



ENTERPRISE AND CULTURE COMMITTEE

4th Meeting, 2003 (Session 2)

Tuesday, 16 September 2003

The Committee will meet at 2 pm in Committee Room 1, Committee Chambers.

1. Item in private: The Committee will consider whether to take agenda item 3 in private.

2. Scottish Solutions Inquiry: The Committee will take evidence from-

David Bleiman, Assistant General Secretary, Association of University Teachers;

Dr Bill Stewart, Chair of Education Committee, Association of University Teachers (Scotland);

Dr Tony Axon, Research Officer, Association of University Teachers (Scotland);

Professor William S Stevely, Convener, Universities Scotland and Principal and Vice-Chancellor, The Robert Gordon University;

Professor Joan Stringer CBE, Convener of the Learning and Teaching Committee, Universities Scotland and Principal and Vice-Chancellor, Napier University;

David Caldwell, Director, Universities Scotland;

on its Scottish Solutions inquiry.

3. Budget Process: The Committee will consider the selection of an adviser on the budget scrutiny process.

Judith Evans
Clerk to the Committee (Acting)
Room 2.7, Committee Chambers
Ext. 0131 348 5207

The following meeting papers are enclosed:

Agenda Item 2

Submission from the Association of University Teachers
(Scotland)

[EC/S2/03/04/1](#)

Submission from Universities Scotland

[EC/S2/03/04/2](#)

Agenda Item 3

Enterprise and Culture Committee Budget Adviser (PRIVATE
PAPER)

[EC/S2/03/04/3](#)

Enterprise and Culture Committee

Meeting 16 September 2003

**Scottish Solutions Inquiry:
Submission from the Association of University Teachers (Scotland)**

The submission from the Association of University Teachers (Scotland) is attached.

Judith Evans
Clerk (Acting)

Association of University Teachers Scotland

Preliminary Response to Scottish Solutions

Written submission for oral evidence

Introduction

The Association of University Teachers Scotland, AUTS, has over 6,000 academic and academic-related members in Scottish higher education institutions (HEIs). We welcome the opportunity to submit evidence to Enterprise and Culture Committee's Scottish Solutions inquiry into what impact the introduction of top-up fees in England will have upon Scottish universities.

The Association of University Teachers Scotland called for a review of Scottish higher education funding in light of the likely implications of the Westminster review at the time of the publication of the White Paper. Hence we welcome this inquiry by the Enterprise Committee.

Scottish Sector response to the White Paper

In a media release the then Lifelong Learning Minister, Iain Gray stated that Scottish Higher Education (HE) is a success story and that many of the aspirations outlined in the White Paper have already been achieved in Scotland. Whereas, if the funding proposals in the White Paper were fully implemented then English universities would obtain significant increased funding from the differential top-up fees and from the increased public funding. This will put English universities at a financial advantage, as their funding will be increasing year-on-year whilst Scottish funding stagnates.

In addition many other features of the White Paper will impact on Scotland because they are UK wide initiatives, affect UK wide pay negotiations or impact indirectly in Scotland.

Future funding settlement for England

In the last funding round the Department of Education and Skills announced significant funding increases for the next three years for the HEFCE grant in comparison to the SHEFC grant, as shown in Table 1. We recognise that the HEFCE funding will include an increase in student numbers and a significant proportion of top-slicing but over three years the increase is 7 per cent greater than the Scottish funding.

We believe that core funding for higher education institutions should come from public funds and not by increasing the debt burden of students. We note, in particular, the damage caused in recent years to universities' own scholarship and bursary schemes, and to biomedical research support from charities, by the instability of endowment funding. Of the largest endowment funds in Scotland, Edinburgh University's decreased by 13 per cent and Glasgow's by 29 per cent in the last two

years (ref THES 1598 July 2003). We therefore reject the use of endowment funding as a core source of university funding.

Table 1 Comparison of HE funding for England and Scotland

Financial Year	SHEFC Grant in Cash Terms			HEFCE Grant in Cash Terms		
	£M	% change	cumulative change	£M	% change	cumulative change
2002/03	712		0.0%	4822		0.0%
2003/04	738	3.7%	3.7%	5152	6.8%	6.8%
2004/05	782	6.0%	9.8%	5398	4.8%	11.9%
2005/06	816	4.3%	14.6%	5837	8.1%	21.0%

Pay

There is an acceptance in the White Paper and in a subsequent statement by the Prime Minister that there is a recruitment and retention problem in higher education.

In a speech on public services Tony Blair said;

“Fact: university lecturers and professors have seen their pay rise one-third as fast as the rest of the workforce in the past 20 years; have now fallen behind their main international competitors.”

We agree with his analysis of undisputed need for additional funding and his recognition of fundamental problem of relative decline of academic pay. Hence, the Government is encouraging institutions to increase staff pay. In England whilst there is a relaxing of the criteria in the funding streams for human resource management there is an emphasis on rewarding performance. The HEFCE funding letter also encourages an increased awareness of teaching performance in promotion criteria.

All these aspects are crucial for future UK pay rounds as decisions by HEFCE will affect Scottish institutions. We reject performance related pay and the top slicing of funding for pay, as this applies an English policy to the UK pay settlement, where no such policy exists in Scotland. As pay negotiations are on a UK basis, any shortfall in funding from the devolved countries results in a decrease in the overall pay settlement. Therefore the crisis in university pay can not be tackled unless there is increased funding across the whole UK.

The present pay offer is not acceptable to the academic unions and there is now the possibility of industrial action if the offer is not increased. Part of the reason for the unacceptable offer is due to the lack of increased funding for higher education in the devolved nations.

Funding

As Table 1 shows funding in England is already increasing at a greater rate than Scotland. Whatever the funding mechanism used in England in the future, funding is set to increase in England. If this increase is obtained from tuition fees rather than public money it may not count as part of public funding and hence will not be included in the Barnett funding calculation, resulting in a greater burden on the Scottish budget.

The main reason for the review of funding in England was the realisation that HE is underfunded and this applies equally in Scotland. Universities are recognised as the major driver for the economy and particularly the knowledge economy. They contribute to every aspect of Scottish society, providing training, the employees and the research that are the lifeblood of the public services and industry alike.

The Scottish Parliament should seek to fund Scottish universities according to its own priorities, recognising that the Universities operate as international institutions and have to compete with the best across the world. Whilst it is important to match funding in England, in Scotland education has historically been a higher priority with greater funding. In higher education, Scottish institutions have already obtained fifty per cent participation by delivering a massive increase in efficiency.

In *A Partnership For A Better Scotland: Partnership Agreement*, it is stated that *We will increase investment in research and development and promote its commercialisation in Scotland. We will encourage a culture of enterprise. We will drive up Scotland's skills base. We will make this growth sustainable, in particular taking advantage of Scotland's resources to grow our renewable energy industries.*

Yet spending on these priorities is below average in the Scottish budget and these aspirations will not be realised unless higher education funding is increased. Presently, overall research spend in Scotland is dominated by the university sector in Scotland with 12% of the UK funding for research. As Table 2 shows, industrial research lags behind that in the rest of the UK and our other competitors. This in part explains the lack of growth in the Scottish Economy, 1.75% compared to 2.1% for the rest of the UK.

Table 2 Spending by Business and Enterprise on Research as percentage of GDP

Country	1995 (%)	1999 (%)
Japan	1.94	2.15
Finland	1.45	2.18
USA	1.80	2.00
Germany	1.50	1.69
UK	1.30	1.27
Scotland	0.48	0.53
EU	1.13	1.20

Source: OECD STI Scoreboard 2001 Table A5.1.1 (some figures are estimated) as published in *Business Enterprise Research and Development in Scotland 2000*, Scottish Executive August 2002.

Further, not only should higher education itself be a priority for the economy of Scotland but it is also a priority because of its fundamental role in location to other priorities. Without an adequately funded higher education sector, Scotland will not be able to produce doctors, nurses and other specialised staff for the health sector or teachers for schools.

In a recent press release the Scottish Executive stated *"Growing the economy is our top priority. Through our Smart, Successful Scotland Enterprise Strategy - and a whole range of measures associated with it - we are committed to creating the conditions for sustainable, long-term economic growth."*

This can only be achieved by funding higher education as a top priority and we believe that future increases in funding should be one of the largest in the Scottish budget rather than one of the least. The comparison with the overall Scottish budget in

Table 3 illustrates that higher education funding lags behind other sectors. Indeed if higher education funding had increased to the same extent as the overall budget, then the funding gap illustrated in Table 1 would have been bridged.

Table 3: Comparison of overall and HE budgets in Scotland

Financial Year	SHEFC Grant in Cash Terms			Scottish Budget in Cash Terms		
	£M	% change	cumulative change	£billion	% change	cumulative change
2002/03	712		0.0%	18.2		0.0%
2003/04	738	3.7%	3.7%	19.7	8.3%	8.3%
2004/05	782	6.0%	9.8%	20.9	5.9%	14.7%
2005/06	816	4.3%	14.6%	22.3	6.9%	22.6%

Cross border flows

The use of top-up fees in England has significant implications for cross border flows with not only the difference in student finance but also institutional finances. It is anticipated that UK students will come under the system of their home country, but there is a problem of how fee levels will be applied to Scotland. Presently, other UK students still pay fees to study at Scottish institutions but Scots also have to pay the fees when studying elsewhere in the UK. It could follow that this practice would continue and other UK students studying in Scotland would pay the fee as proposed in their home country. Under this scenario there would be no incentive for students to study in Scotland.

However, the Scottish student studying in England would be severely disadvantaged. The numbers may be small but the principle of student choice and movement within the UK is important and some specialist courses are not available in Scotland.

Loan Payment Threshold

The student loan repayment threshold will be raised across the UK from £10 000 to £15 000 from April 2005. AUTS has lobbied for this increase, although this is still below the level at which graduates start to benefit from an increased salary (due to their education) estimated to be around £27 000, and is even below the average graduate starting salary. This was pertinent in Scotland where it was argued by the Cubie Committee that students should only pay back fees when they benefit financially from their degree. This argument equally applies to the UK and the threshold should be increased to a more realistic level. This requires the Scottish Parliament to exert pressure on the UK government as the loan is administered through the Inland Revenue, which is a reserved area.

Part-time students

The call for evidence states that all the parties in Scotland accept that top-up fees will not be used but this only applies to full-time undergraduate students. Part-time undergraduate students cannot access the same level of student support as full-time undergraduates and are often liable for fees, despite the fee waiver for students from low-income backgrounds.

We argue that the Scottish Parliament should:

- Implement fee payments for part-time undergraduate students on the same basis as full-time undergraduate students.
- Extend the student loans scheme to all part-time students on a similar basis to full-time undergraduate students.
- Extend eligibility for the Mature Students' Bursary Fund to mature part-time students.

We recommend that all students should be treated equally whether they are studying part or full time.

Research

The White Paper endorses increased research selectivity including the prospect of mergers, formal synergy agreements and increased collaboration. In England, there has been an immediate re-assessment of 5* departments, with some receiving the so-called 6* rating. In Scotland, SHEFC has been sensible in taking a less selective approach to funding research, and it was only after the 2001 RAE that 5* departments received additional funding. We reject the need for increased selectivity and the use of the 6* label, which has been mooted without proper consultation with the devolved bodies, in contravention of the concordat between the Ministers. If it is introduced, SHEFC could be in the ludicrous position of having to use the 6* label for reasons of kudos and league table positions despite there being little desire in Scotland for increased selectivity in research assessment. Without this label research teams in Scotland could be put at a disadvantage when tendering for research funding.

Access premium

In England there is extra funding for the widening participation premium, which has been increased from around 5 to 20 per cent of the funding per student in 2003-04. We call for this increase also to be applied in Scotland where the premium is only 5 per cent.

Knowledge Transfer

A third stream of HEFCE funding has now been made permanent to promote knowledge transfer and innovation.

As set out in 'Investing in Innovation', this round of HEIF will broaden the reach of knowledge transfer activities by supporting non research-intensive university departments in developing both knowledge transfer and skills development, and in reaching out not only to business but also to the regional and local economy, and the wider community.

SHEFC has already initiated this stream of funding to develop business interactions with research departments in Universities. This should lead to an increase in funding and a broadening of scope for the stream in Scotland.

In the White Paper, there is a mention of the crucial role higher education plays in public services:

As well as providing skilled graduates to business, universities have a critical role in developing the public sector workforce. Without a strong higher education input, our hospitals, schools, and other public services would be impoverished.

This is a role we have highlighted in responses to recent consultation documents but we would go further and point out that developing research for public services is as important in terms of knowledge transfer stream as it is for industry.

Conclusion

Higher Education is a key priority for the economy and public services and should be funded as such within the Scottish budget. This would be a level of funding that would match the English increase without increasing the burden of debt for Scottish students.

Enterprise and Culture Committee

Meeting 16 September 2003

**Scottish Solutions Inquiry:
Submission from Universities Scotland**

The submission from Universities Scotland is attached.

Judith Evans
Clerk (Acting)



Inquiry into the impact of England's University Fees on Scottish Higher Education

Universities Scotland submission to the Enterprise and Culture Committee of the Scottish Parliament

Introduction

1. In welcoming the Enterprise and Culture Committee's current inquiry into the impact on higher education in Scotland of changes in policy on university fees in England, we want to emphasise that what should be fundamental to this inquiry is what Scottish higher education can do for Scotland and its people. Developments outside Scotland are important to us because of the impact they will have on Scotland, but they are not the primary issue. The central issues are:
 - that the Scottish Parliament and Scottish Executive have recognised that Scotland's future prosperity and well-being depend on the creation of a vibrant, knowledge-based economy and an inclusive society which fosters talent and creativity;
 - that the realisation of the economic returns, which are essential to enable us to pay for the public and social benefits to which we aspire, depend on prioritised, well-targeted strategic investment;
 - that one of the prerequisites for success is an internationally competitive higher education system, since a thriving knowledge economy depends on the strongest possible science and research base, and on maximising the number of highly educated, creative and adaptable men and women; and a healthy and inclusive society depends on providing access to educational opportunities to all who have the potential to benefit from them in every social group;
 - that investing in higher education is therefore one of the very highest priorities, and one which will produce substantial gains in competitive advantage.
2. In our submission below, we describe what higher education already delivers for Scotland, and we outline the added value which it has the capability to deliver. We offer the vision that enhanced collaboration and the inclusive approach to the pursuit of excellence will best deliver results for Scotland. We refer to the changes in England, but we do so because of the impact they will have in Scotland. We also propose specific targets for the investment in higher education which is necessary in order to maintain and enhance Scotland's competitiveness, not just with England but in a much wider international context.
3. It is essential that the Scottish higher education system can continue to operate on the world stage. Scotland, as distinct from the UK, is a leader in developing European thinking on key areas within the Bologna process including the use of both credit and qualification frameworks, and is also, to a greater degree than England and Wales, currently well aligned with the structures and principles of this agreement. It is in Scotland's best interests to operate to agreed European standards to enable us to market ourselves effectively in Europe and beyond, and to support a high quality research and teaching mix in every institution, developing excellence wherever it is found.

Relative Income

4. There is no enthusiasm in Scotland for "top-up" tuition fees. We supported the abolition of fees for full-time undergraduate students in Scotland. We also supported the principle that the individual beneficiaries of higher education should make a contribution towards its cost, and agreed that this contribution should be made after graduation through the Graduate Endowment, subject to an income threshold and a number of exemptions. To consider then how we best strengthen the position of higher education institutions we need to look at the various income streams available and to the other

social and infrastructural factors that can impact on the relative attractiveness of institutions and their ability to perform at an internationally competitive standard. We further need to attempt to quantify the impact of the proposed tuition fee arrangements in England, but to bear in mind that this is just one part, albeit a significant part, of a much larger picture.

Impact of the changes in England: Lessons from abroad

5. Doubt remains in a number of areas relating to how exactly the changes that are due to be introduced in England will impact in practice on English higher education institutions. However, whatever the detail of the changes, it does seem certain to result in a significantly higher level of overall spending power for English institutions. The New Zealand experience might offer an insight into how a similar change to that proposed in England impacted when combined with low government investment, essentially as a shift towards graduates carrying a greater burden.

A recent study of the New Zealand Higher Education sector by two independent economists found that changes in the way universities are financed had significantly shifted responsibility from the state to students. The researchers found that over the twenty years since 1980, government funding for each FTE student had decreased by 36%, making New Zealand one of the lowest investors in Higher Education in the OECD (0.9% GDP, compared with Finland 1.8% and South Korea 0.5%). Universities made up for this shortfall by increasing revenue from student fees by 50%, and by more than doubling the proportion of income from other sources.

Most significantly, the ratio of staff to students has been adversely affected, with each academic now teaching an average of 18.4 students, as opposed to 12.5 in 1980. Non-academic staff now also make up a greater proportion of the payroll than prior to the reforms. Of most concern to Scotland, the researchers noted that the shift in funding coincided with a move away from high cost, high quality science courses to "courses requiring less infrastructure and capital". They also noted that New Zealand may now face problems recruiting and retaining staff, and that fees may deter students from low participation groups.

(W Guy Scott & Helen M Scott 2000 New Zealand University Funding Over the Last Two Decades Wellington, July 2000.)

6. Another reason for uncertainty is that the tuition fee charges are intended, by Government at least, to vary from one institution to another and from one course to another, subject to the maximum of £3,000 per student per annum. In the future pressure will no doubt be brought to bear for further increases, regardless of whether this is in the context of fixed or variable fees. Already calls for the ceiling to be raised to £5,000 or £6,000 have been made. It should be noted, however, that there is significant Labour backbench support for retaining a uniform fee, but roughly doubling it from its current level. If this pressure is successful, then all English HEIs will benefit from a substantial increase in income, benefiting in total by approximately £1 billion per annum. If variable fees are introduced, it is our view that many will opt for the maximum figure, although the regulator may stop some and others may seek to create an advantage in attracting students by applying a lower figure. Applied at a variety of fee levels according to what the market will bear, a realistic estimate of the increase in the domestic fee income of English HEIs would be approximately £1.4 billion per annum, none of which would generate Barnett consequentials. The White Paper introduces other funding changes and it should be emphasised that this includes £1.8 billion of additional government funding, largely for student loan and grant support, but also for staff pay modernisation and an increase in the wider access premium. This money does offer Barnett consequentials and is seen in the forecast rise in the Executive's core funding block, but unfortunately is not reflected in proposed Scottish HE spending. Some English institutions will be able to use the increases in income to leverage in loan finance to further invest in student, teaching and research infrastructure. This would be a serious concern as it would increase the attractiveness of English HEIs to gifted students and academics and ultimately weaken the ability of the Scottish sector to secure research and other funding awarded by competitive bidding. A useful analysis of the costs of the White Paper can be found in Goodman & Kaplan, 2003, "*Study now, pay later*" or "*HE for free*"? An assessment of alternative proposals for higher education finance, in the Institute of Fiscal Studies Commentary 94 (see page 42 in particular).
7. If present Government proposals for England are carried through, the overall result will be increased polarisation of income levels among English HEIs, which would represent a threat to Scotland in terms of competing effectively with the best-resourced English universities but an opportunity for Scotland to demonstrate its greater cohesion. Even if a uniform fee level was retained in England, there would still be polarisation by virtue of the greater concentration of research funding. Thus, although all English HEIs will benefit from increases in funding, this will be unevenly distributed, with a few institutions

probably gaining the lion's share of the extra income. It is vital that we consider seriously the implications for the Scottish HEIs competing most directly with these few, and take action to ensure that they can continue to compete and exploit any competitive advantage, but not at the expense of other institutions in Scotland. In addition to existing advantages such as the quality of the living and working environment in Scotland, the better political understanding of the value of a higher education sector composed of autonomous institutions, research excellence that belies our size, and strong global reputation, Scotland will benefit increasingly from having a sector which, while still sufficiently diverse to meet diverse needs, is less polarised and consequently more coherent, and which has the potential to be much more than the sum of its parts. While the health of our system of higher education depends on competition, between HEIs in Scotland as well as in the wider context, the greater coherence of the Scottish system means that it is ideally placed to deliver added value from increased resources through greater collaboration. Collaboration has always featured strongly in Scottish higher education, and the sector is committed to the extension of that collaboration, so that the Scottish system as a totality can continue to compete successfully in a world increasingly dominated by big players. For example, working together in Scotland we can tackle the issues of pay modernisation and capital infrastructure renewal in a co-ordinated way that will make Scotland even more attractive to work in and more productive for society and economy alike. We must focus on excellence, and we must support excellence wherever it is found.

Public Funding

8. The public grant recognises the tremendous benefits that higher education brings to the Scottish economy and society. It remains the case that higher education delivers huge returns on the public investment made. Higher education earns £365m from other parts of the UK and abroad every year and brings around £500m more into the Scottish economy. Many times more significant is the economic return generated by the output of graduates and of research. It is one of Scotland's most notable achievements that 51% of Scottish school leavers now benefit from higher education, bringing incalculable benefits in terms of skills, innovation and entrepreneurship. This is achieved on the basis of Scottish Executive / SHEFC grant funding to HEIs of £700m per annum.

9. The Scottish Executive's budget is set to increase by more than 23% over the spending period 2002/3 to 2005/6, but the income to HEIs from SHEFC is forecast to rise by less than 15% during this period. Higher education represents a strategic investment capable of producing a high return, and should be very close to the top of expenditure priorities, attracting a larger increase than that for Executive spending as a whole. A minimum target should be to ensure that within the next two years the expenditure on higher education should be restored to the same proportion of overall Scottish Executive expenditure as applied in 2002/3. This would entail an increase of a further £59m beyond the figure currently projected for 2005/6. However, although this would represent a start, it is not enough. If we look around the world to see how higher education is prioritised, we see that Scotland falls well below the mean of its key competitor OECD nations in terms of % GDP spend. The deficit on the published 1999 figures stands at 27%, and although the gap narrows a little as we project figures forward Scotland still has much ground to make up even to reach the mean; and surely that is a target Scottish Ministers must work to exceed. Norway, Sweden, Finland, Denmark, all countries with economies not dissimilar in size to our own, spend far in excess of the level Scotland achieves. Scotland should have more ambition than simply to attain the OECD average. If the vision of a smart successful Scotland is to become reality it is imperative that our sights are set higher, and that we try to match the best performers among the OECD countries. The minimum target within five years, that is by 2008/9, must be to increase HE expenditure by a further 5% in real terms to allow us to match these. The additional cost would be £43m per annum at estimated prices for 2005/6.

Table 1 Relative increases in Scottish Executive and Higher Education budgets, 2002-03 to 2005-06 (figures drawn from Scottish Executive Draft budget for 2003-04)

£,000	2002-03	2003-04	2004-05	2005-06	% increase (2002-03 to 2005-06)
Total Scottish Executive budget	20,972,000	22,854,000	24,210,000	25,857,000	23.3
ELL Budget for HEIs	700,000	726,000	770,000	804,000	14.9

10. Raised investment would be used to improve productivity through modernisation of facilities and reward structures and to drive forward collaboration. In recent decades UK higher education has

managed to deliver among the highest increases in efficiency and productivity of any sector, and Scottish HEIs are committed to continuing to deliver an outstanding return on public investment. But it would be a serious mistake not to step up this investment. This would hand the advantage to competitor nations and undermine Scotland's future prosperity. It is well understood that there are many competing calls on government funds, but without investment in the future Scotland will become less and less able to meet these demands. Investment in higher education delivers returns across numerous policy priorities, from widening access to economic development, raising social standards, promoting artistic and creative endeavour, providing the training and skills for so many professionals from nurses to engineers and doctors to scientists, and a huge range of vocational and management training including MScs, MBAs and other postgraduate courses.

Research funds, all sources

11. Scottish HE continues to outperform other parts of the UK by successfully winning more competitive research funding relative to its size. The value of this to Scotland is widely recognised: launching the Intermediary Technology Institutes this month, the Deputy First Minister cited the excellence of university-based research as one of the pillars on which the success of the ITIs will depend. This reinforces the case for ensuring that we do not allow Scotland's competitive position to be eroded. Already Scotland is in a less favourable position when it comes to the RAE-based research funding, although credit should be given to the Scottish authorities for continuing to fund more broadly and for supporting good and improving research as well as bolstering already established excellence. However, the edifice is fragile, and should substantial income flow into English universities, then defending the position under future rating exercises will be made harder. It is a very real risk that the genuine stars of research, who are few in number but hugely important in terms of influence, creativity and ability to draw in other talented individuals, will be attracted to English universities by the superior and more up-to-date facilities and resources. Further, the offer of more attractive employment packages, together with these better facilities, will lure south the most gifted young researchers beginning their careers and sometimes whole research groups. This will be to the very great detriment not just of Scottish HEIs but of Scotland as a whole, crucially undermining the strategy of attracting and retaining talent. It is essential that we invest in teaching and research infrastructure so that the quality of our facilities allows us to attract and retain high-quality staff, and that we are able to introduce modernised equal pay proofed reward structures so that the employment packages we offer are competitive. It is important for Scotland to operate in the international market, attracting and retaining the best in the world and supporting the drive to widen the cultural and intellectual perspectives in Scottish society. If we take these actions, and also continue to promote the natural advantages of Scotland, we can keep the stars of today and attract some of the best up and coming academics for the future. Indeed, there is a real opportunity for Scotland to gain a competitive advantage, but we have to invest to gain this advantage.

Income, including from services, intellectual property and commercial activity, alumni and other gifts, legacies and private donations

12. HEIs have made great strides in replacing the steadily falling proportion of their income from public grant by increasing income from commercial activities and other non-governmental sources. Although the development of commercial activities is not a short-term process which can be accelerated easily, Scottish institutions can point to numerous examples of successful spin-out companies and profitable collaborations with private industry. Greater funding availability allows a larger number of these opportunities to be pursued and encourages a degree of risk taking that is necessary if major economic gains are to be achieved, but which might be seen as imprudent in the circumstances of an institution with little discretionary income and modest financial reserves. Here too we could suffer in comparison with English universities, but the opportunity is available through supporting universities' commercial activities to help more good ideas reach the marketplace that are owned, operated and which provide employment in Scotland, rather than commercial exploitation taking place mainly outside Scotland itself.
13. Alumni, gifts, legacies and donations are valuable as an income source, and we welcome the intention stated in the White Paper to provide public help to promote individual and corporate giving. However, as the Scottish Solutions SPICE briefing makes clear, these sources are minor in their significance for most institutions. While effort in this area is intensifying and becoming more sophisticated, this is not expected to become a major funding source. As is borne out by looking at the United States in particular, older and more globally recognised institutions do considerably better at developing this

funding stream. Even for these institutions, it is a volatile income stream and while donors often contribute generously to enhancements they are resistant to paying for core activities. Therefore, this is a funding source best regarded as complementing rather than replacing others, and it ought to be left to institutions to pursue best practice in relation to their own circumstances.

Course Fees and the Graduate Endowment

14. The proportion of income drawn from fees ranges from 5% in the Netherlands to 23% in the US and England. Scotland already raises 17% through fee income, of which 4.5% comes from overseas students. It is our view that the burden on Scottish students is already relatively high so that any significant increase would be undesirable and potentially damaging to the important objective of widening access. The present arrangement represents a fair balance between repayment by graduates in recognition of the personal benefits they enjoy and public funding in recognition of public good. We welcome the move towards repayment starting at an income level of £15,000 (£10,000 currently), and it may be that over time both the repayment earnings threshold level and the endowment amount might increase. However, we do not advocate any significant change.

Overseas Student contributions

15. The Scottish higher education sector brings over £195 million into the Scottish economy from overseas sources every year. Every three overseas students attracted to Scotland create an extra job in the Scottish economy. However, although we have increased our numbers impressively, England has done even better: This is an area in which we could focus greater effort in terms of more co-ordinated and high profile marketing. Any increase in the differences between English and Scottish systems will generate a greater need to promote Scotland in the world market as an attractive place in which to study. Institutions in Scotland all have their own active marketing programmes, and supplement these with generic marketing through EducationUK Scotland. They are also committed to making fuller use of European and America friends, including working with the promotion networks now under Scottish Executive control. However, it is important to recognise the limitations of overseas student fees as an income source. While the fees do cover the full cost of provision, they do not generate significant surpluses for HEIs. The market for overseas students is highly competitive, with countries such as the USA and Australia very active, and overpricing is counterproductive. Although this is a useful additional income stream, it cannot significantly subsidise core provision for home-based students, and its greatest importance is more to do with international reputation and attracting some of the world's most intellectually talented people to Scotland.

Conclusions and solutions

16. Support the institutions and place trust in them to continue to deliver on the investment. The changes in England, the more competitive world environment generally, and the failure to increase investment in higher education in Scotland as fast as our main competitors, represent serious problems, and there is real urgency about addressing them. However, if we act promptly there is still time to secure the potential advantages which Scotland has over England. If resourced appropriately our higher education system can support excellence right across the country ensuring the student experience is of uniformly high quality and that the science and research base is maintained and strengthened. The threat from England and elsewhere is an ongoing process not a single event, but inaction now will allow that process to reduce our status, capacity and ability to benefit society and the economy.
17. There is a need to analyse the actual income changes in England and not only track the overall income rise but also understand the increasing polarisation of funds so that we are aware of the economic environment we are operating alongside. Some additional students may be attracted from England, but a simple mechanism such as the practice already in use of charging English equivalent fees to English domiciled student would allow this issue to be easily handled. We would not want Scottish students to be displaced, but equally it is important that Scotland should continue to be perceived as an attractive destination by students from outside our own borders. We should regard non Scottish domiciled UK students coming to Scotland as a benefit not a problem, and we should not worry about Scotland being flooded by English students, since any such worry is illusory.
18. The higher education sector in Scotland has proved adept at responding to and leading change. It is continuing to change rapidly, and in particular is developing closer working relationships between

institutions, industry and the public sector, through the creation of collaborative networks for research and teaching. It is critical to the success of these collaborative networks that they should not involve a heavy layer of bureaucracy or be imposed from above. They will succeed where they develop organically on the basis of genuine conviction that interests are shared, and through the use of virtual or face to face systems for sharing ideas and supporting excellence wherever it is found. Making best use of facilities and talent from Scotland through co-operation will increase productivity and broaden the base of excellence. We can become more collaborative without damaging healthy competition, and working ever more closely with industry ensures that, while pure academic research continues as it must, market close research also moves ahead.

19. The funding balance between public, private and student contribution will continue to shift over time. However, we believe that a review of income sources and their potential for further development will confirm that income to meet the core needs of HEIs (educational provision for home-based students and supporting a strong science and research base) must come from a combination of two sources: public funding, and a contribution from the individual beneficiary. We do not support any significant move towards greater student or graduate burden, but the alternatives to this is are either a greater burden on the public purse or allowing the competitive position of our higher education system to be eroded and for us to be steadily overtaken by the competitors whom we currently outperform. We believe that the latter option is unthinkable, and not only because of the damage it would do to the HEIs which, as one of Scotland's great successes, make such a major contribution to its international reputation. The damage that would be done to Scotland's economic prospects, and to its ability to reap the commercial benefits of a strong knowledge base and to attract talented people to live, study and work in Scotland, would ultimately lead to continuing and accelerating economic decline. It is for this reason that we set firm targets and that we reiterate that these are the minimum that is required.

Within two years the expenditure on HEIs as a proportion of the Scottish Executive's overall budget must be restored to its 2002/3 level, which in 2005/6 would cost an estimated £59m.

Within five years this expenditure must rise by a further 5% in real terms in order to allow us to match the public investment levels of key competitor OECD countries, at an additional cost of £43m per annum at estimated 2005/6 prices.

20. The knowledge economy and the knowledge society are the key to Scotland's future, and they cannot be delivered without sustained investment in Scottish higher education. We urge the committee to recommend that resources are allocated to support the vision we have set out of a higher education sector able to meet the challenge of intense international competition and delivering added value by building collaborative networks as the route towards greater productivity. We also urge the Committee to recognise the urgency of the situation, and to give its support for the targets we have set. This inquiry is about more than higher education. It is about Scotland's future in an increasingly competitive world.