Universities Scotland

Universities Scotland submission as part of pre-budget scrutiny for 2025/26.

Key messages:

- Universities are in a fundamentally different and far more precarious financial position in spring/summer 2024 compared to a year ago.
- Government cuts to public funding, particularly for teaching are getting deeper, and international recruitment has plummeted across two recruitment cycles, undermining the model of cross-subsidy that the Scottish Government funding model relies upon. At least 10 (of 19) institutions are expected to be in deficit in 2023/24. This is forcing institutions into inescapably hard choices.
- Scotland's model of funding undergraduate places has knowingly been built on a cross-subsidy model. Reliance on that has increased significantly over time as public investment has failed to keep pace with increasing costs of teaching.
- This submission is the most candid assessment of the financial pressures on universities we have ever given. However, even now we need to be somewhat circumspect; a consequence of the fact that universities are actively recruiting and are engaged in multiple partnerships with stakeholders and lenders.
- Amongst all of this, it is positive that the number of opportunities for Scottish-domiciled undergraduates remains at a near record high. Any focus on the overall number of Scottish-domiciled places is therefore not a top priority. Addressing the amount invested in the higher education of every Scottish student should be. It is the price per student place and investment in research which has seen a decade-long under-investment, and which is limiting universities' contribution to Scotland.
- Most institutions are now feeling the funding pressures very deeply however, the funding decisions taken are having different impacts on different institutions, with all but one of the post-92 group of institutions facing higher than average cuts to their grants for 2024/25.[1] It is increasingly important that the Parliament's scrutiny looks beneath sector level data to understand the impact of decisions on individual institutions and/or parts of the sector so that they can all serve their students and staff and make their fullest contribution to Scotland.
- In the short term, there are two practical choices that the Scottish Government could take in regard to its 2025/26 budget for universities. Different handling of the "SQA places" and the annual "SAAS transfer" from SFC could marginally improve the funding picture for universities and would not require additional resources into the HE sector. We expand on this below and would welcome the Committee's consideration of this.
- Even over the medium-term, the trajectory of public funding in universities is unsustainable. Modelling commissioned from PricewaterhouseCoopers by Universities UK and Universities Scotland shows the extent of the precarity. Whilst pressures are manifesting now, the real challenge for universities is not financial year 2025/26 but the three-to-five-year period after that, if we continue on this path. We need thoughtful engagement on the strategic funding position of universities from all parties and we must avoid the trap of over-simplifying this issue to "free" vs fee, and instead focus on how to design a model that is sustainable.
- Despite a very challenging set of circumstances facing institutions, it is heartening that over the last few weeks the First Minister and Deputy First Minister have chosen to place a positive

[1] Scottish Funding Council (2024) Indicative Funding Allocations for Universities 2024/25. table 4.

emphasis on universities as developers of talent and drivers of innovation to achieve economic growth. If universities are to continue to be one of Scotland's strongest assets in economic growth, this will need to translate into more sustainable funding outcomes.

We welcome the opportunity to explore this in more detail with the committee. Universities' funding environment has been difficult for some time, but it feels materially different and far more precarious for most in 2024 with very difficult choices ahead for many institutions, if this trajectory continues.

We unpack a number of dimensions to this below:

Universities have experienced a sudden, sharp drop in international enrolments.

- This started to materialise unexpectedly in September/October 2023 (applications had been steady but this did not translate into enrolments). The fall in demand has been sharpest at postgraduate taught level which account for 62.7% of the sector's international (non-EU) students.
- Until now, Scotland's universities have chosen to be relatively circumspect about the scale of this challenge, referring to it publicly only as "facing headwinds in our recruitment" but we can give a fuller sense of the impact being felt here.
    - Data collected in November 2023 and February 2024 on the international intake numbers for both semesters indicates that taught postgraduate enrolments were down by over 20% over AY 23/24. The impact is widespread, with 12 institutions reporting lower intakes than forecast. Undergraduate enrolments were not as badly affected but the sector average shows no growth, which is concerning as growth is necessary to meet the ever-growing need for cross subsidy. Based on these figures, we estimate that collectively, institutions' income will be well over £100m less than forecast in 2023/24.
    - It is now clear that this fall is not a one-year anomaly. Looking ahead, for the next academic year (2024/25) Scotland's universities are facing a mean 27% fall in applications for postgraduate taught study year-to-year, which equates to almost 92,000 fewer applications. The fall is widespread with 14 of 15 responding institutions seeing a fall, although there is significant variance between institutions.[2] The median figure is a fall of -49.2% and the biggest fall for a single institution is -79%. [3]
    - There are multiple factors behind the decline in international demand, but the commonality is that they are all beyond universities' control.[4] Very significantly, there has been major change to immigration policy led by the UK Government, and prolonged speculation of further change to the graduate route visa over 2023/24, which has impacted massively on the UK's attractiveness as a study destination. The removal of the dependents visa for postgraduate taught students from 1 January, started to have an impact on student behaviour months ahead of its implementation. In the 6 months between November 2023 and April 2024 applicants for study visas fell by 26%.[5] The review of the graduate route visa throughout spring 2024 has been hugely detrimental to the

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[2] One HEI amongst the 15 respondents to the BUILA survey has seen an increase in applications for postgraduate study in 24/25. It has a relatively small international student base.

[3] British Universities International Liaison Association (BUILA) survey collected in April/May 2024 for international applications for AY 24/25. 15 institutions returned data (with the big international recruiters included). One HEI has seen an increase of applications for PGT for 24/25 entry.

[4] As well as student and Highly Skilled Worker visa changes in the UK, the devaluation of currency in Nigeria which is one of Scotland's 5 key markets, other geopolitical factors and increased competition amongst English-language providers with the late re-opening of Australian and New Zealand borders after the COVID-19 pandemic have all contributed.

[5] Home Office data published May 2024. The 26% figure relates to "main applicant" numbers which are those holding a visa for the purposes of study. There was also a study dependents visa (now scrapped). Between November and April, the number of dependents visas fell by 65%.

perceptions of the UK's attractiveness (even despite its eventual retention) given that 63% of prospective international students cite it as a "driving influence" in their choice of study destination.[6]

It is important that we note that not every university in Scotland recruits a significant international student population. Therefore, this has never been available to some institutions as a means of cross-subsidy for the under-funding of home students and research.

Falling international numbers undermines the baked-in reliance on cross-subsidy for Scotland's home students and research.

- We have been warning for years about the high-risk over-reliance on cross-subsidy of undergraduate places for Scots from international student recruitment which is baked into the funding model for Scotland's universities because funding for every undergraduate place for Scottish students has seen a 20% real terms fall over the last decade. The average funding per student has therefore fallen by almost £1,900. Others have also cautioned about this including Audit Scotland, the Funding Council and most recently the Migration Advisory Committee (MAC).
- Figure 4.16 in the MAC's review shows Scotland's universities are the most reliant of all UK nations on international students as a proportion of their total income, at 25%.[7]
- The MAC's analysis from May 2024 is worth quoting in full: "*…it is the failure to properly fund the sector that has led to an increasing overreliance on immigration. Universities lose money on teaching domestic students and on research activities, and it is the fee revenue from international students that mitigates (at least in part) the current funding gap for domestic students and research. We have had no indication in our discussion with Ministers, either in Westminster or the Devolved Administrations, that there is any plan in place to address this structural under-funding".*[8]
- Universities will always want to attract international talent to Scotland for its many social, cultural and wider economic benefits. Business leaders and the leaders of Scotland's cities back this important contribution.[9] However, we do not want the education of Scots, or the financial viability of our institutions to be left so exposed by an over-reliance on this source of income.
- This brief primarily focuses on the funding pressures on university teaching, in part because the university research budget for 2024/25 was protected, in relative terms, with an 4.75% cash terms increase. However, investment in universities' core research grant has also been eroded in real terms, by 20% over the past decade and cross-subsidy from international student fees has been directed to support research in an attempt to address this, thus also exposing research to a reliance on international demand. Scotland is increasingly at a public investment disadvantage on research and innovtion relative to institutions in England. Given the strong leverage potential of research funds, due to the dual-funding model for research, which depends on the ability of institutions to win competitive research funds from UK and other sources, the strategy of underinvestment is limiting Scotland's economic potential. We hope to see this addressed as Scotland's Innovation Strategy (2023) is implemented.

Deeper cuts to public funding on top of a decade of real-terms decline.

- There has now been a decade-long real-terms decline in public funding in university teaching and research since 2014/15. The average funding per student is down by 20.1% using the GDP deflator

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[6] IDP Connect (2023) Emerging Futures Survey. Based on a sample of 20,000 prospective international students.

[7] Migration Advisory Committee (MAC) (2024) Graduate Route Rapid Review. P54.

[8] MAC Pg5.

[9] See here for a joint letter from Scottish Cities Alliance and Universities Scotland. Business-leader Will Whitehorn also wrote about the value of international students to meet skills needs and for wider economic value.

and down 29.3% over ten years to 2024/25 using RPIx. Universities' Research Excellence Grant (REG) funding has fallen in real terms by the same percentages. This has been compounded over the last two years with a deeper scale of year-to-year cuts, which have had the biggest impact on the university teaching grant. In AY 2023/24, £20 million of resource funding for 2023/24 was withdrawn in-year and the resource (teaching) budget for 2024/25 has been cut from the outset by £28.5 million, leading us to say that the budget settlement for 2024/25 is the "toughest yet" for universities.

- **Several university budgets cut or gone altogether.** Within that very challenging 2024/25 budget settlement from Government, we welcome the Funding Council's relative prioritisation of the unit of teaching resource, which was held flat in cash terms. However, with a cut of £28.5 million to make in one year, we appreciate the SFC was forced to make hard choices. Several budget lines for universities have been cut entirely or cut back. The Upskilling Fund (worth £6.9 million) was cut entirely. Financial support for those universities who are members of the Scottish Teachers Pension Fund (STPS), worth £4.8 million was also cut entirely, coinciding with a 3% rise in employer contributions to 26%. This impacted the post-92 universities and the small institutions most significantly. Sizeable cuts were also made to the Expensive Strategically Important Subjects grant, which tops-up the cost of study for rest-of-UK students in Scotland (which was previously £18.5 million, and now cut to £12.3 million).
- **Changes to funded places.** The final element of the £28.5 million of university cuts was the removal of 1,289 funded undergraduate places for Scots. We had anticipated the withdrawal of a cohort of the "SQA places" in AY 2024/25 but we saw this an opportunity for Government to remove places while keeping the resource in universities' teaching grant to increase the price per place and start to address the decade-long under-investment in every Scottish-domiciled undergraduate (at no extra cost to Government). However, this option was not taken. We expand on the method of removing funded places below, as this was a very challenging experience for institutions this year.
- **Variable impact on institutions.** The Funding cuts for 2024/25 and the difficult funding decisions which followed have had varying impacts on institutions. In terms of teaching grants, the overall cut year-to-year was -3.6% but at institutional level this ranged from -0.6% to -10% in cash terms. Across all grants (teaching and research), there is a notable pattern of the modern institutions faring worse than the average cash cut of -0.8%.[10] This is an important point to make as we expect the Scottish Government and Scottish Funding Council to be strategically aware of the variable impact of its decisions on institutional sustainability and realisation of its objectives for the sector.
- **Deprioritisation of higher education**. Cutting funding for university teaching is now an established pattern. Over the last decade, the sector has faced some of the most challenging budget outcomes of any part of the education portfolio. The Scottish Government's own data, provided in a parliamentary answer from 2021, tracks the average expenditure per place for each level of education in real terms from 2010 onwards shows the spend per place on a university student to be the second lowest overall and to have had the worst trajectory in real terms over the last five years.[11]

Institutions pushed into deficit.

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[10] SFC Indicative Allocations 2024/25. Table 4. Across all HE funding grants for AY 2024/25 the scale of cut to HE funding was 0.8% in cash terms.

[11] Scottish Parliament Question Reference S6W-01165 (2021)

- Unsurprisingly, this combination of financial pressures is crystalising into a situation where more universities are facing a budget deficit and will be forced to take significant mitigations to avoid this.
- The SFC's financial sustainability report from earlier this year projected that 10 of 19 HEIs will be in deficit in 2023/24, up from 6 the year before. This analysis has an optimism bias in the data as returns were collected in June/July 2023.[12] Consequently, we would strongly caution against the prediction that finances will notably recover in AY 2024/25.
- **Financial scenarios show funding model deficiencies.** Different modelling work by PricewaterhouseCoopers, for Universities UK and Universities Scotland, looks at the financial impact of various hypothetical scenarios over the short-term, including rising costs and declining sources of income. The results (which are modelled without consideration of mitigating actions) show the financial precarity of the majority of Scotland's universities. A 2% increase in institutions' expenditure growth rates in 2023/24 pushes 64% of institutions into deficit in 2024/25. With regard to revenue, the modelling found that even stagnant growth in international student numbers in 23/24 would force 71% of HEIs into deficit, without mitigation.
- PwC's "worst-case" scenarios for stagnation and/or falls in international fee income have now been overtaken by the reality facing the majority of institutions. Which leaves institutions forced to assess a range of significant mitigations in order to remain a going concern. Cost cutting and more revenue generation by universities will not realise the levels of savings needed to address deficits of this scale. Universities have collaborated on shared services and joint procurement for over a decade, with that scale of efficiency long exhausted.[13]

Increased costs

- Like all sectors, universities have experienced the brunt of high levels of inflation over 2023 and 2024. Many aspects of university operations have seen the inflation of costs well above RPI, including capital project costs, IT licencing etc.
- **Capital.** There are major pressures in university estates with the cost of decarbonising university estates in future CAPEX programmes put at around £6.6bn and many capital works (including investment in both digital and physical infrastructure) were postponed during the pandemic to preserve liquidity, meaning significant capital expenditure is now required.[14] The cost to address RAAC in university buildings is likely to run into the millions for those institutions affected.
- **STPS**. There have also been significant cost increases to the Scottish Teachers Pension Scheme (STPS) which is most relevant to the modern universities and small institutions. As of 1 April 2024, the employer contribution rose by 3% to 26%. Universities have received no additional public funding to assist in meeting this increased cost. Previous funding worth £4.8 million in 22/23, which had been allocated to institutions to help offset the cost of STPS when contributions were increased to 23%, was removed for 24/25. Eight institutions account for 80% of that pension fund allocation. They have seen a loss of funding at the same time as this rise to their cost base, which

[12] Scottish Funding Council (2024) Financial Sustainability of Colleges & Universities. SFC's financial sustainability report from January 2024. Data collection pre-dates the fall in international enrolments and the steeper cuts to teaching funding for 24/25

[13] Universities Scotland (2021) Working Smarter. As some examples, university collaboration through APUC joint procurement frameworks cover around 40% of the procurement spend of Scottish HE and FE in recent years and secures around £33 million of savings over market prices annually or £12 million relative to prices previously paid. In IT services, the not-for-profit shared service organisation HEFESTIS is jointly owned by Scotland's university and college sectors and provides tailored shared services to over 35 institutions.

[14] PricewaterhouseCoopers (2024) UK Higher Education Financial Sustainability Report. P8.

is entirely beyond their control to manage. The loss of the STPS contribution via the SFC is one of the factors behind the higher-than-average cuts to modern institutions in the 24/25 allocations.

4. Funded places for Scottish domiciled undergraduates.

- **Funded places for Scots are at near-record highs**. It is important to be clear on the wide availability of undergraduate opportunities for Scots in Scotland's universities. The planned removal of a cohort of the "SQA places" as they are now referred to, received a lot of political and media attention earlier this year. We are concerned to reassure prospective students, parents/guardians, teachers and advisers that opportunities for Scots to study at undergraduate level remain at near-record highs and to encourage applications. We would welcome the Committee's support to this end. Even with the removal of 1,289 places, the number of funded undergraduate places available to Scottish domiciled applicants in 2024/25 is higher than that available in 2019/20, which is the previous high watermark level (not including the exceptional years of the COVID-19 pandemic). In 2024/25 there will be 119,540.2 funded places (non-controlled) available to Scots, compared to 107,982.0 places (non-controlled) in 2019/20.[15]
- **Removal of 1,289 places.** The removal of the SQA places had long been anticipated on a cohort-by-cohort basis, as the students who benefitted from them during the COVID-19 pandemic begin to complete their degrees and exit the system. However, the manner of their removal from the system this year, adversely affecting 8 HEIs, has been troubling on multiple fronts. The SQA places have been removed from the system in a different pattern to the way they were allocated in 2020 and 2021, meaning that some institutions were more negatively impacted than others. The extent of that impact was not clear until a very late stage in their year's recruitment cycle. The decision on where places would be removed was based on very recent recruitment patterns at some institutions. The whole process suffered from an accelerated timescale and a critical lack of overall transparency.
- Going forward it is essential the SFC, Scottish Government and universities work together to learn from this, to improve transparency and reach a common understanding of a better process for the future, as we anticipate further changes to the allocation of funded places may be required.
- **Funding pressures mean there is now a trade-off between the number of places and price per place. This year, both lost**. We want to repeat the wider point, that by removing 1,289 funded SQA places for Scots, the Scottish Government had an opportunity in 2024/25 to start to address the under-funding of every undergraduate place for a Scottish student, which has declined by 20.1% over a decade. If that resource had been reinvested in the price per student in 2024/25 our estimate suggests it would have made the difference between flat in cash terms (which was the outcome) or a 1% cash increase, without additional cost to the Scottish Government. Instead, that opportunity was not taken, and the money left the higher education sector. Looking ahead to the budget for 2025/26 we understand that even more "SQA places" (those introduced in 2021) will be withdrawn. If places are withdrawn the relevant resource should be retained in the university sector and repurposed to support students' tuition through the price per student.
- **SFC to SAAS transfer**. Since 2013/14 there has been an automatic, annual transfer of SFC resources to SAAS. This was introduced a decade ago to pay the fee and bursary element of additional places for widening access, articulation as well as undergraduate and taught postgraduate places for specific skills needs. In 2024/25 this transfer is worth £22.8m. However, these additional places were mainstreamed in 2019/20 and the programme for specific skills has since ceased. Further, we have seen a change in funded places in 2023/24 and 2024/25 but no adjustment of the SAAS

[15] Scottish Funding Council (2024) Indicative Funding Allocations for Universities 2024/25.

transfer to reflect this. This transfer to SAAS should be reviewed and the resources repurposed within the SFC's university budget so that they can support the education of Scottish students.

ENDS