Looking to the future: a stable, effective, and competitive university sector

Universities Scotland's submission to the Scottish Government's 2026/27 budget-setting process

The last 12 months have been seismic for Scotland's universities. Geopolitical instability, further changes to the UK's immigration regime, tax increases, and persistently high inflation have relentlessly increased the pressure on a diverse sector that was already grappling with the consequences of long-term structural underfunding. The crisis at the University of Dundee has laid bare the precarious nature of Scotland's current HE funding model, and the associated implications for the nation's social and economic wellbeing.

The challenges we face in enabling and sustaining a flourishing HE sector are complex and difficult, but we approach the final year of this parliamentary term with renewed determination and hope for the future. Partnership working is an embedded feature of Scottish public life. It is our default approach to engaging our many and varied stakeholders – from the Scottish Government and Scottish Funding Council (SFC), to adjacent sectors, local and international businesses, and our staff and student communities. It is also the only viable approach to tackling the structural problems that risk undermining our future contribution to Scotland's growth and prosperity.

Scotland's universities stand ready and willing to work with any and all partners interested in the long-term vitality and competitiveness of our sector. We are encouraged by recent discussions with the Scottish Government, opposition parties, and other stakeholders regarding the funding model needed to underpin a thriving and sustainable university sector, and look forward to working in partnership to progress associated actions over the coming months.

However, we must also address our immediate financial reality. We cannot sustain another year of real terms funding cuts without serious implications for the stability of our sector and hence our core teaching and research activities, as well as the social and economic contribution we make to Scotland, and our global reputation and competitiveness. We therefore look to the Scottish Government for a 2026/27 budget settlement that:

- stabilises the sector, stemming the decline in HE investment, particularly for teaching, and mitigating the impact of intense geopolitical instability;
- creates space to test new ways of working that drive innovative approaches to transformation and effectiveness;
- helps relieve acute and immediate funding pressures, thereby ensuring the sector can play a full role in progressing the development of a sustainable and competitive university funding model for the future; and
- enables the sector to build back its reputation and competitiveness, via a credible funding package for both students and our research base.

Our ask

We are alive to the fiscal realities facing the Scottish Government, and the extent of demand for public investment across multiple sectors. Our ask is carefully calibrated. A single year's settlement cannot 'fix' university funding, but it can help mitigate immediate pressures and reduce the risk of institutional crisis. We therefore ask that the Scottish Government:

- increases SFC's Higher Education Resource budget by **5% in real terms** (6.7% in cash terms), relative to the 2025/26 baseline;
- increases SFC's Higher Education Capital budget by **3% in real terms** (4.7% in cash terms), relative to the 2025/26 baseline;
- provides an **inflationary uplift** to discretionary and childcare funding for students, ensuring learners are not deterred from studying at university because of caring responsibilities or other personal circumstances. We note this ask would still mean funding falls well short of the £16m made available in 2023/24; and
- creates a **£20 million strategic funding pot** to support and enable enhanced work on university effectiveness and transformation, helping drive maximum value and efficiency from university spend, and empowering innovative new collaborations across and beyond the sector. We note that the Scottish Government intended to introduce a similar fund in FY 2023/24, but the £20m initially announced was withdrawn in-year.

Our asks are further summarised in the table below[1]:

	2025/26 budget	**Budget sought in 2026/27**	**Uplift**
SFC Higher Education Resource	£773.5 million	£825.6 million	£52.1 million
SFC Higher Education Capital	£368.2 million	£385.5 million	£17.3 million

[1] Calculated using https://spice-spotlight.scot/real-terms-calculator/

Discretionary and Childcare Funding	£12 million	£12.2 million	£0.2 million*
University Effectiveness and Transformation Fund	-	£20m	£20 million*

*NB – these funds would represent a partial or full restoration of monies provided to (or initially intended for) the sector in 2023/24, and therefore are not new asks per se.

Stability

It is an unavoidable reality that public investment in universities has been falling in real terms for more than a decade. Neither teaching, nor research, is fully funded. Public investment per student is down over £3000 - or 39% in real terms - compared to 2014, and public sector research grants account on average for only 69.3% of associated costs.[2] As ministers are aware, the only means of sustaining the sector in such circumstances has been cross subsidy, primarily from fees paid by international students.

That model has become profoundly unstable in recent years due to geopolitical events, seismic currency fluctuations in key markets, and the UK's changing immigration regime. New visa restrictions precipitated a 20% fall in international students coming to Scotland in 2023/24, with some individual institutions experiencing an even sharper contraction in numbers. The latest UKVI data shows a further 7% year on year decline in student visas across the 2024/25 academic year. The sector is also bracing for further volatility as a consequence of the UK Government's Immigration White Paper, which signals a curtailing of the Graduate Route Visa for post-study work and increased controls on student visa compliance metrics.

The extent to which universities have been forced to rely on international income as a means of cross subsidising core teaching and research activity means the consequences of falling international student numbers have been immediate. The sector's collective operating surplus fell by 92% in 2023/24, and 53% of Scottish universities recorded a deficit. Stubbornly high inflation and utilities bills, amongst other unavoidable outgoings, are applying relentless upward pressure on operating costs. Increasing employer National Insurance contributions alone are estimated to have cost the sector £45m. Perhaps unsurprisingly, a recent UK-wide survey found that almost half of institutions had closed courses, and nearly a fifth had reduced investment in research.[3]

The greater the gap between funding and the costs of provision, the greater the likelihood that universities will be forced to keep reducing their costs in ways that are

[2] Based on UK-wide average costs. Source: Table 5, https://www.officeforstudents.org.uk/media/lqjivwol/annual-trac-2022-23-update-july-2024.pdf

[3] https://www.universitiesuk.ac.uk/what-we-do/creating-voice-our-members/media-releases/universities-grip-financial-crisis-what

detrimental to their competitiveness, and even their stability. Neither the Scottish Government, nor the university sector – nor indeed Scottish society at large – wants to see another institution reach crisis point. Measured, targeted, and stabilising investment is far preferable – and significantly more cost effective – than reactive measures necessitated by events.

A stabilising budget settlement can help diverse universities respond to acute financial challenges in a managed and manageable way, in turn ensuring that students continue to receive the high quality education they expect and helping reduce the sector's relative reliance on volatile and unpredictable international funding streams.

Effectiveness

As noted above, we recognise the fiscal pressures facing the Scottish Government and the difficult choices ministers face. It is incumbent on every sector in receipt of public monies - including universities - to drive maximum returns from that investment.

Universities have a track record of leading large-scale efficiency drives and sharing services. Collaboration through agreements led or facilitated via specialist organisation APUC[4] saved institutions over £37 million in the last academic year, and use of shared procurement frameworks is more than twice as high as in the English sector.[5] Additional savings and access to super-high bandwidth, as well as a globally-leading internet service, is provided via the sector-owned JISC[6] shared service.

Universities are committed to scrutinising the full breadth of their operations, working innovatively and where appropriate with other sectors to maximise our efficiency and effectiveness. We are proud of our track record and want to go further, working with our partners in a planned, strategic way that protects the quality of teaching and research but drives out costs where it is efficient and sustainable to do so. However, it is paradoxically the case that identifying, developing, trialling, and rolling out cross-organisational efficiencies – particularly in such a diverse and geographically dispersed sector – requires upfront investment. Relatively modest spend can unlock significant savings, but that is currently beyond many institutions facing huge challenges in simply maintaining their core services and offer.

We look to the Scottish Government to help empower a renewed, collaborative drive to maximise efficiency and effectiveness by reinstating the strategic investment withdrawn in 2023/24. Whilst the level of funding sought is not at a scale that would support a fundamental review of university operations it would help unlock savings

[4] APUC is the procurement centre of expertise for Scotland's universities and colleges. https://www.ukupc.ac.uk/about.html

[5] https://www.universitiesuk.ac.uk/sites/default/files/field/downloads/2025-07/UUK-Transformation-and-Efficiency-Towards-a-new-era-of-collaboration-2025_1.pdf

[6] https://www.jisc.ac.uk/

across the sector, enabling institutions to drive down costs in ways that could deliver return on investment relatively quickly.

Investments could include preparatory work for new shared services, and/or demonstrator projects that can ultimately be rolled out across the university sector and beyond. We ask that government enables and catalyses that work by investing in it directly, alongside an appropriate funding package for core teaching and research activity. The latter is a foundational step that will help universities protect their core activities, and create space for action on shared efficiencies that is planned and purposeful, as well as being in the sector's long term interests. Without it, there is a serious risk that universities are forced into short term decision making driven by financial necessity, and that the opportunity is lost to drive down cost in ways that add value across the whole sector and beyond.

Competitiveness

Ministers are rightly proud of our sector's international reputation for quality and excellence, across both teaching and research. More than two thirds of our universities are ranked in the top 5% of institutions globally; an incredible concentration, particularly given Scotland's relatively small size.[7] Scottish universities continue to attract highly talented students and staff from across the world, and are all conducting research that is judged to be world leading.[8] We also continue working hard to maintain the quality of our offer to all students, including our support for wellbeing and welfare, with the latest National Student Satisfaction Survey finding overall student satisfaction exceeds 80%.[9] Our quality assurance and enhancement model meets international expectations on quality,[10] and pioneered an enhancement-led approach in partnership with students. This has in turn generated significant interest from other countries in our quality system.

However, success is never guaranteed in a truly globalised sector, and there are worrying signs that structural underfunding risks undermining our competitive advantage. Scotland's share of competitively won UKRI research and innovation funding fell from 15.98% in 2013/14 to 13.59% in 2023/24,[11] equating to a potential loss of more than £450 million. If we were able to recover our competitive position, it could deliver an additional economic impact of at least £800 million each year.[12]

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[7] https://www.timeshighereducation.com/world-university-rankings
[8] As determined by the last Research Excellence Framework exercise, REF 2021.
[9] https://www.sfc.ac.uk/?news=student-satisfaction-rising-following-pandemic-dip
[10] European Standards and Guidelines on quality, which are used beyond the borders of Europe and form the basis of EQAR's assessment.
[11] https://www.hesa.ac.uk/data-and-analysis/finances/table-5
[12] 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*

Financial challenges also place unrelenting pressure on our core offer to students, who themselves face significant cost of living difficulties. We are rightly proud of our internationally recognised approach to quality assurance and enhancement, but the more funding is squeezed the harder that becomes to effectively sustain. In addition, a recent report found that institutions across the UK are seeing significantly increased demand for student support,[13] which is becoming more and more challenging to meet.

Discretionary and childcare funding makes a vital contribution to ensuring students are not prevented from accessing a potentially life-changing university experience because of their personal circumstances. Demand has increased, but funding has fallen by 30% in real terms between 2023/24 and 2025/26. We ask that the Scottish Government takes action to stop the further erosion of this funding by at least keeping pace with inflation – noting the impact relatively modest awards can have on the decision-making of prospective students with caring and other additional personal responsibilities.

A budget settlement that helps maintain the competitiveness and equity of our offer to students will help ensure they continue to benefit from a world class educational experience, with all the associated benefits that brings to Scottish society and our economy in the longer-term.

Our offer

Universities are uniquely well placed to help deliver progress across the Scottish Government's four strategic priorities. We summarise below the contribution universities are already making to eradicating child poverty, growing the economy, tackling the climate emergency, and delivering high quality and sustainable public services, and identify some of the associated issues we want to work on with government and others over the coming year and beyond.

Eradicating child poverty

The link between educational attainment and poverty is well established. Universities have a central role to play - alongside Scotland's colleges, schools, and other stakeholders - in lifting aspirations, improving life chances, and breaking intergenerational disadvantage.

Recognising that students who meet widening access criteria are often far less likely than their peers to have linear pathways to entry, universities support learners of all ages to access education and realise their potential. Our sector has the most developed progressive admissions systems in the UK – including contextualised

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Research, https://www.universities-scotland.ac.uk/wp-content/uploads/2022/12/LE-Economic-impact-of-HEI-Research-activity-Universities-Scotland-05-12-2022-CLEAN-STC.pdf

[13] https://www.qaa.ac.uk/scotland/news-events/news/qaa-publishes-tqer-report-for-the-university-of-st-andrews

admissions, minimum entry requirements, and the care experience guarantee - with the aim of doing as much as possible to level the playing field for applicants.

Additional support for students with experience of care has been a core part of universities' collaborative access agenda for many years. 1.9% of Scottish-domiciled full-time first degree entrants in 2023/24 were care experienced, at 620 entrants. This figure has increased every year since 2016/17.[14] Universities also work in partnership with colleges across Scotland to support articulation pathways into higher education, without any repetition of study. In 2022/23, 8,790 students enrolled on a first university degree course in Scotland having previously achieved an HNC or HND qualification at college, accounting for 22.4% of all Scottish domiciled first degree entrants.[15]

Working with adult learners and returners to education is a vital part of widening access work. Universities provide tailored pathways and flexible learning options, often working in partnership with colleges to offer a variety of progression routes. The sector works hard to provide a range of tailored academic, financial and wellbeing support to help students succeed throughout their studies. This can include ongoing mentoring, study skills workshops, careers advice, and enabling inclusive learning environments to help develop belonging and community. However, these services are often provided at an additional cost to universities, and are therefore under significant pressure.

The independent Commission on Widening Access has challenged universities to ensure that, by 2030, 20% of entrants are drawn from our 20% most deprived communities. The sector is proud to have hit the interim 16% milestone in 2021.

However, we recognise that progress towards the 2030 target has slowed in recent years, despite our best efforts. Effective targeting is key, but we are hampered by problems with the data currently used to determine disadvantage. We urge the Scottish Government to recommit to addressing those shortcomings, for both full time and part time students, be they young or mature. That could in turn reinvigorate the sector's progress towards realising the 2030 target, and the associated longer term impact on poverty rates.

Growing the economy

A recent study found the collective economic impact of Scotland's universities exceeded £17 billion in 2021/22 alone.[16] Return on investment is particularly high for university research and innovation, which generates almost £11 from every £1 of public money spent.

[14] https://www.sfc.ac.uk/publications/report-on-widening-access-2023-24/
[15] https://www.sfc.ac.uk/publications/report-on-widening-access-2022-23/
[16] https://www.universities-scotland.ac.uk/lescotland/

The sector's contribution is multifaceted, but it is also rooted in place. Universities play a critical economic, social, and civic role across Scotland – both within their own regions, and further afield. That includes:

- Acting as anchor institutions, and economic actors of place in their own right. Universities collectively employ more than 55,000 staff, making a multimillion-pound contribution to regional economies through their supply chains and staff and student spend on local services, as well as directly supporting community development through their civic and philanthropic activities.
- Instigating and enabling innovation and knowledge exchange, for example through research commercialisation, collaborations with industry, student and staff entrepreneurialism (start-ups/spin outs), attracting foreign direct investment, and hosting an extensive array of research and innovation infrastructure, including incubators and tech scalers.
- Acting as key participants in, and shapers of, the skills pipeline. Universities make the single biggest contribution to meeting Scotland's high skills needs, with an education and training offer that ranges from undergraduate degrees to academic doctorates, upskilling and reskilling opportunities, and continuous professional development.

Universities welcomed the 2025 Programme for Government commitment to work with regional and local partners to identify how best to formally devolve further elements of decision-making and delivery to Regional Economic Partnerships (REP). The sector has a critical role to play, working with partners across the public and private sectors, in identifying and capitalising on regional strengths and opportunities. We look forward to working with the Scottish Government to ensure universities are at the heart of REP decision-making and delivery, across the whole country, going forward.

The sector should also play an important role in the Scottish Government's evolving approach to regional and national skills planning. 86% of new jobs in Scotland are expected to be at graduate level by 2035, and more than 899,000 graduates will be needed to fill them.[17] Universities are also a natural partner in providing lifelong learning opportunities to industry, but our efforts to widen and deepen our offer are hampered by inadequate funding and structural constraints. For example, SFC's Upskilling Fund, previously valued at £7 million per year, was discontinued in 2024/25. Graduate apprenticeships – which have huge potential as a hybrid model of academic learning and work based training – are constrained by a frameworks model that prevents universities from responding to new and emerging industry needs.

We urge the Scottish Government to ensure universities are a central partner in skills planning and development activity, enabling the sector to explore new and innovative

[17] https://www.universitiesuk.ac.uk/what-we-do/policy-and-research/publications/jobs-future)

ways of responding to Scotland's evolving needs and opportunities for high level skills development.

Tackling the climate emergency

The research and innovation undertaken by Scotland's universities is already making a direct contribution to tackling the climate emergency, both at home and overseas. Our work is multifaceted, from developing new technologies to increasing understanding of the drivers of climate change, and the associated policy implications. Scottish Government funding – particularly via SFC's Research Excellence Grant (REG) – is a crucial enabler of that work.

Collaboration is a defining feature of the Scottish approach to research and innovation – across disciplines, between institutions, and with partners in industry – and is particularly important when addressing complex challenges such as climate change. For example:

- Scotland Beyond Net Zero is a collaboration of universities, local partners, and the Scottish Government that aims to address key challenges associated with the climate emergency, including clean energy, storage, decarbonisation, green transport, community empowerment, and climate justice.
- The University of Edinburgh and University of Strathclyde are partners in the IDCORE industry-based Doctoral Training Centre, which is training Engineering Doctorate students in Offshore Renewable Energy to ensure the critical offshore energy industry has access to the highly-skilled graduates it needs.
- FloWave, funded from a mix of public (UK and Scotland) and private sources, and hosted by the University of Edinburgh, is the world's first circular combined wave and current facility. It is designed to support research and development that aims to unlock the full potential of marine energy, including wave, tidal, and offshore wind energy technologies.
- The Scottish Partnership in Energy and Engineering Research (formerly Energy Technology Partnership) is a collaboration of 14 institutions, and the largest academic energy research partnership in Europe. SPEER aims to accelerate the development and deployment of innovative energy technologies with a focus on renewable energy, energy storage, and smart grid technologies.

University research on climate issues has international significance, but there is a further contribution the sector can make in responding to the climate emergency's implications for Scotland. The sector is custodian of a significant estate, with a physical presence in both urban and more rural communities. Our facilities are a central element of our students' educational and social experience, and the day to day working environment for our staff, but in many cases they are also open to the wider public.

Universities are determined to drive down the environmental impact of their built estate, but the scale of the challenge is significant. For example, current data shows that 17 of Scotland's universities collectively need over £850m just to upgrade buildings to 'satisfactory' condition.[18] This excludes capital costs for any new projects that might be needed to keep pace with evolving student expectations, and to maintain attractiveness in a highly competitive international recruitment market.

That said, the level of investment needed also creates a huge opportunity to radically rethink the way university estates are being used, and will be used in the future. The breadth and diversity of the sector's footprint – from listed historical buildings to 1960s office blocks, as well as more modern spaces – creates the ideal environment to test new ideas. Universities are also rooted in place and committed to working with other partners, such as local authorities and colleges, on cross-sector opportunities like large scale district heating networks.

However, that potential is being constrained because of a lack of affordable finance. Universities previously had access to financial transactions lending at very low interest rates through SFC, but that facility was withdrawn in 2024/25 when the funding moved to the Scottish National Investment Bank (SNIB). SNIB is mandated to lend at commercial rates, which are unaffordable for many institutions in the current financial environment.

We would welcome the opportunity to explore with SG, SFC and other relevant stakeholders new ways in which universities might be enabled to invest in their estates over the longer term, simultaneously safeguarding the quality of our offer to our students, staff and wider communities, and empowering our direct contribution to tackling the climate emergency.

Delivering high quality and sustainable public services

Graduates are an essential part of Scotland's public sector workforce – from teachers and planners to doctors, nurses, and allied health professionals. The Scottish Government's ambitious agenda for public sector reform includes a commitment to ensuring services are efficient and financially sustainable, which in turn depends upon a sustainable future for our universities.

The sector's contribution to the NHS is particularly significant. More than 12,000 doctors, dentists, nurses, midwives and other clinical staff graduate from Scottish universities each year,[19] going on to fill vacancies across our urban and rural communities. 7 Scottish universities are ranked in the UK's top 10 for research

[18] Extracted from the Universities Estates Management Report of data from 2022/23.
[19] HESA HEBCI data.

excellence in health and life sciences specialisms,[20] and many have long worked in close partnership with their local NHS boards.

However, there are concerning trends across the sector that, if not addressed, risk undermining the Scottish Government's ambitious plans for the future NHS. Applications from prospective Scottish students are falling across the healthcare professions, including medicine, with the problem particularly acute in nursing. Acceptances onto nursing courses were 6% down in 2024 on pre-Covid levels and, over the last 3 years, over 2400 fewer nursing students have started at university than originally planned.[21] Despite extensive outreach programmes, there is widespread agreement within the university sector that traditional routes into healthcare education – i.e. full time undergraduate courses, taught primarily to school leavers – are insufficient to meet future NHS requirements.

Universities want to work with the Scottish Government, SFC and other relevant stakeholders to develop innovative new pathways into healthcare that can help widen the pool of potential applicants and ultimately ensure the NHS has the doctors, nurses and allied health professionals it needs for a sustainable future. A recent conference on innovative provision, co-hosted by the Scottish Government and Universities Scotland, attracted significant interest from across the sector, both in Scotland and further afield. A wide range of approaches was discussed – demonstrating the sector's ability to respond to recruitment challenges, when it is enabled and empowered to do so. For example:

- HCP-Med for Healthcare Professionals – an innovative five-year medical degree specifically designed for existing healthcare professionals, clinical scientists and veterinary surgeons living and working in Scotland who want to pursue a career in medicine.
- Scottish Graduate Entry Medicine (ScotGEM) - a four-year graduate entry medical programme, tailored to meet the current and future needs of the NHS in Scotland, with a particular focus on rural medicine and healthcare improvement.
- PREPARE Podiatry – developed in partnership with NHS Greater Glasgow and Clyde, an innovative programme that enables existing heath board staff to undertake an undergraduate degree in podiatry alongside their professional duties.

Universities recognise the financial constraints facing the Scottish Government in the short to medium term. However, we are also conscious that ministers continue to make considerable investments in the NHS, which could support innovative and agile new

[20] Ranking relates to five Units of Assessment in REF2021.
[21] https://www.rcn.org.uk/news-and-events/news/ucas-figures-121224

funding mechanisms that help meet recognised workforce challenges. The sector stands ready to build on the momentum generated by the innovative pathways conference, in order to drive forward the necessary reforms.

Partnership working also underpins the sector's approach to clinically-driven medical research. Scotland's single national health service, and relatively small number of health boards, creates a powerful opportunity to respond to new and emerging treatment challenges in ways that could benefit generations of Scots to come.

However, Scotland's clinical academic workforce has been significantly eroded in recent years. FTE readers and senior lecturers fell by 30% between 2004 and 2021. Underrepresentation of women is a particularly acute problem, with women making up less than half the total professorial academic staff.

Clinical academics act as a unique interface between patient-facing care and research – treating patients, whilst also designing clinical trials and testing new therapies. We urge the Scottish Government to work with universities and health boards to reverse the fall in the clinical academic workforce, to the benefit of patients now and in the future.

We see huge opportunity for the future of clinical research in Scotland. Stemming the decline in the workforce is an important first step, but recent experience elsewhere in the UK suggests collaborative infrastructure also has a role to play in speeding up the translation of research into new treatments. Biomedical Research Centres (BRCs) bring together academics and clinicians to translate early scientific breakthroughs into potential new treatments, diagnostics and health technologies. There are currently 20 BRCs in England, funded by the National Institute of Health Research, delivering real impact for patients. Recent breakthroughs include lifesaving treatments for cancer, enabled by novel drug research supported by a BRC.[22]

There is no equivalent infrastructure in Scotland at present. Universities are keen to work with the Scottish Government and the NHS to develop a business case for establishing BRCs in future years – an approach that would help ensure Scots can benefit from the success of the model to date, whilst adapting it where required to meet Scotland's particular needs and opportunities.

Conclusion

Scotland's university sector is a national and international asset to be proud of, but years of falling public funding have had a fundamentally destabilising effect on its financial health. The warnings in this paper are stark; the 2026/27 budget presents an opportunity to act on them in ways that demonstrate the Scottish Government's commitment to the sector and recognition of the central role it can play in delivering real progress across the full breath of ministerial priorities. Our proposals are concrete,

[22] https://www.nihr.ac.uk/story/transforming-breakthrough-drugs-life-saving-cancer-treatments

realistic, and measured. They are also built on a fundamental premise – that the success of an effective and competitive university sector, making a powerful contribution to Scotland's economy and wider society, is dependent upon a stabilising budget settlement in 2026/27.

ENDS