



Financial sustainability of universities in Scotland 2024-25 to 2027-28



Scottish Funding Council
Comhairle Maoineachaidh na h-Alba

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Photo: University of St Andrews

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 financial sustainability and financial viability. This report provides an aggregate picture of the financial health of Scottish universities, based on their annual accounts for academic year 2024-25¹, and the latest forecasts for the three academic years from 2025-26 to 2027-28.

This report² excludes the 2024-25 actuals and 2025-26 to 2027-28 forecast figures for University of Dundee. The university has not finalised its 2024-25 annual report and accounts and its June 2026 forecast return at the time of writing this report.

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 the [September 2025 University Financial Sustainability report](#). This year's report aligns with the commencement, on 1 October 2026, of Section 20 of the Tertiary Education and Training (Funding and Governance) (Scotland) Act 2026 which requires SFC to prepare and publish a report on the financial sustainability of the further and higher education sector.

¹ The source of the 2024-25 figures is the HESA Financial Statements Return.

² 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.



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 universities 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.

In summer 2026, SFC rolled out Finance Business Partnering for universities (and colleges). The new Finance Business Partnering approach forms part of SFC's wider transformation programme to strengthen financial engagement, assurance, and long-term financial health of the sector. It represents a shift towards a more proactive and collaborative engagement with universities, adding qualitative insight to financial data and strengthening assurance over universities' financial health. The new approach is part of the [Outcomes Framework and Assurance Model](#) which sets out SFC's expectations for colleges and universities in return for the funding that they receive.

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 health.

SFC increases levels of engagement and monitoring activity for those universities facing risks to their financial health. SFC works closely with them to understand and assess the challenges they face and requires them to develop transformation plans to return them to a sustainable trajectory. This informs the Outcomes Framework and Assurance Model.

Financial health of the university sector

Key messages



Universities continue to face significant financial challenges. The sector reported an adjusted operating surplus of £90.6m for 2024-25 and is forecasting an adjusted operating surplus of £67.9m for 2025-26, declining to a surplus of £36.8m in 2026-27 despite an uplift in SFC funding. The decline in the 2026-27 adjusted operating surplus reflects lower growth in tuition fees, reduced research grants and contracts and investment income, combined with increased staff costs due to pay pressures. The forecast improvement in 2027-28 (a surplus of £73.1m) is mainly driven by optimistic forecast tuition fee assumptions by many universities. Research and other income are also expected to increase, offsetting smaller increases in staff costs, other operating expenses and depreciation.



In addition to the overall sector adjusted operating surplus declining in 2026-27, the sector position is skewed by the financial results of the four ancient universities³ masking variation in the adjusted position across universities. Ten universities (59%) reported adjusted operating deficits in 2024-25 with the same number forecasting deficits for 2026-27 despite an uplift in SFC funding. Eight universities (47%) expect to report deficits in 2025-26 and in 2027-28. The number of universities with adjusted operating deficits could increase in 2027-28 if planned international student tuition fees are not achieved. Only six universities are not projecting any adjusted operating deficits throughout the three-year forecast period.



Universities' reliance on SFC grants is forecast to stay broadly the same during the forecast period at around 23 - 24% of total income.



The number of universities reporting net cash outflows from operating activities is expected to increase from four during 2025-26 to five in 2026-27. This highlights the weak operating position and significant financial pressures facing several universities.



Estates issues significantly contribute to the financial strain on universities.

Many universities are faced with significant backlog and life cycle maintenance repairs exacerbated by the reinforced autoclaved aerated concrete (RAAC) and cladding issues. The University Financial Transactions programme provided low interest loans for Net Zero capital projects, but this was closed two years ago. This means that universities now need to fund such projects in more expensive ways.



Staff restructuring costs are projected to remain unchanged at £21.6m in 2025-26 before rising sharply to £74.2m in 2026-27, an increase of 244%. This trend indicates the extent of workforce restructuring universities expect to have to implement to reduce expenditure and address ongoing financial pressures.



Tuition fee income continues to be the largest source of income for the sector. After stabilising in 2023-24 following a period of rapid growth, income from international student tuition fees is projected to grow at a slower rate. An increase of 7% is forecast between 2024-25 (£1,388m) and 2027-28 (£1,490m). However, there is a risk that the forecast increase in international tuition fee income is optimistic as this continues to be an area of significant uncertainty and volatility due to intense competition in international recruitment markets, changes to UK Visas and Immigration (UKVI) policy including the stricter Basic Compliance Assessment (BCA) metrics introduced in June 2026, and wider geopolitical developments. Some 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.



The sector cash position is forecast to reduce by 11% over the forecast period, from £1,731m at end of 2024-25 to £1,549m by the end of 2027-28. Cash resilience is expected to weaken, with sector net liquidity days falling from 134 days in 2024-25 to 118 days by 2027-28. This primarily reflects the weaker operating position of the sector, planned capital expenditure and existing debt obligations. No university is forecasting a cash deficit during the forecast period, however many universities are taking proactive steps to keep them in a positive cash position. A substantial proportion of cash is restricted, primarily for repayments of high debt levels, compliance with debt covenants and capital projects funded through ring-fenced income received in prior years.



Sector borrowing is forecast to decrease by 3% from £1,502m at the end of July 2025 to £1,455m at the end of July 2028. Most sector borrowing is now in the form of private placements, typically involving substantial bullet repayments at predetermined future dates, with interest paid in the intervening years. The forecasts show that a few universities are planning to take out some additional borrowing in future years.



Similar to 2023-24, the top five countries for international students at Scottish universities in 2024-25 were: China, India, USA, Pakistan and Nigeria in that order. The main change from last year is that Nigeria and Pakistan have switched positions due to a drop in Nigerian student recruitment of around 2,000 students between 2023-24 and 2024-25. Further changes in international student recruitment are forecast due to the rising visa refusal rates from certain countries as UKVI continues to implement the Home Office immigration policy.



It is important to note that:

- **The sector is not homogenous** and there continues to be variation in universities' financial performance and financial resilience 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. Forecasts are not a guarantee of future performance and are highly likely to change over the planning period.

3 University of Aberdeen, University of Edinburgh, University of Glasgow and University of St Andrews.

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 remain to be:



The ability to **maintain long-term financial sustainability** in the face of increasing financial pressures.



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



Increased risk of suspension and/or revocation of international student sponsor licences following an inspection by UKVI due to stricter BCA metrics (such as visa refusal rate and course completion rate) introduced in June 2026. This could cause an immediate stop to all international student recruitment.



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



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, such as the UKVI visa refusal rates**, have a significant effect on target markets.



Energy costs increasing again after substantial spikes in recent years.



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



Industrial action which could have adverse effects on both the student learning experience and universities' reputation.



The uncertainty of the **UK Government's policies** on higher education (HE), including those designed to mitigate the effects of leaving the EU, and those that impact the **rest of the UK (rUK) recruitment** in a fiercely 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 estimated previously at £37.1bn⁴.



The **impact of RAAC** and cladding issues on the university estate with building closures and remediation required to make affected buildings safe for use.



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



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



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

4 EAUC : The cost of net zero calculator



Photo: University of Edinburgh

Mitigating actions

Universities are taking a range of actions to strengthen their financial sustainability. Recent bids to the University Transformation Framework (UTF) and Public Sector Reform (PSR) initiatives demonstrate active engagement in transformation and reform activity. These measures include:



Sharp focus on **maintaining adequate cash reserves** to meet future debt repayments and any related covenants;



Cost reduction through **staffing efficiencies and restructuring**;



Expansion of digital delivery;



Reviewing and rationalising professional and support services including consideration of shared services;



Diversifying income streams to reduce reliance on international student income;



Reviewing academic portfolios and restructuring academic departments;



Developing new overseas markets and partnerships, including increasing levels of transnational education (TNE);



Avoiding over-reliance on any one country for international student numbers to mitigate the visa challenges arising from the tighter BCA metrics;



Implementation of **financial recovery plans**, where applicable.

Universities must continue to take timely, decisive action to address financial risks and uncertainties, supported by robust contingency planning and regular review of mitigation options. Financial challenges will affect individual universities in different ways, and each university will have its own range of mitigating actions available. As pressures intensify, achieving savings without more strategic change is becoming difficult for some universities, with greater impact on student experience and outcomes. 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.

It is important that universities 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.

SFC has worked closely with universities, Universities Scotland, Scottish Government officials and Ministers to consider how best to support universities in this increasingly challenging financial context, recognising risks to financial sustainability of the sector and the importance of enabling vital transformation and innovation in the sector. We launched the UTF to support transformation within the financial resources available from the under-delivery of SFC-funded student places in academic year 2023-24. The key focus of the UTF is to secure a university sector that is front and centre of innovation, aligns with the economic priorities of the country and delivers transformational change.

SFC also recently launched the PSR initiatives for financial year 2026-27 for the university and college sectors. This programme will support stabilisation and transformation across the tertiary system, reflecting Ministers’ ambitions on Public Service Reform. It will also support activity aligned to SFC’s strategic priorities and enable universities and colleges to progress shared ambitions through collaborative, regionally responsive approaches, while balancing ambition with affordability.



Photo: Scotland’s Rural College



Photo: Robert Gordon University

Financial performance

This section reports on our analysis of data from universities' 2024-25 annual accounts taken from the Higher Education Statistics Agency's (HESA) Financial Statement Return (FSR), and the forecasts for academic years from 2025-26 to 2027-28. The table below provides a summary of key financial information for the university sector over a five-year period. We have included actual results for 2023-24 for comparison.

Many of the graphs in the following section also include financial data for 2022-23 and 2023-24 (the period covered by our last year's 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.

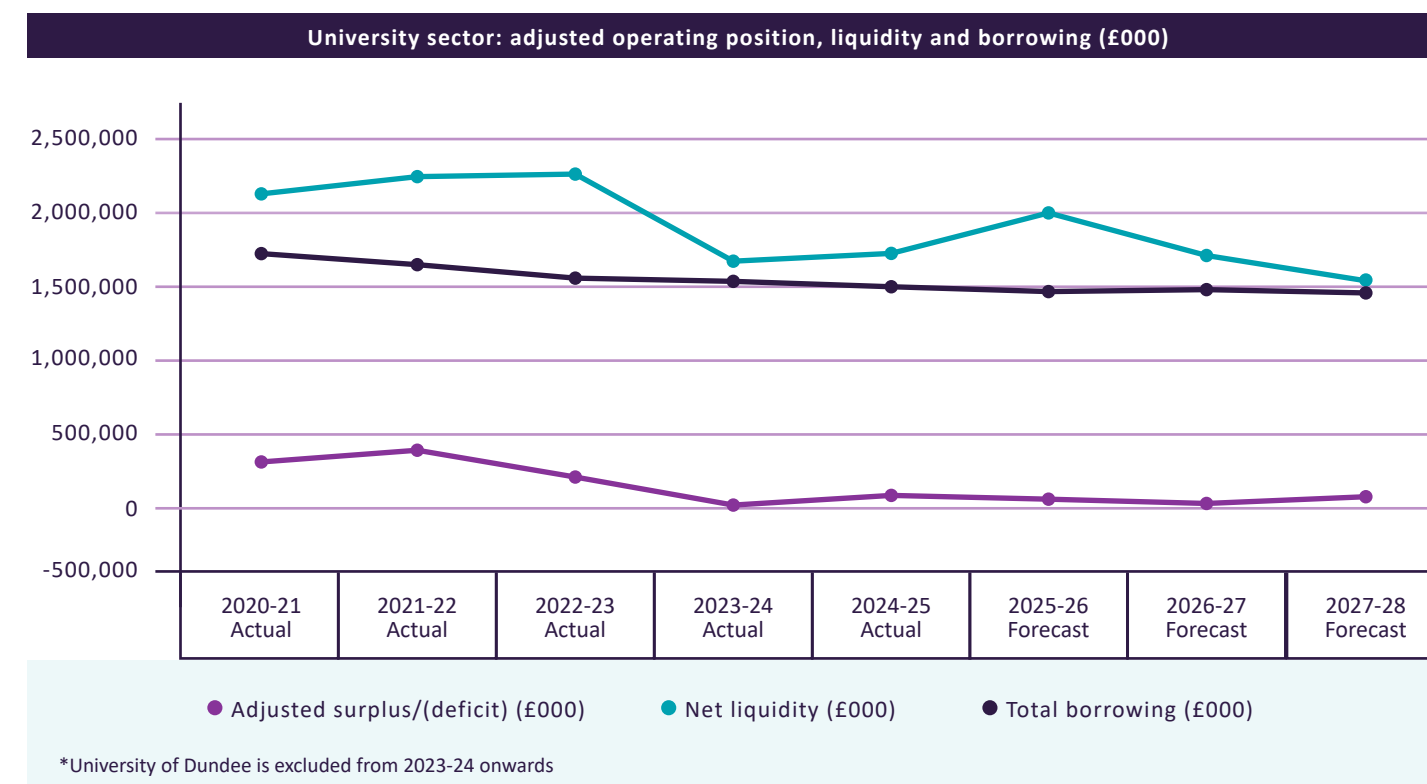
Summary of university sector aggregate financial data					
	2023-24 Actual	2024-25 Actual	2025-26 Forecast	2026-27 Forecast	2027-28 Forecast
Total income (£000)	4,933,884	5,113,717	5,134,696	5,136,151	5,236,285
Total expenditure (£000)	3,863,918	5,045,236	5,088,347	5,173,420	5,171,923
Adjusted surplus/(deficit) (£000)	15,789	90,612	67,896	36,827	73,082
Adjusted surplus/(deficit) as a % of total income	0.3%	1.8%	1.3%	0.7%	1.4%
Net cash flow from operating activities (£000)	13,963	190,420	137,956	141,723	281,823
Change to Net cash flow from operating activities as a % of total income	0.3%	3.7%	2.7%	2.8%	5.4%
Net liquidity (£000)	1,681,970	1,731,254	2,012,707	1,722,481	1,549,014
Net liquidity days	173	134	154	131	118
Total borrowing (£000)	1,537,425	1,502,259	1,474,952	1,484,904	1,455,022
Total borrowing as a % of total assets	14%	14%	13%	13%	13%

*University of Dundee is excluded from 2023-24 onwards

** One university has restated its 2023-24 figures in the 2024-25 HESA Financial Statement Return (FSR) which accounts for different overall totals for 2023-24.

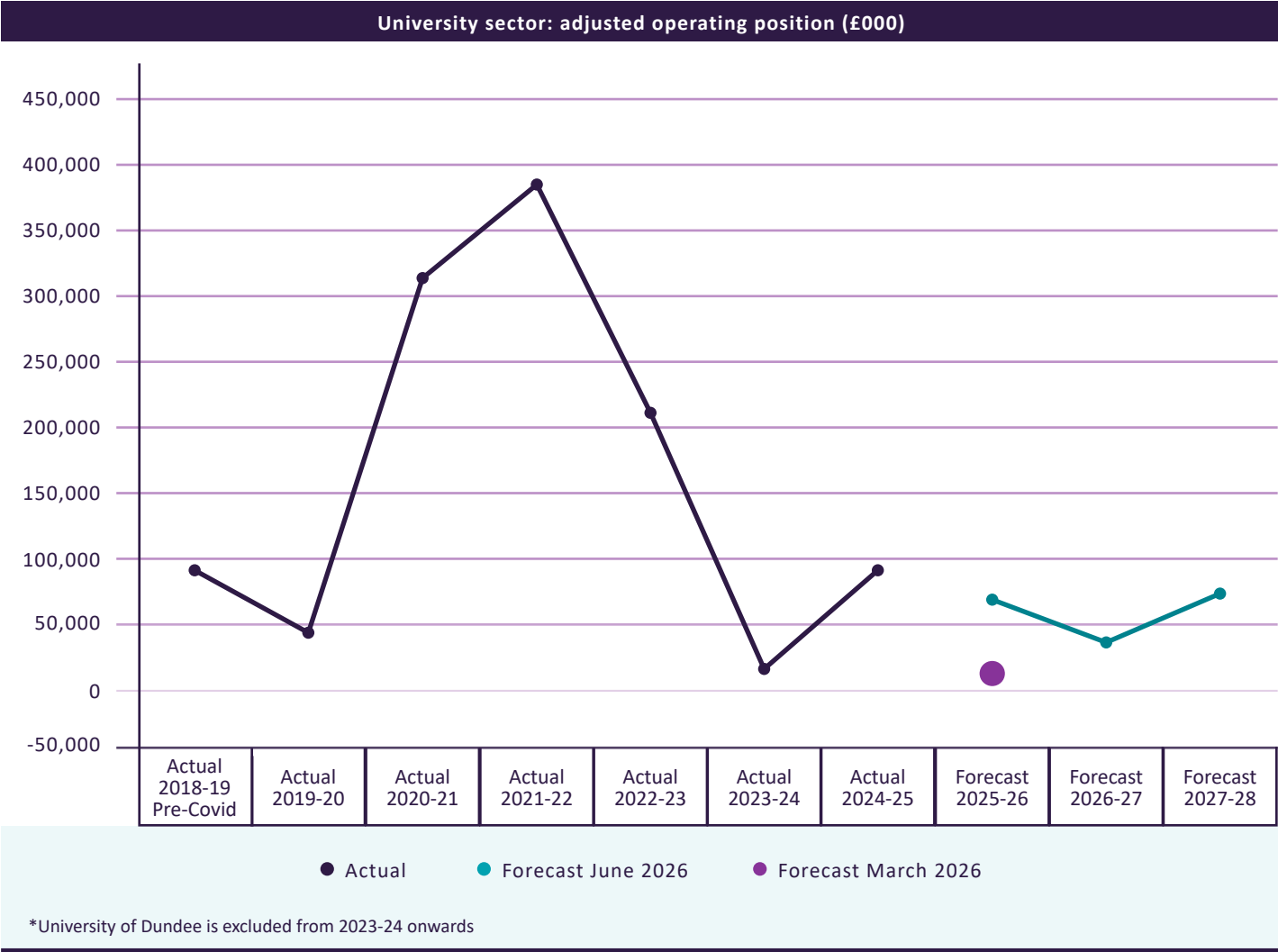


The table above and graph below show the sector adjusted operating position, liquidity and borrowing over the period from 2023-24 through to 2027-28. At an aggregate sector level, the 2024-25 results represent a marginal improvement on 2023-24. The adjusted operating position is expected to remain in surplus over the planning period, albeit at much lower levels than before 2023-24. Sector liquidity is forecast to peak in 2025-26 and decline in the two following years. The graph below includes 2020-21, 2021-22 and 2022-23 to better demonstrate movement in the university sector financial performance.



Adjusted operating position

The adjusted operating position referred to in this report is the operating surplus/ (deficit) adjusted for pension provision movements and staff restructuring costs. The graph below shows the trend in adjusted operating position from 2018-19 to 2024-25 in terms of results and the forecast position from 2025-26 to 2027-28.



The sector recorded an adjusted operating surplus of £90.6m in 2024-25, which represents a substantial improvement on the 2023-24 result (£15.8m surplus), mainly due to increased tuition fees, research grants and contracts, and other income, offset by reductions in income from investments, donations and endowments, and increased depreciation costs. The sector position is inflated by the adjusted operating positions of the four ancient universities, with the sector position showing a deficit of £7.7m after excluding the results of these universities.

The sector is forecasting an adjusted operating surplus of £67.9m for 2025-26, representing a significant (25%) downturn on the previous year. This is a result of

relatively stationary income, combined with increased expenditure due to higher staff costs, continuing restructuring costs and increased other operating expenses due to inflationary pressures. It is evident that more universities are having to undertake staff restructuring to mitigate some of the impacts of lower-than-expected income and higher costs.

The adjusted operating position is expected to decline by another 46% in 2026-27 to £36.8m despite an uplift in SFC funding. It then improves again in the following year to a surplus of £73.1m in 2027-28. The downturn in 2026-27 is due to lower growth in tuition fees, reduced research grants and contracts and investment income, combined with increased staff costs due to pay pressures. The forecast improvement in 2027-28 is due to optimistic forecasts for tuition fees (5% increase), increases in research income and other income offsetting smaller increases in staff costs, other operating expenses and depreciation.

International student tuition fees are anticipated to grow but are not increasing at as high a rate as in the past due to the current challenges in recruitment of international students. Despite the slowing of growth in international student tuition fees, the levels of growth used in the forecasts still seem optimistic given the implications of the UKVI’s implementation of Home Office immigration policy including stricter BCA metrics.

Ten universities (59%) reported adjusted operating deficits during 2024-25 (2023-24: nine universities) with the same number forecasting deficits for 2026-27 despite an uplift in SFC funding. Eight universities (47%) expect to report deficits in 2025-26 and in 2027-28, but this number may increase in 2027-28 due to the currently optimistic international student tuition fee income forecasts. Only six universities are not projecting any adjusted deficits throughout the forecast period.

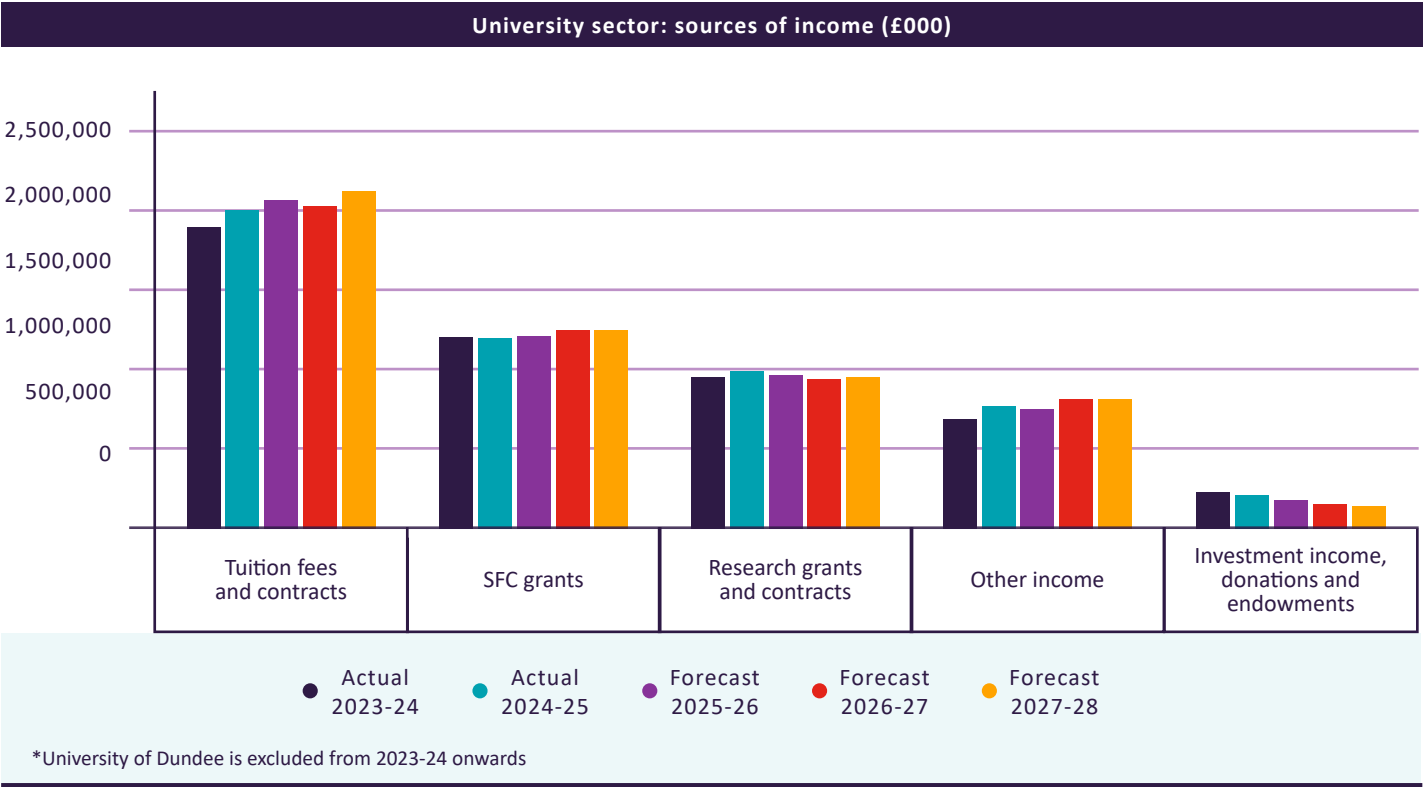
Whilst the university sector had previously taken a cautious approach to forecasting with the actual results in recent years much improved, the gap between forecast and actual results is now becoming narrower. Due to the challenging financial environment continuing, future improvements on forecasts may be extremely difficult to deliver.

Universities have highlighted that flat-cash SFC funding would place significant additional pressure on finances, requiring institutions to absorb rising pay, pension and operating costs through alternative income sources. Combined with wider sector risks, including economic uncertainty, immigration policy changes and reliance on a volatile international student market, flat-cash funding is expected to increase operating deficits, reduce cash balances and heighten reliance on already substantially restricted reserves. This would increase the need for efficiency measures such as vacancy management and voluntary severance schemes while constraining investment in strategic priorities and capital projects.

A table showing all universities’ operating position, adjusted operating position, liquidity and borrowing for 2023-24 and 2024-25 is at Annex A.

Income

The graph below shows the projected movement in sector income over the period from 2023-24 through to 2027-28. 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.



Total sector income is expected to increase from £5,114m in 2024-25 to £5,236m in 2027-28 (2% increase). This represents modest income growth over the planning period, particularly in the context of ongoing cost pressures. A large proportion of the anticipated growth in income is through projected increases in international tuition fee income, although other income also shows an upward trajectory over the planning period, partly offsetting decreases in income from research grants and contracts, investment income, donations and endowments. SFC grant increased in 2026-27 with flat-cash funding assumed for 2027-28.

Scottish Funding Council grants

Universities are forecasting that just under a quarter of their total income will come from SFC throughout the planning period. The proportion of SFC funding received in 2025-26 is 12% less than twelve 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 reach almost 80% in 2025-26.

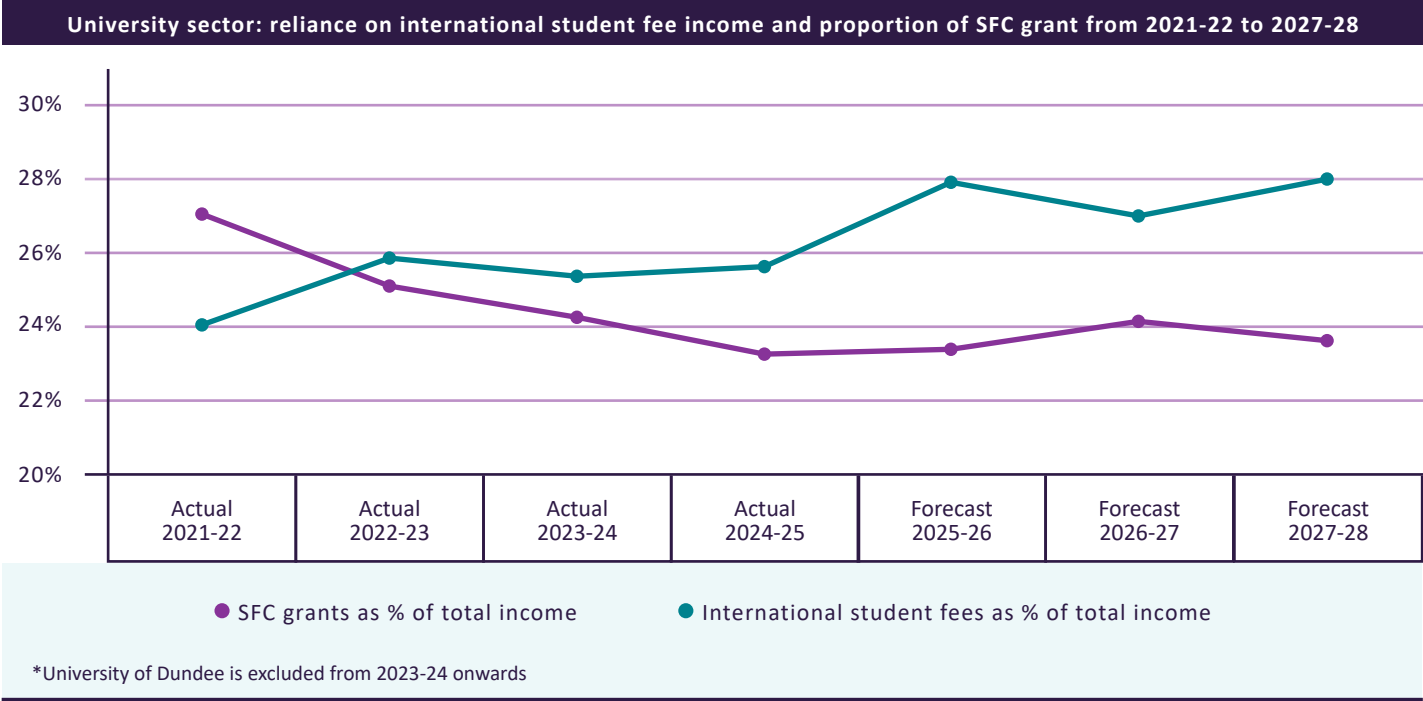
Tuition fee income

Reduced SFC grant must be considered alongside the sector being heavily reliant on international tuition fee income which is expected to continue to exceed the proportion of the SFC grant income, accounting for 26% of sector income in 2024-25, and 28% in 2025-26 and 2027-28.

International fee income (EU and non-EU), a critical source of income for universities, is expected to increase by 5%, moving from £1,388m in 2024-25 to £1,458m in 2025-26 and to £1,490m by 2027-28, a 7% increase against 2024-25 levels. This forecast increase is due to higher volumes, emerging markets, 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 seven universities forecasting a reduction in this income source in 2025-26 compared with 2024-25. International fee income continues to be an area of significant fluctuation and risk, and projections may need to be further adjusted following the autumn 2026 student recruitment cycle. There is a risk that projections provided in the forecasts are optimistic given UKVI’s implementation of Home Office immigration policy including the stricter BCA metrics, intense competition in international recruitment markets and wider geopolitical developments. However, indications are that universities are increasing diversification efforts, expanding TNE, which is not without its own risks, and growing global online student numbers.

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 universities’ total income than SFC grants.

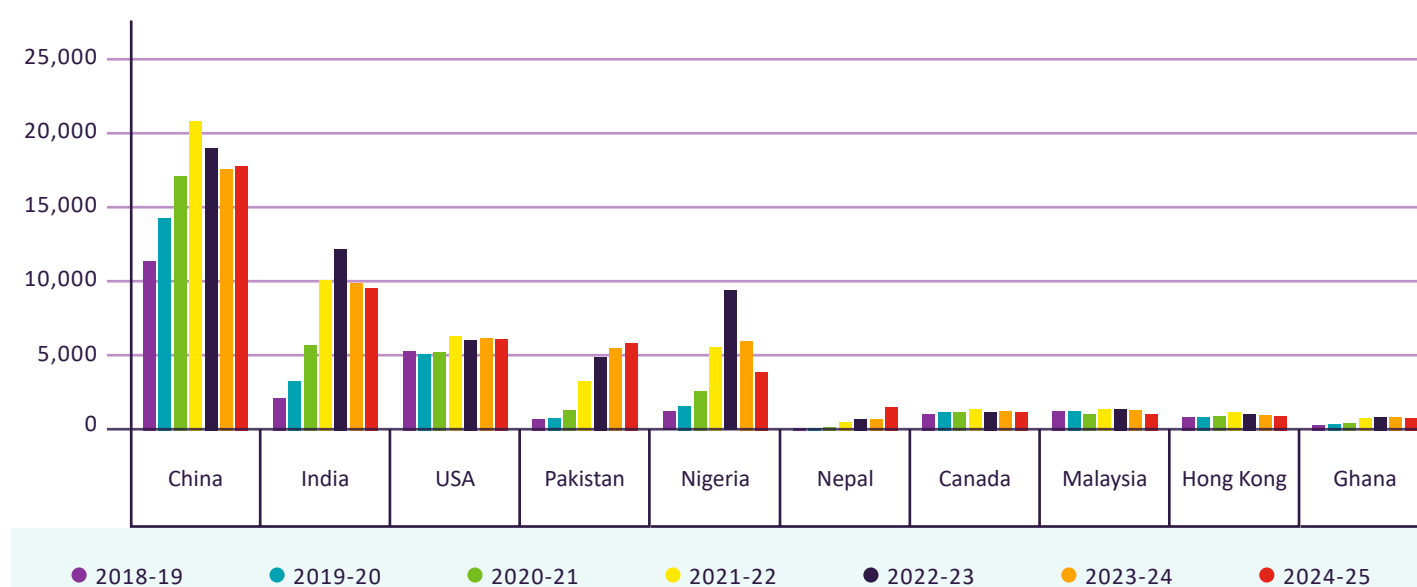


International tuition fee income is essential for universities to remain financially sustainable. It addresses the deficit of publicly funded teaching identified through the Transparent Approach to Costing (TRAC) returns and supports other areas of their operations, including research which is inherently loss-making. However, as noted above, this income continues to be an area of significant fluctuation and risk. It is also exposed to global events over which universities have no control, such as the COVID-19 pandemic and wars. We are seeing slower growth in this source of income compared to previous years and expect this to continue or slow down even further. Some universities are more exposed than others, but this is likely to have a significant impact on the financial health of the sector unless it takes appropriate mitigating actions. Whilst the ancient universities with strong international reputation may be better positioned to withstand competitive pressures, all universities will need to adapt.

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

The graph below highlights the top ten source countries for overseas students in Scottish universities and shows the movements in the student numbers from those countries for the period from 2018-19 to 2024-25. The latest full year of information available from HESA is for 2024-25.

Top 10 non-EU Countries of Permanent Address (excluding the UK) for All HE Student Enrolments Academic Years 2018-19 to 2024-25



The number of students from the top ten countries increased significantly between 2018-19 (pre-COVID) and 2022-23, led by India, Nigeria and China. Numbers fell in 2023-24 and again in 2024-25, with only a small number of countries showing growth. Countries such as Nigeria, which previously showed large increases, are now seeing year-on-year declines.



Similar to 2023-24, the top five countries for international students at Scottish universities in 2024-25 were: China, India, USA, Pakistan and Nigeria in that order. The main change from 2023-24 is that Nigeria and Pakistan have switched positions due to a drop in Nigerian student recruitment of around 2,000 students between 2023-24 and 2024-25. Further changes in international student recruitment are forecast, indicative of the rising visa refusal rates from countries such as Nigeria and Pakistan as UKVI continues to implement Home Office immigration policy.

Fee income received from Student Awards Agency Scotland (SAAS) for Scottish students is expected to increase from £285m in 2024-25 to £297m in 2027-28 (4% increase). Fees from rUK students are forecast to increase from £207m in 2024-25 to £219m by 2027-28 (6% increase). The latest information on applications and recruitment of 2026-27 students is set out in Annex C.

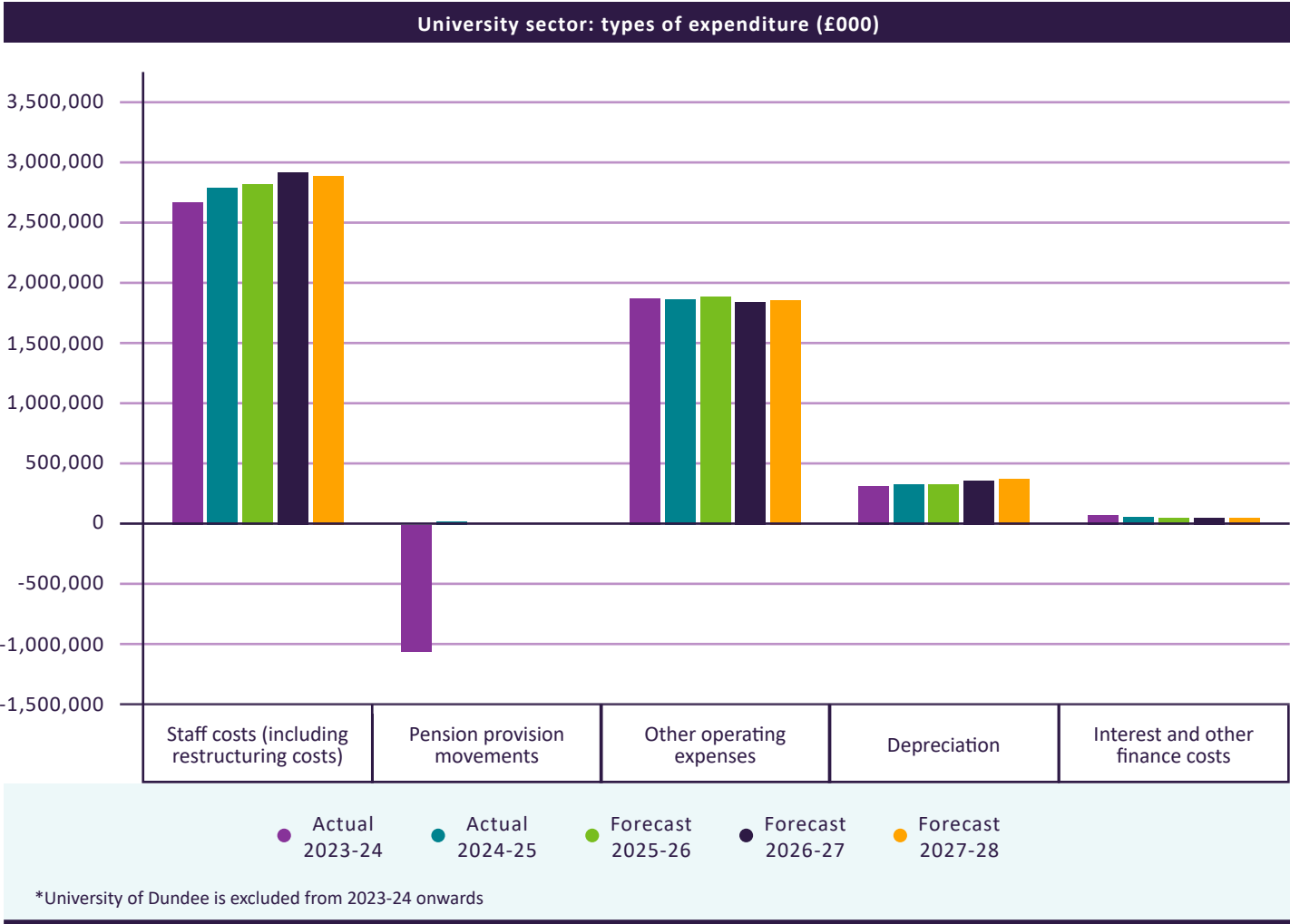
Other income

Income from research activity accounted for £977m of total income in 2024-25. The forecasts show an anticipated decrease in this income of 3% over the forecast period. In 2025-26, approximately 75% of income from this source is expected to be generated by the ancient universities, demonstrating the extent to which research income is concentrated within this group.

Income from residences, catering and conferences is forecast to increase from £311m in 2024-25 to £333m in 2027-28, an increase of 7% over the forecast period.

Expenditure

The graph below shows the projected movement in categories of sector expenditure over the period from 2023-24 to 2027-28. 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.



Staff costs

Staff costs continue to be the largest element of expenditure for universities at around 55% of total sector costs excluding pension scheme provision movements. If pension scheme provision movements are removed, staff costs are forecast to increase by only 1-2% in the three years of the forecast. The increases expected from rising cost of living in relation to pay settlements, rising employer pension contributions for some pension schemes, and recent employer National Insurance increases are offset by savings from voluntary severance schemes expected to be undertaken throughout the forecast period.

Staff restructuring costs are forecast to remain broadly stable in 2025-26 at £22m, before peaking at £74m in 2026-27 and falling to £9m in 2027-28. Five universities forecast staff restructuring costs in every year of the planning period, reflecting the mitigating actions required by institutions facing sustained financial pressures. 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 rise by 7%, from £374m in 2024-25 to £400m in 2027-28.

Universities Superannuation Scheme (USS) employer contribution rates are expected to remain at 14.5% in 2025-26. Local Government Pension Scheme (LGPS) rates have reduced in some local schemes, including Strathclyde Pension Fund, where contributions fell to 6.5% for 2024-25 and 2025-26 before rising to 17.5% in 2026-27. The next Strathclyde valuation must be completed by 31 March 2027.

For unfunded public sector pension schemes, the Scottish Teachers Pension Scheme (STPS) employer contribution rates increased from 23% to 26% on 1 April 2024, while the NHS Pension Scheme contribution rate rose from 20.9% to 22.5%. Scottish Government provided funding of £5.8m to offset these increases in 2024-25, but no further funding was made available in 2025-26.

In May 2026, the UK government announced that Superannuation Contributions Adjusted for Past Experience (SCAPE) discount rate would increase from Consumer Prices Index (CPI) +1.7% to CPI +2.0%. This change has already led to a reduction in employer contribution rates from April 2027 in the Teachers Scheme in England from 28.68% to 17.08%. The new contribution rates for STPS have not yet been set for April 2027, but based on the English experience are likely to reduce.

Other operating costs

Other operating expenses are expected to decrease marginally in 2025-26 and 2026-27, before slightly increasing in 2027-28. Utilities costs are expected to reduce over the forecast period, from £141m in 2024-25 to £131m by 2027-28 (7% decrease). Inflationary pressures are also continuing to impact on construction projects.

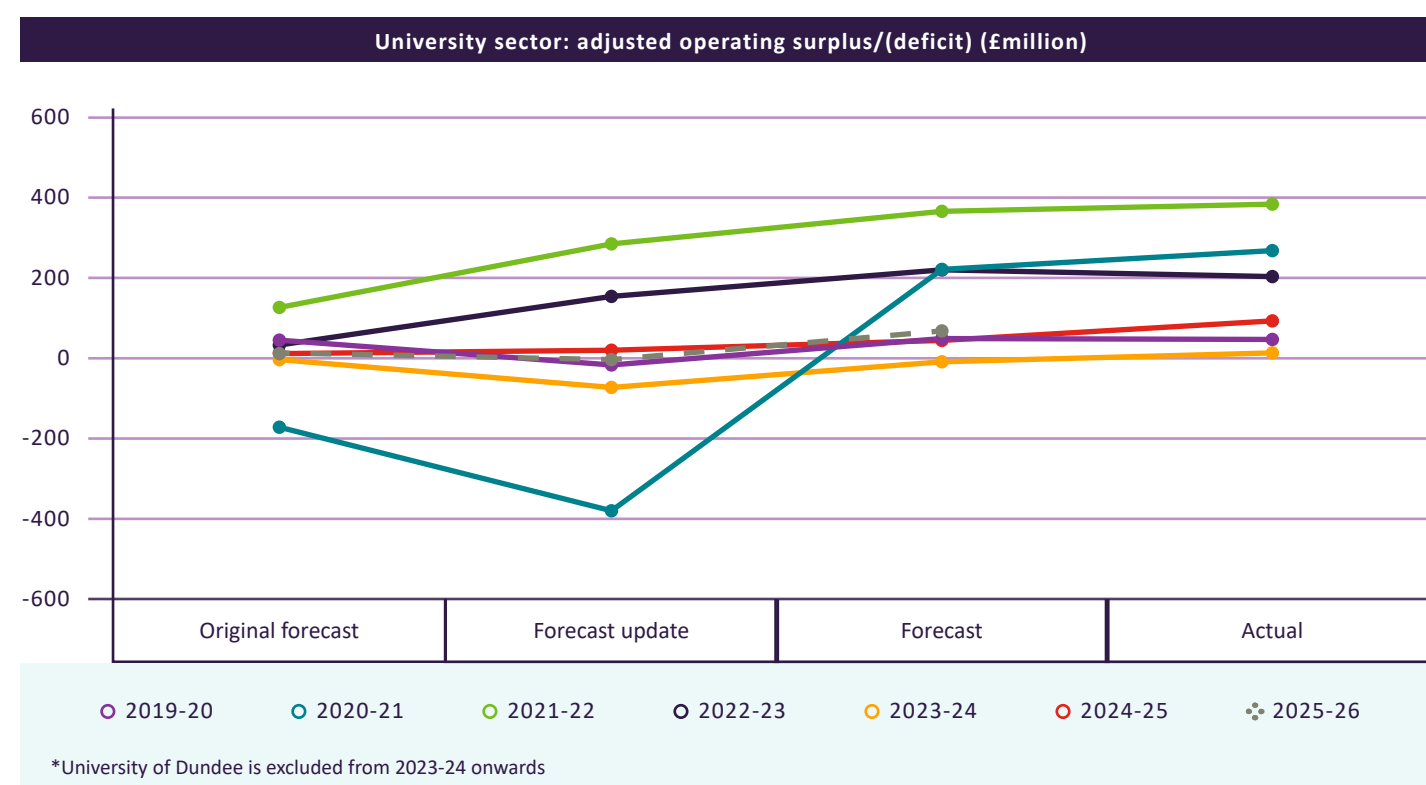


Photo: University of Glasgow

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. Forecasting can be difficult due to economic and geopolitical uncertainties, changing government fiscal policy, tighter immigration rules and increasing global competition. To consider the accuracy of forecasting, we use historical forecasts and compare them to actual results. The actual 2025-26 results will not be received until 31 December 2026.

The movements in the adjusted operating position for academic years 2019-20, 2020-21, 2021-22, 2022-23, 2023-24, 2024-25 and forecasts for 2025-26 are set out in the graph below:



Improvements in actual outturn against forecast have occurred in most years as shown in the graph above. 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 final results for 2025-26 are due at the end of December and will complete the picture on the accuracy of forecasting for the year.

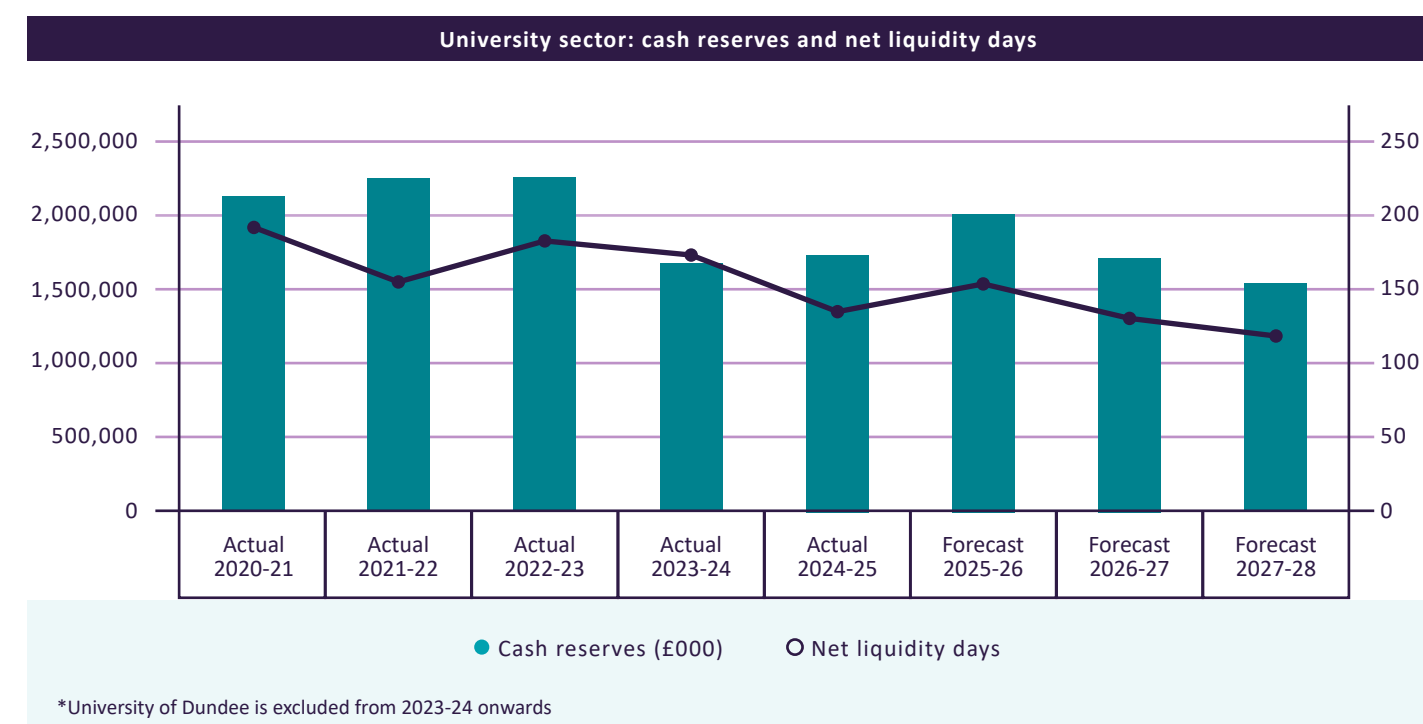
As mentioned earlier in this report, whilst the university sector had previously taken a cautious approach to forecasting with the actual results in recent years much improved, the gap between forecast and actual results is now becoming narrower, and future improvements on forecasts may be extremely difficult to deliver.



Financial position – financial strength and resilience

Liquidity

Cash balances and number of days of 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. Several 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 2027-28.



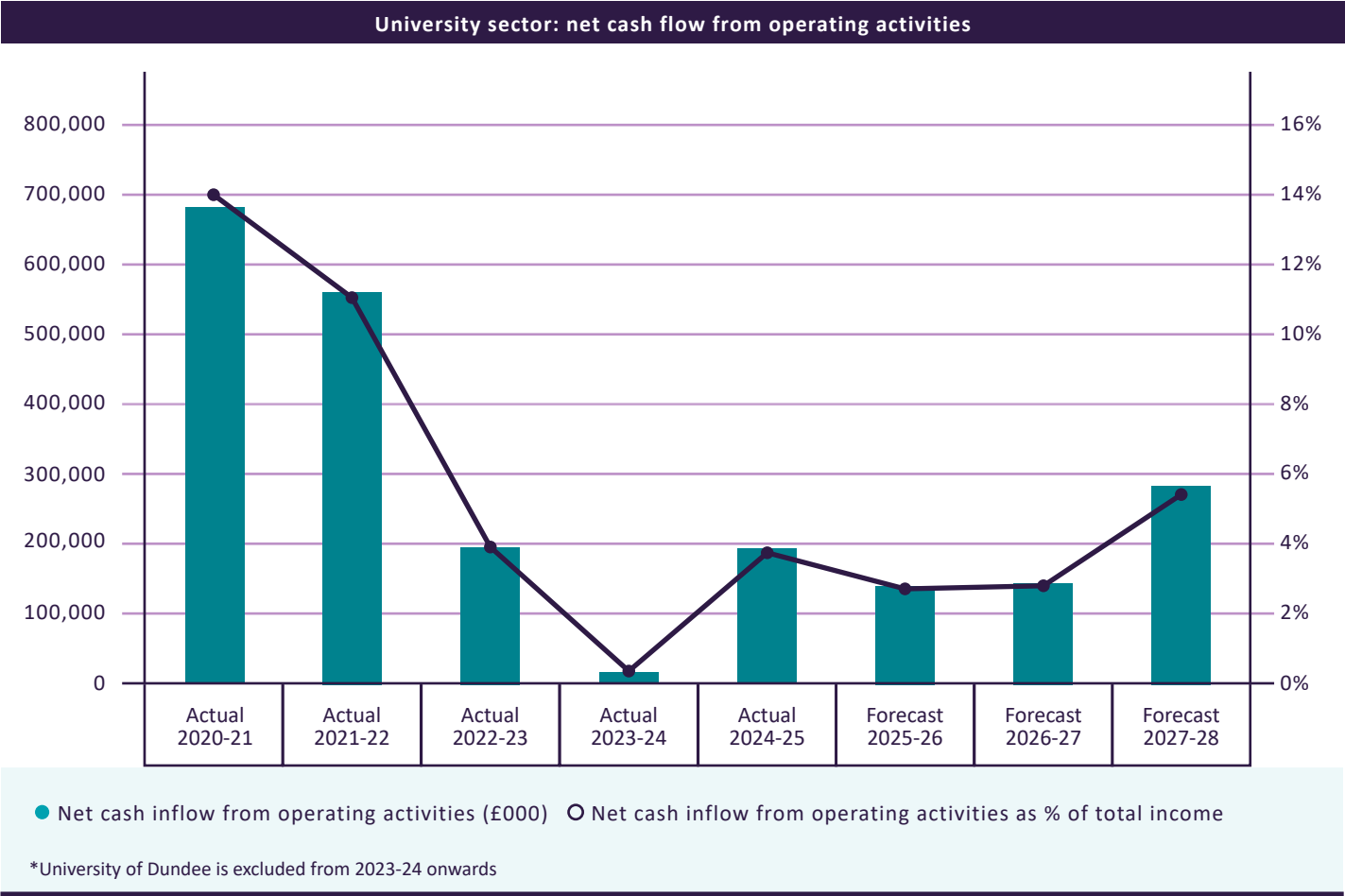
Cash and equivalent reserves are expected to rise by 16%, from £1,731m at the end of 2024-25 to £2,013m by the end of 2025-26. This is mainly due to one university changing its approach to reporting its cash and cash equivalents balance; the net sector cash position is not expected to materially change. The cash balance also includes SFC Financial Transaction Loans provided to universities. The sector cash position is projected to decrease to £1,549m by the end of July 2028, an 11% reduction from July 2025, reflecting the downturn in the operating position during the forecast period.

Sector cash days moved from 173 in 2023-24 to 134 in 2024-25. However, cash days vary considerably for individual universities. The sector position is skewed by the results of the four ancient universities which account for around 60% of the overall sector cash reserves at the end of July 2025. 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 significant proportion of cash is earmarked for other purposes e.g. estates and other projects, research funding paid in advance, endowment funds and loan servicing funds to meet future repayments of borrowing 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 as it excludes non-cash items such as depreciation, amortisation and pension liability adjustments, as well as financing-related income and expenditure. It demonstrates the sector’s capacity to generate cash to service debt and support estates investment. The graph below shows sector net cash inflow from operating activities, and net cash inflow as a percentage of total income, from 2020-21 to 2027-28.



Cash generated from operations in the sector was very low in 2023-24 at £14m or 0.3% of income, increasing to £191m or around 4% of income by the end of 2024-25. Eight universities reported an inflow of cash during 2023-24, increasing to fourteen universities in 2024-25. Cash generated from operations in the sector is forecast to decline to less than 3% of income in 2025-26 and 2026-27 before increasing to 5% of income in 2027-28. The increase in the level of sector cash in 2027-28 heavily relies on optimistic international fee income assumptions as mentioned earlier in this report.

Four universities forecast net cash outflows from operating activities in 2025-26, increasing to five in 2026-27 before reducing to three universities by the end of the forecast period. The projected cash outflows highlight the weak operating position and significant financial pressures facing these universities.

Borrowing

The graph below shows the trend in the sector’s borrowing, as well as the ratio of borrowing (i) as a percentage of total income and (ii) as a percentage of total assets over the period from 2014-15 to 2027-28.

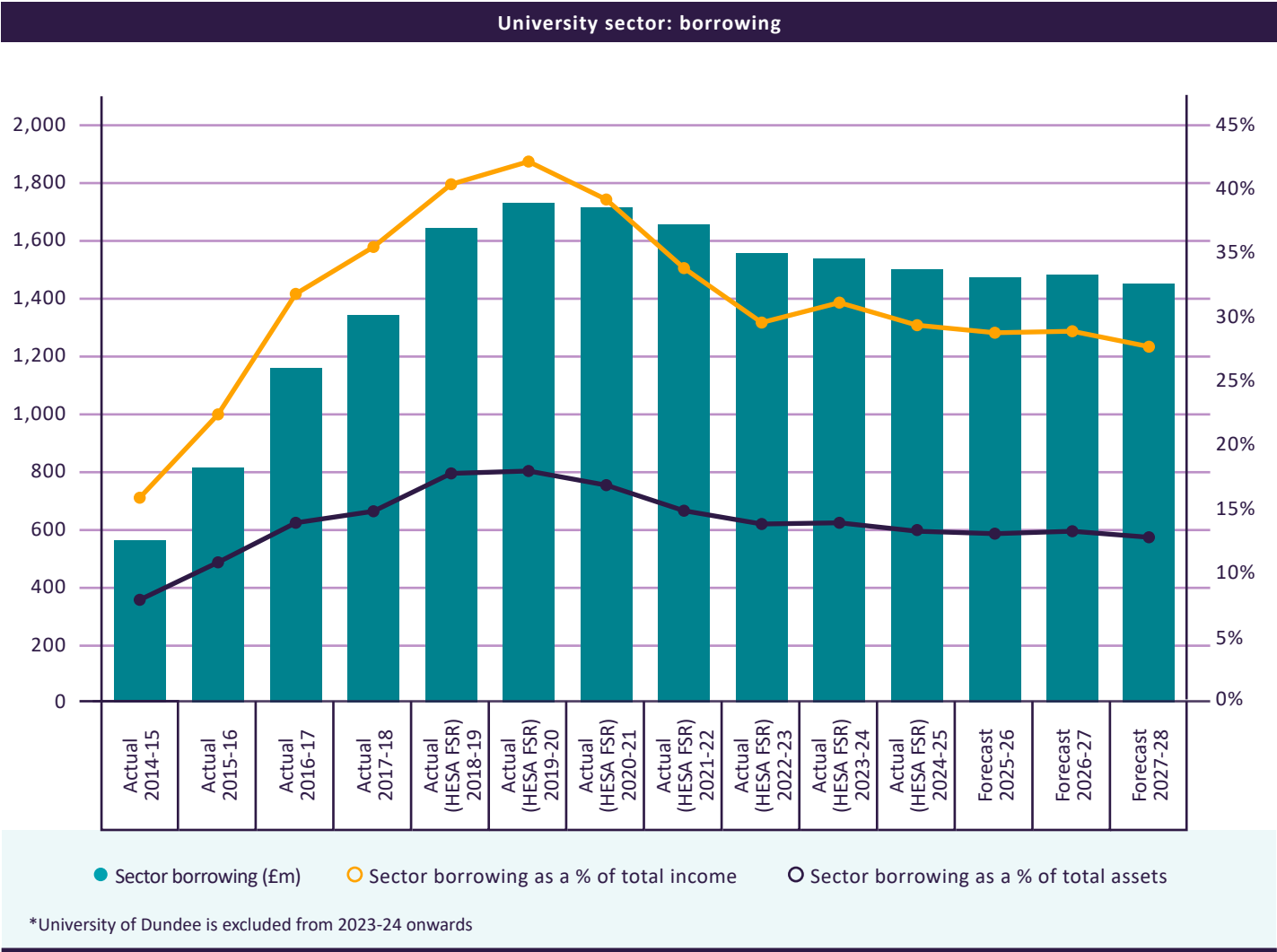




Photo: University of the Highlands and Islands

Total long-term borrowing is forecast to decrease from £1,502m at the end of July 2025 to £1,455m at the end of July 2028 (3% decrease). This is due to projected repayment of traditional loan debt by instalments and early repayment of some long-term debt, such as private placements. Two universities are projecting increases in borrowing over the planning period to support capital investment.

The ancient universities account for 65% of the sector borrowing in 2024-25, increasing to 68% in 2027-28. The amount of interest on borrowing paid by the sector is forecast at around £39m per year.

At the end of 2024-25, Private Placements accounted for just over 70% of the sector’s external 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 scheduled dates

Lenders have indicated that most new lending is now in the form of short-term revolving credit facilities. Larger universities continue to be able to access debt at reasonable interest rates 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.

Capital Expenditure

Total sector capital expenditure amounted to £461m during 2024-25, 1% higher than the previous year’s total. Total sector capital expenditure for 2025-26 is forecast at £404m, which represents a decrease of 12% from 2024-25. 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 54% to £624m in 2026-27 and then decrease by 12% to £549m in 2027-28. Universities expect to finance this expenditure through grants, borrowing, retained proceeds from property sales, 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 adjusted 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	2024-25 Actual £000
Sector Pension Liability	1,447,330	1,492,243	1,295,158	1,478,738	1,244,747	83,292	55,195

*University of Dundee is excluded from 2023-24 onwards.
 **2022-23 figure differs from last year’s report due to a restatement by one university.

The overall sector pension liability decreased from £83m at the end of July 2024 to £55m by the end of July 2025. In 2024-25, one university recognised a pension asset in respect of this improvement in investment performance. Twelve universities reported a reduced pension liability and four universities reported a nil balance.

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

*This table does not include the University of Dundee

**One university has restated its 2023-24 figures in the 2024-25 HESA FSR which accounts for different figures for 2023-24 from last year's report.

University sector: operating position, adjusted operating position, liquidity and borrowing (£000)								
	Operating surplus/(deficit)		Adjusted operating surplus/(deficit)		Cash and cash equivalents less overdraft		Borrowing	
	2023-24 Actual	2024-25 Actual	2023-24 Actual	2024-25 Actual	2023-24 Actual	2024-25 Actual	2023-24 Actual	2024-25 Actual
University of Aberdeen	72,281	(6,662)	(10,054)	(4,934)	64,003	72,258	85,361	84,531
University of Edinburgh	377,630	20,012	25,221	20,012	379,086	355,998	549,250	537,945
University of Glasgow	296,399	62,440	28,216	63,058	578,702	578,004	249,752	248,751
University of St Andrews	66,294	21,043	(10,045)	20,175	20,248	22,895	124,134	110,892
Ancient universities	812,604	96,833	33,338	98,311	1,042,039	1,029,155	1,008,497	982,119
University of Dundee	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Heriot-Watt University	50,789	(9,888)	(8,662)	(9,966)	80,521	76,711	145,658	144,529
University of Stirling	55,854	1,206	6,993	9,800	77,512	66,732	108,610	107,395
University of Strathclyde	154,336	(9,512)	(6,150)	(7,291)	139,966	207,511	65,064	59,695
Chartered universities	260,979	(18,194)	(7,819)	(7,457)	297,999	350,954	319,332	311,619
Abertay University	(1,987)	(1,627)	(2,142)	(1,862)	12,490	23,179	8,647	17,831
Glasgow Caledonian University	14,115	11,817	14,032	17,012	80,779	88,936	1,644	1,358
Edinburgh Napier University	5,095	(1,784)	4,235	(1,964)	65,293	64,910	267	1,072
Queen Margaret University	3,125	(3,157)	1,191	(3,157)	18,613	4,565	18,712	4,713
Robert Gordon University	(6,151)	(5,518)	(3,996)	(3,269)	50,923	45,707	36,381	36,052
University of the Highlands & Islands	6,830	(3,393)	3,203	(1,875)	17,266	12,944	31,068	30,965
University of the West of Scotland	(15,327)	(8,882)	(15,205)	(8,738)	67,788	76,664	80,056	79,223
Modern universities	5,700	(12,544)	1,318	(3,853)	313,152	316,905	176,775	171,214
Glasgow School of Art	(338)	7,845	(503)	8,949	8,942	15,479	8,716	8,089
Royal Conservatoire of Scotland	1,916	1,917	1,942	1,940	5,196	8,116	1,154	1,153
Scotland's Rural College	(10,895)	(7,376)	(12,487)	(7,278)	14,642	10,645	22,951	28,065
Small Specialist Institution (SSI)	(9,317)	2,386	(11,048)	3,611	28,780	34,240	32,821	37,307
Sector Total	1,069,966	68,481	15,789	90,612	1,681,970	1,731,254	1,537,425	1,502,259

Annex B: University groupings

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

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.

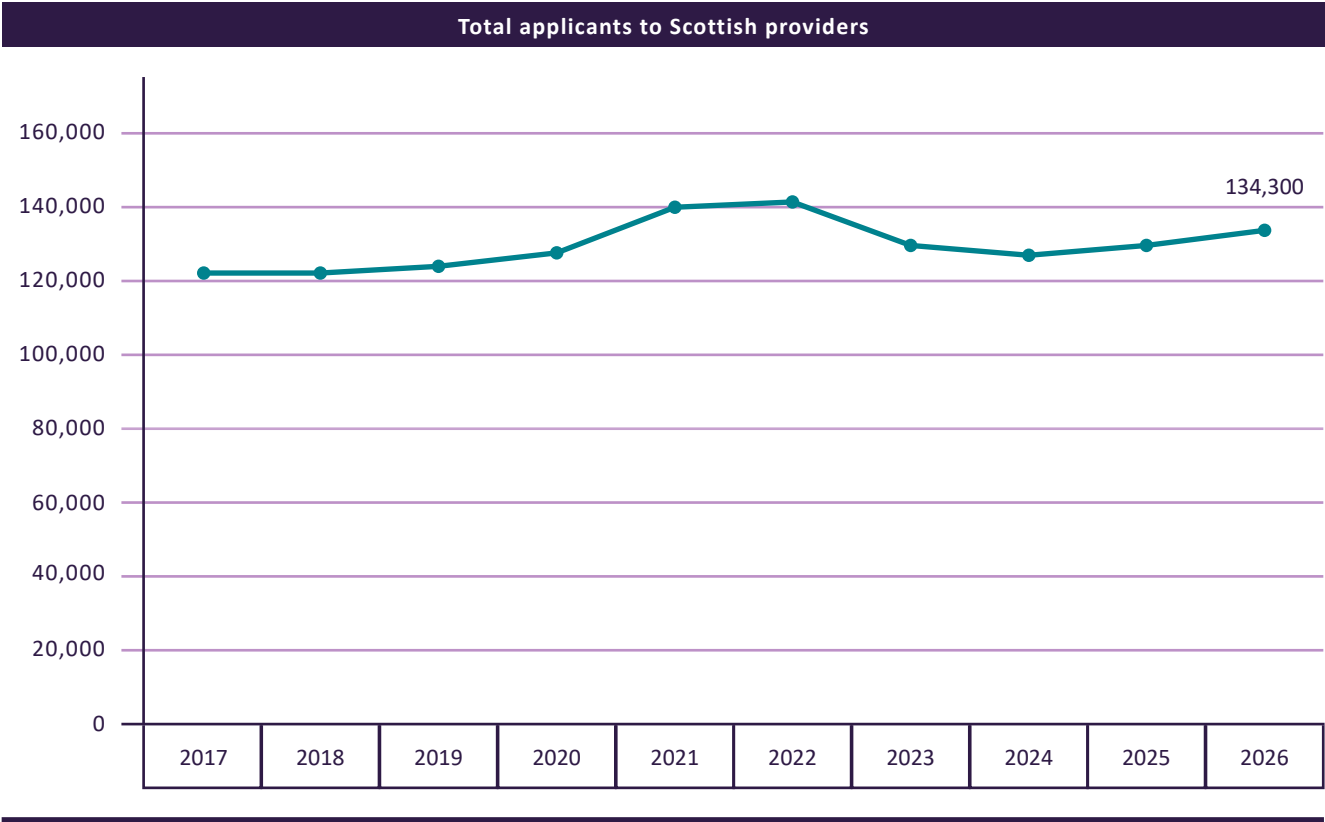
The Open University in Scotland is not included in this analysis due to different reporting arrangements in place.



Photo: Heriot-Watt University

Annex C: Applications and recruitment

At the June 2026 UCAS deadline, applications to Scottish providers for academic year 2026-27 totalled 134,300, an increase of 4,270 (3%) on last year. Excluding the exceptional pandemic-driven demand in 2021 and 2022, applications have followed a broadly upward trend over the past decade, with growth continuing after a period of post-pandemic stabilisation as shown in the chart below.

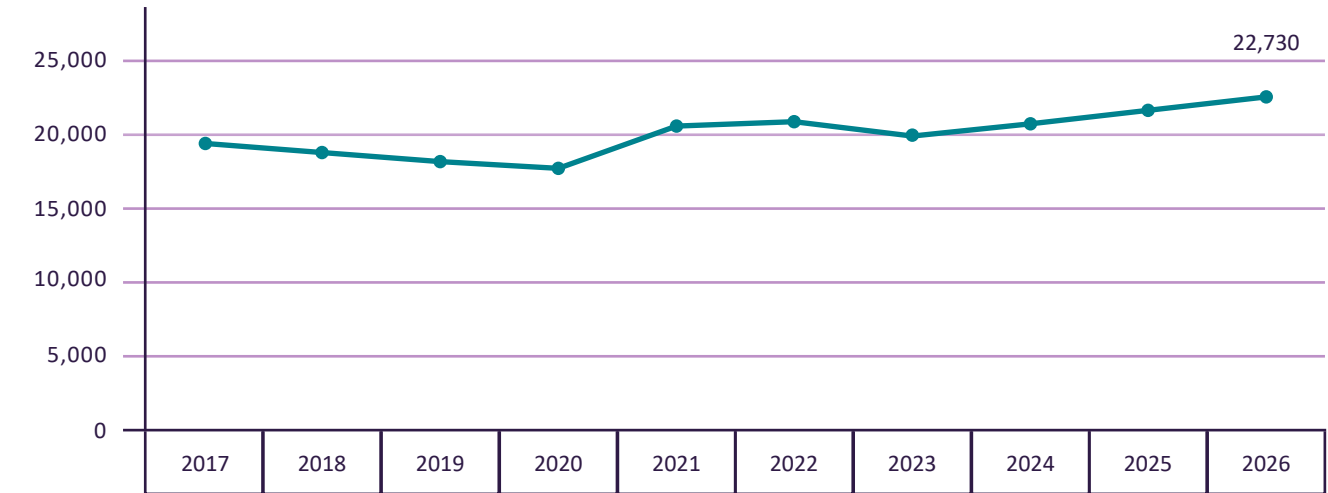


As at 30 June 2026, 46,740 Scots had applied to Scottish universities, an increase of 4% from 2025. June data shows a modest year-on-year increase in demand from ‘mature’ Scots aged 21 and over, with 400 additional applicants (3%). While this represents a slight recovery from the lowest level recorded in the past decade, the overall trend remains broadly unchanged. A similar increase is evident across the wider UK, although UCAS notes that it remains to be seen whether this growth will continue in future years.

The year-on-year increase in demand from Scots is driven by school leavers aged 18 and under, with applications rising by 4% to 22,730 in 2026. The chart below shows this is a second consecutive record high over the past decade.



Scottish domiciled applicants aged 18 and under applying to Scottish providers



As at 10 September 2026 (A-level results day +28 days), the number of accepted Scottish applicants at Scottish universities had reached 36,050, a 2% increase on last year and the highest level in the past decade. The number of accepted young Scots remained strong at 18,850, an increase of 660 (4%), while mature applicant acceptances declined by 140 (1%). Final figures may change as clearing completes and the cycle closes.

In UCAS acceptances data taken from 10 September 2026, 17% of Scots accepted to UK providers were from Scottish Index of Multiple Deprivation (SIMD) Quintile 1 areas, an increase of 0.4 percentage points from this time last year and a record high for this stage in the cycle.

Cover Photos:

University of the Highlands and Islands

Royal Conservatoire of Scotland

Glasgow Caledonian University

University of Aberdeen



Scottish Funding Council
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