Cyngor Cyllido Addysg Uwch Cymru
Higher Education Funding Council for Wales

Impact of Covid-19 on Welsh HE Sector

HEFCW report to Children, Young People and Education Committee, March 2021

Noddir gan Lywodraeth Cymru
Sponsored by Welsh Government

Financial impact

1. As reported to the Committee in June 2020, Universities were expected to experience substantial loss of income and changes to their operating models as a result of Covid-19. Analysis of information provided by universities to HEFCW in early April 2020 indicated that the Covid-19 outbreak might result in an income reduction of approximately £80m-£90m by July 2020. Our analysis of universities' 2019/20 financial results indicate that income has indeed been substantially impacted by the pandemic, with this reduction in income due to: loss of accommodation fees; reduction in commercial services; loss of research funding and other income. In addition, the sector has borne the additional cost of operating in a Covid-safe manner, including, amongst other costs, adaptations to the estate, IT infrastructure to support blended learning (including cyber-security), the purchase of PPE and testing costs. The sector has also borne increased student support costs, the cost of providing IT equipment to students experiencing hardship and the cost of providing support to the NHS, particularly in the early stages of the pandemic. Some reimbursement has been provided in 2020/21 for the cost of universities providing this support, although this has not fully covered all costs.

2. However, all Welsh universities took strong steps from March 2020 to conserve cash where possible and to mitigate both the reduction in income, and the additional Covid related operating costs. These steps were primarily cost control and the deferral of expenditure, including capital expenditure. Cost control measures included the freezing of staff vacancies, the use of the UK Government's Coronavirus Job Retention Scheme to 'Furlough' staff, where applicable, and a general tightening of expenditure controls. In addition to cost controls, the pandemic has also resulted in reduced expenditure in some areas such as international travel, energy and utility costs. Overall, the sector surplus/deficit position for 2019/20 has improved significantly from that forecast at the start of the pandemic, with a near break-even position now expected[1].

3. Whilst the 2019/20 sector financial position was better than had originally been forecast, for the reasons noted above, 2020/21 was considered from very early in the pandemic as likely to present greater challenges for the sector, particularly in respect of student recruitment and the resulting impact on tuition fee income expected to continue into 2021/22 and beyond. In addition, the restrictions resulting from the pandemic have continued longer than had originally been anticipated, with ongoing impacts on income generation and Covid related costs. The longer these restrictions remain in place, the greater the financial impact will be moving forward.

4. Student recruitment for the sector in 2020/21 has been better than had been predicted at the start of the pandemic, although this was not the case for all universities. The recruitment of UK students was generally better than expected, particularly for the Russell Group universities, with the changes to

[1] The slight deficit for 2019/20 excludes a positive non-cash adjustment of around £117 million associated with the USS pension scheme.

the A level result arrangements being a factor. However, reductions in international recruitment have been experienced due to the ongoing travel restrictions, perceptions regarding the UK's management of Covid, and a reluctance by some to start their studies with online tuition. However, these reductions have also been less dramatic than had originally been feared. Overall however, universities are experiencing a reduction in tuition fee income, particularly from international students, as well as a continuing reduction of income from accommodation fees, commercial services, short and summer courses, research funding and other sources. Universities have also had to bear the cost of accommodation refunds to those students that have been unable to return to campus due to Covid travel restrictions.

5. Most undergraduate courses last for three years and therefore the impact of the reduced recruitment in 2020/21 will feed through into 2021/22 and beyond, as the lower levels of student recruitment work through. This has resulted in the need for universities to continue cost control measures with some needing to deepen restructuring plans that were already in train prior to the pandemic, with the potential for a wider economic effect from these job losses. Universities have also needed to continue to postpone capital expenditure, with a resulting impact on the cost of backlog maintenance and impact on the requirement for capital expenditure in future years. The reduced international fee income will also potentially impact on the research capacity of universities as the costs of university research are significantly higher than the research grants and income available to fund the volume of university research and the higher fees chargeable to international students contribute to the funding of university research activities. This reduced income is in addition to the risk of further loss of grant funding for research projects, particularly from the charity sector and industry. This could have an impact on university research capacity in the future and the economic benefit to Wales.

6. Based on recent information provided to HEFCW, it is currently forecast that the sector will generate an overall deficit of over £50 million for 2020/21, although it should be noted that some universities were already planning managed deficits prior to the pandemic. However, the overall sector position in terms of operational cash and liquidity remains stable, although some universities have undertaken additional short term borrowing in order to provide cash headroom, leaving the sector highly geared with external debt forecast at well over 50% of income in 2020/21, significantly above average UK levels[2]. This is likely to restrict the ability of the sector to borrow further to support investment, further delaying the sector's ability to inwardly invest to attract students. The availability of planned long term capital funding from Government for Universities would enable them to increase their capacity to deliver WG priorities and over time reduce borrowing commitments to more sustainable levels.

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[2] The most recently available UK HEI sector average borrowing is 37.9% of income (2018/19).

Government Covid support

7. In the context of the financial challenges posed by the pandemic, Universities have benefitted from significant Welsh Government support, with this including £27 million via the Higher Education Investment and Recovery Fund[3]. The Higher Education Investment and Recovery Fund is helping universities to maintain vital teaching and research capacity in the context of the current financial challenges posed by the pandemic, thereby protecting subject capacity that is crucial to the economic, social and cultural needs of Wales. The demand for higher education by UK students is forecast to grow from 2021 onwards as the numbers of 18 year olds increases, and this may be even more so as a result of any post-Covid recession. By helping to retain quality teaching capacity and developing innovative delivery methods the funding will contribute to Welsh universities remaining competitive with universities in the rest of the UK and internationally.

8. The Fund is also supporting major collaborative programmes that will underpin the sector's role in economic recovery. Amongst others, these collaborative programmes include a programme to support blended learning in Welsh universities, including learning through the medium of Welsh, and a programme designed to sustain the capacity of the research base via direct support for early career researchers. This funding has hence placed Welsh universities in a better position to face the post-pandemic future and to contribute effectively to recovery in Wales.

9. The sector has also benefitted from significant Welsh Government support targeted at university support for students, including: £10 million to focus on the particular challenges faced by students during the current pandemic[4], £2.7 million to support wellbeing and mental health[5], £1.5 million for the 2020 Graduate Support Fund[6] and £40 million specifically to mitigate student hardship and issues relating to wellbeing[7].

10. As well as impacting more generally, the reduction in international student fee income noted above for 2020/21 will impact on the ability of the sector to sustain its research capacity. As a consequence several Welsh universities were eligible to access support, largely in the form of loans, from the UK Government's Sustaining University Research Expertise (SURE) Scheme.

11. In addition to use of the UK Government's Coronavirus Job Retention Scheme to the fullest reasonable extent, universities have explored other UK Government support schemes, including the Coronavirus Large Business Interruption Loan Scheme (CLBILS). Whilst one university was able to access CLBILS finance, most found that they had either restrictive covenants that

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[3] Higher Education Investment and Recovery Fund
[4] Additional financial support for higher education
[5] Wellbeing and health implementation plan funding
[6] 2020 Graduate Support Fund
[7] Covid-19 further financial support for higher education students

would not allow use of the Scheme or that the time frame for the repayment of the loan was too short.

Future challenges and the importance of funding

12. Recruitment competition and student expectations will continue to lead to pressure on universities to improve their infrastructure and develop new ways of working. This in turn creates pressure on cash and reserves, with a return to some form of operational normality being crucial if universities are to be able to re-invest in their infrastructure. This is especially true for Welsh universities with limited capacity to undertake additional borrowing. Financial headroom is therefore key to sustainability and investment in infrastructure.

13. HEFCW funding is an important underpinning factor in maintaining the sustainability and competitiveness of the sector in Wales and its ability to contribute to the economic, social and cultural needs of Wales. The Review of Higher Education Funding and Student Finance Arrangements in Wales[8] (The Diamond Review) recommended measures to increase funding to the sector, with these funds starting to flow into the sector from 2019/20. This funding had been adversely affected by Covid-19, with the 2020/21 HEFCW funding initially reduced back to 2019/20 levels as a consequence of the wider public sector budget reductions needed to provide the Welsh Government with a Covid-19 fighting fund. However, this was mitigated to a substantial degree by the additional Covid-related funding support outlined above. The increased baseline funding set out in the draft 2021-22 budget is very welcome and will help to provide a secure foundation on which the sector can plan for a sustainable future. We would request that this increase in baseline funding be at least maintained in real terms as recurrent funding for investment in higher education in Wales. There are aspects of the Diamond Review recommendations that will require this further funding in order to be implemented, including the recommendations regarding unhypothecated funding, to drive change in areas associated with Welsh Government priorities, and postgraduate research scholarships.

14. There are also aspects of the recommendations of the Review of Government Funded Research and Innovation in Wales[9] (The Reid Review) that will depend on this further funding, including the recommended level of QR funding and full reinstatement of innovation and engagement support (Research Wales Innovation Funding).

15. There is no expectation of any future increase in the maximum tuition fee level and continued uncertainty as to the UK government response to the Review of Post 18 Education and Funding in England, led by Philip Augar. That Review report proposed fee reductions in England, with some more recent announcements made about further potential changes to student support in England that would likely impact on Wales. Against that background of no immediate likelihood of an increase in maximum tuition fees, universities will

[8] Diamond Review (gov.wales)
[9] Reid Review (gov.wales)

face considerable ongoing pressure from increases in certain costs, and in particular the costs of pay and pension contribution increases. In respect of pension costs, the 2020 valuation of the Universities Superannuation Scheme (USS)[10] has shown an increase in the scheme's deficit. In order to manage this deficit, it is anticipated that the USS contribution rate will need to increase from a current total of 30.7% of pensionable pay (including a university employer contribution of 21.1%) to a total of between 42% and 56%, with the level dependent in part on the financial guarantees provided by the sector. This will require a significant increase in contributions, with an impact on the cost base of all member universities and potential industrial relations implications.

16. Universities recognise that a return to the old 'normal' is unlikely, and they must prepare for an adjusted cost base that does not assume levels of international recruitment will fully bounce back to pre-pandemic levels. The Global Wales III programme will be important in helping to rebuild international recruitment in a post-pandemic and post-Brexit era and the Welsh Government's continued support for this programme is encouraging. Universities also recognise the need to engage in new ways of working, including collaborating under the auspices of the sector's Looking Forward Group, convened by HEFCW, to develop a network of partnerships, focused on delivery and outcomes rather than structures, that will build on the diverse and varied strengths of our universities and ensure that a greater number of people and places are able to benefit from what they do. The Looking Forward Group is delivering against a roadmap to support the recovery and renewal of Wales following the COVID-19 pandemic, and the delivery of the Welsh Government's priorities and policies. Work in relation to medium and longer term aspects of the roadmap will continue over the coming years, and will impact on the future delivery of higher education in Wales.

[10] 2020 valuation (uss.co.uk)