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Introduction and scope

“Arguably the Higher Education (HE) sector is going through one of its most turbulent periods for a generation.” That is how we opened our risk benchmarking report in 2018. Fast forward 12 months and, if anything, the risks relating to the HE operating environment have increased.

As we publish this, uncertainty continues to be at the front and centre of people’s minds. Brexit is creating uncertainty in the HE risk environment, not least because of the effect it is having on the Government’s ability to progress other policy areas. Take Philip Augar’s review into Post-18 Education, for example. It was due in January and is yet to be published. Likely to launch later this year, it is expected to recommend a reduction of annual tuition fees to £7,500.

Alongside this potential fee reduction, inflationary pressures on operating costs and pensions, and a possible reduction in research funding (arguably both possible consequences of Brexit) could also have an enormous impact on the financial sustainability of a number of institutions. As the student recruitment market becomes increasingly competitive, this could lead to a perfect financial storm. The challenge for universities now is to maintain a level of financial sustainability that enables them to keep making the necessary investments to meet student expectations, deliver world class research and maintain a global standing.

But it is not just financial uncertainty that senior managers and governing bodies will be concerned with. The regulatory environment continues to evolve and has set universities a number of challenges. The new Office for Students (OfS) continues to emphasise value for money, despite uncertainty that word again) on what this actually means in practice.

Universities need to maintain and improve their performance in the Teaching Excellence Framework (TEF), while also preparing for the Research Excellence Framework (REF2021) and responding to the introduction of Data Futures. They will have to meet increasing expectations from students, whether fees are cut or not. New consumer laws have led to an increase in complaints, appeals and legal action by students. In addition institutions are having to respond to the increasing risks around student welfare, in particular mental health.

With all of this going on, a key issue that is often overlooked is management stretch and ensuring that there is capacity to respond to risks and opportunities. Interestingly, this did not appear in our findings, but agility is an essential characteristic of a successful university in this new environment. If you are a member of a governing body, are you alive to this threat?

Understanding the challenges an institution faces and consequently being able to target resources with a proportionate approach is a key benefit of an effective risk management framework. Whilst it is human nature to focus on managing down risk, the most successful organisations have the ability and willingness to take measured risks and recognise opportunities as they arise. It may be time for institutions to take a more nuanced approach to their risk appetite to reflect this.

Having said that, we are seeing improvements in universities’ approaches. For example having a specific risk appetite against each individual strategic risk, rather than having an overarching risk appetite trying to capture all possible activities and risk areas universities may encounter. This paper aims to examine the risks faced by the sector, and understand how individuals and institutions are responding and adapting accordingly.

Our sample, scope and methodology

We reviewed the risk registers of 35 Higher Education institutions. For each institution, we examined the issues cited, identified those similar in nature and grouped them by theme. The average likelihood of a risk materialising, and its possible impact were then calculated. That way we could determine the greatest threats to an institution and how serious each risk is. The detailed findings of our analysis are set out in the remainder of this paper. We’ve also included commentary on the top themes, a comparison with prior years, and the types of individual challenges included within each theme.

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Year on year trends

The table below summarises the top five themes for the last five years, providing an overview of how they have evolved. Student recruitment has been a recurring theme and in 2019 accounts for three spaces in the top five - touching on international, postgraduate and undergraduate recruitment. However the subject of pensions remains the highest ranked risk. Financial sustainability generally and the diversification of income are also in the top ten. Business continuity (including cyber security) rounds out the top five. This area has steadily been moving up the registers over the last few years and it’s entry into the top five probably indicates a growing general awareness of the threat from both cyber attacks and business continuity risks.

Perhaps surprisingly, given the current focus on Brexit, government policy and political landscape drops out of the top five. This may show that institutions are articulating the risks more specifically, rather than summarising them under the theme of general uncertainty. For example, the potential impact on student recruitment and income streams, such as research funding could both be categorised as potential outcomes of Brexit.

<table>
<thead>
<tr>
<th>Theme</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Student recruitment and financial sustainability</td>
<td>Student recruitment</td>
<td>Government policy and political landscape</td>
<td>Pensions</td>
<td>Pensions</td>
<td></td>
</tr>
<tr>
<td>2 Research funding and quality</td>
<td>Government policy, public funding and sector reform</td>
<td>Brexit</td>
<td>Government policy / political landscape</td>
<td>International student recruitment</td>
<td></td>
</tr>
<tr>
<td>3 Pension deficits and affordability</td>
<td>Investment in IT, cyber security, data and management information</td>
<td>Financial sustainability</td>
<td>Student Recruitment</td>
<td>Business continuity / Cyber security</td>
<td></td>
</tr>
<tr>
<td>4 Tuition fee pricing</td>
<td>Significant investment and transformational change programmes</td>
<td>Student recruitment</td>
<td>Reputation</td>
<td>Postgraduate student recruitment</td>
<td></td>
</tr>
<tr>
<td>5 Information systems and technology</td>
<td>Research funding and quality</td>
<td>Organisational change and transformation programmes</td>
<td>Information Security / Cyber security</td>
<td>Undergraduate student recruitment</td>
<td></td>
</tr>
</tbody>
</table>
Key risks facing the sector

**Financial Sustainability (including pensions)**

Financial sustainability is the golden thread which runs through most institutions' risk registers, be that threats to funding, inflationary pressures on costs or an increasingly competitive market for student recruitment and research funding. Ultimately this all impacts an institution’s long term sustainability.

Once again, pensions are perceived as the highest risk to the sector. This is not a surprise, given the unexpected 7% increase in contributions to the Teachers' Pension Scheme (TPS), and the ongoing uncertainty in relation to the Universities Superannuation Scheme (USS).

Many commentators believe the pressures on pension contributions will be the final straw that pushes a number of institutions into severe financial difficulties.

When it comes to financial sustainability, two common themes in the risk registers are diversifying income and the potential reduction in research income. Income diversification means different things to different people, but it is time for institutions to start thinking more innovatively about how to achieve this. A more nuanced approach to risk appetite could prove beneficial.

Increasingly universities are not just worried about getting students through the door but also about how to keep them. We are seeing increasing resources being targeted at understanding the factors impacting student retention, as institutions seek to increase the effectiveness of student support networks, particularly for first year undergraduates. The risks around recruitment also encompass the need to maintain entry requirements, another nod to the fact that retention is as important as recruiting the student in the first place.

**Student Recruitment**

Amid all this uncertainty, the risk of under recruiting remains a constant. This year, however, the breadth of the risk is more extensive – with international, postgraduate and undergraduate recruitment all identified as problem areas. The competitiveness of the student recruitment market has never been higher, but in 2018, applications for entry saw their first increase since 2016. This is predominantly as a result of a rise in applications from international students. UK student applications fell slightly. Looking forward, many assume the impact of Brexit and the potential adverse effect on the UK’s reputation will result in a fall in international students. At the moment though, this does not seem to be the case. Any decline in demand might also be offset by a favourable exchange rate.

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**Business Continuity / Cyber Security**

Business continuity and cyber security continues to move up our top five. As suggested last year, this is probably because institutions are becoming more aware of the cyber security threat, but it also reflects the increasingly risky world we now live in. A number of institutions have refreshed the institutional knowledge of continuity plans to help manage any significant disruption to operations which may be caused as a result of a “no deal” Brexit. Whilst institutions have developed business continuity frameworks, we have observed that many are struggling to ensure that the awareness of plans, roles and responsibilities are embedded throughout the whole organisation. Similarly, whilst many institutions have beefed up their technical defences against cyber attacks, the biggest risk comes from the human element. Again, institutions are working hard to increase awareness amongst staff of the do’s and don’ts of cyber and information security.

**Campus Deterioration / Lack of investment in infrastructure**

The potential deterioration of campus facilities and the struggle to invest in infrastructure is a by-product of overarching financial uncertainty. We see this appearing more and more on registers. This suggests that, as well as short term financial performance, universities are concerned that increasing costs and a squeeze on income could limit future investment. The lack of available funds for investment coupled with increasing demands from students, and a need to invest in research facilities to attract world class staff in a post-Brexit era, makes it easy to understand why institutions are so concerned.

As this becomes the norm, universities need to constantly review and evolve their IT provision and technology to meet student expectations. Common expectations for future facilities include interactive lectures where students participate on their own devices, the use of virtual reality, better apps to record attendance, and online collaboration tools to enable students to meet virtually.

**Other areas of note**

The external / political environment only just scrappes into the top ten. As mentioned earlier, this may be because it is a theme that permeates all areas of the sector and universities are articulating the impacts of this overarching risk more specifically, for example in the form of issues around recruitment and financial sustainability.

Whilst regulatory and legislative compliance is prominently cited, it appears that many institutions feel that they already manage this well, with likelihood scores being the lowest of all the risks included in our analysis.

**Student Expectations**

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1. Student Expectations of IT and Technology, November 2018 [https://www.pwc.co.uk/industries/government-public-sector/education/he-perspectives/student-expectations-it-technology.html](https://www.pwc.co.uk/industries/government-public-sector/education/he-perspectives/student-expectations-it-technology.html)
Other common risk areas include:

- **Academic quality** - potentially a response to the more litigious nature of students but also the revised regulatory framework and registration requirements
- **Staff welfare (including the risk of industrial action)** - not surprisingly the threat of industrial action remains in the top ten although we are seeing more emphasis on staff welfare within registers
- **Lack of IT transformation / development** - there is an increasing recognition that IT and digital can be a key element of achieving competitive advantage, we mention the expectations of students above and there is an increasing need for universities to be technologically savvy in terms of communication (with current and potential students); the facilities available but also embedding the latest theory and application of technology within courses themselves. There is an increasing need to achieve efficiencies and the transformation of back office systems is seen as a way of achieving this whilst also improving the student journey
- **Widening participation** - again another key focus for the regulator is widening participation but also improving outcomes for those students from disadvantaged backgrounds
- **Student experience (including support, satisfaction and welfare)**, given the current environment, it is slightly surprising that the student experience is not more prominent in risk registers, in fact this area has never been in the top five of our analysis. Given the focus of the Regulator, the more demanding student of today and the current debate on students and mental health we would expect this risk to be increasing in nature.

**Occurrence of risks**

Whilst our analysis is based upon averaging out risk ratings, it is interesting to note the number of times that issues occur on registers.

The chart shows the top risks based purely on the number of registers they appear on.
2019 Higher Education sector risk profile

The diagram illustrates the risk profile of the higher education sector in 2019, with likelihood and impact on the x and y axes. Key risks include:

- Lack of diversification of income
- Pension
- International student recruitment
- Business continuity/cyber security
- Postgraduate/graduate recruitment
- Undergraduate student recruitment
- Financial sustainability
- External environment (e.g., government policy/Brexit)
- Academic quality
- Investment in infrastructure (lack of growth, ability to invest in capital projects)
- Staff recruitment and retention
- Poor quality management information
- Student experience (satisfaction, support, and welfare)
- Reputation
- Staff welfare (including risk of industrial action)
- Regulatory and legislative compliance (e.g., Health and safety, UKVI, Data Protection)
- Research quality
- Staff engagement and performance
- Graduate employability
- Delivering organisational change
- IT transformation and development (fit for purpose systems and process)
- Diversity (wider participation/OffA/Access agreements/career diversity)
Appendix – Risk themes and subcategories
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Below we provide examples of the anonymised risks included on institutional risk registers to give some context for the individual risks within risk themes. This is not an exhaustive list, and is included for illustrative purposes.

<table>
<thead>
<tr>
<th>Risk theme</th>
<th>Subcategories of risk</th>
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| **Financial Sustainability (including Pensions)** | • Income and Expenditure: Failure to generate sufficient surplus to meet commitments and fulfill ambitions as expressed in the University Strategy.  
• If the University does not address rising costs that are in excess of income growth, then there may be adverse impacts on the University’s academic excellence, reputation and financial sustainability.  
• Monitoring of Cash Flow: Failure to generate sufficient cash to meet the needs of the University strategy and the replacement of the estate.  
• Reduction in income as a consequence of the government review of university funding and student finance.  
• Meeting increased costs in payroll cost inflation and pension provision becomes financially unsustainable.  
• Failure to monitor pension position leads to unexpected and unmanageable increases in required funding.  
• Target cost savings are not met.  
• Increasing pension costs jeopardise the University’s sustainability plan.  
• Increasing pensions deficit reduces flexibility.  
• Failure to maintain and enhance income generation to meet the University’s commitments.  
• Failure to maximise organisational efficiency and effectiveness, control expenditure and achieve savings targets.  
• The cost of providing the current defined benefit pension schemes may escalate to such an extent that it significantly impacts on the University’s ability to invest in critical aspects of teaching quality, student experience and estate. |
| **Student Recruitment and Retention (International, Postgraduate, Undergraduate)** | • Student retention falls below budgeted targets for improvement.  
• Revenue reduction if marketing & PR does not achieve H/EU UG recruitment targets.  
• Anticipated international & EU student revenue unrealized.  
• Failure to recruit to target home/international) due to: External factors: highly competitive, and changing, market; changes in student demographics and schools systems; international instability; UK immigration control changes; applicants’ fee tolerance arising from TEF decision.  
• Failure to achieve our international strategy and profile, to underpin delivery of planned growth in international student numbers.  
• Failure to meet targets for increased numbers of international students both in terms of FTEs and income.  
• The risk that our international student growth targets are not achieved. |
| **Business Continuity/ IT (and Cyber)** | • IT infrastructure may not be commensurate with the standard required to ensure delivery of our strategic objectives.  
• Failure to address inadequate security provisions around the control of information leading to inappropriate access, disclosure, interference.  
• Risk to our reputation through cyber security attacks that undermines confidence of stakeholders and causes damage to individuals.  
• Failure to implement the student residences strategy.  
• Insufficient capital to deliver necessary investment priorities to deliver future strategy and facilitate required academic and service improvements.  
• Failure to implement the student residences strategy.  
• The University has insufficient capacity to support growth and/or fulfil operational requirements for major strategic and capital projects.  
• The risk that our inability to fully implement the Estates Strategy, and/or to provide an appropriate level of service to operate, maintain and sustain the required quality adversely impact students and staff.  
• If adequate research and teaching infrastructure is not developed and implemented, then our ability to deliver a high-quality student experience and excellence in research may be adversely affected. |
| **Lack of investment in infrastructure** | • If adequate research and teaching infrastructure is not developed and implemented, then our ability to deliver a high-quality student experience and excellence in research may be adversely affected.  
• Failure to augment, improve and renew facilities and infrastructure in line with need.  
• Insufficient capital to deliver necessary investment priorities to deliver future strategy and facilitate required academic and service improvements.  
• Failure to implement the student residences strategy.  
• The University has insufficient capacity to support growth and/or fulfill operational requirements for major strategic and capital projects.  
• The risk that our inability to fully implement the Estates Strategy, and/or to provide an appropriate level of service to operate, maintain and sustain the required quality adversely impact students and staff.  
• If adequate research and teaching infrastructure is not developed and implemented, then our ability to operate a sustainable academic strategy and business model may be undermined. |
<table>
<thead>
<tr>
<th>Risk theme</th>
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| Brexit/The External Environment | • The UK’s decision to leave the EU may adversely impact upon EU staff/student recruitment, staff retention, research income and collaborative activities.  
• Continued political uncertainties and regulatory changes by the Office for Students may influence decisions on HE sector policy, regulation or funding, and significantly impede the direction and delivery of the University’s strategic priorities.  
• Significant political changes could lead to major changes to HE funding.  
• Brexit implementation impacts staff and student recruitment/retention and research and ERDF income.  
• The risk that Brexit adversely affects EU staff retention and recruitment.  
• Changes in UK relationship with the EU create uncertainty, impacting partner, student & funder relationships and competitiveness relative to international peers.  
• Developments in UK Government policy adversely impact on universities’ ability to recruit and retain staff and students or secure sufficient research funds.  
• If we do not respond to changes in the external environment, then the University’s performance, sustainability and reputation may be adversely affected. |
| Staff Welfare / Staff Recruitment and Retention | • There is a risk that our human capital/people is not valued as our greatest asset.  
• Low morale impacting on staff performance and productivity and ultimately the student experience.  
• Failure to recruit and retain high performing staff.  
• Failure to respond to low staff morale which results in poor retention rates or potential industrial action. |
| Student Experience (including support and welfare) | • Failure to enhance our taught student experience and therefore improve student satisfaction.  
• Failure to provide a high quality student experience impacting on reputation, recruitment and retention.  
• If we do not maintain high-quality education, and if we do not ensure a high-quality student experience, then there may be detrimental impacts on the University’s reputation and financial stability.  
• Failure to provide high quality, relevant teaching programmes and support for students.  
• The University may fail to meet Student Expectations of their student life and academic experience in the face of increasing HE marketization.  
• A significant sector-wide rise in student wellbeing issues threatens the achievement of successful academic outcomes.  
• The risk that student satisfaction relative to the sector has an adverse impact on student recruitment, reputation, including TEF outcomes, and income.  
• Failure to improve the quality of the student experience. |
| Regulatory Compliance | • UKVI Compliance.  
• GDPR Compliance.  
• There is a risk we fail to comply with regulatory body and/or legislative requirements.  
• Failure to remain below the Home Office’s defined levels of acceptable non-enrolment, visa refusal, and course completion rates per annum, or failure to satisfy UKVI auditors that the university meets all its responsibilities as a Tier 4 sponsor.  
• The risk that a failure to monitor and manage compliance procedures (including UKVI, QAA and accreditations) result in an inability to operate or damaged reputation. |

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| Regulatory Compliance (continued) | • The risk of a major failure or breach of health and safety legislation or policy, which is likely to give rise to injury, enforcement action, prosecution or reputational loss.  
• The risk that ineffective structures, policies and procedures regarding information governance lead to a loss or improper disclosure of sensitive information, resulting in damaged reputation or significant financial, regulatory or legal impact.  
• Changes to UK Immigration policies and practice, and their inadequate implementation in the University lead to financial and legal penalties and impact on international staff and student recruitment. |
| Reputation | • Failure to implement adequate national and international public relations and communications.  
• Failure to maintain professional ethics and integrity in line with external guidelines.  
• We do not respond effectively to changes in the external environment leading to a financial impact which cannot be mitigated.  
• Risk of not securing positive recognition in the city, region and beyond.  
• The University’s reputation does not improve or is further damaged. |
| Graduate Employability | • Poor graduate outcomes may damage the University’s TEF result, league table position and ability to recruit students.  
• Failure to embed employability skills in degrees.  
• Failure to grow our work experience and internship opportunities.  
• Failure to understand the skills needs of local, national and international employers.  
• The risk that graduates do not achieve employment in graduate jobs in sufficient number.  
• Failure to implement strategies for student employability. |
| Research Quality | • Failure of research quality which affects ability to achieve desired REF2021 ranking.  
• Poor research quality affects reputation, which hinders the ability to recruit high quality students and staff. |
| Strategic Partnerships | • The University may suffer a reputational or financial loss if linked to unsustainable or poor quality regional/ national/ international partnerships.  
• Failure to develop sufficient numbers of international partnerships at the right quality to deliver essential growth in income.  
• The University’s academic portfolio and partnerships are not developed or refreshed to meet market needs.  
• A partnership causes the University legal, financial or reputational damage. |
| Poor Quality Management Information | • Failure to maintain appropriate financial and management information systems which affects the ability to forecast and plan. |
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