Education, Children and Young People Committee
Wednesday 12 June 2024
19th Meeting, 2024 (Session 6)

Pre-budget scrutiny 2025-26

Introduction

1. At its meeting on 17 April, the Committee agreed its approach to pre-budget scrutiny of the Scottish Government's 2025/26 budget. It agreed to focus on college and university funding and will look at the current funding settlement. The Committee will also consider the sustainability of funding in the years ahead, taking into account the impact of tightening public spending and potential upcoming reforms.

2. This is the second session of its pre-budget scrutiny where the Committee will take evidence from the following witnesses—

Panel 1

- Shona Struthers, Chief Executive Colleges Scotland
- Professor John McKendrick, Commissioner for Fair Access
- Gareth Williams, Head of Policy, Prosper
- Professor Iain Gillespie, Convener, Universities Scotland

Panel 2

- Karen Watt, CEO Scottish Funding Council (SFC)
- Richard Maconachie, Director of Finance, SFC
- Lynne Raeside, Deputy Director of External Affairs, SFC

Background

3. SPICe has prepared a background briefing note which is attached at **Annexe A**.

Budget scrutiny

4. The Committee is required to carry out pre-budget scrutiny every year and to produce a letter or report six weeks before the publication of the Scottish Government's draft budget, which is normally published in mid- December.

Evidence

Written evidence

5. Written evidence provided by the following witnesses is set out in **Annexe B** —

Panel 1

- Colleges Scotland
- Commissioner for Fair Access
- Prosper
- Universities Scotland

Panel 2

- SFC

6. SPICe has produced a summary of the written submissions which is attached at **Annexe C**.

Correspondence

7. On 9 May 2024, the Public Audit Committee wrote to the Committee on its scrutiny of Audit Scotland's briefing on Scotland's colleges 2023. This letter is published on the website.

Oral evidence

8. At its meeting on 5 June 2024, the Committee took evidence from the following witnesses—

Panel 1

- Mark MacPherson, Audit Director, Audit Scotland
- David Belsey Assistant Secretary, EIS-FELA
- Professor Mairi Spowage, Director Fraser of Allander Institute

Panel 2

- Dr Gavan Conlon, Partner, London Economics
- Ellie Gomersall, Scotland President, National Union of Students
- Mary Senior, Scotland Official, University and College Union

9. Meeting papers and a transcript from that meeting are published on the website.

Next steps

9. The Committee will continue to take evidence on its pre-budget scrutiny 2025-26, with evidence from the Scottish Government its meeting on 4 September 2024.

Committee Clerks
June 2024

The Information Centre
An t-Ionad Fiosrachaidh

Annexe A

Education, Children and Young People Committee

Wednesday 12 June 2024

Pre-budget scrutiny: College and university funding

Introduction

This briefing has been prepared to support the Committee's Pre-budget scrutiny of college and university funding. A summary of submissions received is provided in a separate SPICe paper. This briefing sets out the key budgetary issues for the college and university sector and includes reference to evidence heard at the Committee's 5 June 2024 meeting.

At this week's meeting, the Committee will take evidence from two panels. Panel 1 includes sector representative organisations, the Commissioner for Fair Access and Prosper. The second panel will be the Scottish Funding Council (SFC).

Budget 2024-25

The Scottish Government allocates funding for colleges and universities to the Scottish Funding Council (SFC) via the Budget. SFC then allocates this to institutions. The 2024-25 Budget set out an overall budget of £1.9bn for SFC. The full SFC can be viewed in the Scottish Budget document at Table A5.07: Scottish Funding Council Spending Plans.

The Budget set out a decrease in college and university resource budgets for 2024-25 and an increase in capital budgets. Overall funding and SFC allocations to colleges and universities are discussed later in this briefing under the relevant headings.

The cut to resource budgets for 2024-25 follows tightening finances in recent years for both sectors. While the 2023-24 Budget initially provided for an increase of £20m and £26m for university and college resource budgets respectively, this increase was later reversed, primarily to fund the teachers' pay settlement. Further in-year savings of £56m across “demand-led” programmes were announced in November 2023. The reason given for this saving was “projected lower spending than forecast across a wide range demand-led programmes”. In total, savings identified across the 2023-24 college and university resource budgets see colleges and universities receive £102m less than what was initially allocated to them in December 2022.

When asked at the 10 January 2024 meeting of this Committee whether in-year cuts to the further and higher education budget would happen in 2024-25 as they had in 2023-24, the Minister for Higher and Further Education; and Minister for Veterans Graeme Dey said “external factors” meant he could not rule this out. He cited the implications of the UK Government budget as an example of external factors.

In its detailed analysis of the Education and Skills Budget, the Scottish Government states that the reduction in college resource budget is likely to impact on course provision and poses an overall risk to the availability of education, skills and training places:

> “Changes in the college and HE resource budgets risk reducing education and skills training opportunities for young people, and for older people seeking to upskill.” – Annex B: Detailed Analysis by Portfolio, Scottish Government

The analysis also states there is “significant risk” that the reduction in HE resource budget will increase competition for university places and disadvantage learners from socio-economically disadvantaged areas. The analysis states this will require monitoring of widening access requirements on institutions.

Colleges

There are 24 colleges in total, 19 and ‘incorporated’ public bodies and five are unincorporated. SFC provides funding for all colleges and Audit Scotland audits incorporated colleges only. A map of Scotland’s colleges can be found on page 4 of Audit Scotland’s report on Scotland’s Colleges 2023.

Budget 2024-25 and allocations

In 2023-24, the resource budget was initially £701.7m. £26m was later removed by the Scottish Government to put toward the teachers’ pay deal. This left the total resource budget at £675.7m.

For financial year 2024-25, the Scottish Government set a college resource budget of £643m and a capital budget of £84.9m.

Between 2023-24 and 2024-25 the resource budget fell by £32.7m (-4.8%) when the removal of the £26m is factored in.

The net college capital budget increased by £2.5m (3.0%) from £82.4m in 2023-24 to £84.9m in 2024-25.

Table 1 below sets out college net resource and capital budgets from 2022-23 to 2024-25.

Table 1: College Resource and Capital Budgets (Level 3)

	2022-23 Budget £m	2023-24 Budget £m	2024-25 Budget £m
Net College Resource	675.7	*701.7 (675.7)*	643.0
Net College Capital	74.7	82.4	84.9

Source: Scottish Budget 2024-25, Table A5.07 Scottish Funding Council Spending Plans Level 3
Note: The initial 2023-24 Net College Resource is in italics and the final amount following the removal of £26m is in brackets.

The Scottish Funding Council SFC published College Final Funding Allocations for 2024-25 on 30 May this year. **Please note**, last week's briefing contained indicative allocations, and the below information has been updated accordingly. The final allocations set out:

- Core teaching funding has been maintained for colleges.
- While SFC previously held back £12.3m on an annual basis for job evaluation, this year the Scottish Government has agreed this responsibility will lie with them.
- Lowered credit thresholds introduced in academic year (AY) 2023-24 will be retained to reduce the risk of exposure to funding recovery for under-delivery. SFC describe this as "a 10% reduction with some redistribution".
- The total figure for the student support budget in AY 2024-25 is £123.0m, down 9% on the AY 2023-24 figure of £135.0m. SFC states the budget "covers at least what was spent last year on student support".
- Bursary maintenance rates will not be uplifted in AY 2024-25, following an uplift of 11.1% in 2023-24.
- For a second year running, the Flexible Workforce Development Fund (FWDF) will not be funded. The Scottish Government did not provide funding for this for AY 2023-24. In 2022-23, £10m was allocated to colleges via FWDF.
- For the AY 2024-25 capital budget of £84.9m, £30.5m of this is allocated to capital maintenance, £51.9m is allocated to Fife College new Dunfermline Campus and £2.5m is allocated to high priority needs, including health and safety.
- There is no specific funding provided for addressing digital poverty this year.

Financial sustainability of colleges

In the past year, reports from Audit Scotland and SFC have raised concerns about the financial outlook of colleges.

Audit Scotland's Scotland's Colleges 2023 report was published in September 2023. It found after taking account of inflation, the flat-cash settlements for college revenue budgets in 2021-22, 2022-23 and 2023-24 represent "…a reduction in real terms of 8.5 per cent from 2021/22 to 2023/24."

The report highlighted that staffing costs make up more than 70% of college expenditure and all colleges (with the exception of Sabhal Mor Ostaig) received more than half their income from SFC, with seven receiving over three quarters of their income from the funding body. Audit Scotland concluded that the Scottish Government and SFC:

> "…urgently need to build on their ongoing work with colleges and help them become sustainable now, while structural arrangements at a national level evolve." - Scotland's Colleges 2023, Audit Scotland

During the Public Audit (PA) Committee's 26 October session, Auditor General Stephen Boyle said "the viability of the college sector is challenged". At this Committee's 5 June evidence session, Audit Scotland's Mark MacPherson said his organisation's position remained that work is needed to bring colleges "on to a sound financial footing".

In January this year, SFC published its Financial sustainability of colleges in Scotland 2020-21 to 2025-26 report. This looks at the latest forecasts up to academic year 2025-26 but does not take into account the 2024-25 Budget announcement. The report states that planned staff reductions pose "a significant leadership challenge for colleges" to ensure they do not "adversely affect a college's reputation, student outcomes (quality, retention and other performance indicators) and the mental health, morale and turnover of remaining staff."

The SFC report set out sector forecasts of an adjusted operating deficit of £27.2m for 2022-23, due to "flat cash in SFC grants and reduction in tuition fees relating to higher education provision not matched by the same level of reductions in costs".

SFC's May 2024 submission to the Committee provides updated figures, reporting that the 2022-23 adjusted operating deficit was £14.9 – a slight improvement on the forecast.

The SFC January report highlights variation across the sector. SFC found 24 colleges (92%) forecast adjusted operating deficits in 2022-23, with 17 (68%) forecasting these to continue over the next three years. The SFC report notes that colleges tend to take a cautious approach to forecasting, and actual results have improved against earlier projections in recent years.

Cash reserves are also forecast to deteriorate. While the sector reported an aggregate cash balance of £141.4m at the end of July 2022, SFC'S submission to the Committee forecasts this to be £45.9m by the end of July 2024 – this is a reduction of 65% on the June 2023 figure.

SFC's January report states four colleges forecast a cash deficit by the end of July 2024, and this increases to six by end of July 2026. The SFC report states this will make it difficult for SFC to ensure colleges have sufficient grants to manage liabilities, and funding staff restructuring will become difficult.

On the number of job losses expected in the sector, estimates reductions of 2,387 FTEs between 2022-23 and 2025-26. This figure is 21% of FTE staff employed in the sector. The reductions are expected through: vacancy management (1,130 FTEs); voluntary severance schemes (1,103 FTEs); and compulsory redundancies (154 FTEs).

SFC's May submission to the Committee does not provide an updated estimate of job losses in the sector. However, it states staff restructuring costs for the sector in 2022-23 were £13.5m – an increase of 102% on the £6.7m spent int 2021-22. The sector is forecasting staff restructuring costs of £9.2m to the end of July 2024 – a 32% decrease on the 2022-23 figure.

SFC's January report highlighted an increased risk of default on debt repayments for sector borrowing. Most sector borrowing relates to NPD/PFI commitments for three colleges, and SFC's May submission highlighted overall sector borrowing reduced from £232.2m at the end of June 2022 to £220.2m by the end of June 2023. Borrowing is forecast to reduce further to £208.7m by end of July 2024.

Giving evidence to the PA Committee in January 2024, SFC Chief Executive Karen Watt said that her organisation was working closely with:

> "…four colleges that have what we would consider to be fairly significant cash-flow issues." – Official Report, 11/01/24

Work with these colleges included examining business plans, looking at bringing forward learning and teaching grant funding, and identifying cash-flow issues. Karen Watt added that SFC might give colleges a loan "in extreme situations" in order to "tide them over a particular period".

Concerns about college finance were also raised by James Withers during his evidence session with this Committee on 15 November 2023. He described the college sector as a "jewel in our crown" but a "burning platform in relation to finance and sustainability".

During a Ministerial Statement on Skills Reform on 5 December 2023, the Minister said that while there were financial challenges facing colleges, he did "not recognise at all the representation that the college sector is broken".

During a debate on college funding on 8 May 2024, the Minister said that putting colleges on a "sustainable footing" would not be done by way of "an injection of public cash that is not available to us". He said that the Scottish Government was acting on reviews recommending change, and that the programme of reform will "will place colleges at the heart of post-16 skills delivery".

During this Committee's 5 June evidence session, Audit Scotland's Mark MacPherson suggested that recommendations from the Withers report such as rationalising and simplifying the number of available funding pots and the creation of a single funding body may lead to opportunities for savings and efficiencies.

Mark MacPherson also said he was “not sure that there is an immediate risk of chaotic reorganisation” in the college sector, and that any opportunities for mergers, shared services and synergies could help some colleges. He also said that SFC’s work with at-risk colleges “does not mean that those colleges will not continue in their current form”.

EIS-FELA’s David Belsey warned against further mergers, as this would put course provision and student experience at further risk. On course provision, he said colleges should provide the courses students want to study.

Actions to stabilise the sector

Following evidence sessions on colleges, the PA Committee wrote to this Committee in May 2024 to highlight evidence gathered during sessions on the Scotland’s Colleges 2023 report. The backlog of maintenance and repairs were among concerns raised, with PA Committee suggesting this Committee may wish to look at how the SFC’s refreshed College Infrastructure Strategy, expected late Spring, and the Scottish Government’s Infrastructure Investment Plan (IIP), due to be published in the Autumn, can deliver a sustainable college estate.

SFC’s January report states colleges can potentially explore collaborations with other institutions or bodies, reviewing estate, reviewing teaching provision including closure of courses considered financially unsustainable, and developing more commercial income streams. However, the report is clear that achieving many of these efficiencies will require investment, and that there may be an impact on course choice and student experience. Further information about how colleges and Regional Strategic Boards determine course provision is available in SFC’s recent letter to the PA Committee.

Among measures that could help the sector, SFC identifies: multi-year funding settlements; reduction in fragmentation of funding streams, year-end flexibility, and national-level infrastructure planning and procurement. These are measures SFC has been suggesting since its 2020 Review of Coherence and Sustainability.

In its submission to the Committee ahead of this meeting, Colleges Scotland set out measures to stabilise the sector. These are: a comprehensive package of funding from the Scottish Government to deal with deficit and prevent further difficulties; an inflationary-proof increase in base funding as part of this; support to implement transformational change; support to enable longer term stability e.g. through delivering post-school reform.

In the longer term, Colleges Scotland is calling for a five-year plan for the sector, which would include consideration of the existing credit funding model and “repurposing of an element of the overall skills and education resource”.

During the Committee’s 5 June 2024 evidence session, EIS-FELA’s David Belsey warned against reframing the sector as being “part of a vehicle that delivers training for businesses, as opposed to its being a vehicle for delivering training and education opportunities for young people and communities”. He said colleges should balance the needs of students with local employers, and EIS-FELA believed Scottish Government investment to be the preferred way of increasing funding.

Student numbers

The latest college statistics from SFC published in March 2024 show the number of enrolments and students at colleges in Scotland increased between 2021-22 and 2022-23. The number of FTEs fell by 4,521 over the same period.

Student headcount was 248,907 in 2022-23, up from 236,730 the previous year. This is an increase of 5.1%.

A total of 124,654 FTE places were delivered in 2022-23, compared to 129,175 the previous year. This is a fall of 3.5%.

The SFC report explains the rise in student headcount but fall in FTE numbers as follows:

> "The rise in student headcount and enrolments but fall in the total FTE is driven by an overall increase in the number of enrolments on part-time courses but decrease in enrolments on full-time courses." – SFC College Statistics 2022-23

FTE numbers over time can be viewed at **Annexe 1, Table 2**. The figures broken down by mode and level of study shows that the number of FTEs in full-time Further Education (FE) has fallen slightly (-1.3%) between 2021-22 and 2022-23, the sharpest fall is with FTEs in full-time Higher Education (HE). The number of FTEs in full-time HE has fallen 16.5% between 2021-22 and 2022-23.

During the Committee's 5 June meeting, EIS-FELA's David Belsey said the increase in part-time students meant colleges providing more flexibilities in platforms used for teaching and training, and increasing evening and weekend provision.

Fair work and staffing

The position of the college sector in relation to the Scottish Government's fair work and public sector pay policies has been an area of ongoing interest for this Committee. The Minister wrote to the Committee in June 2023 stating that he had highlighted the importance of fair work practices in a letter to College Principals, making clear that "every effort should be made…to protect jobs".

In July 2023, the Minister wrote again, stating that SFC's Financial Memorandum (FM) sets out the formal relationship between SFC and colleges and the requirements institutions must comply with to receive funding. The Minister stated this included compliance with the requirements of the Scottish Public Finance Manual. This includes requirements for obtaining approval for voluntary severance and settlement schemes.

The Minister's letter stated that while Public Sector Pay Policy did not directly apply to colleges, it "acts as a benchmark". The letter also stated:

> "It is the responsibility of boards of management that colleges plan and manage their activities to remain sustainable and financially viable, with sufficient long-term planning in place to ensure that workforce levels match

> the financial capacity of the college. However, SFC requires assurance that any compulsory redundancies are a last resort and colleges must notify SFC of such intentions." – Letter to ECYP Committee, July 2023

The Cabinet Secretary stated in a letter to this Committee in December 2023 that operational decisions around staffing were a matter for colleges and the Scottish Government does not have access to data on this. On compulsory redundancies, all options should be considered before turning to compulsory redundancies. While SFC should be informed at the "earliest opportunity", colleges are not required to seek approval or submit a business case.

The latest SFC college staffing data was published in March 2024. This found that there were 10,957 FTE staff employed in the sector in 2022-23. This was a decrease of 120 (1.1%) on 2021-22, but an increase of 160 (1.5%) since 2014-15. In 2022-23, 49% of staff were teaching and 51% non-teaching. Since 2014-15, full-time staff numbers have decreased by 2.3% while part-time staff numbers have increased by 11%.

The SFC's January report on the sector's financial sustainability estimates staff reductions of 2,387 FTEs between 2022-23 and 2025-26 - 21% of FTE staff employed in the sector.

During the Committee's 5 June evidence session, Audit Scotland's Mark MacPherson said staffing costs were the most significant element of colleges' cost base and colleges "will be forced into making decisions about what they deliver, how much they deliver, how they deliver it and, ultimately, the quality of the learning".

EIS-FELA's David Belsey said:

> "Ultimately, we cannot deliver the same amount of high-quality education and training with fewer staff. The staff we are losing, who are being encouraged to take voluntary severance, are the experienced ones who have skills and experience of working with students, local businesses and employers and so forth. That leaves college education in a dire place." – Official Report, 05/06/24

Regarding colleges' fair work obligations, David Belsey said he had written to SFC to ask for clarification on their role in relation to enforcement of these.

National bargaining

The National Joint Negotiating Committee (NJNC) was established to jointly agree terms on issues including pay and conditions. It brings together colleges with unions EIS-FELA, GMB, Unite and UNISON and secretariat is provided by College Employers Scotland. The National Recognition and Procedure Agreement (NRPA) was agreed by all parties and endorsed by the Board of Colleges Scotland in January 2015.

In the years since the establishment of the NJNC and the NRPA, pay negotiations have been challenging. While the Scottish Government does not have a direct role in pay negotiations, it commissioned the Lessons Learned – resetting national collective bargaining in the colleges sector report seeking recommendations to improve the process in future years. This is known as the Strathesk report and was carried out in 2021-22.

The report found the issue of low trust between negotiating sides required to be addressed to make progress. It also found the "absence of a commonly accepted evidence base" posed a problem. It recommended that the national bargaining process should be reset, the Bargaining Agreement reviewed, a protocol on information sharing should be agreed, negotiating skills should be improved via training and behaviour should be reset away from "ill-tempered exchanges".

The Scottish Government has not formally responded to the Strathesk report. The Minister told Parliament during a Member's Debate on Further Education Pay on 7 May 2024 that the report stated Scottish Government intervention in past disputes had not been helpful. He encouraged employers and unions to "find a resolution and, more generally, try to facilitate an improvement in the approach to interaction between them." On 30 May, the Minister gave a statement updating Parliament on progress.

The current round of pay negotiations in the college sector began in 2022. The initial pay offer was rejected by unions. Following this, a number of renewed offers have been made by College Employers Scotland and rejected by the unions.

The current offer being put forward by employers is £5,000 over three years. EIS-FELA is undertaking a programme of rolling strike action and has tabled a four-year pay claim. College Employers Scotland has said this will be "carefully considered".

For support staff, it was announced on 31 May 2024 that UNISON and Unite have voted to accept the offer of a £5,000 consolidated pay rise over three years (AY 2022-23 to 2024-25). GMB members accepted the offer earlier in the year.

Financial flexibilities

This Committee's pre-budget scrutiny letter to the Cabinet Secretary asked for information about how new flexibilities requested by the college sector around the allocation and delivery of credits were being used. The Cabinet Secretary's response stated it was too early to provide detail on this, but feedback from the Tripartite Group suggested colleges "are already seeing the benefits of the changes".

During the Committee's 10 January 2023 evidence session, the Minister said colleges had not been able to utilise credit flexibilities as expected.

During the PA Committee's 30 November 2023 evidence session on colleges, the College Principals Group said the flexibilities were "very minor", while EIS said it was not clear what the impact will be. Colleges Scotland said it wanted to see the new funding flexibilities embedded, but the "more fundamental point is about examining the underlying funding model" and considering fundamental changes.

Following its evidence sessions on colleges, the PA Committee wrote to SFC seeking further information on the funding distribution model for colleges. SFC responded setting out further information about the changes to credit thresholds. The response highlighted that these changes are in their first full year and a full assessment of the financial impact cannot yet be produced.

During this Committee's 5 June evidence session, David Belsey of EIS-FELA stated that SFC removing the ability to claw back funding where activity dropped by 10% "invites some colleges to drop activity…without any comeback from the Scottish Funding Council, and 10% less activity means a 10% reduction in staff".

During a debate on college funding on 8 May 2024, the Minister said colleges were to be given further flexibilities around disposal of assets:

> "Following advice from the sector on the assets that are likely to become available for disposal, the Cabinet Secretary announced at the recent Colleges Scotland annual conference that we will embed changes so that colleges can retain a significant proportion of the value of any sale to invest locally." - Official Report, 8/05/24

During the Committee's 5 June evidence session, EIS-FELA's David Belsey said the ability for colleges to carry over reserves from one year to the next would be welcome in the longer term. Audit Scotland's Mark MacPherson said it was difficult for colleges to explore alternative measures for raising revenue in the current economic climate.

Universities

Budget 2024-25 and allocations

In 2023-24, the resource budget was initially £809.2m. £20m of this was later removed by the Scottish Government to put toward the teachers' pay deal. This left the total 2023-24 resource budget at £789.2m.

For financial year 2024-25, the Scottish Government set the university resource budget of £760.7m and a capital budget of £356.9m.

Between 2023-24 and 2024-25 the resource budget fell by £28.5m (-3.6%) when the removal of the £20m is factored in. The capital budget increased by £16.2m (4.8%) from £340.7m in 2023-24 to £356.9m in 2024-25.

Table 3 sets out university (HE) resource and capital budgets from 2022-23 to 2024-25.

Table 3: HE Resource and Capital Budgets (Level 3)

	2022-23 Budget £m	2023-24 Budget £m	2024-25 Budget £m
HE Resource	789.2	*809.2* (789.2)	760.7
HE Capital	348.0	340.7	356.9

Source: Scottish Budget 2024-25, Table A5.07 Scottish Funding Council Spending Plans Level 3
Note: The initial 2023-24 HE Resource is in italics and the final amount following the removal of £26m is in brackets.

SFC published University Final Funding Allocations on 30 May 2024. This set out how the 2024-25 will be split between institutions. Key points from the allocations are as follows:

- Teaching funding for AY 2024-25 has reduced by £28.5m (-3.8%).
- Research and innovation funding has increased by £12.6m (4.2%).
- Capital funding has increased by £2.6m (10.2%).
- The 1,289 FTE funded student places introduced from AY 2020-21 following the revised SQA results have been removed. The impact of this is explored further under the ‘Student numbers’ section of this briefing.
- Graduate Apprenticeship (GA) funding is wrapped into overall funded student places, and the expectation is that 1,378 GA places will be delivered.
- Widening access remains a priority and colleges and universities should continue to encourage articulation between college and university courses. This is where students can begin studying a university course from second or third year upon completion of a relevant college course.
- Funding for Small Specialist Institutions (SSIs) has increased by £1.7m to £13.8m “to mitigate changes to other elements of funding”.
- Upskilling funding (worth £7.0m in 2023-24) has been removed.
- Core Research and Innovation (R&I) grants have been increased by £12.6m (4.2%) to £317.2m for 2024-25. This includes a £9.5m increase to the Research Excellence Grant (REG), bringing this funding to £256.3m for AY 2024-25. An additional £1.0m for the Research Postgraduate Grant (RPG) increases this to £37.9m and a £2.2m increase to the new Knowledge Exchange and Innovation Fund (replacing the University Innovation Fund) brings this to £23.0m.
- SFC will match-fund £18.8m of expected Higher Education Research Capital grant from the UK Department for Science, Innovation and Technology for financial year (FY) 2024-25, bringing the total to £37.6m.
- The Capital Maintenance Grant for FY 2024-25 has increased by £1.2m to £5.0m.
- Digital poverty funding (worth £1.6m to universities in FY 2023-24) will not be available in 2024-25.
- Funding toward employer pension contributions to the Scottish Teachers Superannuation Scheme (STSS) will not be continued. £4.8m was provided in 2023-24. The SFC’s report on universities financial sustainability states the sector’s pension liability was £1,479m at the end of July 2022, up from £1,295m at the end of July 2021.

Financial sustainability of universities

SFC published its report Financial Sustainability of Universities in Scotland 2020-21 to 2025-26 in January 2024. This gives an overall picture of the sector, noting that the financial position varies by institution and is challenging for some (for example, recently reported challenges facing the University of Aberdeen). The report finds five universities reported underlying deficits in 2021-22, and between six and ten universities are projecting underlying deficits in the following three years (Universities Scotland's submission to the Committee states "at least 10" institutions are expected to be in deficit in 2023-24).

The SFC's May 2024 submission to the Committee provides updated information on accounts for 2022-23 and forecasts for 2023-24. This shows the sector reported an adjusted operating surplus of £210.8m for AY 2022-23. This is down from the £226.5m forecast for 2022-23 in the January report. It is a 45.3% reduction on the 2021-22 surplus of £385.2m.

An adjusted operating deficit of £74.7m is forecast for AY 2023-24. SFC states the downturn is "largely due to reduced international revenue and research income partly offset by lower staff and other operating costs and increased investment income."

SFC's May submission to the Committee set out the sector cash position was £2,263m at the end of July 2023. This is a small reduction of 4.6% on the forecast figure of £2,371m in the January report. The forecast cash position at the end of 2023-24 is £2,066m – in line with the previous forecast. This is an 8.8% reduction from AY 2022-23.

Overall borrowing for the sector reduced by 5.9% from £1,656m at the end of July 2022 to £1,559m by end of July 2023. This is forecast to reduce further to £1,526m at end of July 2024 - a 2.1% reduction.

On sector income, SFC's January report found:

- Universities' reliance on SFC grants reduced from 31% in 2020-21 to 27% in 2021-22. It is expected to reduce further to 23% by 2024-25.

- Tuition fees represent the largest source of income for the sector.

- The proportion of international fee income was expected to exceed SFC grants in 2023-24, however early international recruitment data shows international student numbers lower than projected.

The report notes universities are taking actions to mitigate falling income, and efforts include expanding digital delivery, overseas markets and partnerships. Staff restructuring, vacancy management/removing posts, freezing non-essential spend, undertaking benchmarking exercises, reviewing course portfolios, reviewing estates strategies and delaying capital spend are among measures universities are taking forward.

The principals of the University of Aberdeen and Robert Gordon University wrote to MSPs in April calling for funding cuts to the sector to be reversed. In May, chief executive of Scottish Chambers of Commerce Liz Cameron said:

> "Cuts to the education budget and changes to the UK immigration system are placing our world-leading university sector at risk. Steps must be taken to address the funding gap that is growing as a result." – The Scotsman, 6/05/24

The Institute for Fiscal Studies (IFS) published a report on Higher education spending in February 2024. The report provides an overview of higher education funding in Scotland. The report concluded that:

> "There are no easy answers to increasing university funding, without increasing Scottish Government spending on higher education or requiring some contribution from students towards the costs of their tuition." - IFS Higher education spending report, February 2024

At the Committee's 5 June 2024 evidence session, Mary Senior highlighted recent UCU-commissioned research carried out by London Economics (LE) looking at the impact of a 1% employer levy operating in the same way as National Insurance contributions or a 3 percentage point increase in the rate of Corporation Tax. This is part of UCU work at UK level looking at moving away from tuition fees.

LE modelled the removal of fees for UK domiciled students and a corresponding increase in public teaching grant funding. The impact of a potential employer levy to generate funding for the necessary increase in teaching grant was then explored. The LE modelling took Scotland's current model of publicly funded tuition fees into account, and as a result of this, the employer levy would cost 0.07% and bring in an estimated £64m (see LE report page 9).

LE's Dr Gavan Conlon told the Committee such a levy would allow business to contribute toward higher education funding indirectly. He also discussed ways in which business might contribute directly, such as through commercialisation activities such as spin-outs and start-ups and lease or hire of lab facilities. He cited the University of Edinburgh as an institution that has "very strong research that is then commercialised, which certainly bolsters their financial position".

Dr Conlon added: "Businesses should contribute to the costs of higher education because they receive one third of the benefits."

NUS Scotland's Ellie Gomersall said that as businesses are a main beneficiary of higher education they should contribute, but this should be done in a way that protects the independence of institutions.

On the financial sustainability of individual institutions, LE's Dr Gavan Conlon said data from the Office for Students showed institutions in England running unsustainable deficits, and he speculated the situation in Scotland may be worse given the lower level of average funding per head. He said "there is a very significant risk" of a university having to shut down and questioned what the Scottish Government response to this would be. He later said that current "salami slicing" at institutions will likely move to the stage where whole subject departments are cut and "ultimately, an institution is going to fall over".

Dr Conlon described universities in Scotland as "relatively underfunded" compared to England, Wales and Northern Ireland, despite the Scottish Government "putting in five times the amount in England per head of population". Dr Conlon told the Committee:

> "The level of contribution by the Scottish Government is more than 100 per cent, because there are free fees, there is maintenance and there are loan write-offs. The balance in the contribution is wrong, because the benefits to higher education are accrued more widely—they are accrued by the individual and by the public purse. There should be a balance of contribution, as there is in Northern Ireland, for instance, where it is very even." – Official Report, 05/06/24

In Northern Ireland, students can be charged tuition fees of up to £4,750.

Commenting on the current funding system in Scotland, Dr Conlon said:

> "There is a really poor targeting of resources. Essentially, the public purse is subsidising very well-paid or better-paid, and predominantly male, graduates, to the detriment of less well-paid female graduates." – Official Report, 05/06/24

NUS Scotland's Ellie Gomersall cited 2020 UCU research finding two thirds of university applicants would be put off going to university if fees were introduced. She suggested progressive taxation and focusing on the wealth that exists in universities for "vanity projects" could be considered as options to help achieve sustainability.

Mary Senior said UCU continued to support free tuition, though this must be fully funded through the public purse. She also said the Scottish Parliament and Scottish Government could do more with the tax and revenue raising powers it has at its disposal.

Dr Conlon said that increasing funding for undergraduate and postgraduate home students would help to reduce the reliance on international students and the need for commercial income.

Student numbers, funding for places and international students

Funding for teaching of students

Funding for teaching of Scottish-domiciled university students is provided to Higher Education Institutions (HEIs) via a combination of teaching grant funding from the Scottish Funding Council (SFC) and tuition fee income from the Student Awards Agency Scotland (SAAS):

- A block teaching grant is provided to each HEI by SFC to support delivery of agreed teaching delivery as set out in institutions' published Outcome Agreements.

- A tuition fee of £1,820 for undergraduate (first) degree courses or Professional Graduate Diploma in Education (PGDE) courses is paid by SAAS to the institution for each eligible Scottish-domiciled student accepting a full-time place.

SFC allocates funding provided by the Scottish Government through the university resource budget to institutions. SFC provides for around 120,000 full-time equivalent (FTE) funded places for eligible students each year. Each university is allocated a number of these FTE places and can recruit up to 10% over allocation. This is set out in the SFC's conditions of funding for 2023-24.

In a Parliamentary Written Answer in May last year, the Scottish Government set out the process for allocating funded places:

> "Scottish Universities are autonomous institutions and as such, except for controlled subjects, the Scottish Government and Government Ministers do not set a student cap or direct individual universities on the number of funded places for individual subjects, available for eligible Scottish and EU domicile students.
>
> Universities are allocated a finite amount of money and it is for universities themselves to decide how to distribute these places between faculties; the courses they offer; and how many of the total funded places will be available on each course." – Parliamentary Written Answer

While universities are not subject to a formal cap on student places, institutions pay the tuition fee of students recruited over and above the 10% threshold in any subject.

In its February 2024 report, the IFS compared data over a ten-year period and found that:

> "Together, Scottish universities received direct public funding of around £900 million for teaching home undergraduate students in academic year 2023–24, or £7,610 per student…this was around 19% less in real terms per student than in 2013–14, as the tuition fee has been fixed in cash terms at £1,820 since 2009–10 and the main teaching grant per student has risen by less than inflation." – IFS Higher education spending report, February 2024

International students

The universities sector has stated for a number of years that the funding provided for each 'home fee' student does not fully cover the costs of teaching. This has resulted in many institutions using the income generated from international student fees to 'cross-subsidise' research funding and the teaching of 'home fee' students. It is important to note that not all institutions attract international applicants, and so the cross-subsidy option is not available to all. A breakdown of students at Scottish institutions by domicile can be found at **Annexe 2, Table 5.**

SFC's Financial Sustainability of Universities report published in January this year cites 'an over-reliance on income from international students to remain financially sustainable' as a risk to universities' financial health. The report states:

> "According to forecasts, international fee income is expected to increase from £1,144m in 2021-22 to £1,289m in 2022-23 and to £1,617m in 2024-25, a 41% increase on 2021-22. Universities rely on this source of income to remain financially sustainable and to support other areas of their operations such as research which can be a loss-making activity. But international fee income is an area of significant fluctuation and risk due to the competitive nature of international markets and geopolitical changes. As noted above, early data on international recruitment shows a less positive position in 2023-24 than expected." - Financial Sustainability of Universities report, SFC

Uncertainty over future numbers of international applicants is causing concern. Universities Scotland's response to the Scottish Government's 2024-25 budget said the sector faces "serious headwinds in international student recruitment". In its submission to the Committee ahead of this session, Universities Scotland states data from November 2023 and February 2024 shows a fall of 20% in international postgraduate enrolments, with 12 institutions reporting lower than forecast intakes. Universities Scotland estimates this may have a collective impact of £100m on forecast income for 2023-24. The submission states a 27% fall in applicants for postgraduate taught study is expected, equating to around 92,000 fewer applications.14 institutions report a fall, though there is variance. The biggest fall for a single institution is 79%.

During Education and Skills Portfolio Question Time on 16 May 2024, the Minister announced that SFC plans to carry out a review of its approach to teaching funding during the next academic year.

Cut to funded student places

The SFC's University Final Funding Allocations set out that the number of FTE funded student places will fall from 120,829 in AY 2023-24 to 119,385 in AY 2024-25. This is due to the removal of 1,289 FTE funded places for non-controlled subjects initially introduced in AY 2020-21 following revised 2020 SQA results. The final allocations also set out a reduction of 155 funded places for controlled subjects (nursing, paramedic education, teaching, medicine, dentistry, prosthetics and orthotics).Allocations by institution can be found in SFC's Final Allocations Table 3.

The final allocations document explains that institutions reporting the highest levels of under-delivery of funded student places in AY 2023-24 have had the most places removed. This has seen reductions for the following institutions:

- University of the West of Scotland has the highest percentage change in overall funded places, with a proposed reduction of -8.4% (758.9 places).

- There are reductions of over 2% for: Queen Margaret University -2.7% (80.9 places); University of Aberdeen -2.5% (193.3 places); University of the Highlands and Islands -2.3% (131.7 places); University of Abertay -2.2% (76.4 places).

- Robert Gordon University -1.7% (116.2 places); Heriot-Watt University -1.7% (87.7 places); and Edinburgh Napier University -1.5% (116 places).

- Glasgow Caledonian University has been given an additional 220.4 places, the only institution to have an increase for AY 2024-25. This is an increase of 2.1%.

SFC's Final Funding Allocations document states that the changes to funded places for AY 2024-25 will not adversely impact Scottish students:

> "Given that we are removing some funded places that have not been filled, and that European Union students are graduating from the system, this will not reduce places or opportunities for Scottish students. In addition, as we are not removing the full level of under-delivery, universities that have had funded places removed will need to increase their intake for AY 2024-25 to fill their overall number of funded places." – University Final Funding Allocations 2024-25, SFC

A table setting out the proportion of Scottish domiciled applicants to university from 2018 to 2023 can be viewed at **Annexe 2, Table 4** of this briefing. It shows that the proportion of placed applicants was 75.7% in 2023 – the highest proportion in recent years. The table also shows the total number of applicants fell from a high of 53,920 in 2021 to 46,655 in 2023. Despite this fall, the total number of accepted applicants remained at 35,320 in 2023.

In April this year, Universities Scotland provided written evidence to the Citizen Participation and Public Petitions (CPPP) Committee highlighting that the number of funded undergraduate places for Scottish-domiciled applicants in 2024-25 "sits above the pre-pandemic, high watermark level" with funding for 119,540.2 non-controlled places, compared to 107,982.0 non-controlled places in 2019/20. Universities Scotland said this showed the emerging narrative that there is not enough funded places for Scottish-domiciled students is not the case.

In its submission to the Committee ahead of this meeting, Universities Scotland said the removal of the additional funded places was an opportunity for the Scottish Government to start to address the under-funding of undergraduate places by reinvesting the funding in the price per student:

> "…our estimate suggests it would have made the difference between flat in cash terms (which was the outcome) or a 1% cash increase, without additional cost to the Scottish Government." – Universities Scotland submission

Average expenditure per funded place

Scottish Government figures show the average expenditure per funded university place (Teaching Grant plus assumed tuition fee income) for 2022-23 was £7,558; in 2012-13, the figure was £7,139. Universities Scotland has been calling for an increase in teaching resource per student for several years.

Universities Scotland's submission sets out that the average funding per student has fallen by 20% in real terms over the last decade; a fall of almost £1,900. It points to the May 2024 Migration Advisory Committee (MAC) report which concludes that failure to fund the sector has led to overreliance on immigration as universities lose money teaching home students.

UK universities use the Transparent Approach to Costing (TRAC) methodology for costing activities. This approach was introduced in 2000 to enable institutions to identify the Full Economic Costing (FEC) of activities. TRAC is used to inform decision making and improve accountability for use of public funds. TRAC analyses activities under the headings of Teaching, Research and Other.

The latest TRAC data can be found in SFC's Financial Sustainability of Universities in Scotland 2020-21 to 2025-26 report. TRAC is explored in more detail in the SPICe briefing for the Committee's 5 June 2024 meeting.

The report states that in 2021-22, Scottish universities recovered 99.2% of FECs (though this varies across institutions). The recovery percentage for the UK as a whole was 95.6%. The report shows income brought in through publicly funded teaching did not make up the FEC of delivery. However, the income brought in through non-publicly funded teaching was higher than the FEC of delivery. The SFC report concludes from this:

> "…privately funded teaching and other income generating activities subsidise publicly funded teaching and research." - Financial Sustainability of Universities in Scotland 2020-21 to 2025-26, SFC

During the Committee's 5 June meeting, UCU's Mary Senior said cross-subsidy and expansion of commercial activity should not be used to cross-subsidise teaching, and resource needed to be put into the teaching budget. NUS Scotland and UCU both stated that the model for funding higher education was not the issue; the issue was the cuts to funding per student over the last ten years.

Expanding on this, NUS Scotland's Ellie Gomersall said:

> "It is important to say that when the funding model was first implemented it was sustainable. It is the fact that there has been cut after cut after cut that means that we are now seeing challenges, and seeing overreliance on, for example, cross-subsidising from international students. That is a relatively recent thing—when we first had the policy of free tuition, there was not so much of that reliance because funding kept pace…A political choice was made about 10 years ago not to continue funding universities for the teaching grant to the degree that they actually require it. The decline since then is resulting in a lot of challenges now." – Official Report, 05/06/24

Dr Gavan Conlon said that, when compared to England and Wales, there is a funding shortfall of about £1,500 per student in Scotland. He suggested options including a deferred fee and the introduction of real interest rates to the loan repayment system. When asked about the potential for recouping payments from graduates who leave the country, Dr Conlon said it was challenging to do but pointed to the system in New Zealand as an example of what could be done. He said that in New Zealand, a graduate leaving the country faces higher interest rates on their student loan repayments.

Widening access to university

Universities are currently working toward a target to widen access so that by 2030, students from the 20% most deprived backgrounds should represent 20% of full-time, first-degree entrants to Higher Education. Progress on widening access is measured using the Scottish Index of Multiple Deprivation (SIMD). This uses postcodes to rank areas from most deprived to least deprived. Widening access data is usually considered by quintile, with SIMD1 containing the most deprived areas in Scotland while SIMD5 contains the least deprived.

The Scottish Funding Council's latest report on widening access found that the interim target of 16% of full-time, first-degree university entrants being from SIMD1 backgrounds by 2021 has been met for the second year in a row. In 2021-22, 16.5% of Scottish-domiciled entrants were from SIMD1 backgrounds (down slightly from 16.7% in 2020-21). In addition, the number of students entering university from college into year 2 or 3 of study with full credit for prior learning increased from 4,430 in 2020-21 to 4,705 in 2021-22.

The limitations of SIMD as a measure have been highlighted in recent years. The outgoing Commissioner for Fair Access stated in his 2022 report that universities should be able to use "a basket of measures" - including data on Free School Meals (FSMs) - to determine targets at local level. Incoming Commissioner Professor John McKendrick said in his first report, published in January this year that SIMD should be seen as an "indicator of progress…rather than a measure of it". He recommended retaining SIMD as the "central metric" and suggested work toward the development of an indicator of individual disadvantage should be a priority. However, his report also stated that work carried out by the Access Data Working Group exploring the use of FSMs and/or Scottish Child Payment data as a measure is likely to conclude it is not yet possible to use these to track progress on widening access.

The Commissioner's latest report also observed that progress toward the next interim target of 18% of full-time, first-degree university entrants being from SIMD1 backgrounds by 2026 had stalled. In his submission to the Committee, the Commissioner states:

> "…there are indications that the rate of progress may not be sufficient to meet the next interim target in 2026." – Commissioner for Fair Access Submission to ECYP Committee, 4/06/24

Recommendations from the Commissioner's latest report included: widening his remit to include access to colleges; withdrawing institutional targets; encouraging institutions to report on SIMD deciles up to SIMD40; and carrying out impact assessments where funding promoting access is withdrawn.

The Commissioner's submission to the Committee highlights that while the Scottish Government restated its commitment to meeting the 2026 interim target in April 2023's Equality, opportunity, community publication, the 2024-25 Budget and SFC allocations continue a trend of flat-cash budget provision for widening access.

The submission states there is uncertainty around the ability of institutions to invest in widening access due to current financial uncertainty, and a lack of clarity around the "scale of current investment" in widening access. The need to address inefficiencies in the Scottish education system is also highlighted.

During the Committee's 5 June evidence session, EIS-FELA's David Belsey spoke of the detrimental impact cuts to college funding have on the least well-off communities:

> "The college sector has a greater number of Scottish index of multiple deprivation students—it has twice the proportion that the university sector has. Therefore, any cut in provision to the college sector automatically disproportionately affects working-class communities, so it affects people who might otherwise not be able to get on the education train in order to move on to other qualifications or upskill for their work." – Official Report, 05/06/24

UCU and NUS Scotland highlighted the need to ensure a focus on retention of widening access students once at university. UCU's Mary Senior said increasing student to staff ratios would make one to one support needed by many access students more difficult to provide.

Scottish Teachers Superannuation Scheme (STSS) funding

STSS is administered by the Scottish Public Pensions Agency (SPPA) on behalf of the Scottish Government. The scheme covers academic staff mainly in the post-92 sector in Scotland. Further information about the scheme can be found on the SPPA website.

In March 2019, SFC wrote to institutions confirming that the employer contribution rate would increase from 17.2% to 23% from 1 September 2019 to 31 March 2023. SFC announced it would provide funding to recognise this increase, following agreement with the Scottish Government. Further information about the funding can be found on the SFC website.

From 1 April 2024, employer contributions increased to 26% following valuation of the scheme. As SFC's latest funding allocations do not provide funding for institutions, money will have to be found from existing budgets.

In evidence to the Committee on 5 June 2024, Mary Senior of UCU said that the UK Government is providing funding for the additional contributions for schools and colleges, and as a result of this there are Barnett consequentials for the Scottish Government. UCU wrote to the Scottish Government in October 2023 asking for funding to continue and increase in line with the increase in contributions, however there was no response. Mary Senior told Committee members:

> "There is an added complication, because the increase in funding for contributions to the teachers pension scheme in England was 5 per cent.

> Therefore, I asked the Scottish Government, "If the increase in funding for contributions is 3 per cent in Scotland and 5 per cent in England and you're getting the Barnett consequentials for schools and colleges, aren't you getting a bit more, which you could use to support the post-1992 universities?" I have never had an answer to that question." – Official Report, 05/06/24

Mary Senior added that the increase in contributions coupled with the removal of SFC funding "has put so much pressure on the post-1992 institutions and staff".

Lynne Currie, Senior Researcher (FE/HE, Children's social work, child protection and adoption)

6 June 2024

Annexe 1

College FTEs

Table 2: Number of FTEs (all funding sources) delivered by colleges at FE and HE level, by mode of study, since 2013-14

Academic Year	Part-time FE	Full-time FE	Part-time HE	Full-time HE	Total
2013-14	38,413	54,284	6,639	33,606	132,942
2014-15	36,493	54,024	6,526	34,576	131,619
2015-16	32,986	56,652	5,181	34,681	129,500
2016-17	35,423	57,119	5,409	34,543	132,494
2017-18	36,994	55,439	5,267	34,254	131,953
2018-19	37,802	53,157	5,354	33,508	129,821
2019-20	36,785	53,157	4,747	32,994	127,683
2020-21	38,033	50,087	5,193	35,246	128,559
2021-22	42,126	49,752	4,865	32,432	129,175
2022-23	43,469	49,120	4,987	27,078	124,654

Source: SFC

Annexe 2

UCAS Applicant numbers

Table 4: Scottish domiciled applicants and acceptances to Scottish universities (All age groups)

	2018	2019	2020	2021	2022	2023
Total no. applicants	50,665	48,790	49,780	53,920	49,620	46,655
Total no. accepted applicants	35,515	34,095	36,930	37,520	35,690	35,320
Proportion of applicants accepted (%)	**70.1%**	**69.9%**	**74.2%**	**69.6%**	**71.9%**	**75.7%**

Source: UCAS End of Cycle data (Filtered by ‘Country of provider’ and ‘Domicile’)

Student numbers

Table 5: HE student enrolments in Scottish institutions by domicile
Academic years 2017/18 to 2021/22

	2017/18	2018/19	2019/20	2020/21	2021/22
England	26,720	26,715	26,780	29,520	30,665
Wales	850	875	870	1,000	1,105
Scotland	160,875	163,470	167,030	180,170	183,025
Northern Ireland	4,175	4,050	3,940	3,755	3,670
Other UK	250	245	245	250	290
Total UK	**192,865**	**195,355**	**198,865**	**214,690**	**218,755**
European Union	21,605	21,505	20,895	20,550	17,140
Non-European Union	32,740	36,570	40,695	47,630	65,300
Total Non-UK	**54,345**	**58,075**	**61,590**	**68,180**	**82,440**
Not known	10	45	35	5	35
Total	**247,220**	**253,475**	**260,490**	**282,875**	**301,230**

Source: HESA

Colleges Scotland - Evidence to the Education, Children and Young People Committee – Pre-Budget Scrutiny – May 2024

Introduction

Colleges Scotland welcomes the opportunity to engage with the Education, Children and Young People Committee on its pre-budget scrutiny 2025/26 to explore the current funding settlement for colleges and consider sustainability of funding in the years ahead, taking into account the impact of tightening public spending and potential upcoming reforms.

Financial Context

The consistent reduction in college funding in recent years has created massive challenges for college leaders. Without adequate funding to deliver education and training, major changes have to be made. There will be difficult choices about what courses colleges can deliver, what buildings can be repaired, and how to cope with rising staff costs. Colleges have already seen their budgets significantly reduced in recent years and are now in the position of delivering less activity with less funding.

As confirmed by the Scottish Funding Council (SFC) in their report on the Financial Sustainability of Colleges in Scotland 2020-21 to 2025-26, published in January 2024, colleges continue to operate in an extremely tight fiscal environment alongside many challenges, such as increasing staff costs, general inflationary pressures, high energy costs and rising interest rates impacting on loan repayments.

This report also confirmed that the financial position of colleges is deteriorating. Four colleges are forecasting a cash deficit by the end of July 2024, increasing to six colleges by the end of July 2026. Separately, this report evidenced further projected substantial deficits for the college sector of £19.2m, £16.6m and £20.3m in 2023/24, 2024/25 and 2025/26 respectively.

This comes in addition to the loss of crucial funding streams for the college sector, including the Flexible Workforce Development Fund (FWDF), which was withdrawn by the Scottish Government in December 2023 in spite of a Scottish Government commissioned evaluation delivered by EKOS which found that the FWDF had largely worked well and was delivering against its purpose, whilst being universally considered by all stakeholder groups consulted in the evaluation to be a much needed and valued intervention.

Funding for Mental Health counsellors has also ended, with the subsequent one-off, one-year Student Mental Health and Wellbeing Transition Fund coming to an end at the end of Academic Year (AY) 2023/24. The forthcoming Student Mental Health Action Plan has no discrete, separate funding for institutions to implement the framework for future action.

Separately, the HE Discretionary Funding and Childcare Allowance for AY 2023/24 had been reduced to £12m, compared with the previous year's budget of £16.3m, with further specific capital funding to support digital poverty also lost to the sector.

We acknowledge the extremely difficult position that Scotland is facing but colleges require a reversal to the cuts over recent years and for Scottish Government to provide the full amount of funding to allow colleges to continue to deliver on Scottish Government priorities. This includes providing key workers for health and social care, upskilling the current and future workforce to support the Just Transition, and tackling the impact of Child Poverty.

Creating the Conditions for Stability

If the current funding trajectory is maintained, and if the Scottish Government does not commit to fully funding the college sector in Scotland, there will be consequences and impacts for students, for staff, and for communities across the country. In the absence of investment, more colleges will have to make difficult decisions around their provision and where they focus their attention.

This will have a direct impact on the ability of the college sector in Scotland to deliver the four overarching priorities of the Scottish Government, and the contribution of colleges to increasing productivity and economic prosperity in Scotland:

1. **Eradicating Child Poverty** – In the absence of funding, course provision will reduce, limiting opportunities for learners to upskill and enter new careers, limiting their household income.
2. **Growing Scotland's Economy** – Without investment, the ability of colleges to support local and regional economic growth, including through SME engagement, will be reduced.
3. **Tackling the climate emergency by investing in green energy and infrastructure** – If the current funding trajectory continues, colleges will not be able to fulfil their role as the "Climate Emergency Service", as outlined by Professor Dave Reay of the Just Transition Commission.
4. **Supporting the National Health Service to recover from the significant disruption from Covid** – 29% of learning activity in colleges takes place in health and care related subjects. This number will not be maintained without sustained investment.

The inevitable cycle of "less for less" will impact social and economic development in Scotland and must be reversed. On that basis, we are intending to:

- Call for the Scottish Government to provide a comprehensive package of funding for Scotland's colleges, to deal with the immediate deficit and to prevent colleges from moving into further financial difficulty.
- Advise that this package of support should be the first step in creating the conditions for stability.
- Request that, as part of this package of support, colleges need to receive an inflationary proof increase in base funding and support to implement transformational changes to better prepare them for the future.
- Ask for support in enabling longer term sustainability for the college sector, including through acceleration in delivering the reform agenda as highlighted by James Withers in his report.

Foundations for the Longer-term Sustainability of Colleges – Radical Thinking

In addition to the comprehensive package of funding to create stability, Colleges Scotland is recommending that the Scottish Government provide the foundations for sustainability, which would include significant actions to deliver the following:

Strategic Direction and a Five-Year Plan

Given the competing demands placed on colleges, it is essential that the Scottish Government uses this Budget to provide clear strategic direction to colleges as to what it expects, and needs, colleges to deliver.

Our position is that this longer-term approach is developed through an initial five-year plan for the college sector, building on initial activity through the Scottish Government's Tripartite Alignment Group.

This would provide a response to the messaging from Audit Scotland in their Scotland's colleges 2023 briefing paper that *"the Scottish Government and the Scottish Funding Council urgently need* *to build on their ongoing work to help colleges plan for change now, and make best use of available funding so that they are sustainable for the future."*

Repurposing of the Wider Education and Skills Budget

Colleges Scotland is seeking a repurposing of an element of the overall skills and education resource, currently sitting at £3.2billion in the 2024/25 Budget, to allow the college sector to transition to deliver key Scottish Government priorities.

This repurposing would address the reduction in funding for the sector of 8.5 per cent in real terms between 2021/22 and 2023/24, while the sector's costs have increased, as highlighted by Audit Scotland in their Scotland's colleges 2023 briefing.

This would align with the vision detailed in the recent Independent Review of the Skills Delivery Landscape, led by James Withers, whilst reducing duplication and wastage within the system for the benefit of the public purse.

Growth and Enabling Greater Return on Investment

For the benefit of this funding to be fully maximised, and ensure the five-year plan is delivered, there is a need for the Scottish Government to commit to revising the existing funding arrangements for colleges in Scotland.

It is our position that over the five-year plan, consideration has to be given to the existing credit funding model and whether changes can be made that deliver enhanced autonomy and trust for institutions that they can deliver for learners, employers, and economies.

This position would also echo the recommendation given by the Education, Children and Young People Committee in their College Regionalisation Inquiry report published in March 2023: "*The Committee recommends that the Scottish Government and Scottish Funding Council urgently give colleges as many financial and operational flexibilities as possible to help them deliver on the various strands of their work. This could include, but not be limited to: flexibility for year end, flexibility on SFC outcomes and flexibility in terms of access to additional funds*".

Accelerating Reform – Introduction of a Truly Colleges First Approach

The request is made of the Scottish Government to ensure that the required investment into the college sector is delivered with a firm commitment to the "Colleges First" approach, building on the work taken forward by college sector leaders and the current Scottish Government policy priorities identified through Purpose and Principles.

As a practical example, with the move to a "Colleges First" approach to future apprenticeship delivery, the transition to a single funding body for all apprenticeship funding should be focused on maximising investment into Scotland's colleges to deliver against the skills requirements for Scotland's economy, supporting local and regional economic growth.

Stability and Sustainability for Success

With a comprehensive funding package to resolve the immediate financial challenges facing the colleges today, combined with a five-year plan to deliver those steps highlighted above, along with ensuring the conditions for longer term sustainability are created, the college sector can deliver more successful outcomes for learners, employers and communities and deliver for the investment provided by the Scottish Government.

Infrastructure

Estates

Separate investment is required for college estates, which are in a dire state of repair, with previous investment being used to maintain the existing estate, which is in places below standard. Students are learning in inequitable conditions compared to schools and universities, and the current funding for Reinforced Autoclaved Aerated Concrete (RAAC) remains unaddressed.

As per correspondence issued by the Chair of the Public Audit Committee to the Chair of the Education, Children and Young People Committee on 9 May 2024: *"The Committee remains concerned about the college sectors ongoing backlog of maintenance and repairs and draws your attention to the Scottish Government's forthcoming Infrastructure Investment Plan (IIP). The Committee suggest that you may wish to consider the extent to which the IIP delivers a sustainable college estate as part of your future scrutiny of Scotland's college sector".*

Digital

This inequality also extends to college digital infrastructure where investment is required to provide fit-for-purpose digital facilities to meet the demands of our students and stakeholders for a modern hybrid learning environment, that will be supported by the National Digital Strategy which is anticipated to be launched in Autumn 2024 along with an Implementation Plan.

Investment Requirement

There should be an immediate solution to the renewal of the college sector estate and digital infrastructure as a key pillar of investment of public sector assets. It is our estimation, based on a survey of colleges completed by Colleges Scotland in May 2022 that **£775m** is required to bring buildings up to current building standards.

This amount does not include that additional funding which will be required to assist the colleges in achieving their Net-Zero targets as public sector bodies.

As noted in the Education, Children and Young People Committee's report on College Regionalisation, as well as in the Audit Scotland briefing on Scotland's colleges 2023, there are extreme concerns about the significant level of backlog and life cycle maintenance required to ensure that the college estate is wind and watertight, to improve the adverse learning environment and subsequent impact on learners. This comes in addition to any costs that will be incurred (both now and in the future) by those seven colleges currently responding to issues in relation to RAAC.

The college sector is working with the SFC to deliver an Infrastructure Investment Plan, following the publication of the College Infrastructure Strategy in November 2022. We are now seeking the full support of the Scottish Government to explore how the requisite resource can be provided to remedy the outstanding maintenance issues and subsequently place colleges on the path to Net-Zero, through a plan for a national renewal of college estates per the recommendations outlined by the Education, Children and Young People Committee. This will complement the activity progressed by the SFC to establish the infrastructure baseline for the college sector between May and November 2024.

When Colleges Thrive, Scotland Thrives

Economic Good – Delivery of Growth

The economic contribution of colleges in Scotland has been reinforced by the findings of Fraser of Allander Institute research completed in October 2023, which has evidenced the system wide impact of college graduates to the Scottish economy and the economic impact of the money that colleges spend. This latest research shows that:

- For the 2021/22 graduation cohort, it is estimated that the Scottish economy in terms of GDP, will be cumulatively better off by **£8 billion** in present value terms over the long term, when compared to an economy without these skilled graduates. This is equivalent to a **£73,000 boost in productivity** per graduate to the Scottish economy.
- The Scottish Government's £740m investment, via the SFC in colleges in in 2021/22, led to a **£8bn boost** to the GDP of the Scottish economy and a **£2.8bn boost to** government revenues. The investment in this college cohort therefore represented **9%** of the return in terms of the boost in GDP, and **26%** in terms of the boost to government revenues.
- The 2016/17 – 2021/22 college graduation cohort is estimated to have made the Scottish economy cumulatively better off by around **£52bn** over their 40-year working life, when compared to a scenario without these skilled graduates, helping to boost labour productivity by **2%** in the long run across the Scottish economy.
- College spend helps to support an additional **4,400 jobs** across the Scottish economy, of which 2,700 are directly supported by college supply chain spending, and the remaining 1,700 are supported across the wider economy, as purported by the Fraser of Allander Institute modelling.

Social Good – Delivery of the National Performance Framework

Investment in the college sector will ensure that the national public assets, and skills, experience, and abilities of the college sector can be utilised to help deliver on several of the National Outcomes. These include:

- **Education –** We are well educated, skilled and able to contribute to society.
- **Poverty –** We tackle poverty by sharing opportunities, wealth and power more equally.
- **Children and Young People –** We grow up loved, safe and respected so that we realise our full potential.
- **Communities –** We live in communities that are inclusive, empowered, resilient and safe.
- **Fair Work and Business –** We have thriving and innovative businesses, with quality jobs and fair work for everyone.
- **Economy –** We have a globally competitive, entrepreneurial, inclusive and sustainable economy.
- **International –** We are open, connected and make a positive contribution internationally.

Without investment in colleges, the Scottish Government ambitions around these key National Outcomes will be negatively impacted and lost.

Summary

The Scottish Government is placing a focus on eradicating child poverty, growing Scotland's economy, tackling the climate emergency by investing in green energy and infrastructure, and in supporting the National Health Service to recover from the substantial disruption from Covid.

Without significant and sustained proactive investment in the college sector as public sector assets, the delivery of these ambitions in practice will not happen.

The absence of this proactive investment will create a further absence of opportunities for those citizens furthest from the workforce and who are already the most socially isolated in their communities.

If the Scottish Government wants to enact real change in the lives of these citizens across Scotland and provide opportunities for both young learners and those returning to education, colleges must be resourced to make a difference to all types of students, whether this is helping them progress out of poverty and into fulfilling employment or supporting learners to fulfil their potential and move into careers or start their own businesses.

When Colleges Thrive, Scotland Thrives.

Colleges Scotland
May 2024

Education, Children and Young People Committee – Pre-budget scrutiny 2025-2026

Professor John H. McKendrick
Commissioner for Fair Access
June 4th 2024

Thank you for affording me the opportunity to participate in the evidence session on the morning of Wednesday June 12th, 2024, which will focus on the current funding settlement and consider sustainability of funding in the years ahead, taking cognisance of the impact of tightening public spending and potential upcoming reforms.

In advance of the session, I would wish to make the following points.

1. **Priority.** The Scottish Government has asserted that it remains committed to continue to make progress toward achieving the fair access targets for access to higher education. In *Equality, Opportunity, Community*, the Cabinet Secretary for Education and Skills, stated that: working with my Cabinet colleagues, by 2026, Scotland will have "Met our interim target of 18% of full-time first degree entrants to universities coming from the most deprived communities in Scotland".

2. **Progress, but stalled**. Significant progress has been made toward achieving fair access targets, underpinned by innovative practice within and beyond higher education. However, there are indications that the rate of progress may not be sufficient to meet the next interim target in 2026.

3. **Flat Cash for Widening Access**. The headline budget line for promoting widening access (and retention) work in universities has not increased – at a national level or for the eight institutions which receive Widening Access and Retention Funds – since 2021/22 (the settlement has been constant at £15,610,000 for the last four funding rounds). Also of note is that the uplift from 2020/21 to 2021/22 was lower than the total uplift to teaching grant for universities (2.29%, compared to 2.97%)

4. **Lack of Clarity**. The sums invested to support fair access are greater than the WARF budget line (which, after all, is received by a minority of HEIs). It would be helpful to have a clearer understanding of the scale of current investment in Scotland.

5. **Uncertainty**. Notwithstanding the commitment of HEIs to promote fair access, their capacity to sustain, innovate and upscale investment to achieve our collective goals is uncertain is the current financial climate for higher education.

6. **Inefficiencies.** There are system-wide inefficiencies in the Scottish education system that should be examined to ensure that the investment in human potential through education is optimised.

7. **Impact and Evaluation**. The evidence base must be strengthened to appraise which investments are most impactful in progressing work to achieve fair access.

Prosper Submission to Scottish Parliament Education, Children and Young People Committee

About us

Prosper (SCDI) is a unique membership organisation, with a proud history of bringing people together from government, business and civil society to effect change. Our purpose is to create a prosperous Scotland which benefits all its people and places.

With members from across Scottish society - from micro businesses and multi-nationals to universities and colleges - our shared ambition is to support economic growth and prosperity for all of Scotland and better social and environmental outcomes.

Introduction

Prosper is the new trade name for the Scottish Council for Development and Industry (SCDI). Prosper has a strong commitment to education and skills in Scotland. Since 1987, Prosper's Young Engineers and Science Clubs have supported teachers with STEM learning in 1750 schools across Scotland with funding from industry and Government.[1]

The future of Scotland's education and skills system, including funding for colleges and universities, is a key priority for the Scottish economy and across Prosper's membership. Colleges and universities are critical enablers of Scotland's economic fortunes, significantly contributing to skills development, innovation, and trade and investment. Prosper welcomes the invitation to provide this evidence to the Education Committee.

Background

Recent surveys of Prosper members show that skills continues to be a high priority. The Scottish labour market remained tight during 2023 (although there were signs of some loosening and the unemployment rate has been forecast to increase in 2025.) Employers continue to report shortages of workers and skills, with a lack of skills, qualifications or experience cited as a key reason that vacancies are difficult to fill. They are concerned about the impact today, including potential delays on critical projects, and do not believe that the labour market will be able to support the delivery of their future business plans.

Scotland's working-age population is forecast to shrink between 2023 and 2043, and economic inactivity and labour market inequalities have been difficult to reduce. There is strong evidence that there will be significant challenges to meet the scale of forecast labour demand in Scotland over the next 10 years and that a lack of people, with the skills in demand, could act as a barrier to realising Scotland's economic opportunities.

The transition to net zero and new digital technologies will have an increasing - and

[1] YESC Impact report 2022-23 (prosper.scot)

potentially disruptive – impact on the Scottish labour market. This will further drive demand for people and skills, and for upskilling and reskilling for roles that must adapt. Prosper's Upskilling Scotland report in 2020 recommended a paradigm shift in how we think about and invest in learning, with a greater commitment to lifelong learning for everyone at all stages of their lives and careers through flexible learning opportunities.[2]

Following the publication of the Skills delivery landscape: independent review by James Withers, Prosper convened a roundtable of some of Scotland's largest employers. They welcomed the Scottish Government's commitment to reforms and recommendations in recent reviews. But they were increasingly concerned that, without clarity about actions to tackle the key issues for employers, timetables for changes and consensus in the Scottish Parliament, the reform agenda will become part of the problem rather than the solution and will not fulfil its potential. These concerns continue to be valid.

Funding for Colleges & Universities

Public funding for colleges and universities has been eroded over the past decade. Fee incomes from international students has been expected by the Scottish Government to cross-subsidise both teaching and research in higher education. The steep decline in international students in the last two years has undermined that model and imperiled some institutions. With many costs rising sharply, colleges and universities (especially post-92 institutions) are facing acute financial pressures. As public bodies, colleges must try to balance their books, while a majority of Scottish universities were expected to be in deficit in the 2023-24 financial year. Colleges and universities believe that if this public funding trajectory continues their financial positions will be unsustainable before 2030. Colleges Scotland's and Universities Scotland's submissions will set out more details.

Total student headcount and number of enrolments at Scotland's colleges have increased in each of the last two years. The number of Scottish-domiciled undergraduate places at Scottish universities is at a near record level. However, teaching funding per student has been falling. The Institute of Fiscal Studies estimated that the amount of teaching funding per student in 2023-24 was 19% lower in real terms than in 2012-13.[3] According to a London Economics research project, universities in Scotland receive approximately 23% less funding per student than their counterparts in England.[4]

Institutions have worked to diversify income and make efficiencies. They have had to reduce courses and staff. But increasing concerns about the quality of education are inescapable. Colleges and universities have worked to strengthen partnerships with employers in recent years, particularly at a regional level. Fewer resources will make them more difficult to sustain. Institutions will become more risk-averse and be forced to compromise on curriculum development. They will be less likely to be capable of anticipating and/or responding to changes in the economy and the demand for skills.

The expectation of colleges and universities are increasing as resources are declining. They are, rightly, seen as vital enablers and partners in the National Strategy for

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2 prosper.scot/wp-content/uploads/2020/01/Upskilling-Scotland.pdf

3 Scottish Budget: Higher education spending | Institute for Fiscal Studies (ifs.org.uk)

4 PowerPoint Presentation (londoneconomics.co.uk)

Economic Transformation, Innovation Strategy, International Education Strategy, Entrepreneurial Campus report, and many other national and regional strategies. The forthcoming Green Industrial Strategy will undoubtedly also highlight their key roles. But there is a disconnect between the actions in these strategies and the funding available, which is evident in examples of funding cuts for training in skills for the green economy.

Research & Innovation

In the context of a pressures on the Scottish Budget, the Scottish Government's decision to increase capital funding (including research) for higher education by 4.75% in cash terms in the Scottish Budget 2024-25 was welcome. However, universities core research grant has been reduced by 20% in real terms over the past decade (with the impact somewhat mitigated by cross-subsidy from rising income from international students.)

There is evidence of a growing divergence between research and innovation funding between Scotland and England. Between 2014-15 and 2023-24 core research funding in England[5] increased by 24.7% in cash terms compared with 0.9% in Scotland[6], while there are also several funding schemes for research in England for which there are no equivalents in Scotland. In the same period, the Higher Education Innovation Fund in England increased by 76.5% in cash terms compared with 21.5% for the University Innovation Fund in Scotland. This disparity in resources is a growing risk to Scotland's reputation for research, ability to win competitive research funding from UK and other major sources and to attract talent, and innovation and commercialisation ecosystems.

The Scottish Government's 10-year National Innovation Strategy must be supported by the structures and funding for research and innovation over the long-term which will enable competitiveness and deliver the National Strategy for Economic Transformation.

Work-based learning and Upskilling

Prosper's Upskilling Scotland report identified in-work development as a pillar of a high performing Scottish economy. The focus on pre-employment and early-career stage education must move to a more holistic commitment to life long learning for everyone at all stages of their life – especially those in-work and at mid- or late-career stage.

As the Withers Review recommended, there should be sustained growth and evolution of a range of existing and new pathways which integrate work-based learning and combine what industry and learners need. To support this, there is a need to embed parity of esteem - including in funding - about different learning and training journeys. Graduate Apprenticeships are one such pathway that Prosper members value and would like to see developed and promoted. This would maintain Scotland's high level of educational attainment and deliver it in a way that meets the needs of the labour market.

Prosper's letter to the Cabinet Secretary for Finance Shona Robison on the Scottish

[5] Quality-related (QR) research
[6] Research Excellence Grant funding

Budget 2024-25 called for confirmation of funding for the Flexible Workforce Development Fund (FWDF) in 2023-24 to enable hundreds of businesses to proceed with the training they had planned with colleges and universities. We were disappointed that the Scottish Government decided that there was no funding available for the FWDF in 2023-24 or 2024-25. Prosper subsequently joined hundreds of businesses, colleges, trade associations, universities and trade unions in (ultimately unsuccessfully) calling for the FWDF to be reinstated in 2024-25.[7] Funding for the Upskilling Fund has also been removed which means that there is no longer funding available for upskilling or reskilling.

The impact of this loss of funding will be significant. For example, The Open University received 2345 applications for the Upskilling Fund in 2023-24 (and was able to approve 1136 of them with the funding then available) and many of the applicants commented that the training could not be afforded without this support from the Upskilling Fund. There is an upfront cost to developing new high quality CPD courses and the Upskilling Fund helped with market testing and derisked first delivery for educational institutions. It will now be more challenging for them to offer upskilling and reskilling opportunities.

There has been an ongoing lack of transparency over Apprenticeship Levy funding which comes back to Scotland, but Apprenticeship Levy paying employers (along with SMEs) were entitled to access the FWDF. The loss of the FWDF reinforces the case for full transparency about the revenues raised in and returned to Scotland and for reforms.

Conclusion

In Prosper's letter to the Cabinet Secretary in November 2023, we highlighted our growing concern that the real terms erosion of funding for Scotland's education and skills system is leading to an unsustainable model that will undermine its ability to better meet its users' needs, support economic transformation and compete internationally.

While the focus for this session may be pre-budget scrutiny ahead of the 2025-26 budget process, we would ask the Committee to make a cross-party recommendation that recognises the scale of the problem and proposes a route through which to address it. This process should examine the education and employment infrastructures that will best develop the skills, attributes and knowledge that our people and economy will need to reach their full potential and be successful in a changing world, consider options for a sustainable funding model, and make recommendations to the Scottish Parliament.

[7] Open Letter - Re-instate the Flexible Workforce Development Fund (collegesscotland.ac.uk)

Universities Scotland submission as part of pre-budget scrutiny for 2025/26.

Key messages:

- Universities are in a fundamentally different and far more precarious financial position in spring/summer 2024 compared to a year ago.
- Government cuts to public funding, particularly for teaching are getting deeper, and international recruitment has plummeted across two recruitment cycles, undermining the model of cross-subsidy that the Scottish Government funding model relies upon. At least 10 (of 19) institutions are expected to be in deficit in 2023/24. This is forcing institutions into inescapably hard choices.
- Scotland's model of funding undergraduate places has knowingly been built on a cross-subsidy model. Reliance on that has increased significantly over time as public investment has failed to keep pace with increasing costs of teaching.
- This submission is the most candid assessment of the financial pressures on universities we have ever given. However, even now we need to be somewhat circumspect; a consequence of the fact that universities are actively recruiting and are engaged in multiple partnerships with stakeholders and lenders.
- Amongst all of this, it is positive that the number of opportunities for Scottish-domiciled undergraduates remains at a near record high. Any focus on the overall number of Scottish-domiciled places is therefore not a top priority. Addressing the amount invested in the higher education of every Scottish student should be. It is the price per student place and investment in research which has seen a decade-long under-investment, and which is limiting universities' contribution to Scotland.
- Most institutions are now feeling the funding pressures very deeply however, the funding decisions taken are having different impacts on different institutions, with all but one of the post-92 group of institutions facing higher than average cuts to their grants for 2024/25.[1] It is increasingly important that the Parliament's scrutiny looks beneath sector level data to understand the impact of decisions on individual institutions and/or parts of the sector so that they can all serve their students and staff and make their fullest contribution to Scotland.
- In the short term, there are two practical choices that the Scottish Government could take in regard to its 2025/26 budget for universities. Different handling of the "SQA places" and the annual "SAAS transfer" from SFC could marginally improve the funding picture for universities and would not require additional resources into the HE sector. We expand on this below and would welcome the Committee's consideration of this.
- Even over the medium-term, the trajectory of public funding in universities is unsustainable. Modelling commissioned from PricewaterhouseCoopers by Universities UK and Universities Scotland shows the extent of the precarity. Whilst pressures are manifesting now, the real challenge for universities is not financial year 2025/26 but the three-to-five-year period after that, if we continue on this path. We need thoughtful engagement on the strategic funding position of universities from all parties and we must avoid the trap of over-simplifying this issue to "free" vs fee, and instead focus on how to design a model that is sustainable.
- Despite a very challenging set of circumstances facing institutions, it is heartening that over the last few weeks the First Minister and Deputy First Minister have chosen to place a positive emphasis on universities as developers of talent and drivers of innovation to achieve economic growth. If universities are to continue to be one of Scotland's strongest assets in economic growth, this will need to translate into more sustainable funding outcomes.

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[1] Scottish Funding Council (2024) Indicative Funding Allocations for Universities 2024/25. table 4.

We welcome the opportunity to explore this in more detail with the committee. Universities' funding environment has been difficult for some time, but it feels materially different and far more precarious for most in 2024 with very difficult choices ahead for many institutions, if this trajectory continues.

We unpack a number of dimensions to this below:

Universities have experienced a sudden, sharp drop in international enrolments.

- This started to materialise unexpectedly in September/October 2023 (applications had been steady but this did not translate into enrolments). The fall in demand has been sharpest at postgraduate taught level which account for 62.7% of the sector's international (non-EU) students.
- Until now, Scotland's universities have chosen to be relatively circumspect about the scale of this challenge, referring to it publicly only as "facing headwinds in our recruitment" but we can give a fuller sense of the impact being felt here.
  - Data collected in November 2023 and February 2024 on the international intake numbers for both semesters indicates that taught postgraduate enrolments were down by over 20% over AY 23/24. The impact is widespread, with 12 institutions reporting lower intakes than forecast. Undergraduate enrolments were not as badly affected but the sector average shows no growth, which is concerning as growth is necessary to meet the ever-growing need for cross subsidy. Based on these figures, we estimate that collectively, institutions' income will be well over £100m less than forecast in 2023/24.
  - It is now clear that this fall is not a one-year anomaly. Looking ahead, for the next academic year (2024/25) Scotland's universities are facing a mean 27% fall in applications for postgraduate taught study year-to-year, which equates to almost 92,000 fewer applications. The fall is widespread with 14 of 15 responding institutions seeing a fall, although there is significant variance between institutions.[2] The median figure is a fall of -49.2% and the biggest fall for a single institution is -79%. [3]
  - There are multiple factors behind the decline in international demand, but the commonality is that they are all beyond universities' control.[4] Very significantly, there has been major change to immigration policy led by the UK Government, and prolonged speculation of further change to the graduate route visa over 2023/24, which has impacted massively on the UK's attractiveness as a study destination. The removal of the dependents visa for postgraduate taught students from 1 January, started to have an impact on student behaviour months ahead of its implementation. In the 6 months between November 2023 and April 2024 applicants for study visas fell by 26%.[5] The review of the graduate route visa throughout spring 2024 has been hugely detrimental to the perceptions of the UK's attractiveness (even despite its eventual retention) given that 63%

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[2] One HEI amongst the 15 respondents to the BUILA survey has seen an increase in applications for postgraduate study in 24/25. It has a relatively small international student base.

[3] British Universities International Liaison Association (BUILA) survey collected in April/May 2024 for international applications for AY 24/25. 15 institutions returned data (with the big international recruiters included). One HEI has seen an increase of applications for PGT for 24/25 entry.

[4] As well as student and Highly Skilled Worker visa changes in the UK, the devaluation of currency in Nigeria which is one of Scotland's 5 key markets, other geopolitical factors and increased competition amongst English-language providers with the late re-opening of Australian and New Zealand borders after the COVID-19 pandemic have all contributed.

[5] Home Office data published May 2024. The 26% figure relates to "main applicant" numbers which are those holding a visa for the purposes of study. There was also a study dependents visa (now scrapped). Between November and April, the number of dependents visas fell by 65%.

of prospective international students cite it as a "driving influence" in their choice of study destination.[6]

It is important that we note that not every university in Scotland recruits a significant international student population. Therefore, this has never been available to some institutions as a means of cross-subsidy for the under-funding of home students and research.

Falling international numbers undermines the baked-in reliance on cross-subsidy for Scotland's home students and research.

- We have been warning for years about the high-risk over-reliance on cross-subsidy of undergraduate places for Scots from international student recruitment which is baked into the funding model for Scotland's universities because funding for every undergraduate place for Scottish students has seen a 20% real terms fall over the last decade. The average funding per student has therefore fallen by almost £1,900. Others have also cautioned about this including Audit Scotland, the Funding Council and most recently the Migration Advisory Committee (MAC).
- Figure 4.16 in the MAC's review shows Scotland's universities are the most reliant of all UK nations on international students as a proportion of their total income, at 25%.[7]
- The MAC's analysis from May 2024 is worth quoting in full: "…*it is the failure to properly fund the sector that has led to an increasing overreliance on immigration. Universities lose money on teaching domestic students and on research activities, and it is the fee revenue from international students that mitigates (at least in part) the current funding gap for domestic students and research. We have had no indication in our discussion with Ministers, either in Westminster or the Devolved Administrations, that there is any plan in place to address this structural under-funding".*[8]
- Universities will always want to attract international talent to Scotland for its many social, cultural and wider economic benefits. Business leaders and the leaders of Scotland's cities back this important contribution.[9] However, we do not want the education of Scots, or the financial viability of our institutions to be left so exposed by an over-reliance on this source of income.
- This brief primarily focuses on the funding pressures on university teaching, in part because the university research budget for 2024/25 was protected, in relative terms, with an 4.75% cash terms increase. However, investment in universities' core research grant has also been eroded in real terms, by 20% over the past decade and cross-subsidy from international student fees has been directed to support research in an attempt to address this, thus also exposing research to a reliance on international demand. Scotland is increasingly at a public investment disadvantage on research and innovtion relative to institutions in England. Given the strong leverage potential of research funds, due to the dual-funding model for research, which depends on the ability of institutions to win competitive research funds from UK and other sources, the strategy of underinvestment is limiting Scotland's economic potential. We hope to see this addressed as Scotland's Innovation Strategy (2023) is implemented.

Deeper cuts to public funding on top of a decade of real-terms decline.

- There has now been a decade-long real-terms decline in public funding in university teaching and research since 2014/15. The average funding per student is down by 20.1% using the GDP deflator and down 29.3% over ten years to 2024/25 using RPIx. Universities' Research Excellence Grant

[6] IDP Connect (2023) Emerging Futures Survey. Based on a sample of 20,000 prospective international students.
[7] Migration Advisory Committee (MAC) (2024) Graduate Route Rapid Review. P54.
[8] MAC Pg5.
[9] See here for a joint letter from Scottish Cities Alliance and Universities Scotland. Business-leader Will Whitehorn also wrote about the value of international students to meet skills needs and for wider economic value.

(REG) funding has fallen in real terms by the same percentages. This has been compounded over the last two years with a deeper scale of year-to-year cuts, which have had the biggest impact on the university teaching grant. In AY 2023/24, £20 million of resource funding for 2023/24 was withdrawn in-year and the resource (teaching) budget for 2024/25 has been cut from the outset by £28.5 million, leading us to say that the budget settlement for 2024/25 is the "toughest yet" for universities.

- **Several university budgets cut or gone altogether.** Within that very challenging 2024/25 budget settlement from Government, we welcome the Funding Council's relative prioritisation of the unit of teaching resource, which was held flat in cash terms. However, with a cut of £28.5 million to make in one year, we appreciate the SFC was forced to make hard choices. Several budget lines for universities have been cut entirely or cut back. 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 the 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).
- **Changes to funded places.** The final element of the £28.5 million of university cuts was the removal of 1,289 funded undergraduate places for Scots. We had anticipated the withdrawal of a cohort of the "SQA places" in AY 2024/25 but we saw this an opportunity for Government to remove places while keeping the resource in universities' teaching grant to increase the price per place and start to address the decade-long under-investment in every Scottish-domiciled undergraduate (at no extra cost to Government). However, this option was not taken. We expand on the method of removing funded places below, as this was a very challenging experience for institutions this year.
- **Variable impact on institutions.** The Funding cuts for 2024/25 and the difficult funding decisions which followed have had varying impacts on institutions. In terms of teaching grants, the overall cut year-to-year was -3.6% 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 the modern institutions faring worse than the average cash cut of -0.8%.[10] This is an important point to make as we expect the Scottish Government and Scottish Funding Council to be strategically aware of the variable impact of its decisions on institutional sustainability and realisation of its objectives for the sector.
- **Deprioritisation of higher education**. Cutting funding for university teaching is now an established pattern. Over the last decade, the sector has faced some of the most challenging budget outcomes of any part of the education portfolio. The Scottish Government's own data, provided in a parliamentary answer from 2021, tracks the average expenditure per place for each level of education in real terms from 2010 onwards shows the spend per place on a university student to be the second lowest overall and to have had the worst trajectory in real terms over the last five years.[11]

[10] SFC Indicative Allocations 2024/25. Table 4. Across all HE funding grants for AY 2024/25 the scale of cut to HE funding was 0.8% in cash terms.

[11] Scottish Parliament Question Reference S6W-01165 (2021)

Institutions pushed into deficit.

- Unsurprisingly, this combination of financial pressures is crystalising into a situation where more universities are facing a budget deficit and will be forced to take significant mitigations to avoid this.
- The SFC's financial sustainability report from earlier this year projected that 10 of 19 HEIs will be in deficit in 2023/24, up from 6 the year before. This analysis has an optimism bias in the data as returns were collected in June/July 2023.[12] Consequently, we would strongly caution against the prediction that finances will notably recover in AY 2024/25.
- **Financial scenarios show funding model deficiencies.** Different modelling work by PricewaterhouseCoopers, for Universities UK and Universities Scotland, looks at the financial impact of various hypothetical scenarios over the short-term, including rising costs and declining sources of income. The results (which are modelled without consideration of mitigating actions) show the financial precarity of the majority of Scotland's universities. A 2% increase in institutions' expenditure growth rates in 2023/24 pushes 64% of institutions into deficit in 2024/25. With regard to revenue, the modelling found that even stagnant growth in international student numbers in 23/24 would force 71% of HEIs into deficit, without mitigation.
- PwC's "worst-case" scenarios for stagnation and/or falls in international fee income have now been overtaken by the reality facing the majority of institutions. Which leaves institutions forced to assess a range of significant mitigations in order to remain a going concern. Cost cutting and more revenue generation by universities will not realise the levels of savings needed to address deficits of this scale. Universities have collaborated on shared services and joint procurement for over a decade, with that scale of efficiency long exhausted.[13]

Increased costs

- Like all sectors, universities have experienced the brunt of high levels of inflation over 2023 and 2024. Many aspects of university operations have seen the inflation of costs well above RPI, including capital project costs, IT licencing etc.
- **Capital.** There are major pressures in university estates with the cost of decarbonising university estates in future CAPEX programmes put at around £6.6bn and many capital works (including investment in both digital and physical infrastructure) were postponed during the pandemic to preserve liquidity, meaning significant capital expenditure is now required.[14] The cost to address RAAC in university buildings is likely to run into the millions for those institutions affected.
- **STPS**. There have also been significant cost increases to the Scottish Teachers Pension Scheme (STPS) which is most relevant to the modern universities and small institutions. As of 1 April 2024, the employer contribution rose by 3% to 26%. Universities have received no additional public funding to assist in meeting this increased cost. Previous funding worth £4.8 million in 22/23,

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[12] Scottish Funding Council (2024) Financial Sustainability of Colleges & Universities. SFC's financial sustainability report from January 2024. Data collection pre-dates the fall in international enrolments and the steeper cuts to teaching funding for 24/25

[13] Universities Scotland (2021) Working Smarter. As some examples, university collaboration through APUC joint procurement frameworks cover around 40% of the procurement spend of Scottish HE and FE in recent years and secures around £33 million of savings over market prices annually or £12 million relative to prices previously paid. In IT services, the not-for-profit shared service organisation HEFESTIS is jointly owned by Scotland's university and college sectors and provides tailored shared services to over 35 institutions.

[14] PricewaterhouseCoopers (2024) UK Higher Education Financial Sustainability Report. P8.

which had been allocated to institutions to help offset the cost of STPS when contributions were increased to 23%, was removed for 24/25. Eight institutions account for 80% of that pension fund allocation. They have seen a loss of funding at the same time as this rise to their cost base, which is entirely beyond their control to manage. The loss of the STPS contribution via the SFC is one of the factors behind the higher-than-average cuts to modern institutions in the 24/25 allocations.

4. Funded places for Scottish domiciled undergraduates.

- **Funded places for Scots are at near-record highs**. It is important to be clear on the wide availability of undergraduate opportunities for Scots in Scotland's universities. The planned removal of a cohort of the "SQA places" as they are now referred to, received a lot of political and media attention earlier this year. We are concerned to reassure prospective students, parents/guardians, teachers and advisers that opportunities for Scots to study at undergraduate level remain at near-record highs and to encourage applications. We would welcome the Committee's support to this end. Even with the removal of 1,289 places, the number of funded undergraduate places available to Scottish domiciled applicants in 2024/25 is higher than that available in 2019/20, which is the previous high watermark level (not including the exceptional years of the COVID-19 pandemic). In 2024/25 there will be 119,540.2 funded places (non-controlled) available to Scots, compared to 107,982.0 places (non-controlled) in 2019/20.[15]
- **Removal of 1,289 places.** The removal of the SQA places had long been anticipated on a cohort-by-cohort basis, as the students who benefitted from them during the COVID-19 pandemic begin to complete their degrees and exit the system. However, the manner of their removal from the system this year, adversely affecting 8 HEIs, has been troubling on multiple fronts. The SQA places have been removed from the system in a different pattern to the way they were allocated in 2020 and 2021, meaning that some institutions were more negatively impacted than others. The extent of that impact was not clear until a very late stage in their year's recruitment cycle. The decision on where places would be removed was based on very recent recruitment patterns at some institutions. The whole process suffered from an accelerated timescale and a critical lack of overall transparency.
- Going forward it is essential the SFC, Scottish Government and universities work together to learn from this, to improve transparency and reach a common understanding of a better process for the future, as we anticipate further changes to the allocation of funded places may be required.
- **Funding pressures mean there is now a trade-off between the number of places and price per place. This year, both lost**. We want to repeat the wider point, that by removing 1,289 funded SQA places for Scots, the Scottish Government had an opportunity in 2024/25 to start to address the under-funding of every undergraduate place for a Scottish student, which has declined by 20.1% over a decade. If that resource had been reinvested in the price per student in 2024/25 our estimate suggests it would have made the difference between flat in cash terms (which was the outcome) or a 1% cash increase, without additional cost to the Scottish Government. Instead, that opportunity was not taken, and the money left the higher education sector. Looking ahead to the budget for 2025/26 we understand that even more "SQA places" (those introduced in 2021) will be withdrawn. If places are withdrawn the relevant resource should be retained in the university sector and repurposed to support students' tuition through the price per student.
- **SFC to SAAS transfer**. Since 2013/14 there has been an automatic, annual transfer of SFC resources to SAAS. This was introduced a decade ago to pay the fee and bursary element of additional places for widening access, articulation as well as undergraduate and taught postgraduate places for specific skills needs. In 2024/25 this transfer is worth £22.8m. However, these additional places

[15] Scottish Funding Council (2024) Indicative Funding Allocations for Universities 2024/25.

were mainstreamed in 2019/20 and the programme for specific skills has since ceased. Further, we have seen a change in funded places in 2023/24 and 2024/25 but no adjustment of the SAAS transfer to reflect this. This transfer to SAAS should be reviewed and the resources repurposed within the SFC's university budget so that they can support the education of Scottish students.

ENDS

Scottish Funding Council written submission to the Education, Children and Young People Committee

31 May 2024

Introduction

1. We welcome the Education, Children and Young People Committee's pre-budget scrutiny regarding college and university funding.
2. This written submission will:
    - Provide an update to our Financial Sustainability Reports which were published in January 2024.
    - Provide an overview of our final funding allocations for the college and university sector, published on 30 May 2024.
3. We recently provided submissions to the Public Audit Committee, which committee members may also wish to refer to:
    - Response to Convener, 17 April 2024
    - Written submission, 13 December 2023

About SFC

4. The Scottish Funding Council (SFC) is the national, strategic body that invests around £2bn in tertiary education, research, and knowledge exchange, through colleges and universities. Our ambition is to make Scotland an outstanding place to learn, educate, research, and innovate – now and for the future.
5. In pursuit of our ambition, we invest in tertiary learning and teaching; skills and apprenticeships; student support and participation; discovery research; innovation and knowledge exchange; data collection and dissemination; national quality assurance and enhancement processes; campus estates; essential digital infrastructure and collective procurement for the sector; and strategic change, and responsive provision and research priorities.
6. We are responsible for the effective and efficient distribution of around £2bn of public money, annually. We deliver on our distinct statutory remit efficiently, with a very small staff base and modest operating costs. We invest in 24 colleges and 19 universities that educate and upskill Scotland's population.
7. Colleges and universities are major national assets, with significant social, economic, and cultural impact. They employ over 64,000 people and they help shape local communities and address social inequality and disadvantage. Their excellent research catalyses ideas, innovation, and economic growth; and they create a pipeline of skills across technical, vocational, and critical thinking requirements at

every level and from all walks of life. They have a significant global reach, bringing reputation, investment, collaboration, talent, and cultural diversity to Scotland.

Financial Sustainability Update

8. Colleges and universities continue to operate in an extremely tight fiscal environment, and face similar risks to their financial health, including: the uncertain macro-economic outlook; increasing staff costs; rising energy costs; unanticipated public spending cuts; the requirement to invest in the achievement of public sector net zero targets; and the impact of RAAC.
9. Our Financial Sustainability Reports published in January 2024 provide detailed analysis at sector level about the financial health of colleges and universities. The reports were based on financial data provided by institutions: their Annual Accounts for academic years (AY) 2020-21 and 2021-22 and their latest forecasts, provided at the end of June 2023, up to 2025-26 for colleges and 2024-25 for universities.
10. Since these reports were published, we have undertaken new sector-wide analysis using updated financial information provided by institutions, which we are pleased to share with the committee.
11. This updated analysis is based on:
    - Annual Accounts for AY 2022-23: This information provides the outturn for AY 2022-23 compared to the forecasts used in our Financial Sustainability reports. Most institutions submitted their Annual Accounts for AY 2022-23 at the end of December 2023; for those that have not been submitted we have used their draft figures, which are not expected to change significantly when the accounts are finalised.
    - Financial Forecast updates for AY 2023-24: Institutions provided us with updated forecasts at the end of March 2024 for AY 2023-24. This forecast supersedes the last forecast for AY 2023-24 which was used in our financial sustainability reports.
12. It is important to note that:
    - This analysis is at a sector level. The sector is not homogenous and there continues to be variation between institutions in terms of financial performance that is not reflected in the aggregate indicators.
    - These Annual Accounts and forecasts can only be viewed as a snapshot in time and are not a guarantee of future performance.
13. We continue to engage closely with the sector about financial sustainability.

College Sector

14. In addition to the risks outlined above to both sectors, colleges are also experiencing particular challenges such as the self-funding of restructuring costs and the maintenance costs of the college estate.

Analysis of Annual Accounts AY 2022-23

15. Our analysis of colleges' Annual Accounts for AY 2022-23, submitted at the end of December 2023, found that:
    - The sector reported an adjusted operating deficit of £14.9m in 2022-23. This has improved by £12.3m (45%) against the June 2023 forecast deficit of £27.2m but represents a substantial deterioration against the prior year surplus of £6.3m.
    - Colleges remain highly reliant on SFC grant which remained at 78% of total income for the sector in 2022-23, in line with forecast figures.
    - The sector reported staff restructuring costs of £13.5m in 2022-23. This is a slight increase against the June 2023 forecast figure of £13.2m. This is an increase of £6.8m (102%) against the £6.7m reported in 2021-22 reflecting the increased voluntary severance activity undertaken by colleges to rebalance their financial position.
    - The sector reported cash balances of £131.9m at the end of June 2023, though this figure is inflated by the spend or return of unspent SFC ring-fenced grants, and funds for the 2022-23 and 2023-24 pay award. This figure is a reduction of £9.5m (6.7%) against the £141.4m at the end of June 2022. However, the reported cash balance significantly improved (72%) against the June 2023 forecast cash balance of £76.6m.
    - Overall sector borrowing reduced from £232.2m at the end of June 2022 to £220.2m by the end of June 2023.

Analysis of updated forecast for AY 2023-24

16. Our analysis of colleges' forecasts for AY 2023-24, submitted at the end of March 2024, found that:
    - The sector is forecasting an adjusted operating deficit of £17.8m to 31 July 2024. This represents an improvement of 7% against the June 2023 forecast which had forecast a £19.2m deficit.
    - Colleges remain highly reliant on SFC grant which is forecast to remain at 78% of total income for the sector in 2023-24.

- The sector is forecasting staff restructuring costs of £9.2m, an increase of 12% against the June 2023 forecast (£8.2m) and a decrease of 32% on the previous year in 2022-23 (£13.5m) reflecting the colleges' actions to rebalance their financial positions.
- The sector cash balances of £131.9m at the end of July 2023 (as outlined above, this figure is inflated by the spend or return of unspent SFC ring-fenced grants, and funds for the 2022-23 and 2023-24 pay award) are forecast to reduce by 65% to £45.9m by the end of July 2024. It is worth noting that our 2023 analysis forecasted a sector cash balance of £61.3m as at 31 July 2023 but the actual outturn was £131.9m, an improvement of £70.6m (115%) against the forecast.
- Overall sector borrowing is forecast to reduce to £208.7m by the end of July 2024, in line with expectations.
- The next set of updated forecasts up to 2026-27 will be submitted to us by the end of June 2024.

University Sector

17. In addition to the risks outlined above to both sectors, universities are also experiencing particular challenges, including an over-reliance on international student income, which can expose them to volatility particularly where recruitment is heavily weighted to one country, or where changes to UK policy relating to visa and immigration regulations can have a significant effect on target markets and approaches.

Analysis of Annual Accounts 2022-23

18. Our analysis of universities' Annual Accounts for AY 2022-23, submitted at the end of December 2023, found that:
    - The sector reported an adjusted operating surplus of £210.8m for AY 2022-23. This is marginally lower than the forecast position (£226.5m surplus) but represents a deterioration on the 2021-22 result (£385.2m) mainly due to higher staff costs which grew more than the increase in fee income during the year.
    - SFC grant as a proportion of all university funding further reduced from 31% in 2020-21 and 27% in 2021-22 to 25% in 2022-23. This is in line with the sector's forecasts.
    - The sector cash position was £2,263m at the end of July 2023. This is a small reduction of 4.6% on the forecast figure of £2,371m.

- Overall sector borrowing reduced by 5.9% from £1,656m at the end of July 2022 to £1,559m by the end of 31 July 2023, in line with forecast.

Analysis of updated forecast for AY 2023-24

19. Our analysis of universities' forecasts for AY 2023-24, submitted at the end of March 2024, found that:
    - The sector is forecasting an adjusted operating (underlying) deficit of £74.7m for AY 2023-24. This represents a significant downturn on the previous forecast for the year (£3.3m deficit) and the 2022-23 result (£210.8m surplus). The downturn against the original forecast is largely due to reduced international revenue and research income partly offset by lower staff and other operating costs and increased investment income.
    - The sector forecast cash position at the end of 2023-24 (£2,066m) is in line with the forecast figure and at a lower level than in AY 2022-23 (8.8% reduction), reflecting the downturn in the operating position.
    - Overall sector borrowing at the end of July 2024 of £1,526m is in line with the forecast figure and is slightly lower than the position reported for AY 2022-23 (2.1% reduction).
    - The next set of updated forecasts up to 2025-26 will be submitted to us by the end of June 2024.

Final funding allocations for colleges and universities for Academic Year (AY) 2024-25

20. Our final funding allocations for colleges and universities were published on 30 May 2024. The key points are provided below.
21. This was a challenging funding settlement which necessitated difficult choices. We sought to balance a range of priorities for the institutions we fund – fulfilling our statutory mission and duties, aligning with the Scottish Government's stated priorities, and taking into account sector feedback.
22. We engaged closely with the sector in reaching these allocations. We recognise that each institution will have been impacted differently and we continue to engage closely with them.

College Sector

23. We have maintained our investment in teaching funding, allocating £509.3m, which is in line with the teaching funding allocated to colleges in AY 2023-24.

24. We have maintained the lower credit thresholds that were introduced for AY 2023-24 (and the resulting increase in price per credit).
25. The student support budget has been rebased and set at £123.0m, to better reflect demand. We have maintained the 11.1% uplift to bursary maintenance rates that we introduced in AY 2023-24.
26. The total capital budget has increased by £2.5m to £84.9m. Of this total budget:
    - £51.9m relates to our ongoing commitment to provide funding for Fife College's new Dunfermline Learning Campus.
    - The allocation for capital maintenance is £30.5m, and a further £2.5m has been ring-fenced to support the highest priority capital and estate needs.

University Sector

27. Teaching funding for AY 2024-25 has reduced by £28.5m (-3.8%), in line with the reduction in the Scottish Government's budget for FY 2024-25.
28. Research and innovation funding has increased by £12.6m (4.2%).
29. Capital funding has increased by £2.6m (10.2%).

We hope this information is helpful and look forward to the opportunity to provide evidence to the committee at its meeting on 12 June.

Annexe C

Education, Children and Young People Committee

Wednesday 12 June 2024

Pre-budget scrutiny: College and university funding – Summary of submissions

A summary of reports and submissions received in advance of this session is included below. This looks at each submission in turn.

Please note, the submission from Prosper is not included as it had not been received at the time of writing.

Colleges Scotland

The submission from Colleges Scotland starts by setting out the current financial context facing colleges. They state that:

> "The consistent reduction in college funding in recent years has created massive challenges for college leaders. Without adequate funding to deliver education and training, major changes have to be made. There will be difficult choices about what courses colleges can deliver, what buildings can be repaired, and how to cope with rising staff costs."

There is an acknowledgement of the difficult financial position faced by the country at this time, but the submission takes the position that appropriately funding colleges would contribute to all four of the overarching priorities set out by the Scottish Government.

The submission then goes on to recommend four actions that are needed to stabilize the current position of colleges in Scotland. It states that:

> "The inevitable cycle of "less for less" will impact social and economic development in Scotland and must be reversed. On that basis, we are intending to:

- Call for the Scottish Government to provide a comprehensive package of funding for Scotland's colleges, to deal with the immediate deficit and to prevent colleges from moving into further financial difficulty.

- Advise that this package of support should be the first step in creating the conditions for stability.

- Request that, as part of this package of support, colleges need to receive an inflationary proof increase in base funding and support to implement transformational changes to better prepare them for the future.

- Ask for support in enabling longer term sustainability for the college sector, including through acceleration in delivering the reform agenda as highlighted by James Withers in his report."

With a view to the longer-term position, the submission from Colleges Scotland then suggests a way forward for the Scottish Government and the college sector. They suggest that:

- an initial five-year plan for the college sector, building on initial activity through the Scottish Government's Tripartite Alignment Group, is required.

- "a repurposing of an element of the overall skills and education resource, currently sitting at £3.2billion in the 2024/25 Budget, to allow the college sector to transition to deliver key Scottish Government priorities."

- Over the course of the five-year plan "consideration has to be given to the existing credit funding model and whether changes can be made that deliver enhanced autonomy and trust for institutions that they can deliver for learners, employers, and economies."

- Investment is made in the college sector with a firm commitment to the "Colleges First" approach.

The submission also highlights the need for separate investment in the colleges estate across Scotland

> "which are in a dire state of repair, with previous investment being used to maintain the existing estate, which is in places below standard. Students are learning in inequitable conditions compared to schools and universities, and the current funding for Reinforced Autoclaved Aerated Concrete (RAAC) remains unaddressed."

There is also a suggestion that investment in digital infrastructure is required.

The submission ends with a summary of the perceived economic and social good provided by colleges in Scotland.

Universities Scotland

The submission from Universities Scotland focused on the impact of a drop in international student income on the current model of cross- subsidy that the Scottish Government funding model relies upon. They note that:

> "Data collected in November 2023 and February 2024 on the international intake numbers for both semesters indicates that taught postgraduate enrolments were down by over 20% over AY 23/24. The impact is widespread, with 12 institutions reporting lower intakes than forecast. Undergraduate enrolments were not as badly affected but the sector average shows no growth, which is concerning as growth is necessary to meet the ever-growing need for cross subsidy. Based on these figures, we estimate that collectively, institutions' income will be well over £100m less than forecast in 2023/24."

When the submission looks ahead to the next academic year, they state that the trend is set to continue. They quote that:

> "Scotland's universities are facing a mean 27% fall in applications for postgraduate taught study year-to-year, which equates to almost 92,000 fewer applications. The fall is widespread with 14 of 15 responding institutions seeing a fall, although there is significant variance between institutions. The median figure is a fall of -49.2% and the biggest fall for a single institution is -79%."

They note that there are multi factors leading to this decline in international demand, however the changes to the visa system for students set out by the UK Government is the biggest factor driving this change.

Universities Scotland then state in their submission that this fall in international student numbers "undermines the baked-in reliance on cross-subsidy for Scotland's home students and research."

The submission moves on to discuss Scottish Government funding to the sector, citing a "decade-long real-terms decline in public funding". The submission suggests that average funding per student is down 20.1% using the GDP deflator and down 29.3% using RPIx over the past 10 years. There is discussion of the variable impact of this decline in funding, and the submission suggests that "there is a notable pattern of the modern institutions faring worse than the average." Universities Scotland suggest that the end result of the declines in funding and number of international students is that "more universities are facing a budget deficit and will be forced to take significant mitigations to avoid this."

The submission concludes that:

> "Funding pressures mean there is now a trade-off between the number of places and price per place. This year, both lost."

Universities Scotland note that the way in which the “SQA places” that benefitted students during the COVID-19 pandemic were withdrawn adversely affected the sector. They state:

> “we saw this an opportunity for Government to remove places while keeping the resource in universities’ teaching grant to increase the price per place and start to address the decade-long under-investment in every Scottish-domiciled undergraduate (at no extra cost to Government). However, this option was not taken.”

They recommend that the continued withdrawal of these places is done in a way that ensures that the “relevant resource should be retained in the university sector and repurposed to support students’ tuition through the price per student.”

Commissioner for Fair Access

The Commissioner’s submission to the Committee highlights that while the Scottish Government restated its commitment to meeting the 2026 interim target in April 2023’s Equality, opportunity, community publication, the 2024-25 Budget and SFC allocations continue a trend of flat-cash budget provision for widening access:

> “The headline budget line for promoting widening access (and retention) work in universities has not increased – at a national level or for the eight institutions which receive Widening Access and Retention Funds – since 2021/22 (the settlement has been constant at £15,610,000 for the last four funding rounds). Also of note is that the uplift from 2020/21 to 2021/22 was lower than the total uplift to teaching grant for universities (2.29%, compared to 2.97%)” - Commissioner for Fair Access Submission to ECYP Committee, 4/06/24

The Commissioner’s submission also states there is uncertainty around the ability of institutions to invest in widening access due to current financial uncertainty, and a lack of clarity around the “scale of current investment” in widening access. The submission adds:

> “There are system-wide inefficiencies in the Scottish education system that should be examined to ensure that the investment in human potential through education is optimised.” - Commissioner for Fair Access Submission to ECYP Committee, 4/06/24

The need to ensure widening access investments are evaluated for their impact was is also highlighted by the Commissioner.

Scottish Funding Council

The SFC submission to the Committee refers to the college and university financial sustainability reports published in January this year. Key points from these reports are summarised in the SPICe briefing for this meeting.

Since the publication of the January reports, SFC has undertaken sector-wide analysis of the sector using updated information. This is based on Annual Accounts for AY 2022-23 and Financial Forecast updates for 2023-24. SFC notes that there continues to be variation between institutions that is not reflected in a sector-level analysis.

For **colleges**, SFC's updated analysis of account for 2022-23 and forecasts for 2023-24 found:

- The adjusted operating deficit was £14.9m in 2022-23. This is an improvement on the June 2023 forecast deficit of £27.2m. However, it is substantially down on the 2021-22 surplus of £6.3m.

- The sector is now forecasting an adjusted operating deficit of £17.8m to 31 July 2024 - an improvement of 7% on the June 2023 forecast.

- The SFC grant was 78% of total income for the sector in 2022-23 and is forecast to remain around this level.

- Staff restructuring costs of £13.5m reported in 2022-23 represent an increase of 102% on the £6.7m spent in 2021-22, reflecting increases in voluntary severance. The sector is forecasting staff restructuring costs of £9.2m to end July 2024 – a 32% decrease on the 2022-23 figure.

- Cash balances of £131.9m at the end of June 2023 were an improvement on the forecast of £76.6m, though down £9.5m on the previous June. SFC's submission states that the £131.9m figure is "inflated by the spend or return of unspent SFC ring-fenced grants, and funds for the 2022-23 and 2023-24 pay award". The sector cash balance is forecast to be £45.9m by the end of July 2024 – this is a reduction of 65% on the June 2023 figure.

- Overall sector borrowing reduced from £232.2m at the end of June 2022 to £220.2m by the end of June 2023. Borrowing is forecast to reduce further to £208.7m by end of July 2024.

For **universities**, the updated analysis of account for 2022-23 and forecasts for 2023-24 found:

- The sector reported an adjusted operating surplus of £210.8m for AY 2022-23, down from the £385.2m surplus reported in 2021-22. An adjusted operating deficit of £74.7m is forecast for AY 2023-24. SFC states the downturn is "largely due to reduced international revenue and research income partly offset by lower staff and other operating costs and increased investment income."

- The sector cash position was £2,263m at the end of July 2023. This is a small reduction of 4.6% on the forecast figure of £2,371m. The forecast cash position at the end of 2023-24 is £2,066m – in line with the previous forecast. This is an 8.8% reduction from AY 2022-23.

- Overall borrowing for the sector reduced by 5.9% from £1,656m at the end of July 2022 to £1,559m by end of July 2023. This is forecast to reduce further to £1,526m at end of July 2024 - a 2.1% reduction.

The next set of updated forecasts for both sectors will be submitted to SFC by the end of June 2024.

Lynne Currie, Senior Researcher (FE/HE, Children's social work, child protection and adoption); and Laura Haley, Researcher, SPICe Research

6 June 2024