Universities Scotland's submission on the 2025/26 Scottish Government budget outcome for higher education

Key points:

- Overall, the HE resource settlement in the budget delivers a 0.7% real terms cut, leaving universities in an immensely difficult place. It falls short of our original bid for a 1% real terms increase, which we were clear represented the very least the sector needed for stability in 2025/26, even before any consideration of the Employers' National Insurance increase.
- There are some elements within the budget bid we can and have welcomed. We asked for a 3% cash increase to HE capital, which primarily funds research and innovation. This was delivered. The Scottish Government also responded to our suggestion that the 2,500 "SQA places" that are graduating in 25/26 should be allowed to exit and the £14.5m of HE resource attached to those (already in the 24/25 HE resource baseline) be redirected to the price per place invested in every other Scottish-domiciled student. Post-budget conversations with Scottish Government confirm this to be the intention.
- In late November, we took the unprecedented step of increasing our budget ask of Scottish Government, in response to the changes to Employers National Insurance Contributions as announced in the UK Budget. Originally asking for 1% real terms on HE resource, we felt we had no choice but to ask for an additional 3% real terms increase (£49 million) to help cover this.
- The Finance Secretary spoke of a 3.5% (cash) increase to total HE funding. A 3.5% cash terms *increase* to the SFC resource budget would have resulted in a £27.4m uplift to the SFC HE resource budget line. Instead, we saw a £12.9m uplift. If the resource associated with the "SQA places" is repurposed in one specific direction and combined with this uplift to the budget, then the funding per student should rise by 3.5% in cash terms. That is welcome but it does not deliver 3.5% extra resource in total.
- We understand the scope of this inquiry is to look at the annual budget for 2025/26 and we appreciate the Committee's work to scrutinise the budget settlement. Yet, the full extent of the funding pressure facing Scotland's universities is not fully reflected in any one budget outcome. There is a decade-long pattern of erosion of public funding of universities. The need for Scotland to take a longer-term view of the funding picture for higher education is now absolutely vital.

Calls to action

- As the Scottish Government considers its options during the passage of the budget bill, we believe there is scope for the Cabinet to honour the wording of the Finance Secretary's budget statement that total investment in Higher Education should rise by 3.5% - through *additional* investment. That would require an additional £14.5m.
- As the HE resource budget allocation is translated into academic year allocations for individual universities, a key priority behind funding decisions should be providing financial stability for each institution. This will require careful decisions.

- At the earliest possible opportunity, the Scottish Government's Letter of Guidance to the Scottish Funding Council should confirm the removal of the 2,500 "SQA places" and the retention of the £14.5 million within the HE sector, as directed to the unit of teaching resource. This goes beyond a level of detail possible in the budget lines. It would translate what is a shared understanding between the sector and Scottish Government into official direction. Doing so would give universities more certainty on their funded numbers as they make offers to applicants (with the UCAS deadline for equal consideration for applicants at the end of January).
- We ask the Committee to give close attention to the Funding Council's next report on the Financial Sustainability of the HE sector. Due out in early 2025, it may not be published in time to inform the Committee's scrutiny, but if that is the case it will still have relevance beyond the budget bill. Last year's report (published January 2024) cautioned that financial sustainability was "*challenging for many institutions*" but we felt it was overly optimistic for it to predict that the sector's finances would recover slightly in 2024/25. The financial position for many HEIs has worsened over the current financial year (2024/25) and this has been exacerbated by the UK Government's decision to significantly increase the Employers' National Insurance Contribution.

Budget overview

- The tables below are taken from the budget document (table 1), with additional analysis by Universities Scotland to reflect the year-to-year change.
- The second table shows how the HE resource line would look if our first bid or increased bid had been met.

Table 1: Scottish Government budget lines for HE for 2025/26 adjusted for inflation

		25/26 BUDGET OUTCOME			
	2024/25 £m	**2025/26 Budget outcome £m**	**Change relative to 24/25 £m**	**Change relative to 24/25 % cash terms**	**Change relative to 24/25 % real terms (GDP deflator)**
HE resource	760.7	773.59	12.89	1.69	-0.69%
HE Capital	356.9	368.27	11.37	3.19	0.81
Combined	**1,117.60**	**1,141.86**	**24.26**	2.17	0.22

Investment in Capital

- Whilst the picture on HE resource is challenging, particularly as part of a wider pattern, we do want to acknowledge the 3% cash increase in university capital. This delivered on the modest ask the sector made of Government, in recognition of the fiscal pressures faced by Government before the UK Government's

autumn Budget. This budget line supports university research and innovation, and it is the second year in a row the Scottish Government has protected this budget in cash terms, as part of driving purposeful economic growth.
- Work by London Economics, commissioned by Universities UK found a benefit-to-cost ratio of 10.8 to 1 when it comes to investment in university research and innovation in Scotland. This means for every £1 invested into Scotland's universities, almost £11 is returned to the economy - the highest return of any UK nation. The benefit-to-cost figure for institutions in England is 9.9.[1]
- Focusing in on the economic impact generated from their research and innovation only, Scotland's universities generate an impact of £8.7 billion, second highest (to London) in the UK. This accounts for 14% of the UK's £62.84 billion of economic impact from this form of university activity, meaning that the Scottish higher education sector punches far above its weight.
- Although we welcome the 3% cash increase, further investment in the capital budget would help fulfil the Scottish Government's own economic growth agenda.

Financial stability for all HEIs as a minimum

- The Funding Council has a very challenging job to turn the HE resource budget into allocations for each individual institution. It will do that over the coming months, with indicative allocations usually published in late March. We ask for close and inclusive dialogue with the Scottish Government and Scottish Funding Council throughout that process. We would like to acknowledge this early engagement post budget has been positive.
- Every year, the funding allocations land slightly differently for each institution as reflects their mission and specific student and subject mix, as well as other factors. That said, and picking up on our point about stability, we ask that the Funding Council pays particular attention to the financial sustainability of each individual institution when modelling allocations for 2025/26. The extent of the financial pressure now in the sector makes this more important than ever.
- To illustrate the variability of last year's allocations, in terms of teaching grants, the overall cut year-to-year was -3.6% in cash terms, but at institutional level this ranged from -0.6% to -10% in cash terms. Across all grants (teaching and research), there is a notable pattern of our modern institutions faring worse than the average cash cut of -0.8%. Uniquely, the modern universities also had to bear a significant increase in the employer's contribution to the Scottish Salaried Teachers Pension Scheme.

Student numbers

- Last year saw a lot of concern about funded numbers and the potential impact this could have on opportunities for applicants. This centred around the Scottish Government's decision to remove the first cohort of 1,289 "SQA places" as those students graduated.

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[1] https://londoneconomics.co.uk/blog/publication/the-economic-impact-of-higher-education-teaching-research-and-innovation/

- We have sought to reassure stakeholders over the last year that there is sufficient headroom in the system for the “SQA places” to come out without detriment to entrants at a sector level. The additional “SQA places” was an unplanned expansion, in response to unique circumstances in the covid-era.
- In academic year 2024/25, funded places for Scots are at near-record highs. Comparing the situation now to the year before the pandemic, there has been a 10% increase in funded numbers for Scotland over that period. In 2024/25 there were 111,421.7 funded places (non-controlled) available to Scots in 2024/25 across all years of undergraduate study, compared to 107,982.0 places (non-controlled) in 2019/20.[2]
- Looking at what actually happened in regard to Scots-domiciled entrants in the academic year 2024/25 (starting September 2024), there was the largest number of Scots-domiciled acceptances since records began in 2015 and a 7% increase in Scots acceptances in 2024 compared to the year before, to 37,805. It was also positive for widening access with a record 6,500 SIMD 20 applicants accepted, compared to 5,835 in 2023; an increase of 11.4% on 2023.[3]
- This is what gives us the confidence to say the planned removal of the 2,500 “SQA places” in 2025/26 can also be achieved without detriment to learners. Positively, what’s different this year is that the Scottish Government is keeping the resource linked to those places (£14.5 million) in the sector rather than remove it as it did for the £7m linked to places taken out of the system in 2024/25.

Cost and impact of national insurance

- The increase in Employers’ National Insurance Contribution (ENIC) is estimated to cost Scottish HE at least £45 million in 2025/26 (the IFS has said the cost could be as high as £57m[4]). The sector has no means to absorb this cost without further negative impact at institutional level.
- In late November, we took the unprecedented step of increasing our budget ask of Scottish Government. Originally asking for 1% real terms on HE resource, we felt we had no choice but to ask for an additional 3% real terms increase (£49 million) to cover this. See table 2. This has not been met.
- When the 2025/26 budget settlement and ENIC costs are considered, Scotland’s universities will be left at least £32.1 million worse-off, before considering other rising costs.
- We recognise that the ENIC increase is a UK Government decision beyond the Scottish Government’s control. We further recognise that the total budget made available to the Scottish Government by the Treasury to mitigate the impact of the ENIC for the public sector has not yet been confirmed (and the cost to Scotland is

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[2] University FINAL Funding Allocations 2024-25 (Note: a version of this briefing submitted to the ECYP Committee has this figure as 119,540.2, however this was reduced to 111,421.7 by the SFC for their final funding position)
[3] UCAS End of Cycle Report, published December 2024.
[4] IFS November 2024 briefing

likely to exceed the total of the funds allocated, given relativities in the size of the public sector workforce and salary levels).

- Across the UK, the HE sector is funded in different ways. The UK Government found a solution within its funding model for universities in England to help address the cost of ENIC in the form of a one year index-linked fee rise.[5] Like the Scottish Government, the Welsh Government is not responsible for the decision to increase ENIC. However, it has found a solution within the Welsh funding model by matching the fee rise in England and by investing an additional £10m of public funding into Welsh universities.
- ENIC is part of a package of staff costs for HEIs alongside pay, pensions and other benefits. When we consider the elements that contribute to the cost of teaching, staff costs are one of the biggest elements of expenditure. When costs rise, whether they be staff costs or other inflationary pressures, the costs of teaching increase. Within a publicly funded model, the onus is on the Scottish Government to provide a fair settlement for universities that recognises the rising cost base and supports the sector to meet those costs.
- We know that when the Scottish Government makes decisions to mitigate the impact of UK Government policy in Scotland (as for other policy areas in the 25/26 budget) it weighs up a range of issues, not least the fact that mitigating actions have significant cost implications. We believe there is a strong evidential base to support Scottish Government action within its funding model for higher education, to recognise the increased costs facing the sector and support the financial sustainability of Scotland's universities.

Table 2: HE budget lines if Universities Scotland's asks of Scottish Government were delivered in full.

	Actuals		**Budget lines as requested by Universities Scotland**	
	2024/25 **£m**	**2025/26** **£m**	**2025/26** **If US original bid had been met.** 1% real terms on resource 3% cash terms on capital **£**	**2025/26** **If US revised bid had been met.** 1% & 3% real terms on resource 3% cash on capital **£**
HE resource	760.7	773.59	786.48 (+25.8)	827.5 (+66.78)

[5] Most lower and middle earning university graduates won't pay more as a result of this increase over the 40 year repayment period. Money Saving Expert.

HE Capital	356.9	368.27	367.6 (+10.7)	367.6 (+10.7)
Combined	**1,117.6**	**1,141.86**	**1,154.08** **(+36.5)**	**1,195.1** **(+77.48)**

Scope for further action from Scottish Government: the SAAS transfer

- The Scottish Government has indicated that it will again transfer £17m out of the SFC resource budget to SAAS in 2025/26, known as the "SAAS transfer". In 2024/25 this transfer was attributed to funding "additional student places for Widening Access". We do not understand the logic of a transfer from SFC to SAAS for this purpose, nor do we understand the rationale for the scale of this transfer, and we have asked Scottish Government for clarity on the use of these funds.
- If this transfer was reduced, then it might provide additional funds for SFC to invest in the sector.

Recovery of funded numbers or "clawback"

- This is linked to our point on stability. The Funding Council has the ability to support institutional stability in the decisions it makes on both i) the allocation of resources to institutions and ii) the resources it "recovers" (also known as clawback) from institutions for under-delivery of funded places. Clawback is a retrospective process, usually with funds recovered from institutions two academic years later when the data on outcomes is available.
- Whilst the process of recovery/or clawback is not new, fluctuations in student demand over the last couple of years have recently made it a bigger feature of the SFC's role. Clawback is presently underway for institutions in this financial/academic year based on 2022/23 performance. This coincides with a far more precarious financial situation for individual institutions, which means the consequences of clawback are now potentially far more damaging to institutional stability.
- We'd ask that decisions taken on recovery/clawback of places should be fully cognisant of the impact this has on institutional stability and avoid compounding problems. Institutions have been navigating a volatile environment in the post-pandemic years, with recruitment from colleges and via articulation taking a major hit in terms of student demand; and other factors beyond a university's control. Where an institution has experienced a setback in this regard, the funding model needs to allow universities some space to chart a pathway back on their student recruitment, rather than have the policy of the "recovery" of funded numbers actually become a barrier to the institution's ability to recover in a wider sense and play its full part in its community and regional economy, to key sectors and to Scotland as a whole.

Wider HE context to the budget

- Whilst accepting that the purpose of this inquiry is to look at the annual budget for 2024/25, the need for Scotland to take a longer-term view of the funding picture for higher education is now absolutely vital.
- The significant and growing reliance on cross-subsidy from international student fees has been a clear policy and the risks of this have been observed by Audit Scotland and by the sector in recent years. Volatility in the international student market has exposed the weakness in a funding model that relies so heavily on cross-subsidy. Alongside that, the cumulative effect of a decade of annual budget decisions which have failed to keep pace with rising costs, means that financial challenges are being felt across the sector.
- The IFS points to a 22% cut in university teaching funding between 2013/14 and 2024/25 – i.e. before this budget outcome – and points to a particularly steep fall over the last three years.[6]
- A modest real terms cut to higher education as planned for 2025/26, comes on the back of the funding cuts to the current year (2024/25) which were severe for HEIs, including:
    - A cut of £28.5m to HE resource year to year, on top of an in-year cut of £20m in 2023/24.
    - The removal of 1,289 funded places, which in of itself was ok, but the resource linked to those places (£7million) left the sector rather than stay in to address wider funding challenges.
    - The Upskilling Fund (worth £6.9 million) was cut entirely.
    - Financial support for those universities who are members of the Scottish Teachers Pension Fund (STPS), worth £4.8 million was also cut entirely, coinciding with a 3% rise in employer contributions to 26%. This impacted the post-92 universities and our small institutions most significantly.
    - Sizeable cuts were also made to the Expensive Strategically Important Subjects grant, which tops-up the cost of study for rest-of-UK students in Scotland (which was previously £18.5 million, and now cut to £12.3 million)
- In its Financial Sustainability report published in January 2024, the Funding Council forecast the sector's total cash flow from operating activities, as a proportion of all income, to fall to just 4% in 2023/24 and forecast that the sector's net liquidity days forecast would fall to 124 in 2024/25.[7]
- Over the last 12 months we have seen institutions, and from all parts of the sector, announce deficits which they have to take action to address. Sadly, the mitigations have included job losses as well as recruitment freezes and restructuring plans.

Technical notes:

- Our reaction to the budget is based on the budget-to-budget figures in table 1. We have not readjusted baselines for the autumn budget revision.

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[6] IFS November 2024 briefing
[7] SFC's Financial Sustainability report, 2024

- When talking about real terms changes, we are using the GDP Deflator, as adjusted by the Treasury at the autumn budget. This is 2.39%. We note Colleges Scotland is using CPI as its measure of inflation, which was 3.3% in October.[8] This accounts for different real terms figures presented by both organisations. The cash terms settlement for HE and FE resource was 1.7% and 1.8% respectively. Whilst we use the GDP deflator, many commentators have noted that it does not reflect the real inflationary pressures facing operations over recent years. The figures that we have used should therefore be seen as a significant underestimate of the impact of real terms cuts vs the reality of cost pressures facing our sector.

ENDS

[8] Colleges Scotland News Release December 2024.