Universities Scotland

Sector stability for Scotland's growth

Submission to the Scottish Government's 2025/26 budget

The Scottish Government is rightly proud of the significant contribution universities make to Scotland's economic, cultural and civic life. It is a contribution that is crucial to delivering the Scottish Government's priorities – never more so than now, in a year of unprecedented budgetary constraint.

Purposeful growth

The only effective response to the current crisis – and the only means of delivering reformed, sustainable, and re-energised public services in the future – is purposeful growth. Every pound of public money invested in pursuit of that growth will have to generate maximum returns.

Universities have a proven track record of delivering exactly those returns. Our research and innovation activities alone are thought to generate almost £11 of economic benefit for every £1 of government investment[1]. With over 55,000 staff we are major employers across Scotland, a new study has estimated that the sector's total economic impact exceeds £28 billion.[2] We know what works, and – working closely with government and our other partners locally, regionally, nationally, and internationally – we are delivering returns, at pace. We know that the current fiscal framework means that the Scottish economy and our public finances critically depend on the highly skilled, well-paid graduates our universities produce. We are a sector with a unique influence across the country and around the world. We drive economic growth, enrich our communities, support opportunity for all and enhance Scotland's global reputation.

Stability

Our impact in Scotland is significant and we want to see it grow. However, we cannot unlock our full potential – and hence our full economic and societal contribution – unless our own funding settlement is stabilised. Universities fully understand the budgetary constraints facing the Scottish Government, and the many competing demands Ministers balance when allocating limited resources. But we cannot shy from the fact that the sector has reached a critical crossroads.

As Ministers are aware, recurrent cuts to our core teaching budget have driven an increasing reliance on international student fees to cross-subsidise domestic tuition and research. That model has been pushed beyond its limits and is now rapidly failing. A sudden drop in international applications for 2023/24 is estimated to have reduced sector income by tens of millions, and a further sharp drop in international recruitment at taught postgraduate level is expected for 2024-25.

Universities urgently need to reduce their financial exposure to volatile geopolitical circumstances far beyond their control. The government urgently needs economic growth. The sector is not asking for this budget to restore funding to the levels that will be required to ensure the long-term sustainability of the sector. Recognising the severity of the challenge that government will face in making decisions for 2025-

[1] London Economics for Universities UK (2024) Annex 2.

[2] Ibid.

26, we are seeking budget decisions that offer stabilisation and immediate impact and that create space for wider dialogue on a sustainable, multi-year approach.

A budget ask calibrated to the fiscal reality

Looking only to 2025/26, we are therefore seeking a budget outcome that:

- stabilises our sector in the short-term;
- enables us to respond both to the ambition of our Scottish domiciled students and the significant learning and wider challenges that they face;
- protects our research and innovation strengths in the face of growing competition, which power our current and future economic contribution; and
- offers a foundation for novel, imaginative and flexible approaches for universities to be partners in growing the economy; the eradication of child poverty; tackling the climate emergency; and improving our public services.

We seek investment in growth through a budget outcome in 2025/26 that:

- increases the Scottish Funding Council (SFC) Higher Education Resource budget by 1% in real terms[3] (2.35% cash terms) relative to the 24/25 baseline;
- retains the resource in the SFC budget connected to the 'SQA places' introduced in 2021/22;
- additional to the above, identifies a further £17m of resource to stabilise the breadth and quality of current tuition - including funding for vital actions to create pathways for people to gain new skills and knowledge while working, eg restoration of the up-skilling funding which was wholly removed in 2024/25. We suggest that Scottish Government could fund this through the cessation of the unneeded post-budget transfer of resources from SFC to SAAS (£17m for 'additional places' in 2023/24)[4];
- provides an SFC Higher Education Capital budget at the level set out in the Scottish Government's Targeted Capital Spending Review[5] (3% cash terms increase) to support the sector's economic and wider impact through research and innovation, in the face of growing opportunity and competition across the UK and internationally; and
- returns discretionary and childcare funding for students to £16m - reversing a cut to £12m last year, thereby helping ensure we do not lose talent from our student population as a direct result of financial hardship.

[3] Real terms calculated from FY2025-26 GDP Deflator

[4] Scottish Government (2023) Supporting documents - Autumn Budget Revision 2023 to 2024 page 54

[5] The Outcome of the Targeted Review of the Capital Spending Review – Updated Spending Allocations for 2023-24 to 2025-26 - gov.scot (www.gov.scot)

Fig 1: a summary of the HE resource and capital budget ask for 205/26, as calibrated to the fiscal reality

	2024/25 Budget	Budget sought in 2025/26 if SAAS transfer is ended	Budget sought in 2025/26 if SAAS transfer is not ended
SFC Higher Education Resource	£760.7m	£778.6m	£795.6m
SFC Higher Education Capital	£356.9m	£367.6m	£367.6m
Discretionary Funding	£12m	£16m	£16m

Further detail to support these asks, and the context for this budget, can be seen at Annex 1. It should be noted that implementation of either of the above scenarios would still leave the SFC resource budget below its cash level in 2023-24.

Closer collaboration between higher education and Scottish Government

A balanced financial settlement is a necessary prerequisite to maximising the sector's returns to Scotland's economy and wider society, but so too is effective, action-oriented collaboration with government. We welcome recent cross-Cabinet discussions on universities' future contribution to health and the economy, as well as several roundtable discussions on topics ranging from research and innovation to work-based learning and access. We believe that there is benefit in extending this collaborative approach across other portfolios, for example:

- in culture and the creative economy, where the sector has a significant strength including two world-class specialist institutions, is at the heart of Scotland's cultural life and is at the heart of o the >£5bn[6] economic contribution of the creative industries; and
- addressing the climate emergency and the opportunities of the energy transition, as noted below our contribution is significant and has the potential for significant growth.

However, despite our best efforts it has proved difficult to generate momentum from discussions held to date and turn them into the actions both the sector and Ministers are looking for. The reach and impact of the university sector does not sit neatly in one government portfolio, we are a critical partner in delivering across all of the government's priorities. We are committed to playing our part in delivering the plans we have discussed with Ministers - including better utilising universities' ability to catalyse partnership and leverage investment – and look to government to redouble their own commitment to act and work in a sustained, connected and coherent way across government. As such, in addition to the

[6] Scottish Government Policy Creative Industries

financial measures set out above, we ask that SG works at pace and in partnership with universities to agree plans and timed actions by the end of February 2025 which will cover:

The sector's role in the economy:

- enhance our contribution to regional economies, including the growth and retention of spin-out companies and better leveraging our role in regional innovation ecosystems;
- maximise the levels of research funding universities can secure from outside of Scotland, for example by:
  - engaging alongside the sector on the shaping and response to future UKRI calls; and
  - enabling effective engagement with EU partners, both to maximise successful outcomes from Horizon Europe and to effectively influence the design of the next research framework programme (FP10);
- consider innovative action under current immigration rules to attract staff and students from abroad. For staff, international colleagues make a major contribution to our success, not least in research. For students, we want to provide pathways for staying in Scotland on graduation and making a significant contribution to our economy/demography; and
- improve qualification levels across our working age population, including further development of work-based and work-related learning opportunities such as graduate apprenticeships and short, 'up-skilling' opportunities, and offering opportunities that are bespoke to employers across Scotland.

The sector's role in healthcare:

- enhance the recruitment and retention of students across all healthcare disciplines, ensuring a sustainable flow of qualified staff into the NHS across Scotland, including diverse pathways such as SCOTGEM;
- maximise the sector's contribution to workforce development by breaking down silos within government and between government and the sector; enhancing our health and social care research base and maximising the rapid flow of innovation into enhanced and more efficient services; and
- link our strength in the health sciences and in disciplines such as AI, which will be central to changes in therapies and services, to build our private sector base.

The university contribution to purposeful growth

Our current contribution to Scotland is significant. It rests on funding that enables universities to act in diverse settings with agility and impact, leveraging significant resources into Scotland.

It includes:

- A total economic output of £28.3bn (2021-22)[7], including £8.66bn from the sector's research and knowledge exchange activity alone (2021-22)[8].

[7] London Economics for Universities UK (2024) Annex 2.
[8] Ibid

- Up to now we have sustained a research base, in the face of strong and growing international competition, that leverages directly >£900m per annum, supporting directly >16,000 research staff in our universities along with a pipeline of >13,500 students who are studying at PhD level.
- Creating and providing support for entrepreneurial activity – incubators, accelerators, co-working space and innovation assets - at scale in Scotland. Universities provide most of Scotland's infrastructure to support entrepreneurship and company growth, much of it through leveraged resources and cross-subsidy[9].
- Founding new, high growth companies. University staff and students created almost 300 new businesses in 2022-23 alone[10]. Our students and staff are a key community from which Scotland's entrepreneurs emerge, including talent attracted to study here.
- Working formally with 20,000 organisations each year – private, public and third sector – to innovate and raise productivity through R&D, consultancy, and related activities. To this can be added informal engagement with many thousands more.
- Providing over 250,000 days of CPD and Continuing Education each year to thousands of individuals and organisations.[5]
- Attracting internationally mobile investment capital, with investors citing Scotland's skills and R&D strengths as primary factors in their decision to invest here.[11]
- Acting as key partners in City Region and Growth Deals across Scotland, playing a crucial role in the future evolution of sustainable regional economies and regional innovation ecosystems. Many of our institutions have also proactively engaged with and are active members of Regional Economic Partnerships.
- Teaching and training almost 150,000 Scottish students every year, meaning that at any one time around one in forty Scots is studying for an undergraduate or taught postgraduate degree. This tuition is marked by its engagement with employers on curricula and opportunities for work placements.
- Ensuring that there are opportunities for all to pursue their ambitions, making significant progress on widening participation.
- £8.45bn in economic output from teaching and learning activity (2021-22[12]), with £3.7bn of that impact being for the Exchequer.
- Significant returns to both individual graduates and wider society. On average our graduates each secure a net graduate premium[13] (£89,000) and make a significant net contribution to the Exchequer (£66,000)[14].
- Attracting >100,000 international and rUK students to study in Scotland, contributing £5bn[15] to the economy each year.
- Contributing £4.75m to Scotland's exports and advancing the country's soft power though the strength of the sector's overseas networks.
- Sustaining significant cultural capacity right across our communities and for visitors, e.g theatres and museums, including 15 museums accredited by Museums and Galleries Scotland.
- Providing free events (e.g. performances, public lectures, exhibitions and museum education) to over 2 million people in 2022-23, alongside chargeable events for >250,000 individuals.[11]

[9] See, for instance, prominence of HEI provision in Scottish Entrepreneurial Ecosystem Guide - 2023-24

[10] HESA HEBCI data

[11] Ernst & Young (2024) FDI Media release

[12] London Economics for Universities UK (2024) Annex 2.

[13] The difference between the earnings of graduates and non graduates, minus the present value of the (direct) costs associated with qualification attainment.

[14] Figures for full-time First Degree with prior attainment at Level 6 on SCQF. London Economics (2024)

[15] Universities Scotland (2023) Media Release

Strong alignment with Scottish Government's economic strategy

With these diverse and significant impacts, universities are central to the Scottish Government's ambitious plans for economic growth. Their diverse contributions are reflected and recognised across multiple interrelated Scottish Government strategies, including:

- The **National Strategy for Economic Growth**, which notes that world-class colleges and universities producing exceptional people and cutting-edge research are an essential ingredient of a successful entrepreneurial nation;
- The **National Innovation Strategy** and **Entrepreneurial Campus**, with a vision for nurtured and supported universities that are becoming a leader in the commercialisation of research, generating valuable spin-outs and student start-ups;
- **A Trading Nation,** which commits to working closely with the sector to: make Scottish universities the destination of choice within the UK for overseas students; skill Scotland's workforce with exporting expertise; and identify and realise new overseas markets. The Plan also recognises the sector's very significant contribution to attracting inward investment, especially R&D;
- The **International Culture Strategy,** which acknowledges that an innovative and more sustainable culture sector – in which universities play a key role – contributes to Scotland's economic growth, as well as the country's cultural, social and environmental wellbeing; and
- **A Scotland for the Future**, which seeks to attract more international students to Scotland, increase retention post-graduation, and ultimately ensure Scotland has the population and workforce it needs to grow sustainably in future.

Eradicating child poverty

Education will be one of the most significant contributors to ending child poverty in Scotland. Research has found a clear link between lower levels of education and training and long term lower-income employment and unemployment.[16] Universities have a vital role to play, working in close partnership with Scotland's colleges and others, in creating new opportunities to break intergenerational cycles of educational under attainment and enhance life chances.

The sector has made major strides towards the target of the Independent Commission on Widening Access (that, by 2030, admissions to university reflects our population, with at least 20% of university entrants coming from our 20% most deprived communities). Universities hit the interim milestone of 16% in 2021 and have introduced the most progressive admissions policies in the UK in support of this goal. The most recent data on university admissions show record numbers of Scottish students from our most disadvantaged communities getting into university, with an 12% increase in the most disadvantaged 20% compared to SQA day in 2023, taking the number to the highest level since 2015[17]. Relatedly, universities are working with schools across the country to enhance teaching and grow ambition in every community, for example contributing to the Tackling Child Poverty Delivery Plan's ambitions for enhancing attainment; ensuring that school curricula are available to all; and supporting access to digital technology.

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[16] Poverty Alliance & The Robertson trust The Poverty Related Attainment Gap
[17] Scottish Government (2024) Media Release

Universities are also key employers in places across Scotland, with over 55,000 employees. The sector offers high quality jobs and routes into them for people in the places in which we are based. Our procurement of supplies and services is also an important factor in sustaining good employment in the places in which we operate. In supporting those employees, and our students, universities offer a substantial childcare capacity across the country which, where capacity allows, is offered to others in the community.

As Scottish Government drives forward its Delivery Plan, universities will continue to offer research capacity to inform policy design and evaluation.

Improving public services

The future sustainability of Scotland's public sector workforce is dependent upon a thriving university sector. Doctors, nurses, allied health professionals, teachers, social workers, local authority planners – all are crucial to Scotland's future, both economically and socially, and all begin their professional journeys with a university education. Each year in healthcare alone, we see the graduation of >12,000 doctors, dentists, nurses, midwives and other clinical staff.[10]

However, the sector's role in public service improvement goes well beyond teaching. For example:

- We make a significant research and innovation contribution to the NHS and social care, having 7 institutions ranked in the top 10 for research excellence in health and life sciences specialisms.[18] Universities also provide the majority of the assets noted in the Innovation Strategy for Digital Health; Future Medicines Manufacturing; and Precision Medicine. Further, many changes to enhance health services, and address strategic needs such as healthy ageing, will be best met through interdisciplinary solutions, for example the deployment of AI and data technologies.
- Our partnership with the NHS extends to formal agreements with Health Boards and shared estates and operations. We want to deepen this mutually beneficial relationship, to the benefit of our communities.
- Hundreds of researchers[19] making a contribution to enhancement of teaching and education in schools, through participation in policy formation and evaluation and by informing the training of the teacher workforce. Through this expertise and beyond, the sector wants to make a full contribution to the proposed Centre for Teaching Excellence.

[18] Ranking relates to five Units of Assessment in REF2021.
[19] The sector submitted 241 staff to the 2021 REF for the Education Unit of Assessment

In regard to the sector's own efficiency and effectiveness, we have a track-record of quantifiable savings from collaboration and shared services to point to:

- Higher education's joint procurement service, APUC, secures over £25.5 million of savings every year, relative to market prices. APUC has made 175 collaborative framework agreements available to the sector, and Scotland's universities were one of the first in the UK to establish a cost-sharing group to remove VAT as a barrier to greater collaboration.
- By collaboration through Jisc for digital, data and technology services, institutions have already leveraged approximately £13.8 million per annum on savings/cost avoidance[20].
- Since 2013, over 1,200 university facilities are itemised and available for SMEs to use for the purposes of innovation through Interface's sharing facilities service.

Tackling the climate emergency

The sector's response to the climate emergency is evident in its actions, globally and locally. Most prominent are universities' research, innovation and skills activities. The Scottish Government's support for these, most notably through the SFC's funding, is therefore vital. That funding has direct impact and enables the leverage of private, public and charity investment.

Illustrations of the sector's contribution through collaborative action and leverage of investment are:

- The Energy Technology Partnership: a collaboration of 13 institutions and the largest academic energy research partnership in Europe. The partnership aims to accelerate the development and deployment of innovative energy technologies with a focus on renewable energy, energy storage, and smart grid technologies.
- Scotland Beyond Net Zero, a collaboration of universities, local partners and the Scottish Government to address key challenges associated with the climate emergency, including clean energy, storage, decarbonisation, green transport, community empowerment and climate justice.
- Scottish Carbon Capture & Storage (SCCS): a partnership involving the University of Edinburgh, University of Aberdeen, and Heriot-Watt University dedicated to research on carbon capture and storage (CCS) technologies.
- The UK Centre for Doctoral Training in Wind and Marine Energy Systems and Structures, hosted by the University of Strathclyde, which brings together the leading UK research groups in Wind Energy and Offshore Structures at Strathclyde, Marine Energy at the University of Edinburgh, and Offshore Structures at the University of Oxford.
- FloWave, funded from a mix of public (UK and Scotland) and private sources and hosted by the University of Edinburgh, which provides an advanced wave and current test facility designed to support research and development in marine energy, including wave, tidal, and offshore wind energy technologies.
- The UK Centre for Doctoral Training in Green Industrial Futures, hosted by Heriot Watt University, working alongside Imperial College London, University of Bath, and University of

[20] 2020/21 figures.

Sheffield. The centre's graduates will help develop the expertise and skills to tackle the biggest decarbonisation challenges facing industry.

We would be keen to discuss with Scottish Government on a cross-Cabinet basis how these and other actions can help Scotland to address the climate emergency. For example, the sector's action to meet the net zero skills challenge, and how universities can be a partner locally with the public, private and third sectors.

Conclusion

Scottish universities are integral to Scotland's future economy and civic life, yet they face significant financial challenges due to a failing cross-subsidy model and persistent inflationary pressures. Urgent action to mitigate these financial pressures is essential if we are to maintain high-quality education and research and make our fullest contribution to Scotland's future – most notably by realising the rapid and sustainable economic growth that must underpin delivery of the Scottish Government's ambitious policy agenda.

Annex 1

Further information on the elements of our budget ask

A 1% Real Terms Increase to the Scottish Funding Council (SFC) Resource Budget and 'SQA places'

We estimate that a 1% real terms increase to the SFC budget would be a 2.35% cash terms increase, as the latest GDP Deflator for FY2025-26 is 1.35%[21].

Further, whilst the outcome of the UK Government Budget Statement in October is unknown currently, the Spring Statement pointed to departmental budgets growing by 1% in real terms in 2025-26 and beyond.

As the cross-subsidy model for Scots' tuition has proved to be unsustainable, we ask that the Scottish Government does not worsen the situation with further cuts to the SFC resource budget.

Additional Resource for the Stabilisation of the Quality and Breadth of Provision including the Restoration of 'up-skilling' Opportunities

With the unsustainability of the cross-subsidy model, the sector faces a challenge in sustaining the quality and breadth of tuition and wider support that it can offer to Scottish students.

We have already seen reductions in courses; are seeing retention and progression of students fall; and have less resource to respond to these students' educational needs which are marked by the legacy of the covid period. Alongside cuts to the investment in each student, we have seen the complete withdrawal of Scottish Government funding for mental health counsellors (£1.8m in 2022-23), necessitating further cross-subsidy for such services which are in increasing demand.

Further, there is a need to enable people of all ages in the contemporary economy with tertiary-level skills. This was harmed by the removal of all 'up-skilling' funding in 2024-25 (£6.97m in 2023-24). This was vital to people across Scotland looking to train and had the potential to be grown significantly, not least in the sectors noted in Scottish Government strategies for innovation and our future economy.

We ask that the Scottish Government identifies £17m of resource to add to the SFC Resource Budget, additional to the uplift discussed above, to respond to these strategic challenges. This will provide for SFC to re-instate and grow 'up-skilling' provision and to make investment to stabilise the breadth and quality of tuition more widely.

We suggest that Scottish Government creates this capacity in the SFC Resource Budget by ceasing the recurrent post-budget transfer of significant resources to SAAS for 'additional places'. As set out below,

[21] GDP deflators at market prices, and money GDP June 2024 (Quarterly National Accounts) - GOV.UK (www.gov.uk)

we believe that the rationale for such a transfer no longer holds. If Scottish Government chooses not to cease this transfer, we ask that it finds the resource to be added to the SFC Resource Budget.

At its beginning in 2013-14 the rationale for a post-budget transfer from SFC to SAAS rested on an expansion of funded numbers, without Scottish Government making the necessary investment in both the SFC budget for the places and that of SAAS to meet the fee element of those places and associated bursaries. As the 2014-15 SFC grant letter noted, "*SFC was only able to introduce additional funded places schemes that started in 2013-14 by also compensating SAAS for the tuition fees and bursaries for the students supported by these places*".

The scale of this transfer grew each year from 2013-14 to 2016-17 as further additional places were added, settling at £24.3m in 2016-17.

The transfer includes funds for the change in administrative responsibility for the 'Part-time Fee Waiver Grant' from SFC to SAAS. Now termed the Part Time Fee Grant, in the 2023-24 Autumn Budget Revision[22] there was a transfer from SFC to SAAS of £5.8m out of a total SFC to SAAS transfer of £22.8m that year. The remaining £17m of the transfer was attributed to, "Transfer to SAAS to fund additional student places for Widening Access".

We believe this transfer should end given that:

- The total number of students eligible for funding (undergraduate and taught postgraduate) fell between 2012-13 (the year before this transfer started) and 2022-23 (the latest year for which data is available). In 2012-13 there were 141,900 students eligible for funding, falling to 138,130 in 2022-23. Subsequent to 2022-23, we have seen cuts to funded numbers with a reduction of 1,000 places in 2023-24 and a further 1,800 places in 2024-25.
- The total expenditure by SAAS on fees in 2022-23 was only £2m more than it was in 2013-14, (£227m vs £225m).
- The places created from 2013-14 were 'mainstreamed' into the overall SFC system 2019-20, the SFC Grant letter that year noted "*Additional funded places have been allocated each year up until AY 2018-19 and these are now mainstreamed. There are no further allocations of additional places for these investment schemes for AY 2019-20*".
- Part of the additional places programme was the creation of fully funded taught postgraduate places. In 2019-20, the strong majority of these places were withdrawn by the SFC and the saved resource (£5.8m) was used to create the SFC's 'upskilling' fund which was then withdrawn completely as part of the cuts to implement the 2024-25 budget.

Context: a decade of cuts to the SFC HE resource budget and crystalising risk of the cross-subsidy model

We note that the inflationary pressures facing the sector have run significantly above Scottish Government budget decisions for the SFC budget in recent years. Cuts over the last decade mean that, we have seen an erosion of the resources available for the tuition and wider experience of each student.

[22] Scotland's Budget Documents: The 2023-24 Autumn Budget Revision to the Budget (Scotland) Act for the year ending 31 March 2024 (www.gov.scot)

Scottish Government data comparing investment in each part of the education portfolio are available for the 5 years to 2019 and show that, over this period, universities alone saw a real terms reduction in resources per pupil / student[23]. With a decade of cuts we now have >£3,000 less to invest in each student in real terms than we did in 2014, and have fewer resources available per student than institutions in the rest of the UK and a range of comparator countries[24]. Moreover, the inflationary pressures faced by universities are often ahead of indices such as RPI. For instance - despite the sector's innovative work on joint procurement mechanisms - universities have seen 4-fold price increases from some providers for on-premise license costs, and the inflation rate for software has been >10%.

The risks of a fall in the income from international student fees, which provides cross subsidy for Scottish-domiciled students and university research, has been known for some time, and noted by analyses by Audit Scotland.

In January 2024 Universities UK published analysis by PWC on the Financial sustainability of UK universities. The work considers a number of possible futures for the sector and under a number of scenarios significantly over half of all institutions fall into deficit in 2024-25. Each scenario is considered separately. There is therefore no consideration of a scenario where more than one risk crystalises, nor of any mitigating action that universities would take to minimise costs.

The most concerning scenarios are for a stagnation or fall in international recruitment. In one scenario with a "sharp contraction in growth rate of international student FTEs by 20 ppt in 2023/24", the model projected that a strong majority (71%) of institutions in Scotland would fall into deficit in 2024-25 without mitigating actions. It should be noted that, in reality, the sector has seen such a fall in 2023-24 recruitment and expects this to be followed by a further significant fall in 2024-25. We anticipate, therefore, that the associated financial pressures will be felt strongly and widely across the sector.

Our ask for the SFC Resource Budget would still leave it below its level in 2023-24 in cash terms

Should Scottish Government take the decisions that we seek, the SFC Resource Budget in 2025-26 would be £778.6m. That would still be £30.6m below the level it was in 2023-24 in cash terms, a level that already reflected falls in funding per Scottish student over recent years.

If Scottish Government chooses not to cease the recurrent post-budget transfer of resources for fees from SFC to SAAS, then adding £17m to the SFC Resource Budget would see it at £795.6m, still some £13.6m below the 2023-24 budget in cash terms.

Capital funding at the level in the Scottish Government's Targeted Review of Capital Spending

Our ask is that Scottish Government sets the SFC HE Capital Budget at the level stated in the Targeted Review of Capital Spending, ie. £367.6m.

[23] Scottish Parliament (2021) Question reference S6W-01165

[24] For example, Ireland, New Zealand, Australia, Ontario

Alongside investment in the university estate and its maintenance, the SFC's capital budget provides resources for universities' research and innovation activities which are key to our diverse contributions to Scotland's economic, social and net zero goals and to meeting ambitions for improvements to our public services. As noted above, the economic impacts from our research and innovation are significant and our dialogue with SG Economy points to exciting new opportunities.

Unlike other spends of capital resources within the Scottish Government budget, SFC's funding of research and innovation supports directly the employment of individuals. Therefore cuts directly affect jobs, as well as a broader negative economic impact due to the lack of investment and reduced leverage of resource into Scotland.

We note also that university infrastructure faces the dual challenges of RAAC and of meeting net zero ambitions across an estate that has high proportions of buildings that were constructed in the 1960s / 70s and / or are historic and listed. The creation of surplus to re-invest directly or to support borrowing for investment is key and the failure of the cross-subsidy model for tuition of Scots and for research and innovation also threatens this model for our estate and equipment. SFC investment in capital maintenance is part of the solution to this.

Context: a decade of cuts to the SFC HE capital budget and crystalising risk of the cross-subsidy model

As with teaching, universities' research and innovation effort has been affected by a decade of cuts (>£100m in real terms) and, as universities' funding for research and for working with industry falls far from meeting the full economic costs of that work, it is also impacted by the steep fall in the international fees that provide the necessary and increasing cross-subsidy.

As the SFC's most recent analysis of sector finances, which looks at the period prior to the recent steep fall in international recruitment, notes[15]:

The management of loss-making research by cross-subsidy from surplus-generating activities should be seen as part of an interconnected set of university activities. It is a strategic ambition of leading Scottish universities to be positioned on the global stage and to be peers with world class universities. In addition, the international research reputation of universities and their position in league tables affects the recruitment of international students. The surplus from those international students assists with the sustainability of the research activity.

Research reputation drives other income and strengthens staff recruitment and business relationships. Therefore, the TRAC deficit from research must be viewed in the context of the overall university strategy and management.

Over the last decade the SFC's Research Excellence Grant (REG) has fallen significantly in real terms. If its value had been maintained in real terms over the last decade then the sector would have received an additional £63.5m (GDP Deflator) / £106.5m (RPIx) in 2024-25.

REG funding is an important element of the dual support system. The fall in REG can be linked to a fall in leverage of resources from UKRI, including from the research councils with a clear link to the themes of the Innovation Strategy.

If Scotland could restore its performance to that seen in 2013-14, it would secure an additional 2.1% of total UKRI resources (£46.5m). Analysis by London Economics for Universities Scotland shows that every £1 of research council income won by institutions in Scotland results in an economic impact of £12.70. Therefore, the fall in UKRI share (£46.5m) equates to a lost economic impact of >£500m per annum.

Meanwhile, whilst resources from SFC to support innovation activity in Scotland have recovered in the last 2 years, they still compare poorly with the levels of resource available to institutions in England. Whilst universities in Scotland receive around £8 in knowledge exchange (KEIF) funding for every £100 of SFC research funding[16], institutions in England receive over £18 for every £100 of the equivalent funds.

These trends are concerning, and risk undermining the sector's ability to continue delivering the world leading research that underpins so many of the Scottish Government's aims for our current and future economy. That is why we now ask the Scottish Government to provide a 3% cash terms uplift to the SFC HE Capital budget for 2025/26 as set out in the Scottish Government's Capital Spending Review.

A restoration in cash terms of discretionary and childcare funds to historic trend levels

Discretionary and childcare funds are a key tool in supporting students facing financial challenges in pursuing their ambitions. These funds are complemented by those from institutions, which have become harder to sustain as ever-greater cross-subsidy of teaching and research has been necessitated by cuts.

SAAS statistics[25] show that the resources devoted to childcare and discretionary funding have remained at or above £16m in aggregate since 2013-14.

In 2024-25 the resources available were reduced to £12m.

We ask that in 2025-26 they are restored to their long-term level in cash terms, noting that the real terms 'spending power' of those resources will have fallen significantly in recent years.

[25] National Statistics Publications (saas.gov.uk)