



# FINANCIAL SUSTAINABILITY OF UNIVERSITIES IN SCOTLAND 2020-21 TO 2024-25



Scottish Funding Council  
Comhairle Maoineachaidh na h-Alba

Scotland's tertiary education and research authority

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Photo: University of Glasgow

## Introduction

The Scottish Funding Council (SFC) has a key role in ensuring that the universities we fund continue to plan and manage their activities in a way which ensures their sustainability and financial viability. This report provides an aggregate picture of the financial health of Scottish universities, based on their annual accounts for academic years 2020-21 and 2021-22, and the latest forecasts for the period from 2022-23 to 2024-25 academic years. It does not take into account the most recent budget announcement for 2024-25. The analysis covers financial returns provided by 18 universities<sup>1</sup>.

The report also considers key risks that could have a significant impact on universities' financial sustainability. To inform our assessment of the financial position of individual universities, we engage regularly with the institutions, the Scottish Government, sector bodies, auditors and lenders.

It is important to note that the 2020-21 position included a full year of the COVID-19 impact including additional financial support provided to universities. Universities were already facing a series of cost pressures prior to the pandemic, including increases in employer pension contributions, the cost of maintaining buildings and withdrawal from the European Union. The COVID-19 crisis heightened those challenges, particularly for universities with high levels of commercial income. The results for 2021-22 reflected universities returning to 'normal' business. While the pandemic did not affect universities as badly as initially anticipated, particularly in relation to the impact of the pandemic on international and domestic student flows and the pursuit of research activities, the financial sustainability of the sector remains challenging.

We have previously reported on the financial sustainability of the university (and college) sectors in [SFC/CP/02/2020](#), [SFC/CP/05/2020](#), [The Financial sustainability of colleges and universities in Scotland – Review report](#) in October 2020, [Coherence and Sustainability: Financial Sustainability of colleges and universities](#) in June 2021, and [SFC/CP/02/2022](#).

<sup>1</sup> 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 through regular engagement and analysis of financial returns which universities are required to submit to SFC each academic year. SFC also considers universities' individual circumstances and exposure to risk, capacity to respond to financial challenges and other relevant available information.

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

SFC increases levels of engagement and monitoring activity for those universities facing risks to their financial health. SFC works closely with such universities to understand and assess the problem areas and plans to bring them back to a sustainable position.

# Financial health of the university sector

## Key messages



**The university sector is forecasting an underlying operating surplus of £226.5m for 2022-23.** Reflecting the extremely tight financial environment, this represents a 41% reduction on the previous year's underlying surplus of £385.2m, largely due to increased staff costs. Although the university sector as a whole reports surpluses, this can paint a misleading picture of the financial position which remains challenging for many universities.



**The underlying position is expected to decline sharply to a deficit of £3.3m in 2023-24, before partly recovering to a surplus of £44m in 2024-25.** This is due to significant increases in costs such as staff pay, utilities and other operating costs. This is combined with a reduction in other income such as European income, City Deal funding, and capital grants, donations and endowments. Universities take a cautious approach to forecasting and in recent years the actual results have often shown an improved position against earlier projections.



### **Financial sustainability remains challenging for many universities.**

The sector position is skewed by the financial results of the two largest universities. While the sector normally reports an aggregate underlying surplus, five universities reported underlying deficits in 2021-22, increasing to between six and ten universities projecting underlying operating deficits in the following three years. The forecasts are also inflated by the receipt of substantial capital grant funding, with matching expenditure expected to fall into future years due to slippage in capital programmes during the pandemic.



**Universities' reliance on SFC grants reduced** from 31% in 2020-21 to 27% in 2021-22 and is expected to reduce further to 23% by 2024-25. In 2023-24, the proportion of international fee income was expected to exceed SFC grants for the first time, with some universities forecasting pressure on international recruitment for 2024-25. However, early data on international recruitment shows a less positive position in 2023-24 than expected.



**Tuition fees now represent the largest source of income for the sector. International fee income has increased sharply in recent years and the forecasts suggest that this trend is expected to continue.** According to forecasts, international fee income is expected to increase from £1,144m in 2021-22 to £1,289m in 2022-23 and to £1,617m in 2024-25, a 41% increase on 2021-22. Universities rely on this source of income to remain financially sustainable and to support other areas of their operations such as research which can be a loss-making activity. But international fee income is an area of significant fluctuation and risk due to the competitive nature of international markets and geopolitical changes. As noted above, early data on international recruitment shows a less positive position in 2023-24 than expected.



**The sector cash position is forecast to increase by 5%, from £2,259m at the end of July 2022 to £2,371m by the end of July 2023.** This reflects the improved operating position, delays in implementing capital programmes during the pandemic, and additional loans drawn down but not fully utilised. Cash reserves are expected to reduce by 24% to £1,791m by the end of July 2025 due to the expected outlays on major capital programmes put on hold during the pandemic. No university is forecasting a cash deficit throughout the forecast period, but a large proportion of cash is restricted for other purposes. This includes repayments of high debt levels, meeting debt covenants and capital projects for which ring-fenced funding had already been received.



**Sector borrowing is forecast to decrease by 3% from £1,656m at the end of July 2022 to £1,613m at the end of July 2025.** Most of the sector's borrowing is now in the form of Private Placements which involve large bullet payments at set points in the future with interest paid in the intervening years. No bank covenant breaches are expected over the planning period.



It is important to note that:

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



## Risks to universities' financial health

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



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



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



**Increasing staff costs** due to cost of living pay awards and increases in employer contributions to some pension schemes.



**Rising energy costs** with the centrally negotiated contract for university energy costs ending across 2022-23 to 2023-24 and universities moving onto a new contract. Changes to government support that helps with universities' energy bills are also proposed for 2023-24 which are likely to make this support less generous.



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



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.



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



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



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



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



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



The impact of the outcome of the **Independent Review of Skills Delivery and Purpose and Principles** on the sector as the Scottish Government continues to develop its response.



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

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## Mitigating actions

To protect income levels, universities are continuing to expand digital delivery and develop new overseas markets and partnerships, as well as focusing on income-generating opportunities at home. In a 'flat cash' resource budget for the sector, SFC adjusted its funding model in 2023-24 to raise the teaching subject prices by 0.5% and strengthen the world-renowned small specialist institutions.

Cost mitigations being pursued by universities include staff restructuring, vacancy management or removing posts, and freezing non-essential spend. Universities have also been undertaking cost benchmarking exercises, reviewing course portfolios, delaying capital spend and reviewing estates strategies to ensure estates are used more efficiently.

It is important that universities continue to adapt to the challenging fiscal environment and other uncertainties. Financial challenges are likely to affect individual universities in different ways and each university should have its own range of mitigating actions that takes account of its mission and context. We expect universities to be alert to the risks to their financial health and have scenario planning and contingency arrangements in place to address them. We expect universities to constantly review and consider the range of options available to them so they can take corrective action rapidly as risks begin to emerge.

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

In our engagement with universities, we are seeing a mix of strategies being adopted, for example:



Exploring opportunities for strategic collaborations and consolidation with other institutions or appropriate other bodies, including shared services, centralising costs and business process improvements.



Reviewing estates to ensure the size and structure is right for the university, which could include downsizing; looking at how buildings and facilities are used to explore a more flexible use of spaces and buildings; disposing of surplus buildings; and reducing annual maintenance costs in order to reinvest in line with new strategies.



Increased efforts to recruit more overseas students, diversify markets, and explore transnational education pursuits. In a highly competitive and somewhat volatile international market there are significant risks and opportunities associated with these activities and some will require time, investment, expertise and smart risk assessments, if they are to be successful.





Competitive behaviours and more aggressive recruitment strategies, including a reconsideration of standards and entrance requirements, or identifying areas of specialism in order to differentiate the university offer and mitigate competition risks from others.



Reviewing teaching provision, including the balance between on campus and distance learning, changing course delivery models, and consolidating or rationalising curriculum, including the closure of courses that are considered to be financially unsustainable.



Rationalising research activity to focus on areas that generate greater cost recovery and leverage investment from other funders.



Expanding and diversifying commercial income streams.

Some of these strategies could have an impact on student choice and experience, opportunity and access; on staff and communities; on the size, shape and capacity of the sector more widely in relation to both teaching and research; and on the risk profile and reputation of particular institutions. We will continue to work closely with universities to understand any such impact and will consider these factors as part of our work on financial sustainability and in the context of SFC's responsibility for securing the provision of high quality education across the sector.



Taking into account the future policy and funding environment, SFC considers these key actions could assist universities on the path to financial sustainability:



Multi-year funding settlements and realistic future funding assumptions, to enable institutions to undertake better planning, adapt business models and collaborative activity.



Ensuring the anticipated review of graduate apprenticeships provides greater flexibilities for universities to support employer needs.



Recognising and addressing that the funding for teaching domestic students has not risen in line with costs associated with that teaching and learning.



Protecting and promoting the research and science base by sustained investment levels and enhanced knowledge exchange and innovation funding.



Continuing to make Scotland a welcoming, safe and attractive place to study and research.



Transformation funding where universities may need to make significant adaptations to, or change, their operating model to collaborate more fully with another institution, and where they cannot do this within their own resources.



Engaging positively with the reform programme for post-16 education and skills so that it takes account of the financial and funding context; recognises the connection to excellent research, international reputation and global impact; and supports universities to continue to change lives and create value for Scotland and local communities.

## Financial analysis

This section reports on our analysis of data from universities' 2021-22 annual accounts (including 2020-21 academic year) taken from the Higher Statistics Agency's (HESA) Finance Record and the Strategic Plan Forecast (SPF) return which provides forecast data for the period from 2022-23 to 2024-25 academic years. The table below provides a summary of key financial information for the university sector over these five years.

| Summary of university sector aggregate financial data    |                   |                   |                     |                     |                     |
|----------------------------------------------------------|-------------------|-------------------|---------------------|---------------------|---------------------|
|                                                          | 2020-21<br>Actual | 2021-22<br>Actual | 2022-23<br>Forecast | 2023-24<br>Forecast | 2024-25<br>Forecast |
| Total income (£000)                                      | 4,380,347         | 4,856,985         | 5,179,645           | 5,364,482           | 5,621,459           |
| Total expenditure (£000)                                 | 4,098,891         | 5,344,411         | 4,946,854           | 5,177,827           | 5,576,523           |
| Adjusted surplus/(deficit) (£000)                        | 313,298           | 385,219           | 226,463             | (3,286)             | 43,953              |
| Adjusted surplus/(deficit) as % of total income          | 7.15%             | 7.93%             | 4.37%               | (0.06%)             | 0.78%               |
| Cash flow from operating activities (£000)               | 680,227           | 558,057           | 328,387             | 233,103             | 292,079             |
| Cash flow from operating activities as % of total income | 14%               | 11%               | 6%                  | 4%                  | 5%                  |
| Net liquidity (£000)                                     | 2,136,041         | 2,259,072         | 2,370,612           | 2,063,469           | 1,790,676           |
| Net liquidity days                                       | 193               | 155               | 187                 | 156                 | 125                 |
| Total borrowing (£000)                                   | 1,728,055         | 1,656,227         | 1,562,837           | 1,531,794           | 1,612,980           |
| Total borrowing as a % of total income                   | 39%               | 34%               | 30%                 | 29%                 | 29%                 |

At an aggregate sector level, the data for 2021-22 shows a slight improvement on adjusted operating surplus and cash and equivalent balances as compared with 2020-21. During the period of the pandemic, universities were reducing cash outflows to strengthen liquidity and this can be seen in the level of cash flow from operating activities in 2020-21 and 2021-22.

The sector is forecasting a downturn in financial performance from 2022-23 onwards. While liquidity is forecast to marginally improve in 2022-23, it is expected to decline over the last two forecast years. The decline in underlying position to a deficit of £3.3m in 2023-24 is mainly due to significant increases in staff pay, utilities and other operating costs combined with a reduction in sources of other income. There remains a significant variation in financial performance across the sector for all years.



Photo: Edinburgh Napier University

## Financial performance

### Adjusted operating position

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

The sector recorded an underlying surplus of £385.2m during 2021-22 which represents an improvement of 23% on the 2020-21 surplus of £313.3m. Additional fee, research and commercial income accounted for the improvement against the previous year's result which included a full year of the impact of the pandemic including additional non-recurrent COVID funding. The sector's underlying position is inflated by the surpluses of the two largest universities and the sector position is considerably weaker after excluding the results of these universities.

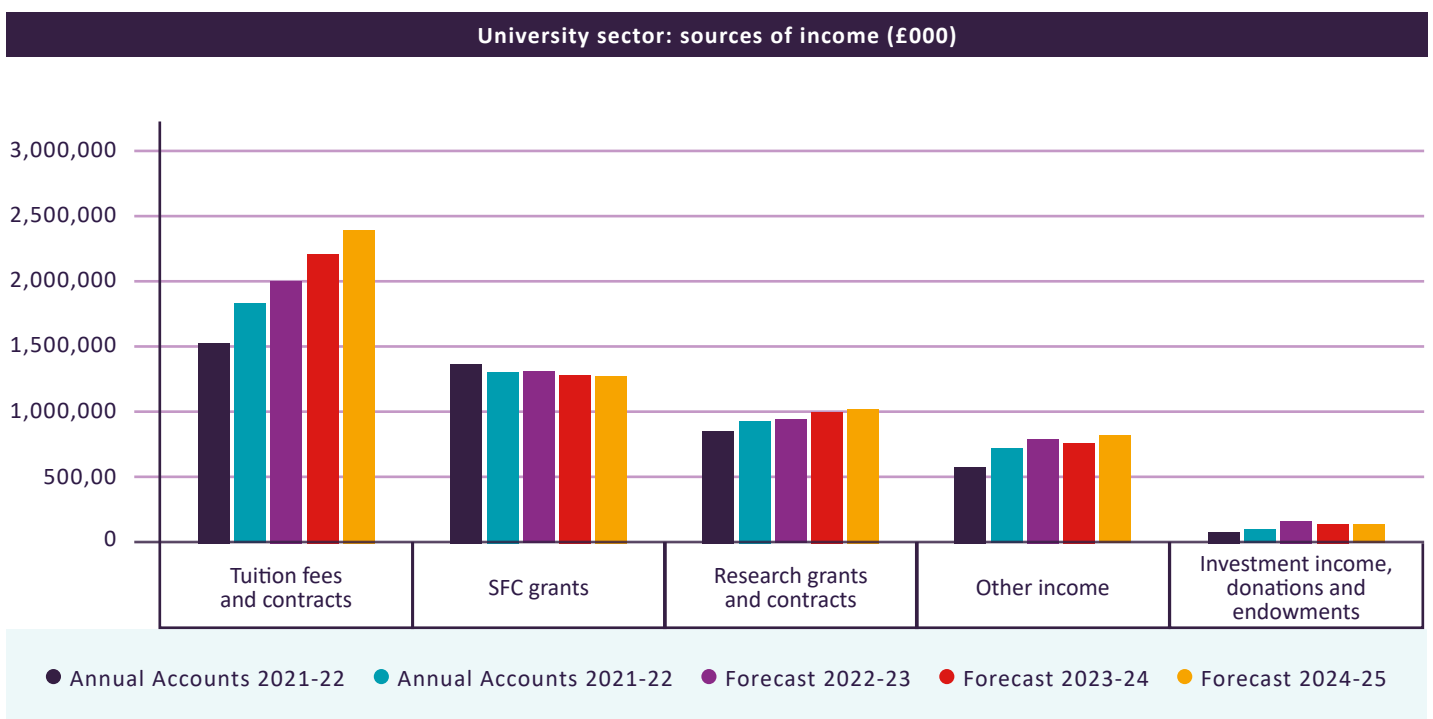
Universities are forecasting an adjusted operating surplus of £226.5m for 2022-23. This represents a 41% reduction on the previous year due to higher staff costs. The underlying surplus is expected to decline sharply to a deficit of £3.3m in 2023-24 before recovering to a small surplus of £44m in 2024-25. The downturn against 2022-23 levels is due to substantial increases in staff pay, utilities and other operating costs, and depreciation. This is combined with a reduction in SFC funding, other income such as European income, City Deal funding and capital grants received, donations and endowments. Universities anticipate a sharp rise in inflationary cost pressures associated with pay awards, and energy and capital costs.

It should be noted that one-off items of income not yet matched by expenditure also make the position look stronger than the reality. Substantial capital grants (e.g. City Deal funding) are included in the operating position, with matching expenditure expected to fall into future years, in line with the requirements of the FRS 102 accounting standard.

Five of the 18 universities reported underlying operating deficits in 2021-22, one less than the previous year. Six universities are forecasting an underlying deficit in 2022-23, increasing to ten in 2023-24 and reducing to nine in 2024-25.

## Income

The graph below shows the projected movement in sector income over the period from 2020-21 through to 2024-25. 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.

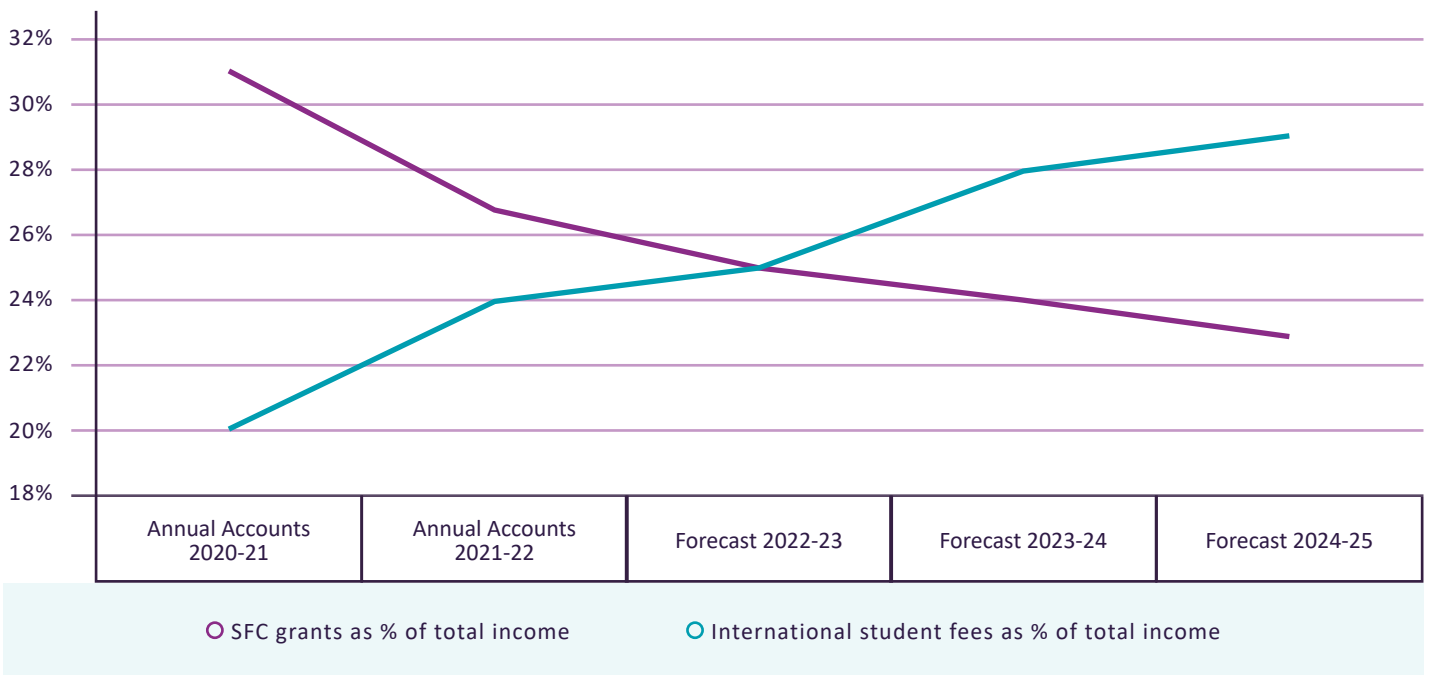


Total sector income increased by 11%, from £4,380m in 2020-21 to £4,857m in 2021-22. Universities are forecasting further increases in income to £5,621m in 2024-25. A large proportion of the anticipated growth in income is through international tuition fees.

Universities' reliance on SFC grants reduced from 31% of total income in 2020-21 to 27% in 2021-22. It is expected to reduce further to 23% by 2024-25, largely due to anticipated increased levels of international fee income. The proportion of SFC grants received in 2022-23 is 11% less compared to ten years ago in 2012-13, when the sector received 36% of its total income from SFC. However, there is variation across the sector, with three universities' reliance on SFC grant expected to exceed 50% in 2022-23. The larger universities are generally not as reliant on SFC funding and tend to have additional sources of other income.

Reduced SFC grant must be considered alongside the sector becoming increasingly reliant on international tuition fee income, which is expected to exceed the proportion of the SFC grant income in 2023-24 for the first time and account for 29% of the sector income by 2024-25. Based on these forecasts, international fee income is expected to increase by 41% from £1,144m in 2021-22 to £1,617m in 2024-25 due to higher volumes, emerging markets in Asia and Africa, partnerships with overseas universities and increased fee levels. The increase in international fee income continues the trend of strong growth over recent years, however, most institutions are forecasting a lower level of growth in new intakes while a proportion of the increase is due to rising fee rates. It is also important to note early data on international recruitment shows a less positive position in 2023-24 than expected. The increasing reliance on international fee income and corresponding reducing proportion of SFC grant is illustrated in the graph below.

University sector reliance on international student fee income and proportion of SFC grant from 2020-21 to 2024-25



Universities have become increasingly reliant on international tuition fee income to remain financially sustainable. It addresses the deficit of Scottish student funding identified through the Transparent Approach to Costing (TRAC) returns and supports other areas of their operations, including research which can be loss making. However, this income continues to be an area of significant fluctuation and risk due to the competitive nature of international markets, political volatility, and potential exposure to external shocks e.g., global events over which universities have no control, as shown by the COVID-19 pandemic. Some universities are significantly more exposed than others. International fee income achieved in recent years is unlikely to continue to grow at the same level due to an increasingly competitive market and all universities will need to adapt their business model in the face of increased international competition.

Taken from HESA data, the table below highlights the top ten source countries for overseas students in Scottish universities for 2020-21 and 2021-22.

| Top ten source countries for overseas students in Scottish universities |                            |                            |                                         |                                         |
|-------------------------------------------------------------------------|----------------------------|----------------------------|-----------------------------------------|-----------------------------------------|
| Top 10 overseas countries                                               | Number of students 2020-21 | Number of students 2021-22 | As % of total overseas students 2020-21 | As % of total overseas students 2021-22 |
| China*                                                                  | 18,555                     | 22,455                     | 27%                                     | 27%                                     |
| India                                                                   | 5,745                      | 10,165                     | 8%                                      | 12%                                     |
| United States                                                           | 5,285                      | 6,320                      | 8%                                      | 8%                                      |
| Nigeria                                                                 | 2,655                      | 5,620                      | 4%                                      | 7%                                      |
| Pakistan                                                                | 1,305                      | 3,325                      | 2%                                      | 4%                                      |
| Ireland                                                                 | 2,375                      | 2,275                      | 3%                                      | 3%                                      |
| Germany                                                                 | 2,360                      | 1,925                      | 3%                                      | 2%                                      |
| France                                                                  | 1,935                      | 1,560                      | 3%                                      | 2%                                      |
| Spain                                                                   | 1,685                      | 1,560                      | 2%                                      | 2%                                      |
| Italy                                                                   | 1,920                      | 1,510                      | 3%                                      | 2%                                      |
| <b>Total</b>                                                            | <b>43,820</b>              | <b>56,705</b>              | <b>64%</b>                              | <b>69%</b>                              |

Data source: HESA

\*Hong Kong, Macau and Taiwan are all included under China

In 2021-22, most international students at Scottish universities were from China (22,455 students or 27% of the overseas students). India is the next largest at 10,165 (12%) overseas students. The number of students from the top five countries has increased significantly between 2020-21 and 2021-22, ranging from an additional 1,035 students from United States (20% increase) to an additional 4,420 students from India (77% increase). The highest percentage increase in 2021-22 relates to students from Pakistan at 155% (2,020 students). There has been a decrease in the number of students from Ireland, Germany, France, Spain, and Italy.

## Other income

Universities experienced significant disruption to research activities during the pandemic due to restricted access to campuses. This income recovered to £924.0m in 2021-22, an increase of £108.2m on 2018-19 (pre-COVID) and is expected to increase to just over £1 billion by 2024-25. In 2024-25, approximately 70% of research income is forecast to be generated in three universities.

Income from residences, catering and conferences was particularly impacted by the pandemic, reducing from £253.8m in 2018-19 to £128.3m in 2020-21. However, income from this source is forecast to increase to £262.3m in 2022-23 and £298.9m in 2024-25.

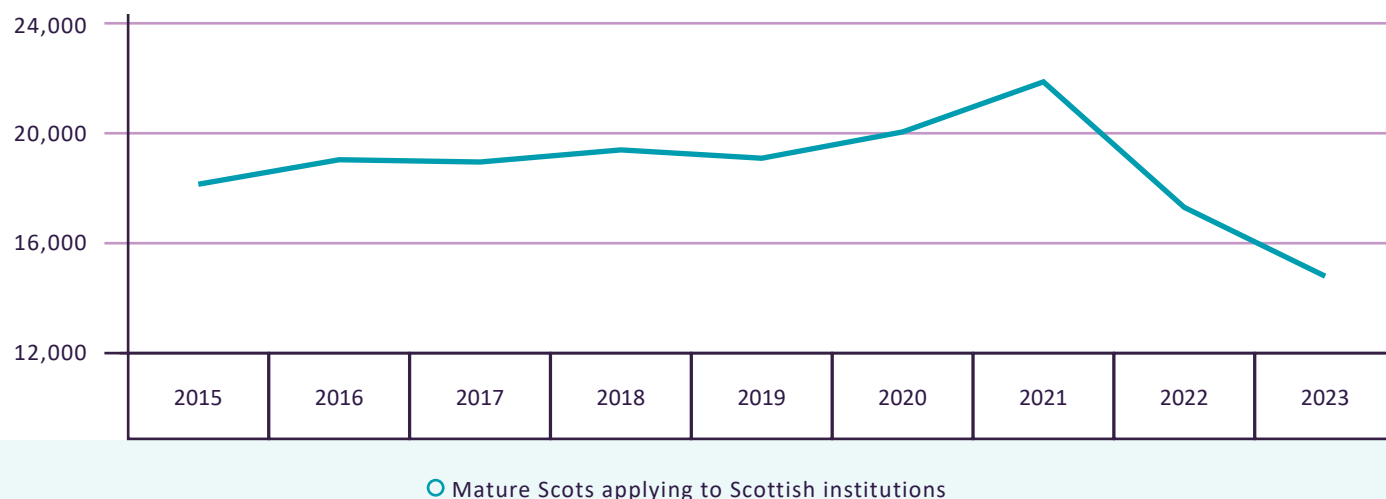
## Applications and recruitment

Total applicant numbers in 2023 for academic year 2023-24 stand at 130,210. This is down by approximately 11,400 (-8%) from last year's record high and from 2021 when there was unusually high demand during the pandemic. However, discounting the previous two cycles, demand for Scottish universities continues to grow, with 2,100 (2%) more applicants to Scottish universities compared to 2020. This is largely driven by demand from Scottish school leavers, non-EU students and applicants from the rest of the UK.

Nevertheless, there is a downturn in the overall number of Scottish domiciled applicants, to below pre-pandemic levels. So far, 43,300 Scots have applied to Scottish universities this year, the lowest since 2015. While UCAS<sup>3</sup> heavily promotes its 'Journey to a Million' work which estimates there could be up to a million applicants to UK universities by 2030, this is not the picture for Scotland. UCAS estimates there will be fewer Scots applying to UK universities by 2030 compared to last year, decreasing by 4.4% or 1,900 fewer Scots applicants by 2030.

The downturn in Scottish students this year is largely due to a drop in demand from mature Scots (aged 21+) to below pre-pandemic levels. So far, 14,800 mature Scots have applied to a Scottish institution, down 2,500 (15%) from the previous year. This may be due to economic factors, more employment opportunities given the current buoyant employment market in Scotland, and a cool-off after higher numbers entered higher education in response to the pandemic. The trend from 2015 to 2023 is shown on the graph below.

University sector: Mature Scots applying to Scottish institutions



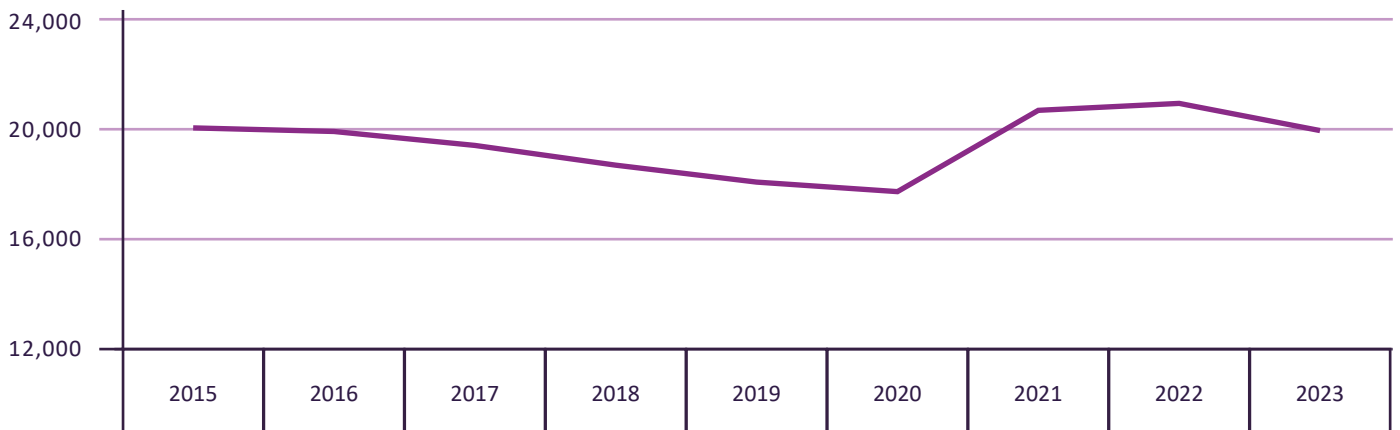
Meanwhile, demand from Scottish school leavers remains strong, with 33.9% of 18-year-olds in Scotland's population making an application in 2023, an increase of 1.6% on 2020. The trend in applications from Scottish school leavers to Scottish universities from 2015 to 2023 is shown in the following graph.

<sup>3</sup> UCAS is the Universities and Colleges Admissions Service, the UK's shared admissions service for higher education <https://www.ucas.com>





University sector: Scottish school leaver applicants to Scottish institutions



○ Scottish school leaver applicants to Scottish institutions

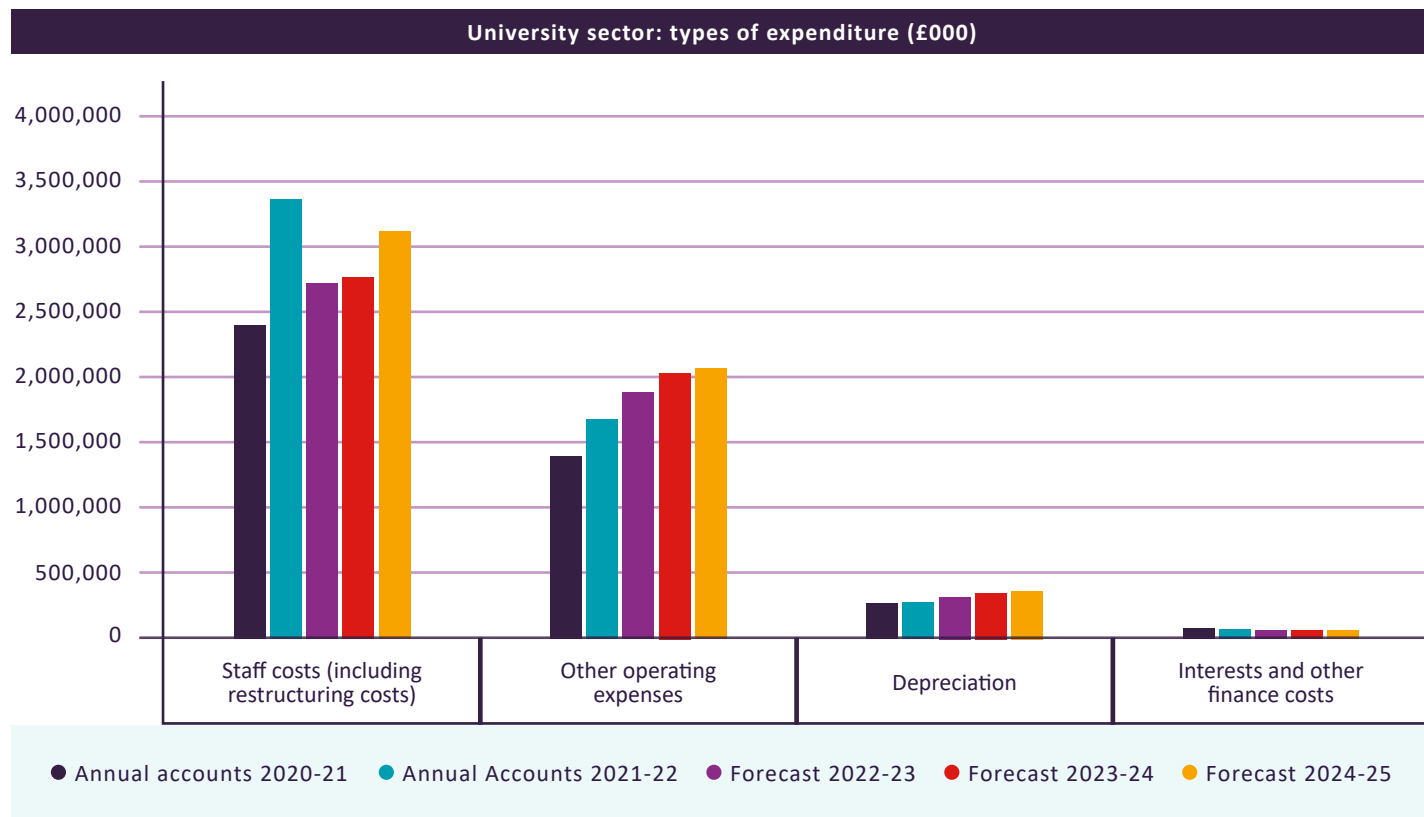
Despite a second consecutive year of decreasing accepted Scottish applicants at Scottish universities, the number of accepted young Scots remains high at 15,320. This high number of young Scots is a result of a high 18-year-old acceptance rate standing at 26.4% (third highest on record) as well as growth in the population of 18-year-olds in Scotland after a prolonged downturn.

The proportion of Scottish applicants coming from the most deprived areas (SIMD20) is at a record high for this stage in the cycle, at 16.8%, an increase of 0.2 percentage points from last year.

We are also seeing high proportions of Scotland's 18-year-olds from the most deprived areas making an application. One in five Scottish 18-year-olds from the most deprived areas have made an application in this cycle. This is a decrease of 1.5% on last year's record high but far higher than the pre-pandemic years, when we saw 17.8% applying in 2020.

## Expenditure

The graph below shows the projected movement in sector expenditure over the period from 2020-21 to 2024-25:



Staff costs are the largest element of spending for universities, representing around 55% of total sector costs. The significant drop in staff costs between 2021-22 and 2022-23 is due to a projected movement in pension scheme provisions. Excluding pension scheme provision movements, staff costs are forecast to increase by 9.7% in 2022-23, with further increases of 8.7% in 2023-24 and 5.5% in 2024-25. This reflects the rising cost of living in relation to pay settlements and rising employer pension contributions. Additionally, universities have also been making strategic staffing investments to support future growth.

The university sector incurred staff restructuring costs of £1.3m across seven universities in 2021-22 (2020-21: £9.9m across eight universities) and are projected at around £3m in 2022-23 (five universities) and 2023-24 (two universities) before they reduce to £500k in 2024-25 (one university). Universities will need to balance staff restructuring activity with their ability to deliver required outcomes and Scottish Government priorities, in particular supporting economic recovery and meeting student targets.

An additional staff cost pressure which universities are likely to face from April 2024 relates to increased employer pension contributions because of changes in the discount rate applied to the unfunded Scottish Teachers Superannuation Scheme and the NHS scheme. This is expected to drive increased contribution rates and will affect 15 universities. The UK Government intends to provide funding to affected government bodies to meet this additional cost. The Scottish Government provided additional funding to universities to support the change to the employer contribution rate from September 2019 but there is no guarantee that additional support will continue.

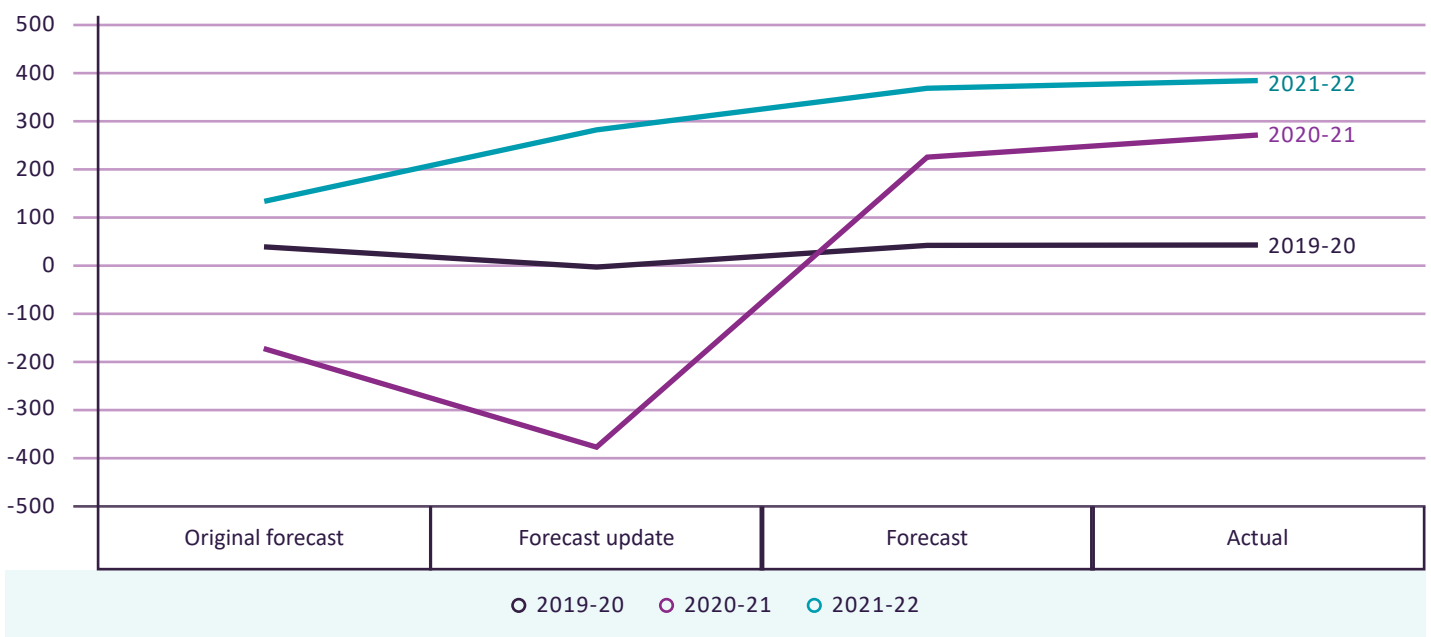
Other operating costs are forecast to increase across the period, reflecting the resumption of full campus operations. Utilities costs are expected to increase from £91.0m in 2021-22, by around £20m each year, and reach £152.5m by 2024-25 (68% increase). Inflationary pressures are also continuing to affect construction projects.

## Accuracy of forecasting

For most universities, movements between actual results and forecast figures can largely be explained by adjustments being made to react to new information. In the last few years, forecasting was difficult due to the uncertainty surrounding the continuing impact of the pandemic, coupled with recent economic uncertainty. To consider the accuracy of forecasting we use historical forecasts and compare them to the actual results. The most recent year of actual results was 2021-22 academic year.

The movements in the underlying operating position for academic years 2019-20, 2020-21 and 2021-22 are set out in the table below:

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



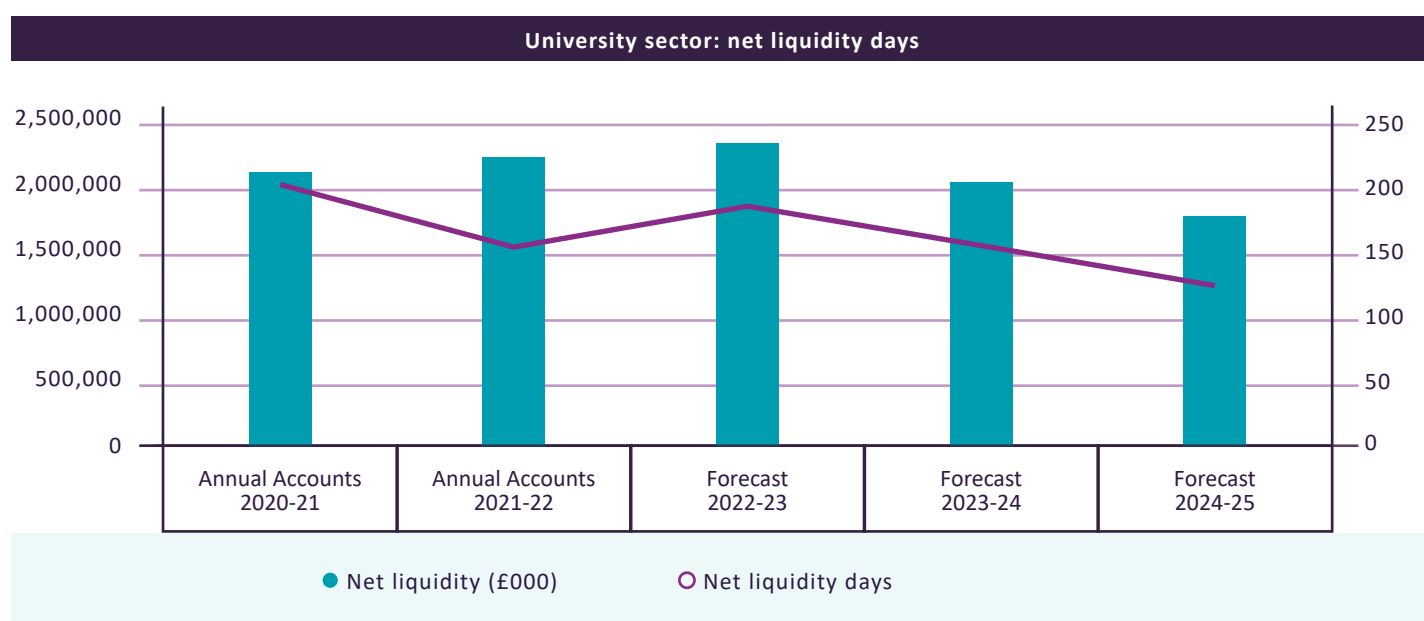
Improvements in actual outturns against forecast have occurred in most years as shown in the table and graph above. The final outturn reported in universities' 2021-22 annual accounts returns was an underlying operating surplus of £385.2m which compared favourably against the original forecast (£131.6m surplus) and was broadly in line with the June 2022 forecast (£370.2m surplus). The improvement in the underlying position from the original forecast was due to increases in SFC funding and tuition fee income combined with a small reduction in staff costs.

We will continue to work with universities on accuracy of forecasting as part of our assessment of financial returns for 2022-23 and the current academic year. While SFC recognises that universities need to make adjustments to their forecasts as they react to new information, they should ensure that their forecasts are as accurate and dependable as possible in future years.

## Financial position – strength and resilience

### Liquidity

Cash balances and number of days expenditure held in cash reserves are key performance indicators. Maintaining short-term liquidity is critical and universities' focus during the COVID-19 pandemic was on protecting cash reserves and thereby their ability to absorb short-term operational deficits. Several universities have agreed overdraft or revolving credit facilities with lenders to provide additional headroom but none made use of these available funds. The graph below shows levels of sector cash reserves and days ratio of cash to total expenditure over the period from 2020-21 to 2024-25.



Cash and equivalent reserves are forecast to increase by 5% from £2,259m at the end of July 2022 to £2,371m by the end of July 2023. This reflects the improved operating position, delays in implementing capital programmes and additional loans drawn down but not fully utilised (e.g. Financial Transaction loans from SFC).

Cash reserves are expected to reduce after 2022-23 to £1,791m by the end of July 2025 due to the declining operating position of some universities and the expected outlays on major capital programmes put on hold during the pandemic. Most of the capital spend is expected to be self-financed. No institution reported or is forecasting a cash deficit throughout the forecast period but cash levels vary considerably across the sector, ranging from 32 days to 264 days expenditure held in cash at the end of July 2023.

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

## Cash flow

Net cash inflow from operating activities is an important measure of universities' financial health as it does not include any items of non-cash expenditure (such as depreciation, amortisation and adjustments for pension liabilities), or income from and expenditure on financing activities. It illustrates a university's ability to generate sufficient cash to repay debt and for estates investment. The graph below shows the sector's net cash inflow as a percentage of total income over the period 2020-21 through to 2024-25.

The sector reported a net cash inflow of £558.1m in 2021-22 which represented a 19% decrease on the previous year (£685.2m). At the sector level, the net cash inflow as a proportion of total income decreased from 16% in 2020-21 to 11% in 2021-22. Two universities reported an outflow of cash from operating activities during 2021-22.

Cash generated from operations in the sector is forecast at £328.4m in 2022-23. The sector net cash inflow as a proportion of total income is expected to reduce significantly from 11% in 2021-22 to 5% in 2024-25.

University sector: net cash flow from operating activities

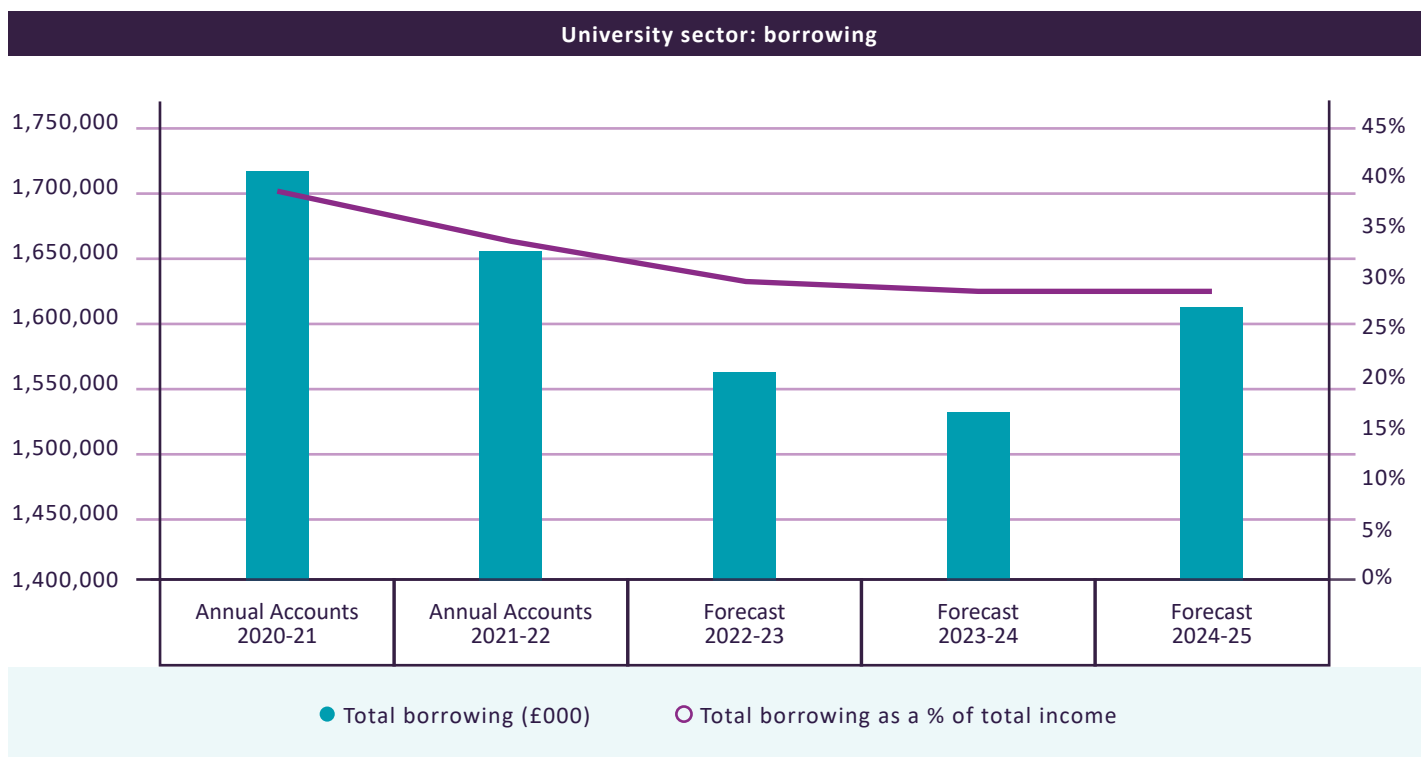


● Net cash flow from operating activities (£000) ○ Average net cash flow from operating activities as % of total income

Performance varies considerably between universities. Two universities reported a net cash outflow during 2021-22. Three universities forecast a net cash outflow during 2022-23 but this is expected to reduce to two in 2023-24 and further reduce to one in 2024-25.

## Borrowing

The graph below shows the sector's borrowing and the ratio of borrowing as a percentage of total income over the period from 2020-21 to 2024-25.



Total long-term borrowing is forecast to decrease by 3%, from £1,656m at the end of July 2022 to £1,613m at the end of July 2025. This is due to repayment of traditional loan debt by instalments and early repayment of some long-term debt. Two universities are forecasting an increase in debt in 2024-25. The ancient universities account for the bulk of the sector borrowing which is expected to stay at around 30% of total sector income.

Private Placements currently account for 60% of the sector's borrowing. This type of borrowing involves large bullet payments at set points in the future with interest paid in the intervening years. Universities with this form of borrowing will have to ensure they have the necessary funds to repay at the set points. Of the total sector debt of £1,613m projected at the end of July 2025, £131.2m (8.1%) relates to SFC Financial Transaction loans.

Many universities are currently re-assessing estates development programmes and are not committing to future borrowing. Universities have provided assurances that they are engaging on a regular basis with lenders and keeping them fully appraised. No covenant breaches are forecast. Lenders still view the sector as relatively low risk and their view of the risks facing the sector broadly accords with our assessment. Lenders have indicated that environmental sustainability conditions are likely to be incorporated into future lending agreements.

## Capital Expenditure

Total capital expenditure amounted to £468m during 2021-22, 3% lower than the previous year's £484m. Total sector capital expenditure for 2022-23 is forecast at £505m (18% increase). 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 spending is projected to increase by 26% to £638m in 2023-24 and a further 16% to £738m in 2024-25. Universities expect to finance this expenditure through grants, borrowing, retained proceeds of sale from property, internal funds and other external sources.

## Pension Liabilities

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

The overall sector pension liability increased from £1,295m at the end of July 2021 to £1,479m by the end of July 2022. Two universities recognised a pension asset in respect of the improvement in investment performance with a further eight universities reporting improved liabilities. One institution reported a nil balance. The difference in disclosure and treatment for the institution which reported a nil balance is because of a different audit approach which capped the recognition of the beneficial movement.



Photo: University of the Highlands & Islands

## Transparent Approach to Costing (TRAC<sup>4</sup>) and sustainability

Our understanding of the performance of Scotland's universities can be improved by considering income crossflows within an institution, highlighted through the TRAC data, the impact they have on financial sustainability and the benefits or issues they create. The Office for Students (OfS) collects TRAC data from all UK universities annually. When assessing TRAC results, it is important to take a multi-year view as the adoption of the FRS 102 accounting standard has resulted in greater volatility in reported surpluses or deficits.

Scottish universities recovered 99.2% of Full Economic Costs (total expenditure plus a Margin for Sustainability and Investment (MSI)) in 2021-22. However, the position varies across universities. The recovery percentage for the UK as whole was 95.6%.

The table below shows the build-up of full economic costs with the inclusion of the MSI reflecting the costs of maintaining infrastructure and the return required for finance and investment. The MSI reflects an institution's own circumstances and is forward looking, with forecast information included in the calculation. The MSI adds £353m to the reported costs, representing 7.28% of expenditure (2020-21: £310m, 6.73% of expenditure).

### Construction of Scottish sector Full Economic Costs 2021-22

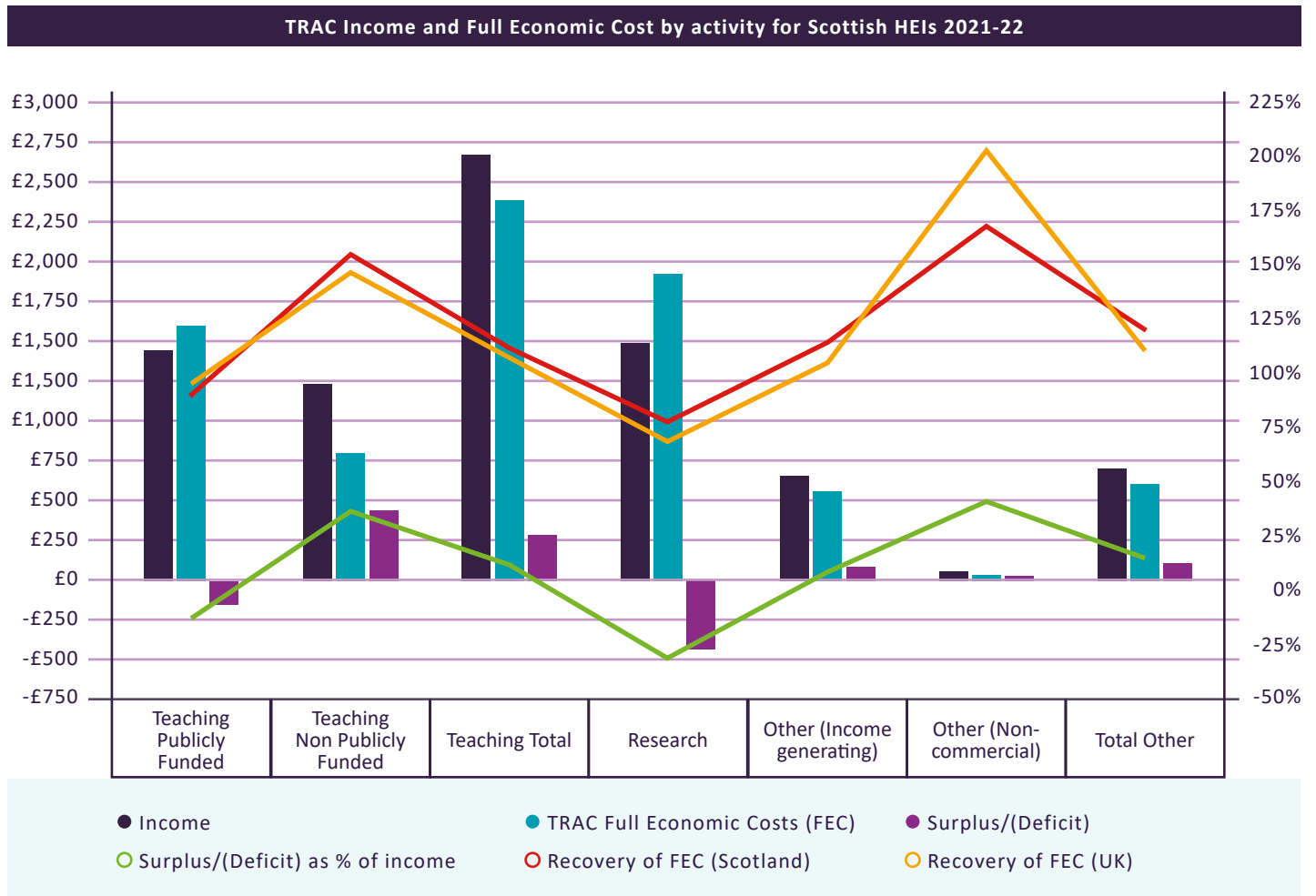
|                                                                    | 2021-22 Total £m | % of income   |
|--------------------------------------------------------------------|------------------|---------------|
| Total income per audited financial statements for 2021-22 (a)      | 4,856            |               |
| Total expenditure per audited financial statements for 2021-22 (b) | 4,544            |               |
| Operating surplus/(deficit) per financial statements               | <b>312</b>       | <b>6.43%</b>  |
| Margin for Sustainability and Investment (c)                       | <b>353</b>       | <b>7.28%</b>  |
| Full Economic Cost per TRAC (b) + (c)                              | <b>4,897</b>     |               |
| FEC Surplus/(deficit) per TRAC                                     | <b>(41)</b>      | <b>-0.84%</b> |

NB: TRAC takes total income and expenditure figures from annual financial statements with adjustments to compensate for technical accounting entries such as changes in pensions provisions.

<sup>4</sup> All universities in the UK use the Transparent Approach to Costing (TRAC) methodology for costing their activities. TRAC was introduced in 2000 with a view to improving accountability for the use of public funds for research and to inform university decision making. TRAC was subsequently extended to other university activities, including teaching. The methodology for calculating TRAC was adjusted in 2015-16 to reflect changes resulting from the introduction of the FRS 102 accounting standard. For further information on TRAC on [SFC's website](#).



The graph below shows total income and Full Economic Cost (total expenditure plus MSI) for the categories of HE activity in 2021-22. It also shows the recovery of Full Economic Cost (income as a percentage of FEC) for each activity both for Scotland and for the UK as a whole for comparison.



Scotland is performing slightly better than the UK as a whole in recovering Full Economic Cost (FEC) on non-publicly funded teaching, research activities and other income-generating activities. However, it still falls short of 100% recovery on publicly funded teaching and research, and therefore contributions generated by non-publicly funded teaching and other income generating activities are being used to meet these costs. In other words, privately funded teaching and other income generating activities subsidise publicly funded teaching and research.

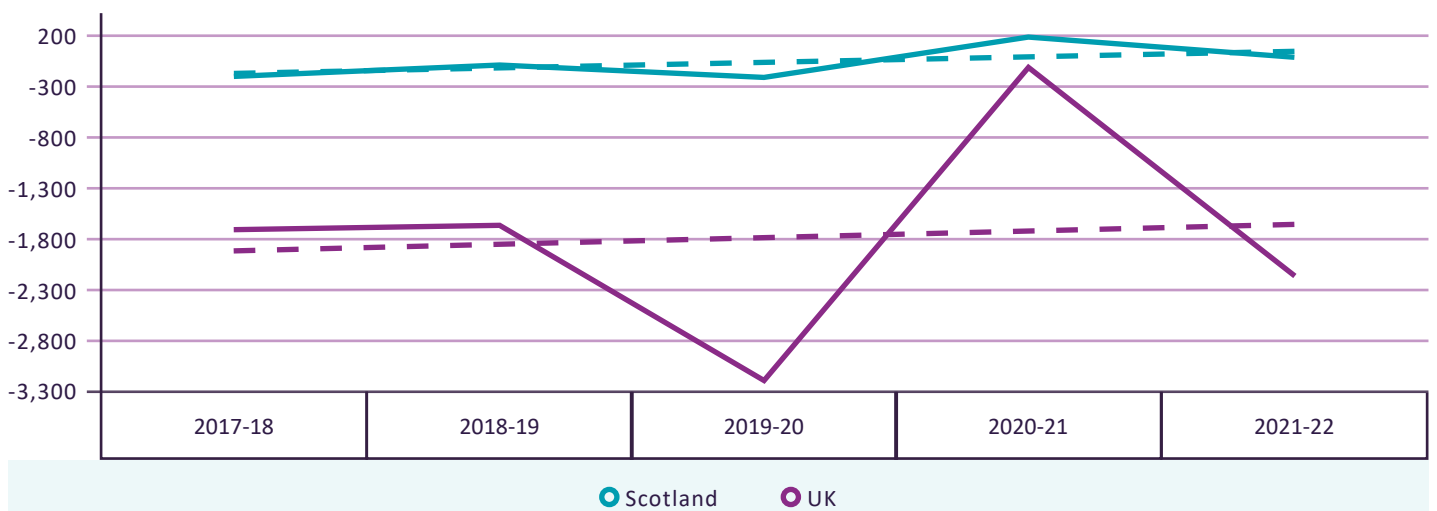
The management of loss-making research by cross-subsidy from surplus-generating activities should be seen as part of an interconnected set of university activities. It is a strategic ambition of leading Scottish universities to be positioned on the global stage and to be peers with world class universities. In addition, the international research reputation of universities and their position in league tables affects the recruitment of international students. The surplus from those international students assists with the sustainability of the research activity. Research reputation drives other income and strengthens staff recruitment and business relationships. Therefore, the TRAC deficit from research must be viewed in the context of the overall university strategy and management.

Universities will also use their own funds and income crossflows in other activities to support their overall sustainability which involves generating an appropriate level of surplus. This will differ from institution to institution according to their circumstances.

To draw informative conclusions, it is important to look at trends over a four or five-year period. The impact of the pandemic from 2019-20 onwards should also be borne in mind.

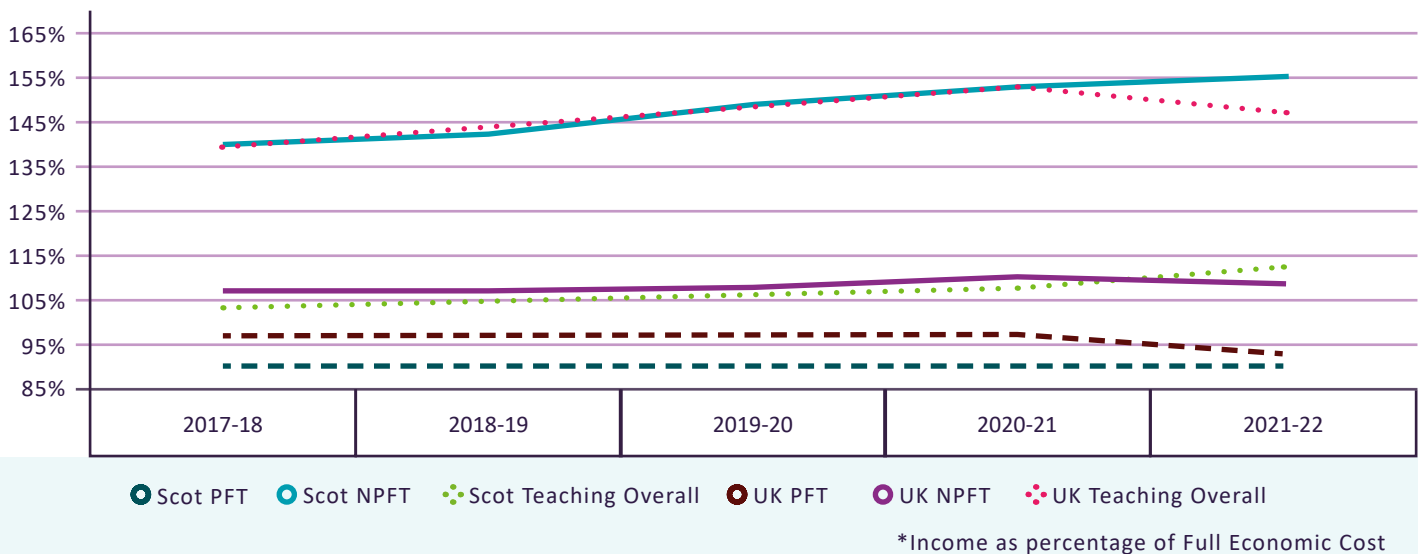
The graph below shows that the Sustainability Gap (FEC minus income) has been volatile, in part due to the pandemic and subsequent lockdowns, but with the overall trend being a gradual reduction in the Sustainability Gap in both Scotland and the UK.

Sustainability Gap trend – Scotland and UK (£m)



Of particular interest in recent years has been the financial performance of teaching. The graph below shows that the gap between Scotland and the UK in the recovery of FEC for publicly funded teaching has narrowed slightly.

Teaching FEC Recovery\*

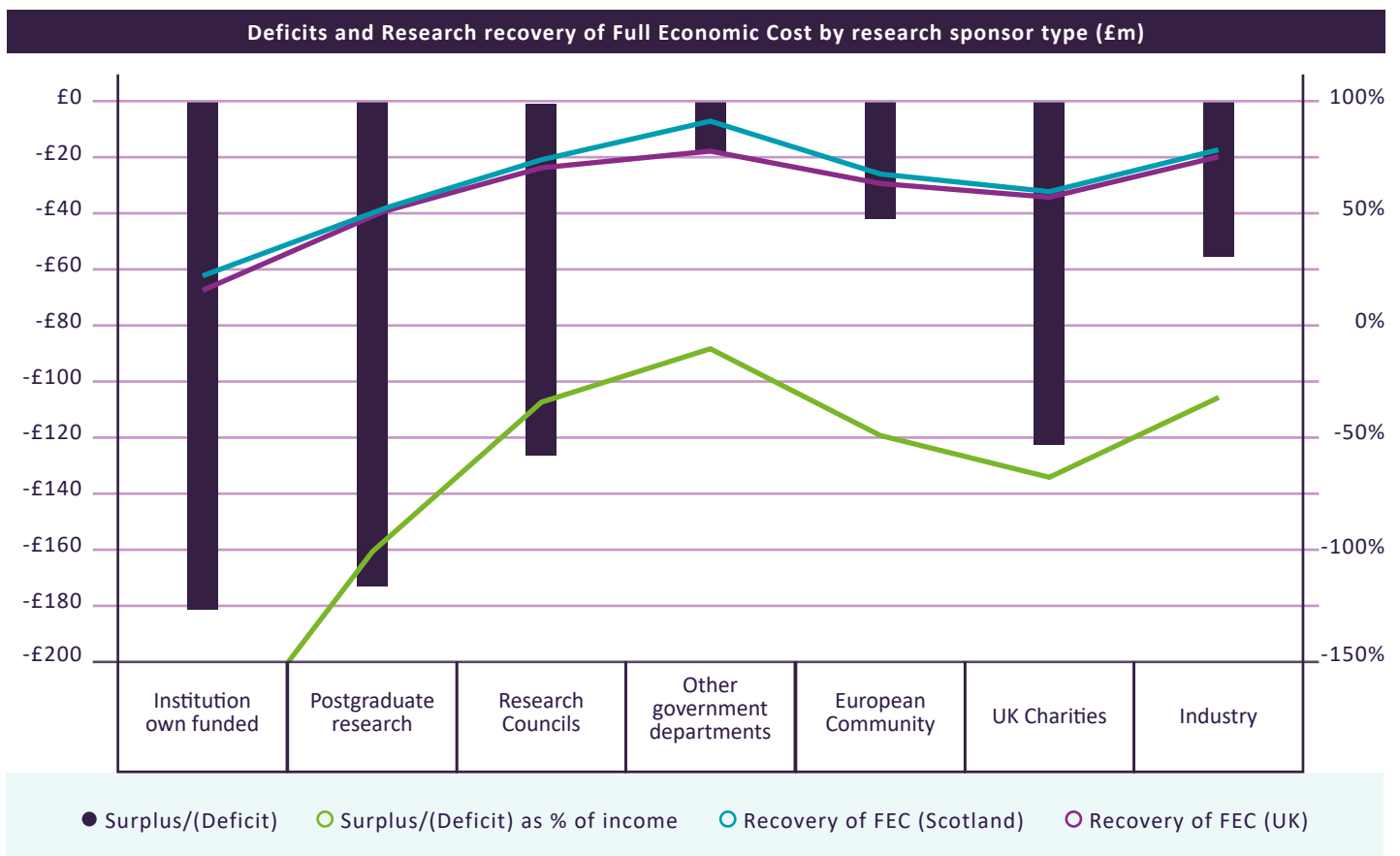


\*Income as percentage of Full Economic Cost

Scotland’s FEC recovery in non-publicly funded teaching has steadily improved over the years and this, together with a reduction for the UK, has resulted in the Scottish FEC recovery for teaching as a whole moving above the UK figure in 2021-22.

Recovery of FEC is most successful through non-publicly funded teaching. This is largely reliant on international student recruitment which is uncertain and carries demand risks. The data for Scotland shows an increase year on year whereas the UK trend shows a decrease in 2021-22.

The area with the lowest recovery of full economic costs is research activity albeit Scotland performs better than the UK as a whole. The graph below breaks down the recovery on research in Scotland in 2021-22 by research sponsor type:



The graph shows that the levels of FEC recovered vary by category of research sponsor. The graph highlights that not only is there a flow of income from activities other than research but that the extent of the crossflows varies according to which organisation is funding the research. Research Council funding represents the largest sponsor of funding in volume terms and will have the largest impact.

The reasons for this vary. In some cases, certain funders do not fund overheads, or require an element of matched funding from the institution. The differential rates of FEC recovery will lead universities to become more selective about the research funders they choose to work with in terms of financial recovery. However, it is challenging for universities to maintain optimal FEC recovery on research activity given the limited portfolio of funders, the way projects span over several years and the need for continual income flows to support the cost base.

## Annex A: Summary: university sector operating position, underlying operating position

|                                           | University sector: operating position, underlying operating position |                     |                               |                     |
|-------------------------------------------|----------------------------------------------------------------------|---------------------|-------------------------------|---------------------|
|                                           | Operating surplus/(deficit)                                          |                     | Underlying operating position |                     |
|                                           | 2020-21 Actual £000                                                  | 2021-22 Actual £000 | 2020-21 Actual £000           | 2021-22 Actual £000 |
| University of Aberdeen                    | 6,982                                                                | (52,745)            | 7,179                         | (45,566)            |
| University of Edinburgh                   | 127,340                                                              | (91,595)            | 112,851                       | (78,744)            |
| University of Glasgow                     | 117,257                                                              | (73,366)            | 126,924                       | (46,437)            |
| University of St Andrews                  | 40,517                                                               | (24,780)            | 44,269                        | (20,511)            |
| <b>Ancient universities</b>               | <b>292,096</b>                                                       | <b>(242,486)</b>    | <b>291,223</b>                | <b>(185,258)</b>    |
| University of Dundee                      | 6,678                                                                | (53,441)            | 4,734                         | (48,707)            |
| Heriot-Watt University                    | 2,199                                                                | (34,722)            | 7,210                         | (37,513)            |
| University of Stirling                    | 11,552                                                               | (13,397)            | 3,920                         | (9,477)             |
| University of Strathclyde                 | (9,550)                                                              | (132,639)           | (12,110)                      | (120,529)           |
| <b>Chartered universities</b>             | <b>10,879</b>                                                        | <b>(234,199)</b>    | <b>3,754</b>                  | <b>(286,226)</b>    |
| Abertay University                        | (923)                                                                | (380)               | (948)                         | (728)               |
| Glasgow Caledonian University             | (2,146)                                                              | (2,016)             | 6,712                         | (7,874)             |
| Edinburgh Napier University               | (2,686)                                                              | (6,709)             | 5,962                         | (3,427)             |
| Queen Margareth University                | (1,851)                                                              | (406)               | 519                           | (2,738)             |
| Robert Gordon University                  | (2,524)                                                              | (172)               | 1,997                         | (4,693)             |
| University of the Highlands & Islands     | (4,052)                                                              | (9,944)             | (2,366)                       | (12,310)            |
| University of the West of Scotland        | 1,626                                                                | 10,747              | 8,451                         | (7,074)             |
| <b>Modern universities</b>                | <b>(12,556)</b>                                                      | <b>(8,880)</b>      | <b>20,327</b>                 | <b>(31,763)</b>     |
| Glasgow School of Art                     | (8,320)                                                              | 612                 | (1,396)                       | (7,324)             |
| Royal Conservatoire of Scotland           | 239                                                                  | (1,685)             | 253                           | (1,193)             |
| Scotland's Rural College                  | (882)                                                                | (788)               | (863)                         | (1,651)             |
| <b>Small Specialist Institution (SSI)</b> | <b>(8,963)</b>                                                       | <b>(1,861)</b>      | <b>(2,006)</b>                | <b>(12,830)</b>     |
| <b>Sector Total</b>                       | <b>281,456</b>                                                       | <b>(487,426)</b>    | <b>313,298</b>                | <b>(693,287)</b>    |

## Position, liquidity and borrowing

| Operating position, liquidity and borrowing |                                          |                     |                     |                     |
|---------------------------------------------|------------------------------------------|---------------------|---------------------|---------------------|
| Surplus/(deficit)                           | Cash and cash equivalents less overdraft |                     | Borrowing           |                     |
| 2021-22 Actual £000                         | 2020-21 Actual £000                      | 2021-22 Actual £000 | 2020-21 Actual £000 | 2021-22 Actual £000 |
| 6,722                                       | 110,527                                  | 108,600             | 127,913             | 117,203             |
| 142,630                                     | 734,518                                  | 663,409             | 598,231             | 556,232             |
| 146,662                                     | 503,568                                  | 583,221             | 252,667             | 251,752             |
| 31,735                                      | 51,723                                   | 43,605              | 115,694             | 110,627             |
| <b>327,749</b>                              | <b>1,400,336</b>                         | <b>1,398,835</b>    | <b>1,094,505</b>    | <b>1,035,814</b>    |
| (3,146)                                     | 105,109                                  | 99,873              | 16,293              | 15,022              |
| 8,422                                       | 105,371                                  | 112,619             | 146,229             | 147,544             |
| 18,599                                      | 77,839                                   | 83,652              | 113,424             | 103,036             |
| (7,906)                                     | 148,867                                  | 184,108             | 124,903             | 124,062             |
| <b>15,969</b>                               | <b>437,186</b>                           | <b>480,252</b>      | <b>400,849</b>      | <b>389,664</b>      |
| 2,244                                       | 19,074                                   | 12,846              | 10,832              | 10,118              |
| 12,243                                      | 45,550                                   | 70,043              | 6,095               | 5,191               |
| 3,504                                       | 54,706                                   | 70,161              | 10,250              | 10,021              |
| 3,097                                       | 15,607                                   | 15,244              | 27,724              | 21,196              |
| 5,381                                       | 36,651                                   | 53,520              | 37,492              | 36,852              |
| (4,213)                                     | 28,603                                   | 31,494              | 36,478              | 35,272              |
| 17,726                                      | 33,901                                   | 61,488              | 85,790              | 83,470              |
| <b>39,982</b>                               | <b>234,092</b>                           | <b>314,796</b>      | <b>214,661</b>      | <b>202,120</b>      |
| 3,834                                       | 31,146                                   | 22,155              | 10,689              | 9,971               |
| (1,722)                                     | 6,767                                    | 6,928               | 1,352               | 1,286               |
| (593)                                       | 26,514                                   | 36,106              | 5,999               | 17,372              |
| <b>1,519</b>                                | <b>64,427</b>                            | <b>65,189</b>       | <b>18,040</b>       | <b>28,629</b>       |
| <b>385,219</b>                              | <b>2,136,041</b>                         | <b>2,259,072</b>    | <b>1,728,055</b>    | <b>1,656,227</b>    |

## Annex B: University groupings

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

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

### Ancient universities

University of Aberdeen,  
University of Edinburgh,  
University of Glasgow and  
University of St Andrew.

### 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: Robert Gordon University



**Cover Photos:**

Edinburgh Napier University

University of Aberdeen

University of Glasgow

University of Dundee

University of the Highlands & Islands



Scottish Funding Council  
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