Thursday 1 October 2015

Finance Committee of the Scottish Parliament
Scottish Parliament
Edinburgh
EH99 1SP

Dear Mr Gibson,

Higher Education Governance (Scotland) Bill

I was grateful for the opportunity to give oral evidence to the Finance Committee on 16 September.

There were a couple of points where Committee members asked for information which I thought it would be useful to set out in writing.

Risk of ONS reclassification

Universities Scotland has taken further legal advice in response to the assertions made to the Committee by Scottish Government officials that they had given due consideration to the risks of ONS reclassification arising from the Bill.

I attach this advice which clearly identifies that the Bill, in cumulation with the existing pattern of government control and influence on universities, heightens the risk of reclassification of higher education institutions by the ONS. In the concluding words of the advice note:

‘It is considered that, if the ONS carried out an assessment in the near future to ascertain whether HEIs are still correctly classified as Non Profit Institutions Serving Households, or whether they should now be classified within the public sector, the challenges posed to HEIs by such an assessment exercise should appear at the level of ‘significant risk’ on their risk registers.’

In the light of that advice, Universities Scotland remains highly concerned that the Bill in its current form presents a level of risk that is unacceptable and has not been fully evaluated by the Scottish Government.

Impact of ONS reclassification

Gavin Brown MSP asked whether there was further information that Universities Scotland could provide about the potential impact of ONS reclassification on higher education institutions.

Cont/...
Universities Scotland’s submission to the Finance Committee represented the serious impact that ONS reclassification would have on higher education institutions, saying:

‘In practical terms, ONS reclassification would leave universities facing:

- The loss of incentive to earn entrepreneurial income;
- restrictions on borrowing;
- the inability to create surpluses and invest them in improved facilities;
- the loss of philanthropic income; and
- a major reduction of partnership with the private sector.’

In financial terms, these impacts could include:

- Severe reduction in over £1bn of income won entrepreneurially by universities in 2013/14, including:
  - £142m from the provision of consultancy, CPD and facilities to businesses and other organisations;
  - £61m of contract research for business;
  - £403m in tuition fees from non-EU students;
  - £194m from residential, catering and conference operations;
  - £135m in research grants competitively won from charities,
  - £41m in research contracts and grants from industry and public corporations in the UK and £25m from outside of UK;

- Severe reduction of a capital programme funded principally from universities’ own resources and borrowings, worth c£370m p.a.

- Universities’ existing borrowings of c£530m coming onto the Scottish Government’s balance sheet.

- Universities unable carry forward a surplus from year to year to enable investment and to provide a margin against in-year shocks: this represented a minimum prudent level of 3% of income in 2013-14, of £125m.

- Severe reduction in the c£53m attracted each year from philanthropic sources.

For information, Universities Scotland is still waiting for a reply to our letter of 13 August to Scottish Government, which raised our reasoned concerns about the Bill’s potential impact on universities’ ONS classification and asked what advice the Scottish Government had taken.

Yours sincerely,

Alastair Sim
Director

Enc/ Note of advice by Anderson Strathern LLP.