



17 January 2022

Finance and Public Administration Committee
Committee Convener
Scottish Parliament

Scottish Government's 2022/23 Budget Decisions

Dear Convener,

We write jointly as the representative bodies of both Scotland's colleges and universities to register our collective disappointment with the outcome of the Scottish Government's budget for 2022/23 and to ask the Finance and Public Administration Committee to give some focus to the level of public investment in further and higher education as it carries out its scrutiny in regard to the Scottish Government's Resource Spending Review Framework, during both the consultation phase in early 2022 and the publication of multi-year spending plans in May 2022.

The budget settlement for 2022/23 will translate into a real terms cut to funding for colleges and universities, leaving institutions without the resource they need to deliver some key aspects of provision that relied on COVID consequentials last year. It is important to be clear that the 2022/23 settlement is not an isolated budget outcome for colleges and universities – this most recent budget adds to the pattern of reducing investment over many years to university and college funding (which is stated in more detail in the annex). The reduction in investment at a level which is insufficient in any single year to warrant front-page attention, but cumulatively builds very real pressures in those institutions now represents a deeply worrying picture for the hundreds of thousands of students and staff served by colleges and universities, wider communities in Scotland, as well as stakeholders and the policy objectives that they support. Our students and staff have endured major disruption across three academic years and students' academic and mental health support needs have markedly increased as a consequence. Institutions very much want to rise to meet this need but face a range of challenges in being able to do so.

Further, when we consider this budget outcome in relation to the planned Resource Spending Review Framework, and the potential that exercise holds for multi-year funding, it is difficult not to be deeply worried as further and higher education funding appears to be one of the "hard choices" rather than one of the three "priorities" as described by the Finance Secretary, which are carried through from the 2022/23 budget document into the Scottish Government's published consultation exercise on the Resource Spending Review. Universities Scotland and Colleges Scotland will be responding to the consultation on the Framework.

To us, this feels distinctly at odds with the Scottish Government's earlier stated priority of education at all levels. The role that universities and colleges continue to play in Scotland's recovery from COVID-19 cannot be overstated, providing individuals not just with education, qualifications, and training but also with a high level of holistic support – making up for lost learning, providing a scaffold of mental health and wellbeing support, and giving students access to financial support.

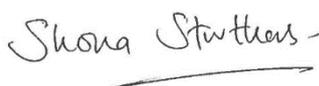
Holyrood's Audit Committee has, in previous sessions, considered reports from Audit Scotland which clearly demonstrate the unsustainable funding pressures facing both colleges and universities. Most recently, the Scottish Funding Council's Review of Coherent Provision and Sustainability from mid-2021 is the most up-to-date report on financial precarity for the tertiary sector. We have enclosed an annex highlighting some of the most relevant financial metrics facing institutions to give the Committee a clear picture of the situation as outlined in this letter and to help put the 2022/23 budget outcome into greater context.

We would be deeply appreciative if the Committee could give its attention to the funding position of colleges and universities over the next few, potentially critical months of 2022, as it considers the budget and the resource spending review. We have written to the Education, Children and Young People Committee in similar terms, now published online, which we wanted to bring to your attention in the interests of clarity. We note, there is a process to coordinate the roles of budget scrutiny between the Finance Committee and respective portfolio committees and we imagine this will also apply to the scrutiny given to the Resource Spending Review Framework. We would very much welcome this.

Yours sincerely,



Alastair Sim
Director
Universities Scotland



Shona Struthers
Chief Executive
Colleges Scotland

Annex

This annex sets out the budget situation and wider financial picture facing universities and colleges.

Impact of the 2022/23 budget allocation for universities

- The HE resource line in the budget for 2022/23¹ suggests a £21 million uplift but this funds an expansion in 2,797 undergraduate places (to accommodate the increase in eligible school-leavers due to SQA exam results during the pandemic). It does nothing to the unit of resource invested per student, which has fallen by £869 since 2014/15. The budget will be another real terms cut in funding, compounding the overall pattern of real term cuts since 2014/15 (more on this below). This is now reaching a critical point.
- **Funding for graduate apprenticeships gone after one year.** The 2022/23 budget sees universities lose £7.4 million in COVID consequentials which funded 1,378 graduate apprenticeships² and which are a multi-year commitment. Universities are seemingly expected to absorb the £7m cost themselves in order to honour students' education and the relationship with employers.³ Doing so takes further resource away from students on undergraduate programmes (and exacerbates the situation described above).
- More broadly, during the height of the pandemic universities received COVID consequentials to support many student, teaching and research-focused activities. None of this funding has been continued and none of these sums have been listed in budget lines which makes the steep fall in resource between 2021/22 and 2022/23 less apparent. Where COVID funding from the Scottish Government addressed a COVID-specific pressure point due to lock-down (such as £10million to cover student rent rebates or to address students' digital poverty) the non-continuous nature of this funding makes sense. Where COVID consequentials covered universities' long-term commitments to students, to research and other stakeholders, it leaves universities in a vulnerable position going forward. The comparative drop in funding between 2021/22 and 2022/23, as experienced by universities, is much greater than appears from looking at the budget in isolation.
- The full impact of the budget for universities won't be known until the Funding Council does the financial year (FY) to academic year (AY) conversion for 2022/23 which is due in March 2022.

Data highlighting the longer-term financial pressures facing Scotland's universities:

- **Borrowing to keep going.** University borrowing has increased to £1.7bn. This sum is £556.3 million more than the total sum of public investment in universities and equates to a sum of £12,281 of borrowing per Scottish-domiciled student (which is considerably more than the average for public funding per student). Universities have also had to offer increased covenants to manage the stability of the Universities Superannuation Scheme (USS). These commitments, giving the USS pension scheme security over a proportion of institutions' assets, further constrain universities' borrowing power.⁴
- **Record deficits.** 50% institutions are forecasting deficits in 2020-21. At the sector aggregate level there is only a 1% surplus for re-investment, far below the prudent minimum needed to support investment (para 6.37).⁵
- **Chronic under-investment.** Teaching is funded at £157 million per year below cost.
- **Less for every student.** Prior to the 2022/23 budget, the unit of resource for teaching activity in the university sector has reduced in real terms by 13% compared with 2014-15.

¹ Scottish Government (2021) [Scottish Government Budget 2022/23](#). Table 7.06.

² Scottish Funding Council (2021) Final funding allocations for 2021/22. Page 7.

³ Graduate apprenticeships were funded from COVID consequentials in 2021/22 so this funding line did not appear in the budget lines for universities for 2021/22. The loss of this funding is less obvious from looking at the budget for 2022/23.

⁴ Scottish Funding Council (2021) [Review of Coherent Provision and Sustainability](#).

⁵ SFC Review (2021) para 6.44.

This means there is £869 less going into every year of an undergraduate's degree now (2021/22) compared to in 2014/15.

- **Over 18,000 “fees-only” students.** There are 18,680 “fees-only” students in the university sector as of 2020/21- who receive only a fraction, at £1,820 per year, of the average funding level per student.⁶⁷ The SFC Review notes that the “fee element” of university teaching funding, which accounts for around 24% of the public investment universities get for their teaching, has not increased with inflation in over a decade, staying at £1,820 since 2009/10, reducing its real term value by over 20%.⁸
- **Under-investment makes higher education an outlier in the education sector.** The pattern of under-investment in higher education is at odds with the Scottish Government's level of investment in other parts of the education sector since 2014/15. In contrast to a 13% decline in teaching funding for universities since 2014/15, investment in pre-school education has increased by 85.4% to £7,397 for pre-school learners; primary school investment has increased by 10.4% to £6,143 for primary school learners and investment in secondary school learners has increased by 4.2% to £8,278.
- **Research underfunded.** The Funding Council confirms that its level of investment in research is at £328 million below the full cost.⁹ Funding for SFC's Research Excellence Grant has declined 13% in real terms since 2014/15.
- **Funding cuts impacts on research competitiveness.** This grant is the backbone of the competitiveness of Scottish research and as the grant has fallen, there has been a corresponding fall in our competitiveness in winning UKRI research grants, thus bringing a lower proportionate share of UK resource into Scotland. Scotland's percentage share of UKRI income has fallen from 15.4% in 2013/14 to 12.96% in 2019/20. Every percentage point lost equates to a loss of £20 million that could have come into Scotland, supporting the economy and jobs.

Impact of the 2022/23 budget allocation for colleges

- The Revenue and Capital available to the sector is a flat cash position and therefore represents a real-terms cut to the core budget of £23.9m in AY2022/23 due to inflation, even before rising costs related to increased pay and rising energy costs for Scotland's colleges are taken into account. Colleges were already facing a series of cost pressures prior to the impact of COVID-19, including increasing cost pressures from cost of living pay awards, employers' pension contributions, maintaining the college estate and the UK's exit from the European Union.
- Colleges received COVID consequentials in early 2021 to support Deferred students, Foundation Apprenticeships, mental health and wellbeing initiatives and the provision of Digital equipment for students. This funding has not been continued into 2022/23, **leaving colleges with a further reduction of £28m on its baseline budget compared to AY 2021/22.** This is in addition to the cost of inflation. **Therefore the total reduction in the college budget for 2022/23 is estimated at £51.9m.**

⁶ Scottish Funding Council Students Eligible for Funding 2020-21 (sfc.ac.uk) para 34

⁷ “fees only” does not mean that the student pays fees. The student is still funded by the Scottish Government but at a level considerably lower than the average funding per Scottish-domiciled student.

⁸ SFC review. Para 6.25. The fees element is paid to universities via SAAS rather than the SFC due to historic policy/funding decisions by Scottish Government.

⁹ SFC Review, para 6.41

- Included in these covid consequentials was funding for Foundation Apprenticeships, **which has gone after one year**. The 2022/23 flat cash budget sees colleges lose £14 million in funding for Foundation Apprenticeships, of which the sector supported the delivery for 3,445 Senior Phase pupils across every region in 12 industry sectors with 297 employers, and which are a multi-year commitment. Colleges are expected to absorb this cost themselves in order to honour students' education and the relationship with employers. Doing so risks taking resource away from learners on other courses (and exacerbates the situation described above) and increases risk of redundancies.

Data highlighting the longer-term financial pressures facing Scotland's colleges:

- As highlighted by Audit Scotland in its [Scotland's Colleges 2020 report](#) the deficit gap between colleges' total income and expenditure has grown to £54 million. This is forecast to continue because of costs outwith the sector's immediate control, such as pensions and depreciation of assets. Robust long-term financial planning by colleges will be critical to achieving financial sustainability and auditors have highlighted a significant number of colleges that need increased funding, cost cutting - or both – to deliver balanced budgets in the future.
- SFC's analysis in June 2021 in its publication '[Coherence and Sustainability: Financial Sustainability of Colleges and Universities](#)' indicated:
 - The overall adjusted operating position for the college sector is a deficit of £549k for AY 2020/21 which is a deterioration on the 2019/20 result (£3.4 million surplus). Eight colleges are forecasting an adjusted operating deficit based on the latest returns.
 - Cash balances of £51.8 million are forecast at the end of July 2021 which represents a reduction on 2019/20 (£73.3 million).
- The recent parliamentary answer (S6W-01165 published on 28 July 2021) shows the stark differences in the baseline amounts invested in college students, and the real disparities across our educational settings, with the average expenditure per place for each education level in real terms (2020-21 prices) for 2019/20 as follows:

Education Level	2019-20
Pre-School	£7,397
Primary School	£6,143
Secondary School	£8,278
College	£4,321
University	£5,913