



An existential challenge: the financial threat facing Scotland's universities as a result of COVID-19

Like other organisations universities have had to adapt swiftly to the changes brought by coronavirus.¹ Alongside moving swiftly to online learning to keep students safe and providing core services such as student wellbeing and mental health support, universities have also been pleased to be able to play a significant part – locally, nationally and globally – in the battle against the pandemic. Examples of the university contribution to the national effort can be found [here](#) and on social media, tagged with #WeAreTogether.

The impact of the pandemic is still unfolding on our universities, as it is for the rest of the country. However, it is becoming clear that the impacts on higher education will be both significant and long-lasting and there is currently no clear path to sufficient support. As independent charitable organisations, universities cannot rely on the support offered to the public sector but it also remains unclear to what extent they can access some of the UK Government support packages for the private sector such as the option to 'furlough' staff under the Job Protection Scheme.

Scotland's universities need a response from the Scottish Government to see off the existential financial threat now facing them, and ensure that the sector can play its crucial role in Scotland's recovery from the social, economic and cultural impacts of this pandemic.

We welcome the Scottish Government's early engagement with us and its recognition of the scale of the challenge facing the higher education sector. It is vital that this is followed by swift financial support to stabilise universities' position. Universities are likely to need support:

- in the short-term, to address the immediate financial shock already impacting in the current academic year (2019/20);
- over the medium-term into 2020/21, where the impact is expected to be very significant resulting from a major decline in international student recruitment; and
- the long-term, to equip the sector to sustain itself and adapt.

The duration of the pandemic and the full impact that COVID-19 will have on the UK, and indeed the rest of the world, is unknown. So we have structured our approach in phases. We can be most certain about what is right in front of us and will need to review the scale of the impact in the medium and long-term in light of evolving public health advice and as more information becomes available.

¹ The data in this brief is accurate as of the date of issue. The situation facing everyone is highly fluid and this brief is likely to date very quickly.

Phase one: immediate assistance

Offer financial support to address the immediate and known impacts.

Scotland's universities have offered contract breaks and refunds to the students who chose to vacate their university-owned accommodation early. We continue to look after around 12,000 students still living in university-owned accommodation and will do so as long as the restrictions on movement and travel remain in place. We have also significantly increased the funds in our own student hardship and discretionary funds (in addition to that made available via SAAS) to support our student community through this difficult time. Looking beyond the end of term, it is clear that our normal summer income from accommodation and conferencing will be severely hit.

Our estimate is that these losses will be:

- £48m from refunds/lost income for student accommodation over the remainder of this academic year; and
- £30m of lost income to the end of July from summer 2020 accommodation/conferencing. We can anticipate further impact through August to be added to this figure.

To these losses must be added the as yet unquantified lost income from activity such as industry research and consultancy.

Alongside losses, universities have faced added expenditure as they have adapted swiftly to the crisis. We have supported our postgraduate research students who will need urgent extensions to their stipends if they are to continue the research into which they have already invested years of their own time, money and expertise. We have also had to invest in a transition to online teaching and assessment.

Universities will need financial grants from Scottish Government in the coming weeks and months to address the urgent cash flow issues arising from losses of at least £78 million in 2019/20 resulting from the urgent actions universities took in the interests of students and staff. Helpfully, the Scottish Funding Council (SFC) has tested these figures with us and is in broad agreement on that sum.

Universities will make full use of UK Government schemes to support employers and employees including the Job Retention Scheme. However, universities sit awkwardly within the scheme, as initially designed, given their mix of public and private funding sources. We call on the Scottish and UK Governments to work with universities to ensure that universities can draw fully upon this, and other support schemes available across the economy. This would complement rather than replace the actions above.

Phase two: resilience and early recovery

Coping with a collapse in the international student market

We can anticipate a significant impact on international student recruitment, both for students studying in Scotland and the delivery of courses abroad. The scale of that impact will depend on the length and depth of the global public health measures. A mid-range assumption of a 50% drop in our intake of international (non-EU) students would result in losses of £435m in 2020/21.

This is also a multi-year effect. For every fee-paying entrant who would have started on the undergraduate cohort in 2020, that loss is not a loss for one year, recoverable the next. Rather, it is a four or five year cumulative loss. To illustrate the scale of this hit, £435m is the equivalent of 70% of the SFC's annual teaching grant to Scottish universities.

COVID-19 has exposed just how dependent the Scottish higher education sector now is on international student fee income to subsidise publicly-funded activities of teaching undergraduate Scottish and EU students and to underpin publicly funded research. Audit Scotland previously highlighted this vulnerability, arising from many years of cuts in SFC funding, in its 2016 and 2019 reports. This emergency will hit the very income streams that sustain our sector the hardest.

Other anticipated losses

Compounding this, we will face other pressures in 2020/21. For instance, we may see falls in rUK recruitment or home students onto taught postgraduate programmes. If there is a fall in recruitment then we will see a loss of income for accommodation. We also cannot yet be clear about how external research funding from industry will rebound after the outbreak. While most research is loss-making, continued success in winning competitive resources is essential to maintaining Scotland's distinctive research excellence and the employment and economic growth that supports.

We can expect that the sector's pension schemes will be impacted by financial market volatility and by the weaker covenant that institutions can offer. This could lead to significant increases in institutions' pension costs.

The financial hits that we can anticipate for the next academic year, in a matter of a few months from now, are currently impossible to quantify with any accuracy. We would like to work jointly with the Scottish Government and Funding Council on this quantification as the range of costs become apparent.

Deploying all sources of support to get through this – working to help ourselves

Universities have already started to meet the challenge. However, just like other sectors right across the economy, we know that this will not be enough.

- Anticipating the immediate financial impact, universities have contacted their lenders to discuss conditions which may be impacted. For example, there is a concern that conditions based on the ratio of operating cash to debt interest will come under pressure from the immediate shock to lost accommodation and conferencing income, let alone under major shocks to fee income. This is a further area where financial support would be needed rather than loans so that resource can be recognised as income.
- Further, a sector whose total borrowing was quantified at over £1.3bn by Audit Scotland before the crisis cannot substantially address the challenge by adding to this total.
- We are already considering our future expenditure and recourse to reserves. University reserves are very often invested in fixed assets meaning that they cannot 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”². Further, reductions in expenditure would diminish institutions’ staffing and resources and thereby our competitiveness and capacity to act.

- Institutions are also looking at how the UK Government’s schemes to respond to the emergency can help. However, as noted above, it is not yet clear how far they go in their applicability to higher education institutions.
- As the world pulls itself past the peak of this pandemic, we will look to mobilise all of our international connections, to help stimulate investment, trade and new partnerships for higher education and for business and industry more widely. This will include a drive to re-energise international student recruitment and support for Brand Scotland, mobilised through *Scotland is Now* would complement our own actions.

Phase 3: Rebuilding and adapting

Looking beyond the current emergency, we want to explore with Scottish Government and others how strong, sustainable universities can be a key part of Scotland’s post-crisis recovery and success.

The pandemic has illustrated the importance of high-level skills, research, innovation and global partnership. We have been proud to make our contribution to fighting the virus, we will want to do all that we can to ensure that all of Scotland’s communities are successful again in what is certain to be a much-changed environment after the pandemic.

We want to continue to deliver education and opportunity for tens of thousands of people of all ages and for our research to deliver substantial impacts. In doing so, we want our play our part in rebuilding and adapting our communities and our economy to what will be a changed context. Our ambition is to:

- Protect high-value employment in areas where the economic shock has threatened that;
- Provide a reservoir of talent and ideas that business can draw on as we look towards recovery;
- Give people in Scotland of all ages the resilient high-level skills levels needed to succeed in a changed world;
- Give us the 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;
- Be a key part of our cultural wellbeing in a time of intense stress and readjustment; and
- Rebuild Scotland’s deep connectedness to other nations.

We will do all that we can to deliver and need real and urgent help to do so.

ENDS

² Audit Scotland (2019) [Finances of Scotland’s Universities](#) p 23.