

# *The funding of higher education in Scotland: implications of further devolution and/or independence*

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# INTRODUCTION

# Constitutional Options for Scotland

- **Status Quo**
- **Devo +**
- **Devo More**
- **Full Fiscal Autonomy**
- **Independence**

# The Status Quo - Scottish Budget 2013-14

SG Spending Limits — Cash Terms	2010-11 £m	2011-12 £m	2012-13 £m	2013-14 £m	2014-15 £m
Revenue DEL	27,259	26,270	25,896	25,429	24,961
Capital DEL	3,462	2,837	2,707	2,319	2,320
<b>Total</b>	<b>30,721</b>	<b>29,107</b>	<b>28,603</b>	<b>27,748</b>	<b>27,281</b>
Real-Terms Change – year on year		-5.3%	-1.7%	-3.0%	-1.7%
Real-Terms Change – cumulative		-5.3%	-6.9%	-9.7%	-11.2%

	2012-13 Budget £m	2013-14 Draft Budget £m	2014-15 Plans £m
Scottish Further and Higher Education Funding Council			
Scottish Funding Council FE Programme	506.9	511.7	470.7
<b>Scottish Funding Council HE Programme</b>	<b>1,002.2</b>	<b>1,041.6</b>	<b>1,061.8</b>
Scottish Funding Council FE/HE Capital	60.7	45.9	56.4
Scottish Funding Council Administration	7.9	7.9	7.9
Total Level 2	1,577.7	1,607.1	1,596.8
of which:			
DEL Resource	1,517.0	1,561.2	1,540.4
DEL Capital	60.7	45.9	56.4

# The Status Quo - Scottish Budget 2013-14

Higher Education Student Support	2012-13 Budget	2013-14 Draft Budget	2014-15 Plans
Level 3	£m	£m	£m
DEL			
Student Support and Tuition Fee Payments	325.9	302.4	307.0
Student Loan Company Administration Costs	5.0	5.0	5.0
Student Loan Interest Subsidy to Bank	4.5	4.5	4.5
Cost of Providing Student Loans (RAB Charge) (Non-Cash)	88.4	134.0	181.6
Student Awards Agency for Scotland Operating Costs	8.4	8.7	8.7
AME			
Net Student Loans Advanced	241.3	408.3	468.3
Capitalised Interest	(47.0)	(50.0)	(52.0)
Student Loans Fair Value Adjustment	(69.0)	(69.0)	(69.0)
Student Loan Sale Subsidy Impairment Adjustments	0.5	0.5	0.5
Total Level 2	558.0	744.4	854.6
of which:			
DEL Resource	431.8	454.2	506.4
DEL Capital	0.4	0.4	0.4
AME	125.8	289.8	347.8

# Alternatives to independence

- Devo plus and devo more
  - No obvious implications for HE sector relative to status quo.
- Fiscal autonomy – research councils part of “shared services”?

“A payment from Edinburgh to London would be required to cover common UK public goods and services (i.e. “shared services”). The range of services included in this basket of “shared services”, how they would be paid for, and the authority the Scottish Parliament would have over such policies, would be subject to negotiation at the time of any revised settlement” (Fiscal Autonomy in Scotland, Scottish Government 2009)

Would the research councils form part of these shared services?

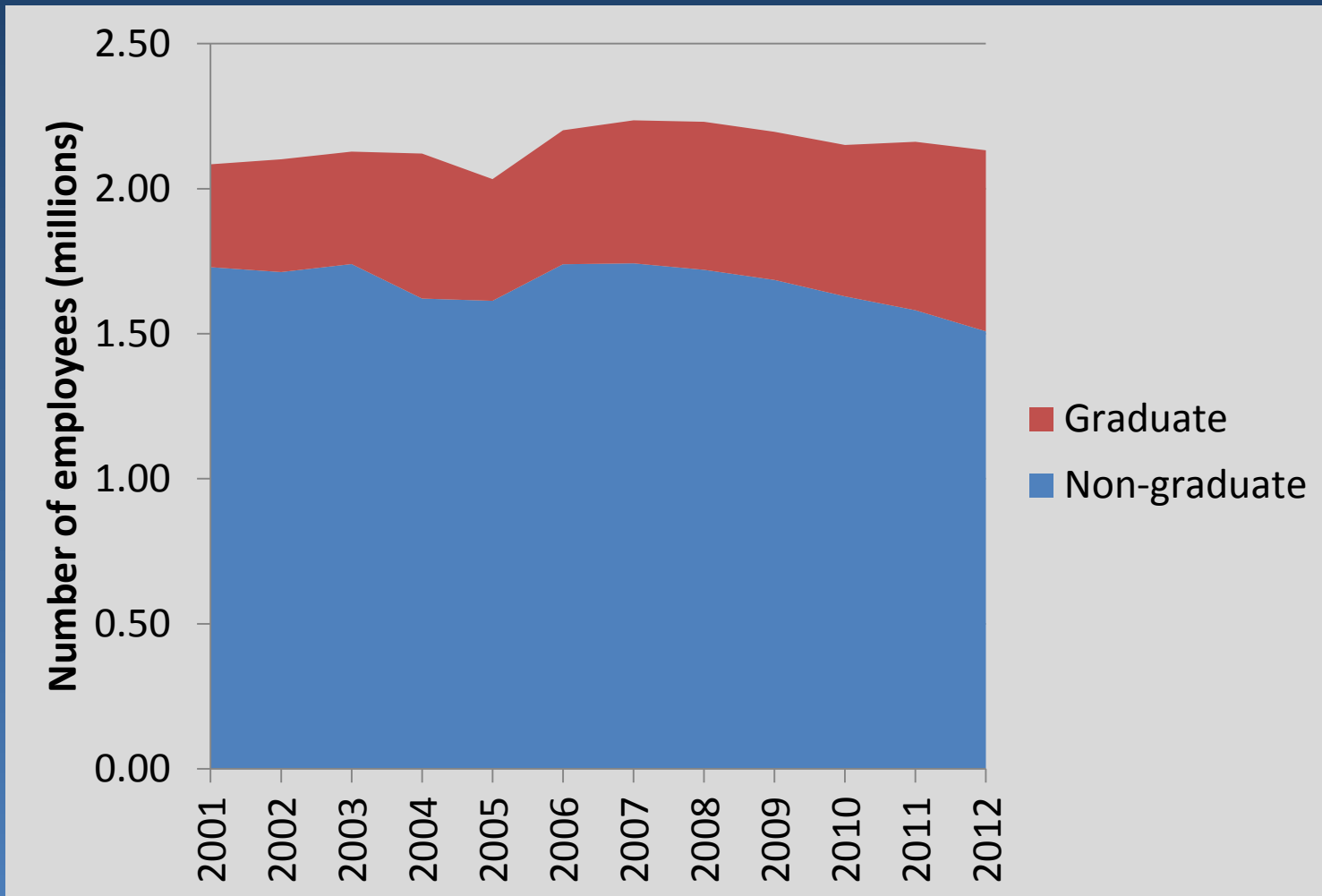
# Independence and Higher Education

- Key questions for Scottish Government
  - Would an independent Scotland want to increase/decrease level of support for HE
  - Could it afford increased support?
- Existing structures and relationships
  - Student demography – stocks and flows
  - University funding
- The tuition fee issue
  - A proposed solution

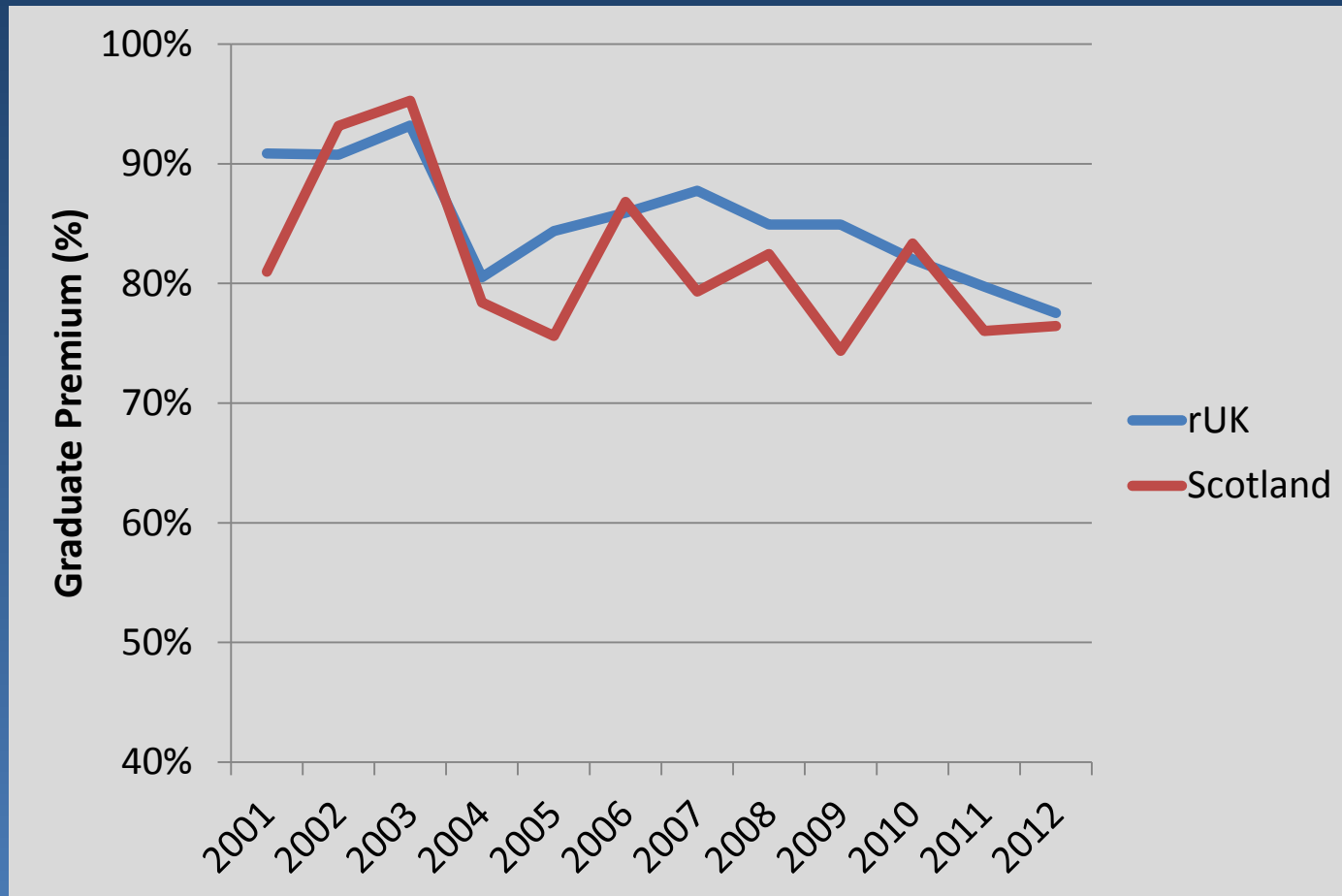
# DESIRABILITY AND AFFORDABILITY OF POST-INDEPENDENCE HE SUPPORT



# Graduates make up an increasing share of the Scottish workforce



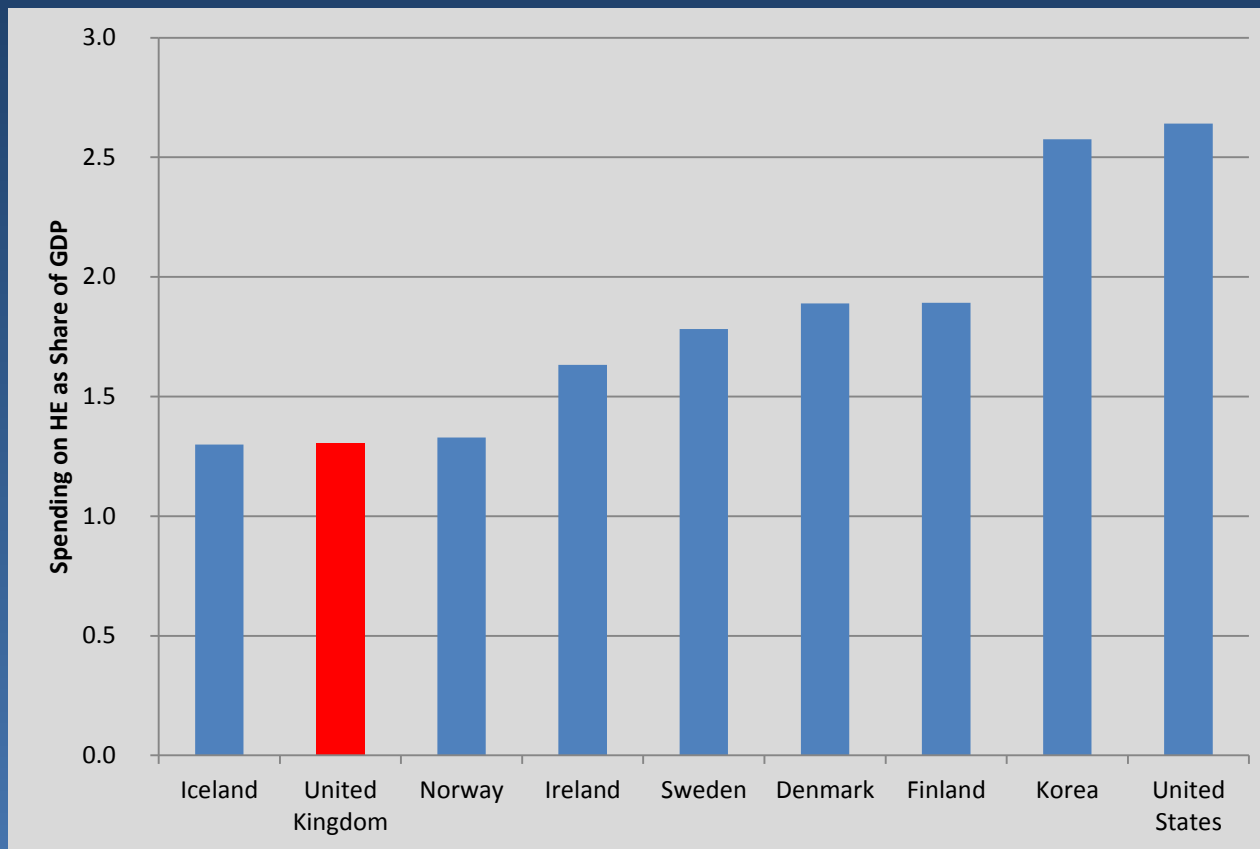
# Graduate premium declining slightly



Graduate premium = Graduate wage/non-graduate wage – 1

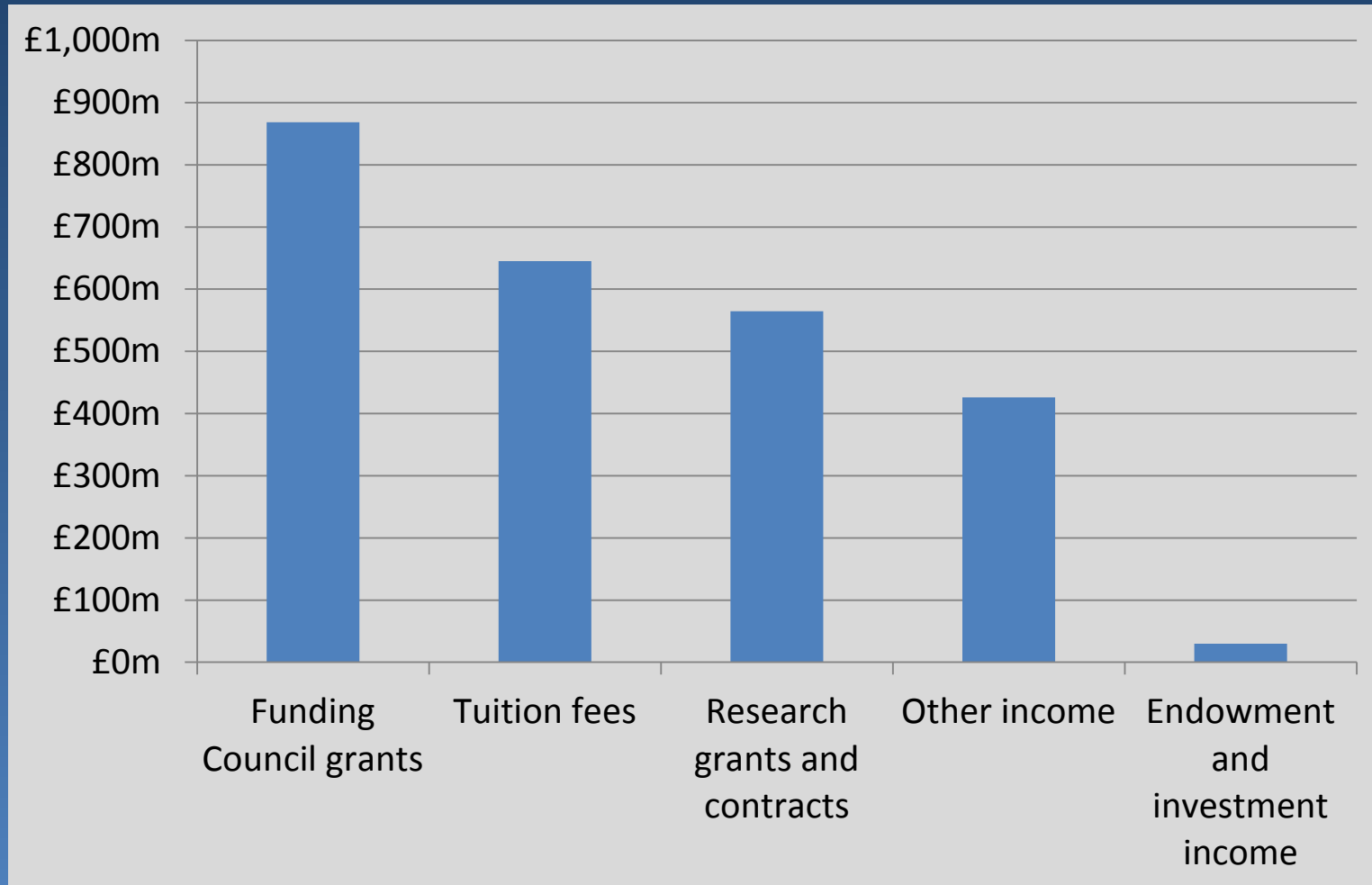
Source: Labour Force Survey

# Spending on HE in UK low, but effective



29 of the world top 200 universities in the UK

# Scottish HE Institutions 2012 – Significant Income Generation



# Scottish Growth Sectors Have Strong Links to HE

- Oil and Gas
- Food and Drink
- Technology and Engineering
- Renewable Energy
- Life Sciences
- Tourism
- Creative Industries
- Financial and Business Services
- Chemical Sciences
- Construction
- Forest and Timber Technologies
- Textiles

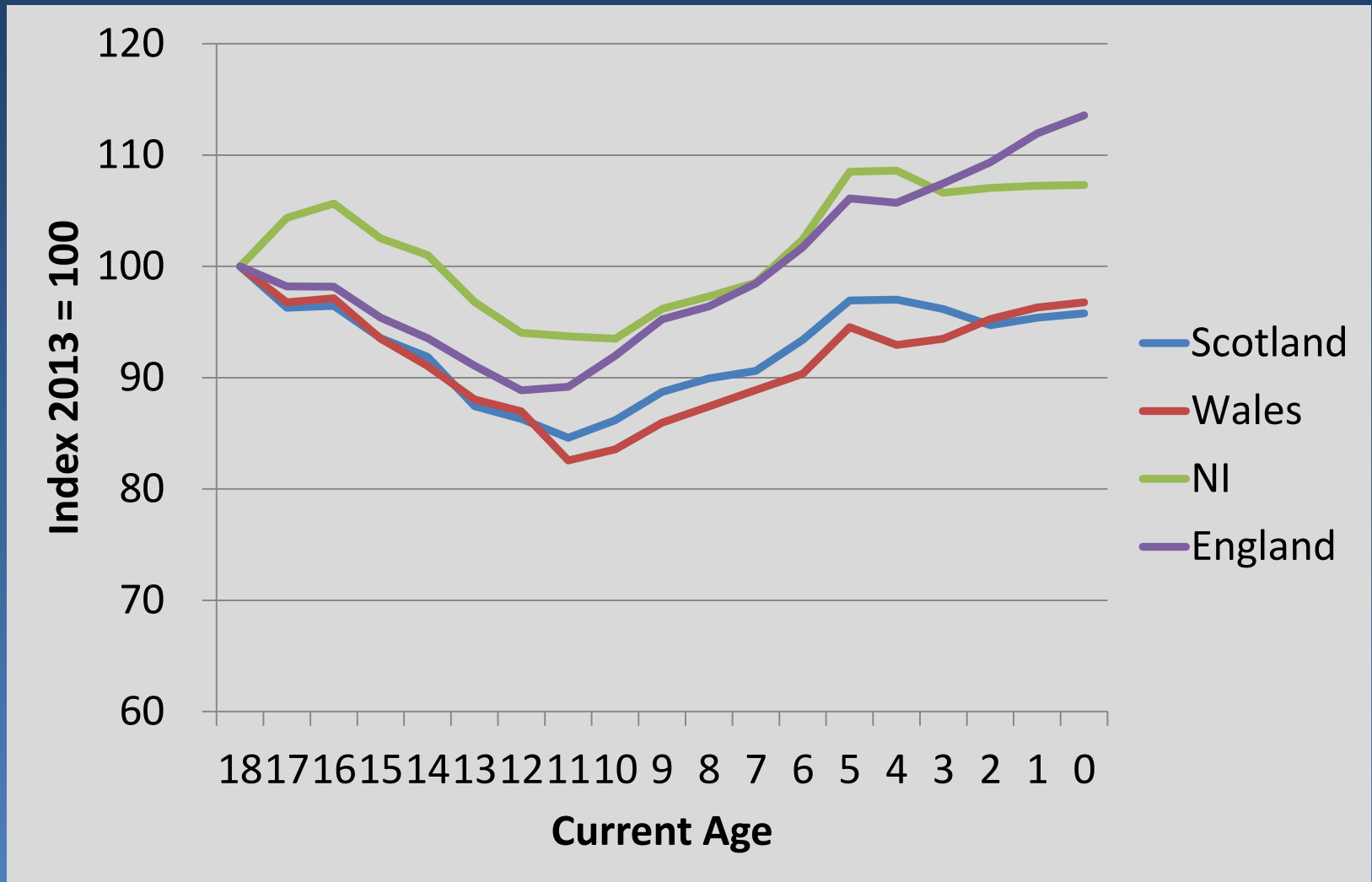
**Unlikely to change immediately post-independence**

# HE as an export earner in an independent Scotland?

- Issues
  - Migration/visa policy
    - Implications for border arrangements?
  - Co-operative/competitive outcomes among institutions
  - Technological challenges
  - Product differentiation
    - What makes a Scottish HE course better?
  - Policies to attract best scholars
    - Salaries, working conditions etc

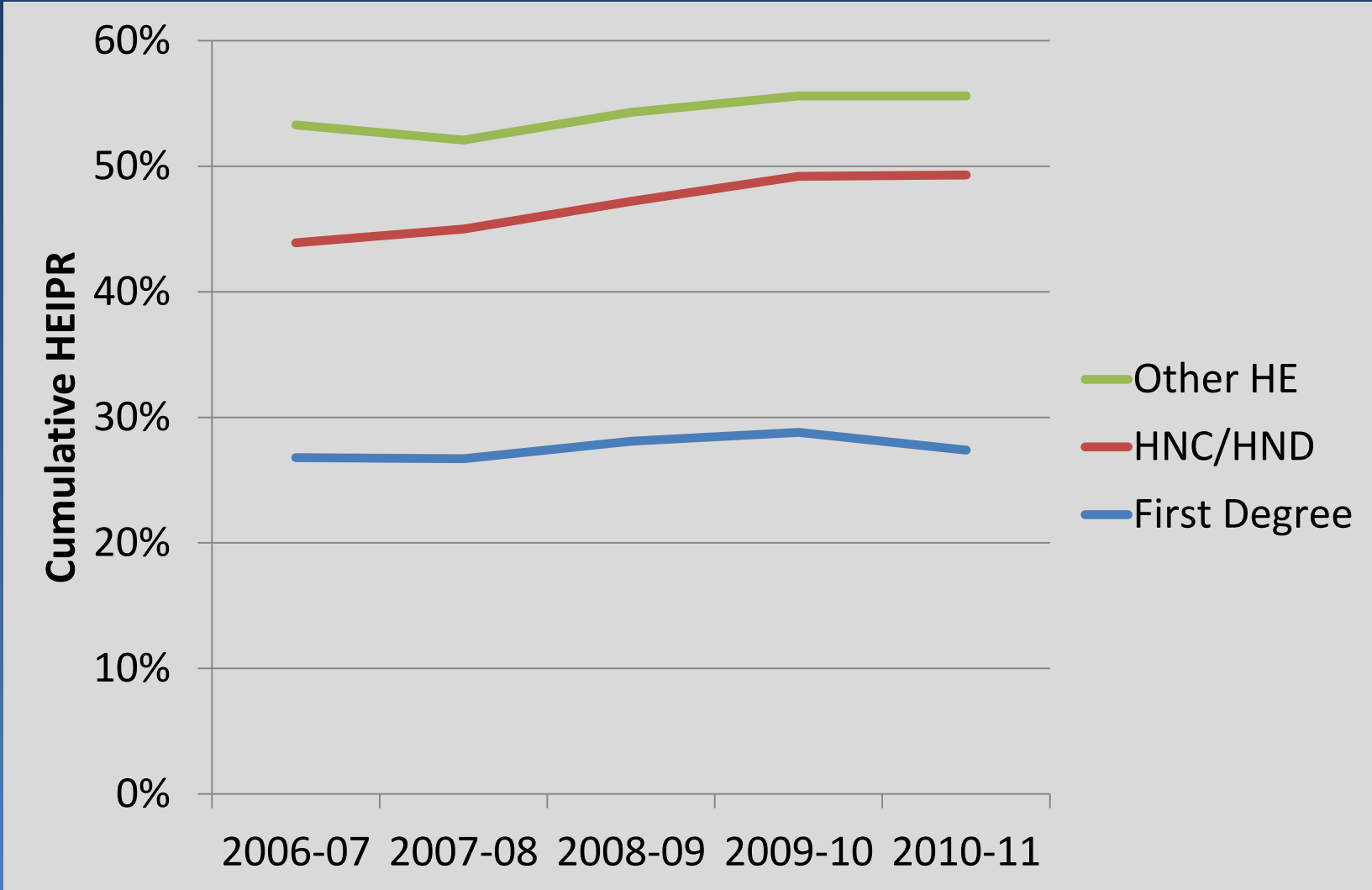
# STUDENT DEMOGRAPHICS

# Potential student numbers in Scotland static, growing in England

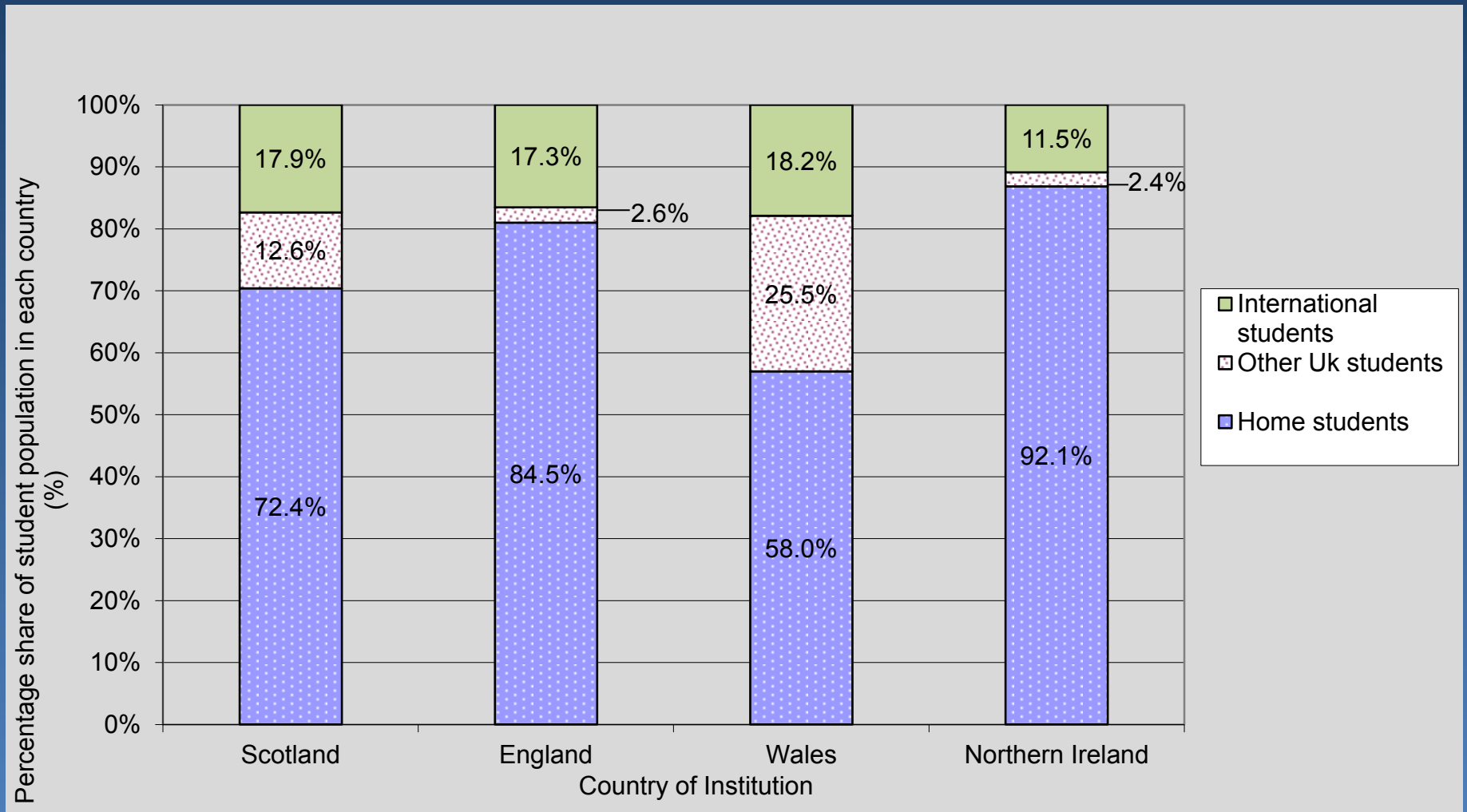




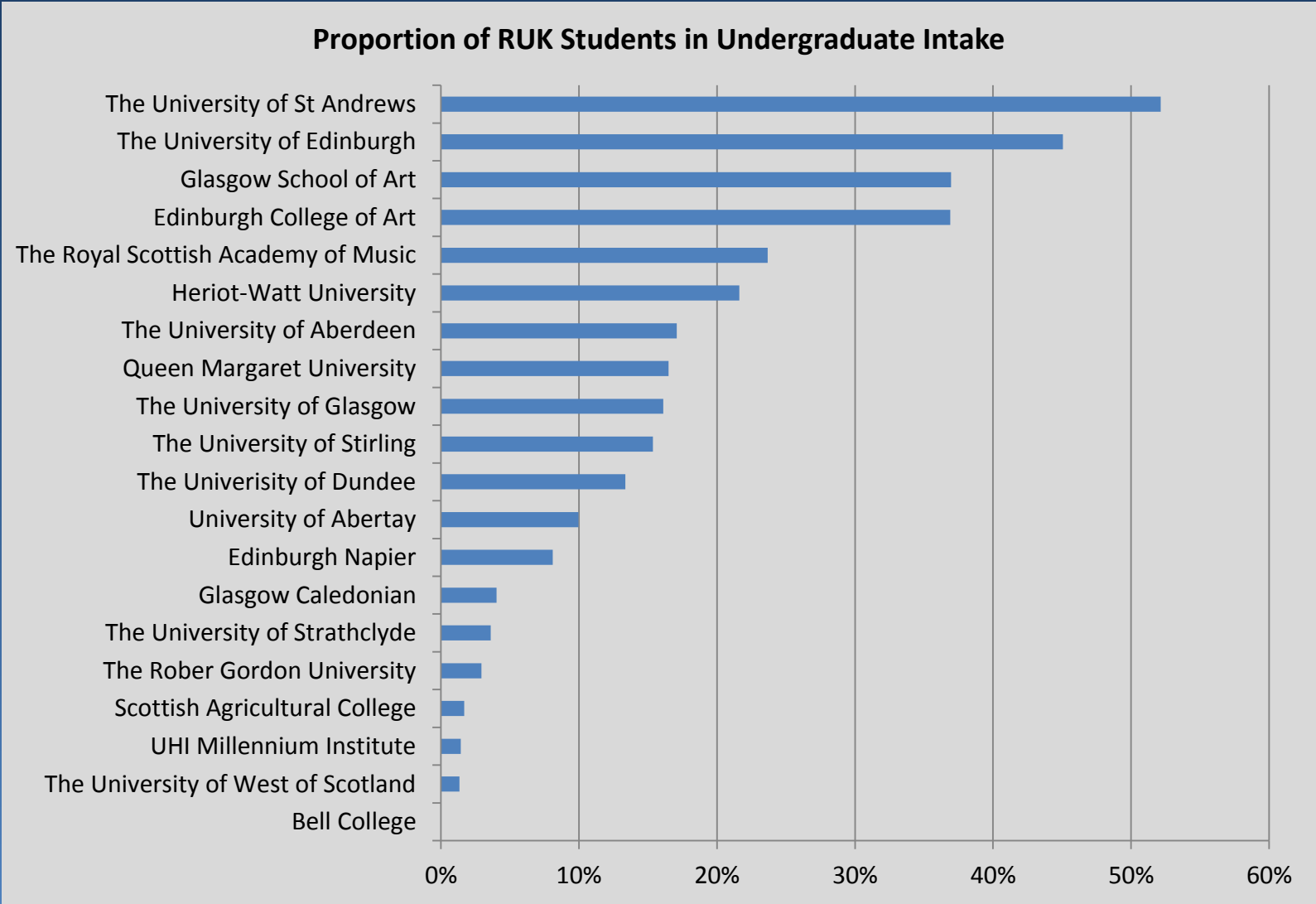
# Scottish Higher Education Initial Participation Rate (HEIPR) static



# Share of Students studying in HEIs in the UK by domicile and country of institution: 2009-10

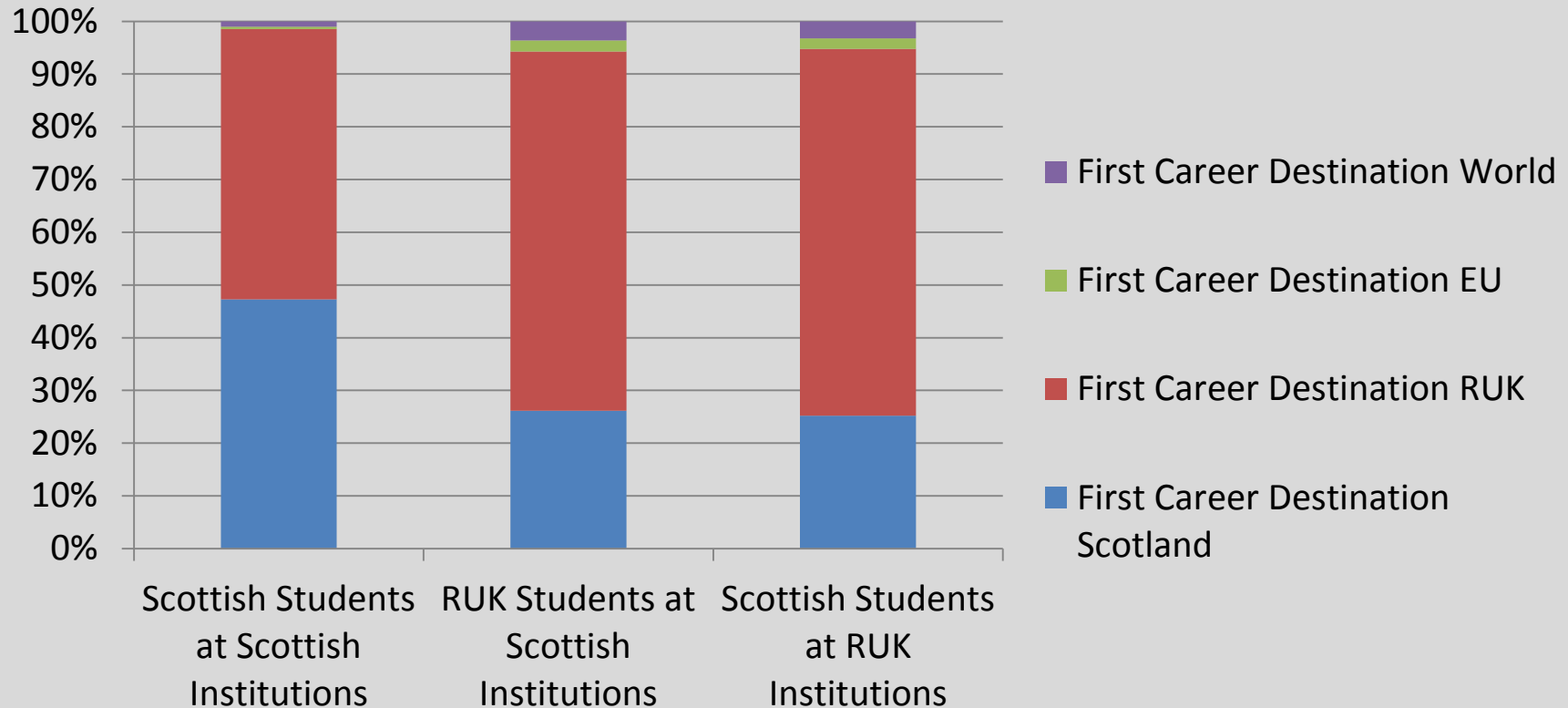


# RUK students share varies by institution



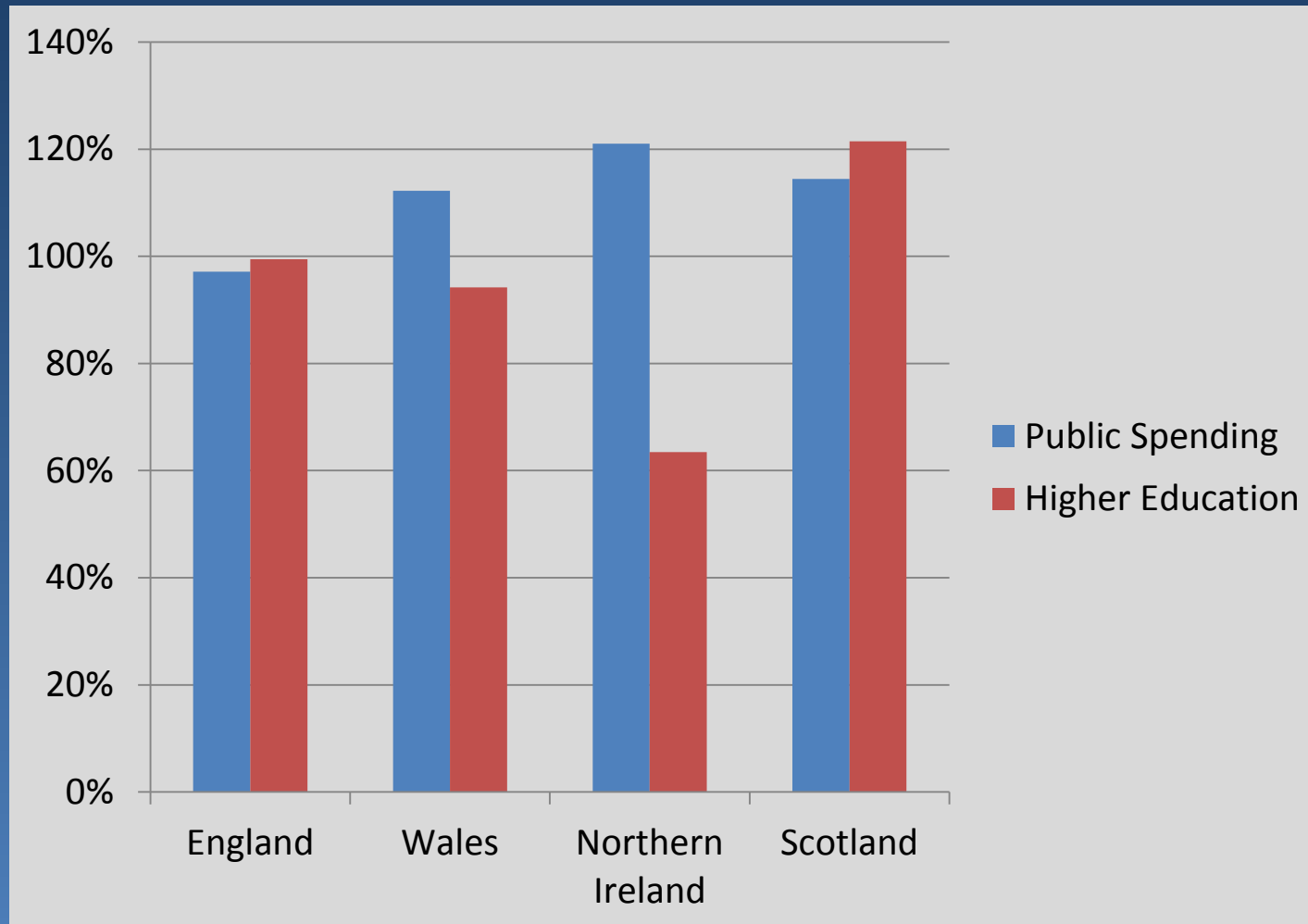
# Significant post-graduation cross-border flows

## First Career Destination of Students Entering University 2003-2006

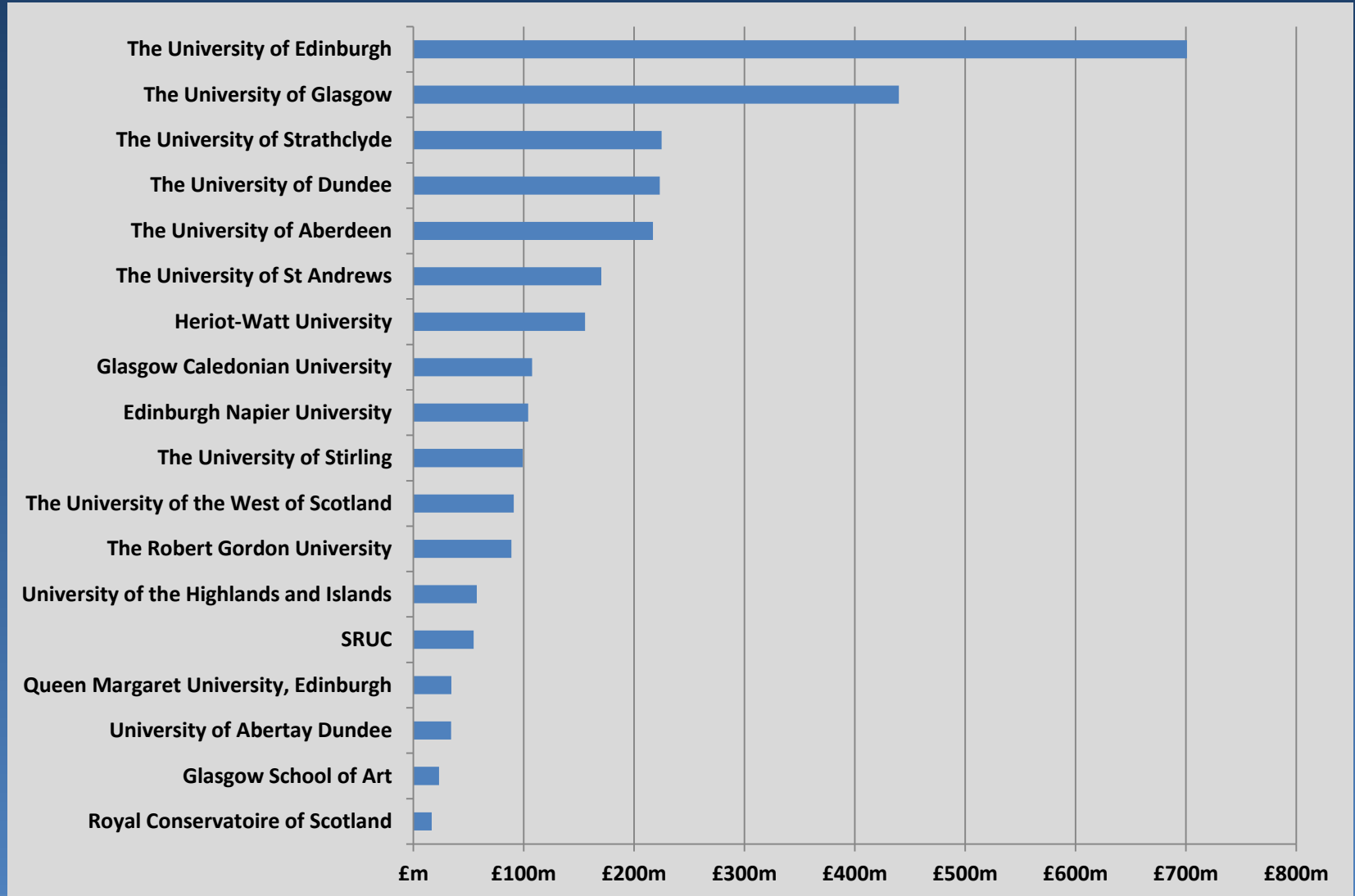


# FUNDING

# Spending relative to population on HE is high in Scotland



# Income by Institution 2011-12

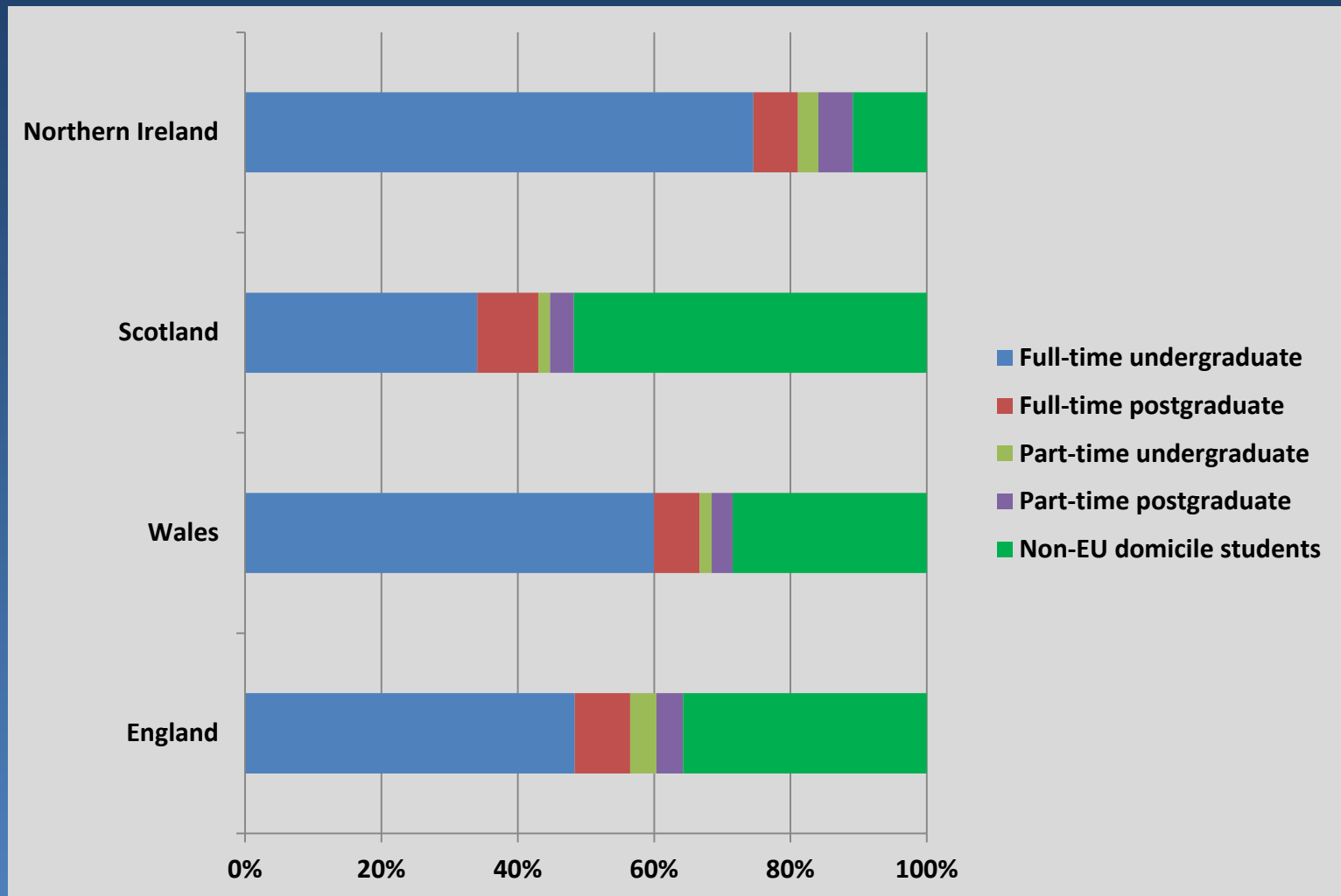


# The Funding Status Quo

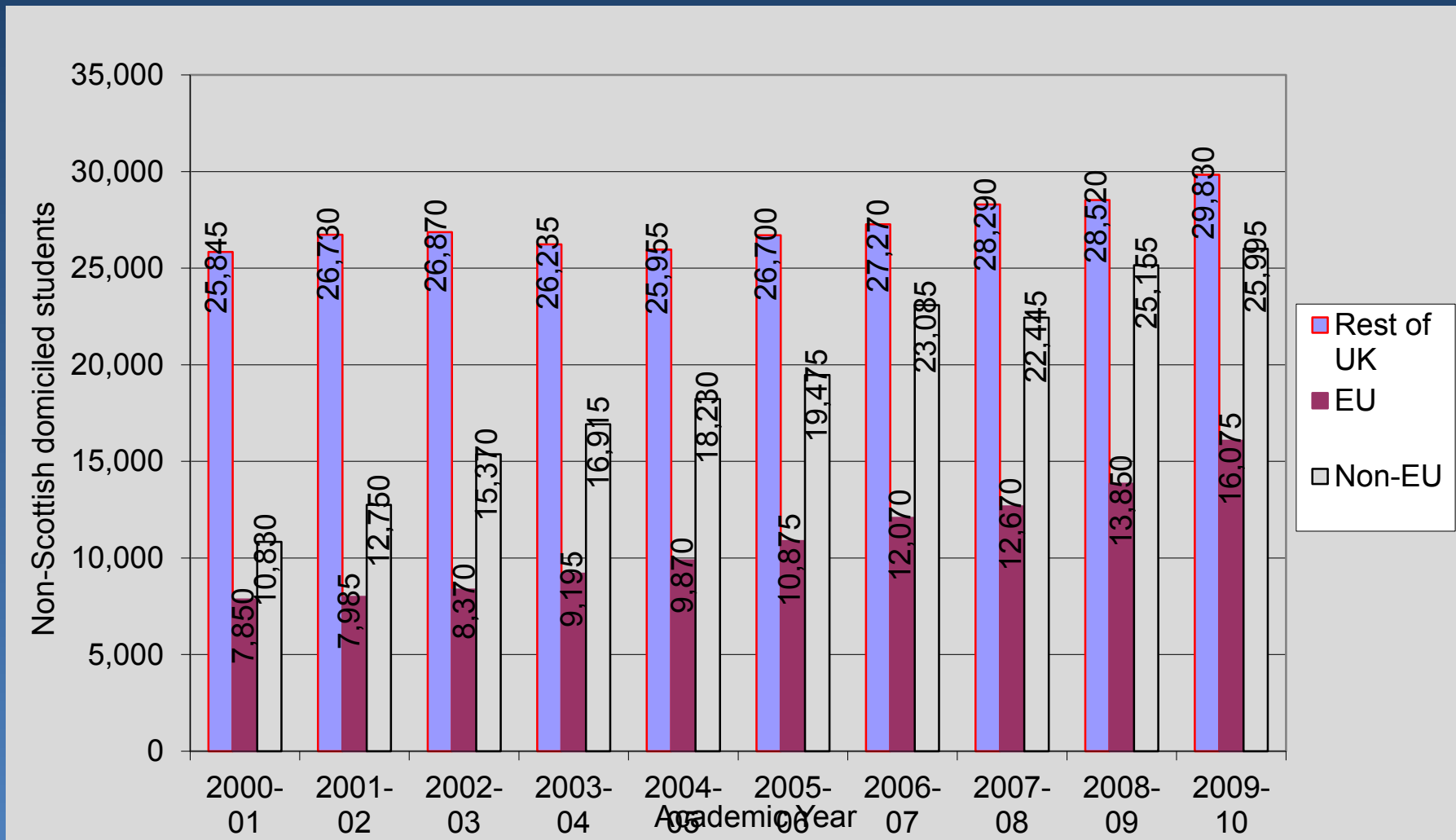
- No tuition fees charged for higher education in Scotland
- Fees of up to £9000 per annum payable in rest of UK. Those charging fees above £6,000 have to allocate some funding to widening access initiatives.
- But according to the NUS, even with tuition fees in England, “Scotland has the worst record on widening access in the whole of the UK”



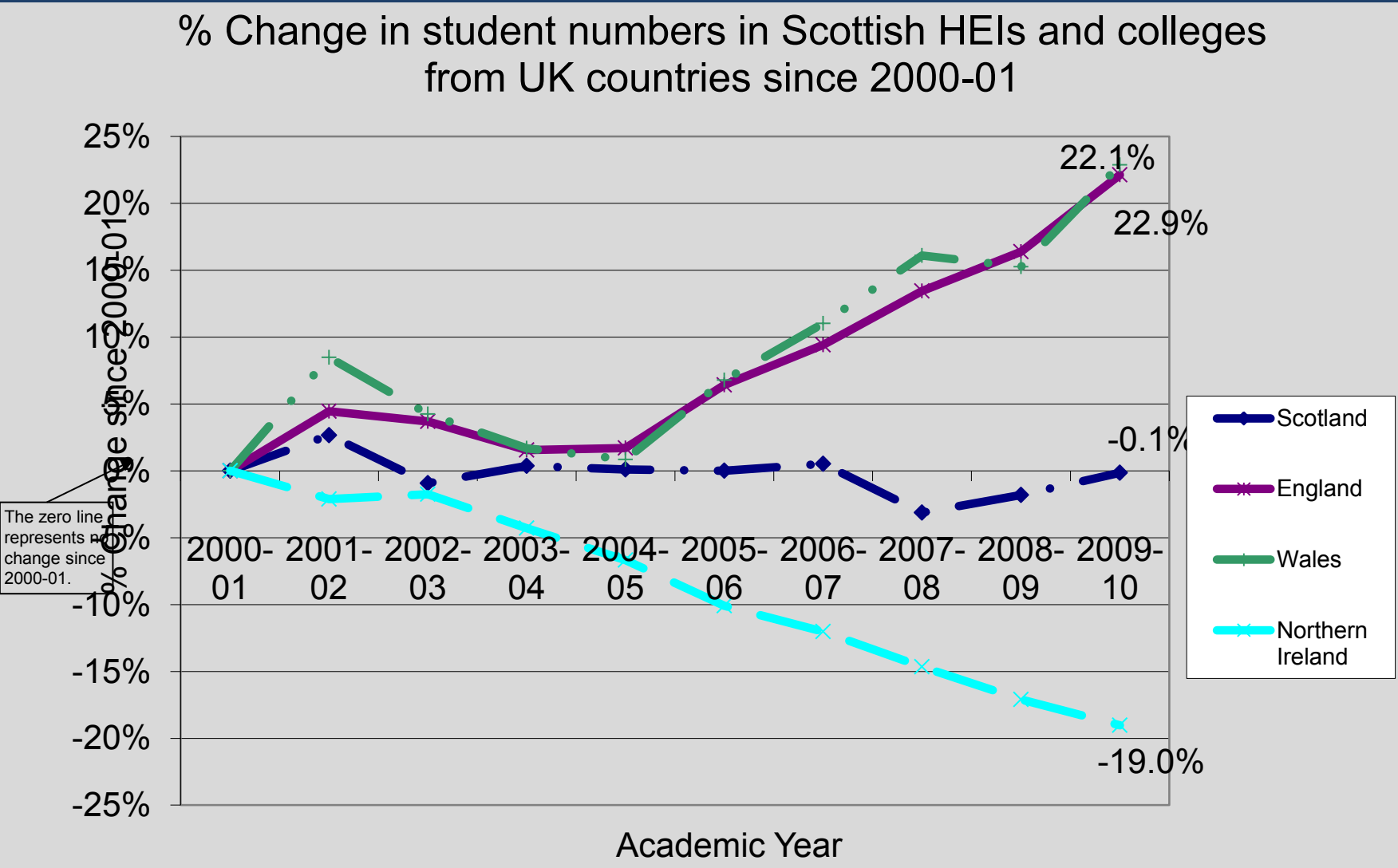
# Income from tuition fees and education contracts by country of HE institution 2011/12



# Non-Scottish domiciled students in higher education in Scottish HEIs and colleges by domicile: 2000-01 to 2009-10



# Increased flows from rUK during “noughties” – fee effect?



# POST-INDEPENDENCE - SOLVING THE TUITION FEE ISSUE

# Post-independence – must treat rUK students as EU

- EU citizens are automatically entitled to study in other EU member states: they should not be paying higher tuition fees and they should be able to receive a residence permit (in order to obtain financial sustain as any other national student) – after 5 years
- Hence, substantial increase in inflows post-independence from rUK?
- Studying in Scotland would not be free – living costs incurred
- Recent NUS estimates of living costs = £12,056 per annum (£4,834 for rent, £1,956 for food, £316 for household goods, £42 for insurance, £2,074 for personal items, £1,524 for travel and £1,310 for leisure).

# Floodgates?

- Are living costs higher/lower in Scotland than elsewhere?
- Depends partly on place of domicile
- Paying no fees would reduce costs from £21,000 to £12,000 per annum – 42 per cent (31 per cent if comparing 4year with 3 year course)
- How responsive is student demand to changes in fees?
- Recent estimates from Germany – the imposition of any fees reduces enrollment by 2.7 per cent (Hubner 2012)

# Floodgates?

- Suppose 1 per cent of qualified rUK students seeking to enter a full-time undergraduate course respond to lower course costs in Scotland by applying to Scottish institution.
- Increase in rUK applications = 3,900
- Equivalent to 12 per cent of Scottish annual intake.

# A Welsh Solution?

- Allow universities to charge (conditional) fees
- Use conditionality to support initiatives such as widening access/STEM etc
- Offer Scottish tuition fee grants and loans to all Scottish domiciled students
- Could be universal or means-tested
- Means supporting the approximately £12,000 Scottish domiciled students studying in rUK – approx. cost = £120m



# It won't work!!!

- EU students must be offered the same fee support and grants as home students.
- The only cash they can't access are maintenance grants which **can** be offered to home students only.
- Spillover effects of large neighbour applying marginal cost pricing to merit goods when borders are porous. No obvious solution for small country wishing to subsidise these goods.

# References

- Hübner, M. (2012). Do tuition fees affect enrollment behavior? Evidence from a “natural experiment” in Germany. *Economics of Education Review*.