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Where Next for Scottish Universities and Colleges?

Des McNulty and Huw Morris
January 2026

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Enlighten

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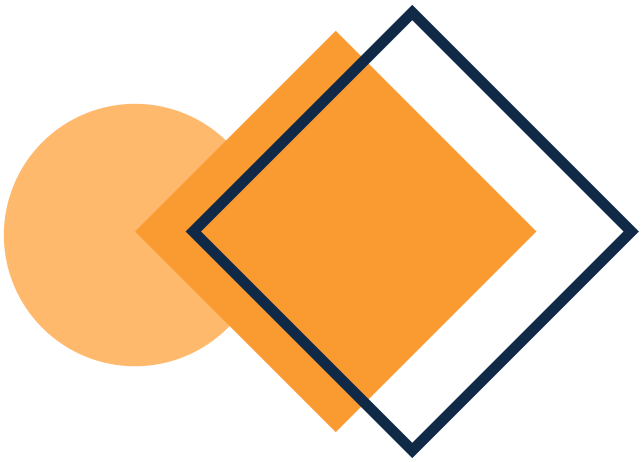
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Foreword

What does Scotland need from its universities and colleges? How should they be structured and funded to ensure maximum benefit for students, staff, employers and the wider economy? These are the questions at the heart of this paper by Des McNulty and Huw Morris.

It is clear that significant changes must be made if the tertiary education system is to thrive. The financial challenges facing many institutions are serious and growing, with the future of some in doubt. Funding of student places is lower than it needs to be, requiring universities to rely on the fees paid by foreign students. There is a lack of alignment with the skills required in the workplace, which requires a national debate about the sector's objectives.

McNulty and Morris view the recent announcement of a co-designed 'Framework for Sustainability and Success of Scotland's Universities' as a welcome development but warn that funding is inextricably linked to wider problems affecting both universities and colleges, including those arising from the distinctive features of the Scottish post school education system. Kicking the issue of university funding into the post-election long grass will provide no solution unless both politicians and the universities themselves face up to the need for radical change.

Few could disagree with that. Like our own think tank, McNulty and Morris recognise the current system is unsustainable and they have set out powerful arguments about what is needed. It is time to think afresh about this essential part of Scottish life. This paper is timely and should play an important part in that discussion.

Chris Deerin, Director of Enlighten

In England, the recent publication of the Post-16 Education and Skills White Paper has provided an outline of plans for the development and funding of apprenticeships, further education, higher education and research. These policy areas are devolved to the Scottish Government, apart from contract research allocations which are reserved to the UK Government.

In this paper we consider how the devolved area of post-school education has developed in Scotland over recent years. Both universities and colleges rightly perceive themselves as facing substantial financial difficulties. Against tight public finances more generally, we argue it is incumbent on all interested parties to look for solutions that are sustainable for the sector and complement and contribute to wider economic and social objectives.

Any strategy for the future of the tertiary sector must consider what Scotland needs from its universities and colleges. Some relevant issues are addressed in the Withers report on the future of development of skills in Scotland, the Gillies Report on financial problems at the University of Dundee and reports from Audit Scotland and the Scottish Funding Council on the financial difficulties facing colleges and universities. The passage of the Tertiary Education and Training (Funding and Governance) Bill through the Scottish Parliament saw some constructive suggestions. This paper builds on these reports and asks where next?

Introduction: Universities Under Stress

The financial crisis engulfing Scottish universities represents more than a cyclical downturn or temporary funding squeeze. It constitutes a fundamental breakdown in the sustainability of Scotland's higher education funding model, with implications extending far beyond institutional balance sheets to affect Scotland's economic competitiveness, research capacity, and social mobility objectives. The crisis, while long in gestation, reached acute levels in 2024-25, forcing difficult conversations about trade-offs that political leaders have historically avoided.

The proximate causes are well-documented: real-terms decline in per-student funding, frozen tuition fee payments for Scottish-domiciled students, cost inflation exceeding revenue growth, and sudden contractions in international student recruitment triggering institutional meltdown. However, underlying these immediate pressures lie deeper structural contradictions embedded in Scotland's distinctive approach to higher education funding, a model predicated on free tuition for Scottish first-degree students but without commensurate public investment to compensate for foregone fee income.

Just before Christmas 2025, the Scottish Government announced that it was engaging with Universities Scotland and other stakeholders on a cross-party basis to create a co-designed 'Framework for Sustainability and Success of Scotland's Universities'. This has the advantage, from the Government's point of view, of taking a sensitive issue off the political agenda for the Scottish Parliamentary election in May 2026 while being seen to be consulting widely. A final report with policy options is expected in the autumn.

We welcome this announcement, although details are sketchy, as the review has the potential to explore policy options not just about funding but also about the purpose of universities and the shape of the higher education sector. It is regrettable however that the remit of the review does not provide a forum for the necessary broader public debate about the future of post-school education, looking at the funding of colleges alongside that of universities, and assessing what the tertiary system does and does not contribute to national and regional development.

The near collapse at the University of Dundee ought to have been a crystallising event, generating discussion about hard choices, not just about the scale of university funding and who pays but also the objectives of public funding and how it is being used. At the time, the Scottish Government battened down the hatches, offering money it previously argued wasn't there to keep Dundee University afloat, while an enquiry focused on internal arrangements, avoiding looking at other actors and wider issues affecting the sector. Failings at Dundee certainly included incompetent management and demonstrably weak governance, which inexplicably were not picked up at an earlier stage through the Scottish Funding Council's monitoring.

However, as subsequent financial sustainability reports from the Funding Council make clear, Dundee is not alone – eleven universities are expected to be running operational deficits in 2025-26. It is widely acknowledged within the tertiary education system that funding arrangements for Scottish domiciled students, for which Scottish Ministers as well as the Funding Council are responsible, are defective and lead, as discussed below, to strategies that are not sustainable. In comparison to the rest of the UK, the level of institutional borrowing is low. However, although unrestricted reserves and cash balances remain relatively healthy, the use of reserves to meet day to day running costs is at best a stop gap, and not sustainable for any institution beyond the short term. After Dundee, University Executives and Courts/Boards are very focused on net liquidity days, a critical measure of financial health representing the number of days an organisation's existing cash flow can meet operational expenses, which have declined precipitously. The sector reported 183 days of net liquidity in 2022-23, falling to a projected 115 days in 2026-27.[1] This 37% reduction in liquidity buffer leaves institutions increasingly vulnerable to unexpected shocks.

1. https://www.universities-scotland.ac.uk/finsusreport/

Cash flow metrics reveal similar stress. The sector reported a net cash inflow of only £14 million in 2023-24, representing a 93% decrease from the previous year (£192.6 million). More concerning, cash balances are heavily skewed: the two largest universities (Edinburgh and Glasgow) with the biggest outgoings account for well over 50% of overall cash reserves at the end of July 2024. It is likely that several institutions operate with substantially lower liquidity than aggregate figures suggest [1] and it is widely suspected that the University of Dundee is not the only institution whose forward projections of savings and revenue reflect optimism bias.

Not surprisingly, there have been calls for a Commission to look at alternative funding models, including from Enlighten who favour the introduction of a graduate payment. These had previously been ignored but, as former Health Minister Jeane Freeman conceded, politicians are inclined to "look for what they need to do in order to remain in power, or to gain power, as opposed to what do I need to do to fix this". While the Scottish Government's immediate objective in announcing its framework may be to kick the issue of university funding into the long grass beyond the Scottish Parliament election, radical changes are needed as the crisis will only worsen. Given the Scottish Fiscal Commission's forecast of a 4.4% gap in the Scottish budget by 2029-30, there is no substantial pot of money available that would provide a medium- or long-term solution. It is necessary therefore to stare into the abyss before there are further collapses.

Before delving into detail about university funding and sustainability, it is important to acknowledge that system failure is more acute in the college sector, with 92% of Scotland's colleges forecast to be in deficit in 2025-26. For the last two years, nearly every college has been running voluntary severance schemes, adversely affecting their ability to maintain quality and deliver courses. A peculiarly inflexible funding regime disincentivises almost all development of new provision in response to workforce demand. No short-term investment is available to support modernisation of college delivery models. College finances are in severe jeopardy, especially where some universities fill vacant places (quite properly, given the student demand-led model) by recruiting young people who would otherwise be college applicants, but at a higher cost per student for courses at the same level and therefore in a way which is more costly to public finances.

To compound the sense of unfairness already felt by colleges, £22 million support for Dundee university was found in March 2025, later expanded up to £62 million in total. While the Scottish Government claimed this funding would "not impact on the funding available from SFC to any other institution" there is a strong suspicion amongst college managers that £20 million came from a budget originally earmarked for Scottish Colleges. An earlier transfer took place in 2023 when the Scottish Government redirected £26m allocated to colleges in its draft budget to fund the teachers' pay settlement, as part of a £46 million total reallocation. Robbing Peter to

pay Paul might provide a temporary fix but further undermines the sustainability and morale of the college sector. The impact of underfunding on college staff and students and the plight of further education institutions has, however, received less attention than cuts at universities, except where proposals to close a campus are put forward, as in Alloa and Arbroath.

University Funding: Structural Deficits

The fundamental driver of financial stress in Scottish higher education is the declining real-terms value of per-student teaching resources. Even before the latest uplift to tuition fees south of the border, Scottish higher education institutions were already less well funded for teaching per student than counterparts in England.

Table 1: Average unit of resource for undergraduate home-domiciled students

	Estimated average unit of resource for undergraduate home-domiciled students		Basis of calculations
	Sterling	Index	
England	£10,500	128	Based on student fee and OfS targeted allocations.
Northern Ireland	£9,904	111	Based on student number allocations and student fee.
Republic of Ireland	£8,375	103	Based on IHEA and teaching grant figures.
Scotland	£8,162	100	Based on SFC teaching grant, student number allocations and English domiciled students.
Wales	£10,400	127	Based on student fee and MEDR funding allocations.

Note 1: Funding calculations in most of the countries above are based on different rates for different subjects studied and so the average masks significant variations by student, however, these funding rates are rarely passed to departments or other sub-units at the level they have been allocated to the institution. If English domiciled students are excluded from the calculation for Scotland, the per-student figure used by Universities Scotland is £7,620.

These figures merit careful interpretation. The unit of resource figures reflect the freezing of the nominal tuition fee paid by Scottish Government (via Student Academic Awards Scotland) and student number controls over the price banded Scottish Funding Council teaching grant,[2] which is the key source of revenue for teaching eligible i.e. Scottish domiciled undergraduates. Scottish undergraduate degrees typically extend over four years rather than three, meaning total public investment per graduate is approximately equivalent to other UK nations when calculated across the full degree duration. However, the annual unit of resource matters significantly for institutional financial planning, staffing models, and ability to maintain quality standards. Scottish universities must deliver four years of teaching and student support on annual resources 22% below English comparators, creating persistent operational strain.[3]

The Institute for Fiscal Studies (2024) demonstrates that after inflation, the value of the main teaching grant per student in Scotland was 19% lower in 2023-24 than a decade earlier in 2013-14. This erosion has occurred despite overall student numbers reaching record highs—183,025 Scottish-domiciled students in 2021-22 according to HESA data. The combination of declining unit resource and increasing student volume has fundamentally altered university finances, forcing institutions to seek alternative revenue streams to cross-subsidize teaching activities.

Scottish Government budget allocations to higher education have followed a downward trajectory. The 2024-25 Budget included a year-on-year cash decrease in the university resource budget of £28.5 million (-3.6%, or -5.8% in real terms) according to IFS analysis. At the time, Universities Scotland characterised this as the toughest funding settlement universities have faced, noting that every university faced cash cuts to teaching resources.[4]

The frozen tuition fee payment for Scottish-domiciled students exemplifies the declining level of Scottish higher education funding. At £1,820 per student per year, this payment has remained unchanged in cash terms for fifteen consecutive years.[3] With cumulative inflation over this period exceeding 45%, the real value of the tuition fee payment has declined by nearly one-third. Student Awards Agency Scotland (SAAS) paid tuition fees for 117,000 full-time undergraduate students in 2022-23 at this frozen rate, representing £200 million in nominal terms but significantly less in real purchasing power.

The 2025-26 settlement provided some modest relief: total teaching funding allocated to universities reached £728.1 million, a cash increase of £12.9 million (1.8%) compared to 2024-25. Teaching subject prices increased by 3.3% in cash terms. However, based on the Treasury GDP deflator of 2.65%, this represented a real-terms

2. In Scotland, the teaching grant replaces fee income in England and a combination of grant and fee in Wales
3. https://ifs.org.uk/articles/decline-foreign-students-and-higher-costs-create-perfect-storm-scottish-universities
4. https://www.universities-scotland.ac.uk/2024-25-indicative-allocations-published/

cut of 0.95% year-on-year. Using the RPI-X measure—which better reflects actual cost pressures on institutions—the real-terms reduction was deeper still, as RPI-X stood at 3.1% in Q3 2025.[4]

Scottish Funding Council grants to universities continue to decline as a share of total income, falling from 24% in 2023-24 to a projected 22% by the end of 2026-27.[5] This aggregate trend however masks significant differences between institutions. As elsewhere in the UK, universities have responded to financial pressures through compensating strategies. One is to aggressively recruit more higher fee-paying overseas students. The second is to expand courses that are less costly to teach. Competition to attract undergraduate students from the rest of the UK (who pay fees in line with those received by English Universities) and international undergraduate and postgraduate enrolments (where fees are determined by the university) has led to significant sectoral variation.

The three 'elite' universities – Edinburgh, Glasgow and St Andrew's – have managed to boost international and rest-of-UK student income and maintain their research and teaching profiles in university ranking tables. Despite this, prominent university leaders at these institutions have raised the need for more fundamental action. The retiring Principal of the University of Glasgow, Professor Sir Anton Muscatelli, has called for a review of the funding and shape of higher education, warning against "stumbling from year to year". Meanwhile, the Principal of Edinburgh University, Sir Peter Mathieson, has called for a 'radical rewiring' to respond to the funding challenge as his institution plans cuts of £140m over 18 months, approximately 10% of annual expenditure, including job losses.

Teaching grant reduction, referred to above, has also led to distortions within institutions, including substantial staff recruitment to teach surplus generating (mainly taught postgraduate) courses in certain faculties and departments. The expansion of profitable taught postgraduate courses (primarily master's programmes where overseas students predominate) contributed more than £1.4 bn into Scottish HE in 2023-24, double that year's SFC teaching grant of £699.5m. This income supports inter alia the teaching of domestic students in more expensive areas of study and research activity in departments and faculties such as medicine, life sciences, physical sciences and engineering which under current arrangements are, in most instances, loss making.

With the numbers of international and rest-of-UK students at Scottish universities increasing, staff are dealing with larger intakes and an increased volume of assessment. Meanwhile if universities recruit above their capped numbers of Scottish domiciled students, they get only the frozen nominal fee for those additional places – thus the more Scottish domiciled students universities give places to, the bigger the funding gap they must fill. Not surprisingly then, Scottish students are finding

5. https://www.sfc.ac.uk/wp-content/uploads/2025/09/Download_Financial-Sustainability-of-Universities-in-Scotland-2022-23-to-2026-27.pdf

admissions processes at the elite universities more competitive. This represents an unacknowledged tension: free tuition aims to improve access for Scottish students, but funding caps limit Scottish-domiciled student numbers, while incentivising these universities (and other institutions such as Glasgow School of Art and the Royal Conservatoire whose prestige allows it) to attract rest-of-UK and international students who pay fees to fill their courses.

Scottish students – and their future economic contribution – are thus limited by universities' need to balance the books and by other institutional priorities – including maintaining the flow of international and rest-of-UK student fees and competing for research funding which mainly comes from UK sources. Only 26.6% of the student body at St Andrews and 30.6% at Edinburgh were Scottish domiciled in 2023-24, while at Glasgow University the figure was given as 53.2% – higher than the other two but significantly lower than a decade ago. (As a corollary, there has been a speculative construction boom in Glasgow as private companies exploit demand for single rooms in purpose-built accommodation. If numbers reduce it is difficult to see alternative uses for the number of student residences already available or in the pipeline, thereby stacking up wider city problems for the future).

Dundee's crisis stemmed from multiple factors: weak management controls, inability to cross-subsidise expensive provision (life sciences, medicine) from lower-cost arts and social sciences courses, and a 27% decline in international student numbers from 4,570 to 3,335 students. The Nigerian currency crisis served as a trigger, demonstrating the vulnerability of universities dependent on specific international markets. Seven Scottish universities derived more than one-quarter of their total income from non-EU international student fees in 2022-23. In total, international fee income rose from £1,144 million in 2021-22 to £1,617 million in 2024-25—a 41% increase in three years.[6] Those institutions less able to attract international students are however equally or even more vulnerable due to their greater reliance on inadequate grant income from the Scottish Funding Council. Amongst those universities presently at greatest risk of going bust are multi-campus universities, those in smaller cities and specialist institutions less able to cross-subsidise but, as we saw at Dundee, things can quickly change.

As a response to financial pressures, international student recruitment and opening satellite campuses abroad is inherently unstable. Geo-political uncertainty, affecting student flows from major markets like China and India or from countries in Africa, has the potential to de-stabilise even the strongest and most prestigious of Scotland's universities. Failure to comply with stricter administrative rules on visa monitoring, for which institutions face stringent penalties, including the loss of licenses to recruit international students, is another major risk. Political or financial shifts in key markets, competitive pressures from alternative destinations such as Singapore and Australia, and changing UK immigration policies, including restrictions on dependents visas

6. https://www.advance-he.ac.uk/knowledge-hub/scottish-funding-council-sfc-financial-sustainability-universities

introduced in January 2024 that exempted only PhD, doctoral, and research-based postgraduate students, are external factors affecting demand over which Scottish Universities have no control or influence.

The 2023-24 recruitment cycle demonstrated these risks materialising. International student visa grants for masters-level study fell approximately 16% in the period January to July 2024 compared with the previous year, even though total international applicants fell by only 1.9%. Universities Scotland estimated that cumulatively, universities brought in £100 million less than expected. Although recruitment numbers subsequently bounced back, this sudden revenue shortfall exposed the inherent instability of business models predicated on continued growth in international recruitment.

With income growth constrained, universities have turned to expenditure reduction as the primary adjustment mechanism. Workforce reductions through voluntary redundancy schemes have become ubiquitous across the sector. Dundee's planned reduction of approximately 300 FTE positions is the most dramatic case, but voluntary redundancy schemes have been implemented at Aberdeen, Edinburgh, Robert Gordon, and other institutions. By August 2025, Edinburgh had reached 350 staff departures, Robert Gordon 188 and Aberdeen 41.

Staff costs represent approximately 55% of university expenditure, making workforce the inevitable focus of cost reduction efforts. Indiscriminate workforce reduction through voluntary schemes creates operational problems however and there is widespread anecdotal evidence of individual staff and units being targeted for redundancy packages in some institutions. Students are affected as course offerings narrow, with subjects generating lower fee income particularly vulnerable—languages, arts, and humanities programs face closure or consolidation.

The UCU has also highlighted the phenomena of 'silent redundancies' through non-renewal of fixed-term contracts, affecting early-career researchers and teaching fellows disproportionately. Remaining staff face increased workloads and deteriorating employment conditions, with implications for staff morale, student experience, and ability to maintain quality standards. [7]

In England, Ministers have signaled that they will not intervene to bail out failing universities, expecting those in difficulties to find their own solutions. Despite these public pronouncements, behind the scenes there are coordinated management and financial interventions taking place in institutions in difficulty so that they are shepherded to safer financial pastures. The Dundee case suggests that despite warnings, the Scottish Funding Council was not geared up to intervene in advance of failure, but political sensitivities and the potential knock-on effects led Ministers at the highest level to order that the University be rescued.

7. https://www.parliament.scot/-/media/files/committees/education-children-and-young-people-committee/correspondence/2025/spicebriefingmeetingof26february2025.pdf

The costs of this however, and Scottish Fiscal Commission projections of public finances, suggest that Scottish Government will have very restricted financial headroom to repeat this elsewhere, either in the college or the university sector. If the crisis deepens, blaming Westminster or senior managers will have diminishing validity since Scottish universities and colleges have adapted their strategies in response to funding and accountability arrangements imposed on them by Ministers through the Funding Council.

Although agreement has been reached on a process for consultation and review of policy options, previous inaction means it will be more difficult to reach a consensus on the way forward, given existing political commitments, different interests within the sector and the sheer scale of the gap between what can be afforded and what the sector feels is required. The limited scope of the Tertiary Education Bill suggests that the Scottish Government is far from getting to grips with these underlying problems – including, as we will argue, specific issues arising from distinctive features of the Scottish post school education system.

School, College and University Transitions

Scotland's distinctive four-year undergraduate degree model adds approximately 25% to the cost of producing graduates compared to three-year English degrees. The best qualified students are eligible to enter university after completing Highers in fifth year of secondary education, although many stay on at school to do Advanced Highers or pick up additional subjects at Higher level. They then spend first year at university often covering material that duplicates Advanced Higher content.

The four-year model imposes additional costs on both public finances and students. Government pays teaching grants for four years rather than three. Students living away from home bear additional living costs for the extra year. Universities deliver an additional year of teaching and student support from resources that over four years are roughly equivalent to what English Universities receive for three-year degrees. Given these pressures, questions about whether the four-year degree represents optimal use of resources merit serious consideration.

Modest reform could include greater acceptance of Advanced Higher qualifications for direct entry to second year and better articulation arrangements allowing direct entry to second or third year from colleges (reducing duplication). Major reform might involve fundamental reconsideration of whether four-year degrees are necessary, given most other countries manage with three years. However, the latter would face resistance from those, including students and applicants, who value the breadth of Scottish higher education and the opportunity for intellectual development the four-year model provides.

Where students pursue, for example, a Higher National Diploma at college, there are not always articulation arrangements in place between colleges and universities that give advanced standing equivalent to the length of the college course. Articulation and progression arrangements between colleges and universities would undoubtedly be improved, and duplication reduced, if all university admissions were to abide by Scottish Credit and Qualifications Framework guidance, specifying the equivalence between qualifications and enter into agreements that enabled two-year Higher National Diploma students to automatically progress to the third year of undergraduate degrees. Agreements to facilitate 2+2 or 2+1 progression, as is the case in much of the rest of the UK, would save resources and time while extending accessibility in parts of the country where there is a college but not a university.

Shifts towards greater parity of funding for higher education courses between colleges and universities would help ensure equivalence of quality and standards, although universities would argue that they bear a greater burden of costs in developing and providing provision and would lose out if many more students studied in their first and second year of post school education at college rather than university. As things stand, Scotland's colleges are struggling to survive. They have been obliged to avoid compulsory redundancies by freezing recruitment and making repeated cuts to staffing via voluntary severance.

Over time this means that the composition of their staffing complement is determined more by who decides to take the packages on offer, in many instances because their scarce skills are in demand by other employers, than by any informed assessment of the staff colleges need to respond to skills needs in the region they serve. Funding constraints have forced colleges to reduce the number of students that are admitted on to their courses.

Between 2022/23 and 2023/24 the total number of students at Scottish colleges fell from 248,907 to 218,145, a drop of 30,762 students, 12.4% according to Colleges Scotland.[8]

8. https://www.sfc.ac.uk/publications/college-statistics-2023-24/

Meeting Skill Needs at National and Regional Levels

IIn his 2023 report, commissioned by the Scottish Government, James Withers highlights the need for substantive structural reform of the skills delivery landscape, referring to 'preventable harm' in the country's post-school learning system. He found national accountability arrangements for skills and lifelong learning provision through Skills Development Scotland and the Scottish Funding Council to be 'burdensome and inflexible', slowing down and often halting innovation. Even where colleges identify new provision for which there is employer demand, flexibility to meet it is severely constrained. Virement between foundational and modern apprenticeship schemes, for example, is restricted.

If a college finds itself with lower numbers coming forward for foundational apprenticeships than contracted for, it cannot transfer funding to train more modern apprentices in areas where there is unmet employer demand.

If colleges test the market for new courses in priority areas or experiment by shifting provision from one employment sector to another in response to need, it is at their own risk. Courses aimed at the personal services sector within the foundational economy are cheaper to run and easier to fill than courses aimed at the construction sector or engineering where skills shortages at regional and national level are impeding growth. Human Resource Managers across Scotland regularly complain about the lack of suitable applicants for well-paid skilled jobs. Some have had to look beyond Scotland for the workers they require, the recruitment of welders from the Philippines to work on defence contracts being a case in point.

Employers are however obliged to accept a share of the blame for skills mismatches and shortages, given evidence of their patchy record of investment in skills, including apprenticeships, compared with their counterparts in Germany and other European countries. Many young people choose higher education not just as a conduit to graduate employment but also because they want to continue their formal education. If employers want to attract people into more technical jobs, they must make routes into those areas of employment more attractive and easier to access, starting by reaching out to schools.

Withers concludes that a genuinely transformative approach to skills improvement is needed, one that 'addresses the long-standing mismatch between workforce skills and industry needs, while facilitating reskilling. Linking skills development to economic opportunity means not only changing the pattern of provision of courses but also dissolving a longstanding hermetic divide between supply-led and demand-led understandings of skills progression. Within the formal education system (school, college and university-based learning), the trajectory of progress is defined by graduating from one level of qualification to the next. Within most formal employment

structures, the same trajectory is defined by 'training up' through successive levels of in-work and work-related upskilling, often in the form of CPD or professional registration and accreditation. In both cases, upskilling is generally credentialled, measured by testing and driven towards demonstrating certifiable results.

Evaluation criteria and metrics of skills progress on the supply and demand side however are not well connected. Closer alignment and better collaboration between employers and education providers on skills progression is needed. The objective should be to create an ecosystem in which learners follow clear pathways to acquire the skills and qualifications needed to progress to different destinations. This should be supported by good quality information, especially about unmet skills needs and future workforce requirements. The voice of employers and that of learners, both in and out of the education system, should be fully part of any conversation about provision and progression. Student support arrangements should be revised to provide more support for part-time learners and for students from lower-income families to extend opportunities and boost take-up.

While Scotland is not a large country, skill needs across its regions vary. Withers proposes greater devolution of responsibility to regional planning 'predicated on local intelligence' that 'empowers (and trusts) providers to work with employers locally to identify and shape provision to meet the needs of the region and to communicate that opportunity to potential learners'. While creating clearer and more diverse pathways for learners is important, we believe that better cross-institutional collaboration between colleges and universities should also be focused on mobilising innovation and capability, contributing to both economic growth and community wellbeing. Universities are autonomous institutions, but as city deals, regional economic partnerships and similar mechanisms gain traction and become mechanisms through which strategies are developed and resources are channeled, leaders in the sector are increasingly incentivised to engage with civic partners.

There are instances where cross-institutional collaboration has been effective; universities working together in Glasgow City Region on its Innovation Accelerator and Innovation Zones is a good example. But within the tertiary system, competition rather than collaboration has been the norm, leading to inefficiencies and duplication. Certain services to support estates and environmental management, careers and student activities could be shared amongst institutions that are close to each other, but in practice they rarely are. University and college principals and their Courts/Boards jealously guard control over budgets and staffing. Formal accountability in the sector is between individual institutions and the national level (Scottish Funding Council and compliance with Scottish Government policies in respect of access policies etc.) rather than with any horizontal element.

Regional economic partnerships are voluntary and at present have no requirements for collaboration, relying instead on informal networks and the joint pursuit of funding

to bring actors together. The announcement by First Minster John Swinney that enabling legislation will be brought in after the Scottish Parliament election in May 2026 to permit devolution of specified responsibilities (including skills) to regional partnerships could stimulate some city regions to strengthen links with universities and colleges in coordinating their place-focused agendas. Especially in Glasgow city region, which has well-developed collaborative local governance structures within which the four large universities and six colleges could be better included, this would be welcomed. It is important that the question of horizontal accountability, including accountability to community, is explored not just in the context of devolution deals, so that collaborative work leads to improved outcomes and takes account of the unique blend of identities that characterise every place, but also in the consultation and policy discussions around the co-designed Framework for Sustainability and Success.

Rethinking What Is Wanted from the Tertiary Sector

As we have seen, Scotland has a higher education system that is expensive by international standards in terms of the contribution of the public purse but, partly because of the real terms cuts to their funding, our universities and especially our colleges are cash strapped. Colleges have suffered year on year cuts, affecting in several cases not only their financial but also their operational viability. A radical rethink of the purpose and functioning of the tertiary system is needed, one which includes but is not confined to funding models.

There are, however, a few specific and non-radical funding "fixes" that might help. For example, the UK government has announced a new charge, from 2028 onwards, on international students studying in England which will be set at a flat rate of £925 a year, rising in line with inflation. A similar levy in Scotland would require primary legislation and the current First Minister has declared that his government would not introduce one.[9] While this approach confers a competitive advantage on those Scottish institutions able to recruit large numbers of international students, it does nothing to help those that cannot, nor does it help colleges and other parts of the tertiary education system that could potentially benefit from the proceeds of this levy being redistributed.

Looking at how the costs of the student loan book are separately treated in England and Scotland could provide another potential route to increasing funding for the sector. Figures from the Scottish Parliament show a Resource Allocation Budget of c£397 million based on 2025-26 Scottish Government estimates. This is the assumed cost of non-repaid maintenance loans and associated accrued interest, which is approximately 14%. There is no published equivalent cash figure for the RAB charge in England, but the percentage RAB charge has been variously estimated at between 25% and 32% across all forms of student loans.

9. https://www.heraldscotland.com/news/25472682.german-politician-backs-fm-foreign-student-controversy/

Logically the cash or non-cash difference between the RAB rate in England and Scotland should be reflected in the cash sums allocated to Scotland through the Barnett formula. There are lots of 'ifs' and 'buts' in these calculations but there is a case for parity which could generate significant amounts of cash or non-cash into the system. In our view, the moral and economic case is strong for using at least part of any resource generated to support the creation of clearer pathways through the tertiary system and improved support arrangements, enabling learners of all ages to develop skills that fit them for jobs in priority areas identified in consultation with employers.

Free tuition for Scottish-domiciled students represents a defining feature of Scotland's higher education policy and enjoys cross-party political support. The IFS (2024) observes[3] that under current policy, of the total long-run costs of higher education for a single cohort of students, approximately 56% is met by the Scottish Government, 38% by graduates themselves (through living cost loans), and 6% by the UK Government. Any move toward graduate contributions, including ones with different thresholds, repayment arrangements, and write-off periods from the income-contingent loan systems operating elsewhere in the UK, would alter this balance, but political resistance to fees means discussion has remained largely hypothetical in public discourse, even as sector leaders and politicians privately acknowledge the inadequacy of current funding. If the introduction of fees or any other form of charges for tuition remains politically unacceptable, it will be incumbent on the sector to consider how to make better use of existing resource, rather than wait for a substantial injection of funding from Scottish Government that may never come.

In its response to the announcement of the "Framework for Sustainability and Success of Scotland's Universities", the representative body Universities Scotland indicated that it had committed to the review with no set 'red lines'. Following a sectoral review in Wales, there was some institutional restructuring and a refocusing of relationships between universities and colleges. Scotland's Framework approach might break the logjam, provided the review is not confined narrowly to funding arrangements and there is a shared willingness amongst stakeholders and ultimately the wider public to face up to difficult issues around the shape of the university sector and patterns of provision, where there are competing institutional interests and perspectives.

In our view it would have been preferable to have adopted a whole tertiary sector approach when taking forward the review, looking at universities and colleges together and even reaching into schools to look at how pupils transition into the tertiary sector, as was done in Wales, rather than treating these issues in isolation. Questions that might usefully be explored in this broader context include: what transformative changes would be required to enable the tertiary sector to contribute more effectively to national priorities; what changes would deliver better outcomes for students while maintaining both viability and international competitiveness; and how

can the sector improve its performance on skills acquisition and skills matching at regional and national level?

In a recent report, Professor Sir Anton Muscatelli argues that higher education should be positioned at the epicentre of growth and innovation policy and connected with financial and business support that can help bridge commercialisation and scale-up gaps. If the sector is to drive the innovations and technological developments necessary to boost productivity outcomes and support growth, its income sources, he argues, cannot continue to be eroded at an alarming rate. Muscatelli's pitch is for additional resources to align research universities with UK and Scottish economic development priorities such as the UK Industrial Strategy and the Scottish Government's National Strategy for Economic Transformation. By the same token, he appears to accept that the costs incurred within these institutions will need to be more closely aligned with activities that will genuinely make a difference – including to students and the communities of which the universities are a part. This reflects arguments put forward by, amongst others, Andrés Rodrigues-Pose that universities self-perception as engines of a cosmopolitan future, powered by knowledge and 'excellence', is somewhat delusional. There is a disconnect between the technocratic approach preferred by academic elites: patent counts, spin offs etc. and the tangible impacts on local economies, affecting people and place.

We agree with the importance Muscatelli places on higher and further education in delivering the growth mission. We agree also that dependency on international markets should be reduced, given the risk to the HE sector. However, adjustments in how the sector operates will be necessary sector wide, affecting elite institutions, all universities and Scotland's colleges if the case for universities and colleges playing a more central role is to be successfully made. Greater cross-institutional and cross-sectoral collaboration, up to, and potentially including, institutional mergers and federations, particularly among geographically proximate universities or those serving similar student markets will be necessary. Rationalisation of course provision at regional level to reduce duplication and achieve economies of scale, together with shared estates and support services should be promoted. The status quo is not an option.

A rebalancing of both income sources and expenditure patterns to meet wider strategic priorities at Scottish and UK level will involve boosting budgets for parts of the system that produce the biggest social and economic benefits, locally, regionally and nationally, while scaling back the costs of those components that have fewer effective impacts or make a more marginal contribution. Difficult choices and judgements are bound up in this process. Moving towards a system where teaching and research priorities are better informed, if not actively determined, by economic growth priorities and skill needs should be balanced by giving learners better information about opportunities and more choice about when as well as what to study.

Teaching and Research

If, as Muscatelli suggests, research and innovation should be recognised as crucial to driving economic growth and addressing other major societal challenges, we argue that the organisation of, and balance between, teaching and research in universities must come under scrutiny. In Scotland, as elsewhere in the UK, academic staff are expected to undertake research in their own discipline, alongside teaching and administrative activities including student support. While workload models vary between institutions and sometimes between faculties, a standard formula is 40% of staff time devoted to teaching, 40% to research and 20% to administration.

The teaching year has gradually been compressed, with class contact generally of two semesters now occupying around twenty-four weeks a year - less in some institutions - leaving classrooms, teaching labs and other facilities under-utilised. This delivery model has allowed more extended research periods for staff. It fits in with the availability of post-school students rather than catering for lifelong learning, which would require much more flexible provision in terms of duration of courses and pattern of delivery. As discussed above however, mechanisms to connect course provision and curriculum design to economic growth and employer requirements are lacking.

As the volume of students has grown over recent decades, so too has the volume of research. In many disciplines, research is predominantly curiosity or discovery driven, i.e. investigator-led and thus reflective of the interests of the academic. The peer review system, by which articles for publication and research grant applications are assessed by researchers who are drawn overwhelmingly from other universities in the UK, with a sprinkling from other sections of society or overseas, amounts to academics marking each other's homework.

There is no robust system for determining how much of the research produced within universities is valued by, or of use to, people who are not themselves research producers. The Haldane and Excellence principles that have guided the work of the UK Research Councils in the past are stout guarantors of academic integrity and the advancement of knowledge and in that context advocates of the importance of curiosity driven research. But as the President of the Royal Society, Sir Adrian Smith, pointed out in recent evidence to the Lords Science and Technology Committee: [10]

[*there is a need for] a very serious national debate about what we can own and be good at in a sovereign sense. There have been attempts in government to try to chunk up and look at the world, saying, "What can we really own and be great at? What are we pretty good at but need to collaborate on? What can we just not do at all, so have to buy or rent?" That is quite a useful lens, but I do not see it being systematically applied…*

10. https://committees.parliament.uk/oralevidence/16425/pdf/

The UK government has begun to talk seriously about putting public research and development funding into three 'buckets': [11]

1. "basic curiosity-driven, investigator-led research";
2. "applied research which should be aligned to government ambitions"; and
3. "helping the transition from start-up to scale-up" and "support[ing] our big R&D-intensive companies".

It is not yet clear how the bucket framework will drive research and development - whether it will influence funding choices and priorities across the whole of government or whether it is intended to apply mainly to research council funding. Given the priorities set out in the UK government's industrial strategy and in guidance for the recent UKRI £500m Local Innovation Partnerships Fund however, there is a clear steer that science and research funding will increasingly be channeled towards buckets 2 and 3. Where they have capability, universities are expected to contribute towards exploiting near-to-market commercialisation and mission-led research. Other priorities identified in UK industry and science policies include cross-institutional collaboration, support for innovation clusters and cooperation with combined authorities.

These are relatively new developments at UK level. It is too early to tell what impact they will have on Scottish universities and on economic development infrastructure and governance arrangements north of the border, given that these matters come under the jurisdiction of the Scottish Government. Accepting the need for transformational change across and within the university sector however, does it make sense within the resource restricted Scottish context for all academics to continue to be expected to conduct frontier research and for teaching to conform to present patterns of provision? Irrespective of the potential use and value of discovery research, the UKRI push towards buckets 2 and 3 – the prioritisation of commercialisation-focused and mission-led research is something which research-intensive universities in Scotland will be obliged to take cognisance of.

As always, funding will drive behaviours. One can anticipate frantic rebadging of curiosity-driven research as being demand-responsive or mission-driven. Whether research users, either in business, government or other sectors, will find more than a fraction of the research undertaken useful to them is another matter. Striking the right balance between international excellence and reputation and meeting the needs of local, regional and national economies is however critical for research-intensive universities whose voice will be influential. Yet these considerations have not so far featured significantly in discussions about future funding of universities in Scotland, which has until now assumed that patterns of delivery and the underpinnings of research funding and impact evaluation will remain unchanged.

11. https://www.ersatzben.com/p/the-three-bucket-problem

As already highlighted, we are not currently heading in the right direction. Workforce reductions affect research-active staff, particularly those on research-only contracts or without substantial external funding. Institutional contributions to research grants, the 'match funding' required for many collaborative projects, is becoming harder to access. Investment in research infrastructure, equipment, and facilities faces deferral. In some departments, the time available for research diminishes as remaining staff absorb teaching, assessment and pastoral responsibilities from departed colleagues.

Scotland's research excellence depends on sustained investment, stable employment and career expectations for researchers. If financial pressures force systematic reduction in research capacity, Scotland's international standing in research and its ability to attract competitive research funding from UK sources risks long-term damage. This represents a particularly concerning prospect given that research funding is substantially UK-wide rather than devolved, meaning Scottish institutions compete for UKRI funding with better-resourced English counterparts.

To prevent further meltdowns in the university and college sectors, action is needed. Continuation of current policies and funding levels leads to predictable outcomes. Universities Scotland[12] projects 'exceptionally difficult decisions' including course closures, mergers, and potential institutional failures within three to five years if trends persist. More institutions will require emergency government intervention similar to Dundee, creating ad hoc responses rather than systematic solutions.

Crisis-driven workforce reductions will degrade the quality of teaching and student experience. Research capacity will contract as institutions focus resources on financially sustainable activities. International reputation will suffer if Scottish universities fall behind English comparators in rankings, resources, and research output. The Fraser of Allander Institute's analysis indicates that colleges contribute £52 billion in lifetime economic benefits produced by their graduates.[13] The contribution of university graduates over their working lives, although not yet officially calculated, is doubtless more than double this figure given the numbers graduating from each sector. Degradation of college, university quality, capacity, and reputation would undermine this contribution, with long-term implications for Scotland's knowledge economy, innovation capacity, and attractiveness for inward investment.[14]

12. https://www.universities-scotland.ac.uk/finsusreport/
13. https://fraserofallander.org/publications/the-economic-contribution-of-colleges-in-scotland/
14. https://www.cockburnassociation.org.uk/news/guest-blog/the-financial-crisis-in-scottish-universities-and-its-impact-on-students-from-poorer-backgrounds/

Conclusion

We have identified several areas where we believe that change is needed. A 'limited reform' scenario would involve additional public investment (e.g. by restoring real-terms funding to 2021-22 levels), introduction of the international student levy (£925 per student from 2028 in England, potentially earlier in Scotland), efficiency measures including shared services and reduced duplication, and modest system rationalisation through voluntary institutional cooperation.

This scenario would stabilize finances in the short-term but is inadequate for long-term sustainability, given projected public finance pressures and external risks. It avoids difficult political decisions for now but may simply defer unpalatable choices.

A 'comprehensive reform' scenario for universities would involve a range of fundamental restructuring options: introduction of a graduate payment mechanism providing substantial additional revenue; major institutional restructuring including mergers creating fewer, more financially resilient universities; reform of the four-year degree model to reduce costs and improve efficiency; and strengthened regional collaboration linking universities to economic development priorities through city deals and regional economic partnerships.

This scenario could restore financial sustainability and align the sector with economic priorities but faces substantial political obstacles. The graduate payment mechanism contradicts free tuition commitments. Institutional mergers threaten local identities and would face resistance from affected communities, including staff and students. Four-year degree reform undoubtedly challenges deeply-held beliefs amongst many academics and others about Scottish educational distinctiveness and ignores revealed preferences of many students, although other current and potential students may see advantages in moves towards more flexible delivery patterns.

In our view, the future of universities and colleges, as anchor institutions, are inextricably tied together. Both need to be considered in the context of their contribution to the growth and the skills agendas, with which they should be aligned at regional, national and UK levels. Regional economic partnerships offer mechanisms for better coordination and can help broker the collaborative intra- and inter-sectoral working required. UK Government policy seems likely to increasingly directs research funding toward mission-led and near- to- market commercialisation-focused research through the 'three bucket' framework: basic curiosity-driven research, applied research aligned to government ambitions, and support for transitioning from start-up to scale-up. Scottish universities must adapt to these priorities while maintaining research excellence.

Time is not on Scotland's side. Colleges are already on their knees. In the absence of reform, Universities Scotland projects institutional failures within three to five years. Each year of delayed action allows financial positions to deteriorate further, narrows options for managed restructuring, and increases the likelihood that decisions will be forced by crisis rather than chosen through deliberate strategy. The question is not whether Scotland's tertiary education system will change—current trajectories are unsustainable—but whether that change will be planned and purposeful or chaotic and damaging.

Scotland's universities represent substantial assets: world-class research capacity, educated workforce production, economic contributions valued in excess of £100 billion, international reputation and connections, and anchor institutions in cities and regions across Scotland. Preserving and enhancing these assets requires honest acknowledgment of funding inadequacy, political willingness to consider all options including politically difficult reforms, cross-party cooperation to provide stability and insulate decisions from short-term electoral calculations, and sector willingness to embrace collaboration, efficiency, and restructuring.

The announcement of the Framework for Sustainability and Success represents a first step on the reform journey. If it turns out to be a talking shop, where no one is prepared to agree on the direction of change, it will be regarded as no more than a stop gap electoral ploy. If it is to generate a consensus on the way forward, genuine cross party and cross sector joint working and commitment from politicians and civic and university leaders is needed. The relationships between universities and college, and between the tertiary sector and government economic, regional development and skills strategies need to be rethought, in the context of financial and political realities. To achieve sustainability and success, not just for universities but for Scotland, there will need to be a transparent process to agree costed and time-limited system change proposals.

In response to the oft-quoted phrase from Alex Salmond, stones do not need to melt to achieve necessary change, but they could, and we believe should, be sculpted both to match fiscal realities and enhance Scotland’s (and the UK’s) prospects for future economic prosperity and community wellbeing.

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