BUFDG CHAIR'S QUARTERLY
Vol 3: June 2020

Welcome readers!

Welcome to the third edition of our Quarterly bulletin, for those working in or with the Higher Education Sector. As is to be expected, this edition is dominated by the challenges of Covid-19 and the sector's response to the crisis, as well as articles from colleagues at UNIAC.

Unfortunately, and despite our optimism in the last Quarterly compiled at the end of February, we had to cancel the 2020 Annual Conference due to take place at the beginning of April. This has created both challenges and opportunities, and there's more on the conference later in the bulletin.

Thanks for reading. If you have any feedback or comments on this issue, or you'd like to write something for the next quarter, please don't hesitate to get in touch with Karel and the BUFDG team.

Kind regards,

Sarah Randall-Paley

Director of Finance, Lancaster University and Chair, BUFDG.

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State of play

In the middle of March, and just three weeks short of the day delegates and sponsors would have turned up at the University of Salford, we made the decision to cancel the 2020 BUFDG Conference. In the midst of a global pandemic where lives are at stake it is an insignificant footnote, but Conference is a focal point of the year for the HE Finance community, and the value it provides in networking and development for finance professionals and commercial supporters will be sorely missed.

The 'special blend' of conference benefits will also be difficult to replicate by other means. Paradoxically, while tackling the immediate financial concerns caused by COVID-19 is paramount, many colleagues are telling us that this is just the time when a shared additional resource like BUFDG is most valuable. Karel, Julia, Andrea, and Ashley have found themselves working full-time on helping members navigate coronavirus-related issues and coordinating with others in the sector. This has included providing information to, and seeking advice from DFE, the devolved administrations, BEIS and UKRI; joint inititatives with UUK to provide financial data and analysis; and working closely with banks and other sector suppliers.

Sector suppliers and supporters have also lost out from the conference cancellation – losing both the opportunity to hear first-hand what is keeping FDs awake at night, as well as the chance to build new business relationships. The impact of the crisis on HE means some supporters are busier than others, but the landscape is constantly changing and we're grateful to all those who have generously shared information, offered guidance, hosted webinars, and been friendly faces at the 'other end' of a Teams chat.

While we look forward to the day when we can meet colleagues face-to-face again, we're also fortunate that BUFDG Pro – the HE Finance-specific e-learning service that has taken up so much of our energy over the last 18-months – is almost tailor-made for the pandemic. Rachel and Amanda have been beavering away developing new modules, reviewing old ones, and improving access and usability. The constant stream of new sign-ups for e-learning accounts is satisfying, and we'll do our best to keep up with sector needs.

BUFDG 'foresight' also extended to having half of our staff already working from home (although not necessarily with their kids around!), long before it became a necessity. Unfortunately, we can't profess to have any more insight than anyone else on 'what happens next', when a 'return to normal' might happen, or whether 'normal' will even look the same as it did before. Regardless of how the situation develops, we'll be working hard as always, in coordination with PHES colleagues and others, to support the sector.

Sarah Randall-Paley

Director of Finance, Lancaster University and Chair, BUFDG.

Taxing times

Who knew after our last newsletter that the term "furloughing" would become part of our everyday language or that we would all have in-depth knowledge of conducting online meetings!

It has been a hectic few months in the tax team, from keeping track of the Government's announcements and how the rules apply to the HE sector, to lobbying the Government for more consideration of HE issues arising from the pandemic.

In the VAT/Corporate world, Andrea worked with the Tax Group to prepare a Policy Paper that has been sent to HMRC and the Department for Education, highlighting the various unanticipated VAT costs that arise as universities "do their bit" in this crisis.

A more permanent change that has been brought forward from 1 December 2020 to 1 May 2020 is the zero-rating of e-publications. This will be a significant saving for universities, who currently cannot reclaim much of the VAT incurred on these costs. There is work to be done, however, by all interested parties to ensure that the zero-rate is being applied where it can and identify those subscriptions that will not qualify.

Meanwhile, in Employment & Payroll taxes Julia has worked with UCEA to produce a document to help explain how the Government's Coronavirus Job Retention Scheme works in practice and what factors the HE Sector should consider if they choose to make use of the scheme. Our *Time to Talk* sessions invite legal and tax experts to provide valuable insights on topics including the Job Retention Scheme, and have been attended by over 300 members so far.

International issues are boundless as staff are stranded in overseas countries, unable to return or start their job in the UK. Whilst the OECD has announced its view on these positions, there continues to be much uncertainty as the different tax jurisdictions struggle to cover all the potential implications of stranded staff; has a permanent establishment been created; should an overseas payroll be set up; or can employees be reported on the UK payroll?

The next steps are to start focusing on the ensuing challenges set to affect HEIs as summer turns to autumn. Whether that's the international tax consequences for the delivery of online courses by non-UK based staff, or additional VAT/GST, or digital tax liabilities that may arise as students access digital learning overseas. Keep tuned to the BUFDG website for all the news and guidance as usual!

Julia Ascott, Employment Taxes Specialist

Andrea Marshall, Tax Specialist

Financing challenges in HEIs

Like most other sectors of the economy, Universities are forecasting a reduction in their income due to the COVID-19 pandemic, whether caused by reduced numbers of UK students, the decimation of the international student market or a reduction in research and commercial activity. The impact varies across the sector and the consequences range from inconvenient to catastrophic. Given this level of uncertainty, universities are trying to arrange financial facilities to manage a shortfall in income.

Those institutions whose existing cash balances and bank facilities cover the shortfall in recruitment for one year may be comforted and look forward to a return to increased enrolments in Autumn 2021. Many though are not as well-resourced and/or as optimistic, and they, in particular, are looking at a range of options for financing shortfalls.

These options include borrowing from banks and/or the debt capital markets, reducing or ceasing capital programmes, liquidising assets, and tightening pay or making staffing cuts, among many others. However, the unique nature of the university product cycle (over 3-years minimum for teaching, and longer for many research projects), high fixed costs for staff and research facilities, and uncertainty over how long reduced student recruitment and commercial activity will last, mean funding decisions are more complex than ever.

Many institutions are also looking at government schemes set up to help businesses through the crisis. These include the Bounce Back Loan Scheme (BBLS) for smaller HE businesses, the two Coronavirus Business Interruption Loan Schemes (CBILS and CLBILS), and the Coronavirus Corporate Financing Facility (CCFF). However, accessing these schemes is far from straightforward. Some schemes are not accessible due to organisations' size constraints; accessing them may impinge on conditions for existing borrowing; or the potential 'public body' nature of some institutions may limit their eligibility for government corporate support programmes under EU or Treasury rules. We hear from banks and debt advisers that there is a will and appetite to help and support institutions, but the true picture will only be clear in the autumn.

Fortunately, there are some schemes which the sector is benefitting from, such as the Coronavirus Job Retention Scheme (CJRS) used to "furlough" staff. To the extent that universities can use the scheme, this has been useful and will continue to give some financial headroom to resume employment of some groups of staff in the longer term. In addition, some HEIs have looked at taking up the option to defer VAT and other tax payments.

Finally, all HEIs will benefit from the reprofiling payment of tuition fees so that the second of the three payments will now be paid three months earlier at the end of October, rather than in February. This combined with a re-profile of some research funding will be welcome in universities who face reduced income from international students and self-funding postgraduate students. However, if overall student enrolments are lower, income will be lower and the problem is merely delayed, highlighting that the need for good treasury managers has never been greater.

Karel Thomas, Executive Director

All change for Internal Audit?

The HEFCE Audit Code of Practice, temporarily adopted by the Office for Students, was abandoned last year and the sector seems nonplussed by the resultant vacuum. Executives and audit committees have limited time to ask fundamental questions about internal audit. Internal auditors, too, focus industriously on preparing annual plans; programme delivery and then annual opinions following a tried and tested annual cycle.

A breach of the Office for Students conditions of registration potentially poses an existential threat for any registered higher education provider, and those registration conditions are much more wide ranging than the topics traditionally addressed in audit committee and internal audit annual reports and opinions. Audit committees, executive teams and internal auditors that are too narrowly focused on the traditional range of annual opinions are potentially leaving their organisations exposed.

To protect themselves adequately each higher education provider must:

1. develop a board assurance framework that (i) defines the management and independent assurances needed and (ii) explores how to obtain these assurances most effectively and efficiently - whether via internal audit or other means. Adherence to each of the Office for Students registration conditions should be a primary consideration for assurance needs. Compliance with legal obligations and the management of wider risks and opportunities will also be relevant;

2. build internal audit coverage around identified assurance needs. Remember that audit assurances are only as good as the skills, experience and ability of the audit staff who deliver each audit and the depth of their work. The sector's frequent focus on the cost per day of internal audit and the number of days taken may lead to a "performative" internal audit function, rather than one that really tests and challenges the approaches or assumptions relied upon by management. UK higher education's reliance on outsourced internal audit marks it out as an international outlier. Regardless of how internal audit is delivered, audit committees need to see evidence that their internal auditor has undergone the five-yearly independent review required by internal auditors' own professional standards;

3. treat precedents from the rest of the sector with caution. Any higher education provider that finds itself in dialogue with the Office for Students is likely to find that it is a one to one exchange. There will be no sectoral protection and each higher education provider will be accountable for its own decisions.

If you'd like to read about this in more depth, you can download the full paper from the UNIAC website here.

Richard Young, Director, UNIAC

Back to school

With just over three months until the start of the new term, the biggest issue facing the sector is working out how and under what circumstances they can start to teach the next cohort of students at the beginning of the academic year. Universities are autonomous institutions and are each planning their own roadmap for the next stage, yet the absence of a plan or framework from the government to guide this process puts the sector in a difficult position and leads to uncertainty for students and staff alike.

In an attempt to provide clarity to students, a number of universities have already announced how they expect teaching to work for the coming year. Some are planning almost entirely online provision for the whole academic year, while others are hoping to deliver a more typical face-to-face experience. The differences in provision reflect the challenge of 'working in the dark' in a competitive environment.

Most, if not all universities appear to be planning to charge a full fee for students for the year, regardless of how teaching is delivered. Over the years we, along with others in the sector, have been quick to point out that what are often labelled 'tuition fees' cover the cost of so much more. This includes high-quality campuses; facilities for sports, socialising, and the arts; student support; careers advice; and all the rest of the 'student

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experience', as well as subsidising research. Convincing students that a very different, and evidently less-rich experience is of the same value is a difficult sell, and surveys suggest up to a quarter of undergraduates may defer starting their first year as a result. However, as unfavourable as the situation may be, it may prove that neither universities nor their students have much choice.

For students who may wish to defer, the alternatives could prove to be even less appealing. A gap year filled with travel and mind-broadening experiences will not be possible in the current crisis, while finding meaningful employment for a year will be equally challenging during the worst recession for hundreds of years. There is also little guarantee that everything will be 'back to normal' for the start of 2021/22.

For universities, a huge drop in international students, vacant student accommodation, and underused conferencing and commercial facilities and services will lead to losses of billions of pounds over the next year - and beyond, given the length of a university's "product cycle". A further fall in income through a reduction in student fees would likely need to be accompanied by cuts in capacity too deep to be scaled back up again the following year should 'normality' resume.

Whilst UUK's request to government for financial support yielded no extra cash, one solution may be a national plan that clarifies the picture for all students, manages expectations, and provides additional support for the disadvantaged. However, this seems politically unlikely given the timescales and the noises from Westminster so far. In its absence, universities will need all their ingenuity, resourcefulness, and resilience to meet the challenge.

Matt Sisson, Head of Membership

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