
Universities Income Flows - Insight Briefing Short Version

Scotland's universities are facing systemic challenges to their financial sustainability.

The core pillars of their funding have shifted as they have aimed to generate additional revenue at a faster rate than their cost base grows. The sector has expanded its activities across teaching and research, resulting in their income generation almost doubling in cash terms from £2.6 billion in 2008-09 to £4.9 billion in 2023-24.

This revenue growth has been primarily driven by tuition fees from international postgraduate students, and, increasingly, this income source has supported institutions to cross-subsidise the activities which are considered as loss-making. The core activities delivered by universities are categorised into four areas: Publicly Funded Teaching (PFT); Non-Publicly Funded Teaching (NPFT); Research; and Other including commercial and non-commercial activities.

Universities have demonstrated impressive resilience in their response to a range of challenges to their financial health over the last decade, 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. The sector's expansion in this period has been defined by growing surpluses for some activities, such as NPFT, and increasing losses for the delivery of PFT and research activity.

It is, primarily, research activity which has driven the increased losses experienced by the sector in recent years. This is due to the more expensive costs associated with delivering research including staff costs, the cost of expensive material, and the higher cost of energy.

In Scotland, and beyond, universities do not recover the Full Economic Cost (FEC) for their research activity. Typically, universities only recover around 70% of the FEC of research activities that are funded by UK Research and Innovation (UKRI) Research Councils. The scale of loss-making for research is significant for the sector, but there would be a profound, and wide, impact on the Scottish economy if universities downscaled their research activity as a result of the financial pressures it places on individual institutions.

Steps are being made to find a more financially sustainable future, and the university sector is adopting a dual approach to, simultaneously, reduce its cost base whilst diversifying income sources and growing revenue. Some institutions are investing in further exploration of Transnational Education (TNE) delivered through overseas partnerships and new campuses in emerging markets to diversify their revenue streams. Most institutions are actively rescaling to reduce the difference between their cost base and revenue base. This involves staff redundancies, Voluntary Severance (VS) schemes, and vacancy management programmes to reduce expenditure on staffing costs.

Many short-term policy options have been discussed as potential mechanisms to improve the financial health of the sector, but there is a consensus that no single policy provides a long-term solution. The *Framework for the Sustainability and Success of Scotland's Universities*, jointly led by the Scottish Government and Universities Scotland, provides an

established, expert forum for further, deeper, exploration of policy choices which will secure the long-term financial sustainability of Scotland's university sector.