Universities Scotland

Pre-budget scrutiny 2026/27: Responding to Long-term fiscal pressures.

Universities Scotland represents all 19 of Scotland's universities and higher education institutions. We have not responded to every question in the consultation but offered our perspectives, informed by evidence, where this can be of most assistance to the Committee.

1.What actions should the Scottish Government be taking now to start to address these 'Scottish specific fiscal sustainability challenges'?

We note that the context provided in association with this question makes a direct connection to Scotland's demographic projections, which point to an ageing population and an associated increased pressure on public services, particularly health and social care which Scotland's universities are primed to support. Responding to that focus, we make three points (i-iii) on the direct, and constantly evolving, support universities provide for the NHS and social care, before expanding our answer to look at wider actions that Scottish Government could be taking in regard to universities and fiscal sustainability:

i. **Universities play an essential role educating Scotland's healthcare professionals.** They are active in working with the NHS to explore new models of delivery – responding, for example, to the particular needs of remote and rural communities, or the challenge of encouraging mature learners to retrain for careers allied to health. Recent examples of innovative approaches to this include:

- The University of the West of Scotland runs a flexible, online delivery model for Operating Department Practice (ODP) to deliver work-based learning for colleagues working in clinical environments to develop safe, effective, individualised and patient focused care.
- Glasgow Caledonian University offers a remote, hybrid programme delivery to enhance widening access to Podiatry education,
- The University of Edinburgh offers the HCP-Med programme, which is a five-year medical degree specifically designed for experienced Scottish healthcare professionals to retrain as doctors and therefore to potentially enhance recruitment to shortage specialties in underserved areas of Scotland. The first 20 students to complete the programme graduated this July in what is a UK-first. There is a strong emphasis on GP placements to encourage students to pursue careers in General Practice close to where they currently live and work.
- Robert Gordon, working with the Scottish Government and Scottish Funding Council, ran a project in the North East of Scotland to review gaps in current provision and in collaboration with partners, co-design new courses to both upskill existing health and care staff and provide training opportunities for people from other sectors.

This is small selection of examples and we could provide many more. It's also important to say that a number of universities across Scotland are proactively working with NHS partners, the Scottish Government and others, right now to develop new, creative and responsive models to train healthcare professionals to meet Scotland's skills needs in a way that meets people where they are; in a very literal, geographic sense and in terms of the point in their careers and lives.

Despite such positive initiatives, the teaching funding model universities work with (as a separate point to the quantum of resource, which is an entirely separate challenge) is highly restrictive, and does not provide much opportunity to pilot new initiatives. Going back to the question, we need the Scottish Government's approach to university and student funding to allow for new ways to incentivise and enable universities and their partners in the health and social care sector to innovate in healthcare education, without creating unmanageable levels of risk at a time of heightened pressure on resources for both the NHS and universities.

It is important that there are sustainable student finance models and non-repayable bursaries to support all healthcare professionals undertaking pre-registration training (including on a part-time basis). This includes funding for those who want to pursue their studies part-time. In addition, we need sustainable funding for post-registration programmes to ensure the continuing development and retention of those working in the health professions which will ensure their skills and practice are research informed. This will ensure return on investment on the original training. There could also be some potential in enabling people to retrain in the healthcare sector, particularly for people in jobs that are becoming obsolete.

ii. Universities are also critical to the blue-skies and applied research that will enable better prevention and treatments for patients, and different ways of working in our health sector.

Funding for the Research Excellence Grant (REG) and the Knowledge Exchange and Innovation Fund (KEIF) must be prioritised as enabling strategic investments in patient health and improved outcomes for the NHS. For example:

- The Telescot research programme of blood pressure telemonitoring trials, a collaboration between the NHS, Edinburgh Napier University, and the University of Edinburgh, has been rolled out nationally after demonstrating the potential to reduce stroke incidence by 15% and cardiovascular disease by 10%.
- Universities frequently partner with local health boards on research outcomes, as for example University of Stirling does with the NHS Forth Valley and Forth Valley College on topics spanning diabetes management, falls prevention, and surgery recovery.
- The University of Aberdeen, alongside Robert Gordon University and other partners work with NHS Grampian and Aberdeen City Council in the Lead on the Health Determinants Research Collaboration, which looks at the causal role of poverty in health inequalities in the north east, as one of a few regions across the UK. The research collaboration aims to help understand the prevalence, causes and impact of poverty, and to support joint working to reduce and mitigate poverty and thereby improve health outcomes.

Very little funding for research is provided at full economic cost (FEC). Funding universities receive from charitable bodies (often for medical research) has one of the lowest percentages of FEC - between 57% and 68%[1]- meaning universities have to cross-

[1] Vivensa Foundation (2025)

subsidise the work from other sources (typically international student fees). We make this point to highlight the interdependencies of the university funding model and to say that REG, as funded by the Scottish Government, needs to be supported on a sustainable basis so that Scottish research is not left exposed to the volatility of international student recruitment. Unsustainable levels of funding for teaching have real-world implications for research, and in turn the contribution universities make to health and social care through that route.

iii. **Hospitals active in research have lower mortality rates and deliver better patient outcomes**.[2] However, the number of clinically trained researchers in Scotland has declined at an alarming rate over the last decade, with more than a 30% drop amongst mid-career level professionals. Whilst the NHS workforce as a whole has expanded, its research arm is shrinking. Scotland currently lacks a dedicated, additional, ring-fenced funding stream to support the training and development of clinical academics. Without structural backing, research becomes optional and is not sustained. We would like to see the creation of a national clinical academic career framework in Scotland, expansion of joint NHS–university research posts, and the integration of research pathways into routine NHS workforce planning.[3] This would both make a positive impact while also delivering efficiency and reducing the burden on public expenditure. Making this strategic investment would help build better foundations for patient outcomes within an aging population.

Now looking beyond healthcare and recognising that significant public resource is invested into universities, we make two suggestions for university funding that are grounded in the context of Scotland's long-term fiscal challenges:

iv. In the short-term, we suggest that some resource is found within the 2026/27 budget to create a multi-year transformation or spend-to-save fund for universities at a scale capable of supporting multiple institutions to make their own strategic investments in transformation, long-term efficiency, greater collaboration and shared services. This would accord with the preventative approach outlined in the Public Service Reform Strategy (though it is important to note that universities are not part of Scotland's public services/sector) and is consistent with a broader university transformation agenda being driven across the UK as led by Universities UK and Sir Nigel Carrington's Transformation and Efficiency Taskforce[4], which also seeks transformation funding from the UK Government (for universities in England) to catalyse transformation.

Scotland's universities have a strong track record of leading large-scale efficiency drives, sharing services and collaborating more broadly, with £27 million combined savings every year through JISC[5] and APUC[6]. They are keen to go further, but in a planned, strategic way that protects the quality of teaching and research that is currently delivered. Universities want to avoid a situation where financial constraints from underfunding force short-term cuts to mitigate costs that do not serve the long-term needs of students, employers, our regions, or Scotland as a whole. A survey of UK universities earlier this year found a marked step-up in the short-term cost-saving measures required in institutions in

[2] Royal College of Physicians (2021)
[3] Universities Scotland (2025)
[4] Universities UK (2025) Report of the Efficiency and Transformation Taskforce
[5] Jisc is the UK digital, data and technology agency focused on tertiary education, research and innovation.
[6] APUC is the procurement centre of expertise for Scotland's universities and colleges.

response to funding pressures.[7] They include 49% of institutions across the UK having to close courses (doubling over the last year from 24%), and 46% having to cut optional modules. Looking ahead, 88% of institutions see the prospect of course closure or course consolidation over the next three years. With short to medium-term investment from the Government, a spend-to-save fund for universities has the potential to help the sector realise long-term efficiencies in delivery.

v. In recent years universities have not been a high priority for public investment relative to other sectors. As a consequence of which there is now a need for urgent action to stabilise the sector's funding model and safeguard its future contribution to Scotland's society and economy. Investment in higher education needs to be considered through the lens of sustainable economic growth, the nation's health, the education of our workforce and making lifelong learning a reality. The university sector's contribution is essential in delivering the ambitions of the National Strategy for Economic Transformation for example, including through improving the absorptive capacity and productivity of the Scottish business base, undertaking research which underpins thriving and emerging industries across the green economy, and educating the skilled workforce the economy needs. We have started conversations with the Government and others in recent months on the sector's funding model, and have engaged on a cross-party basis, but the figures in the MTFS starkly demonstrate the scale of the challenge ahead.

vi. Scotland's fiscal sustainability challenges will manifest differently across the rural and urban conurbations, and a principle of 'place' informs both government and university decision-making. Scottish specific fiscal sustainability challenges include limited access to skills and economic prosperity beyond the greater conurbations where populations are less inclined or less able to move, and demographic changes are differential across local authorities. Innovative partnerships – such as the UWS and NCL Undergraduate School where partnership between university college addresses below-average degree attainment rates in North Lanarkshire and creating important new opportunities for local students to achieve degrees tailored to specific skills demands in areas such as Dental Nursing, Health and Social Care, Digital Development and Cyber Security, with high retention of graduates in the area to contribute to regional fiscal prosperity.

5. What should the next Scottish Spending Review prioritise?

The next Scottish Spending Review must recognise the importance of realistic multi-year funding settlements for universities. Only multi-year commitments give institutions the predictability and stability needed for long-term planning and sustainable capital investment. Over the past decade, structural underfunding for Scottish students – where government funding has not covered the costs of delivery, has left the sector reliant on cross-subsidies and exposed to financial shocks. An unsustainable funding model has resulted in significant financial challenges, as evidenced by the collective operating surplus of Scottish universities falling by 92% in 2023/24.[8]

As mentioned in response to question 1, the next spending review should also recognise the long-term benefits to be realised from the creation of a multi-year transformation fund for the university sector, which could support strategic change, greater collaboration, and more shared services. Half of our universities are currently in financial deficit. Without additional funding to help enable a strategic, cross-institutional approach to efficiency, there is a risk individual

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[7] Universities UK (2025) Survey of cost mitigations across UK universities.
[8] Universities Scotland (2025) Submission to the Education, Children and Young People Committee of the Scottish Parliament for its inquiry into financial sustainability.

universities are forced into reactive cost mitigation measures that may not be in the long-term best interests of students, staff, institutions, or our regions.

It is vital that universities are sufficiently supported to continue their teaching, research, innovation, and civic missions, which make significant contributions to delivering the Scottish Government's priorities. For example, university research informs policy design and legislation; university-led health partnerships drive digital innovations in NHS care; and universities' widening access initiatives provide crucial social mobility opportunities for Scottish students from deprived backgrounds. A Spending Review that locks in sustainable, long-term funding for higher education will enable universities to remain the Scottish Government's indispensable partners in delivering its Programme for Government and contributing to social and economic improvements for Scotland.

6. Faced with an ageing population, what actions should the Scottish Government take to increase labour market participation, with a view to growing the tax base?

This is a fundamental point and one which will become critical for Scotland and all parts of the post-16 education sector from 2030 onwards, as Scotland's population of under-16 year olds (and therefore our future cohorts of school-leavers) starts to decline fairly sharply. This fall, when set against Scotland's needs for increased labour market participation means Scotland will need to redesign the way it funds and supports universities and others to provide flexible and agile education and reskilling. We set out the scale of the challenge and offer some suggestions to move towards a new approach.

Whilst the cohort of young people in Scotland will start to shrink from 2030 to 2073 based on current projections from the Scottish Fiscal Commission,[9] Scotland will need an estimated 1.1 million people – two-fifths of its current workforce - to fill job openings driven by growth and the need to replace workers leaving the labour market in the next 10 years.[10] Trends in particular regions will be different and therefore they may be a need for tailored responses. It will be important to connect this to the Scottish Government's work on national and regional skills planning. Scotland will need to find ways of incentivising the existing workforce and older learners to reskill, upskill and change career as needed to match the needs of the economy.

It's estimated that 86% of new jobs in Scotland by 2035 will be at graduate level, and more than 899,000 graduates will be needed to fill them.[11] Universities will play a central role in producing the necessary pool of labour, and are a natural partner in providing lifelong learning to industry.

Universities have made these points to the Government and Parliament[12] making the case that our current funding model is largely predicated on full-time study for school-leavers. However, there is limited scope within the capped numbers model and the current quantum of public funding invested in higher education - which falls far short of the cost of provision - for institutions to start to invest in the creation of more diverse routes and parallel options for learners.

We would therefore like to see the Scottish Government create a policy and funding environment that gives universities the scope to flexibly respond to Scotland's skills needs, which could in turn make a significant contribution to increasing labour market participation.

That requires:

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[9] Scottish Fiscal Commission (2025) Fiscal Sustainability Report Visual Summary
[10] Prosper (2025) *Scotland's Blueprint: the Art of the Possible*
[11] Universities UK (2024) Jobs for the Future
[12] Including in June 2025 in a submission to the Education, Children and Young People Committee of the Scottish Parliament which ran an inquiry into the financial sustainability of universities.

- **Longer term funding commitments to enable better planning.** Universities can deliver skills provision in multiple ways, but need to be able to plan. Funding that is confirmed late and is one-off or limited for one year - for example, the now discontinued Upskilling Fund - does not provide maximum value for money. It limits opportunities for collaboration with industry/employers (or other universities) and effective communication with prospective students, which is necessary to build demand for new courses.

  The Flexible Workforce Development Fund (of which the Open University and colleges were providers) - valued at £10.5 million per year[13] - was discontinued in 2023/24, despite strong demand for the associated opportunities, strong support from universities, colleges and businesses, and positive evaluations. Once it was discontinued, the Open University alone had to turn away over 1,000 learners from all over Scotland because no funding was available and neither the individual nor their employer could afford to pay for their training.

  The Scottish Funding Council's Upskilling Fund, previously valued at £7million per year,[14] was also discontinued in 2024/25. It would be helpful if an evaluation of the Upskilling Fund could be shared so that it can contribute to discussions around how best to invest in skills development through short courses for the future

- **An innovative approach to the Funding Council's "recovery" policy.** In the short-term there is an opportunity for the Scottish Government and Scottish Funding Council to work with universities to strategically redirect the resource attached to any unfilled, undergraduate places within the university sector, to enable new models of provision that are strategically viable for the future. That might include for example delivery of new undergraduate programmes, anticipating future workforce needs and student demand, upskilling courses or new work based learning courses which meet the needs of a different group of learners/place. This will help universities plan to meet regional needs and also support the financial sustainability of universities. At present, the approach to recovery (or clawback) of funds is year-to-year, reactive approach and risks penalising institutions in the present for under-delivery of the past, limiting their ability to adapt provision in a way that responds to need (which links back to the need for multi-year funding perspectives made above in response to question 5).

- **More flexibility within graduate apprenticeships to respond to employer needs**. That includes greater subject range and an updated process from the current "framework" model for Graduate Apprenticeships (GAs), as operated by Skills Development Scotland (SDS). The Tertiary Education and Training (Funding and Governance) Bill, which is expected to move into stage 2 in autumn/winter 2025, creates an opportunity to introduce greater agility and responsiveness into the development of new graduate apprenticeships.

  GAs can only currently be offered in subject fields that fall within one of the 14 existing frameworks, which leads to frustration for employers and universities that see demand for GAs in other areas. There are multiple examples of universities developing work-based degrees in highly-sought after professional disciplines (such as town planning and podiatry) which have not been approved via the framework model as the frameworks don't exist and the process to develop new ones is slow and often unclear, meaning GAs evolve at a far slower pace than other aspects of university provision. Whilst universities have effected worked around the framework model to respond to need, the consequence of not doing so within the framework model is that universities are not funded on an equivalent basis to undergraduate degrees to deliver them (losing the "fee element" of £1,820 per place). GA

[13] Scottish Funding Council (2023) Flexible Workforce Development Fund
[14] Scottish Funding Council (2023) University Final Funding Allocations 2023/24

frameworks have not been substantially reviewed in a decade meaning they are evolving at a far slower pace than HEIs' degree provision.

- **A funding model that allows for public investment in short course skills development** to enable meaningful upskilling of individuals, especially in the context of current costs of living. Scotland needs a fund that encourages people to develop their skills and/or to reskill, so that we can meet the challenges of changing demographics and the changing skills needs in the economy. The funding model might involve employer and individual investment alongside public money, but needs some public investment to work.

  Moreover, we would welcome the opportunity to work with the Scottish Government and SFC to creatively address challenge via upskilling. For example, upskilling those working in Early Years Education, Community education or education more widely to deliver healthy living initiatives to reduce some of the future fiscal pressures coming from health/illness demands. Some of our universities are also closely involved in community learning and development provision, working with the economically inactive to help them back to the workforce.

- **Funding systems that support full-time and part-time study.** The current system incentivises full-time study over part-time study at undergraduate level. Full-time students can access living cost loans and bursaries and have their fees paid. Part-time students may be able to get a grant for tuition fees if their income is below £25,000, a threshold that has not changed in a decade. We therefore support the current Scottish Government consultation on financial support for part-time and disabled students and would like to see action taken by the next Government. We note that care will need to be taken around the intersection of student support and benefits for part-time students however, it is essential that we address this issue, especially in the context of changing demographics, where learners may return to study later in life or need to balance studying with work and caring commitments and this is disincentive to upskilling and lifelong learning and does not support widening access.

Inward migration. The scale of the demographic challenge Scotland faces also makes a compelling argument for a more strategic and targeted approach to net inward migration. The following points focus on how Scotland could seek to grow its population, in working age cohorts, through the attraction and retention of international students:

- **Offer more support for Scottish employers to retain international graduates in Scotland.** Particular emphasis should be placed on international postgraduates, who are already degree-educated, are likely to have several years of industry experience from other nations, and are highly motivated and career-focused. Demographically, this cohort is the right fit for Scotland's population and economic needs. Over half of the 30,000 new postgraduate students Scotland welcomes every year are over 25 years of age, and around 20% are over 30 years of age. Despite recent UK Government migration policy changes, international postgraduate students are still able to obtain a post-study work visa to start a career in the UK (though they are not allowed to bring their families with them if they do so). At present, many international postgraduates who want to stay and work are leaving Scotland after their studies, with 15% moving to other parts of the UK before even applying for their post study work visa (graduate route)[15].

  Action to encourage more postgraduates to stay and work in Scotland, could include:

[15] MAC review (2024)

- Mapping Scotland's skills gaps/needs and aligning these with a focused taught postgraduate offer, creating pipelines for international talent in key sectors of the Scottish economy.
- Bolstering investment in Scotland's Migration Service, particularly to build confidence in an SME-dominated landscape, so that more businesses feel able to employ international graduates, and to highlight opportunities in Scotland to international graduates.

8. *In which areas should the Scottish Government prioritise its capital spend to best support economic growth?*

University research and innovation (R&I) activities create jobs, attract foreign direct investment, and fuel economic development, delivering a return of £10.8 for every £1 of public money - thereby making a significant contribution to economic growth.[16] However, as noted previously, Scottish universities undertake R&I activities at a significant financial loss, necessitating cross-subsidisation from other income sources that are often precarious and unpredictable. Given the challenging financial circumstances faced by the sector, the need for sustainable, predictable research funding- which in turn delivers such marked returns to the Scottish economy- is acute.

Government investment in university research through the dual-support funding system is necessary to build and maintain institutional capabilities, which enable universities to seek and win research funding from businesses, charities, and UK and international funding bodies. The Government's primary avenue for institutional funding, the Research Excellence Grant (REG), fell 31% in real terms between 2014/15 and 2023/24[17], making it increasingly challenging for Scottish universities to invest in research staff and facilities to retain levels of competitiveness.

Scotland's share of competitively won UKRI research and innovation funding has fallen from 16.0% in 2013/14 to 13.6% in 2023/24, representing a potential loss of more than £450 million in funding over a decade. If Scotland were able to recover its competitive position, it could deliver an additional economic impact of at least £800 million each year.[18] By supporting institutional capacity, increased REG funding would enable leveraging of external research and innovation funding resources into Scotland, amplifying the economic impacts of the Scottish Government's investment. This is particularly important in a context where the knowledge exchange and innovation budget available to English universities has increased significantly in cash terms in recent years compared to Scotland. A growing gap in dual funding is likely to continue to impact our research competitiveness at both national and international level.

The imperative for increased investment is strengthened by the extensive opportunities presented by the Scottish Government's National Innovation Strategy and UK Government policies such as the newly-launched Modern Industrial Strategy, which both prioritise industrial sectors well-aligned with Scottish universities' world-leading research excellence. By resourcing universities to leverage their strengths in ways that can contribute to the successful implementation of these frameworks, Scottish Government can help both secure additional funding for Scotland and ensure the nation benefits from the economic opportunities the Strategies aims to create.

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[16] London Economics (2024) *The economic impact of higher education teaching, research, and innovation.*
[17] Figure calculated using RPIx.
[18] Figure based on London Economics' estimation that every £1 spent on research through research councils generates an economic impact of £12.7. London Economics, 2022, *The Economic Impact of Scotland's University Research.*

There are additional opportunities for universities to leverage research funding from across the UK Government's defence, health, and local government portfolios, as well as via the EU's Horizon Europe programme, if sufficiently supported to do so by the Scottish Government. This funding would in turn generate significant additional economic returns for Scotland through catalysing the attraction of private investment, supporting quality employment opportunities centred in local communities, and generating 'spillover' economic benefits through supply chain spend for example. Enhanced public investment in research and innovation infrastructure would also support private businesses, particularly SMEs, by strengthening Scotland's innovation infrastructure and attracting private capital to innovative and early stage businesses.[19]

Scottish universities are central to the country's innovation ecosystem, delivering substantial economic returns through our R&I activities and contributing to local industries and businesses. For example:

- **Growth of industry clusters.** Universities act as anchor institutions across Scotland's regions, fostering the development of globally competitive sectors such as life sciences, photonics, space and satellite technology, artificial intelligence, and net zero transition. For example, Scotland's life sciences sector - enabled by university research in areas such as industrial biotechnology, precision medicine, and digital health - now comprises over 770 companies, employs more than 42,500 people, and contributes almost £10.5 billion in turnover annually. [20]
- **Support for SMEs.** Beyond sector growth, the university sector also drives innovation and productivity directly into Scotland's business base. Every year, Scottish institutions collaborate on over 20,000 innovation projects with companies, many of them SMEs. SME innovation activity remains limited, with only 30.1% of small businesses in Scotland considered 'innovation-active' in the 2023 UK Innovation Survey, demonstrating a need for systemic support for businesses to increase their absorptive capacity and focus on innovation.[21] Universities could play an important role in addressing this absorptive capacity gap, by working closely with businesses to embed skills, introduce new technologies, and co-develop commercial R&D. Through consultancy services, Knowledge Transfer Partnerships, tailored innovation support, and provision of incubation infrastructure, universities help firms overcome barriers to innovation.
- **Spin-out success**. Scottish universities are also national leaders in spin-out creation, with survival and growth rates far exceeding typical start-ups.[22] Scotland is one of the most successful areas of the UK for spin-out company formation, and creates new companies at a rate second only to the golden triangle of Oxford, Cambridge and London. Scottish universities are the providers or key partners in most of Scotland's company incubation capacity, as well as leading in the hosting of Tech Scalers, both of which drive increased capacity in our R&D commercialisation eco-system. Expanding capital investment in university-led innovation infrastructure, such as labs, incubators, and technology parks, would directly support further commercialisation of research, enhance regional productivity, and improve Scotland's international competitiveness.

Through increased capital spend on university's research and innovation activities, Scottish Government will not only strengthen the higher education sector, but the broader innovation ecosystem and industrial base in Scotland also, generating economic growth and strong returns across the economy.

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[19] Scottish Enterprise (2023) *Scottish Universities Spin Out Review*
[20] Scottish Development International (2024) *Health and life sciences industries*
[21] Scottish Government (2024) *UK innovation survey 2023- results for Scotland,*
[22] Royal Academy of Engineering (2022) *Spotlight on Spinouts report*