

## Universities Scotland’s analysis of the 2024/25 budget for higher education

### Summary

Universities saw their resource funding cut in the 2024/25 Scottish Government budget, leading to a [sector-wide response](#) which described the settlement as “tough” and requiring “inescapably hard choices for universities”. NUS Scotland added to this, calling the cuts “[disastrous](#)”. This brief offers some initial analysis of the settlement and highlights the main issues that we are looking to clarify with the Scottish Government and Scottish Funding Council over the coming weeks and months.

The brief also draws attention to a January report on the [Financial Sustainability of universities](#) from the Scottish Funding Council, which includes some financial forecasting based on data from mid-2023. It shows the volatility facing universities and forecasts the number of universities with deficits to increase from 5 institutions in 2021/22, to 10 in 2023/24. We expand on this below.

Our call to action is that additional funding might be found, during the passage of the budget bill, to reduce the scale of the cut to the resource budget, to protect the university teaching grant as far as possible in the interests of Scottish students.

### Key points from the budget for HE:

The table below highlights the 2024/25 settlement for universities. It’s possible to consider the settlement in two ways. The table presents both, including:

- as a “budget-to-budget” comparison<sup>1</sup> between 23/24 and 24/25, which would be a cut to the HE resource (the teaching grant for Scottish undergraduates) of £48.5 million, or 5.9% and an overall cut of £32.3 million or 2.8% in cash terms.
- as an actual, year-to-year comparison, which recognises that HE budgets were cut by £20 million in-year, in 23/24. Looking at it this way, the university resource budget has been cut by £28.5 million or -3.61% before inflation. Overall HE funding has been cut by £19.6 million or 1.72% in cash terms.

A	B	C	D		E	
			"budget-to-budget" comparisons - 24/25 relative to the 23/24 published baseline		Year-to-year change accounting for in-year Scottish Government budget adjustments	
	2023/24 £m	2024/25 £m	change relative to 2023/24 £m	change relative to 2023/24 %	change relative to 2023/24 £	change relative to 2023/24 %
HE resource	809.2	760.7	-48.5	-5.99	-28.5	-3.61
HE Capital	340.7	356.9	16.2	4.754	16.2	4.75
<b>Combined</b>	<b>1,149.9</b>	<b>1,117.6</b>	<b>-32.3</b>	<b>-2.81</b>	<b>-19.6</b>	<b>-1.72</b>

<sup>1</sup> SPICE uses the phrase “budget-to-budget” when analysing budget outcomes in its [budget day briefing](#). It notes that budget-to-budget analysis could be “misleading” across several portfolios because of in-year volatility in SG budgets.

## [The Funding Council's Financial Sustainability report](#)

The timeliness of the SFC's report is helpful in that it situates this budget settlement for universities in a broader context.

It conveys a partial picture of the volatility of the financial environment facing universities. Within two years, the sector's aggregate financial position is forecast to fall from a surplus of £313 million to a deficit of £3.3 million. It highlights how precariously finances are balanced for the majority of institutions.

The data in the SFC's report is unavoidably time-lagged, based on data returns from mid-2023 so the analysis omits two key factors which, when modelled, will exacerbate an already highly challenging situation. They are:

- The Scottish Government's FY 2024/25 budget settlement for universities – which brings further cash cuts.
- The significant headwinds in international student recruitment now facing many Scottish (and UK) universities. This is a sudden development, impacting enrolment (as separate from recruitment) for semester 1 of the current academic year (23/24) but continuing into semester 2 (which typically sees a significant international postgraduate intake). This has major financial implications for many institutions. The SFC's own report notes an "an over-reliance on income from international students to remain financially sustainable" as one of the risks to universities' financial health. It should be noted that not all Scottish institutions have had this means of cross-subsidy.

Given these factors, we consider there to be an optimism bias in the data presented for 2024/25, which suggests that the sector's finances will recover slightly, returning a modest surplus again. We think that would now be a dangerous assumption.

Even before these two additional pressures, the SFC's report cautions that "*financial sustainability remains challenging for many universities*" and notes that the sector position on surpluses is skewed by the financial results of the two largest universities. The SFC report further notes:

- A forecast for the adjusted sector deficit of £3.3 million in 2023/24, which represents 0.06% of total income.
- The sector's total cash flow from operating activities, as a proportion of all income, forecast to fall to just 4% in 2023/24.
- The sector's net liquidity days forecast to fall to 124 in 2024/25.<sup>2</sup>

### **Key budget considerations going forward:**

#### **The financial year to academic year conversion may compound the pressure of cuts.**

- It is significant that the HE resource budget for 24/25 is lower than flat cash (-3.6%) as this could have further negative funding implications for universities in the *current* academic year (23/24).
- The academic year runs four months beyond every financial year. When converting the financial year (FY) budget to an academic year (AY) allocation for universities, the Funding Council manages

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<sup>2</sup> Data in all three bullet points taken from the table on page 12 of the SFC's Financial Sustainability report, 2024.

this uncertainty by making a cautious assumption that the next FY settlement will be flat cash for HE. If/when the next FY is lower than flat cash, it has to be managed, in part, within the existing academic year.

- The 24/25 FY resource budget line raises the risk that universities will see cuts intensified in AY 2023/24 (on top of the £20 million already withdrawn in-year) as well as planned cuts in AY 2024/25.

### **Will cuts to HE resource translate into a fall in undergraduate numbers or further cuts to investment per student?**

- With £28.5 million to be cut, the Scottish Government will need to consider how to do this. The Scottish Government's level 4 explanatory notes suggest that: "*additional savings to be made in the HE sector including from reducing first year university places.*"<sup>3</sup>
- The Scottish Government could remove a modest number of undergraduate places from AY 2024/25, whilst still retaining overall Scottish-domiciled numbers at historically high levels, by rebalancing the 2020 unplanned undergraduate expansion in response to the situation facing school-leavers during the first year of the COVID-19 pandemic. Universities Scotland recognises that the additional funded places injected into the system to address the consequences of teacher-assessed Highers were meant to be temporary. However, withdrawal of this temporary increase in funded places would only cut around £4-5 million. Universities' preference would be to see this "saving" reinvested in the unit of teaching resource for other home students.
- Our [budget bid](#) for 2024/25 asked for an increase of £265 in teaching resource per student to support the student experience in challenging times. This is especially important to meet students' increased post-pandemic needs and to address the increased drop-out rates associated with that. We have been raising concerns about falling resource for teaching and supporting each student for years. Others are now adding their analysis. [The Institute for Fiscal Studies](#) recently estimated the amount of teaching funding per student in 2023/24 to be 19% lower in real terms than in 2012/13. Our own analysis arrives at a higher figure than 19%, but the pattern is consistent.
- There has been a long-held assumption in Scotland that universities' can make-up for chronic underinvestment in the level of resource per Scottish student from public funding, because of an ability to cross-subsidise from international student fees. Firstly, that assumption has never represented the reality for all of Scotland's universities, where international students are not a significant part of their community. Secondly, there are now major headwinds facing international recruitment, which is likely to affect many institutions which have a significant international student population.

### **What risk to widening access?**

- The Scottish Government's own [equality and fairer Scotland statement on the budget](#) briefly notes that the cut to resource funding creates a "*significant risk*" of disadvantage to learners from socio-economically deprived areas. The assessment on page 23 of the annex notes that this would occur if the budget cut, leads to a reduction in the number of undergraduate places, resulting in increased competition amongst applicants.
- The assessment does not consider the impact on widening access if the unit of teaching resource per student is further compromised, in a pattern of continued disinvestment since 2014/15 (simply

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<sup>3</sup> Scottish Government, 2024/25 budget level 4 data. Spreadsheet, tab "E&S", cell V159

put, the main routes to make savings within the teaching grant are to cut the number of funded places or the unit of resource available per funded place). As the teaching grant funds an array of activity linked to access and retention, including outreach programmes, transition support, study skills and wider support activities, the quantum of teaching resource available per student is also integral to widening access and to ensuring successful outcomes for those students once at university.

- Universities are only six years away from the 2030 end goal of fair access, that 20 per cent of Scottish entrants should be from the 20% most deprived areas, as set by the Commissioner for Fair Access and championed by the former First Minister. Universities have made significant progress, achieving interim milestone targets ahead of schedule. However, they are now dealing with the legacy of lost learning and confidence caused by the pandemic. It will take more investment per student, not less, to stay on track to 2030 and have a chance of equalising access.

#### **How will capital funding be allocated?**

- HE capital budgets were protected in cash terms, receiving a welcome cash increase of £16.2 million. This budget line covers university buildings as well as spending on university research and innovation.
- It is currently unclear to HEIs how the increase will be allocated amongst those priorities although the explanatory notes in the Scottish Government's level 4 budget document suggest the additional resource will be steered towards maintenance of the university estate rather than research or innovation.
- Whilst investment in the university estate is very much needed, we also want to see increased investment in research and innovation so that Scotland's universities don't lose competitiveness relative to institutions in England. Additionally, investment in HE innovation will be necessary to realise the highly ambitious Innovation Strategy, as published by the Scottish Government in 2023, and which puts universities right at the heart of it.

**Ends.**