Universities Scotland

Universities Scotland Spending Review 2002 Submission

Introduction

Scottish higher education delivers for Scotland. It delivers graduates to one of the best qualified workforces in the world. It delivers doctors, nurses, scientists, engineers, teachers, librarians, social workers and all the staff our public services need. It delivers new thinking about Scottish society, Scottish culture and Scotland's economy. It delivers the artists, architects, designers, writers, musicians, actors, social thinkers, politicians and business leaders who will shape Scotland's future. It delivers inclusion through its work in reaching new students. It delivers spin-out companies and new technology for the Scottish economy and training and R&D services to industry. As a major Scottish industry it delivers employment and wealth for Scotland. And above all it delivers intelligent, informed, thinking citizens.

It delivers this today with less than three-fifths of the real-terms resource per student it had to do the same job twenty years ago.

Higher education is one of Scotland's great success stories. We need to keep it that way and that means proper investment. However, no one can accuse the sector of sitting back and expecting hand-outs from the public purse. Only about 60 per cent of the sector's income comes from public sources, the rest is earned from the private sector and overseas. Indeed, far from being a burden on the public purse, new data shows that higher education subsidises public provision from its private income.

Increasing private income by a third in recent years should have left Scotland's universities and higher education colleges in a strong financial position. But too much of this money has been needed to replace decreasing public funding. Some universities are facing deficit budgets and some are borrowing money or selling off assets to stay competitive and staff pay is falling behind other professions. The Transparency Review is showing that both publicly funded teaching and research are in deficit. This is putting our position at the forefront of world learning at risk and jeopardising the further development of Scotland's knowledge economy. We very much welcome the increase in funding for higher education from the Scottish Executive. The 8 per cent cash increase for 2001-02 meant that, after additional student numbers, new initiatives and inflation were taken into account, there was an increase in unit funding of 1.5 per cent. But this must be seen as a start and not the end of the matter.

Nevertheless we remain optimistic because modest investment can make a real difference. It is hard to overstate higher education's contribution to Scotland and easy to underestimate its potential to do even more.

Teaching

Educating students is the core business of higher education. Sometimes the value of this role is overlooked, particularly with the focus on commercialisation of research. But the production of graduates is enormously important to Scotland. It underpins all of our public services, it supplies industry with the skills it needs, it makes Scotland attractive to inward investors, it promotes innovation through an individual's knowledge, it is the basis for a vibrant Scottish culture and it ensures a mature, intelligent society.

Teaching relies on the infrastructure of an institution and the quality of its staff. If the financial health of the sector is affected, the quality of teaching will be affected. A key measure of the financial health of the sector can be found in the Scottish Higher Education Funding Council (SHEFC) analysis of financial forecasts. These show that Scottish higher education sector is expecting to be in deficit every financial year until 2003-04. The actual net deficit in the sector in 1999-00 was £27 million. The level of deficit in the following three years is expected to be £11 million, £10 million and £8 million, respectively. The operating deficit of the sector is between one and two percent of income over the next two years. Even by 2003-04 when the sector is predicting to come out of deficit, a quarter of institutions are expecting to be in deficit.

In the same period, borrowing in the sector will rise from 15 per cent of income to 18 per cent of income. If a one-off move by one institution to securitise some of its residential assets is removed, the sector's borrowing will almost double over this period.

Meanwhile, the liquidity of the sector is not healthy. The number of days the sector could sustain itself on the basis of its reserves varies between 22 and 29 over the period of the spending review. A financially healthy sector would expect to see liquidity of something more like 90 days ratio of cash to expenditure.

Another measure of the financial health of the sector is the student experience of the services available to them. In a recent survey of student experience carried out by SHEFC, the issues with which students were least satisfied were the availability of books and computers. Library costs have increased by 4.6 per cent in the last year and computers are more and more a central part of the learning process. The ability of the sector to invest in this type of teaching infrastructure is essential, and institutions are unable to provide the service in these areas that they would like to.

In its assessment of the health of the higher education sector in Scotland, SHEFC concluded:

> "The modest level of the forecast historical cost surpluses indicates that the sector has little scope to generate the resources necessary to maintain and replace fixed assets or to implement strategies for future development. This is evidenced by steady worsening liquidity and increasing borrowing over the term."

These statistics show that, while far from being in difficulty, universities and higher education colleges are not as financially healthy as they should be. Why is this? The main reason is public funding. While private income has risen to make up almost 40 per cent of the income of the Scottish higher education sector, the public funding of institutions has decreased by 40 per cent per student in real terms in 20 years. The Transparency Review shows quite clearly that the public funding of teaching in the Scottish higher education sector is in deficit. Put simply, the Scottish Executive does not pay the full price of the education of Scotland's students leaving universities to make up the difference from their own pockets. Universities are using their earned income not to innovate, but to close the gap in public funding.

If universities are to continue to behave as the entrepreneurial institutions Scotland wants them to be, the non-public income they lever in must be available to invest in new opportunities. This can only happen when a fair price is paid for the teaching they provide for Scotland.

Twenty years of efficiency gains have been made and the sector is no longer expanding rapidly. The interim findings of the Transparency Review suggest a teaching funding deficit of between two and four per cent, and the necessary investment in new teaching methods must be included on top of this. Universities Scotland is therefore calling for an increase in the teaching funding budget of between two and four per cent in real terms in the first year of the three years of the Spending Review. This should be increased in line with inflation for the two successive years. The total teaching budget, if the increase is four per cent, would therefore be £467 million, £479 million and £491million.

Another call on the resources of institutions is the cost of complying with new legislation. The sector supports moves to ensure that the disabled are not discriminated against, and that information is freely available and is used fairly. But achieving these things costs money and the sector cannot pass these costs on to its customers. There is a significant amount of adaptation of estates required to achieve the equality of treatment envisaged in the Disability Discrimination Act. Many of these estates consist of historically significant buildings which must be adapted sympathetically. The most authoritative assessment of the one-off cost of doing this is £40 million, and Universities Scotland would like to see one off funding at this level available in the first year of the Spending Review.

Other new legislation such as the Freedom of Information Act and the Data Protection Act increase the administrative burden on institutions, and this has significant cost implications. This makes it even more important that the core funding of institutions should be increased.

The case of medical education must also be considered. The Scottish Executive's drive to improve the National Health Service in Scotland relies on an adequate supply of appropriately trained staff. There is likely to be a shortage of nurses and other health professionals in Scotland, and the funding of higher education must take into account the need to produce more.

Social Inclusion

The easy part of the social inclusion agenda has been done. A participation rate of 49 per cent means that many of today's students are the first in their family to experience higher education and much of the gender divide has disappeared. The areas of Scotland which need to be reached now are not the traditional 'working class' areas but the communities with the highest levels of deprivation where unemployment is endemic.

Universities and colleges are doing a lot of work to promote greater inclusion through programmes they are running, and the stability of funding for institutions as proposed above is essential to ensuring that these programmes are not put at risk. Increasing links with further education and the Scottish Credit and Qualifications Framework will also help. But there has to be a recognition that universities cannot solve the problems of communities with severe deprivation problems alone, and that getting school education right is essential. There should be a gentle expansion of the higher education sector to ensure that the students who come through these routes find a place in the sector, and that other well-qualified students are not displaced to accommodate them. Universities Scotland is therefore calling for an increase in the number of new undergraduates of 800 fully-funded places a year for each of the three years of the Spending Review. This will cost approximately £4 million, £12 million and £20 million over the three years.

However, getting students into the higher education sector is only the first part of the problem - ensuring they achieve a successful outcome is just as important. Students who come from families with no history of higher education, or those returning to study from work often need additional help with study, particularly in the first year. In recognition of this SHEFC introduced a postcode premium of five per cent to provide extra resources for institutions with large numbers of social inclusion students. Scotland is building on success in inclusion and, while the five per cent premium goes some way to addressing the additional costs of supporting these students, there is a view that this is insufficient. Universities Scotland, therefore, would like to see this premium increased to a general level of 10 per cent. There is, however, a smaller group of students from the most disadvantaged areas where unemployment is endemic and educational aspiration is almost non-existent. These cases require an even greater level of support and Universities Scotland is calling for an increased premium of 20 per cent to be focussed on this group of students. This will cost approximately £6 million.

Another important factor in social inclusion is student support. The new financial arrangements in Scotland have greatly improved the situation for social inclusion students. Once income starts to be generated by the Graduate Endowment, Universities Scotland would like to see more resources being put into bursaries. We would also like to see the repayment threshold for the Graduate Endowment raised, but we are generally supportive of the current arrangements. However, if the financial arrangements for students in England change, we would urge the Scottish Executive to ensure that Scottish students are not in a worse position than their counterparts in the rest of the UK.

One area of student support we would like to see addressed is the issue of childcare. Lack of sufficient childcare provision can be a significant barrier to parents with childcare responsibilities from returning to study. We very much welcome the Scottish Executive's decision to support the childcare of full-time students in higher education. However, there remains inequitable treatment of part-time students in the further and higher education sectors, with part-time further education students having access to childcare support while part-time higher education students do not. We would like to see this anomaly addressed by giving higher education students parity with their further education equivalents. The cost of addressing this would be well under £1 million.

Staff

Staff are undoubtedly the most valuable asset universities and colleges have, and yet their pay has fallen behind comparable professions. The McCrone settlement, strongly supported by the higher education sector, has increased the disparity in salaries. There is no doubt that we need to invest in staff if we want to prevent brain drain, attract the best and get the best out of all employees. Staff pay cannot be addressed without investment - there is no sleight of hand which will improve salaries when no new money is available.

The Bett Report identified the three issues which needed to be addressed to modernise the pay and conditions of higher education staff. The first of these was the modernisation of pay structures. Universities want to establish pay structures which recognise and reward achievement and to address issues such as short-term contracts. But doing this requires investment, and 20 years of funding cuts have prevented the necessary level of change. The costs of addressing this problem over the three years of the Spending Review period are £18 million, £23 million and £27 million.

Recruitment and retention of the best staff is at the heart of effective teaching and research. This can only happen when universities are able to pay competitive salaries. The additional resources needed by universities to offer these kinds of salaries are £21 million, £27 million and £30 million over the next three years.

The third strand of the Bett agenda is staff development. Ensuring that staff have proper access to professional development is essential to ensuring a workforce which is as effective as possible. The cost of achieving this is £5 million, £7 million and £8 million over the next three years.

The specific question of contract research staff is one which has been highlighted recently. Universities would like to see more continuity in research staff and do not want to lose staff overseas. The two best ways to address this are through the modernisation of pay structures discussed above and by increasing the resources spent on research as discussed below.

The total cost of rewarding staff fairly is therefore £44 million, £57 million and £65 million in the three years covered by the spending review.

Research

The commercialisation of the research carried out in the Scottish higher education sector has become more and more important to an economic strategy for Scotland and universities and colleges very much welcome this recognition of their role. However, a result of this has been some confusion over the difference between research and commercialisation. Commercialisation is about creating products and processes from research, and sometimes the research most suitable for commercialisation is comparatively old. Research is about the creation of new knowledge, whether there is short-term financial benefit or not. Some research carried out will be a very long way away from being commercialisable, and some will never be suitable for commercialisation. This does not mean it is not valuable, it just means that its value cannot be measured in spin-out companies. If it were possible to predict now which research would bear economic fruit in a decade's time, research funding would be easy. But it is not and that is why excellence is funded.

The Research Assessment Exercise (RAE) is designed to measure the academic quality of research, not its propensity to make a profit. Equally the Proof of Concept Fund (PCF) assesses the economic potential of a project and not its academic merit. It is important not to confuse these two roles. The RAE continues to be the best way to measure the quality of basic research and is the best basis for funding decisions.

There is a strong research and development culture in Scottish higher education, but this culture is not strong enough in Scottish industry. Stepping up the amount of research carried out in the higher education sector and linking that research more closely with the private sector through commercialisation (see below) is the best way to kick-start a culture of research and development in Scottish industry.

Equally, the 2001 RAE results show that Scotland has made significant further improvements in the quality of its already renowned research base. The improvement in performance in research must be recognised and rewarded. Now that there is more research which has been rated as nationally and internationally excellent, more funding is required to keep the unit of resource at the same level. Using present funding mechanisms, if the significant improvement in the quality of research in Scotland is to be funded it will cost an additional £41 million per annum just to maintain the unit of resource.

Universities Scotland is therefore calling for a research escalator to be put in place which will increase the public funding of research by 20 per cent in real terms each year for the next three years. That would bring the level of funding up to £191, £234 and £287 million in the respective three years of the review.

Commercialisation

There is now widespread recognition of the economic potential of the research base, and the commercialisation of university research is now at the heart of economic development policy. This economic benefit is best recognised not through RAE-based formula funding but through near-market initiatives such as the Scottish Enterprise PCF. Scottish Enterprise rather than SHEFC is the higher education sector's obvious partner in this work.

It is also important to recognise that the creation of companies is only one measure of the success of commercialisation and knowledge transfer. Licensing agreements, research contracts, training programmes and technology transfer through people are important parts of the commercialisation agenda.

The PCF has proved to be a significant success, and has been over-subscribed in each year of its operation - sometimes significantly so. In the first year a pot of £2 million received £21 million worth of bids. In the second round a £4 million pot received £24 million worth of bids. Over the two years, £1 million more than was initially in the pot was paid out due to the quality of the bids. The amount of money in the pot needs to be increased substantially.

In addition, Universities Scotland sees it as essential that financial support for commercialisation becomes a permanent aspect of public funding. The PCF has been effective and may be the long-term solution to the question of funding commercialisation. But the PCF is an initiative which may be discontinued in the future, recreating the funding gap which was preventing innovations from making it from the laboratory to the marketplace. Universities Scotland would like to see a commitment to making the funding of commercialisation established as a permanent feature of higher education funding; a full 'third mission' alongside teaching and research. This means supporting the PCF, but there are other initiatives such as TCS and ScottishResearch.com which are also important in developing effective commercialisation.

Universities Scotland would therefore like to see £25 million of the Scottish Enterprise budget dedicated to the various aspects of the commercialisation of higher education research in each of the three years of the spending review period.

Conclusion

Higher education is now clearly recognised as being central to Scotland's economy, culture and society. This submission indicates some areas where small amounts of new money would make a big difference. However, an analysis of the financial health of the sector shows that it is being hampered in its ability to innovate through a deficit in public funding. This issue has been avoided for a decade. It is now time to address this issue before Scotland's international reputation for learning and discovery is damaged.

Summary of Costs

	2002-03 (£ million)	2003-04 (£ million)	2004-05 (£ million)
Teaching	467	479	491
Social Inclusion			
Increase in student numbers	4	12	20
Premium funding	6	6	6
Childcare	1	1	1
Staff	44	57	65
Research	191	234	287
Commercialisation	25	25	25
TOTAL (not including funding for top-sliced initiatives)	738	814	895

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