and operating costs and enhancing a ‘whole Scotland’ offer.

• In the context of a new International Education Strategy, widen partnership with the sector to invest jointly and directly in promotion of the sector and re-start the pre-covid work to map alumni communities and take mutually beneficial action with them.

• Take action in the context of the Mental Health Strategy and development of a student mental health action plan to place community mental health provision in major HE locations ‘on campus’ so that NHS staff work side by side with HEI counsellors, thereby contributing to addressing treatment pathways issues and reducing NHS estate costs. In doing so learn from approaches taken elsewhere in the UK sector5.

• In the context of the NSET objectives for attracting and retaining talent, continue to work with the sector on the development and roll-out of a Talent and Migration Advice Service and work in partnership to promote the opportunities for employers arising from the Post Study Work visa where survey work suggests only 3% of employers are aware of the offer6.

5 https://www.universitiesuk.ac.uk/sites/default/files/field/downloads/2022-07/uuk-nhs-partnerships_0.pdf
6 Source HEPI: just 3% of employers have knowingly used the graduate route visa to meet their skills shortages.
• Conduct a rapid review of medium to long term capital programmes with Government to identify any mutually beneficial opportunities for joining up plans, thereby delivering savings.

• Form local taskforces to respond to the significant challenges faced by the university, public and private sectors in addressing reinforced autoclaved aerated concrete (RAAC) constructions. This would include sharing of experience, access to specialist structural engineering advice and, where possible and appropriate, collaborative solutions to estates management during any necessary remedial works.

• As Scottish Government concludes its Purpose-Built Student Accommodation (PBSA) Review we ask that it gives consideration to how public investment and / or the deployment of public land might allow Government to create capacity at lower price points in the current market. Alongside meeting policy goals for student housing this would have potential benefits in renewing city spaces and creating economic growth. More broadly, we would be pleased to work in partnership with Ministers to encourage private investment in PBSA.

Universities Scotland

September 2023
Annex. Supporting detail and evidence

The remainder of this document provides detail and evidence to support government’s consideration of these asks and offers, under the following themes:

- **Pressures, risks, and international competitiveness**;

- **Meeting the ambitions of individuals and Scotland’s skills needs**;

- **Making further progress on widening access**;

- **Innovation, entrepreneurship, and inclusive growth**;

- **Supporting universities’ impacts in an international context**;

- **Supporting students’ mental health**

- **The university estate, place, and partnership**; and

- **Supporting employees with public sector pensions**.
Pressures, risks, and international competitiveness

Analyses by Audit Scotland and within the SFC Review have highlighted the growing risks and pressures on the sector. These risks have intensified since these were carried out.

Cuts to funding for teaching and research have created a need for substantial cross-subsidy.

Over the last decade universities have seen substantial real terms cuts in Scottish Government funding for both tuition and for research. Between 2014-15 and 2023-24:

- funding per student has fallen by 39% in real terms\(^7\); and
- the SFC Research Excellence Grant has fallen by 43% in real terms.

This means that universities have to cross-subsidise these key activities substantially, primarily through international student fee income.

The Transparent Approach to Costing (TRAC), introduced in 2000, is the standard methodology used by universities in the UK for costing their activities. It was established as an approach to identifying the Full Economic Costing (FEC) of all activities to improve the accountability for the use of public funds and inform institutional decision making.

The most recent TRAC data for Scotland published covers 2020-21, the central year of the covid pandemic which skewed figures. The data for 2019-20\(^8\) shows that, for institutions in Scotland:

- publicly funded teaching was funded at 88.8% of full economic costs (FEC), a deficit of £170m per year. Note this includes rUK fees which allow for income per student above that received for Scotland-domiciled students for many disciplines; and
- research was funded at 77.6% of FEC, a deficit of >£375m per year.

Scottish Government decisions in the subsequent years have seen a real-terms cut (RPIx) of more than 20% to funding for both teaching and research and so we can assume that cost recovery has fallen significantly further, and the resultant need for cross-subsidy has resultanty increased significantly.

Meanwhile, cuts to funding per student over this period have been unique to universities\(^9\) within the Scottish Government’s education portfolio.

Cuts erode universities’ ability to invest in students’ increasing educational and welfare needs and institutions’ competitiveness in a global setting.

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\(^7\) Calculated against RPIx Q3 figures, OBR

\(^8\) [https://www.sfc.ac.uk/governance/institutional-sustainability-governance/institutional-sustainability/university-sustainability/transient-approach-costing.aspx](https://www.sfc.ac.uk/governance/institutional-sustainability-governance/institutional-sustainability/university-sustainability/transient-approach-costing.aspx)

\(^9\) [https://www.parliament.scot/chamber-and-committees/questions-and-answers/question?ref=s6w-01165](https://www.parliament.scot/chamber-and-committees/questions-and-answers/question?ref=s6w-01165)
Cuts place significant constraints on universities’ ability to invest in students and in research and innovation. This comes at a time when the educational and welfare challenges facing students are significant and growing, not least following the effects of covid restrictions.

Worryingly, we are already seeing a marked decline in retention and progression: In 2020-21, 9.8% of Scottish-domiciled students eligible for funding entering full-time undergraduate courses were no longer at a higher education institution in the year after entry. This is a recent high and, sadly, the sector fears this proportion will increase. We look to government to use what additional funding can be identified, and any flexibility within current funding methods, to support institutions in responding to this challenge. Clearly, each student who does not progress is a concern and in aggregate there is a worrying loss in the value of the public resources invested in them.

We explore below how other countries, with which Scotland draws comparisons, are recognising these challenges and the potential for universities to drive opportunity and growth. Drawing on these comparisons we are asking for action from Scottish Government.

**A policy for significant cross-subsidy from international fees carries significant and growing risk.**

The Scottish Government has put the sector into the position of having to rely on generating ever-increasing international student fee income to cross-subsidise the teaching of Scottish students; to ensure that research and innovation activity is sustainable; and to generate sufficient resources for re-investment and thereby maintain competitiveness in a global setting. This is high-risk and unsustainable as a basis for supporting universities’ contribution to the public good. It assumes a level of growth that is unrealistic in aggregate and for a range of institutions.

Covid pointed to the risks associated with this position and subsequent geopolitical events bring that risk further to the fore. Changing market conditions and immigration policies accentuate the risk. In aggregate in 2021-22, 70% of new international enrolments came from 5 nations: China, India, USA, Nigeria, and Pakistan. We anticipate that some of these markets are likely to be affected negatively by changes in UK Government visa policies for dependents and the Scottish concentration on this group of markets is greater than for institutions in the UK sector as a whole.

It is to be celebrated that universities are recruiting students and establishing TNE relationships in markets across the world, driven by demand in a diverse range of disciplines. This is a valuable cultural and educational export but should not be relied upon as the means of funding universities’ educational and research missions.

**Scotland is falling behind comparator nations in its investment in universities and in global standing.**

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10 Source NOUS 2023 presentation drawing on 2021-22 HESA data
The university sector operates in a global context. Its ability to invest in the excellence of its teaching and research matters.

As shown below, data from the European Funding Observatory shows how those countries to which Scotland compares itself in the Building a New Scotland document have used the decade 2010-2020 to invest significantly in their university sectors.

These countries that have chosen to invest have seen enhancements in their international league table position, either in the number of institutions represented in the world’s top 200 and / or in an overall higher profile.

Where there have been cuts, comparator countries are addressing the need to invest.

Of these European comparator countries, Ireland is the only one that, like Scotland, has made cuts over the decade 2010-2020.

Over recent years Ireland has recognised that policy for resourcing its sector is unsustainable. A process of review, including assessment supported by the European Commission, has concluded in a ‘Funding the Future’ initiative including the finding that a significant additional investment (>€300m) is required, equating to >€1700 per student.

Even before implementation, institutions in Ireland receive more resources for tuition of domestic students in a range of disciplines than do institutions in Scotland. After full implementation, institutions in Ireland will receive significantly more resources per student.

In its 2023 budget the Irish Government announced a €150 million investment in Higher Education over 2022 and 2023 to strengthen the financial position of universities and enable

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the sustainable growth of the higher education sector. This was complemented by a range of measures to support students, research, and institutions.

New Zealand is a further country with which Scottish Government has drawn parallels. On average, its university funding system has until recently provided institutions with similar levels of resources per student to that in Scotland. In the most recent New Zealand budget, government has responded to the challenges faced by the sector by making significant investments. Challenges remain for the sector after a decade of real terms cuts however the 2023 budget saw:

- an additional 5% for teaching; and
- significant additional investments in research.

Subsequently, the New Zealand Government announced an additional investment of $NZ128m (£60m) with further investment to be made in 2024 and 2025.

We recognise the challenges faced by Scottish Government in setting out its budget for 2024-25. In 2023-24 we were pleased to see an additional £20m in the SFC’s resource budget for the sector as a contribution to supporting the sector tackle these major challenges. It was hugely disappointing that this was rapidly redeployed elsewhere. We ask that government considers budget decisions in the international, competitive context in which universities operate and the decisions being taken by countries with which Scottish Government makes direct comparison.

Similarly to those, there is a need to take steps now to support Scotland’s university sector and the impacts that it can drive. There is also a need to use current review processes to tackle the larger, long term strategic resourcing issues facing the sector, as other countries have done or are doing.
Opportunity: meeting the ambitions of individuals and Scotland’s skills needs

Across Scotland, the sector is delivering opportunities to develop skills and knowledge to increasing numbers of people across our communities.

The full time equivalent (FTE) number of Scottish-domiciled undergraduate students eligible for funding has increased from under 111,000 in 2018-19 to over 121,500 in 2021-22\textsuperscript{12}. Relatively, the number of young Scots accessing university study are at historically high levels with over 17,000 applicants aged 18 or under accepted for a place at a Scottish institution in 2022-23\textsuperscript{13} compared to 14,265 in 2019-20.

Universities are responding to the substantial and diverse demands for learning and training from students and employers:

- delivery of almost 10,000 taught postgraduate degrees to Scottish domiciled learners each year (although, as discussed below, these numbers have fallen over recent years);

- providing CPD programmes to over 3,500 employers in Scotland each year\textsuperscript{14};

- Graduate Apprenticeships have been woven into the SFC’s funding system with an ambition to grow these and similar courses;

- providing over 20,000 students places in the ‘controlled subjects’ that are essential for our health and education services;

- offering students the opportunity to develop their entrepreneurial skills, both within their chosen disciplines and within a wider community of entrepreneurs in city regions, for which universities are often the host; and

- playing an active and substantial role in ‘pathfinder’ projects for skills.

Universities want to continue to offer learners and employers these high quality, diverse opportunities. Continuing cuts to funding for teaching mean that meeting that aim is ever more reliant on cross-subsidy from international student fees.

Whilst all sectors face the additional challenge of significant inflationary pressures, universities are also responding to the increased needs of students who have been impacted educationally and emotionally by covid restrictions and whose needs have been compounded by cost-of-living challenges. This brings significant costs.

Universities are investing as much as they can in additional learning and wider services to meet these needs. However, as noted above, there are indications that retention is falling.

\textsuperscript{12} HESA data, noted in Students Eligible for Funding 2022-23 (sfc.ac.uk)
\textsuperscript{13} Universities and Colleges Admissions Service End of Cycle Data Resources 2022
\textsuperscript{14} SFC KE Metrics 2020-21 https://www.sfc.ac.uk/funding/university-funding/university-funding-innovation/university-innovation-funding.aspx
There are three things that Scottish Government can do in this budget and its subsequent guidance to SFC to address this challenge:

- firstly, whilst recognising that resources are constrained, an uplift in the funding per student should be made. As discussed below, this should be combined with investment and resource-saving action to support the expected Student Mental Health Action Plan. We recognise fully that Scottish Government will not be in a position in this year’s budget to reverse a decade of cuts fully, nor meet all of the increased costs of delivery of education and services. However, as we have note above, other countries with which Scotland compares itself have sought to address these challenges. Whilst a fraction of what other countries are investing, recognising the budget challenges faced by Scottish Government, additional funding per student would be an important contribution to meeting the needs of students now;

- secondly, Scottish Government should ensure that funding policy and its implementation best supports institutions to deliver the very best quality of education and services in a period of volatile demand and retention. For example, universities cannot plan to invest resources to meet these challenges when they have to make provisions for potential SFC clawback of those resources for reasons that are beyond their control. Equally, institutions would value the capacity to grow demand, particularly in exploring markets for graduate apprenticeships and similar qualifications. In announcing funding for 2023-24 the SFC noted that: “During 2023, we will work with the sector to develop a system that provides an indicative direction of travel for funded places over more than one year. Adjustments based on performance will focus more on the future direction of travel rather than relying so heavily on the retrospective recovery of funds due to under-delivery”. Scottish Government policy and guidance to SFC should ensure that the Council is able to support institutions to plan for focussing all allocated resources on investing in meeting demand and investing in supporting students’ learning and welfare; and

- thirdly, the current cost of living crisis means that the current levels of student support for living costs may not be sufficient and the Scottish Government should review this support.

As noted above, the sector offers taught postgraduate study to a substantial number of Scottish-domiciled learners each year. However, the number has fallen by around a quarter over recent years. Whilst factors such as the employment market will have an influence on application numbers, student finance will be a major factor. Recent changes have been welcome; however, it remains the case that the fee for a wide range of courses, including those that provide high level skills directly into key sectors of Scotland’s economy such as renewable energy, high performance computing and medical sciences, are set necessarily at levels above the loans available. There are two actions that the Scottish Government can take:

- firstly, given the inflationary pressure on delivery of courses, the level of loans should be considered again; and
• secondly, in 2024-25 the SFC will align its TPG fee assumptions with the change in the maximum SAAS loan available to £7000. This is likely to save around £4m within the funding system. Government should enable SFC to reinvest this in full to support institutions in offering partial fee waivers in disciplines aligned to economic and other needs.

Lastly, when we consider Scotland’s skills needs, and how we might meet its demographic challenge, it is clear that the attraction and retention of students from the rest of the UK and beyond can make a significant contribution. We have been pleased to engage in work to this end under the NSET. We look to continue this in the coming year and that Scottish Government will invest the necessary but relatively modest funds in migration advice. That investment can be complemented by the promotion of the Post Study Work visa to employers in Scotland and the celebration of students who have taken this path, including through the Scotland is Now campaign.

Making further progress on widening access

Universities have been making good progress towards achieving the 2030 Commission on Widening Access targets, including meeting the 2021 targets a year early. However, there remains work to do to achieve fair access. This is complicated by the lasting impact of Covid, the cost-of-living crisis and the continuing attainment gap in achievement of school qualifications. Moreover, we know that SIMD, whilst a useful measure, does not capture all disadvantaged people and there has been agreement since 2019 that we need additional measures. We ask the Scottish Government to act swiftly on the recommendations of the short-life access data working group once that report is finalised.

We would also like to see the second phase of that work look at measures for mature learners. In due course, there might also usefully be work to look at access to postgraduate courses, though that might require a unique learner number.

Innovation, Entrepreneurship, and Inclusive Growth

We share the Scottish Government’s vision for Scotland to be one of the most innovative small nations in the world and that innovation is a key tool to make Scotland a fairer, more equal, wealthier, and greener country.

For the 2024-25 budget the sector looks to Scottish Government to:

• recognise the importance of sustaining university research strength which delivers significant direct economic impact in its own right alongside major impacts through company creation, innovation and FDI; and
• work with universities to ensure that we maximise the number of companies that are created and supported to grow and innovate in Scotland, leveraging and co-ordinating resources to do so.

**Restoring Scotland’s share of leveraged, competitively won UKRI and Horizon Europe resources would have significant impacts.**

It is concerning that recent years have seen a fall in the share of total UK Research Council resources won by universities in Scotland, including in disciplines very closely aligned to the sectors at the heart of the Innovation Strategy. In 2013-14 universities in Scotland secured 15.39% of the UK total but by 2020-21 this had fallen to 13.25%.

Each percentage point fall represents around £25m. Such resources support internationally competitive researchers in Scotland that might otherwise be elsewhere in the UK or beyond. Those teams have a significant direct economic impact and are the foundation for innovation, company creation, FDI etc. Such resources have a 12.7:1 impact of additional output in the private sector.\(^{15}\)

Returning Scotland’s share to 2013-14 level would therefore now deliver around an additional £50m in funding with an additional output of >£600m.

Similarly, the clusters under the Global Challenges and European Industrial Competitiveness pillar of Horizon Europe offer huge potential, aligned to the priority clusters in the Innovation Strategy.

Leverage of these resources would complement and amplify the impact of Scottish Government’s investment in innovation, including the additional £15m noted in the Programme for Government.

Within the overall drop in the share of UKRI resources, there are falls in share from Research Councils strongly aligned to the Innovation Strategy including the Biotechnology and Biological Sciences Research Council (BBSRC), the Medical Research Council (MRC) and the Engineering and Physical Sciences Research Council (EPSRC).

We believe that this of strategic concern to Scotland and look to Scottish Government to take a cross departmental and agency approach to enable a reversal of these declines. In this context we note that the Purpose and Principles include a short-term outcome for universities to be “successful in bids for UK and wider research funding, and can access stable funding to support their core research infrastructure”\(^{16}\). Since 2014-15 the SFC Research Excellence Grant, an essential part of the ‘dual support’ system for research, has been cut by 43% in real terms\(^{17}\). We recognise that the Government’s capital budget faces challenges over the coming years, not least due to inflationary pressures on capital projects. However, we ask that, from 2024-25, decisions on SFC’s capital funds to support the Research Excellence Grant and

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\(^{15}\) https://www.universities-scotland.ac.uk/briefing-evidence/le-economicimpact/


\(^{17}\) Real terms RPIx, 3rd Quarter, OBR Figures
Research Postgraduate Grant enable institutions to better compete to leverage resources to Scotland.

**Investing to position Scotland well in advance of the next REF.**

The 2021 REF demonstrated Scotland’s research strength. However, it also pointed to erosion of its competitive position. Since the results were published there has been a particular focus on ‘research environment’ – the support for the development of people and the capital infrastructure – with a recognition that specific investment in this by Research England risks accelerating an erosion of Scotland’s relative position. As the Scottish Government makes budget decisions for 2024-25, we ask that consideration is given to providing additional resource of £2m for SFC to make an investment in a collaborative response; and to ensure that SFC has sufficient capital resources to meet the requirements to match fund UK Government investment in research infrastructure.

**Resources to enable more work with Scotland’s business base, aligned to the Innovation Strategy and NSET.**

Universities’ substantial and diverse role in fostering innovation is supported by a complex mix of public funding and other income. Overall, universities do not recover the full economic costs of their work with industry, securing just 73% on average. There is therefore a clear rationale for public investment and SFC funding through the UIF is an important element. The sector was pleased to see an uplift in this funding for 2023-24, aligned to the Innovation Strategy.

As Scottish Government considers a review of its funding of innovation, we note that universities in England continue to have access to higher levels of funding from Research England to support this work. Research England provides knowledge exchange funding worth 16% of its Quality Research Grant. Whilst the recent increase in UIF was very welcome, it remains far smaller proportionately at just 8% of the value of Research Excellence Grant.

Universities also note how initiatives in England such as the Connecting Capability Fund have strong impacts. We ask that serious consideration is given to making further investment to enable universities to play a full role in delivery of the Innovation Strategy.

**Giving effect to Enterprise Campus.**

Universities are the providers or key partners in the provision of the strong majority of Scotland’s company incubation capacity. Universities are in the lead of hosting Tech Scalers. Through these, and universities’ wider actions, we start from a good position in delivering on the ambition of the Entrepreneurial Campus report. Akin to the wider approach to innovation, entrepreneurship is supported through a mosaic of funding, including universities’ own resources, including drawing upon both teaching and innovation funding. In many cases, university incubator advice and support is accessible by students, alumni, and local companies. We believe that there is scope for a dialogue amongst organisations in city / regions across Scotland about how such services can be sustained and enhanced through greater collaborative working. Scottish Government’s support for such a dialogue would be valuable.
**Tailoring Innovate UK’s approach to Scotland’s circumstances.**

The sector plays a significant part in working with business to access Innovate UK resources. This is important as, with an economy dominated by SMEs, Scotland has relatively few large companies that can lead successful IUK bids. It does however have excellent universities and Scotland is second only to Northern Ireland for Innovate UK awards led by “Academic” Enterprises (which includes universities and research institutes), with 32% of awards led by Academic Enterprises. Funding to Academic Enterprises constitutes 29.5% of the total award to Scotland, just below the 30% cap on funding to Academic Enterprises in Innovate UK awards. Scottish universities therefore outperform universities in other areas of the UK in obtaining Innovate UK funding, to the benefit of Scotland’s industry sectors.

However, Scotland’s share of Innovate awards remains lower than Scotland’s share of the seven research councils’ awards. With the Innovate UK budget set to increase by 45% over the period 2022-23 to 2024-25, it is crucially important that Scotland’s businesses are able to capitalise on this increase in funding. Universities Scotland has been engaging with Innovate UK, including its Chief Executive Office, to discuss ways in which the strength of Scottish universities can be leveraged to increase the level of Innovate UK funding to businesses in Scotland. We look to Scottish Government and its agencies to work with us to ensure that Innovate UK programmes are tailored to meet Scotland’s economic and business circumstances.

**Supporting universities’ impacts in an international context**

The sector welcomed the intention in the 2021-22 Programme for Government (PfG) to create an International Education Strategy and an exchange scheme. We are pleased that this work is coming to fruition in the most recent PfG.

In 2021-22 the Scottish Government higher education departmental budget was increased by almost £7m to £14.5m, aligned to the delivery of these policy objectives. In subsequent years, as development of a Strategy and Exchange Scheme was still in train, this resource was deployed elsewhere in government through mid-year transfers. For instance, the Spring Budget Revision in 2022-23 saw a £6.5m “release of emerging/planned underspends from Higher Education International Activity to support other SG priorities”.

For 2024-25 we look to Scottish Government to sustain this budget and to deploy the resources in full to deliver the exchange scheme and actions under the International Education Strategy including promotion of the sector in international markets.
Supporting students’ mental health

We have been pleased to work with Scottish Government as it develops a Student Mental Health Action Plan. The need for a plan, and investment to support its success, has not lessened with demand for university services continuing to be at high levels.

The recent announcement\(^1\) from Scottish Government of support for Counsellor funding was welcome. We look to government to at least sustain these levels of investment, aligned to the Mental Health Strategy and the Action Plan. We see this, and the innovative suggestions we make for hosting of NHS staff on campus, as aligned to the ambitions for mental health in the latest Programme for Government. We should remember that university students represent around 5% of Scotland’s population and face both mental health challenges and obstacles in navigating services at a point in their lives when they often change location and support networks.

The university estate, place, and partnership

The sector’s estate is vital to the quality of students’ learning and wider experience; and to playing a full part in growing the economy locally and nationally.

Universities leverage funds to support this, in partnership with the public, private and third sector. Ultimately though, universities’ ability to invest in the maintenance and renewal of the estate is reliant on the creation of surpluses for re-investment. As noted above, a funding system where income for research and the teaching of Scottish students falls well short of meeting full economic costs is a major obstacle to this.

In this context capital maintenance funding from the SFC has the potential to play a particularly important role. Sadly, that funding has been cut by >75% between 2022-23 and 2023-24 and it is notable that in 2010-11 this funding stream stood at >£95m per annum compared to £3.8m in 2023-24. Financial Transactions (FTs) have also been helpful to the sector as it looks to renew its estate, particularly as interest rates have increased. Levels of FTs available to the sector have almost halved in 4 years from £55m in 2020-21 to £26m in 2023-24.

The expansion of the university sector from the 1960s onward meant that buildings were constructed using the techniques available at the time, often with a finite design-life which has now been exceeded. Some of these included building technologies which have since been proven to have problems.

The sector needs to make significant investments to raise those elements of the non-residential estate in condition categories D (inoperable or serious risk of major failure) and condition C (operational but major repair or replacement needed in the short to medium-term) to at least condition B (sound, operationally safe, and exhibiting only minor deterioration).

\(^1\)https://www.sfc.ac.uk/publications-statistics/announcements/2023/SFCAN142023.aspx
The sector estate is also characterised by a significant proportion of historic and listed buildings. Universities are therefore custodians of these for the country and maintenance or adaptation is particularly costly, not least given that many also have listed status.

Added to these challenges is that of Reinforced Autoclaved Aerated Concrete (RAAC) – one of the building techniques from the 2nd half of the 20th century whose problems are now becoming apparent. Used in construction in the 1960s to 1990s, this coincided with much building taking place in the sector. Like other sectors, universities are working to resolve this issue. To date 8 universities have identified RAAC within their estate with more than 20 buildings either closed or partially closed. Whilst this position might change as more survey work is carried out across the sector, it is already clear that costs to the sector will be at least in the tens of millions.

We recognise the pressures on the Scottish Government’s capital budgets and the wider challenges presented by RAAC. Our ask of government in this budget is therefore:

- To return the SFC’s capital maintenance funding to £16.8m, its cash value in 2022-23. Previous investments have shown that universities’ spend is >90% with contractors in Scotland with significant direct economic impact.

- We make that ask in the context of the challenge faced by the sector to address RAAC. Universities are already working with Scottish Government and others through the RAAC Cross Sector Working Group. We would like to extend this to city / region fora, where affected sectors can consider where collaborative action might be mutually beneficial, for instance in accessing sufficient specialist structural engineering advice and in managing space whilst works are carried out. Universities would be pleased to play their full part in such an initiative.

- As we look at the estate, we believe that there are cases of market failure where Scottish Government investment might unlock mutual benefit for universities and public services. For instance, in some places there might be benefits in investing so that others can access excess production from universities’ combined heat and power systems. We would be pleased to explore this with government.

- As Scottish Government concludes its Purpose-Built Student Accommodation (PBSA) Review we ask that it gives consideration to how public investment and / or the deployment of public land might allow government to create capacity at lower price points in the current market. Alongside meeting policy goals for student housing this would have potential benefits in renewing city spaces and creating economic growth.

**Supporting employees with public sector pensions**

Scottish Government will rightly be concerned about the expected rises in employer contributions to public sector pensions – the teachers’ pension scheme and NHS pension. If relevant UK Government departments receive additional funds to meet these costs in
England, then this will create Barnett consequentials for Scottish Government which could be used to meet the costs here.

The UK university sector is pressing UK Government to make funds available to the sector in England to meet these costs for the significant number of university employees who are members of these schemes. If this is successful, we ask that Scottish Government chooses to deploy the resultant Barnett consequentials to meet costs here.

If UK Government does not meet these additional costs in full, then we ask Scottish Government to consider making an additional investment, in the interests of staff. There is precedent here\(^\text{19}\), with funds being made available at the point of the last uplift in the employer contribution for the STSS in 2019-20.

It is not yet clear what the specific financial impact will be on the sector. Prudent modelling is for a 5% uplift in the employer contribution. We believe this would have a total impact on the sector for the STPS alone of >£7m.

ENDS

\(^{19}\) [https://www.sfc.ac.uk/publications-statistics/announcements/2019/SFCAN122019.aspx](https://www.sfc.ac.uk/publications-statistics/announcements/2019/SFCAN122019.aspx)