Universities Income Flows – Full Insight Briefing

Introduction

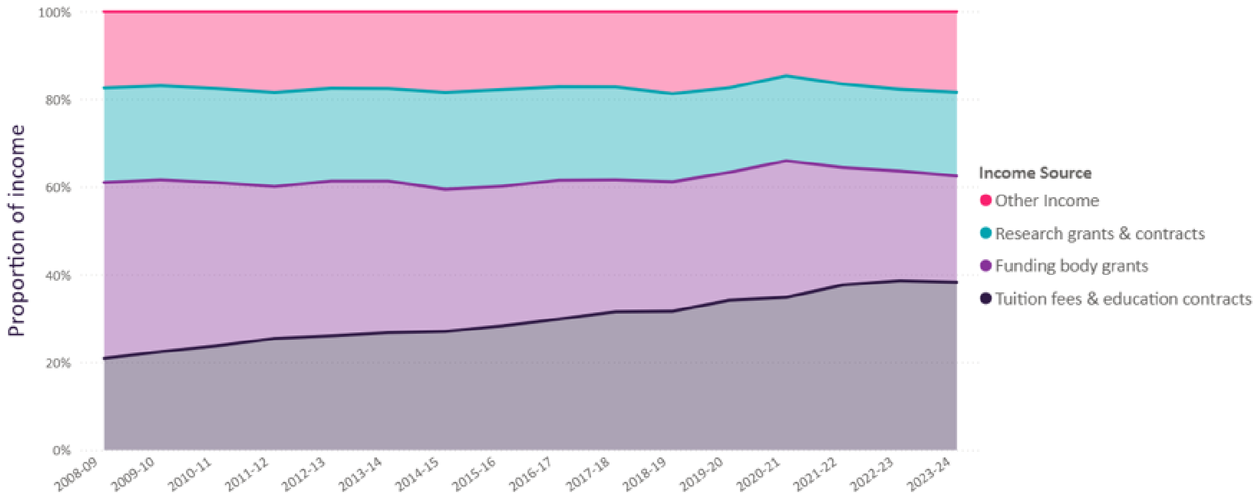
1. Scotland's universities are facing systemic challenges to their financial sustainability. The core pillars of their funding have shifted as they aim to generate additional revenue at a faster rate than their cost base grows. In the last decade, the sector has responded to a range of challenges which impact their financial health, including the expansion of the international student market; a challenging public funding environment; as well as global events including the UK's exit from the EU, , the Covid-19 pandemic, stubbornly high inflation and energy prices, and the issues arising from RAAC.
2. This report provides a deeper analysis of the longer-term trends that have transformed the core pillars of funding for Scottish universities over the last two decades. Today, Scottish universities derive the largest proportion of their income from tuition fees, primarily from international students. This is a very different environment from the early 2010s when public funding, in the form of SFC grants, constituted the largest revenue stream for universities. This is partly associated with universities expanding their size and the range of activities they deliver but it reflects the increasing cost for universities to deliver their core activities.
3. This report provides an insight into how universities are generating more revenue, primarily through increasing the level of non-publicly funded teaching they deliver to offset the increasing losses they are experiencing from delivering research activity and publicly funded teaching. Universities are increasingly cross-subsidising their activity across publicly funded teaching (home undergraduate students); non-publicly funded teaching (fee-paying students); research activity; and other services as the aim to secure their financial sustainability.
4. Securing the long-term financial sustainability of the university sector is in Scotland's national interest. The success of our universities is not insulated to the sector: it affects us all. Our universities are centres of excellence for learning; they are powerhouses of economic growth; their research drives innovation and improves all of our lives; and they are important anchor institutions in their community. The Scottish Government and Universities Scotland recently announced they will co-design a Framework for a successful and sustainable future for Scotland's universities for the next 20 years, and this report is intended to support that work.
5. This analysis has been informed by qualitative analysis of authoritative data sources provided by SFC, the Higher Education Statistics Authority (HESA), and Transparent Approach to Costing (TRAC) model as well as detailed interviews with senior university finance representatives.

Key Insights and Analysis

How did we get here

6. The core income sources which underpin Scotland's university sector have shifted over the last fifteen years. Institutions have tried to adapt to reflect the reality of operating in a changed environment that is defined by: a challenging fiscal context which has impacted the levels of available public funding; increased globalisation; unforeseen global events such as the Covid pandemic; and sharp spikes in inflation.
7. Since AY 2008-09 the income sources for Scottish universities have shifted with the proportion of income received from funding body grants (SFC) almost halving from 40% to 20%, whilst the proportion of income from tuition fees - primarily driven by international student recruitment - has almost doubled from 20% to around 40%. This is demonstrated in figure 1 below.
8. In cash-terms, the income generated by Scottish universities has almost doubled in the fifteen-year period, rising from £2.6 billion in AY 2008-09 to £4.9 billion by AY 2023-24. This is shown in figure 2 below. This revenue growth has been largely driven by tuition fee income from international students. In AY 2016-17, tuition fees surpassed funding body grants as the largest source of income for Scottish universities, and it has remained this way since. The income from tuition fees peaked at £2 billion in AY 2022-23.
9. Financial analysis published by SFC in the *Financial Sustainability of Universities in Scotland 2022-23 to 2026-27* report set out that the university sector recorded an underlying operating surplus of £17 million for 2023-24. However, it also noted that this sector-level figure is inflated by the financial position of the two largest universities in Scotland: the University of Edinburgh and the University of Glasgow. Once these two institutions are removed, the sector reports a deficit of £36 million for 2023-24. This demonstrates the financial reality facing Scottish universities as they try to achieve a break-even, or surplus, position through raising additional revenue through the recruitment of international students, whilst trying to reduce their cost base.

Figure 1: The changing proportion of different income sources for the Scottish university sector from AY 2008-09 to AY 2023-24

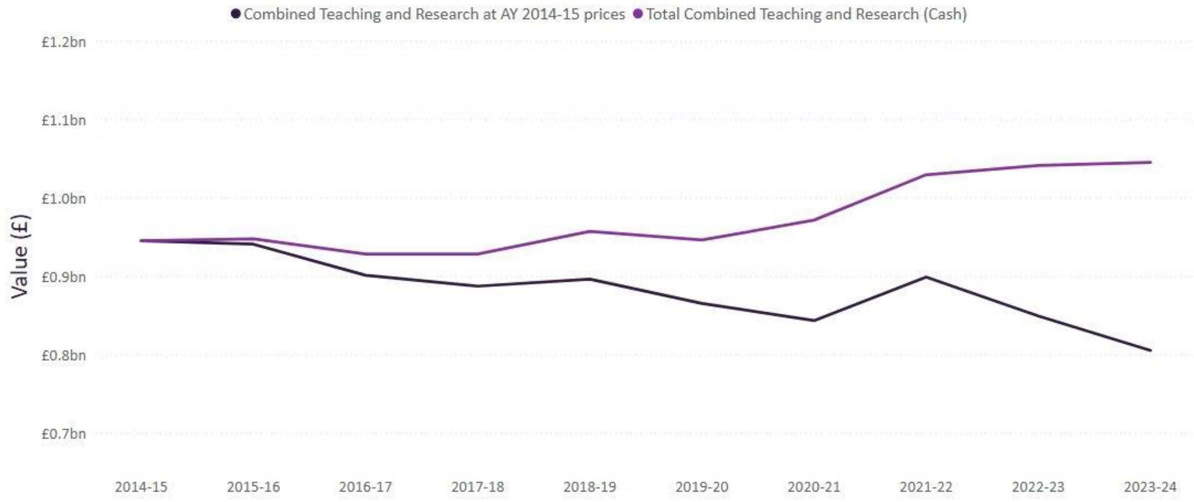


Source: HESA Table 1- Income Sources as reported in the FSR and University of Dundee not included in 2023/24 data.

10. The level of public funding for universities has substantially eroded in real-terms, despite a cash-terms increase in funding, over the last decade. The real-terms reduction in core funding allocated by SFC to Scottish universities for teaching and research between AY 2014-15 and AY 2023-24 is displayed in figure 3 below. This has resulted in a real-terms reduction in funding for Scottish universities of circa £250 million across the last decade.
11. Together, Figure 2 and Figure 3 indicates that, while the real terms value of SFC's core funding has declined, the concurrent recruitment of international students over the last decade has become the primary source of revenue for the university sector, with the cash income from tuition fees doubling from around £1 billion to £2 billion in this period.

Figure 2: The changing cash value of different income sources for the Scottish university sector from AY 2008-09 to AY 2023-24

Figure 3: Trajectory of SFC funding (core teaching and research grants) from AY 2014-15 to AY 2023-24 (GDP deflator)

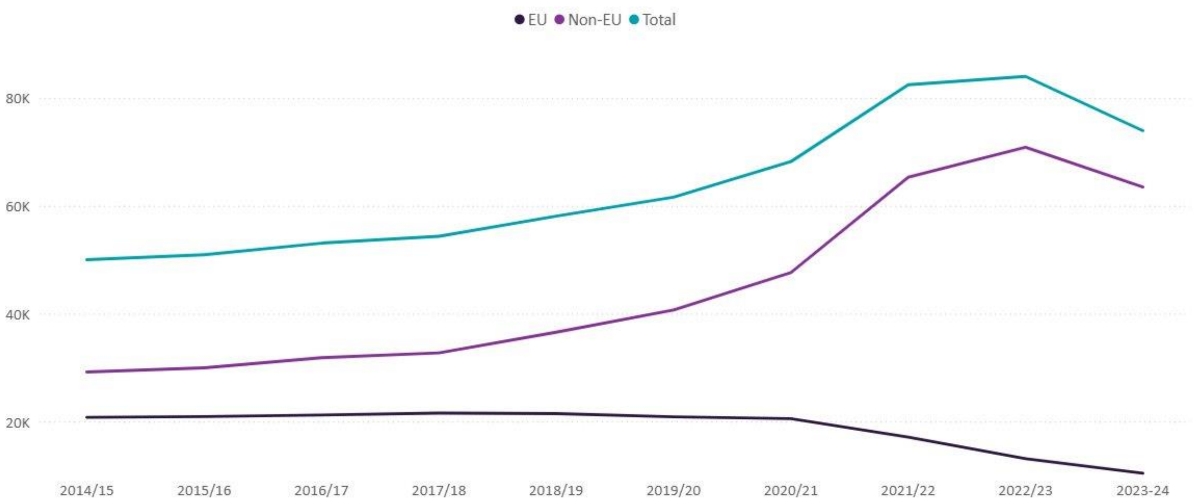


International Students

12. The approach to international student recruitment among Scottish universities has shifted significantly over the last decade. This is shown in Figure 4, below, with a clear trend of accelerated growth in the recruitment of non-European Union (EU) students in the five years from AY 2018-19 and AY 2022-23.

13. In our engagement with Scotland’s universities, they described the recruitment of more international students as the easiest lever, and the fastest means, to raise additional revenue. Specifically, the recruitment of international students studying a one-year post-graduate taught (PGT) course provided a method for raising additional funds on an annual basis by increasing their teaching offering.

Figure 4: International student recruitment from AY 2014-15 to AY 2023-24, HESA



14. However, there was recognition from universities that this increased reliance on international student fee income exposed institutions to a higher level of risk due to its inherent volatility. This is because the number of international students fluctuates from one academic year to the next and even a small reduction in numbers may have profound, and lasting, financial consequences for an institution.

15. Also, the increased reliance on the income from the recruitment of additional international students carries significant risk as many of the key factors are beyond the control of institutions such as geopolitical factors, global or national economic crisis, and UK Government policy in reserved areas such as immigration. This was demonstrated by the devaluation of the Nigerian currency, the Naira, in 2023, which impacted the ability of UK universities to recruit Nigerian students.

16. The UK Government's approach to immigration policy has impacted on international student recruitment over the last two years. In January 2024, the UK Government changed the Dependent Visa to remove the right of international students to bring their family members to live in the UK for the duration of their studies at UK universities. This revised approach contributed to the UK experiencing a 12% decrease in the number of sponsored study visa applications between 2023 and 2024.

Where are we now

Cross Subsidisation

17. The Transparent Approach to Costing (TRAC) data provides a breakdown of the core activities that are delivered by universities which includes Publicly Funded Teaching (PFT); Non-Publicly Funded Teaching (NPFT); Research; and Other including commercial and non-commercial activities. The 'Other' income primarily involves donations from wealthy alumni (non-commercial) or a university engaging in small-scale revenue generating activities such as leasing out their campus for conferences (commercial).

18. Over the last decade, since AY 2013-14, Scottish universities have expanded their activities across teaching and research, and this period of expansion has been defined by growing surpluses for some activities, such as NPFT, and increasing losses for the delivery of PFT and research activity. In AY 2023-24, the Scottish university sector reported a total deficit, through the TRAC data, of £209 million. This is the highest deficit recorded by the sector in the last decade. This is demonstrated in Figure 5 below.

19. The graph presented in figure 5 (below) is at the core of the cross-subsidisation that takes place within Scottish universities. Institutions are expanding their revenue-generating activities, primarily NPFT through the recruitment of more international students, to cross-subsidise the other core activities they deliver which are loss making, primarily publicly funded teaching and research activity.

20. How universities cross-subsidise their activities is complex. For example, in the delivery of NPFT, there is a variable cost associated with the delivery of teaching different subjects, and this leads to higher profits margins within some areas. Some institutions noted that they utilise the high level of profit generated from delivery NPFT of social

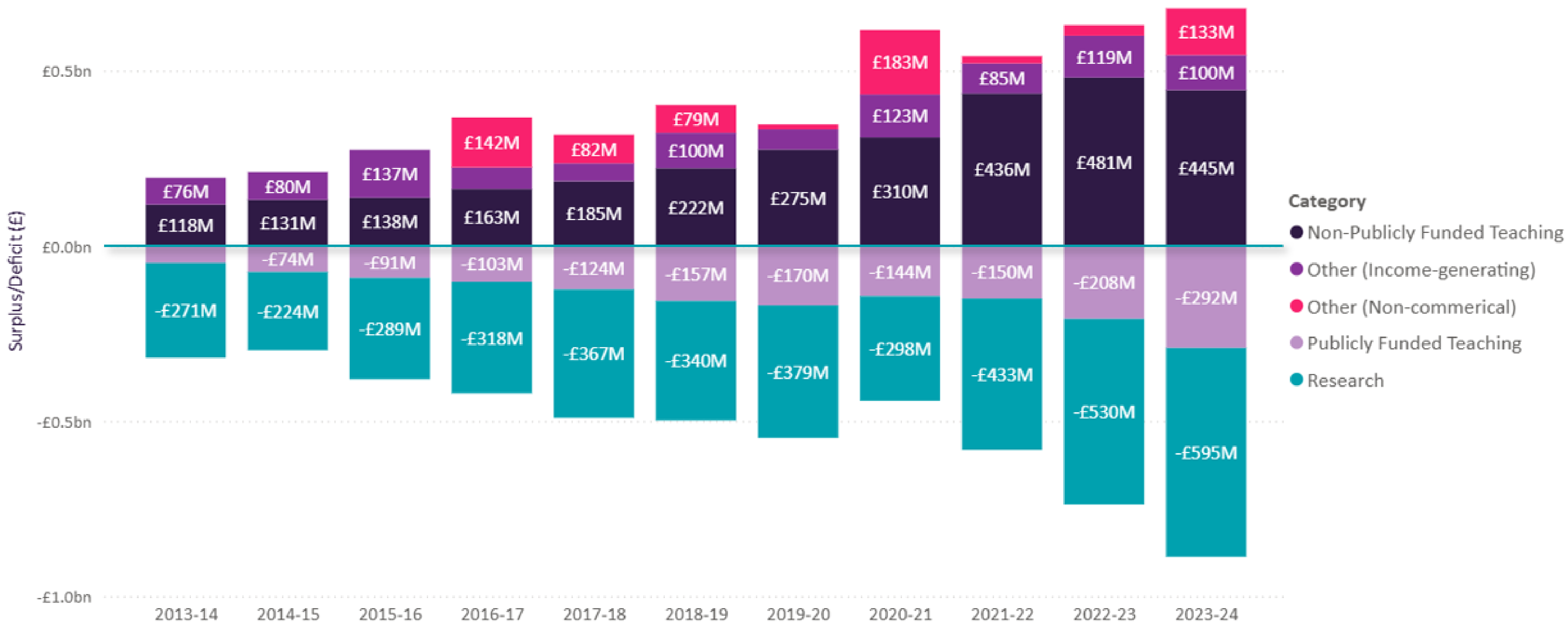
science classroom-based subjects to cross-subsidise the cost of delivering more expensive science, laboratory and practical based subjects such as dentistry, medicine, and veterinary medicine.

21. This raises the question over the future ability of the sector to continue to expand its activity and behave in the same manner it has operated over the last decade. In our engagement with universities, they were clear that institutions must grow their revenue generating activities, predominantly NPFT, to offset the increasing deficit for delivering research activity and PFT.

Research Deficit

22. The increasing deficit in the university sector is attributable to the delivery of research activity and PFT. The losses from research activity are substantial as universities, in Scotland and beyond, do not recover the Full Economic Cost (FEC) for their research activity. The Innovation and Research Caucus found that universities only recover around 70% of the FEC of research activities that are funded by UK Research and Innovation (UKRI) Research Councils.
23. Universities still choose to pursue research activity as they are incentivised to support the delivery of world-class research as it enhances their institutional ranking in public league tables, and this helps with the recruitment of more international students. The recruitment of additional international students, in theory, partly helps to offset the losses incurred by universities through pursuing research activity.
24. The losses associated with research activity have increased markedly over the past decade, partly due to inflation making it more expensive to conduct research with rising staff costs, more expensive materials, and the higher cost of energy. In the three years from AY 2021-22 to AY 2023-24, the sector-wide research deficit increased by 37% from £433 million to £595 million.
25. However, the real-terms erosion in public funding for teaching Scottish undergraduates means that although the losses experienced by Scottish universities for research activity have increased in cash-terms, they have declined as a proportion of the total deficit due to the increasing losses incurred from PFT.
26. For example, in AY 2016-17, the sector level deficit of £53 million was comprised of 75% from research and 25% from PFT. In AY 2023-24, the sector level deficit (for all core activities) had increased to £209 million, in cash-terms, and was comprised 67% from research and 33% from the delivery of PFT activity.
27. One behavioural shift noted by universities is a greater selectivity in the research activity they pursue, the type of research grants they will apply for, and the prospective research partners they look to work alongside. This is a growing issue with charity-funded research with institutions actively choosing to not bid for this type of research due to a significantly lower recovery of the FEC for this activity.

Figure 5: Cross-subsidisation using TRAC data within Scotland's universities, AY 2013-14 to AY 2023-24



*Please note this graph is presented in cash terms. Income derived from 'other' sources includes donations, endowments, one-off sources of funding and other forms of capital grants.

**Please note that in 2022-23, three institutions are not included in the sector totals presented here. In 2023-24, one institution is absent from the sector totals presented here.

28. Also, the TRAC data suggests that the university sector in Scotland is more selective than the sector in England in the 'institution own' research projects that it will support. This greater selectivity in research activity is partly attributable to the mix and level of Scottish institutions' resources meaning they have less flexibility to support "unfunded" research time for staff. This matters because it is often this 'institution own' form of research that supports innovation for the developmental pipeline for future proposals for funded activity.

29. The UK Government White Paper on Post-16 Education and Skills, published in October 2025, recognised the need to examine how to improve the level of the cost recovery from research grants across the UK. This included a suggestion to review the current UK Research and Innovation (UKRI) policies to try and achieve this aim.

30. Research and innovation are key drivers of economic growth and if universities move to downscale this activity, this will have implications for the Scottish economy. This would lead to the erosion of the research base as an economic entity as well as eroding its impact on the success of the private, public, and third sectors.

Sector Response

31. In response to its weak financial operating position, Scottish universities have been exploring new approaches to raise additional revenue. There has been a dual approach with universities exploring options to, simultaneously, reduce their cost base whilst diversifying their income sources and growing their revenue.

Transnational Education (TNE)

32. There has been a growing interest in utilising Transnational Education (TNE) to diversify revenue streams and raise additional funds. It is difficult to assess the effectiveness of this approach, but some institutions are increasingly inclined to build their international partnerships based on incentives from host countries.

33. Some universities expressed that if it becomes more difficult to bring international students to Scottish universities, then Scottish universities should explore how to take higher education, delivered by Scottish institutions, to the international students in their 'home' countries. In AY 2023-24, there were more than 47,000 TNE students receiving higher education from a Scottish university. This represents around a 5% increase from the 44,000 students in AY 2019-20.

34. The opportunity for revenue growth by expanding overseas activity is the driving factor behind universities growing interest in exploring TNE opportunities. Universities have been supported by the Scottish Government in this endeavour through the International Education Strategy, which includes a commitment to use overseas Ministerial visits to 'actively promote Scotland's world class transnational education (TNE) and unlock new, innovative opportunities for our universities and colleges in new and emerging markets.'

35. Some institutions already have an established international presence due to longstanding partnerships. This includes Heriot-Watt which has campuses in the United Arab Emirates and Malaysia, as well as the University of Strathclyde which has a campus

in Bahrain. Other institutions, such as the University of Aberdeen which plans to open a campus in Mumbai, India, in 2026, are exploring new opportunities in emerging markets.

36. The expansion of TNE does not provide a 'quick fix' for the financial pressures now, nor does it provide a long-term strategic solution for institutions with universities acknowledging that building and expanding their TNE offering is complex and could take several years before an institution would generating meaningful additional revenue.

Rescaling and Restructuring

37. Many institutions are seeking to rescale their activity to achieve financial sustainability. Several universities described the funding gap between their standard income base and their cost base as widening, and becoming more akin to a chasm, primarily driven by factors beyond their control. These include wage inflation, the increase in the employers National Insurance Contributions (NICs), higher pension contributions, the inflated cost of materials, equipment, and historically high utility bills.

38. Where universities need to reduce their cost-base as a necessary adjustment to protect the long-term viability of the university, the primary route to do this is often through staff redundancies. Voluntary Severance (VS) schemes and vacancy management programmes are the most common approach to try to reduce staffing costs as institutions try to 'right size' through scaling back their activity.

39. Many universities expressed a feeling that they have exhausted the potential options for raising any additional revenue. Several discussed conducting reviews of their university estate to consider how they can best rationalise their available space, to reduce their cost-base, and explore options for selling buildings in their property portfolio which are under-utilised to raise additional cash in the short-term.

40. A small number of institutions have been able to raise some additional revenue by pivoting towards more commercialisation within their university estate through leasing out their facilities, such as their laboratories, their student accommodation, or their lecture halls, to diversify their revenue sources. However, this does not generate sufficient income to deliver long-term financial sustainability, but it does exemplify best practice from institutions who are trying to find creative solutions to maximise the revenue they can generate from their university estate.

Where are we going?

Financial pressures ahead

41. Scotland's universities were unanimous that the current financial pressures facing the sector are systemic challenges which have been building for several years. There is consensus that there is no easy, singular, or quick-fix solution to address the financial challenges in the sector.

42. These financial pressures have been accelerated by wider economic factors including the spike in inflation when the CPI peaked at over 11% in late 2022. Inflation has gradually reduced over the last three years, but it remains around 3-4%. This is notably higher than inflation rate between 2012 and 2021 which fluctuated between circa 0.5% and 2.5%.

1. Some of the potential impacts of the current financial situation in the sector are not yet evident. For example, most institutions have chosen to pause making any significant investment into their estates as this is an easy 'lever' to allow institutions to reduce their expenditure. There was recognition from most Finance Directors that a decision to pause investing in their estates was not without consequence as a lack of investment at this stage will likely create more problems that will be more costly to address in the future once those buildings have experienced further deterioration.

Addressing financial pressures

2. To address these financial pressures, institutions are balancing the need to act commercially to remain financially viable whilst also seeking to deliver higher education for the public good. From our engagement with universities, they can be broadly grouped into two schools in terms of their approaches to addressing financial challenges:
    - Cohort One: Institutions with access to several levers to raise additional revenue such as larger institutions with an established international reputation; and
    - Cohort Two: Institutions with more limited powers to raise additional revenue, such as smaller institutions or those with less of an international reputation and more of a domestic focus.
3. In cohort one, there was a more overtly commercial view on achieving financial sustainability. This focused on institutions taking a more proactive approach to reducing their cost-base and maximise generating additional revenue. Some institutions in this category expressed their opinion that universities should focus on diversifying their income sources to improve their financial resilience rather than being overly reliant on one revenue stream.
4. In cohort two, comprised of institutions who derive a higher proportion of their income from public funding, there was a consensus that institutions have already reduced their cost-base as much as possible, and with limited opportunity to diversify their revenue streams and grow their income. These institutions were more concerned about the future financial health of the sector without a real terms increase in public funding. They viewed the current university funding model as unsustainable at best, and fundamentally broken, at worst.
5. There was a range of opinions on the most effective means to address the financial challenges facing Scottish universities, but no single dominant solution. A summary of the most common suggestions is listed below. To be clear, these are suggestions that were made by university representatives who were interviewed as part of this project. They are not recommendations by SFC, nor does SFC endorse these recommendations. They are included here to reflect accurately and transparently the feedback received.
    - **The removal of some funded student places from the system and the reallocation of this funding to deliver a higher price.** This would increase the unit of resource that is provided to universities for teaching a Scottish-domiciled student (publicly funded teaching) by reducing the number of allocated funded places for Scottish undergraduate students.

- **The reintroduction of Financial Transactions (FT) funding.** The FT programme was delivered by SFC to provide low-interest loans to support university capital investment in becoming more sustainable and to achieve net zero emissions. In FY 2024=25, access to FTs was removed from SFC.
- **A review of SFC's recovery of funding policy with the aim of providing greater financial stability to the sector**. The current approach involves SFC recovering its funding from institutions who do not fill their full allocation of funded places. This funding is usually recovered in the following Academic Year. To note: in December 2025, SFC launched the University Transformation Framework. This supports transformation in the university sector by redeploying the financial resource available as a result of the under-delivery of SFC funded student places in AY 2023-24.
- **More support to accelerate the process of institutions specialising.** There was support among some institutions to have access to additional financial resource to support enhanced institutional specialisation. There was a view that this would ensure institutions retain their unique identity with a distinct offering for prospective students in an increasingly saturated university sector.
- **The introduction of tuition fees for Scottish undergraduate students.** Some interviewees argued that tuition fees for Scottish-domiciled undergraduate students would deliver additional income for universities if these tuition fees reflected the cost of delivering publicly funded teaching (PFT). However, there was recognition that while this approach would provide an additional cash boost into the sector in the short-term, this would only be a one-off uplift unless the tuition fee rate were tied to the rate of inflation. It is recognised that the introduction of tuition fees is a matter for Scottish Ministers and is currently not in scope as an option.
- **More exploration of potential options for shared services between institutions.** There was a common view shared by medium and small sized institutions that more shared backroom services between institutions operating in the same city, or same region, would help to reduce expenditure whilst protecting the quality of the student experience and institutions' research and innovation capabilities. However, there were mixed views on deeper forms of institutional integration, such as mergers, due to the associated costs of delivering major programmes of reform before any cost-savings are achieved in the longer-term.
- **A review of the number of Scottish universities.** There was a provocation from some universities for a more fundamental review of the number of universities in Scotland. They considered that the university sector in Scotland may struggle to retain its reputation for world-class teaching and research if the available public resources are spread too thinly across all of Scotland's institutions. This was not, however, a view held by all interviewees.

Concluding Remarks

6. Scottish universities are facing a range of financial pressures, and they are trying to take action to, simultaneously, reduce their cost-base and maximise their revenue. There are

practical steps that could alleviate some of the financial pressures on Scottish universities in the short term, but these options would all require additional public funding. For example, the reintroduction of the Financial Transactions (FT) programme would support universities with their capital investments for the transformation of university estates to be more sustainable and achieve net zero emissions.

7. The long-term financial sustainability of the university sector is in the national interest because the success of our universities is not insulated to the sector: it affects us all. Our universities are centres of teaching excellence, they are engines of economic growth, and they are at the cutting edge of driving research and innovation. It is impossible to quantify all of the benefits of our universities, but the Fraser of Allander Institute estimate that almost 9,000 full-time jobs in the Scottish economy are supported directly and indirectly through SFC's university research and knowledge exchange funding. This delivers £570 million in economic output and an addition £400 million in gross value-added (GVA). In turn, this delivers spillovers effects in wider society through improved productivity, more innovation, and accelerated economic growth which all contributes to a more thriving economy.

8. The longer-term future will be challenging for Scottish universities, testing their financial resilience as they aim for financial sustainability. There is no simple, single solution which can resolve the deep financial challenges facing the sector, but there is a need for collaboration and partnership between SFC, Scottish Government, and the sector to explore all available options to support the sector in the long-term.