
Impact of Covid-19 on Welsh HE Sector

Financial impact

1. Universities have experienced substantial loss of income and changes to operating models as a result of Covid-19. Analysis of information provided by universities to HEFCW in early April indicates that the Covid-19 outbreak may result in an income reduction of approximately £80m-£90m by July 2020.¹ This is due to: loss of accommodation fees; reduction in commercial services; and potential loss of tuition fees, research funding and other income.
2. HEFCW analysis, based on financial scenarios provided by each institution in April, has indicated that the Covid-19 outbreak may result in an income loss between £200m and £400m to Welsh universities in academic year (AY)2020/21.^{2 3} This is dependent on a range of factors, including the recruitment rates of international and domestic students, and the timescales of removing current social distancing protocols. These have a direct impact on teaching, research and commercial income such as theatres and conferencing.
3. It is difficult to be definitive about the total forthcoming income loss and its impact, hence the range indicated in paragraph 2 above. Nobody, however, doubts that the income loss will be significant. Without additional government support for universities in Wales, it would be reasonable to assume that several universities will have difficult choices to make in order to avoid becoming insolvent before the end of AY 2020/21.
4. With the use of existing short term borrowing facilities, and continued monthly HEFCW funding, all universities are expected to have sufficient cash to continue to meet their liabilities until at least the end of July 2020, but the initial income reduction will limit their ability to plan for AY 2020/21, and to be as competitive as possible for incoming students in autumn. As charities, universities are not allowed by law to trade if not a going concern: they have to manage their cost base in the light of expected income. Without some additional sectoral financial support, universities in Wales may have to start the process of redundancy consultations and cost base reductions in early summer before knowing the reality of their student fee income in autumn. These actions would likely have a negative effect on student recruitment and, consequentially, further reduce income for AY 2020/21.

¹ The sector had a £1,628.2m turnover in 2018/19 but a £215.6m operating deficit, including one-off accounting adjustments in respect of pension schemes. Excluding these, the underlying position was a £13.7m deficit. Financial forecasts prepared in July 2019, saw universities expecting either deficits or to broadly break even in the short term, with recovery expected with the implementation of the [Diamond review](#) funding recommendations and reversal of the demographic dip of 18 year old school leavers from 2021 onwards.

² An analysis by London Economics for UCU has indicated a shortfall of £100m in the Welsh sector in 2020-21 with a consequent need for universities in Wales to reduce their staffing levels by 1,000. The London Economic report only considers the loss of tuition fees and teaching grant related to new students so only provides a partial picture of lost income and is therefore likely to represent an underestimate.

³ A report published by the Wales Fiscal Analysis programme at Cardiff University's Wales Governance Centre on 15/05/20 estimates that Taking into account predicted falls in international student recruitment and home student enrolment, the report estimates that the sector could lose anything between £100m and £140m in 2020-21 from fee income alone.
https://www.cardiff.ac.uk/data/assets/pdf_file/0010/2394361/Covid_FINAL.pdf

What universities have done in response to Covid-19

5. Despite lockdown, universities are not closed, and most costs will continue to be incurred, and in some cases increased, as a consequence of Covid-19 related activity (such as investment in digital infrastructure to facilitate online teaching and assessment). As salaries form the majority of costs, all universities in Wales have sought to furlough staff where eligible under the UK Government's Job Retention Scheme. The additional 20% of salary costs is currently being met and most academic staff are not eligible for the scheme as they continue to work on essential and publicly funded services, including teaching and research.
6. Universities are also exploring HMRC payment deferment options. All universities will have a net cash outflow for all the remaining months of AY 2019/20 starting from April, apart from May (when they received 50% of the tuition fees due for AY 2019/20 from the Student Loans Company (SLC)), which will result in tight cash positions.
7. Further options being pursued by Welsh universities to reduce the financial pressures they face include:
 - Reduction in cash reserves;
 - Freezing new staff recruitment;
 - Non-renewal of temporary contracts;
 - Freezing pay increases and introducing voluntary cuts for higher paid staff;
 - Reduction in estate maintenance expenditure and revision of capital expenditure plans;
 - Consideration of asset sales; and
 - Taking out or extending loans and overdrafts facilities with their banks.
8. In addition to the above and in the absence of further government funding, staff costs will likely have to reduce. Restructuring requires negotiation with unions and takes time, with no impact for at least three months and additional short-term severance costs. Restructuring decisions would likely need to be made in early summer if no additional support is forthcoming. This would be in advance of students making final choices about study in the autumn, and would likely have a negative impact on the attractiveness of Welsh institutions to prospective students. The coming recruitment cycle is expected to be very challenging for Welsh universities and any further damage to their competitiveness will worsen their prospects for generating revenue and remaining solvent.
9. A reduction in income for Welsh universities of £300m⁴ in AY 2020/21 would equate to approximately 5,000 FTE jobs lost. These jobs would be a combination of lecturers, researchers, technicians and professional support staff with a consequent loss of experience and expertise. These roles would be difficult to replace if funding were made available later in the year. As many university jobs are part-time, the actual numbers of staff layoffs would be far greater (with a potentially disproportionate impact on some protected groups), and there would be a significant impact on the Welsh economy, with some areas losing a substantial part of the local employment base.
10. In addition, universities would seek to consolidate their teaching and research portfolios. Subject areas with a large cost-base and smaller overall student numbers would be most at risk of cut backs. These vary between institutions, but may include agriculture, physical sciences, and other STEM subject areas where skills and research will be critical to the post-Covid economic recovery. Any such contraction would come at the worst possible time for Welsh universities. Domestic demand for higher education is forecast to grow rapidly from 2021 onwards, and this may be even more so as a result of any post-Covid recession. Universities will need high quality teaching capacity and facilities to meet this

⁴ Average figure based on estimated loss of income range of £200-£400m

demand in the long-term and to remain competitive with institutions in the rest of the UK and internationally.

11. Given the substantial time lag until any cost-savings may be realised from restructuring, universities will need support to maintain liquidity during 2020/21 and to maintain competitiveness in the 2020 recruitment cycle. This includes possible applications by some universities to the Coronavirus Large Business Interruption Loan Scheme (CLBILS) or Covid-19 Corporate Financing Facility (CCFF), and any other loans, government interventions or refinancing options. The re-profiling of SLC payments will also assist with continuing liquidity in the autumn.⁵

Institutional insolvency

12. If an institution were to become insolvent, significant job losses would ensue, both for those employed by the institutions and others in supply chains and those who rely on expenditure by students. Students would be left unable to complete their studies and would inevitably seek compensation. Financial liabilities, including pension fund liabilities, would crystallise immediately with university assets passing into the ownership of creditors. It is estimated that the cost of disorderly failure of even a small university would be in excess of £30m. For most Welsh universities, the cost would be substantially higher.
13. The disruption to students created by a disorderly collapse of an institution would be significant. Government will be expected to support students to find alternative providers, covering the ensuing costs. These costs, along with the impact on supply chains and the wider economy, would exceed the cost of supporting the sector in the short term to avoid the disruption.

Conclusion

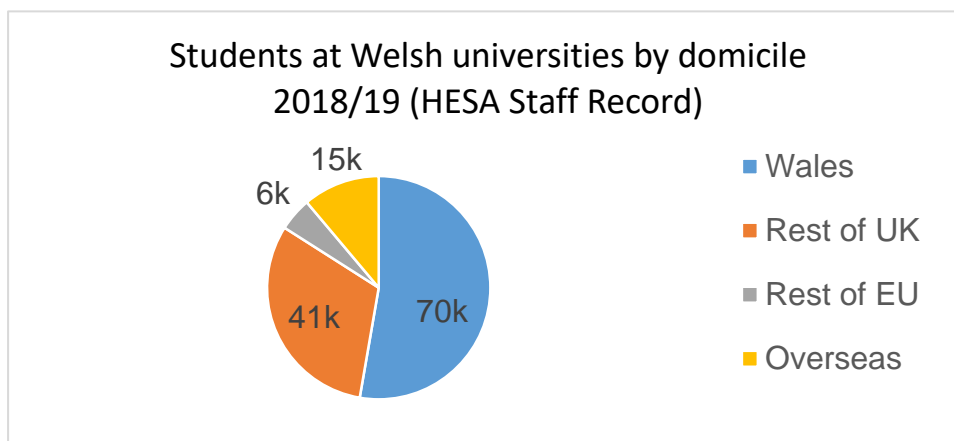
14. Institutions recognise that a return to 'normal' is unlikely, and they must prepare for an adjusted cost base that does not assume levels of international recruitment will immediately bounce back. Longer term support will enable the sector to transition to the 'new normal' business models and forms of delivery. It will not be enough simply to plug financial gaps by replacing lost income. HEFCW is challenging the sector to address the impact of Covid-19 in a way which results in new ways of doing business, for example new blended learning models and investment in digital infrastructure to reduce reliance on the campus estate. Failure to secure additional support will result in, at worst, a risk of institutional insolvency and, at best, a much diminished HE sector, with the loss of hundreds, if not thousands, of jobs and a significantly reduced capacity to deliver to the needs of Wales, as illustrated by the following Annex.

⁵ <https://gov.wales/higher-education-policy-statement-coronavirus>

Annex A

Securing value-for-money – the importance of Welsh universities

1. In 2018/19, 132,000 students were enrolled at Welsh universities⁶, 53% of these students were from Wales, 31% from the rest of the UK, and 16% from the EU and overseas. Students make a substantial economic contribution across Wales as consumers (a recent study for Universities Wales [estimated](#) total student expenditure away from the university campus was approximately £1.7 billion in 2015/16)⁷.



2. Conversely, 31,000 Welsh domiciled students studied elsewhere in the UK. The reliance of Welsh universities on recruitment from outside Wales, and the potential for Welsh students to study outside Wales, means Welsh universities need to retain their competitiveness at a UK and global level to remain sustainable.
3. Universities underpin essential Welsh public services through training, continuing professional development and research activity. Welsh universities train many of the professionals in medicine and allied areas that work in the Welsh NHS, teachers, social workers and other professions, including an increasing amount of Welsh language teaching in these areas and others. Demand for these courses is likely to increase. Universities supply skilled workers and other professionals that underpin the wider Welsh economy.
4. Research and innovation in universities supports the Welsh economy and is helping to combat Covid-19. The recent Reid [Review](#) highlighted the importance of increasing Welsh Government funding in order to ensure that Welsh universities are more competitive in bringing UK-wide grants into Wales. The review recommended maintaining HEFCW's QR allocation of £71m in real terms (2016 prices), introducing new innovation funding at £25m per annum, as proposed in the Diamond review, and in addition the creation of a new Future of Wales Fund of £30m per annum for research investment and a St David's Investment Fund for Welsh innovation activities worth £35m annually and growing to £100m or more post Brexit. Covid-19 has created significant risks for sources of research and innovation income from business and charitable organisations, further underlying the critical importance of maintaining public investment in this area.
5. Universities are major employers. They are one of the largest sources of employment in places like Aberystwyth (1,410 FTE jobs) and Bangor (1,565 FTE jobs), with the loss of jobs at these universities likely to have a devastating, and potentially irreversible, effect on the local economy. In some local authorities, HE provides upwards of 7.5% of local employment. Universities in Wales directly employed 17,295 full time equivalent (FTE)

⁶ Including the Open University in Wales and HE students in further education colleges.

⁷ http://uniswales.ac.uk/media/UNI010-Economic-Impact-Report_FINAL.pdf

staff in Wales in 2018/19 and are [estimated](#) to support 49,000 FTE jobs in the broader economy, equivalent to 3.5% of all 2015 Welsh employment⁸.

6. HEFCW estimates of direct job losses for every 10% reduction in university income⁹

Aberystwyth University	148 FTE jobs
Bangor University	294 FTE jobs
Cardiff University	943 FTE jobs
Cardiff Metropolitan University	190 FTE jobs
Swansea University	700 FTE jobs
University of South Wales	365 FTE jobs
University of Wales Trinity Saint David	234 FTE jobs
Wrexham Glyndŵr University	73 FTE jobs

⁸ http://uniswales.ac.uk/media/UNI010-Economic-Impact-Report_FINAL.pdf

⁹ All figures based on 2018/19 actual university income and 2018/19 average salary for full time staff