Narrowing the gap: funding Scotland's university sector

Universities Scotland's submission to the Scottish Government's 2027/28 budget-setting process

The 2026-31 Programme for Government (PfG) charts an ambitious path for Scotland as a thriving, dynamic, socially just nation. Universities share that vision, and can make a unique contribution to delivering every one of the associated priorities:

- We **fight child poverty** by providing world class education to an increasingly diverse student population, deploying the most progressive admissions system in the UK to create life-changing opportunities across Scotland's communities;
- We **grow the economy** by starting and spinning out innovative businesses, transferring knowledge and providing consultancy expertise to thousands of existing enterprises, educating highly skilled graduates to meet local and national skills needs, and generating significant economic activity through investment and local supply chain spend across Scotland;
- We **tackle the climate emergency** through world-leading research, innovation, education, and partnerships, which support the transition to a more sustainable economy and society; and
- We provide the workforce, upskilling, and reskilling on which effective public services depend, as well as generating the research, evidence, and insights needed to improve public policy and service delivery in support of **public service reform**.

We are, in summary, a foundational sector for realising the future Scotland envisaged by the PfG.

Our ask

The recently published Funding Gap Analysis of Scotland's University Sector identified acute, structural weaknesses within the current university funding model. Universities Scotland recognises that neither the sector, nor the Scottish Government, can close a recurrent, structural funding gap of more than £200 million in a single spending round. The question for Budget 2027/28 is therefore not whether the gap can be eliminated immediately, but whether it can be prevented from widening further, while longer term reforms are developed through the 'Future Framework' process.

We therefore make a twofold ask of the Scottish Government's 2027/28 Budget:

1. **Arrest the decline in core funding:**
    - increase SFC's Higher Education Resource budget by **5% in real terms;**[1] and
    - increase SFC's Higher Education Capital budget by **9% in real terms.**[2]
2. **Empower reform:**
    - provide access to affordable borrowing through a **University Capital Loans Scheme**, using Financial Transactions or other means, to protect the future operability of the university estate and other essential infrastructure, reduce climate impact, and enhance the sector's physical contribution to diverse local places; and
    - enable the Scottish Funding Council to develop a more strategic, longer term approach to supporting sector transformation, by **creating a multiyear University Transformation Fund,** and committing substantial new investment to the first year.

These asks are summarised in the table below.

1: Arrest the decline in core funding			
	2026/27 Budget	**Budget sought in 2027/28**	**Uplift**
SFC Higher Education Resource	£818.6 million	£876.2 million	£57.6 million
SFC Higher Education Capital	£378.3 million	£420.3 million	£42 million
2: Empower reform			
• Provide access to affordable borrowing through a **University Capital Loans Scheme** • Create and resource a **multiyear University Transformation Fund**			

We have deliberately confined our asks to the essential measures needed to lessen the financial pressure on universities over the coming year. However, we must also urge the Scottish Government to look afresh at the significant challenges facing some of our

[1] 7% in cash terms, relative to the 2026/27 baseline.
[2] 11.1% in cash terms, relative to the 2026/27 baseline.

students – especially those that study parttime, and/or are reliant on Discretionary and Childcare Funding to enable their studies –to ensure that personal circumstances do not act as a barrier to accessing a university education.

Our asks, particularly of the SFC revenue and capital budgets, will not remedy years of underfunding at a single stroke; not because more investment isn't desperately needed, but because we recognise and are responding to the fiscal constraints facing the Scottish Government.

In the longer term, the sector needs a sustainable, predictable, multiyear settlement to drive future success; that is the challenge posed to the Future Framework process. More immediately, the settlement we are seeking for 2027/28 represents the bare minimum required to maintain delivery and prevent the structural funding gap from growing any larger. Any less, and the sector inevitably faces another year of impossible decisions – undermining the student experience, demoralising staff, and spreading more uncertainty across our institutions and the communities in which they are anchored.

Evidencing our asks

The following section provides more detail on the circumstances, opportunities, and challenges that have shaped the asks we are making of the 2027/28 Budget.

Responding to the funding gap

In December 2025, Universities Scotland and the Scottish Government established the Future Framework for the Sustainability and Success of Scotland's Universities ('Future Framework') with one clear objective – to ensure that our world-class higher education sector flourishes for decades to come, delivering for learners, the economy, and societal wellbeing at the local, regional, and national levels, as well as our nation's standing on the world stage.

The Future Framework's first report – published in August 2026, and produced to the Scottish Government's analytical standards – evidences the need for immediate action to stabilise university funding and reduce the sector's exposure to uncontrollable external shocks. The report identified a structural, multiyear funding gap of £200 million in 2023/24 alone. Falling international recruitment – which has cross-subsidised other underfunded university activity, including domestic student teaching, for many years – suggests that gap will have grown even larger over the last two years.

Universities have been responding dynamically to these pressures, proactively cutting costs, delaying investment, and making hugely difficult decisions about staffing

structures and unfunded activities that have ripple effects into local economies, communities, and places.

Despite these significant and ongoing measures, the gap has not only remained; it has grown. SFC's October 2026 report on the financial sustainability of Scotland's universities found that over 50% of institutions were in deficit in 2024/25; net liquidity days have fallen, and are projected to decline still further; estates maintenance and management is a persistent drain on universities' resources; and the sector is exposed to increasing costs and financial risks beyond its control, including energy prices and debt servicing requirements.[3] Recurrent real-terms erosion of public investment in universities is at the core of these financial challenges.

We cannot continue delivering more for less, nor can we cut our way to sustainability. Years of real terms decline in per student funding undermine our offer to learners, and put Scotland's international competitiveness at risk.

Sustaining teaching excellence

Securing a university degree, and the opportunities it can unlock, is a lifelong aspiration for many Scots. In 2024/25, over 152,000 Scots-domiciled students were enrolled at a Scottish university,[4] studying to become the doctors, teachers, engineers, climate scientists, and other professionals of the future.

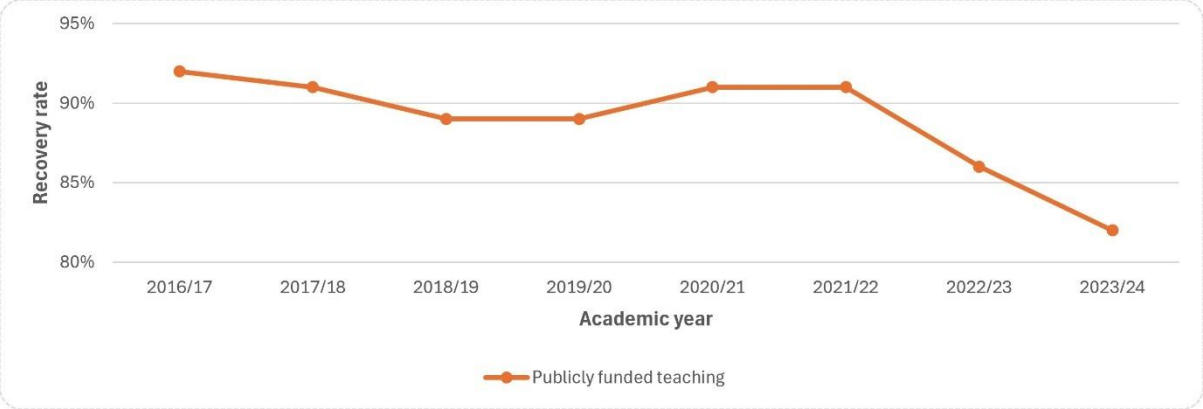
More than two thirds of our universities are ranked in the top 5% of institutions globally.[5] Scots-domiciled students receive the same high-quality, research-informed education as do their peers from elsewhere in the UK and overseas, whom they study alongside. However, the amount of funding universities receive to provide that education falls well short of the associated costs.

[3] https://www.sfc.ac.uk/publications/financial-sustainability-of-universities-in-scotland-2024-25-to-2027-28/

[4] Data drawn from HESA.

[5] https://www.timeshighereducation.com/world-university-rankings

Graph 1: Teaching recovery of full economic costs



Source: TRAC data

As the graph demonstrates, publicly-funded university tuition has been under-resourced since at least 2016/17. In 2023/24, universities recovered only 82% of the costs of teaching Scots-domiciled students; equivalent to a £288 million shortfall.

Institutions have plugged that gap by cross subsidising from international fee income. International students are an essential component of our university community, bringing diverse perspectives and experiences that enrich learning and the wider university environment for everyone. However, over time their fees have also come to play a critically important role in counterbalancing the underfunding of their Scottish counterparts.

That model is under increasing and unprecedented strain, for two key reasons. Firstly, because changes to the UK's immigration regime, coupled with sustained geopolitical instability, make international student recruitment increasingly challenging; and secondly, because diminishing international income is needed to cross-subsidise other underfunded activity, particularly the research and innovation that powers our knowledge economy.

Future local, regional, and national growth and prosperity are reliant upon access to the highly educated, high skilled talent emerging from our universities every year. A 2027/28 **5% real terms increase** to per-student funding, via the SFC's revenue budget, would signal the government's commitment to Scotland's students, and help ensure universities can deliver the high quality educational experience and outcomes our learners rightly expect.

The 2024 Scottish Government survey on Student Finance and Wellbeing showed that many students experience financial difficulty, including 66% of students from under-represented groups. All student groups were working more than the 10-15 hour

maximum recommended alongside full-time study. In addition, 46% of undergraduate and HN students, and 60% of students from under-represented groups, said that finances impacted on their mental health and wellbeing either a great deal or a fair amount.

It is essential that personal circumstances do not frustrate the aspirations of would-be students. Access to discretionary and childcare funding can be a decisive factor for those struggling to progress their education due to caring and other responsibilities. A substantial, real terms funding decline has reduced the support available, with devastating consequences for affected individuals and their families. Increasing discretionary and childcare funding via the Student Awards Agency Scotland (SAAS) would signal the Government's recognition of the challenges facing disadvantaged students, and deliver immediate positive returns for some of our most vulnerable learners.

Flexibility is also key to ensuring all students, particularly those facing the most challenging personal circumstances, are able to start and successfully complete a university education. Part-time learning is an important route that enables students to progress their studies whilst providing for themselves and their families, be that through paid employment or caring responsibilities. However, the income threshold at which students qualify for the SAAS part-time fee grant has been static for a decade, with the number of learners claiming the grant falling by over 14% in 2023/24 alone.[6]

In 2017, the Independent Review into Student Support recommended action to implement equitable support measures for part-time students, but those have not been enacted, and we are yet to see outputs from the Scottish Government's October 2025 consultation on support for part-time and disabled students. We urge the Scottish Government to take action in this area and ensure that part-time study is a viable route into and through higher education, particularly for those who have previously endured or are currently experiencing poverty.

Driving impact through research and innovation

All of Scotland's universities undertake research that is independently-assessed and globally recognised as world class. A major new study published by the Scottish Funding Council in July found that, in 2023/24, the sector attracted £1.23 billion of research income and employed 17,500 researchers, working across a huge range of economically, socially, and culturally important fields.[7] In 2024 alone Scottish

[6] SAAS data.
[7] The Impact of Scottish University Research on Scotland's Economy

universities published ~26,000 papers, and over the past five years such papers have been cited 61% more often than the global average.[8]

Our universities actively deploy their research findings and expertise to the benefit of local businesses, delivering over 7,000 external research grants and contracts with industry, commerce, and public entities in a single year.[9] Industry contracts constitute a higher proportion of total research income in Scotland than in many other parts of the UK, including the North West, London, the East, and the South East.[10] Scottish businesses are also nearly twice as likely as their counterparts in the UK overall to find information from universities to be highly important to their innovation activities.[11]

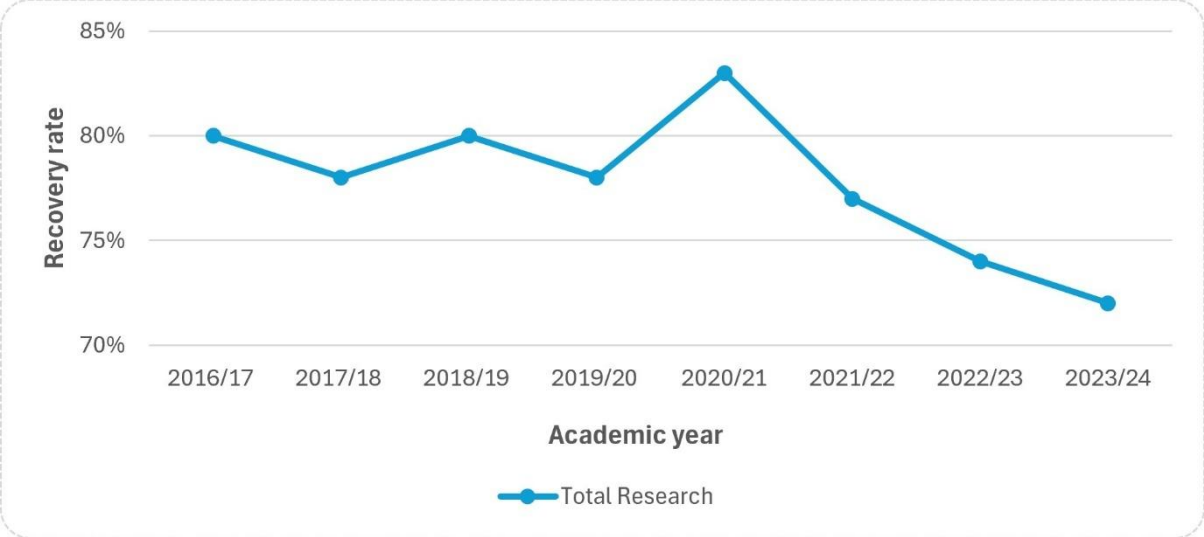
A 2025 study by Elsevier[12] found that, despite producing less than 1% of global research output, Scotland delivers one of the highest levels of research impact in the world. Exceptional levels of collaboration and influence are distinctive features of Scotland's research performance. Academic-industry research collaboration takes place at more than twice the global average, while international research collaboration is three times the global average. Scottish research is also cited in policy documents at twice the global average rate, and is referenced in policymaking more frequently than research originating from either the EU or the United States.

These findings demonstrate that Scottish university research is not only internationally recognised for its quality and excellence, but is also making a significant contribution to evidence-informed policymaking and decision-making around the world. Maintaining Scotland's position as a global research leader has an impact well beyond academia, driving economic and societal progress within Scotland, and strengthening relationships that enhance Scotland’s reputation internationally.

However, as the Funding Gap Analysis report showed and the graph below highlights, the UK-wide system of competitively awarded research grants is structurally underfunded.

[8] *Ibid*.
[9] *Ibid*. Data is from 2023/24.
[10] *Ibid*.
[11] *Ibid*.
[12] Scotland research and innovation performance: A dynamic hub for quality and global collaboration

Graph 2: Research recovery of full economic costs



Source: TRAC data

By 2023/24, the gap between Scottish university research income and full cost recovery exceeded £0.5 billion. In that context, the dual funding system – whereby universities receive flexible, block grant research funding from SFC, as well as competing for specific awards – is crucial to protecting the sector's research strengths and reputation. It also underpins the outsized contribution university research makes to the wider Scottish economy, which amounted to £17.1 billion in 2021/22 alone.[13]

The sector welcomed the above inflation uplift in SFC's capital budget for 2026/27 - noting it was considerably larger than the revenue settlement - which is sustaining crucial research infrastructure, and protecting flexibility for universities to respond to new opportunities.

A similar, **9% real terms increase** in capital funding for 2027/28 would help to cement that progress, and signal a degree of confidence in the sector's ability to deliver for Scotland that we hope can also be reflected in the revenue settlement. It would deliver direct benefits to local, regional, and national economies, with Scottish universities recording over 50% more interactions with business per million pounds of funding than the UK average.[14]

[13] https://www.universitiesuk.ac.uk/latest/news/new-report-reveals-key-role-universities
[14] *Ibid*.

Investing in sustainable, responsible reform

University Capital Loans Scheme

Many universities have a substantial physical footprint, stretching from our largest city centres to post-industrial towns and island communities. In 2023/24, Scotland's universities collectively managed 1,777 buildings across the country, with a gross internal area covering over 3.7 million square metres.[15]

However, years of underfunding have constrained universities' ability to invest in their estates and other essential infrastructure. Listed buildings, dispersed campuses, unforeseen issues such as RAAC and cladding, and a host of other challenges have stoked an estates maintenance backlog that now exceeds £1 billion.[16] Modern, attractive, properly equipped facilities are critical to sustaining an effective, competitive, and high quality offer to students and staff, but are increasingly difficult to achieve.

The sector is also alive to its role in place making; not just by enabling public access to many of its spaces, but as a creator of attractive and vibrant local areas across Scotland. However, funding shortfalls are already forcing some universities to exit facilities that are no longer fit for purpose. Where disposal is not possible the risk of blight is a real one, with all of the attendant consequences for place.

However, these challenges also create an opportunity to reimagine university infrastructure and ensure it is sustainable for a net zero future. Access to affordable borrowing could enable institutions to invest in their buildings and other infrastructure in ways that enhance the physical and learning environment, and create opportunities to trial innovative new ways of meeting net zero targets. The sheer breadth of the university estate creates an ideal testbed for new approaches, whilst affordable borrowing could enable recurrent investment across the country over the longer term, with all of the associated benefits for local employers and supply chains.

The sector has a demonstrable track record of delivering projects funded through Financial Transactions and repaying borrowed funds to enable their reuse, extending impact over time. For example:

- £8.7m enabled Abertay University to significantly upgrade its anchor Kydd Building, improving thermal efficiency and reducing demand for heat, whilst also creating new spaces for teaching, research, and innovation. The works reduced

[15] A Funding Gap Analysis of Scotland's University Sector
[16] *Ibid*.

the university's carbon footprint by over 44 tonnes a year, but the financial saving was relatively modest (>£11,000), meaning affordable capital was critical to the project's viability.

- ~£10m enabled the University of Glasgow to reclad its 11-floor Boyd Orr building, improving environmental performance and making a significant contribution to a wider project to create a dynamic new student hub at the heart of the campus in Glasgow's west end.
- £2.4m made a significant contribution to the University of St Andrews' installation of solar panels on 36 buildings across its estate, which are expected to save 200 tonnes of carbon and ~£200,000 each year.
- £10m enabled Glasgow School of Art to transform its critically important Stow building across two phases of activity, delivering much needed social learning space and accessible toilets, as well as drainage remediation and galbestos removal (a type of cladding part constructed from asbestos).

There are multiple innovative and impactful projects such as these, right across the sector, that are stalled due to the absence of affordable finance. Universities should be seen as a trusted partner, offering reliable, fully costed opportunities to realise tangible returns from repayable Government investment.

A revolving fund, capitalised with **Financial Transactions or equivalent funding** and co-designed with the sector, could be put to use almost immediately and deliver low risk returns to Government – both financial and societal – in the short term.

University Transformation Fund (UTF)

Our 19 universities entered into the Future Framework initiative with no red lines. The sector will work with any and all partners in pursuit of a sustainable and successful future, fully recognising the role that sector-led transformation has to play in achieving desired outcomes.

The fiscal challenge is, of course, one driver for reform. However, universities also recognise the need to anticipate and respond to societal change, including Scotland's population profile, learner support needs and expectations, technological advances, and environmental pressures.

Opportunities already exist to unlock preliminary changes needed to prepare for any longer term reforms emerging from the Future Framework. SFC's University Transformation Framework has surfaced multiple examples of innovative sector thinking, but its short term focus – and, crucially, the absence of new investment – has limited the scope of initiatives proposed.

We ask the Scottish Government to support an ambitious and strategic reimaging of the UTF as a long term University Transformation Fund, capable of driving forward systemic change that can deliver impact right across the sector. Co-designed with universities, such a fund could help create the conditions necessary to build lasting, sustainable reform, generating momentum to help drive forward outputs emerging from the Future Framework.

It is not yet possible to quantify the funding that might be required to transform a university sector of such size and complexity. However, a significant, first year University Transformation Fund commitment would be an important first step in supporting and empowering the sector to act, and start delivering effective change.

Our offer: delivering the Programme for Government

Eradicating child poverty

Universities have made huge strides forward in widening access to higher education, and the opportunities it creates to improve life chances, tackle rising numbers of young people not in education, employment, or training (NEET), and break intergenerational cycles of poverty.

Our offer includes an extensive range of pathways from college into university, developed through close and longstanding working relationships with our partners in the college sector. In 2023/24, almost 40% of students completing FE and HE courses at college went on to study at university.[17] Several shared campuses are also in operation, including the Scottish Borders Campus (Borders College and Heriot Watt University), and Crichton Campus (Dumfries & Galloway College, University of Glasgow, University of the West of Scotland, Open University in Scotland and Scotland's Rural College).

In 2024/25, 6,150 entrants to full-time first-degree courses at Scottish universities were from SIMD20 areas, equivalent to 17.4% of total entrants and representing a 55.1% increase since 2014/15. That takes the sector ever-closer to the 2030 target of 20%, but recent progress has plateaued.[18] Intensified action is needed across the education system, not just in universities, including work to address the attainment gap, student poverty, and the resource pressures facing the sector.

[17] SFC (2026) College Leaver Destinations 2023-24
[18] SFC (2026) Report on Widening Access

We have consistently raised issues with the quality and availability of data needed to properly identify widening access students; frustrations we know the Scottish Government shares. We stand ready to renew efforts over the coming year to finally resolve those difficulties, to the benefit of some of our most disadvantaged would-be learners.

The UK's recent association to the European Union's Erasmus+ mobility programme also presents new opportunities to help broaden the life experiences and opportunities available to students from disadvantage backgrounds. A recent report by Universities UK found that students who had taken part in an international mobility were more likely to achieve first-class degrees, secure professional-level jobs, and earn higher graduate salaries, than those that did not.[19] We look forward to working with the Scottish Government, through the International Education Strategy, to ensure the largest, most diverse group of students possible can benefit from the programme.

Growing the economy

Sustainable economic growth is the bedrock on which the successful delivery of all other government priorities ultimately rests. In 2024/25, Scotland's universities directly employed more than 57,000 people, making them one of the country's most significant employers, as well as a core economic asset. The sustainability of the sector is therefore not simply a higher education issue; it is intrinsically linked to Scotland's economic growth, productivity, innovation capacity, and labour market.

The sector has an outsize role to play in growing both national and regional economies. For example, in 2024/25 our smallest specialist institution, the Royal Conservatoire of Scotland, alone contributed more than £64 million to Scotland's GVA, 74% of which was kept within the university's home city of Glasgow.[20]

That role is recognised in the PfG through multiple initiatives, including new Knowledge Exchange Partnerships, establishment of a Scottish Innovation Fund and a High Growth Unit, support for research commercialisation, and development of AI Scotland. Universities look forward to working in partnership with Government right across these promising new programmes.

As Frontier Economics' recent report for SFC concluded, universities are more important to the business innovation ecosystem in Scotland than elsewhere in the UK. In 2023/24 universities had more than 12,000 consultancy interactions with businesses,

[19] https://www.universitiesuk.ac.uk/universities-uk-international/events-and-news/uuki-news/new-report-reveals-mobile-students-gain
[20] https://www.rcs.ac.uk/about/economic-impact/

the vast majority of which were based in Scotland.[21] In that same year alone 14 new university spinouts were established, and a further 410 startups were founded, demonstrating the entrepreneurial spirit of our staff and students - including those who come from overseas to work or study here - right across the country.[22]

Universities welcome the Scottish Government's focus on local and regional growth. Our role in local places is unique, reflecting both the diversity of our institutions and the breadth of our economic contribution. We want to play a full part in the future evolution of both Regional Economic Partnerships and the proposed Glasgow-Edinburgh and East Coast Arcs, in which universities must be considered anchor institutions.

We are equally keen to use our convening power to understand how policies enacted by the UK Government, particularly the Modern Industrial Strategy, can complement and enhance SG-led initiatives, and make full use of the ideas, expertise, and dynamic business leaders of the future our sector consistently generates.

Tackling the climate emergency

Universities are making a significant contribution to tackling the climate emergency through their research and innovation, as well as policy advice, skills development, and collaboration with government, industry, and communities. Key contributions include the Scotland Beyond Net Zero (SBNZ) initiative, which brings together expertise from 13 institutions and aims to accelerate climate action by connecting researchers, supporting innovation, and providing evidence-based advice to policymakers and industry.

The sector is also keen to work with the Scottish Government and other partners to explore innovative ways of decarbonising the university estate, including through the development of heat networks and other emerging technologies. We expect that net zero targets would inform the development of the proposed University Capital Loans Scheme set out in more detail above.

Delivering a strong NHS and public services

The sector recognises the extent of Government's ambition for public sector reform, and can make a defining contribution to informing and enabling change.

Universities are developing the public sector workforce of the future, from the doctors, nurses, dentists, and allied health professionals at the heart of our NHS, to teachers,

[21] The Impact of Scottish University Research on Scotland's Economy

[22] *Ibid*.

social workers, planners, and other local government professionals. We would welcome the opportunity to work together as the public service reform agenda gathers pace, to understand the associated workforce implications and the ways in which universities can help meet evolving educational, training, reskilling, and upskilling requirements.

In addition, Universities Scotland has been a founding partner, alongside the Scottish Government and the Royal Society of Edinburgh, in the development of a Research Policy Exchange (RPE) initiative that aims to catalyse increased engagement between researchers and the policymakers who could draw on their work to inform policy development and delivery. We look forward to working with all partners as the project moves into the delivery phase.

Conclusion

We welcome this opportunity to contribute to the Scottish Government's 2027/28 Budget setting process. Our asks are measured, robustly evidenced, and alive to affordability constraints. Meeting those asks is not just essential to easing pressure on university finances; it is equally essential to realising our contribution to delivering the PfG.

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