Financial sustainability of universities in Scotland 2022-23 to 2026-27

Scottish Funding Council
Comhairle Maoineachaidh na h-Alba

SEPTEMBER 2025


Photo: University of Strathclyde

Introduction

The Scottish Funding Council (SFC) has a key role in ensuring that the universities we fund plan and manage their activities in a way which ensures their sustainability and financial viability. This report provides an aggregate picture of the financial health of Scottish universities, based on their annual accounts for academic years 2022-23 and 2023-24, and the latest forecasts for the three academic years from 2024-25 to 2026-27.

This report[1] excludes the 2023-24 actual and 2024-25 to 2026-27 forecast figures for University of Dundee. The university has not finalised its 2023-24 annual report and accounts and its June 2025 forecast return at the time of writing this report. This needs to be taken into account when comparing 2022-23 and 2023-24 results.

The report also considers key risks that could have a significant impact on universities' financial sustainability and mitigating actions universities are taking to remain financially sustainable. In the context of our assessment of sector finances, SFC engages regularly with the Scottish Government, sector bodies and auditors.

We have previously reported on the financial sustainability of the university (and college) sectors in SFC/CP/02/2020, SFC/CP/05/2020, The Financial sustainability of colleges and universities in Scotland – Review report in October 2020, Coherence and Sustainability: Financial Sustainability of colleges and universities in June 2021, SFC/CP/02/2022, and more recently in SFC/CP/01/2024 and the May 2025 financial sustainability analysis.

1 The Open University in Scotland is not included in this analysis due to different reporting arrangements in place. While The Open University has operations in Scotland, the institution's accounts are only produced on a UK basis.


Photo: Heriot-Watt University

SFC monitoring and engagement

SFC monitors and assesses the financial health (sustainability and viability) of universities and supports them in making the best use of their resources through regular engagement and analysis of financial returns which universities are required to submit to SFC each academic year. SFC also considers universities' individual circumstances and exposure to risk, capacity to respond to financial challenges and other relevant available information.

Financial sustainability is a condition of grant set out in SFC's Financial Memorandum with universities. Universities are responsible for their own financial sustainability and are required to notify SFC if they identify material risks to their financial viability or sustainability.

SFC increases levels of engagement and monitoring activity for those universities facing risks to their financial health. SFC works closely with such universities to understand and assess the problem areas and requires them to develop transformation plans to bring them back to a sustainable position. This informs SFC's overall Outcomes Framework and Assurance Model, which sets out SFC's expectations for colleges and universities in return for the funding that they receive.

Financial health of the university sector

Key messages

The sector reported an underlying operating surplus of £17.2m for 2023-24 which represents a significant deterioration on the 2022-23 result (£210.8m surplus) mainly due to increased staff and other operating costs set against flat income. **The sector is forecasting an underlying operating surplus of £51.5m for AY 2024-25** with the improvement on 2023-24 due to an increase in international student tuition fee income and other income.

The underlying position is expected to decline to a deficit of £12.9m in 2025-26 before recovering to a surplus of £134.9m in 2026-27. The 2025-26 deficit is mainly due to low growth in tuition fees, reduced other operating and investment income and increased staff costs due to pay inflation. The forecast improvement in 2026-27 is mainly driven by three universities, and due to more optimistic forecasts for tuition fees, research income and other income offset by smaller increases in staff costs (reflecting full impact of the savings from staff restructuring in 2024-25 and 2025-26), other operating expenses and depreciation. We have previously reported that universities take a cautious approach to forecasting, often resulting in better than anticipated results. This position has changed due to the current challenging financial environment and improvements on forecast will be extremely difficult to deliver.

Financial sustainability remains challenging for many universities. As in previous years, the sector position is skewed by the financial results of the two largest universities. Nine universities reported underlying operating deficits during 2023-24, increasing to 10 in 2024-25 and 11 in 2025-26 before reducing to 7 in 2026-27. Five universities are not projecting any underlying deficits throughout the forecast period.

Universities' reliance on SFC grants is continuing to reduce, from 24% of total income in 2023-24 to 22% of total income by the end of 2026-27.

Estates issues significantly contribute to the financial strain on universities. Many universities are faced with significant backlog and life cycle maintenance repairs and these estates costs are exacerbated by RAAC and faulty cladding in recent years. The Financial Transactions programme, aimed at universities, was also closed to new applications last year - this allowed universities to take low interest loans to tackle Net Zero capital projects which are now required to be funded in more expensive ways.

Tuition fee income by far represents the largest source of income for the sector. Levels of international fee income (including European Union (EU) fees) increased sharply up until 2022-23, and stabilised in 2023-24, with smaller levels of growth projected over the forecast period. International fee income is expected to increase from £1,324m in 2023-24 to £1,532m by 2026-27 (15.7% increase) but projections will need to be revisited after the autumn 2025 student recruitment cycle. Universities need this source of income to remain financially sustainable and to support other areas of their operation such as research which is a loss-making activity. There is an increasing risk that universities may not meet their international student tuition fee income targets as this continues to be an area of significant fluctuation and risk due to the competitive nature of the international markets, UK visa and immigration policy and geopolitical changes.

The sector cash position is forecast to reduce from £1,682m at the end of July 2024 to £1,511m at the end of 2026-27. This reflects the weaker operating position of the sector and capital spend. No university is forecasting a cash deficit throughout the forecast period however many universities are taking proactive steps to keep them in a positive cash position. A large proportion of cash is restricted for other purposes. This includes repayments of high debt levels, meeting debt covenants and capital projects for which ring-fenced funding has already been received.

The number of universities reporting **net cash outflows from operating activities** is expected to decrease from seven during 2024-25 to three in 2025-26 and two in 2026-27. This reflects the weak operating position of several universities.

Sector borrowing is forecast to increase marginally over the planning period to £1,542m at the end of 2026-27. Most of the sector's borrowing is now in the form of Private Placements which involve large bullet payments at set points in the future with interest paid in the intervening years. The forecasts show that some additional borrowing is being planned by a small number of universities in future years.

It is important to note that:

- **The sector is not homogenous** and there continues to be variation in universities' financial performance that is not reflected in the aggregate indicators.
- **The financial sustainability of the sector remains extremely fluid with assumptions being constantly updated as circumstances change.** The results can only be viewed as a snapshot in time and are historic. Forecasts are not a guarantee of future performance returns and are highly likely to change over the planning period.

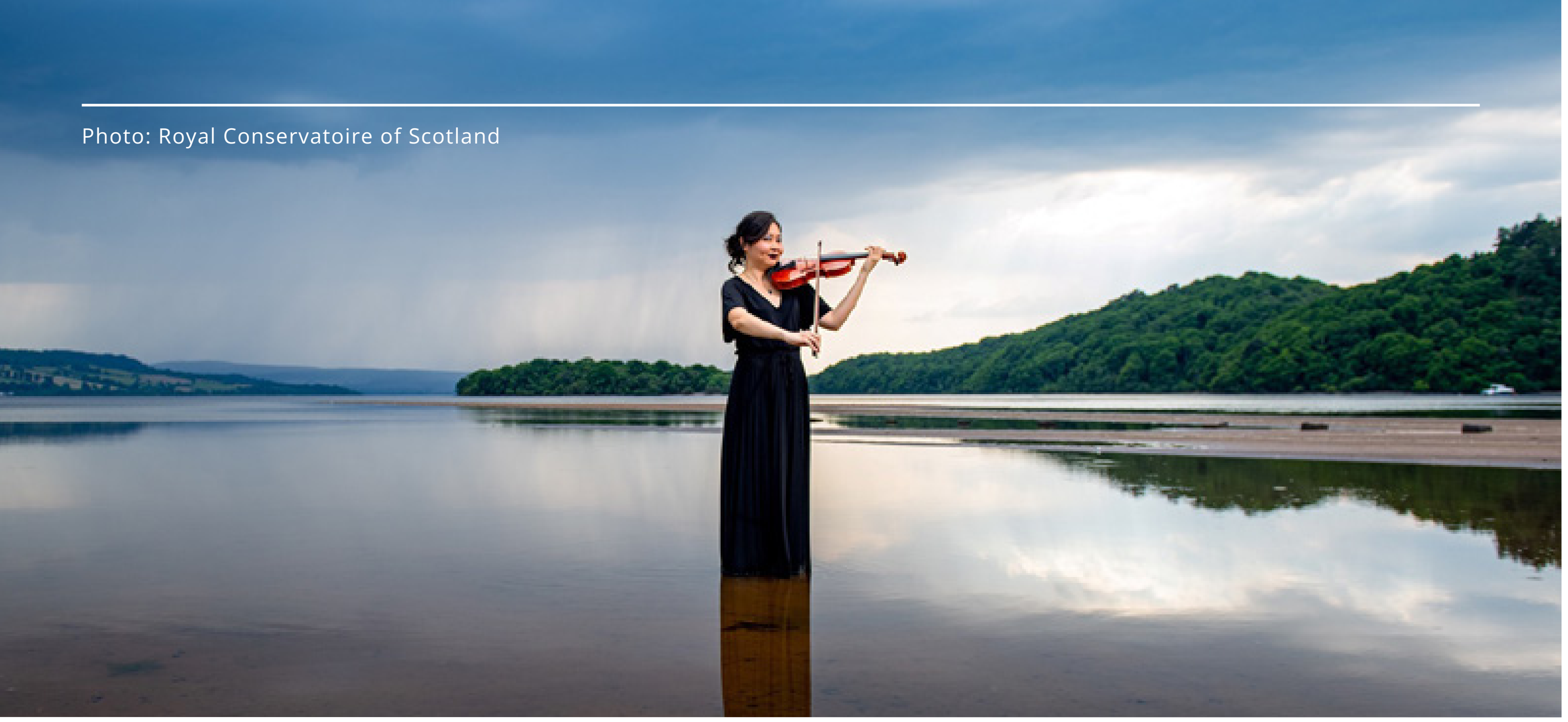


Photo: Royal Conservatoire of Scotland

Risks to universities' financial health

Universities identified many risks in their returns which could adversely affect their financial health and ability to achieve student activity and other income targets. The most significant risk areas for universities relate to:

An over-reliance on income from international students to remain financially sustainable and to support other areas of their operations, particularly where recruitment is heavily weighted to a single country, or where changes to UK policy relating to **visa and immigration regulations** can have a significant effect on target markets and approaches (recent Government white paper: Restoring control over the immigration system).

The uncertain macro-economic outlook, with inflation rising and high interest rates. Stock market pressures and wider economic challenges can also lead to significant drops in regular **donations and income from endowments**.

Increasing staff costs due to cost of living pay awards and increase in employer contributions to some pension schemes and National Insurance.

Energy costs remain high against historic levels after substantial spikes in recent years.

Having **adequate infrastructure in both universities and within the wider community for students.** Shortages of student accommodation could result in prospective students having to decline or defer places offered by universities, reducing this essential source of income.

Existing **debt levels**, given persistently high interest rates and the management of lender and Private Placement relationships, including compliance with covenants.

Unanticipated **public spending cuts in teaching and/or research income**. In-year reductions and below inflation rises would place significant added pressure on universities to maintain a sustainable trajectory.

The uncertainty of the **UK Government's policies** on Higher Education, including those designed to mitigate the effects of leaving the EU, and those that impact **rUK recruitment** in an increasingly competitive market.

The requirement for universities to invest in the **achievement of public sector net zero targets** with the costs across the UK HE sector recently estimated at £37.1bn[2].

Suspension and revocation of a university's international student sponsor licence following an inspection by UK Visas and Immigration (UKVI) could cause an immediate stop to any international student recruitment. Stricter Basic Compliance Assessment (BCA) metrics such as visa refusal rate and course completion rate are outlined in the immigration White Paper.

The impact of changes to UK **research funding** and the research funding policies of charities and industry in this challenging financial environment.

The impact of **reinforced autoclaved aerated concrete (RAAC)** on the university estate with potential building closures and expenditure required to make affected buildings safe for use.

The impact of the outcome of the **Independent Review of Skills Delivery and Purpose and Principles**.

Any failure to effectively manage major capital investment programmes and their financial impacts, including construction inflation.

2 The Cost of Net Zero | EAUC

Photo: University of Aberdeen

Mitigating actions

To protect income levels, universities continue to expand digital delivery, increase levels of and develop new overseas markets and partnerships (including increasing levels of transnational education (TNE)) income as well as focusing on income-generating opportunities at home, for example maximising income from student residences, catering and conference activity albeit there are costs associated with this.

Cost reduction measures include staff restructuring, vacancy management and removal of posts, freezing non-essential expenditure, undertaking cost benchmarking exercises, reviewing course portfolios, delaying capital expenditure and reviewing estate strategies to ensure estates are used more efficiently.

It is important that universities continue to adapt to specific challenges and other uncertainties. Financial challenges will affect individual universities in different ways and each university will have its own range of mitigating actions available. We expect universities to be alert to the risks to their financial health and have contingency arrangements in place to address them. We encourage universities to constantly review and consider the range of options available to them so they can take corrective action rapidly as and when risks begin to emerge.

Universities should continuously review their operating models and consider options for reducing costs and maximising income in this challenging environment of increasing staff costs, inflationary pressures, high energy costs and interest rates, and flat cash settlements.

We continue to engage closely with particularly vulnerable universities in addressing financial health challenges.

Financial performance

This section reports on our analysis of data from universities' 2022-23 and 2023-24 annual accounts taken from the Higher Education Statistics Agency's (HESA) Finance Record and the forecasts for the period from 2024-25 to 2026-27 academic years. The table below provides a summary of key financial information for the university sector over these five years.

Many of the graphs also include financial data for 2020-21 and 2021-22 (the period covered by our previous report) and a few graphs date further back. This allows the reader to see the general direction of change in financial performance over a longer period.

Summary of university sector aggregate financial data

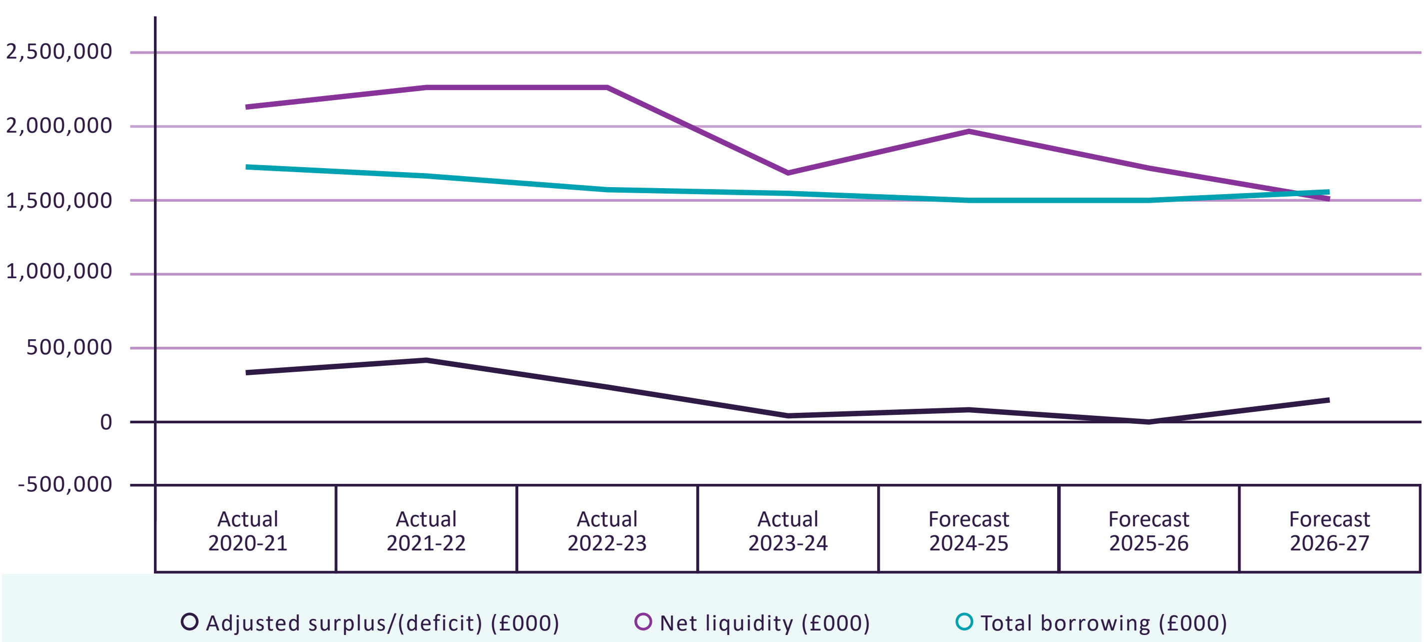
	2022-23 Actual	2023-24 Actual	2024-25 Forecast	2025-26 Forecast	2026-27 Forecast
Total income (£000)	5,234,298	4,935,295	5,058,634	5,033,509	5,245,620
Total expenditure (£000)	4,820,187	3,863,918	5,046,766	5,072,115	5,123,513
Adjusted surplus/(deficit) (£000)	210,821	17,200	51,539	(12,930)	134,877
Adjusted surplus/(deficit) as % of total income	4.0%	0.3%	1.0%	(0.3%)	2.6%
Cash flow from operating activities (£000)	192,646	13,989	96,730	143,591	301,725
Cash flow from operating activities as % of total income	4.0%	0.3%	1.9%	2.9%	5.8%
Net liquidity (£000)	2,263,409	1,681,970	1,969,336	1,702,121	1,511,473
Net liquidity days	183	173	152	131	115
Total borrowing (£000)	1,559,076	1,537,425	1,493,571	1,492,539	1,541,719
Total borrowing as a % of total assets	14%	14%	14%	14%	14%

*University of Dundee is excluded from 2023-24 onwards

Photo: University of St Andrews

The table above and graph below show the sector underlying operating position, liquidity and borrowing over the period 2022-23 through to 2026-27. At an aggregate sector level, the 2023-24 results represent a deterioration on the 2022-23 result. The underlying operating position is expected to remain in surplus over the planning period with the exception of 2025-26 when a small deficit is anticipated. Sector liquidity is forecast to decline from 2022-23 levels. There remains a significant variation in financial performance for individual universities across all years. The graph below has been extended to cover 2020-21 and 2021-22 to better demonstrate movement in financial performance for the university sector.

University sector: adjusted operating position, liquidity and borrowing (£000)



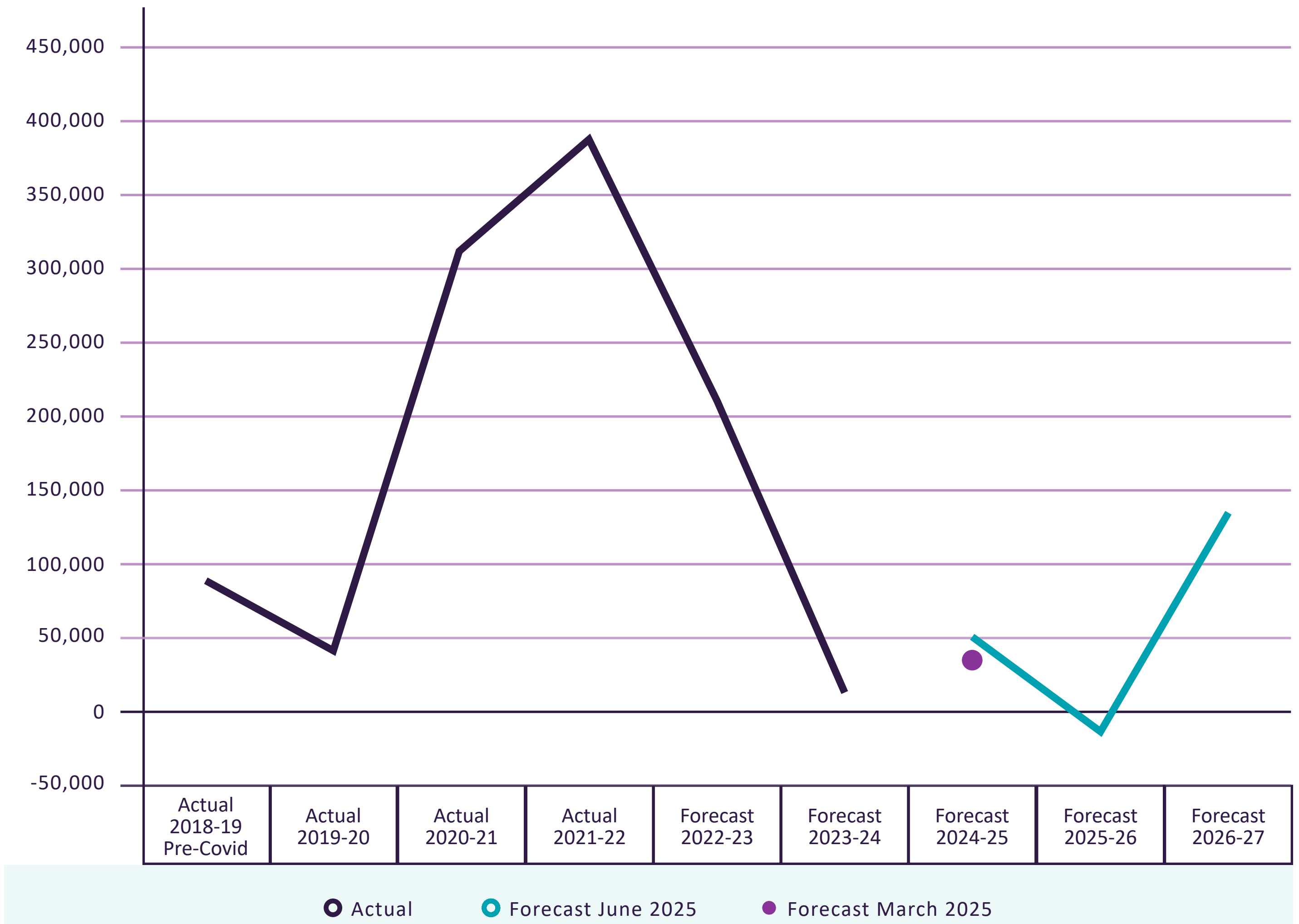
*University of Dundee is excluded from 2023-24 onwards

Adjusted operating position

The adjusted or underlying operating position referred to in this report is the operating surplus/(deficit) adjusted for pension provision movements and staff restructuring costs. Universities do not use the same basis for reporting and calculating the underlying operating position but a common methodology for reporting this to SFC is in development.

The graph below shows the trend in adjusted operating position from 2018-19 to 2023-24 in terms of results and the forecast position from 2024-25 to 2026-27.

University sector: adjusted operating position (£000)



*University of Dundee is excluded from 2023-24 onwards

The sector recorded an underlying operating surplus of £17.2m in 2023-24 which represents a significant deterioration on the 2022-23 result (£210.8m surplus) mainly due to increased staff and other operating costs set against flat income. The sector position is inflated by the operating surpluses of the two largest institutions (University of Edinburgh and University of Glasgow) with the sector position showing a deficit of £36.2m after excluding the results of these institutions.

The sector is forecasting an underlying operating surplus of £51.5m for academic year 2024-25 with the improvement on 2023-24 due to an increase in international student tuition fee income and other income. The underlying position is expected to decline to a deficit of £12.9m in 2025-26 before recovering to a surplus of £134.9m in 2026-27. It should be noted that, similar to the 2023-24 results, the forecasts are skewed by the two largest universities.

The 2025-26 deficit is mainly due to low growth in tuition fees, reduced other operating and investment income and increased staff costs due to pay inflation. The forecast improvement in 2026-27 is due to more optimistic forecasts for tuition fees, research income and other income offset by smaller increases in staff costs (reflecting full impact of the savings from staff restructuring in 2024-25 and 2025-26), other operating expenses and depreciation.

International students are not increasing at as high a rate as in past forecasts due to the current challenges in recruitment of international students. It is also evident that more universities are having to undertake staff restructuring to mitigate some of the impacts of lower-than-expected income and higher costs.

It should also be noted that one-off items of income not yet matched by expenditure make the financial position look stronger than the reality. Substantial capital grants (e.g. City Deal funding) are included in the operating position, with matching expenditure expected to fall into future years, in line with the requirements of the FRS 102 accounting standard. The level of City Deal grant is projected at £9.4m in 2024-25, £4.8m in 2025-26 and £1.2m in 2026-27.

Nine universities reported underlying operating deficits during 2023-24 (2022-23: five universities), increasing to 10 in 2024-25 and 11 in 2025-26 before reducing to 7 in 2026-27. Five universities are not projecting any underlying deficits throughout the forecast period.

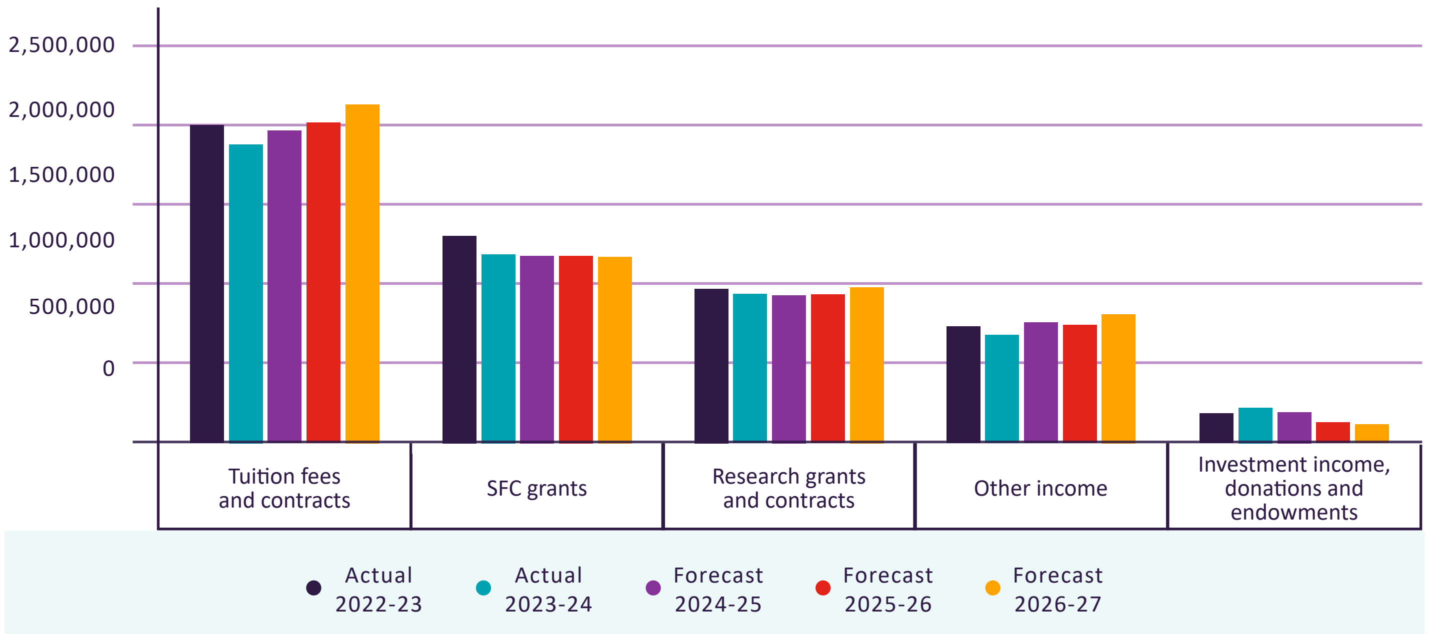
We have previously reported that universities take a cautious approach to forecasting, often resulting in better than anticipated results. This position has changed due to the current challenging financial environment and improvements on forecast will be extremely difficult to deliver.

A table showing operating position, adjusted operating position, liquidity and borrowing for 2022-23 and 2023-24 for each university is at Annex A.

Income

The graph below shows the projected movement in sector income over the period from 2022-23 through to 2026-27. Apart from SFC grants, universities receive income from tuition fees and contracts, research activity, commercial income (included in other income), investment income, donations and endowments.

University sector: sources of income (£000)



*University of Dundee is excluded from 2023-24 onwards

Total sector income is expected to increase from £4,935m in 2023-24 to £5,246m in 2026-27 (6.3% increase). A large proportion of the anticipated growth in income is through international tuition fees, although research activity and commercial revenue also show an upward trajectory over the planning period, partly offsetting decreases in investment income. SFC grant is projected to remain relatively flat over the period to 2026-27.

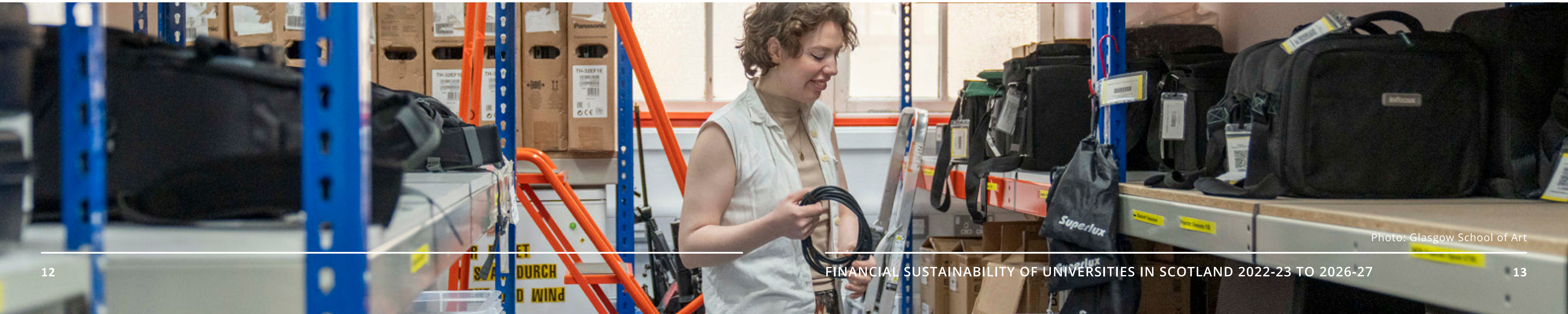


Photo: Glasgow School of Art

Photo: University of Edinburgh

SFC grant

Universities' reliance on SFC grants is continuing to reduce, from 24% of total income in 2023-24 to 22% of total income by the end of 2026-27, largely due to anticipated increased levels of international fee income. The proportion of SFC grants received in 2023-24 is 12% less compared to 11 years ago in 2012-13 when the sector received 36% of its total income from SFC. However, there is variation across the sector with one university's dependency on SFC grant expected to exceed 50% in 2024-25. Several universities are generally not as reliant on SFC funding and tend to have additional sources of other income.

Fee income

Reduced SFC grant must be considered alongside the sector becoming increasingly reliant on international tuition fee income which is expected to continue to exceed the proportion of the SFC grant income accounting for 27% of sector income in 2023-24 and reaching 29% by 2026-27.

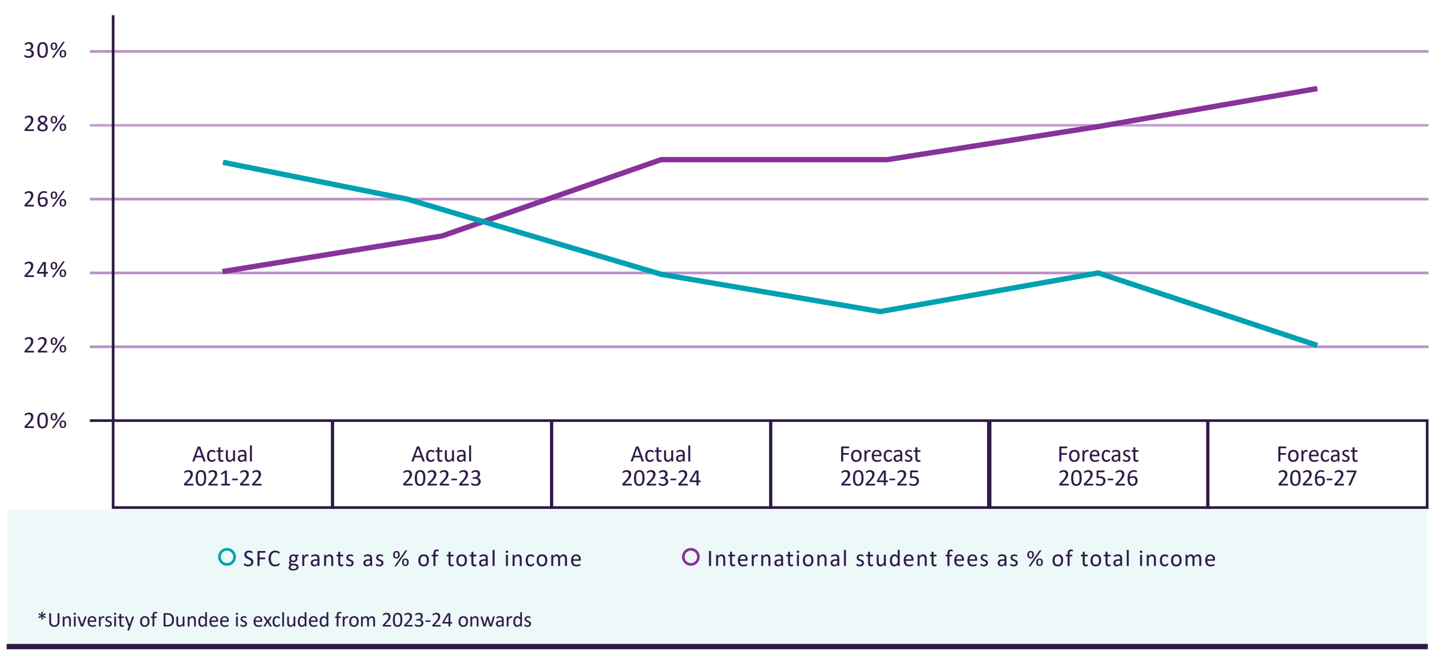
Whilst the established reputation of the ancient universities means that they are better placed to withstand an increased level of competition, all universities will need to adapt their business model in the face of increased international competition.

International tuition fee (including EU fees) income grew strongly in the period up to 2022-23, stabilising in 2023-24. Based on these forecasts, international fee income is expected to marginally increase from £1,324m in 2023-24 and to £1,397m in 2024-25 (5.5% increase). There is an increase to £1,532m forecast by 2026-27 due to higher volumes, emerging markets in Asia and Africa, partnerships with overseas universities and increased fee levels. The rate of growth in international fee income is not as strong as in previous years with nine universities forecasting a reduction in this income source in 2024-25 compared with 2023-24. Projections therefore may need to be further adjusted following the autumn 2025 recruitment cycle.

Photo: Abertay University

The increasing reliance on international fee income and corresponding reducing proportion of SFC grant is illustrated in the graph below. This graph includes 2021-22 to show the point before income from international student fees became a larger proportion of total income than SFC grants.

University sector reliance on international student fee income and proportion of SFC grant from 2021-22 to 2026-27

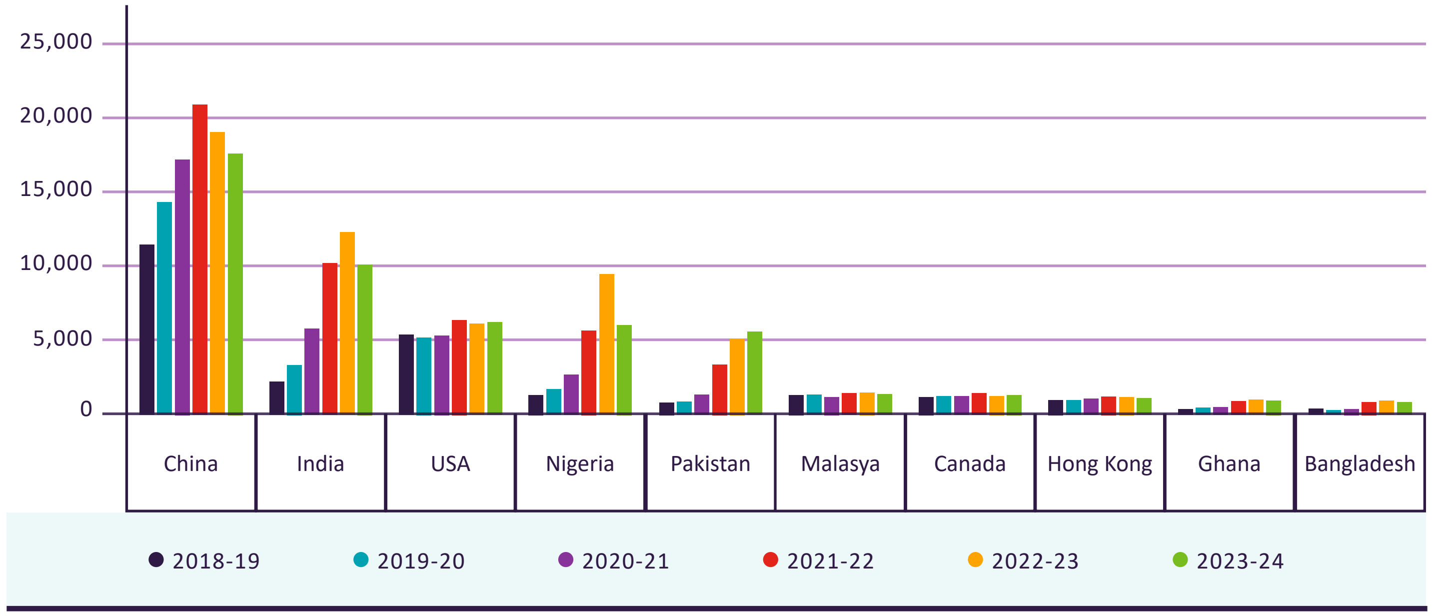


International tuition fee income is essential for universities to remain financially sustainable. It addresses the deficit of publicly funded teaching identified through the Transparent Approach to Costing (TRAC) returns and supports other areas of their operations, including research which is inherently loss making. However, this income continues to be an area of significant fluctuation and risk due to the competitive nature of international markets, UK immigration policy, political volatility, and potential exposure to external shocks e.g. global events over which universities have no control as shown by the COVID-19 pandemic. Some universities are significantly more exposed than others.

SFC is continuing to engage with universities to support further analysis of their income and costs. Further information will be provided later in the year on SFC's website with the 2022-23 and 2023-24 TRAC data.

The graph below highlights the top 10 source countries for overseas students in Scottish universities and shows the movements in the student numbers from those countries for the period 2018-19 to 2023-24. The latest full year of information available from HESA is for 2023-24.

Top 10 non-EU Countries of Permanent Address (excluding the UK) for All HE Student Enrolments Academic Years 2018-19 to 2023-24



The number of students from the top 10 countries increased significantly between 2018-19 (pre COVID) and 2022-23. The largest increases in numbers over that period were from India (10,075), Nigeria (8,130) and China (7,600). In percentage terms, the largest increases were from Nigeria (633%), Pakistan (551%) and India (466%). However, in 2023-24 there was a drop in the number of international students and the only countries showing increases were United States, Pakistan, and Canada.

Fee income received from Student Awards Agency Scotland (SAAS) for Scottish students is expected to increase from £268.4m in 2023-24 to £285m in 2026-27 (6% increase). Fees from the rest of the UK (rUK) students are forecast to increase from £196.6m in 2023-24 to £212.7m by 2026-27 (8% increase). The latest information on applications and recruitment of 2025-26 students is set out in Annex C.

Other income

Income from research activity accounted for £943.1m of total income in 2023-24. The forecasts show an anticipated increase in this income of 4.6% over the forecast period. In 2024-25, approximately 75% of the income from this source is expected to be generated in three universities.

Income from residences, catering and conferences is forecast to increase from £285.4m in 2023-24 to £331.4m in 2026-27, an increase of 16% over the forecast period.

Photo: SRUC

Expenditure

The graph below shows the projected movement in sector expenditure over the period from 2022-23 to 2026-27. Pension provision movements have been taken out of staff costs and presented separately in the graph to highlight the fluctuations and the impact they can have on overall staff costs.

University sector: types of expenditure (£000)

*University of Dundee is excluded from 2023-24 onwards

Staff costs

Staff costs are the largest element of expenditure for universities. They represented 54% of total sector costs (excluding pension scheme provision movements) in 2023-24, increasing to 55% in each of the forecast years. If pension scheme provision movements are removed, staff costs are forecast to increase by 4% in 2024-25, with further increases of 1% in both 2025-26 and 2026-27. The increases reflect the rising cost of living in relation to pay settlements, rising employer pension contributions for some pension schemes and recent employer National Insurance increases offset by savings from voluntary severance schemes. Universities have also been making strategic staffing investments to support future growth.

Staff restructuring costs are projected to increase sharply from 2023-24 levels (£17m across eight universities), peaking in 2024-25 (£38.5m across nine universities) and reducing in 2025-26 (£24.5m across seven universities) and 2026-27 (£11.6m across five universities). This reflects the mitigating actions required of the universities experiencing financial challenges over the forecast period. Universities will need to balance staff restructuring activity with their ability to deliver required outcomes and Scottish Government priorities, in particular meeting student targets and supporting economic recovery.

Pension costs

Overall, employers' pension contributions for university sector pension schemes are expected to reduce by 3% from £462m in 2022-23 to £415m in 2025-26. The most recent (March 2023) valuations for Universities Superannuation Scheme (USS) and Local Government Pension Scheme (LGPS) schemes have returned surpluses resulting in reductions in employer contributions from April 2024. These reductions resulted in significant cash savings for many universities from 2024-25.

The Scottish Teachers Pension Scheme (STPS) employer contribution rates increased on 1 April 2024 from 23% to 26% and the NHS Pension Scheme employer contribution rate increased from 20.9% to 22.5% . In February 2025, SFC announced additional Scottish Government funding of £5.83m for universities to cover the increase in employers' contributions for these schemes in the period April 2024 to March 2025. This funding covered the extra costs in the year ended 31 March 2025, however, no funding was allocated to universities in 2025-26. Most universities with STPS members (mainly the post-92 universities) also participate in LGPS schemes. The increases in STPS contributions are likely to be offset to some extent by reductions in LGPS contributions.

Other operating costs

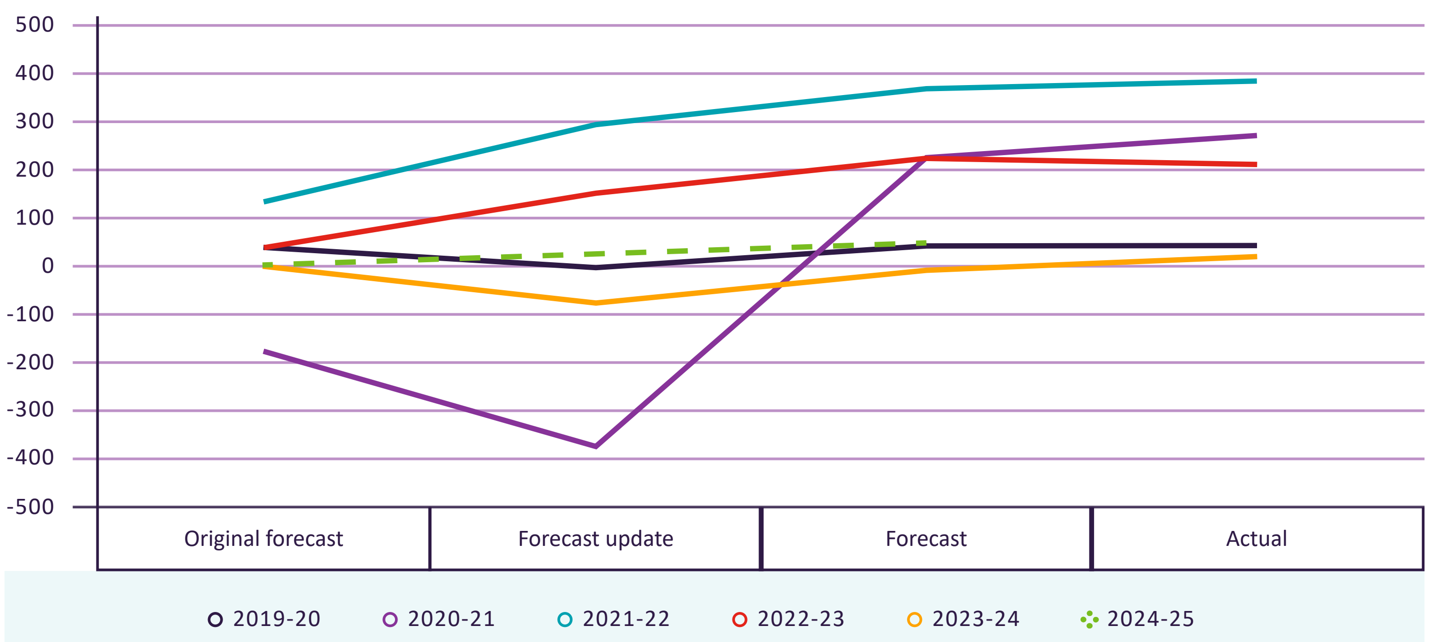
Other operating expenses are expected to increase marginally over the forecast period mainly due to inflationary pressures. Utilities costs are still high compared to historic levels but are expected to reduce from £135m in 2023-24 to £126m by 2026-27 (6.7% decrease). Inflationary pressures are also continuing to impact on construction projects.

Accuracy of forecasting

For most universities, movements between actual and forecast figures can largely be explained by adjustments being made as universities react to new information. In the last few years, forecasting was difficult due to the uncertainty surrounding the impact of the pandemic, coupled with economic uncertainty. To consider the accuracy of forecasting we use historical forecasts and compare them to the actual results. The actual 2024-25 results will not be received until 31 December 2025.

The movements in the adjusted operating position for academic years 2019-20, 2020-21, 2021-22, 2022-23, 2023-24 and forecasts for 2024-25 are set out in the graph below:

University sector adjusted operating surplus/(deficit) (£million)



*University of Dundee is excluded from 2023-24 onwards

Photo: Queen Margaret University

Improvements in actual outturns against forecast have occurred in most years as shown in the graph above. These movements can be explained by adjustments to take account of new information. In particular, in-year allocations of SFC income which universities were unaware of at the time of the preparation of their forecasts, movements in provisions for recovery of SFC funding due to the timing of SFC assessments and changes in restructuring costs recognised at year-end.

The only atypical year was 2020-21 when the universities were forecasting the impact of the pandemic with no clarity on the impact of lockdown on international student numbers and other parts of the university operations.

The graph highlights the changing financial environment for universities in 2023-24 where the forecast adjusted operating position was in deficit for all forecasts, with a very small adjusted operating surplus achieved at the end of 2023-24.

The final outturn reported in 2023-24 was an adjusted operating surplus of £17.2m. The graph shows that there have not been significant variances between the forecasts provided to SFC in June 2024, March 2025 and June 2025. The final results, due at the end of December, will complete the picture on accuracy of forecasting for 2024-25.

We have previously reported that universities take a cautious approach to forecasting, often resulting in better than anticipated results. This position has changed due to the current challenging financial environment and improvements on forecast will be extremely difficult to deliver.

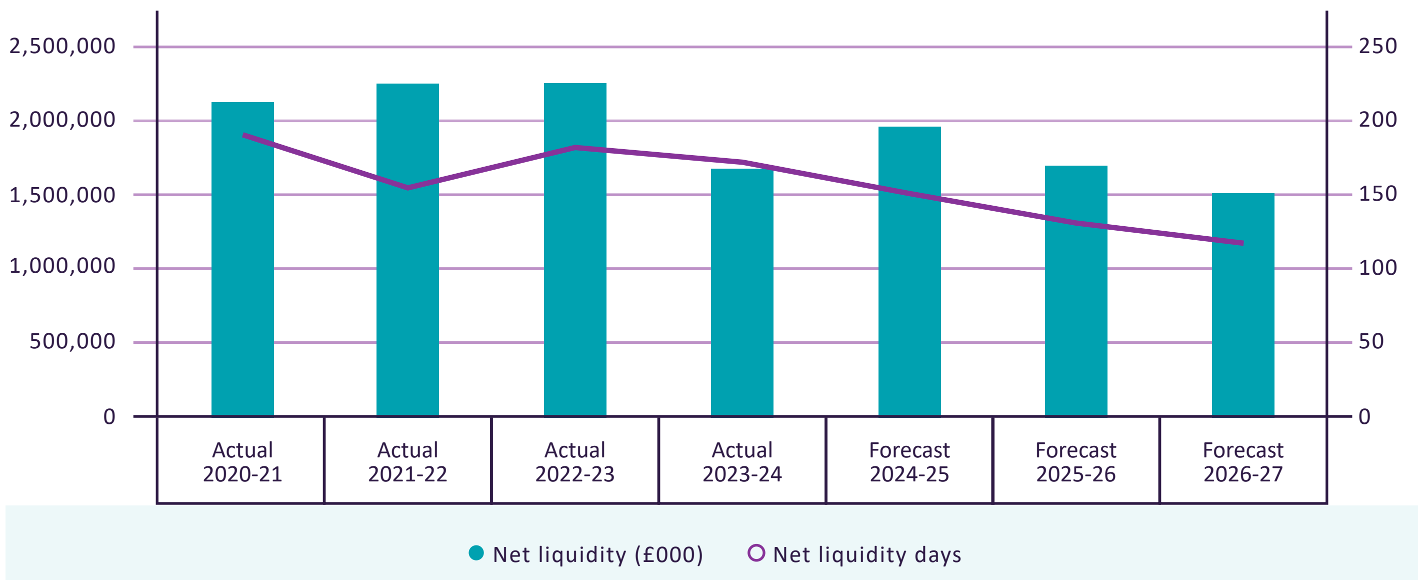
We will continue to work with universities on the accuracy of forecasting as part of our assessment of financial returns for 2024-25 and the current academic year. While SFC recognises that universities need to make adjustments to their forecasts as they react to new information, they should ensure that their forecasts are as accurate and dependable as possible in future years.

Financial position – financial strength and resilience

Liquidity

Cash balances and number of days expenditure held in cash reserves are key financial health indicators. Maintaining short-term liquidity is critical to protecting cash reserves and thereby the ability to absorb short-term operational deficits. Many universities have agreed overdraft or revolving credit facilities with lenders to provide additional headroom. The graph below shows the levels of sector cash reserves and days ratio of cash to total expenditure over the period from 2020-21 to 2026-27.

University sector: net liquidity days



*University of Dundee is excluded from 2023-24 onwards

Cash and equivalent reserves are expected to rise by 17% from £1,682m at the end of 2023-24 to £1,969m by the end of 2024-25. This is mainly due to a reclassification between current assets and non-current assets in the 2024-25 forecast; the underlying sector cash position is not expected to materially change. The sector cash position is then projected to decrease to £1,511m by the end of 2026-27 (10% reduction from the end of 2023-24) reflecting the weaker operating position over the forecast period and planned capital expenditure.

Sector cash days move from 183 in 2022-23 to 115 in 2026-27. However, cash days vary considerably for individual universities. The sector position is skewed by the results of the two largest universities which account for well over 50% of the overall cash reserves at the end of July 2024. No university is forecasting a cash deficit throughout the forecast period however many universities are taking proactive action to keep them in a positive cash position.

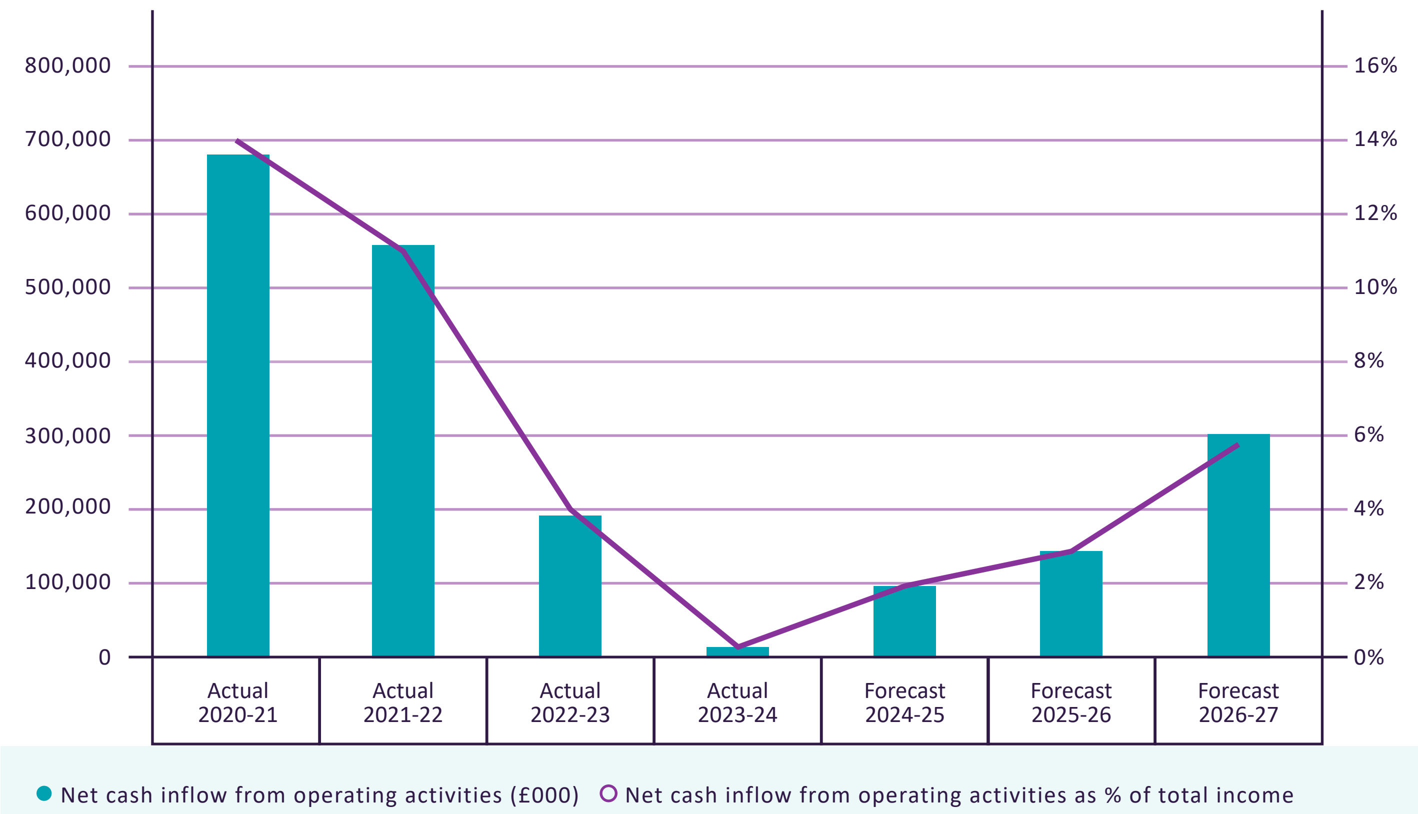
Photo: University of Glasgow

It is important to note that a significant proportion of cash is earmarked for other purposes e.g. estates and other projects, research funding paid in advance, endowment funds, and sinking (loan servicing) funds to meet future borrowing requirements in relation to Private Placements. Lenders and governing bodies also require universities to hold an agreed working balance equivalent to several months' expenditure, to ensure sufficient cash is available to pay staff and suppliers.

Cash flow

Net cash inflow from operating activities is an important measure of universities' financial health. It illustrates a university's ability to generate sufficient cash to repay debt and for estates investment. The graph below shows the trend in the sector's net cash inflow from operating activities and the ratio of net cash inflow as a percentage of total income over the period 2020-21 through to 2026-27.

University sector: net cash flow from operating activities



*University of Dundee is excluded from 2023-24 onwards

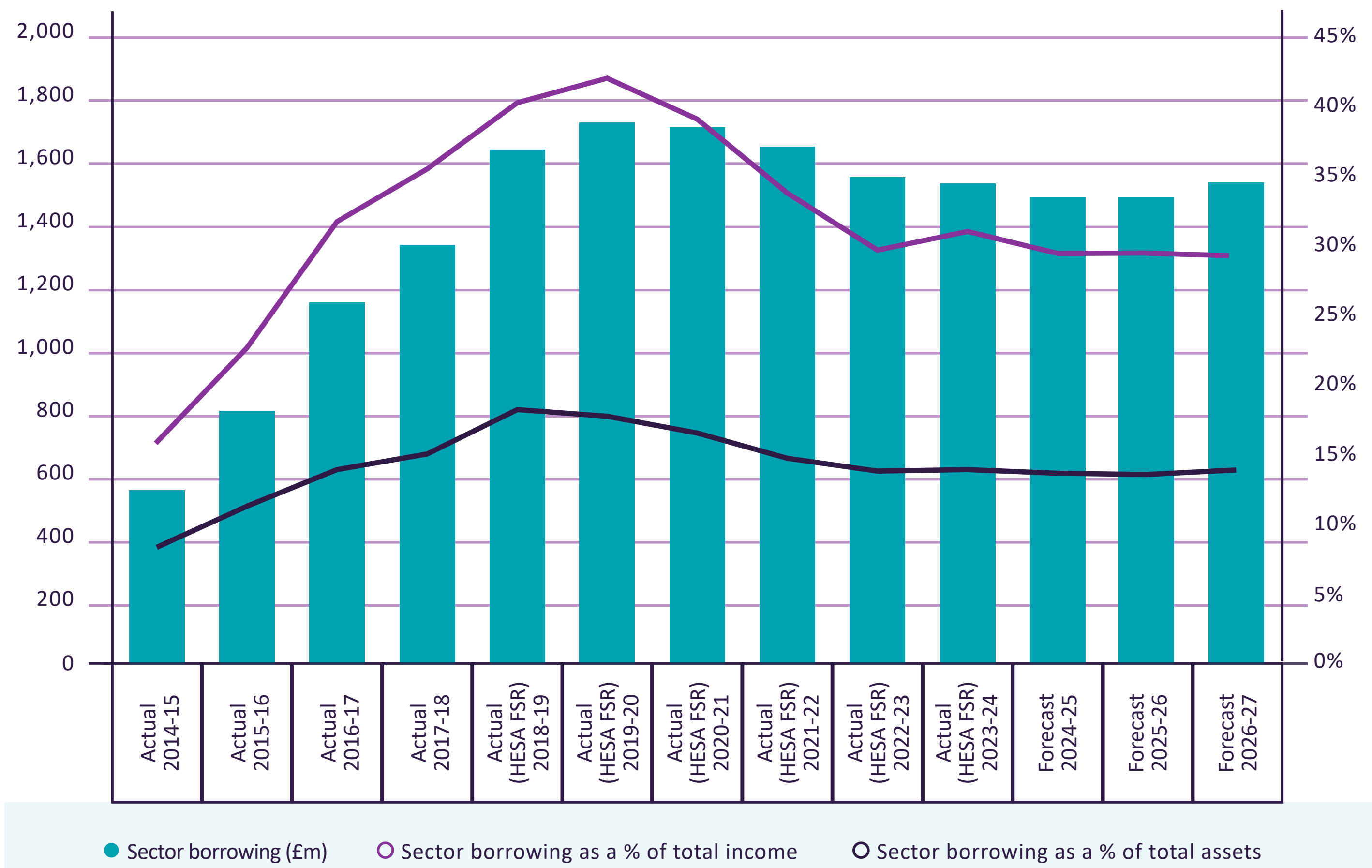
The sector reported a net cash inflow of £14m in 2023-24 which represented a 93% decrease on the previous year (£192.6m). At the sector level, the net cash inflow as a proportion of total income decreased from 4% in 2022-23 to 0.3% in 2023-24. Three universities reported an outflow of cash during 2022-23, increasing to nine universities in 2023-24.

Cash generated from operations in the sector is forecast at £96.7m in 2024-25, increasing to £301.7m by 2026-27. The sector net cash inflow as a proportion of total income is expected to increase from 0.3% in 2023-24 to 5.8% in 2026-27. Seven universities expect to report net cash outflows from operating activities in 2024-25, reducing to two universities by the end of the forecast period. The projected cash outflows reflect the weak operating position of many of these universities.

Borrowing

The graph below shows the trend in sector borrowing as well as the ratio of borrowing as a percentage of total income and as a percentage of total assets over the period from 2014-15 to 2026-27.

University sector: borrowing



*University of Dundee is excluded from 2023-24 onwards


Photo: Edinbrugh Napier University

Total long-term borrowing is forecast to increase slightly from £1,537m at the end of 2023-24 to £1,542m at the end of 2026-27 (0.3% increase). Two universities are projecting increases in borrowing over the planning period. This additional borrowing is partly offset by repayment of traditional loan debt by instalments and early repayment of some long-term debt.

The ancient universities account for 66% of the sector borrowing and around half of the sector borrowing relates to the two largest universities. The amount of interest on borrowing paid by the sector is forecast over the planning period at around £37m.

Private Placements currently account for 61% of the sector's borrowing. This type of borrowing involves large bullet payments at set points in the future with interest paid in the intervening years. Universities with this form of borrowing will have to ensure they have the necessary funds to repay at the set points. Of the total sector debt of £1,542m projected at the end of 2026-27, £152m (9.8%) relates to SFC Financial Transaction loans.

Many universities are re-assessing estates development programmes and, in the context of ongoing student recruitment challenges, are not currently in a position to commit to future borrowing. Universities have provided assurances that they are engaging regularly with lenders and keeping them fully appraised. There is a requirement within the Financial Memorandum with universities for them to inform SFC if they are at risk of breaching their loan covenants.

Lenders have indicated that most lending is now in the form of short-term revolving credit facilities. Larger universities continue to be able to access debt at reasonable interest but there is little appetite for long-term borrowing. Universities restricting their capital expenditure has helped ensure the sector has retained reasonable levels of liquidity.


Photo: University of Dundee

Capital Expenditure

Total sector capital expenditure amounted to £456m during 2023-24, 3% higher than the previous year's total. Total sector capital expenditure for 2024-25 is forecast at £480.5m, which represents an increase of 5%. Many universities have restricted capital expenditure since March 2020 due to the impact of COVID-19 on their operations and ongoing uncertainties over the economic outlook. However, capital spend is projected to increase by 9% to £526m in 2025-26 and then increase further by 23% to £647m in 2026-27. Universities expect to finance this expenditure through grants, borrowing, retained proceeds of sale from property, internal funds and other external sources.

Pension Liabilities

Staff in the university sector are members of many different pension schemes. The main schemes are: Universities Superannuation Scheme (USS), the relevant Local Government Pension Scheme (LGPS) and the Scottish Teachers Pension Scheme (STPS). The STPS is a notional fund, so universities are unable to identify and report their share of the underlying assets and liabilities. Pension liabilities reported in universities' financial statements therefore relate to the USS and LGPS multi-employer defined benefit schemes.

	2018-19 Actual £000	2019-20 Actual £000	2020-21 Actual £000	2021-22 Actual £000	2022-23 Actual £000	2023-24 Actual £000
Sector Pension Liability	1,447,330	1,492,243	1,295,158	1,478,738	1,253,494	83,292

*University of Dundee is excluded from 2023-24 onwards

The overall sector pension liability decreased from £1,253m at the end of July 2023 to £83m by the end of July 2024. One university recognised a pension asset in respect of this improvement in investment performance. Thirteen universities are reporting a reduced pension liability of which three universities reported a nil balance.

Annex A: Summary: university sector operating position, underlying operating position, liquidity and borrowing

University sector: operating position, underlying operating position, liquidity and borrowing								
	Operating surplus/(deficit)		Underlying operating surplus/(deficit)		Cash and cash equivalents less overdraft		Borrowing	
	2022-23 Actual £000	2023-24 Actual £000	2022-23 Actual £000	2023-24 Actual £000	2022-23 Actual £000	2023-24 Actual £000	2022-23 Actual £000	2023-24 Actual £000
University of Aberdeen	9,265	72,281	(6,579)	(10,054)	101,671	64,003	116,276	85,361
University of Edinburgh	157,209	377,630	104,429	25,221	745,000	379,086	546,660	549,250
University of Glasgow	120,757	296,399	58,561	28,216	611,502	578,702	250,752	249,752
University of St Andrews	21,913	66,294	4,888	(10,045)	26,486	20,248	109,847	124,134
Ancient universities	**309,144**	**812,604**	**161,299**	**33,338**	**1,484,659**	**1,042,039**	**1,023,535**	**1,008,497**
University of Dundee	4,788	n/a	(6,449)	n/a	74,432	n/a	13,795	n/a
Heriot-Watt University	(14,333)	50,789	(21,171)	(8,662)	102,232	80,521	145,917	145,658
University of Stirling	18,514	55,854	10,707	6,993	76,056	77,512	101,919	108,610
University of Strathclyde	85,188	154,336	47,220	(6,150)	142,660	139,966	55,111	65,064
Chartered universities	**94,157**	**260,979**	**30,307**	**(7,819)**	**395,380**	**297,999**	**316,742**	**319,332**
Abertay University	1,217	(576)	1,363	(731)	16,107	12,490	9,401	8,647
Glasgow Caledonian University	469	14,115	4,153	14,032	74,293	80,779	1,929	1,644
Edinburgh Napier University	7,514	5,095	10,385	4,235	69,816	65,293	535	267
Queen Margareth University	162	3,125	638	1,191	17,450	18,613	19,691	18,712
Robert Gordon University	2,740	(6,151)	3,943	4,071	55,386	50,923	36,920	36,381
University of the Highlands & Islands	749	6,830	1,009	3,203	21,779	17,266	33,871	31,068
University of the West of Scotland	1,913	(15,327)	2,108	(15,205)	80,151	67,788	81,201	80,056
Modern universities	**14,764**	**7,111**	**23,599**	**10,796**	**334,982**	**313,152**	**183,548**	**176,775**
Glasgow School of Art	2,383	(338)	2,827	(503)	18,563	8,942	9,344	8,716
Royal Conservatoire of Scotland	(109)	1,916	(151)	(6,125)	5,737	5,196	1,286	1,154
Scotland's Rural College	(6,228)	(10,895)	(7,060)	(12,487)	24,088	14,642	24,621	22,951
Small Specialist Institution (SSI)	**(3,954)**	**(9,317)**	**(4,384)**	**(19,115)**	**48,388**	**28,780**	**35,251**	**32,821**
Sector Total	**414,111**	**1,071,377**	**210,821**	**17,200**	**2,263,409**	**1,681,970**	**1,559,076**	**1,537,425**

Annex B: University groupings

The financial summary table and other sections in this report refer to the following four university groupings:

The reported operating surplus/(deficit) figures have been adjusted for:

Ancient universities
University of Aberdeen,
University of Edinburgh,
University of Glasgow and
University of St Andrews.

Chartered universities
University of Dundee,
Heriot-Watt University,
University of Stirling and
University of Strathclyde.

Modern universities
Abertay University,
Edinburgh Napier University,
Glasgow Caledonian University,
University of the Highlands & Islands,
Queen Margaret University Edinburgh,
Robert Gordon University and
University of the West of Scotland.

Small and specialist institutions
Glasgow School of Art,
Royal Conservatoire of Scotland,
Scotland's Rural College and
The Open University in Scotland.

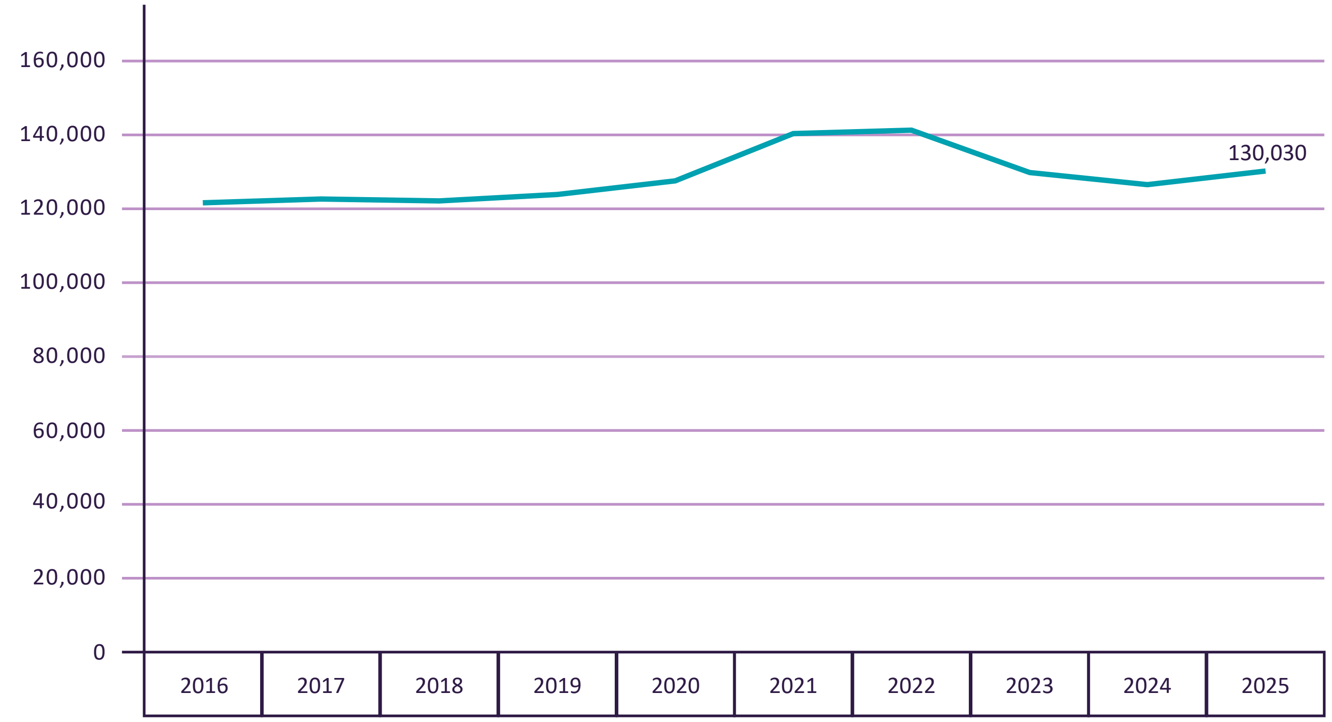
The Open University in Scotland is not included in this analysis due to different reporting arrangements in place.

Photo: University of St Andrews

Annex C: Applications and recruitment

At the UCAS deadline of June 2025, total applicant numbers to Scottish providers in 2025 for Academic Year 2025-26 stood at 130,0302. This is 2,510 (+2%) higher than last year. Discounting the 2021 and 2022 cycles which saw unusually high demand during the pandemic, total demand for Scottish providers has generally followed an upward trajectory over the last decade as shown in the chart below.

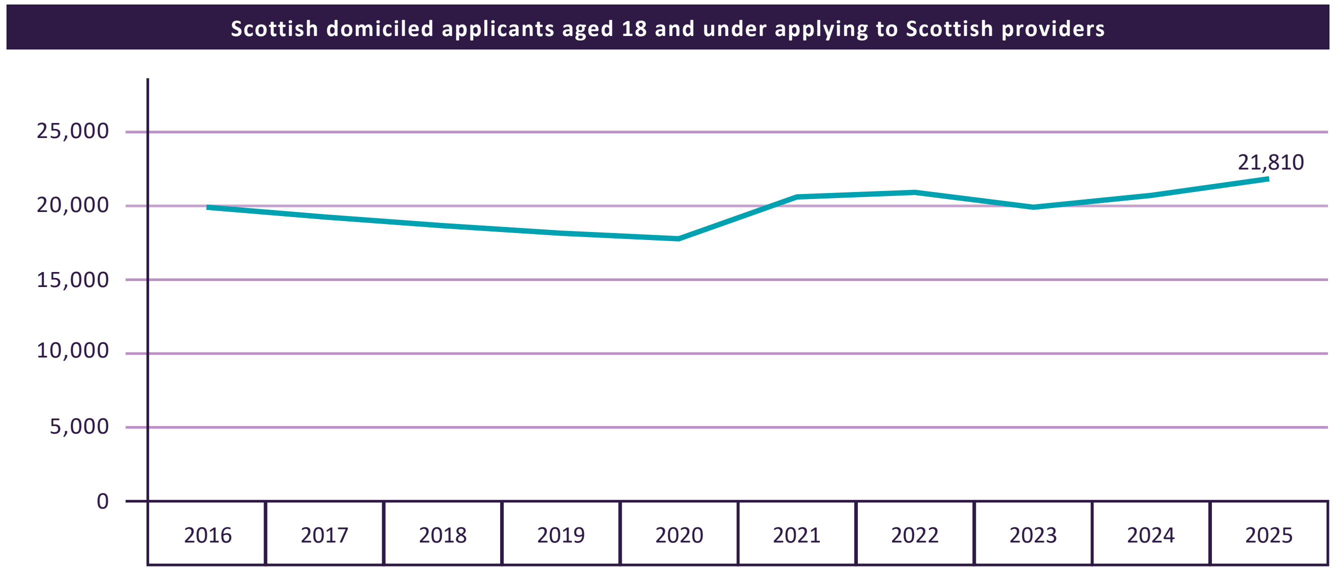
Total applicants to Scottish providers (June deadline)



As at 30 June 2025, 44,860 Scots had applied to Scottish universities, an increase of 1% from 2024 and 3% since 2023. The university final funding allocations for 2025-26 confirmed the removal of the second tranche of additional 'SQA places' for non-controlled subjects, following the removal of 1,289 FTEs for 2024-25.

The June data confirms we are continuing to see record low levels of demand from 'mature' Scots (aged 21+) over the last 10 years, decreasing by 2% year on year from 14,800 in 2024 to 14,500 in 2025.

Meanwhile, the slight year-on-year increase in demand from Scots is being driven by those of school leaver age (18 and under). The number of Scots aged 18 and under applying is increasing by 5% year-on-year to 21,810 in 2025, equivalent to 1,000 more young Scots applying this year and a record high over the last 10 years (as shown in the chart below).



As at A-Level results day (14th August 2025), the number of accepted Scottish applicants at Scottish universities was 33,460, a small 1% decline on last year. 2025 and 2024 acceptances remain the highest of the past decade. The number of accepted young Scots remains high at 18,030, an increase of 510 (3%) on the same stage of cycle last year. Acceptances from mature Scottish applicants have decreased by 5% year-on-year. It should be noted that final acceptance figures are subject to change until clearing completes and the current cycle closes.

Positively, so far 17.6% of Scots applying to a UK provider this year are from SIMD20 areas, an increase of 0.3% year-on-year and the highest reported in recent years. The number of SIMD20 applicants is at a record high going into results day, with 8,020 applicants, an increase of 210 year-on-year.

Cover Photos:

Glasgow Caledonian University

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