Financial sustainability of universities. Universities Scotland's brief.

Key messages:

- There is a "perfect storm"[1] of funding pressures bearing down on Scotland's universities. No university is immune to this, despite variation between the financial position of institutions.
- Nine universities reported adjusted operating deficits in AY 2023/24.[2]
- Collectively, the higher education sector's underlying operating surplus fell by 92% in one year, from £211.7million in 2022/23 to £17.2 million in 2023/24.[3]
- The amount of public funding invested in every Scottish undergraduate place was 22% less in 2024/25 than it was in 2013/14.[4]
- No university wants to be in this position. The extent of financial pressure is now such that universities can no longer protect students or staff from the impact. We are seeing multiple institutions forced into voluntary and/or compulsory redundancy programmes. A survey of cost mitigations in the UK university sector found that by 2025, 18% of HEIs had closed departments, 55% of universities have consolidated courses (up from 23% a year ago), 60% have scaled back on maintenance and repairs on facilities, and one in five had reduced investment in research, with 79% expecting to have to do so in the future.[5]
- Collectively, the finances of Scotland's universities are on track to surpass the "worst case" hypothetical future financial scenarios as modelled by PwC for the sector in Scotland in AY 2024/25 (as we're still looking at actuals for 2023/24). You can find the full analysis here.
- The status quo is failing to ensure financial sustainability for Scotland's universities. We need action in the short term in the 2026/27 budget - and cross-party engagement on how to ensure a long-term stable and successful financial future.

Factors behind the sector's funding pressures:

There are multiple factors behind universities' current financial precarity:

I. **Rising costs across the board.**
   - There has been a catalogue of increased costs affecting universities. The increase to employers' national insurance is estimated to cost the sector in Scotland between £45m and £57m,[6] with no governmental assistance at all (UKG or SG) to help universities offset this pressure.
   - This adds to rising utilities, estates maintenance and construction costs, and significantly higher than inflation rises in software licences.
   - 15 institutions (mostly modern and specialist universities) saw the employers' contribution to the STPS pension rise to 26% in 2024, which added an additional £4.4m in 2024/25. However, the loss of government support in the same year meant

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[11] IFS (2024) Scottish Budget Brief.
[2] SFC (2025) Financial Analysis of 2023/24 Annual Accounts
[3] Ibid.
[4] IFS (2024)
[5] UUK (2025) Universities grip financial crisis but at what cost to the nation? (60 institutions, including Scotland)
[6] £45m is the Universities Scotland estimate for FY 2025/26. The higher figure of £57m is the IFS estimate.

the affected HEIs had to find £9.2m to address the rise. Although we note and welcome the £5.8 million of funding provided by the SG in February 2025 to mitigate this there is no indication that this mitigation will be repeated in future years.

- Around half of the university sector was affected by the RAAC scandal, and our estimate is that it could collectively cost universities somewhere close to £750 million[7] to address .There has been no Government support for universities for RAAC. Universities' total SFC capital budget for all 19 HEIs in 2024/25 was £28.4 million, of which £4.8m was ring-fenced for one project.

II. **Sharp falls in international student demand** and continued volatility in immigration policy and international markets.

- Earlier this year, the Permanent Secretary told Parliament universities are high on the Government's risk register, and rising, The reason given for this was international volatility in international student recruitment.[8]
- International entrant enrolments to PGT courses in Scotland fell by over a quarter in one year (25.7%) between 2022/23 and 2023/24. This was a combination of geopolitical events (the collapse of the Nigerian currency being a significant factor) and the loss of the dependents' visa for postgraduate students, as well as the "hostile environment" created for migrants by the last UK Government.
- Our estimate is that this one year drop cost the sector £149 million in lost international fee income, with a wider loss in economic spill-overs for the Scottish economy (e.g. from student spend). Early data for the period since show the decline in numbers was not a single year's "blip".
- We cannot yet estimate the impact on the sector of the student and graduate measures in the UK Government's newly announced immigration white paper (May 2025). However, the explicit aim of the policy is to reduce net inward migration. The reduction of the graduate route visa from 24 to 18 months could harm the UK's competitiveness in a global recruitment market. Tightening the basic compliance metrics (BCA) may force HEIs away from recruiting in countries with higher visa refusal rates, such as Pakistan, Nigeria, Sri Lanka, and (to a lesser extent) India. In Scotland, these four nations count for more than 70% of the sector's total postgraduate intake[9]. Giving HEIs sufficient time to adjust their recruitment strategies will be vital if UK universities are to avoid financial cliff-edges.

III. **A chronic pattern, now acute, of underinvestment in the education of Scottish students and in research within Scotland's model of public funding**.

- The underfunding of domestic undergraduate teaching and research, starting a decade ago and compounded over time, is the single biggest factor behind the current financial state of Scotland's universities. This is the sector's fundamental problem and it is this factor which has eroded universities' financial resilience to withstand increased costs and driven the over-reliance on international student fees as a means of cross-subsidy in most institutions, now leaving them over-exposed to financial risk.

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[7] Data gathered in by SFC.

[8] This was in a session at the Finance and Public Administration Committee of the Scottish Parlianent, on 18 March 2025.

[9] HESA Student data 2023/24.

- Working on behalf of the sector, Universities Scotland has repeatedly highlighted, over a number of years, that public underfunding was building to unsustainable levels. This is not a sudden or shocking crisis. It has been a decade in the making.
- The IFS estimates the cost of restoring per-student resources to 2021/22 levels in real terms would require a cash-terms increase in resources of £103 million (15.2%), but that would still equate to a reduction on the funding provided in earlier years. Moreover, the sector's financial security could not be assured without addressing the underfunding of research, which was underfunded to a value of £432m in 2021/22, with further real terms cuts since then.[10]
- Analysis of university funding over time by Professor David Bell for the RSE Conference shows university and college funding levels tracked over the last five years in real terms. It shows sharply declining funding for universities, declining funding for colleges, and an overall trajectory that can only be described as a clear levelling down in public investment for both universities and colleges. Scotland needs well-funded colleges *and* universities. We ask that the two sectors are not pitted against each other.

The way forward

- Universities could have a stable and successful future within the current funding model. It is the quantum of resource invested into HE, rather than the model itself, which is the problem.
- A dialogue which keeps us in the space of free versus fees is a distraction from acknowledging the major weaknesses in the current model, and has prevented action to address the sector's challenges for too long. This cannot continue.
- To effect change of any kind, there must be a clear and early acknowledgement from Government that the current levels of public funding going into the system are not sufficient to meet their ambitions for either the quantity or the quality of university provision they want Scotland to have.
- Universities Scotland would like all political parties to engage with this issue on a strategic basis. We're working with parties to make that happen before summer recess.
- There is a need to look twenty years ahead and consider how shifting demographics, labour market needs and technological advances will change the way universities will meet Scotland's needs and deliver economic and societal value.
- We see much potential for the current system (which must include student support) to be fairer and more progressive for students; for it to be future-proofed, with greater flexibility and agility designed into teaching funding methodologies to support different models of learning; and for the current model to be de-risked.
- Building on a decade's worth of shared services, joint procurement and strategic collaboration to drive efficiency in Scotland (saving £13.8m pa in shared services through JISC alone and a further £25.5m pa in joint procurement through APUC), the sector remains proactive in driving forward collaborative efforts to reduce costs and increase effectiveness. Professor Carrington's report from Universities UK's *Transformation and Effectiveness* group,

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[10] SFC (2024) Financial Sustainability Report using TRAC data. The figure of £432m of underfunding of Scottish research covers all research income received in Scotland and, as such, goes further than the underfunding of the Research Excellence Grant as funded by the Scottish Government.

expected in early June, has taken a hard look at how to remove obstacles to greater collaboration between institutions. While the sector is committed to continuing to explore ways in which it can change to respond to current challenges, we know that such actions alone will not be sufficient to address the current financial crisis facing the sector.

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