
Is it high noon for UK universities?

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A number of establishments are thought to be struggling financially, throwing doubt across the future of the whole sector, but we still retain a preference for high quality, research-intensive institutions

Universities in the UK are plagued with uncertainties owing to the Covid-19 pandemic, and with the 2020-21 academic year underway, questions remain over face-to-face tuition and both the willingness and ability of international students to travel to the UK.

The latest UCAS (Universities and Colleges Admissions Service) data implies robust demand for places, and it seems students are still willing to sacrifice elements of the wider student experience in order to avoid weak employment prospects. Compared to the 2018-19 application cycle there are marginally more applicants holding an offer to start this year with, interestingly, fewer students looking to defer their place.

In spite of this, UK universities face a number of potential insolvencies owing to the pandemic. Indeed, a recent study from the Institute for Fiscal Studies (IFS) suggests that 13 universities would not be viable without a government bailout¹. These are universities which the IFS believe entered the crisis in a weak financial position, rather than those that are most exposed to the immediate expected drop in international student fee income.

¹ IFS, Will universities need a bailout to survive the COVID-19 crisis?, 6 July 2020

In the UK, universities are infrequent issuers in the bond market given the relatively light capital programmes that are required to maintain and enhance university campuses and the student experience. For some time we have held a preference for higher quality, research-intensive universities where that research quality leads to better funding and in turn attracts talented students from an increasingly global market. We also favour universities with diverse income streams to counter sector headwinds which preceded Covid-19, such as increasing staff costs (against capped tuition fees on the income side) and, in most cases, pension deficits.

For example, the University of Oxford receives just 14% of its total income from tuition fees², whereas for Cardiff University this figure is more than 50%³, meaning the latter is more exposed to any fall in student enrolments. Moreover, Cardiff has run up three consecutive years of operating deficits which is, albeit marginally, starting to deplete its reserves.

The fragility of many universities is not new; take the example of an unnamed “small, modern institution” which was bailed out by the regulator (the Office for Students) back in September 2018 after requiring an emergency loan of around £900,000 to survive⁴. The government may have recognised such weak financial profiles to the extent that it announced two terms of fee payments upfront to universities for the 2020-21 academic year. This will help institutions to manage their cash flow positions in the short term, but it won’t help weaker universities in the longer run.

We continue to expect a bumpy ride ahead for UK universities given the state of the sector prior to the outbreak of Covid-19. With that said, we view recent government announcements as positive for the few research-intensive universities that have issued bonds. The government has also announced a support package for research funding impacted by Covid-19: lost income caused by an expected decline in international students will be covered up to 80% mainly via long-dated low interest loans⁵.

Universities will also receive £280 million of funding to enable them to continue research in high priority areas such as medicine. This appears to reinforce the government’s desire to be at the forefront of world-class university research as part of its plan to increase the total R&D investment spend from 1.7% of GDP in 2016 to 2.4% by 2027⁶.

We therefore consider that UK universities could be at a “high noon” point, brought into focus by the Covid-19 pandemic, whereby the government supports research-intensive institutions while being less willing to prop up small and financially weaker ones, instead promoting alternative routes such as Further Education colleges and other technical qualifications.

² <https://www.ox.ac.uk/about/organisation/finance-and-funding>

³ <https://www.cardiff.ac.uk/public-information/corporate-information/financial-information>

⁴ BBC.co.uk, University given £1m bailout from watchdog, 16 November 2018

⁵ Gov.uk, Government to protect UK research jobs with major support package, 27 June 2020

⁶ Gov.uk, Government to protect UK research jobs with major support package, 27 June 2020

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