COVID-19 recovery and improvement: Locking-in the benefits and overcoming the challenges

A perspective from senior finance leaders of Higher Education Institutions

January 2021

pwc

Foreword

We are very pleased to set out responses to our Higher Education Institution (HEI) CFO survey and our thoughts on COVID-19 recovery and improvement: Locking-in the benefits and overcoming the challenges.

Our objective of the survey was to reflect on both the opportunities and challenges that COVID-19 has presented the sector – with an overall emphasis on financial sustainability.

We sought to gather views from finance leaders from a wide cross-section of HEIs and from this, have identified common themes and good practice between HEIs. We have also shared our own insight and views based on working closely with HEIs before and during the pandemic.

We hope that this document will be of interest to readers from within the sector as well as those from outside that are seeking to understand the impact that the COVID-19 pandemic has had on the sector.

In a sector that faces ongoing financial and operational challenges, it therefore felt an ideal time to identify the lessons learned and positive changes from the past year, and consider how to lock in these benefits for sustainable longer term change.

We recognise that the situation continues to evolve, particularly regarding national lockdown measures and other restrictions. It should be noted that the views brought together in this report were from late November and December 2020.

Going forward, HEIs will need to ensure that the financial opportunities and challenges of any new ways of working are managed effectively in a climate of continuing uncertainty and instability.

As a key theme of our cross-sector #ActNowtoRecover campaign we believe that now is the time for decisive action to lock in the benefits of COVID-19 and address some of the structural challenges that HEIs may face in the next 18-24 months.

We welcome any feedback on this document and would like to thank those who responded to our request to participate in the research.

Damien Ashford,
Partner
damien.j.ashford@pwc.com

Contents

How much time do you have?

If you have 60 minutes you can read the whole report which is recommended.

If you only have 5-10 minutes, you can get the key messages from the **espresso summaries** at the start of each of the sections above.

Introduction and approach

We interviewed 34 finance leaders (at CFO and Director of Finance level) from across the Higher Education (HE) sector during November and December 2020. We also provided CFOs with a survey to provide insight on key sector-specific statistics and metrics (for example, recruitment, retention rates and other financial KPIs).

Our key lines of inquiry were:

1. What are the positive changes that have been made in response to the pandemic and what plans are there to embed these going forwards?
2. What are the top three risks in FY 2020/21?
3. What are the longer term challenges that HEIs face and what are the further potential opportunities for transformation?

Following the interviews, we held three short virtual launch events to share our emerging findings and observations with participants.

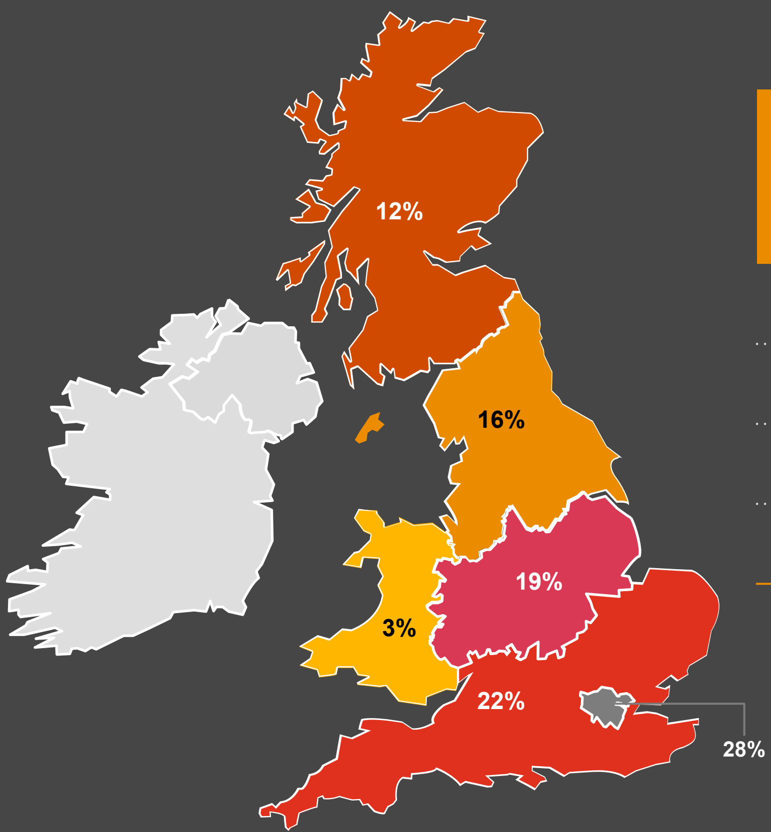
This document summarises the themes and findings from these interviews and the virtual launch sessions. We have then added our views on key considerations for senior finance leaders in the sector. Our views are based on our reflections from the interviews and our experiences supporting HEIs during the pandemic.

34 HEI senior finance leaders interviewed

Representation across regions in the UK

Interviews conducted during Nov/Dec 2020

Participation across sector ranking cohorts



Cohort league table ranking (per 2021 Complete University Guide)	Number of interviewees
1-50	11
51-100	13
101+	5
Specialist	5

Before, higher education was like an oil tanker, change was slow…

The speed that we responded and adapted to COVID-19 has given us confidence that we can continue to transform our operations.

CFO quote

Embracing the positives

Espresso summary

We asked senior finance leaders:

1. What do you see as the **top three positive changes** that have been made within your HEI in response to the pandemic?
2. What approach, if any, is being taken in your HEI to **"lock in" these changes** and ensure they are **embedded**?

There was a high level of consistency in the responses from CFOs, which can be summarised into five key themes:

1. Speed and agility of decision making

Reacting with speed and agile decision making to rapidly respond to COVID-19 challenges.

2. Digital acceleration

Accelerating the implementation of IT infrastructure to deliver teaching, research and support functions.

3. Flexible working

A mindset shift within the workforce away from a model of presenteeism to a renewed focus on more beneficial productivity metrics.

4. Blended tuition

The rapid move to online delivery has demonstrated that students have readily adapted to the change in delivery methods.

5. Financial focus

Greater appreciation across all organisation layers of budgeting, cost control & financial sustainability has been established over the last 10 months.

We explore each of these themes in more detail over the coming pages, with a particular focus on the practical steps taken in response to the pandemic and lessons learnt to look to embed these changes going forward.

Whilst we acknowledge the risks and challenges that COVID-19 has and continues to present, the objective of this section is to focus on the positive aspects of change. Current risks and future challenges are considered later in the report.

Embracing the positives

1. Speed and agility of decision making

Reacting with speed and agile decision making to rapidly respond to COVID-19 challenges.

In summary: what we heard from CFOs

All participants described that the unprecedented change required in response to the pandemic had provided a blueprint of how the sector could adapt with pace and agility. The consistent examples used to demonstrate this level of change were:

- Transitioning and supporting a large proportion of the workforce to work remotely across the HEI and within the finance team.
- Switching to virtual and / or blended teaching whilst maintaining quality of provision for the students.
- Ensuring the safety and security of the site within days of lockdown.

Many HEIs noted two factors allowing them to react with pace and agility:

1. governance frameworks were flexed to take into account the need for daily decision making; and
2. staff acclimatised quickly and positively to the pace of change required.

These in particular resulted in a positive shift in organisational culture, with staff from across the organisation working together to mitigate the impact of COVID-19.

Practical steps taken in the response to COVID-19:

- Establishing structured 'gold command' meetings to expedite decision making, with less consultation required.
- Creating sub-teams to focus on daily operating challenges, whilst other staff focus on longer term strategy – promoting and supporting bilateral activity.
- Introducing clear and concise dashboards to provide a common information platform and allow regular monitoring. This provided greater ability to act on live, albeit 'imperfect' information.
- Increasing the frequency of communications to students and staff, which led to a higher level of engagement and goodwill from these stakeholders.

Lessons learnt:

- Recognition that empowering staff and embedding entrepreneurial spirit in all levels of the organisation is a powerful tool and can drive innovation.
- Embedding a greater appreciation of the organisation's strategy as well as roles and responsibilities of individuals encourages shared goals, more effective team working and a more collegiate culture.
- Working more closely with stakeholders (e.g. Student Unions, Trade Unions, lenders and key suppliers) has led to improved relations and a greater appreciation of the collective challenges and potential solutions.
- Benefits of having tested business continuity plans in a crisis situation, leading to the identification of areas that require improvement.
- Giving people more capacity and flexibility to try out a new project and identify solutions should drive innovation.

> "The speed of change required opened up opportunities for us to quickly redeploy resources, enabling us to deal with immediate needs
>
> CFO quote

Embracing the positives

2. Digital acceleration

Accelerating the implementation of IT infrastructure to deliver teaching, research and support functions.

In summary: what we heard from CFOs

Like businesses across many industries, pre-COVID-19, technology was often considered an add-on to the traditional delivery model. More advanced equipment, platforms and systems have been available, but with variable uptake across the sector. The onset of the pandemic accelerated the implementation of digital assets to deliver teaching and research, as well as across support functions.

This was cited as one of the top three benefits by the majority of CFOs, with a number commenting that investment in IT infrastructure would be of greater focus going forward. This investment would be achieved either through increasing budgetary spend or ensuring budget available is targeted at strategically high priority areas.

Practical steps taken in the response to COVID-19:

- Establishing integrated IT systems, cloud computing, and uniformity across the organisation in platforms being used, particularly where departments might be using different platforms that do not interface with each other.
- Protecting IT staff time so they can focus on delivering key priorities allowed rapid implementation of infrastructure changes needed over the last few months.
- Performing strategic reviews of IT suppliers and partners to consider the existing infrastructure in light of the longer term digital strategy.

Lessons learnt:

- Recognition that, by moving to cloud based systems and documents, there has been an improvement in the ability to collaborate across teams, departments and with other organisations.
- Where digital drives efficiencies, HEIs are encouraging staff to focus on other student interaction, enabling more research or other value-add activities that support strategic priorities.
- Marketing has radically shifted to digital platforms as all HEIs have had to move campaigns online. This has allowed access to a wide and engaged audience at lower cost with incredible success. However virtual/digital fatigue is already starting to set in and HEIs will need to continuously refresh their approach to stay ahead. Post-COVID, this will include maximising the benefits of both virtual and face to face events, whilst keeping control of costs.

“In a short space of time we moved from historic methods of delivery into tomorrow’s world

CFO quote

Embracing the positives

3. Flexible working

A mindset shift within the workforce away from a model of presenteeism to a renewed focus on more beneficial productivity metrics.

In summary: what we heard from CFOs

Participants noted the wish to embed the benefits of greater home working into the organisation longer term, by encouraging flexibility and choice with where and how staff work. However, most CFOs noted that they believe a move, over the longer term, towards flexible working will need to be mandated from the top to prevent old working practices drifting back.

Many organisations have already articulated to staff that working practices will change. This has prompted many to undertake or plan estate utilisation reviews, reshaping and reconfiguring existing space towards hot desking models. There appears to have been a significant shift in the HEI workforce being more supportive of this model.

Practical steps taken in the response to COVID-19:

- There was an immediate need to provide staff with office equipment which in most instances was rapidly assessed and put in place. However, this brought with it additional costs, primarily offset by lower travel and estates costs. Going forward, providing laptops and reducing office based equipment will become the norm for many HEIs.
- The frequency of staff communications was increased as well as more regular touch points via Teams/ Zoom to maintain connectivity within teams and across departments.

Lessons learnt:

- Following the amount of cross-organisation working this year, and the future move to hot-desking, there should be opportunities for greater collaboration across teams.
- Productivity has generally improved, particularly across the back office, as staff benefit from greater flexibility, improvement from digital efficiencies and less commuting time. HEIs are surveying staff to identify roles that may need greater access to campus and more structured work areas to define the longer term approach. This was particularly noted in areas such as research or where IT infrastructure was not as developed.
- In the longer term, the flexible working model could improve staff retention and potentially gender pay gap disparities.
- There is a greater appreciation of the need for staff to find the right working balance, adapting to increasing screen time and more formal catch-ups.
- While there has been a fundamental change in mindset across organisations, staff morale in many cases has declined in latter months with key reasons being feeling less connected and more isolated from teams. As a result, future plans will need to establish a sustainable rhythm of how departments connect and balance home working with on campus interactions.

> We haven't historically moved with the times...the pandemic has enabled a real step change on how we work. Staff value the increased flexibility and reduction in commuting.
>
> CFO quote

Embracing the positives

4. Blended tuition

The rapid move to online delivery has proven that students have readily adapted to the change in delivery methods.

In summary: what we heard from CFOs

Pre-COVID-19, most HEIs had invested in the delivery of digital teaching, however, they were often seen as supplemental to traditional face to face lectures.

The rapid move to online delivery has proven that students, (many of whom come from Generation Z and are therefore digital natives), have readily adapted to the change in delivery methods.

Rather than being supplementary, digital is now seen as a fundamental part of the overall blended delivery model that will continue long after COVID-19. This will aim to combine the best attributes of online content, small study groups and large scale lecture theatres.

Practical steps taken in the response to COVID-19:

- An immediate and wide scale upskilling programme was required for teaching staff to support them in the move to digital.
- Additional tools were purchased to enable access to greater numbers of users or allow for greater functionality and interactivity.
- Students were encouraged to reach out to teaching staff for support.
- Rapid 'learning impact assessments' by department / course were completed which supported the move to online. These will also help to shape the future blended learning strategy.

> We have installed more innovation in teaching in the last six months than in the last six decades…
>
> We can't go back to the old way of doing things, this is the New Normal
>
> CFO quote

Lessons learnt:

- It is clear that students want more digital content, but not at the expense of face to face teaching (which is still seen as a core component of the justification for tuition fees). As a result, HEIs are creating learning programmes that are mindful of choice for the student, ensuring they maintain or increase access to lecturers through one to one or small study groups.
- HEIs are considering whether online content could be used to create a more bespoke and varied learning programme for individuals, e.g. students able to dial into other faculty lectures, additional supportive optional content, guest lectures, links into employers and study skills sessions. Blending these elements could create a more valued student experience whilst balancing the relative cost. The move to online /blended learning could also provide an opportunity to market to a wider range of students, reach new markets and diversify course options.
- Contact hours and satisfaction scores increased for a number of HEIs, as students appreciated the freedom to work through courses at their own pace, particularly those with additional learning needs who could now rewatch content.
- Equal access will need to be a key consideration going forward as some students are disadvantaged if they cannot access online learning due to digital poverty, (the National Union of Students reported 27% of students were affected), some HEIs have opened laptop loan schemes for students who need them.

“

We have seen a greater focus on financial performance amongst all teams.

Particularly within our academic departments who are starting to appreciate the need to consider the financials of each course, embed the positives of our transformation and take on responsibility for cost management.

CFO quote

Embracing the positives

5. Financial focus

Greater appreciation across all organisation layers of budgeting, cost control & financial sustainability has been established over the last 10 months.

In summary: what we heard from CFOs

One third of CFOs noted that a key benefit from COVID-19 has been a greater focus across the whole organisation on budgeting, cost control and financial management over the last ten months. Many participants noted that they were seeing a new appreciation for the importance of financial sustainability across their HEI.

93% of CFOs surveyed agreed or strongly agreed that their governance structures provided sufficient support, insight and challenge in setting the financial forecasts.

66% of CFOs surveyed revised their FY 2020/21 forecasts upwards based on Q1 results.

Practical steps taken in the response to COVID-19:

- Greater measurement and control of spend per student and return on investment to maximise value for money, whilst balancing (and not to the detriment of) student satisfaction.
- Whilst many cost-cutting measures were being considered pre-COVID-19, implementation has been accelerated with a focus on identifying multi-year initiatives, rather than one year savings or simply delaying spend.
- Improvement and automation of processes which has resulted in efficiencies, particularly within finance functions. For many this has resulted in additional capacity to generate better quality and more timely management information, with regular KPI dashboards.
- Continued and proactive Union engagement was overall noted as positive. Many HEIs have held staff pay flat this academic year with unions recognising the challenging position this year.

Lessons learnt:

- With increased financial focus, many HEIs are looking for ‘front line’ academic staff to take ownership of their budgets and efficiency programmes.
- A number of HEIs have carried out longer term strategy reviews (or are planning or doing so) to establish where money should be spent and how courses being offered align with their brand and values (considering portfolio offering, size and shape, resource).
- When looking at course mix on a strategic level, HEIs are looking at which courses generate surplus whilst considering the needs of “the student of tomorrow”.
- Whilst some natural cost savings have developed as a result of COVID-19, i.e. reduced travel and marketing costs and an opportunity to rationalise the estate, concern was expressed by some that this is offset by increase in spend in other areas such as IT infrastructure and COVID-19 related measures.
- Some costs are likely to return to pre-COVID-19 levels as the pandemic ends; now is the ideal time to reassess cost base, true underlying position, and to maintain high levels of financial control moving into FY 2021/22.

“

Staff outside the finance department now have a much better understanding of the need for a healthy cash balance

CFO quote

Current year outlook

Espresso summary

In the first few months of the pandemic the HE sector faced a high level of uncertainty (e.g. recruitment, retention, future lockdowns and travel restrictions) leading to significant financial and operational challenges being forecast. Rising levels of confidence at the start of the 2020/21 academic year resulted in a large number of HEIs revising forecasts upwards – primarily due to higher levels of recruitment than was originally forecast.

We asked senior finance leaders to share their insights in relation to the deliverability of and risks associated with FY 2020/21 budgets and we have collated these responses into the following four categories.

1. Student recruitment & retention

The majority of HEIs have benefited from stronger domestic recruitment and stability in relation to the retention of continuing students. However, two thirds of these HEIs have experienced a decrease in international recruitment.

2. Cost reduction and transformation

FY 2020/21 financial challenges were seen to be manageable by most interviewees, however, cost reduction and transformation was still being carried out to 'right-size' the organisation to ensure longer term financial sustainability.

3. Financing

Initial concerns over the need and ability to secure facilities have been mitigated to some extent by the fact that a significant number of HEIs have either agreed, or did not require, any additional facilities or covenant amendments for FY 2020/21.

4. Key risks

We asked CFOs to consider the key risks to delivering their HEI's FY 2020/21 budget. The top three risks identified were; students do not return to campus in January 2021, January 2021 recruitment and student retention.

At the date of publication of this report national lockdowns have been reintroduced and significant travel restrictions have prevented the majority of students returning to campus. Online learning is likely to remain the default mode for the delivery until the end of Spring. This return to a higher level of disruption and uncertainty undoubtedly places more emphasis on the risks around accommodation and tuition fee refunds.

Key stakeholders (both internal and external) will have an expectation that HEIs will review and test the robustness of FY 2020/21 budgets in light of these heightened risks. We also anticipate that questions in relation to the potential for central Government support to the sector will be brought to the fore.

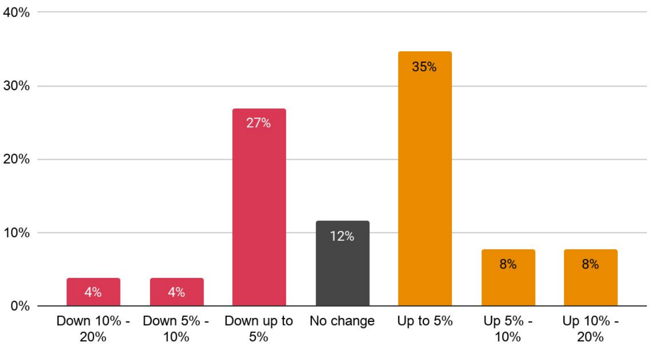
Current year outlook

1. Student recruitment & retention

The majority of HEIs benefited from higher domestic recruitment in line with the sector wide increase in domestic applications. Whilst two thirds of HEIs experienced a reduction in international recruitment, the average decline against prior year is lower than was forecast during the first few months of the pandemic. Retention levels of continuing students have largely not suffered, with a high proportion of HEIs citing that retention was the same or higher than historic norms.

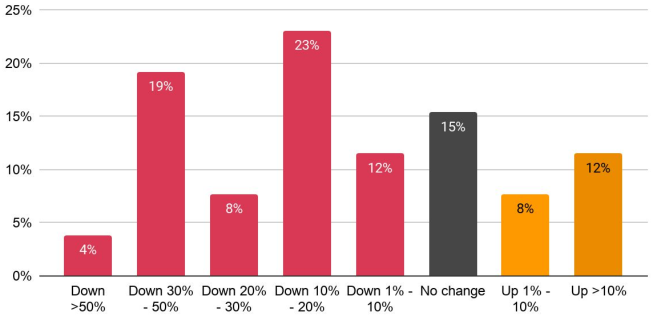
62% of HEIs saw an **increase or no change** in the levels of domestic UG recruitment against the prior year.

Change in domestic UG recruitment from AY 19/20 to AY 20/21



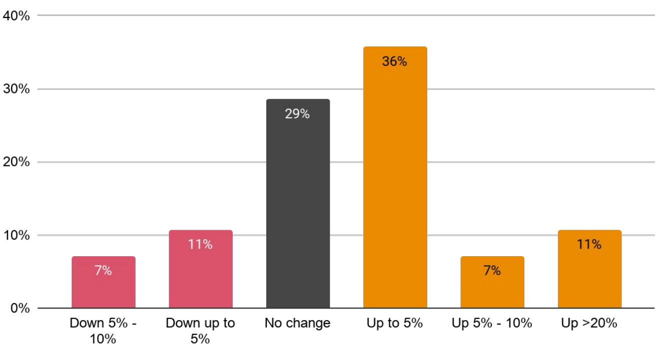
65% of HEIs saw **decreases** in international UG recruitment against the prior year.

Change in international UG recruitment from AY 19/20 to AY 20/21



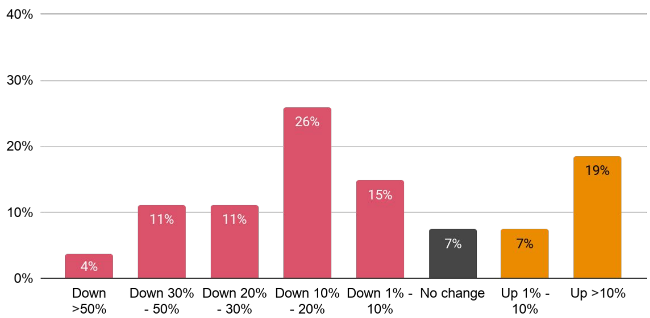
82% of HEIs saw an **increase or no change** in the levels of domestic PG recruitment against the prior year.

Change in domestic PG recruitment from AY 19/20 to AY 20/21



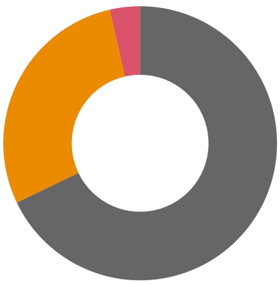
66% of HEIs saw **decreases** in international PG recruitment against the prior year.

Change in international PG recruitment from AY 19/20 to AY 20/21



Continuing students:

The participating CFOs were asked whether they had seen any change to the levels of retention of continuing students compared to historic norms?



68% Improvement in retention levels

28% No change in retention levels

4% Decline in retention levels

Note: the graphs above exclude any participants that declined to answer the recruitment and retention questions.

“

Domestic student recruitment has been our strongest this year and we see no signs of this changing.

Our concern is our reliance on international students, down materially this year and likely to be down the same amount in 2021/22. How we right-size our cost base, given the reliance on international students in our operating model, remains a very real and constant strategy debate.

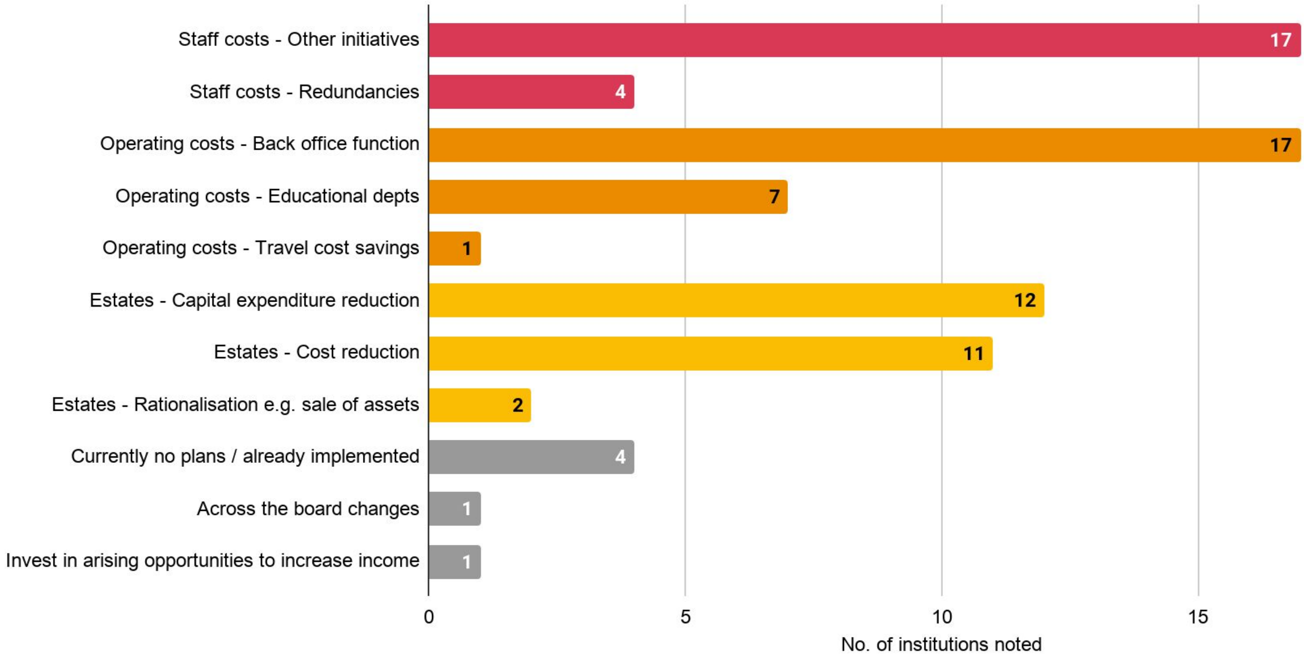
CFO quote

Current year outlook

2. Cost reduction & transformation

Whilst the short-term financial outlook undoubtedly has a number of challenges, the majority of participants also felt that it was manageable, with a high level of confidence that they will meet their FY 2020/21 budget. The focus of cost reduction and transformation plans during FY 2020/21 was therefore on ‘right-sizing’ the organisation for the three year impact with a view to ensuring the long term financial sustainability of HEIs.

What are the top 3 cost reduction / transformation plans for 2020/21?



69% of HEIs are confident in achieving these FY 2020/21 cost reduction and transformation plans.

76% of participants were confident that they will meet their FY 2020/21 budget.

PwC view – Damien Ashford, PwC Operational Restructuring

CFOs and their HEIs have had significant success in managing their cost base in the last few months. Whilst a minority remain concerned about their financial performance this year, most are considering the challenge of FY21/22 where environment for cost cutting is about to become tougher due to;

1. The ‘permission’ or support for cost reduction from within each HEI will reduce, as the shift from COVID-19 crisis to recovery occurs.
2. Many of the financial opportunities connected with new delivery models have been realised.

As a result, CFOs should consider how to make the most of;

1. Scenario planning for next financial year.
2. Putting financial improvement at the heart of the strategy for security and the opportunity to reinvest from efficiencies.
3. The ‘here and now’ to put in place a programme of financial improvement including embedding the positive changes made in the last few months.
4. Their personal or national CFO networks and professional support if needed, to capitalise on the opportunities that exist now.

Current year outlook

3. Financing facilities & covenants

The survey results support a positive outlook for FY 2020/21 in relation to additional financing facilities and the renegotiation of existing debt covenants. Initial concerns over the need and ability to secure facilities have been mitigated to some extent by the fact that a significant number of HEIs did not require any additional facilities or covenant amendments for FY 2020/21. A number of HEIs also commented on the fact that their lender relationships were now stronger as a result of the pandemic.

50%

of the HEIs we interviewed have not had to and are not expecting to amend financing covenants or raise any additional finance for FY 2020/21

“Whilst we were deeply concerned, the pandemic presented an opportunity to strengthen our relationship with our lender.

They now better understand our organisation, I think this will be mutually beneficial moving forward

CFO quote

1 in 3

of the HEIs we interviewed that require FY 2020/21 covenant amendments have already agreed these with lenders

8

HEIs we interviewed raised additional financing facilities since the start of the pandemic in March 2020, of which:

- 5 raised direct lending through a bank.
- 2 accessed Government COVID-19 financing facilities.
- 1 issued a private placement.

PwC view – Karen Best, Corporate Finance Education Lead

In the last six months we have seen continued appetite from lenders to extend new credit facilities to HEIs. However, as HEI life continues to be disrupted by the pandemic, HEIs face ongoing uncertainty in forecasting medium term cash. With this in mind, HEIs can better prepare themselves in the event that discussions (either renegotiating existing or raising new facilities) with lenders are required:

- Understanding and clearly articulating your HEI’s strategy and competitive positioning.
- Clarifying the basis of preparation and testing the robustness of your forecast business plan.
- Developing confidence in your ability to deliver any transformation / cost reduction programmes.
- Demonstrating that you have considered a wide range of options, including but not limited to lender support.
- Encouraging and supporting early and transparent discussions with your lenders and other stakeholders on any potential liquidity needs or challenges.

Current year outlook

4. Key risks

We asked CFOs to consider the key risks to delivering their HEI's FY 2020/21 budget. The top three risks identified were:

1. Students do not return to campus: students stay at home or are prevented (e.g. lockdowns and travel restrictions) from returning in January 2021, leading to the potential for a higher level of accommodation refunds / voids
2. Recruitment: lower than expected January 2021 student intake, particularly in relation to international students
3. Student retention: fall in retention levels due impact on student experience, student health and wellbeing.

The tables below provides a summary of the key risks that were identified by CFOs.

Category	Risk	CFOs
COVID-19 restrictions	**Students do not return to campus:** students stay at home or are prevented (e.g. lockdowns / travel restrictions) from returning in January 2021, leading to potentially higher level of accommodation refunds / voids as well as ongoing need for online learning	20
	Research income: restrictions continuing to impact ability to undertake research as well as reduced availability of charitable, commercial and other sources of research income	6
	Commercial income: commercial activity is further constrained by COVID-19 restrictions	3
	COVID-19 costs: increased cost of responding to the pandemic and complying with COVID-19 restrictions	3
Students	**Recruitment:** lower than expected January 2021 student intake, particularly in relation to international students	12
	Student retention: fall in retention levels due impact on student experience, student health and wellbeing	11
	Tuition fee refunds: risk that students [bring a class action] to call for refunds to be made. [CFOs noted that this may need to involve a sector wide response from central Government given SLC payments]	7
Staff	**Staff health & wellbeing:** decline leading to increased risk of sickness or attrition	5
	Staff resistant or not equipped to change: increased costs to resolve or leading to sickness or attrition	4
	Union activity: increased risk of disruption and adverse impact on student satisfaction in the event of strikes	3
Finance & operations	**Achieving cost reduction plans:** risk that plans are not deliverable in terms of scale and / or within set timescales	4
	Cyber security: risk of fraudulent activity and / or attacks	3
	Availability and access to finance: reference made to both external borrowing as well as fundraising	2
	Brexit: ongoing uncertainty around potential impact for FY 2020/21	2

Key: Number of CFOs that included the risk in their response

2 – 9	10-19	19 – 34

Longer term challenges and sector change

Espresso summary

As HEIs turn their attention to longer term strategy, many are starting to assess the longer term challenges and opportunities (3-5 years) to define what changes may be required within the organisation.

We asked you:

1. What do you see as the **top three challenges** that you will need to overcome going forward?
2. How do you plan to **respond to these challenges?**
3. What are the **main changes** you would like to see as the **sector works towards the 'new normal'?**

Overall there was greater variety in responses within this section, however the challenges and opportunities to overcome them, along with wider sector changes, broadly fell into six key themes as set out below. We explore these further over the coming pages.

1. Recruitment and retention
Changing student priorities represent both an attrition risk and an opportunity to target new demographics.

2. Blended tuition (inc. estates impact)
Determining the appropriate balance between face to face and online, and the resulting impact on accommodation occupancy and estates footprint.

3. Digital
The ability to integrate systems and implement blended learning programmes whilst maintaining quality and reputational values.

4. People
Mindsets and behaviours are key to an organisation's agility. Upskilling and staff wellbeing are central to the strategic transition to continued online tuition and flexible working models.

5. Finance
A robust financial strategy to support the new operating model must encompass digital investment (for staff and students), flexible workforce planning, and effective use of real estate footprint.

6. Wider sector initiatives & government policy
HEIs continue to navigate the changing government and regulatory landscape, by coming together to share knowledge and resources.

Longer term challenges and sector change

1. Recruitment and retention

Changing student priorities represent both an attrition risk and an opportunity to target new demographics.

In summary: what we heard from CFOs

Overseas students

Concerns were expressed that numbers of EU and International students may reduce as Brexit and recessionary impacts reduce demand and affordability of a UK education. EU and International tuition fees made up c.17.5% of 2018/19 incomes for HEIs (based on HESA and OfS data), making these cohorts a material revenue stream. Of those interviewed, 65% noted a decrease in International UG student recruitment in 2020/21, which HEIs will be absorbing for the next three years. With time however it is expected that higher levels of international demand are likely to return.

Student recruitment

Given COVID-19 has caused disruption to all school years' learning programmes there remains concern that exam results and students' learning needs will continue to be impacted not just for the coming academic year but for some years in the future. CFOs expressed some reservation that future cohorts may be of more mixed abilities and require additional support.

Competition

Whilst the current year's recruitment has shown significant resilience there was overall optimism on the longer term outlook for the domestic market with expectations that recessionary pressures and decreasing employment opportunities for young people would push more into education or retraining.

However, there are concerns that the increasing number of education providers, both within HE and alternatives, including FE, online-only providers and HE providers offering distance learning alternatives will increase competition, leading to potential winners and losers.

PwC view – Ian Koxvold, Education Strategy Leader

"Given the ongoing uncertainty in this area, HEI Boards are now rightly turning their attention to assessing future cohort expectations.

From our experience, there are reasons to be optimistic around domestic student recruitment given the expected recessionary impacts and the emergence of the UK from the demographic dip. For 2021 domestic intake there is the potential for a significant volume of students to look for a "re-run" of their 2020-21 first year.

Whilst there will no doubt be an immediate and material impact from EU and International students reducing, demand from International is likely to return given the prestige of a UK degree around the world. There is some risk to 2021 and 2022 non-EU intakes, given the impact of COVID on the 1-3 year long applicant funnel leading up to enrolment.

The biggest challenges HEIs therefore face are keeping up with changing student expectations and differentiating themselves from the the increasing choices available.

Those who know who they are and can articulate their value will stand out from other learning options and fare better against the overall disruption across the longer term."

Longer term challenges and sector change

2. Blended tuition (inc estates impact)

Determining the appropriate balance between face to face and online, and the resulting impact on accommodation occupancy and estates footprint.

In summary: what we heard from CFOs

Blended tuition

Whilst the pandemic created the need for the immediate move to online, overwhelmingly CFOs raised the challenge for their HEI to reassess their portfolio of courses to ensure their offering gives an appropriate blend of face to face and online tuition. Whilst there is increased complexity in developing a strategy with ongoing uncertainty in the sector, this provides the opportunity to innovate learning programmes, meet the needs of an increasingly digitally savvy student cohort and access diverse new markets.

Estates impact

The continued move to blended tuition as well as more flexible working models has obvious implications on the estates footprint given the reduced need for physical space. Many CFOs raised this as a challenge to determine the HEI's longer term estates and capital investment strategy, linked to the complexity and uncertainty points noted above. Again overcoming these challenges represents a significant opportunity to redistribute space to right-size an estate, better utilise facilities and in some cases sell spare capacity to raise additional finance.

Accommodation occupancy levels

CFOs expressed concern that changing student behaviours may drive a longer term occupancy risk where courses are consumed online and off-campus reducing the need for large halls of residence. Those in cities cited that student accommodation offerings are increasingly expensive when compared to standard private housing or commuting into HEIs resulting in reduced take up. Challenges noted managing relationships with private accommodation providers, including negotiating nomination arrangements, in an increasingly uncertain landscape.

PwC view – Derrick Tate, Director, Real Estate

"What will the HEI of the future look like? Will HEIs be fully virtual and the estate become obsolete? Or will we largely go back to how things were before the pandemic struck?

Although we can only speculate what will actually happen, most HEIs believe that whilst there will be a return to a degree of normality, there will be a longer term impact on how we use real estate.

As we are starting to see in other sectors, HEIs will need to seek feedback from users (students, lecturers and administration staff) of the estate on how they wish to learn and work in the future. With more virtual working and learning the demand for traditional space is likely to fall.

This user led change, along with the potential for social distancing restrictions to be in place for a much longer period, will lead to repurposing; e.g. to respond to the need for collaboration and social space to enable people to come together when they are on campus."

We have a real opportunity to right size our estate.

The estate footprint is vast and our experience of home working and blended digital learning has given us a new lens to better utilise our space, both in terms of economics and the student experience.

CFO quote

Longer term challenges and sector change

3. Digital

The ability to integrate systems and implement blended learning programmes whilst maintaining quality and reputational values.

In summary: what we heard from CFOs

Whilst participants acknowledged the need and desire for increased digitisation, there was uncertainty over how to deliver a high quality experience whilst keeping investment costs under control.

Almost all HEIs noted that increasing focus and investment is being undertaken across digital infrastructure to embed efficiencies, enable new ways of working and teaching, and to combat the threat of cyber attacks.

To establish a longer term strategy around digital assets, many participants are implementing a full systems audit to identify systems that do not interface and instances where automated processes could be used to provide time for staff to spend on some of the more 'value add' elements, such as student welfare and satisfaction.

For the majority of full-time courses post COVID-19, the consensus was that digital is here to stay. This cannot be at the expense of face to face or personalised tuition time, which is seen as a key factor in the justification for the level of tuition fees. Otherwise, there is a risk too much digital could raise questions over fee structures.

PwC view – Cat McCusker, PwC Education Sector Lead

"The UK's higher education sector is entering a new age – using digital technologies across HEIs is essential to attracting talent, promoting growth and, ultimately, surviving.

HEIs not equipping themselves to adapt to the challenges ahead may struggle to compete.

- **Choice** – Students are digitally savvier, better connected and more vocal than ever before, expecting to be taught and to learn using methods that suit their preferences and at a pace that works for them, not one that is mandated. Approaches to learning and course content must become increasingly personalised and tailored to individual needs.
- **Cost** – Whilst the transition provides great opportunities, to effectively innovate HEIs may face significant investment costs, with Professor O'Shea from Edinburgh estimating that creating five or six new online degree courses would cost £10m to implement.
- **Competition** – Be aware of how your courses and delivery models compare against all competition, (including colleges, online offerings and international HEIs) and be clear about what differentiates your HEI and, where required, justification for fees.
- **Innovation** – Change is only likely to increase; HEIs that increasingly look to AI, automation, blockchain and analytics will likely be ahead of the curve and better able to attract talent and grow.
- **'3 click rule'** – Students anticipate a professional and clear internet platform inline with other online brands. Reimagine student facing portals and websites to make information, advice and guidance more readily available.
- **Efficiency** – Redefining process and the effective use of digital will help release staff from manual tasks and break down siloed information. This could release staff to create time for richer, deeper conversations with students.
- **Live dashboards** – Given the wealth of data available, governance will need to establish what information will be used to establish decision making."

Longer term challenges and sector change

4. People

Mindsets and behaviours are key to an organisation's agility. Upskilling and staff wellbeing are central to the strategic transition to continued online tuition and flexible working models.

In summary: what we heard from CFOs

CFO participants were conscious that staff were paramount to the success of the organisation, particularly given the part they play in delivering and protecting the student experience. As CFOs reflected on what had been learnt over the last ten months and what could be embedded longer term, four areas of challenge would need to be overcome as summarised below.

Views were mixed from CFOs as to whether their HEI has the capacity and capability in skills and resources it needs to deal with the upcoming challenges around financial sustainability. A number of CFOs also expressed concern over embedding some of the positive changes seen this year longer term, something that will be needed given the speed of change is only increasing.

Wellbeing

- Around a third of CFOs noted staff 'burn-out' as an ongoing concern and therefore wellbeing continues to be an area of focus
- To overcome this a number of solutions were highlighted in discussions including:
  - establishing courses on managing teams remotely
  - implementing mental health training,
  - setting clear expectations with staff working remotely,
  - support networks within teams.

Agility

- Overall staff have embraced recent change but embedding this into the 'new normal' and encouraging staff to contribute to the strategic vision is seen as a challenge.
- Examples of ways CFOs are overcoming this challenge include department heads being asked to take ownership of departmental strategy and budgets so they have greater 'buy-in' to overarching goals and contribution to the direction of change.

Capacity & capability

- Many complex and significant strategic changes / projects are underway or need to be implemented. These will need careful management and balancing with strategic priorities and business as usual activities.
- Skills gaps have been identified in some areas to manage these projects, particularly in embedding digital change and focussing on the ongoing innovation required in the sector to remain competitive.

Flexible working

- Balancing the return to campus and continued flexible working was also cited as a challenge. Overall the increased home working has been seen as a positive, however a sense of community and collaborative working that is brought from on campus working is significant.
- HEIs are seeking to manage this alongside wider strategic decisions on blended tuition and estates implement/update flexible working policies.

> "It has been uncomfortable but the COVID-19 pandemic is forcing a level of pace and decisiveness that was thought impossible a year ago
>
> CFO quote

Longer term challenges and sector change

5. Finance

A robust financial strategy to support the new operating model must encompass digital investment (for staff and students), flexible workforce planning, and effective use of real estate footprint.

In summary: what we heard from CFOs

Whilst there is optimism that a revised focus on cost controls and a refreshed 3-5 year strategy could bring more financial resilience, there remains to be concerns from CFOs in bringing together elements already considered in this section within their financial strategy as well as a number of longer term challenges such as pensions, and impacts of Brexit for example on research income.

Financial strategy

Challenges were recognised by CFOs in developing a robust financial strategy to support the new operating model which must encompass digital investment (for staff and students), flexible workforce planning, and effective use of real estate footprint amongst other key priorities for their HEI. Alignment of key stakeholders on the HEI's vision for the future will be key as well as a clearly articulated programme of work to develop the strategy. As noted on the previous page, it is critical to have the right team set up, in terms of capacity and capability, with the right skills and experience to develop and implement the strategy.

Pensions

CFOs interviewed were also focussed on pension scheme contributions to defined benefit schemes, including the Universities Superannuation Scheme (USS) for which contributions are currently expected to increase to 11% for members and 23.7% for employers from October 2021.

There was a general view that collective decision making from the HEIs and wider education bodies is needed to deal with this issue, with concerns over contributions increasing and the potential threat of industrial action.

Research income

Challenges were raised in the medium term regarding a lack of capacity for staff to both complete milestones and pursue new bids, as well as a concern that Brexit is likely to restrict access to EU research bids. To alleviate this, some HEIs are establishing satellite operations in the EU to ensure they have a presence for subsequently attaining EU grants and there is hope the UK Government may look to increase spend on domestic research.

PwC view – Jacqui Dudley, Director, Business Restructuring Services

"It is important as CFOs reassess their financial strategy that the shared focus we have seen in financial performance across HEIs is maintained. Experience shows that the most successful change programmes are achieved through a shared purpose and responsibility across the executive and deep into the organisation.

Leaders will need to ensure they lead by example and share successes as this will set the right tone and increase team engagement throughout ongoing change and challenges being faced.

We have seen increased pace in decision making during the pandemic and, in order to embed this benefit, governance structures need to be enhanced and adapted to align the decision making process to the HEI's strategy and programmes of work.

Ensure you have set out clear roles and responsibilities to drive change through a robust programme of work with implementation plans developed to an appropriate level of detail (depending on the size and complexity of the project).

Finally, keep communication lines constant and consistent – this is a critical success factor in managing key stakeholders through change."

Longer term challenges and sector change

6. Wider sector initiatives & government policy

HEIs continue to navigate the changing government and regulatory landscape, by coming together to share knowledge and resources.

In summary: what we heard from CFOs

Wider challenges were noted regarding government policy and other sector initiatives. Whilst these are generally not within HEI's control, there was consensus that by coming together the sector has an opportunity to collaborate and petition the Government and the Regulator to start to address sector-wide challenges.

Sector change and further collaboration

Many CFOs noted they viewed the HE sector as one of the most collaborative markets, with tangible benefits seen this year from forums and roundtables that enabled the sharing of ideas and industry bodies representing the sector to the Government throughout the crisis.

It was widely acknowledged that, learning from this year, greater collaboration could continue to benefit HEIs in the times ahead. A number of examples were considered:

- More collaboration between HEIs or with FE institutions to create student pathways.
- Joint research bids or marketing activities internationally may improve access to opportunities.
- Greater voice from the sector in canvassing the Government, particularly for HEIs that do not feel they have a 'voice'.
- Developing software and programmes developed specifically for HE activities at a sensible cost.
- Recognition of the benefits and potential for merger and acquisition activity in the sector to provide economies of scale.
- Collaboration between HEIs to communicate with pension scheme Trustees.
- Establishment of shared service centres to support with uniform tasks or streamline back office costs.
- Sector as a whole needs to think where it is positioning itself in 10-20 years time, and how it will compete internationally.

PwC view – Tim Armstrong, Partner, Deals Education Lead

"Whilst there were pre-existing pressures on business models impacting HEIs prior to the COVID-19 pandemic, it was not a "mainstream" topic of conversation for most of our clients. However, COVID-19 has propelled this up our clients' agenda.

There is clear consistency in the stories from the CFOs participating in this survey that there has been an uptick in the volume of conversations about finance in general, and also a desire to focus in on the financial challenges that may exist both in the short and longer term in balancing rising costs and a broadly fixed income per student. In many organisations, COVID-19 has also given a 'mandate' for change that may not have existed previously.

We believe a natural extension of some of this thinking over the coming years is likely to see an increased amount of strategic activity as an internal efficiency focus starts to turn external. Therefore we are expecting to see:

- Increased strategic merger / acquisition activity over the next 3-5 years;
- Greater collaboration across the education ecosystems to identify opportunities to drive more efficient delivery models e.g. greater FE / HE collaboration and hand offs e.g. JVs or softer, less formal arrangements.
- Perhaps, increased support from DfE and / or OfS to support or encourage this collaboration to ensure a more financially robust overall sector and / or drive greater efficiency."

Longer term challenges and sector change

6. Wider sector initiatives & government policy

HEIs continue to navigate the changing government and regulatory landscape, by coming together to share knowledge and resources.

In summary: what we heard from CFOs

Government policy

It was broadly accepted, that it is unlikely additional support will be provided from the Government without lobbying. furthermore, HEIs remain live to continual policy changes that they will need to navigate.

Many noted that HEIs currently value long term stability and planning, and therefore any required escalation by the Government on the pace of change could have a detrimental effect.

Specific concerns were raised regarding tuition fees which have been fixed since introduction whilst costs have risen which is not sustainable (particularly in regions where lower fees are seen i.e. Wales). Consideration will clearly need to be made on how tuition fees will be set for blended learning or those courses fully online.

Other key impacts included:

- Policy change away from pure academia, towards FE or apprenticeships with more time placed in industry.
- How will the Government support young people experiencing digital poverty, will they create a level playing field?
- All visa restrictions and international policies in key markets have a knock on effect on International recruitment.

Other remarks and observations from CFOs

“ The HEI has got to be stronger when **canvassing the Government**.

Only the top HEIs get a seat at the table. How could a trade body ensure others in the sector are listened to?

“ We need to urge for **more innovation and intervention** in HE.

The Government make changes too slowly.

“ The regulator has **learnt and adapted** rules to COVID-19, but is still very student focused.

How will the OfS support providers?

“ **Diversity in governance** and **empowering** staff is critical.

We want people to be able to make decisions without escalating it to top management every time.

“ How can the sector **learn from others** during this time of change?

E.g. public sector organisations, the NHS and manufacturing?

“ HEIs should only look for government support when it’s critical, **“crying wolf” is unhelpful.**

Ultimately they want to see sustainability across the sector and is unlikely to **‘bail out’** failing HEIs.

PwC Education Sector Leadership and senior people from our team who led the interviews

Damien Ashford
Partner
damien.j.ashford@pwc.com
07787 120228

Tim Armstrong
Partner
tim.a.armstrong@pwc.com
07763 383782

Caitriona McCusker
Partner, PwC Education Sector Lead
caitriona.mccusker@pwc.com
07764 331623

Alison Breadon
Partner, Risk Assurance lead for Education
alison.breadon@pwc.com
07740 894817

Jacqui Dudley
Director
jacqui.a.dudley@pwc.com
07841 570653

Karen Best
Director
karen.best@pwc.com
07818 068600

Sophie Horsley
Senior Manager
sophie.l.horsley@pwc.com
07753 460135

Ian Koxvold
Director, Education Strategy
ian.koxvold@pwc.com
07715 487627

Derrick Tate
Director, Education Real Estate
derrick.j.tate@pwc.com
07718 340363

Glossary

HEIs	Higher Education Institutions
HE	Higher Education
CFOs	Chief Finance Officers
DoFs	Directors of Finance
UG	Undergraduate
PG	Postgraduate
OfS	Office for Students
CUG	Complete University Guide
HESA	Higher Education Statistics Authority
FE	Further Education

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