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Scotland’s universities have been successful in attracting international students. Among the richest ‘western’ countries, only in Luxembourg is the share of such students greater than in Scotland. In 2018-19, 23% of enrolments in Scotland’s universities were from outside the UK compared with 20% at universities in the rest of the UK.

Income from non-EU students has been growing rapidly for over a decade. The Scottish Government reported that between 2005-6 and 2015-16, total sector income rose by 38% in real terms while non-EU tuition fee income grew by 154%, a rate of almost 10% per year. Audit Scotland reported that the total income increased by 3% in real terms between 2014-15 and 2017-18 while non-EU fees rose by 31%, again around 10% per year. In the absence of this growth in fees from international students the universities’ income would have fallen in real terms in recent years. In February 2020, the Scottish Funding Council (SFC) forecast that in 2020-21 the income of Scotland’s universities would be around £4.3 billion. SFC estimated that tuition fees from non-EU international students had risen to 18% of sector income in 2018-19. Together with income from EU students, it is likely that around £850 million would have been earned from international students in 2020-21, roughly £1 in every £5 of the sector’s turnover and around 60 times its expected surplus. That compares with fees paid by or on behalf of Scottish students of some £300 million.

‘Publicly funded’ teaching and research cover, respectively, around 90% and 80% of their costs. Income from ‘non-publicly funded’ teaching, most of which is the teaching of international students, exceeds its costs by 40%. In round numbers, in 2017-18 a surplus of £190 million on ‘non-publicly funded’ teaching partly offset deficits of £120 million on ‘publicly funded’ teaching and £380 million on research. Thus, the sustainability of ‘publicly funded’ teaching and research rely on surpluses generated from international students' fees and other activities. For example:

- Audit Scotland reported that, “Dundee has made a strategic decision that it will not target further growth in research, because the university deemed it not to be financially sustainable.”
- The Scottish Government acknowledges that some courses might not be viable, and thus not available to domestic students, in the absence of fees paid by international students.

Before COVID-19, failing to meet international recruitment targets was a risk universities recognised. It was thought that it could arise if Brexit and immigration policy changes
meant fewer international students came to Scotland. There was also recognition that the market for international students is competitive. If COVID-19 results in less international travel, it could be analogous to an extreme combination of Brexit and an intensification of competition. Of course, Brexit risks remain.

There is uncertainty about how the health crisis will evolve. Consequently, Scotland’s universities cannot know how COVID-19 will affect the number of international students who wish to and who can come here. One way to deal with uncertainty is to develop scenarios, using them to create and test options for responding to the crisis. While scenario development is a lengthy exercise for another day, for universities it is likely that the impact of COVID-19 depends most on whether there is a temporary or a permanent fall in demand as well as the scale of that fall and the pace and path of recovery in demand.

Illustratively, a ‘temporary’ scenario could entail a substantial fall in international student numbers in 2020-21 followed by an almost complete recovery in 2021-22. However, even that would have a marked impact. Every 10% fall in international student numbers represents an income loss of around £85 million and it is conceivable that the reduction in numbers will be large. In addition, Universities Scotland has estimated that close to £80 million of tourism income that would have been earned in the period to the summer will now be lost.

The economic policies that governments have introduced recently, such as the Coronavirus Job Retention Scheme, are designed to preserve capacity so that businesses can resume production when restrictions are removed. However, for universities, even if the loss of international students is temporary, demand would not return until 2021-22. In that circumstance, preserving capacity to meet demand when the students return would mean replacing much of the lost income. Beyond support from governments’ schemes and an intense examination of scope for efficiency improvements, options for that might include:

- use of reserves, which were estimated to be £1 billion in 2019-20;
- increased borrowing, which would add to the sector’s estimated £1.1 billion of debt;
- asset disposals and sale and leaseback arrangements. The sector’s property holdings were valued at £5 billion and there may be marketable intellectual property, although asset values are likely to have declined in recent weeks; and
- delaying or cancelling planned capital investment.

Given the contribution of the universities to policy objectives, the risk of a permanent loss of capacity and the fact that both reliance on international fee income and the ability to deal with its loss vary considerably across universities, there may be a role for government to
provide interim funding should the universities’ own actions be insufficient to bridge the gap. As described below, however, competition for resources may be acute post-crisis.

If demand falls permanently, recovers only slowly or is punctuated by further outbreaks, the world would be wanting a university sector smaller than it is today, presenting deeper challenges. In particular, some of the cross-flow of income on which publicly funded teaching and research rely would be lost, prompting consideration of a wider range of options than if the income loss was temporary. In addition to those listed above, they might include mergers of courses, departments and institutions; greater use of technology to teach students remotely, as has happened during this crisis; and extending the teaching year to shorten course durations.

Additional public funding might be merited to retain some courses and to undertake some research. Among the considerations in making decisions about public funding might be:

- should resources used to fund EU students be used to pay for other teaching and research?
- Is it possible to accelerate The 15-24 Learner Journey Review’s ambition for more people to move from S5 at school to year one of a degree and from S6 to year two, with these changes perhaps the first steps to three-years, even two-years degrees?
- Is relying on cross-flows of income to sustain teaching and research an appropriate model?
- Should greater conditionality attach to receipt of public funding, following Audit Scotland’s lead?

Pressure on resources will be acute following the crisis. There have been calls for more spending on health, social care, welfare and general resilience. Higher unemployment will see demand for a range of services increase. To the extent that the additional debt issued by the UK is repaid through spending reductions fewer resources might flow to Scotland. Government has to balance these factors. Ideally, difficult prioritisation decisions would be informed by knowledge of the costs and benefits of the competing alternatives but evidence about benefits is scarce and hard to compare.

Attracting students to its universities has been a Scottish success story. It has enabled the universities to offer courses and undertake research that might not otherwise have been possible. COVID-19 threatens that model. If temporary, some universities may be able to mitigate its impact. Others may not. Additional taxpayer support might be necessary to sustain capacity. But if the effects are permanent maintaining courses and research will require a range of solutions, including the self-help measures described, and additional
taxpayer funding and student contributions might be on the agenda