

A Degree of Fairness: Fixing Scotland's University Funding Crisis

FAST FACTS

- Universities in Scotland are facing major financial difficulties.
- Audit Scotland reported that the financial situation for most modern and chartered universities had got worse between 2014/15 & 2017/18.
- Universities with high levels of non-EU students were previously better placed, but now face uncertainty due to the pandemic.
- Action is required to examine long-term solutions to the financial problems facing the sector.
- Reform Scotland believes there needs to be a better funding balance, with the individual graduate as well as taxpayers contributing towards higher education.
- Graduates should contribute towards the cost of their higher education by means of a deferred fee, to be repaid once they earn more than the Scottish average salary.
- Such a fee repayment system should not deter anyone from entering higher education because the amount paid is based on future earnings. If the earnings threshold is never crossed, it is not repaid.
- The Scottish Government should stop paying support for EU students starting courses from 2021/22. It would be bizarre for the Scottish Government to support students from a union (EU) we have left while charging those from a union (UK) in which we remain.

CONTEXT

Covid-19 is affecting all aspects of life in Scotland. Some impacts are immediate but in areas where we can hopefully, eventually, return to something-like-normal. In other areas the impact will be more long-lasting and hits sectors already under pressure.

University finance falls into the latter category.

In Scotland, Scottish-domicile students and EU students currently have their tuition fees paid by the Scottish Government. The universities use income from rUK and Non-EU international students to subsidize the cost of state-financed students and the cost of research. However, the current global pandemic is likely to lead to a very substantial decline in international student recruitment, resulting in significant financial pressure. According to Audit Scotland, non-EU and rUK fee-paying students accounted for 20% of the sector's income in 2017/18.¹

Universities Scotland estimates that a 50% drop in non-EU international students would result in losses of £435m in 2020/21, the equivalent of 70% of the Scottish Funding Council's annual teaching grant.² As the organisation highlights, every fee-paying student who would have started in the autumn and doesn't, is a four or five-year cumulative loss.

However, the crisis is hitting a sector that was otherwise not in rude health. In September 2019 Audit Scotland³ reported that more than half of all Scottish universities were in deficit, and the position had got worse since 2014/15

¹ https://www.audit-scotland.gov.uk/uploads/docs/report/2019/nr_190919_finances_universities.pdf

² <https://www.universities-scotland.ac.uk/wp->

<content/uploads/2020/04/COVID-19-HE-finances-v1.0.pdf>

³ https://www.audit-scotland.gov.uk/uploads/docs/report/2019/nr_190919_finances_universities.pdf

for most chartered and modern universities. The sector was also facing financial pressure as a result of pensions contributions, EU withdrawal and estate maintenance. (Although the impact of these issues varies by institution.)

Action is required to examine long-term solutions to the financial problems facing the sector. This briefing builds on Reform Scotland's 2010 report, Power to Learn, and calls for a deferred fee to be introduced for higher education in Scotland.

BACKGROUND

Universities and Students

There are 19 universities in Scotland, which are split into four categories:

Ancient:

- University of Aberdeen
- University of Edinburgh
- University of Glasgow
- University of St Andrews

Chartered universities:

- University of Dundee
- Heriot-Watt University
- University of Stirling
- University of Strathclyde

Modern universities:

- Abertay University
- Edinburgh Napier University
- Glasgow Caledonian University
- University of the Highlands & Islands⁴
- Queen Margaret University
- Robert Gordon University
- University of the West of Scotland.

⁴ UHI is unlike other universities in the sector because it delivers higher and further education through a partnership of 13 colleges, research institutes and specialist institutions across the Highlands and Islands – Audit Scotland

Small and specialist institutions:

- Glasgow School of Art
- Royal Conservatoire of Scotland
- Scotland's Rural College
- The Open University in Scotland (OU).

The Scottish Government pays the tuition fees of Scottish and EU students. Non-EU international students and rUK students pay fees and are an important source of revenue.

According to Audit Scotland, between 2014-15 and 2017-18, the number of non-EU students attending Scottish universities increased by 13 per cent and income from non-EU student fees increased by 31 per cent, to £599 million, over the same period.⁵

However, the level of non-EU fee-paying students, or indeed rUK fee-paying students, varies considerably across the institutions. Modern and chartered universities have a far higher proportion of Scottish students, as Table 1 at the end of the briefing highlights.⁶ While 32% of first degree students at St Andrews and 20% at Edinburgh are non-EU students, for 13 of the 19 institutions the level is less than 10%. (It is less than 5% at nine institutions.)

Looking at students from rUK, while they make up more than 30% of first degree students in Edinburgh and St Andrews, the level is less than 5% at eight of the institutions. At Strathclyde, Robert Gordon, Glasgow Caledonian, Abertay, SRUC, West of Scotland, Highlands & Islands and the Open Universities

⁵ Audit Scotland, 2019

⁶ <https://www.hesa.ac.uk/news/16-01-2020/sb255-higher-education-student-statistics/location>

more than 80% of first degree students come from Scotland.

Pre Covid-19 financial situation

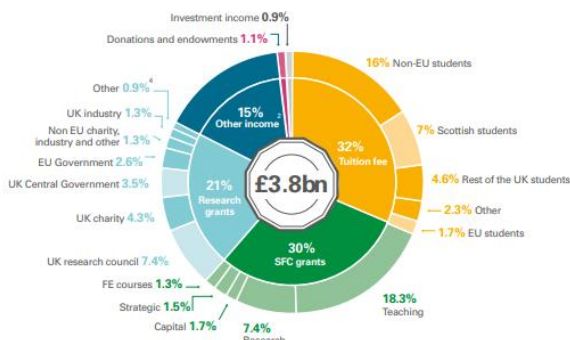
In September 2019 Audit Scotland published a report into the finances of Scotland's universities. The report highlighted the wide variation in finances across the sector:

"While the sector overall is in good financial health, this masks significant variation across universities, and many sector-level indicators are disproportionately affected by the financial results of three of the four ancient universities."

More than half of Scotland's universities were in deficit in 2017-18 and for most modern and chartered universities the position was worse than in 2014-15.⁷

Income from non-EU students was highlighted as an important revenue stream and represented 16% of university income in 2017/18.

Income profile for the university sector in 2017-18
Tuition fees were the single largest source of income for Scottish universities in 2017-18 (32 per cent of total income).
Income from SFC grants ranged from 15 per cent at St Andrews to 75 per cent at UHI.¹



Source: Audit Scotland, 2019

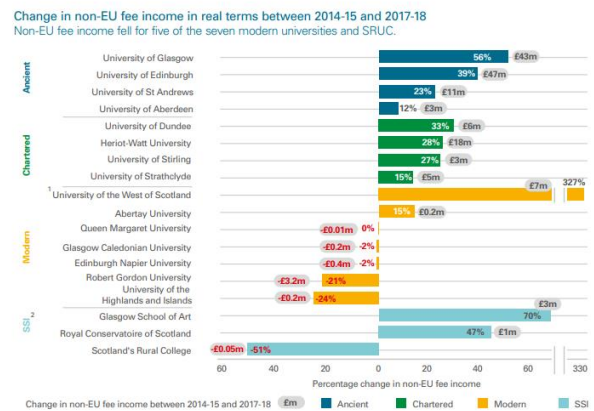
There is no restriction on the fee universities can charge to non-EU students. For

⁷ Audit Scotland, 2019 https://www.audit-scotland.gov.uk/uploads/docs/report/2019/nr_190919_finances_universities.pdf

⁸⁸ Audit Scotland, 2019 https://www.audit-scotland.gov.uk/uploads/docs/report/2019/nr_190919_finances_universities.pdf

undergraduate courses, annual fees ranged from £11,000 at the University of the West of Scotland for a classroom-based course to £49,000 at Edinburgh for a clinical degree.⁸

Although income from non-EU student fees increased by £143 million (31 per cent), this varied considerably across the sector:



Notes:
1. In its 2017-18 financial statements, the University of the West of Scotland attributes an increase in non-EU fee income to significant recruitment following the opening of its London campus in 2016.
2. Small and specialist institutions
Source: Audit Scotland Higher Education Provider Data: Finance, Higher Education Statistics Authority, March 2016 and 2019, and university financial statements (2014-15 to 2017-18).

Source: Audit Scotland, 2019

Finances and Covid-19

The Audit Scotland report highlighted that universities which had low levels of non-EU students and their fee income also tended to be those that were more likely to be in deficit.

Three of the four Ancient universities have high percentages of non-EU students. It is worth noting that the one ancient university with a low percentage of first degree non-EU students in 2018/19,⁹ Aberdeen, was also the only ancient university with a deficit in the Audit Scotland report.

[iversities.pdf](#)

⁹ <https://www.hesa.ac.uk/news/16-01-2020/sb255-higher-education-student-statistics/location>

There are, of course, many other factors which have an impact on the financial health of the higher education sector in Scotland. For example, the Audit Scotland report highlights pension contributions, capital maintenance and the impact of Brexit. However, the tuition fees from non-EU students is clearly an important revenue source and one which varies widely across the sector.

Prior to the current pandemic the majority of Scotland's universities were already in deficit and struggling financially.

Coronavirus has extended those financial worries to all universities. Universities Scotland has estimated that a mid-range drop in non-EU students could result in a loss of £435m in 2020/21.¹⁰

Whereas previously the strength of the ancient universities perhaps masked financial issues in the sector, the weak position is now clearer.

Coronavirus did not cause the wider financial problems within the higher education sector, however it has helped shine a brighter light on the cracks.

In addition, the wider economy and Scottish budget are under increasing pressure. While the Scottish Government may have to help the sector in the short term, longer-term solutions are needed. As a result, Reform Scotland believes that now is the time to look again at how we pay for tuition in Scotland, and who we pay for.

The history of tuition fees in Scotland

Funding for undergraduate higher education in Scotland changed a number of times between 1998 and 2008.

In 1996, the then Conservative Government commissioned Sir Ronald Dearing to lead a national committee of inquiry into the funding of higher education throughout the UK. At this point in time higher education was free at the point of use and students were entitled to receive means-tested grants. Since 1991, the government had been gradually reducing the value of the grant and replacing it with non-means-tested loans.

The committee reported in July 1997, calling for the abolition of grants and a shift to a mixed system of tuition fees supported by low-interest government loans. Later that year, the then Labour Education Secretary David Blunkett announced that means-tested, up-front tuition fees of £1,000 would be introduced and maintenance grants would be scrapped and replaced with student loans. The changes were introduced throughout the UK in 1998.

However, devolution brought together a Labour/ Liberal Democrat coalition as the first Scottish Executive and while Labour backed the tuition fees introduced by their colleagues at Westminster, the Liberal Democrats had campaigned on scrapping the fee altogether. Since all other parties elected to the parliament also opposed the system of fees, the Liberal Democrats could insist that a review of student finance was a condition of their joining the coalition.

¹⁰ <https://www.universities-scotland.ac.uk/wp-content/uploads/2020/04/COVID-19-HE-finances-v1.0.pdf>

As a result, in July 1999 Andrew Cubie was asked to lead a commission examining the issue of student finance in Scotland.

The Cubie report called for up-front tuition fees to be replaced with a Scottish graduate endowment scheme, whereby the Scottish Executive paid the fees and students would be required to pay £3,000 of it back when their earnings reached £25,000 a year. Bursaries for low income families were also recommended.¹¹

The then Scottish Executive agreed to abolish tuition fees and introduce a graduate endowment from 2001-02, while the first students became liable to pay the fee on April 1, 2005. However, the scheme instead called for students to pay back £2,000 once they started earning over £10,000.

The graduate endowment scheme remained in place until legislation from the SNP Government was passed by the Scottish Parliament in February 2008. The Graduate Endowment Abolition (Scotland) Act meant students who graduated on or after April 1 2007 no longer needed to pay anything towards the cost of their undergraduate tuition.¹²

That position remains the case today in Scotland, where students from Scotland and the EU have their tuition fees paid for by the taxpayer.

As a result of the Scottish Government paying for these places there is an annual cap on the

number of places that can be offered to eligible Scottish and EU students. There is, however, no cap on the number of fee-paying students from the rest of the UK or from outside the EU.¹³

This means that Scottish universities have to be able to roughly match the number of places it offers to Scottish and EU students with the funded places that are available that year. As a result, some applicants who meet the entry requirements may not be offered a place.¹⁴

EU law meant that EU citizens could not be treated differently to the home nation. As a result, EU students are provided with the same tuition fees support as Scottish-domicile students. However, because it is possible to discriminate within an individual member state, the Scottish Government doesn't need to meet the costs of students from the rest of the UK.

On April 19 this year the Scottish Government confirmed that EU students who study in Scotland in 2020/21 will be treated the same as Scottish students for the entirety of their courses.¹⁵

According to the Students Awards Agency for Scotland (SAAS), there were 148,890 students receiving support from the agency in 2018/19. Of those, 10.3% were EU-domiciled students and received £32.1 million in support in academic session 2018-2019. The equivalent figure for Scottish students was £862.2million.¹⁶ The proportion of EU students receiving support has increased in recent years, as illustrated below:

[tuition-in-scotland/](#)

¹¹ Dobson, A, " The Cubie Report explained", The Guardian, 28 January 2000

¹² <http://www.scotland.gov.uk/News/Releases/2008/02/28172530>

¹³ SPICe, <https://spice-spotlight.scot/2019/12/18/the-price-of-free-tuition-in-scotland/>

¹⁴ SPICe, <https://spice-spotlight.scot/2019/12/18/the-price-of-free-tuition-in-scotland/>

¹⁵ <https://www.gov.scot/news/extension-of-free-tuition-for-eu-students/>

¹⁶ <https://www.saas.gov.uk/files/400/saas-statistics-2018-19.pdf>

	2009/10	2018/19	change
Total FT students receiving support	130,660	148,890	18,230 (14%)
Scots domiciled	119,660	133,580	13,920 (11.6%)
Scots as %	91.6%	89.7%	-1.9
EU domicile	11,020	15,310	4,290 (38.9%)
EU as %	8.4%	10.3%	+1.9

There has been an increase of 18,230 FT students receiving support from the SAAS since 2009/10. While the number of Scottish students has increased by 11.6% over the period, the number of EU students has increased by 38.9%¹⁷

POLICY RECOMMENDATIONS

Deferred fee: Universities in Scotland are facing serious financial difficulties. A number of modern and chartered institutes had growing deficits before the current pandemic. Those universities which were in better health also tended to be more reliant on non-EU fee income, which is now under considerable threat.

While it is true to say that society as a whole benefits from having a well-educated workforce, the individual graduates themselves also benefit from the higher earnings they accrue. At present in Scotland, only wider society pays for graduates who are originally from Scotland through the tax system, while the graduate does not contribute in any way that reflects the personal financial benefit from having a degree.

¹⁷ <https://www.saas.gov.uk/files/400/saas-statistics-2018-19.pdf>

¹⁸ Repayment of student loans is by a 9% supplement to income above the specified threshold, which for Scottish students is

(Although graduates may earn more and subsequently pay more tax, many successful top-rate taxpayers may not have gone to university, so higher tax contribution should not be seen as payment towards higher education.)

There needs to be a better balance between the individual graduate and taxpayers in contributing towards higher education.

As a result, Reform Scotland believes the issue of higher education funding in Scotland must be reexamined and that **graduates should contribute towards the cost of their higher education by means of a deferred fee, to be repaid once they earn more than the Scottish average salary. The rate of payment of the fee would be proportionate to earnings above a specified threshold, in the same way as student loans are repaid.**¹⁸

Higher education cannot be seen as an entitlement in the way school education is – it is something that has to be academically achieved. Therefore it is unfair that those who go to university have their time there paid for by taxpayers, many of whom have not had that opportunity.

To achieve balance, Reform Scotland believes that a form of deferred fee should be introduced. The Scottish Government would continue to fund a set proportion of the average cost of a degree in the chosen field and the deferred fee incurred by the student would meet the additional cost. The deferred fee would only be re-paid once the graduate was earning more than the Scottish average salary.¹⁹ The Scottish Government could also

currently an annual salary of £20k: see

<https://www.gov.uk/repaying-your-student-loan/what-you-pay>

¹⁹ According to the Annual Survey of Hours & Earnings 2019, the

look to introduce schemes which cut or scrap repayments for graduates who remain in Scotland working in certain sectors for set periods of time.

Such a fee repayment system should not deter anyone from entering higher education because the amount would not need to be repaid if the earnings threshold is never crossed. Martin Lewis explained on his MoneySavingExpert website why such charges do not lead to huge debts and should not put people off attending university:²⁰

“With headlines shouting about £50,000 student debt and that getting bigger as loans for living costs increased in 2017, it's safe to say many students and parents are scared by this huge sum – and worry about how they'll ever repay it. But in essence that fear is misplaced. That's because the price tag of university is mostly irrelevant. What matters in practical terms is how much you have to repay – and that's a completely separate number from the total amount of tuition fees, maintenance loan and interest.

“What you repay solely depends on what you earn after university. In effect, this is (financially at least) a 'no win, no fee' education. Those who earn a lot after graduating or leaving university will repay a lot. Those who don't gain too much financially from going to university will repay little or nothing.”

Although the overall cost of supporting EU students is not huge, at a time when all budgets are being squeezed Reform Scotland believes that **after Brexit the Scottish Government should no longer pay the tuition of students from EU countries outside the UK.**

Once the UK leaves the EU it would be bizarre for a Scottish Government, with extreme strains on its resources, to pay for students from Cologne to attend Scottish Universities but not students from Cardiff. The Scottish Government has committed to pay for student support for EU students starting their studies in 2020/21. From 2021/22, we believe this support should end.

median gross weekly pay in Scotland is £470 per week. <https://spice-spotlight.scot/2019/10/31/earnings-in-scotland-2019/>

²⁰ <https://www.moneysavingexpert.com/students/student-loans-tuition-fees-changes/>

Table 1: First degree students studying in Scotland by domicile, 2018/19, HESA

	England	Wales	Scotland	Northern Ireland	Other UK	Total UK	Other EU	Non EU	Total Non-UK	Total	Non-EU as % of total	rUK as % of total	Scots as % total
St Andrews	2,055	60	2,340	155	25	4,635	475	2,495	2,970	7,610	32.79%	30.16%	30.75%
Edinburgh	7,395	195	7,570	465	50	15,675	2,055	4,495	6,550	22,230	20.22%	36.46%	34.05%
Royal Conservatoire of Scotland	155	10	475	15	0	655	115	140	260	910	15.38%	19.78%	52.20%
Glasgow School of Art	400	10	725	25	0	1,165	190	205	395	1,560	13.14%	27.88%	46.47%
Heriot-Watt	1,010	25	4,700	405	10	6,155	375	955	1,330	7,485	12.76%	19.37%	62.79%
Glasgow	2,400	60	11,670	555	15	14,700	2,010	1,875	3,885	18,585	10.09%	16.30%	62.79%
Aberdeen	935	25	5,580	145	5	6,685	2,515	685	3,200	9,885	6.93%	11.23%	56.45%
Strathclyde	375	15	11,870	190	0	12,450	715	805	1,520	13,965	5.76%	4.15%	85.00%
Dundee	885	25	7,680	615	15	9,215	650	565	1,215	10,430	5.42%	14.77%	73.63%
Stirling	655	15	5,650	380	15	6,715	710	415	1,120	7,840	5.29%	13.58%	72.07%
Napier	435	20	7,790	260	5	8,505	1,000	440	1,440	9,945	4.42%	7.24%	78.33%
Robert Gordon	195	5	7,410	35	15	7,660	865	340	1,205	8,860	3.84%	2.82%	83.63%
Glasgow Caledonian	230	10	11,275	105	0	11,620	690	260	950	12,575	2.07%	2.74%	89.66%
Queen Margaret	100	5	2,235	75	0	2,420	575	55	635	3,055	1.80%	5.89%	73.16%
Abertay	130	0	3,155	25	0	3,310	430	40	470	3,780	1.06%	4.10%	83.47%
SRUC	15	0	520	10	0	545	30	5	30	580	0.86%	4.31%	89.66%
West of Scotland	235	5	12,220	30	0	12,490	535	110	650	13,140	0.84%	2.05%	93.00%
University of the Highlands and Islands	60	5	4,010	5	0	4,075	155	35	190	4,270	0.82%	1.64%	93.91%
Open University	0	0	11,875	0	0	11,875	0	0	0	11,875	0.00%	0.00%	100.00%
Total	17,660	490	118,750	3,490	160	140,550	14,080	13,930	28,015	168,570	8.26%	12.93%	70.45%

Source: Higher Education Statistics Agency, <https://www.hesa.ac.uk/news/16-01-2020/sb255-higher-education-student-statistics/location>