Universities Scotland

Universities Scotland’s submission to Education and Skills Committee on the impact of COVID-19 on higher education- May 2020

Key points

• The Scottish Government’s close engagement with the HE sector is very welcome as are the assurances from the First Minister, Deputy First Minister and Minister for FE, HE & Science on the criticality of the HE sector to Scotland and commitment of action to protect it.

• Universities Scotland is clear that universities will need decisive and strategic action from both the Scottish and UK Government to get them through this crisis. The scale of the financial challenge is greater than the Scottish Government can meet from its existing budget. This is not a political point and this is not a time for politicking. Universities want to work in lock step with both Governments and believe this matches their objective during this time.

• The financial impact of COVID-19 is more substantial in Scottish higher education, when compared with the rest of the UK, because the reliance on international student fees and borrowing to maintain activity prior to the pandemic was much greater. In Scotland, international student fees subsidise teaching and research, as highlighted by Audit Scotland in its 2019 report.1

• Universities face losses of at least £72 million in AY/FY 2019/20.2 The Funding Council estimates a realistic deficit in the range of £450-500 million for 2020/21. This estimate is based on an assumption that there will be some new and returning international students and includes mitigating actions taken by universities themselves. 18 of 19 institutions will move into deficit.3

• There is no quick recovery for HE finances. Any loss of undergraduate international student intake in 2020/21 will be a four/five year cumulative loss of revenue.

• An unavoidable time pressure for universities is that the budget setting process for universities for 2020/19 is well advanced, with governing body sign-off needed in the mid-to-late June meetings. Having more financial certainty, before June, will be crucial if universities are to avoid making potentially very difficult and irreversible decisions in order to prevent cliff-edge financial scenarios.

• Measures introduced for universities by the UK Government have, at this stage, had no positive consequences for Scottish universities and no consequential funding for Scotland.

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1 Audit Scotland (2019) Finances of Scottish Universities, p16.
2 Scottish Funding Council Briefing Note on FE & HE Financial Impacts
3 Based on the modelling prepared by SFC in its financial impacts briefing note. The figure of 18 does not include the Open University.
This brief is structured into the following sections:

1. Summary of actions taken by institutions in the interests of staff and students.
2. Financial picture facing universities and the need for a support package.
3. Action already taken to address the financial situation: Scotland, UK and universities.
4. Universities as an asset in the post-pandemic recovery.

1. Summary of actions taken by institutions in the interests of staff and students

Education and assessment

• Transition from face to face learning to online models from w/c 16 March with all having completed this transition by the end of w/c 23 March.
• The timing of lockdown means universities have had to make provisions to adjust their end of year/end of programme assessment across hundreds of degree programmes. Each institution runs its own process of academic assessment, but every institution offers students the reassurance that fairness will underpin the adjustments and decisions they have made. More detail and examples of adjusted academic regulations can be found on the Universities Scotland website.

Accommodation and hardship

• All HEIs have offered students contracts breaks on university-owned accommodation. In most cases, students have had the option to exit accommodation contracts, with no further payment, from mid-April. Clearly this is the right decision in terms of student interest and public health. It is one of the biggest factors behind immediate financial losses faced in 2019/20. This includes accommodation contracts for post-graduate (taught) students, for whom accommodation leases run until August 2020.
• We estimate that universities are still providing a home to 12,000 students (in university owned accommodation) across Scotland.
• All Scottish HEIs are offering discretionary hardship funds for their students affected by the pandemic. Institutions have streamlined processes to ensure students in most need of the funds can access them much quicker. Institutions continue to actively fundraise for their hardship funds.
• Student Associations are also facing financial hardship. It is likely that some universities will be asked to support these separate legal entities either financially or in kind.

Staff

• Universities are focused on protecting jobs as far as possible. Each has given careful consideration as to how the Coronavirus Job Retention Scheme (CJRS) may support this as relevant to their circumstances. Universities have been in frequent discussion with staff unions. There are no data to share so far on the take-
up of CJRS across the sector, but we know of institutions who have confirmed that hundreds of staff will be furloughed to protect jobs.

- There are two limiting factors on the extent of application of CJRS in HE: i) universities have continued to deliver teaching and support services to minimise disruption for students. CJRS does not apply to staff still working. ii) The DfE guidance, specific to higher education as issued on 22 April, is clear that the scheme is not intended to duplicate other sources of public funding, where these are being maintained. Higher education is a complex mix of public and private sources of income and cross-subsidy between income streams. It is challenging to determine whether some job roles are supported by commercial revenue or public funding.

2. Financial picture facing universities and the need for a support package

Data on financial projections

- The Scottish Funding Council’s (SFC) Briefing Note offers the most detailed and up to date estimate of the financial situation facing Scotland’s universities. We support that data and thank the SFC for its work to analyse, collate and impact based on HEI returns.

- Universities’ position as publicly funded organisations, but which are heavily dependent on income generating activity and rest of UK and international student income to subsidise the undergraduate teaching of Scottish/EU students and research has left them hugely exposed to the economic impact of COVID-19.

- Additionally, there may be a fall in rest of UK (rUK) student recruitment for the 2020 intake in Scottish institutions. In 2018/19, there were 5,455 full-time, first degree entrants to Scotland’s universities from England, Wales and Northern Ireland. Applications were strong prior to COVID-19 and institutions remain engaged with offer holders. However, we may yet see high rates of deferrals, rUK applicants may decide to stay close to home and, the student number controls introduced in England (designed to stabilise the market there) may impact recruitment in Scotland.

- There is no quick recovery for HE finances. Any loss of undergraduate international student intake in 2020/21 creates a lost cohort, in effect, which means a four/five year cumulative loss of revenue.

- We believe the data set out in the following bullet points illustrates the financial situation at its simplest:
  - Immediate, in-year (2019/20) losses of £72 million.
  - Universities will face a deficit in range of £450-500 million in 2020/21 (assuming some new/returning international students & after mitigating actions by HEIs).

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4 The DfE advice goes on to say that “HE providers should not seek to furlough a higher proportion of their wage bill than could reasonably be considered to have been generated through commercial income, including from non-public research grants and contracts.”

5 Scottish Funding Council Briefing Note on FE & HE Financial Impacts

6 HESA Student Record 2018/19.
It is anticipated that 18 of Scotland’s 19 universities will report deficits in AY 2020-21.\(^7\)

Fifteen universities are forecasting negative net cash outflow from operating activities in AY 2020-21.\(^8\)

Across all universities, the sector net cash inflow from operating activities as a proportion of total income has moved from +4% to -4% (possibly as severe as -12%) in AY 2020-21.\(^9\)

- It is no exaggeration to say that the situation is dire for our universities. The metaphorical black holes rapidly opening up in university finances will feel very real, very soon. Without strategic financial intervention, the financial impact of COVID-19 will be an existential threat to some institutions.

**The support package higher education needs**

- Universities Scotland is clear that the scale of financial challenge facing the sector in Scotland goes beyond what can be met by the Scottish Government within existing resources and given other considerable demands on budgets. We feel that a package that combines elements of support from the Scottish and UK Governments will be necessary. Higher education is devolved to Scotland but operates within a UK ecosystem in many respects. Additionally, the economic contribution of Scotland’s university sector benefits the UK as a whole.

- The Scottish and UK Government have both made announcements already, which are addressed in detail below. However, the deficit caused by loss of revenue from international students – which is the single biggest financial impact of COVID-19 for universities - and the potential impact this has on teaching and the educational experience for all other students, has not yet been addressed.

- A fundamental step forward, which would reduce Scottish higher education’s exposure to external shock, would be for the Scottish Government to make a commitment to funding the public good activities it purchases from universities at their full cost. Most significantly, this would include increasing the teaching unit of resource for Scottish and EU undergraduate places in 2020/21 onwards to match the full costs of teaching Scottish students – so that a ‘free’ place is a fully-funded place. This would be a significant help to mitigating the impact of the crisis on staff and students. We estimate this to cost in the region of an additional, and baselined, £130 million.

- A decision on EU students’ fees status for entrants in 2021/22 that enables institutions to retain the resources currently supporting EU students would be welcome, particularly if this allows for flexible use.

- A guarantee that the Funding Council’s allocation of the teaching grant for 2020/21 (which has already been announced) will be managed throughout 2020/21 in a way that provide stability for institutions. For instance, the expected volatility in student

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\(^7\) Not including the Open University.

\(^8\) SFC Briefing Note. para 7.

\(^9\) The SFC uses the net cash inflow from operating activities as a measure that captures the financial health of an institution in terms of its day-to-day operations.
recruitment (including Scottish and EU-domiciled students) may mean HEIs cannot meet agreed conditions of funding but clawback (a tool available to the SFC under ordinary times) would potentially destabilise institutions.

- Capital investment at a level that would make significant progress in addressing the maintenance backlog and reduce the reliance on loans to fund capital programmes given the level of borrowing and risk to covenants.

- Bespoke underwriting of the losses of international income and some bespoke solutions for institutions to address specific contexts may be necessary.

- The announcement of £75 million to support research in 2020/21 is very welcome (more below). However the Scottish Government has been clear that this is a one-off intervention. Looking beyond that, the sustainability of Scotland’s research base would be supported by the Scottish Government and the UK Government using their respective powers to ensure that research is fully funded (Audit Scotland found that research was funded at less than 80% of cost, with the remainder being cross-subsidised principally from international student fees).

3. Action already taken to address the financial situation: by universities, by the Scottish Government and UK Government

Universities’ own mitigating actions in the immediate & short-term
Where institutions have taken responsible and early action to mitigate against serious financial pressures this should not adversely affect them in regard to support from Government.

- **Managing costs internally.** Many institutions have already announced wide-ranging actions taken internally to limit costs without loss of jobs. It is important to be clear that the range of actions taken in each institution will vary depending on its circumstances. Steps include, but are not limited to: pause on re-grading staff and pay increments to staff in salary bands over certain thresholds; separately, the cancellation of or pause on promotions, or promotions without associated pay increases; no new recruitment or recruitment in mission-critical posts only; a pause on construction projects (where possible); restrictions on staff research leave in early semester of 2020/21; and, salary deductions in range of 20-25% for Vice Chancellor and in order of 10% amongst some executive teams.

- **Borrowing.** This poses risks given scale of borrowing in the HE sector before COVID-19. It is clear that universities cannot rely on borrowing to get through this. Prior to the pandemic, Audit Scotland had cautioned that total borrowing stood at £1.3 billion based on data from 2017/18. That had already increased 110% since 2014/14. Pre-COVID, the SFC’s figures put total borrowing at £1.887 billion by the end of 2019/20. The SFC’s data capture suggests five institutions will see an increase to their borrowing by end of the current year (2019/20) and this will take the sector’s total to 45% of income by the end of 2020/21. Many universities have highlighted the risk of breaching loan covenants in AY 2020-21. This could also occur, from some, as a result of their seeking support in other credit facilities and UK Government schemes such as the Corporate Finance Facility (CCFF).

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10 Audit Scotland (2019) *Audit of Scotland’s Universities* p24
• **Job Retention Scheme.** As addressed above. It is in use in HE but it has limitations and the short-term nature of the scheme (currently due to end June 2020) does not sustain support in 2020/21 when universities will experience the worst of the financial pain.

• **UK Government COVID-19 credit finance scheme.** Banks have been quick to liaise pro-actively with institutions on the various different schemes and some universities are tentatively exploring potential options. At this stage it is too early to report on the outcome of those discussions. However, a major stumbling block is that the schemes are about borrowing more, which needs to be paid back. The detailed terms and conditions and how they impact on or sit alongside existing debts commitments will need to be considered on an individual basis. It is not unreasonable to suggest that for some institutions, depending on the specifics of the deal on offer - interests rate, repayment period, covenants - could be detrimental, effectively ‘tipping them over the edge’ after the initial benefit from the cash injection.

• **Reserves.** Universities are exploring recourse to reserves however reserves do not equate to cash and liquid assets. They are often invested in fixed assets meaning that they are illiquid and cannot therefore readily be drawn upon and doing so will diminish the capacity and operation of institutions. Audit Scotland’s 2019 report was clear on this point: “As reserves include some longer-term investments, they cannot necessarily be used to fund day-to-day running costs”. For our members that do have cash reserves, it is likely that this would be quickly drained to cover shortfalls in income.

**Universities’ potential for further mitigating actions in the medium-long-term**

• It is clear there will be no return to normal, only a new normal. This applies to universities as much as any other sector. No-one within the sector expects a return to the same model or means of delivery as before. Nor do universities seek significant public investment to support their students and staff through this financial crisis without having exhausting all reasonable opportunities for long-term generation of savings, including actions that did not look desirable before COVID-19.

• University leaders are in this territory now. Principals are motivated to be bold in their approach and committed to exploring territory that was previously unthinkable. This must be owned by the sector. Only institutions have the coal-face knowledge to understand what range of adjustments to practice are likely to work in the interests of staff and students and generate savings.

• Strategic and positive change is achieved most effectively when not faced with the need to a cliff-edge financial scenario. This accelerates the need for clarity on the full range of measures available from both Scottish and UK Governments ahead of mid-late June meetings of governing bodies at which budgets for 2020/21 need to be balanced.
Scottish Government intervention

- We welcome the Scottish Government’s early, direct and frequent engagement with universities to understand and address the challenges caused by COVID-19. In particular, we welcome the First Minister’s assurances, given last month, to pass on the consequentials arising from additional UK Government investment in universities in England. However, at the time of writing there does not appear to be any.

- We welcome the Scottish Government’s one-off commitment of £75 million of new funding for university research and innovation as announced on 6 May. The pace and scale of this announcement will bring some confidence to Scotland’s research community. This equates to a one-off 25.8% increase in the SFC’s 2020/21 budget for research and innovation.

- The Scottish Government and Scottish Funding Council are looking at a ten point plan to support universities. We understand that this will cover a range of measures including some already known (£75m for research, £2.2m for student hardship, use by HEIs of CJRS). Clarification the position of EU domiciled undergraduate students, the case to the UK Government for fiscal support and potential innovative use of financial transactions are understood to be amongst the Government’s range of options. We would welcome the earliest clarity on the specifics within the ten-point plan and to what extent that will support HE through the crisis.

UK Government package

- The UK Government announced a package of support for UK universities on 4 May. The majority of the measures are specific to the English HE context.

- We have welcomed the UK Government’s indication that there will be participation from the devolved administrations on the Research Sustainability Taskforce to be led jointly by DfE and BEIS. We understand that the Minister, Mr Lochhead and Karen Watt, Chief Executive of the SFC will represent Scotland. We need this group to work quickly and focus on solutions to address the short, as well as medium and long-term, pressures facing research and the research community.

- The measures announced so far by UK Government will not deliver additional resource via the Barnett Formula for deployment by the Scottish Government (or the Senedd Cymru). The £100 million allocation to the England-only Quality Research Grant is re-profiled rather than new resource, brought-forward from 2020/21.

- We are concerned to see the 4 May package from the UK Government indicate that the measures therein, coupled with existing business support schemes (such as CJRS) are considered “sufficient” to stabilise most institutions’ finances and that

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11 Scottish Government announcement here. The £75m is a combination of capital underspend across Scottish Government portfolios and previously uncommitted consequential funding from past year increased investment in research by the UK Government. It is not funding created by UK Government COVID-19 support for universities in England.

12 SFC Final Funding Announcement 2020/21 Table 6, Grants for 2020/21 research & innovation. Based on total research & innovation grants of £289.9 million
further interventions from the UK Government will only be as a last resort if/where there is a risk of institutional closure.\footnote{Scottish Government announcement here.}

- The financial risk to universities is possibly the most acute in Scotland, where international student income subsidises both teaching and research, as found by Audit Scotland.\footnote{Audit Scotland (2019) \textit{Finances of Scottish Universities}, p16.} In England and Wales, where the unit of resource for ‘home students’ is £9,250 international tuition fees subsidises research only.

- Scotland’s universities will need to see further action from the UK Government co-develop a meaningful support package with Scottish Government, with a blend of devolved and reserved contributions. The UK aspect is important because:
  
  - Any support package will involve both UK and devolved contributions: for instance how UKRI supports research and innovation’s contribution to post-COVID recovery as part of a support package will be important to Scottish HEIs;
  - The Barnett consequentials of any UK Government support for higher education will be an important part of whether Scottish Government can support higher education through this crisis;
  - Scottish Government doesn’t have the devolved budget to meet Scottish HE’s needs in full and doesn’t have the powers that Treasury have e.g. to borrow to invest in higher education as a key national asset- so a decision by Treasury to support higher education through this crisis is vital to Scotland as it is across the UK.

4. Universities as an asset in the post-pandemic recovery

The only certainty we have right now is that Scotland’s society and economy will face a slow recovery. We believe the skills, education, research and innovation that universities deliver will be an essential part of a successful, sustainable and equitable recovery. Scotland will face new challenges as well as old challenges now on an unprecedented scale. Universities want to anticipate and respond to those challenges, drawing on their strengths in education and research and the breadth and diversity of the sector, adapting what they can offer to address that need. Universities will work collegiately in their response, consulting with stakeholders, and intend to come forward with a range of proposals. Obvious areas of need include:

- The protection of high-value jobs and youth employment in areas (regions and sectors) where the economic shock will threaten that;
- A reservoir of talent and ideas that business can draw on as we look towards recovery;
- That people in Scotland of all ages have the resilient high-level skills levels needed to succeed in a changed world;
- The retention, in Scotland, of a broad research capacity that means that Scotland can anticipate and respond to the big challenges that face us beyond the current crisis, e.g. the climate emergency;
- The need for business creation, adaptation and growth through innovation, opportunities for trade and export;
• Additional support for schools to widen access to higher education, recognising that the most-disadvantaged pupils are likely to be hardest-hit by the consequences of the pandemic;
• The significant contribution that cultural wellbeing will make in a time of intense stress and readjustment; and
• Rebuilding Scotland’s connectivity and links to other nations to drive wide economic return.

5. University response to fight COVID-19

The public health battle against COVID-19 has highlighted the direct relevance of the skills and research delivered by universities. Universities have been proud to channel significant energy, capacity and resource to support the NHS, the testing programme and the scientific effort to limit the spread of the virus, support patient recovery and develop a vaccine.

• **Doctors, nurses and other health professional accelerated graduations to increase NHS capacity.** Universities worked rapidly with the GMC, Royal College of Nurses and others to accelerate hundreds of nursing students, and hundreds more medics and paramedics through their final months of their degree to join the NHS and boost capacity.

• **A major contribution to the testing effort.** Glasgow University hosts the Lighthouse Laboratory as part of the national diagnostic testing programme, which was established in three weeks and now processes thousands of tests a day. Edinburgh University is delivering up to 1,000 COVID-19 tests a day for the NHS in its Institute of Genetics and Molecular Medicine and University of Highlands and Islands hosts the Perth and Inverness drive through testing sites.

• **55 “rapid research” projects delivered within 6 months.** 15 of our universities are involved in turning around rapid research studies into dimensions of COVID-19 and its impact to inform solutions to manage our response to this crisis. This shows the relevance of university research to our lives. The studies focus on interventions to prevent transmission, new diagnostics, disease surveillance as well as studies aimed to support the mental health of frontline NHS workers and understand the impact lockdown will have on the wider population’s mental health.

• **Additional research to understand the virus and support patient care.** We need to know more about this virus and its interactions with other conditions. Universities are leading multiple studies on the virus, how it spreads and the interactions between COVID-19 and other conditions, syncing live with NHS patient data to feed this back to frontline medics. Examples include Dundee’s study on the best care for cancer patients with COVID-19, Aberdeen’s work into symptomless carriers and Stirling’s research to highlight concerns about transmission via the sewerage system. Looking ahead, Glasgow Caledonian are analysing the long-term impact of lockdown on the psychological wellbeing of the public.

• **Delivery of equipment, facilities and expertise to the NHS and public health initiative.** Universities have donated everything from hospital beds, high-tech testing kit, other resources and expertise including via the Scottish Government’s
COVID-19 Advisory Group which has eight experts from five different Scottish universities on it.

- **Manufacture and production of PPE and other vital kit.** Staff and students at universities across Scotland have been involved in the manufacture of PPE to support the demand in the NHS and social care. This has happened at all levels from student start-ups repurposing their business, to university departments focusing all of their equipment to scale up production to university support for production supply chains. Uniquely, the West of Scotland was able to scale up production of thin film chips to go in non-contact thermometers to support front line staff.

- **Keeping culture and creativity alive & keeping the public motivated.** Scotland’s specialist institutions are supporting their communities of artists and performers but also adapted their programmes of events to make them accessible to the public in spite of lockdown. The Royal Conservatoire of Scotland is spreading joy and combating isolation through a new online creative initiative which showcases work from its students, staff and alumni. Members of the Glasgow School of Art’s Creative Network have come together to share thoughts on how the creative community can help respond to crisis situations like the current pandemic. The Open University is also helping those staying at home with its Open Learn platform. Enrolments have more than doubled since the end of March, reaching a milestone 75 million visitors.

More examples can be found on our [website](#).