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Transformation and Efficiency in the Higher Education Sector

June 2025

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This report provides an overview of the discussions held across four roundtables with participants from UUK member institutions. Key areas and themes discussed have been used to produce and inform the report. The information presented in this report is the collective summary of discussions held by the representatives in attendance. Where the views presented are that of PwC this has been highlighted.

Foreword

Damien Ashford
Partner
M: +44 (0)7787 120228
E: damien.j.ashford@pwc.com

Karen Best
Partner
M: +44 (0)7818 068600
E: karen.best@pwc.com

Over the past decade, the UK Higher Education sector has experienced significant expansion and growth. Universities have grown into increasingly complex and diverse organisations, each with their own unique strengths and challenges. This diversity is a hallmark of the sector, contributing to its well-established international reputation for academic excellence and world-leading research. The UK remains a key destination globally for students seeking higher education, a testament to the sector's enduring appeal and impact.

Despite these achievements, the sector has faced mounting financial pressures in recent years. Factors including domestic tuition fee freezes, inflationary pressures, and evolving market dynamics have required institutions to make difficult decisions. Many universities have already taken significant steps to drive efficiency, including reductions in non-pay expenditure and workforce changes, to align resources with changing income streams and growth patterns.

The current environment presents a clear driver for change and an opportunity to think creatively about new ways of working that can deliver greater efficiency and resilience.

In support of this, Universities UK (UUK) convened a taskforce, led by Sir Nigel Carrington and comprising senior representatives from 20 universities across the UK. The taskforce's remit includes developing detailed business case options, exploring the potential for shared services, harnessing collective buying power and promoting greater consistency across the sector.

To inform the work of the taskforce, we have partnered with UUK to host a series of roundtable discussions, bringing together sector leaders to share experiences and explore systematic approaches to efficiency. These sessions have highlighted the sector's appetite for partnership and innovation, as well as the importance of learning from each other. This report follows the release of UUK's Transformation and Efficiency Taskforce: Towards a new era of collaboration which was published on June 2nd 2025.

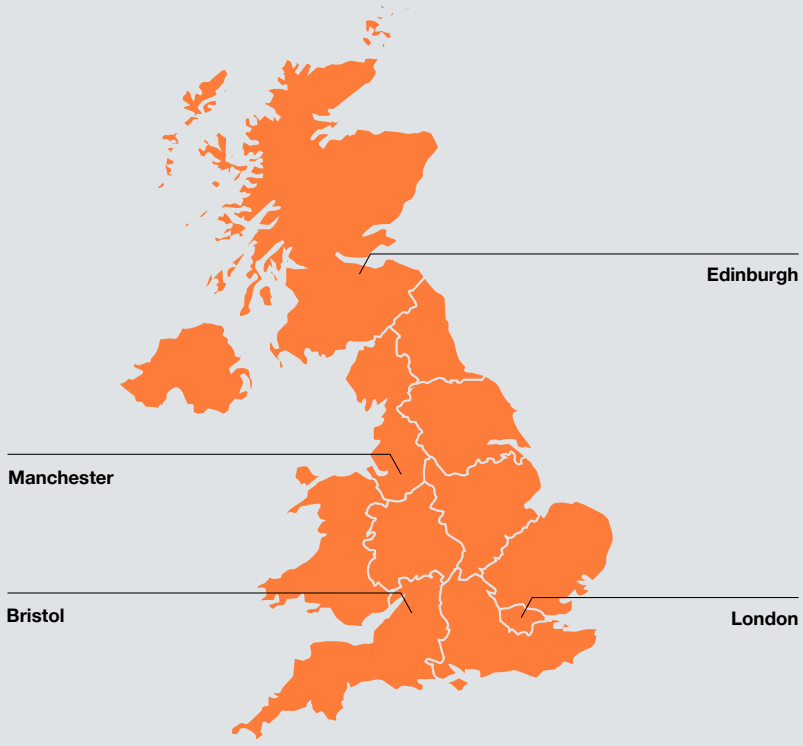
The sector stands at a pivotal moment. The options under consideration need to be wide-ranging and ambitious. By embracing new opportunities and learning from each other, universities can seek to remain robust, dynamic, and able to continue to deliver outstanding education and world-leading research while securing long-term financial sustainability. The work of the taskforce, supported by ongoing sector-wide engagement, will be central to shaping this positive future.

Background

In collaboration with UUK Transformation and Efficiency Taskforce (TET), PwC engaged with institutions across the UK to deliver four round table events in March 2025 focussed on transformation and efficiency in the sector. The roundtables were designed to encourage collaboration and the sharing of ideas with attendees from UK Higher Education Institutions (HEIs) and representatives from UUK and TET. The topics discussed are structured around two areas, as detailed below, with the findings set out within this report.

Section 1
Structured approaches to cost reduction and efficiency.

Section 2
Optimising and driving best value from estates.



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Transformation and Efficiency roundtables took place between 24th and 31st March 2025.

98

Participants from institutions across the sector, and across the UK, engaged in discussions.

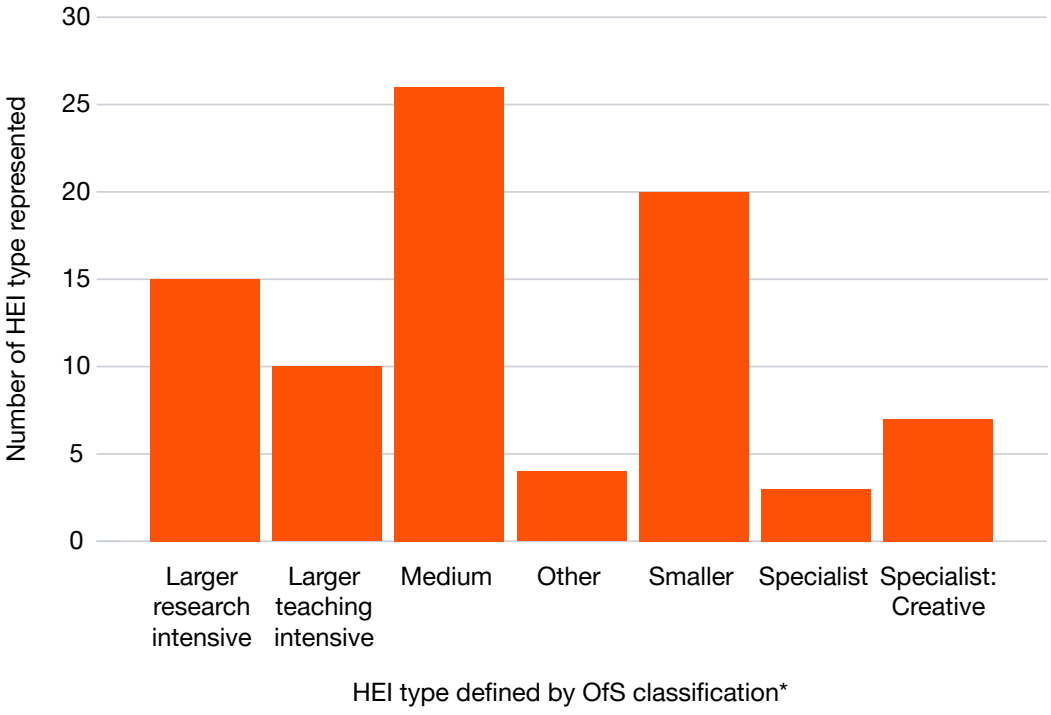
18

Hours of thought provoking and topical discussions have been consolidated to produce this report.

Participating members

Of the 141 institutions who are UUK members, delegates from over 85 HEIs attended the roundtables across the UK. Present were representatives from Universities in Scotland, Wales, Northern Ireland and England. Participants roles included Vice Chancellors, Chief Operating Officers, Chief Financial Officers and Directors across Estates, Transformation, HR and Strategy.

HEI types in attendance



Higher Education Institutions by segment – OfS classification*	Number of providers	Qualifying income
Larger research intensive	**15 providers**	"Qualifying income" of more than £200m, and less than 70% of total income – includes all Russell group universities.
Larger teaching intensive	**9 providers**	"Qualifying income" of more than £200m, and over than 70% of total income.
Medium	**25 providers**	"Qualifying income" between £100m and £200m.
Small	**15 providers**	"Qualifying income" less than £100m.
Specialist: Creative	**7 providers**	75% or more higher education student full-time equivalent (FTE) in one subject area, or 90% or more in two areas, where the main subject(s) is creative arts.
Specialist	**2 providers**	75% or more FTE in one subject area, or 90% or more in two areas.
Other	**4 providers**	Participants from other HEI forums e.g. UUK, Universities Scotland.

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Structured approaches to cost reduction and efficiency

Section 1
Structured approaches to cost reduction and efficiency.

Challenges facing the sector

86%

of participants stated **transformational change has already begun** across their institution.

A range of financial pressures continue to impact the Higher Education sector, leading to the need for greater sustained focus and prioritisation on delivering financial sustainability across institutions.

The demand across the sector for institutions to invest and transform both their digital and physical infrastructure was highlighted as a significant challenge against the backdrop of decreasing cash balances and stressed financial positions.

Consequence of increasing and continued financial pressures

The consequences of the increasing financial pressures are recognised by participants and front of mind. Participants agreed the urgency for institutions to respond, and the severity of the challenge being faced at a local level varied significantly between institutions. Key consequences highlighted by participants included:

- Capital expenditure backlog due to re-prioritisation of funds on operational delivery and limiting availability of investment
- Viability of continuing to offer existing range of courses, modules and programmes
- Increasing regulatory scrutiny
- Reducing or limited access to funding mechanisms and facilities
- Increasing uncertainty amongst staff and student, exacerbated by wide scale redundancy programmes across the sector
- Material uncertainty of going concern and financial accounts implications
- Reputational damage for institutions and the sector more broadly
- Reduction in quality or breath of research undertaken

58%

of participants did not feel their institution currently had a **culture of financial transparency and accountability**.

33%

of participants felt academic **Head of School or Dean of Faculty** meant they were the **senior responsible officer responsible for its financial performance**.

PwC view – Financial maturity of the sector

By building on existing strengths and further enhancing financial maturity both at an institutional level and across the sector as a whole, institutions can be even better equipped to respond to financial pressures and ensure long-term sustainability. Institutions are proactively working to deepen their understanding of how operational and strategic decisions influence financial performance, as well as seeking to improve access to high-quality, timely financial data to support ongoing development.

In light of the evolving financial landscape, institutions are placing greater emphasis on cost management, efficiency, financial improvement initiatives, and diversifying income streams. Whilst there is variation across individual institutions, advancing financial maturity across the entire institution—not just within finance teams—will be a key enabler of continued financial sustainability. Areas of focus to support this journey include:

- Strengthening accountability in financial decision-making and budget management (across both academic and professional services), including regular in-year review of expenditure and margins
- Enhancing understanding of the cost of delivery throughout the institution
- Ensuring timely and appropriate alignment of staffing levels with student numbers
- Clearly assessing the financial impact of savings initiatives
- Aligning student planning and financial planning throughout the planning cycle
- Fostering a culture of financial transparency and accountability
- Encouraging greater commercial awareness and entrepreneurship
- Establishing clear, systematic processes to identify financial benefits and reward strong performance
- Integrating planning processes across the institution
- Ensuring finance teams and financial data play a central role in supporting strategic decision-making
- Promoting shared ownership of financial challenges and improvement programmes

Source: Combined results from Slido polls across the four events

Successful approaches to cost reduction

Factors impacting the sector's approach to cost reduction

Participants discussed responding to the financial challenges through a range of measures, with risk appetite of the institution and the level of urgency identified as critical factors in determining the approach taken to date. The nature of the institution was also identified as a key factor in the approaches available and applied by institutions e.g. city or campus, student mix, specialist or generalist.

Participants shared differences in opinion on how to address the challenges both within specific institutions and the sector more broadly. What has worked for some institutions may not, or has not, worked for others. Significant differences in opinion on the required direction of travel for the sector as a whole was a key theme. Some participants felt radical transformative change was inevitable and should be the immediate focus compared to others who felt a slower, more considered approach would be the most successful in the longer term.

PwC view – Fundamentals for successful cost reduction

Regardless of pace of change, a number of fundamentals were deemed critical to successfully implementing cost reduction within individual institutions.

Programme structure	Scheme development	Reporting and monitoring of delivery
• Develop programme in light of scale of financial challenge • Clear workstreams with executive leads • Assessment and alignment of top down and bottom up schemes across transactional and transformational schemes • Clear roles and responsibilities • Effective and structured governance • Clear change management plans	• Robust financial plans and analysis, underpinned by robust and timely data, to understand financial impact • Assessment of interdependencies across faculties and professional services • Pipeline of ideas in opportunity stage to mitigate any under-delivery	• Central tracker of workstreams and material schemes • Risk and mitigations assessment • Key milestones, KPIs and quality impact • Regular progress updates • Integrated plan • Escalation of issues and timely resolution

Overarching principles and common themes for successful delivery

Clear strategic vision and desired end state with strong tone from the top.

Robust planning for the short, medium and long term.

Clear and consistent communications and change management plans,with regular stakeholder engagement.

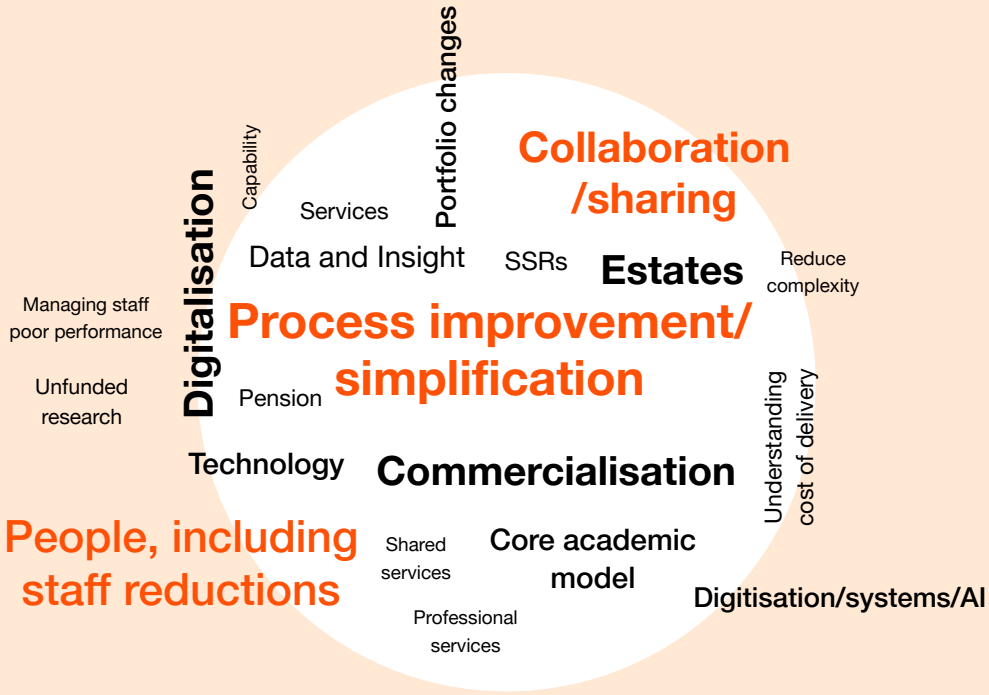
Clear understanding of the financial challenge and appropriate financial literacy across the institution

Appropriate capacity and capability across the institution to deliver the programme.

Opportunity for transformation and realising efficiencies

Participants were asked where they deemed to be the greatest areas of opportunity for transformation and efficiency improvements. The ideas cloud below outlines the key opportunities identified, with those suggested most frequently appearing larger and bolder.

Greatest areas of opportunity for transformation and efficiency highlighted by attendees



Source: Combined results from Slido polls across the four events

37%

of participants believed **lessons are learnt for next time when budgets holders overspend**.

33%

of participants believed **nothing happened when budgets holders overspend**.

Examples of successful approaches to cost reduction

Participants shared successful approaches to cost reduction that have taken place across their institutions. Examples range from operational changes to transformational changes, however it was noted in the majority of cases discussed, that approaches applied to date were more tactical and operational in nature.

There was an overall consensus amongst participants that opportunities for tactical savings were reducing, due to having already been exhausted, and the need to move to longer term transformational changes will be required. Examples of successful approaches discussed by participants included:

- **Combined courses** across multi-institutions leading to economies of scale and reduced administrative burden.
- **Shared services** for back office functions. This was deemed particularly applicable to city campuses with multiple institutions within a short geographical distance.
- **Module choice simplification** and assessment mix changes leading to reduced assessment requirements, administrative burden and estates requirements in addition to improved utilisation of teaching time and more consistent staff student ratios.
- **Research portfolio mix review** to improve recoverability and support strategic decisions made on where to 'invest' time and resource.
- **Workforce reduction programmes**, operating model changes and utilising data analytics to support resource utilisation (including reviewing staff student ratios).
- **Joint ventures and subsidiaries** to support efficiency and pension planning.
- **Tactical / short term measures to control cost** including reducing the number of individuals who can spend and enforcing vacancy freezes.

Source: Combined results from Slido polls across the four events

Challenges and mitigations

Overview

Participants highlighted a number of challenges and blockers which are limiting their ability, to varying degrees institution to institution, to successfully implement cost reduction programmes. Of the challenges and blockers discussed, five key themes were identified alongside the steps that can be taken by institutions to address these challenges and blockers.

1. Capacity, capability and PMO

- Limited experience of financial turnaround or cost reduction within institutions to drive and direct cost reduction programmes.
- Limited capacity of resource to identify, develop and deliver cost reduction schemes and programmes, while continuing to deliver business as usual activities.
- Side of the desk mentality to cost reduction programmes, with cost reduction not given enough of a priority alongside other competing commitments.
- Pace of change too slow to deliver scale of cost reduction required in the time frame needed.
- Limited investment in change management to support successful implementation.

Steps to address these challenges and blockers

- Identify and implement **surge capacity** to drive pace of cost reduction program and increase capability.
- **Re-prioritise** workload, provide clarity on roles and responsibilities and timelines.
- Identify skills gaps and implement **targeted training** to upskill workforce to have appropriate skills and capability to deliver change.
- Implement **appropriate sized and skilled PMO** to support size and scale of programme.

2. Communication and messaging

- Lack of transparency and consistency of institution wide messaging leading to speculation and 'gaps' in information.
- Some institutions without critical financial challenges face difficulties justifying significant cost savings. This is specifically the case in regards to changes impacting workforce.
- Difficulty connecting cost reduction messages with increasing quality of student experience and investment in infrastructure required.
- Continued tension between transparency of messaging amongst institution and the risk of far reaching reputational damage.

Steps to address these challenges and blockers

- **Clear and consistent top down institute narrative** that is appropriately and effectively communicated to stakeholders in a timely manner.
- **Messaging should be benefits focused with clear explanation of why** the actions are being taken, connecting the messaging with the student experience, strategic priorities and how this fits into a clear long term vision.
- Institutions should agree a **clear view on risk appetite** and be consistent in applying this.

3. Culture

- Inertia, resistance to change alongside a relatively slow paced change environment.
- Overly prudent level of cost reduction required, with a view amongst some that cost reduction needs to only be short term nature without significant transformation required.
- Overly reliant on assumptions of external interventions to 'rescue' or prop up financial challenged institutions (e.g. government policy).
- Significant period of time spent trying to convince some stakeholders that cost reduction and transformation is not a choice, but necessary for the future financial sustainability of the institution.

Steps to address these challenges and blockers

- Engage and **bring stakeholders along on the journey early** to drive and deliver the cost reduction programme across the collective institution. Engagement across the academic and non-academic community is critical to obtain buy in and transformational change that is sustainable.
- **Do not place reliance on external interventions that are not guaranteed**. Placing an over reliance on external interventions reduces the time available to address financial challenges before they become insurmountable.
- **Clear change management programme with identified 'change champions'** to drive cost reduction programmes across the institution. Change blockers should also be identified and engaged with to build trust.

Source: Combined results from Slido polls across the four events

63%

of participants stated their **establishment does not have a good understanding of which activities generate the greatest surplus** or profit based on financial data.

4. Data limitations

- **Poor quality, availability and timeliness of data** limiting institutions ability to make strategic and operational decisions supported by strong data. Data gaps were also highlighted as a significant blocker to understanding and monitoring the anticipated and actual delivery of cost reduction programmes.
- Increasingly limited finances make it **hard to invest money** in technological advances and digital infrastructure when limited investment funds are available.
- **Difficult to utilise AI** to generate meaningful outcomes with suboptimal data.

Steps to address these challenges and blockers

- **Review, access and understand what data you have available**, where the gaps are and how these can be overcome. Utilising available data in a meaningful way while addressing gaps.
- **Ensure digital transformation is an enabler** and built into overall plans, recognising digital infrastructure will likely need investment.

5. External factors

- Increasing expectations, demands and pressure from challenging external stakeholders including unions and lenders.
- Fear of reputational risk leading to negative impact on student demand and attractiveness for workforce.
- Pension costs and negative impacts of Government policy and fee caps.

Steps to address these challenges and blockers

- **Engage with external stakeholders early** to negate negative push back and bring stakeholders on the journey.
- Assess opportunity for **alternative models and commercialisation** opportunities.

Broader observations and reflections

Collaboration

Participants reflected collaboration was a key consideration in looking to transform their respective institutions. This ranged from consideration of shared services, back office functions, student facing services to more radical collaborations.

Location (relative to potential collaborators) was highlighted as a critical consideration and blocker in some cases, as well as the need to retain the competitive edge and institutions unique selling point (USP).

Mergers

Some participants reflected on the potential role of mergers within the sector going forward. This was a highly contested topic of discussion, with a vast range of opinions shared for consideration.

Going concern

In light of an increased number of institutions facing going concern considerations, building financial pressures and widespread workforce changes across the sector, a range a of participants highlighted the concern of institutions no longer being able to continue in their current form.

During these discussions participants reflected on how this further cements the need for sector wide focus on financial sustainability and transformational change.

PwC view – Reflections

The sector is shifting with all institutions needing to change and adapt. There is significant opportunity for the sector to **go further and faster** with identifying and releasing cost savings through structured and transformational initiatives.

It is evident there is a high level of **cross-institutional learning** that has already been achieved with further opportunities for the sector to continue to lean in but also look externally for innovative and forward thinking opportunities.

The scale, complexity and pace of change required is relatively new to the sector. The need to **build capacity and capability** to support the level of change needed over multi-year programmes is critical.

Each institution is in a unique position, having had success in some areas of cost reduction and efficiency, but not others. The level of financial pressure and criticality to implement transformation change also varies significantly institution to institution.

The majority of institutions have **begun to implement tactical, fast releasing savings** in the short term but are acutely aware transformative change is key to addressing the financial challenge in the medium to long term.

Where institutions are already working under relatively lean financial constraints, the **need to consider and implement challenging transformation change continues to grow**.

Optimising and driving best value from estates

Section 2
Optimising and driving best value from estates.

Challenges facing the sector

Estates are typically the second largest operating cost for universities, following staff costs, and are operationally important to support student experience, academic delivery, and broader strategic considerations. Years of underinvestment have led to increasing annual maintenance costs, putting pressure on operational margins. Optimising estates can significantly reduce costs or release capital to support cash reserves or fund refurbishment and new development.

The current state of university estates and their financial challenges can be summarised into underutilisation and high running costs, and capital expenditure and investment requirements.

Underutilisation & high running costs

The sector's total footprint (according to HESA data) has reached over 30,000,000 m^2 in 2022/23, representing growth of 7% since 2019/20, or the equivalent of building nine new universities (based on average estate footprint).

And yet, estates utilisation across the sector is estimated to be between 10-30% on average, significantly lower than other sectors, implying an opportunity to make better use of existing space and consider whether individual institution's footprints could be reduced – albeit it is noted that universities provide some specialist spaces that have inherently lower utilisation, particularly for specialist universities.

Underutilisation and surplus space results in unnecessarily high running costs that adds further financial pressure for universities, particularly in light of energy price increases and the general inflationary environment over recent years.

Low utilisation has worsened considerably in recent years due to increasingly hybrid and tech-enabled course delivery, driven by the pandemic, technological advancements, and evolving delivery models. There may therefore be a need for institutions to think strategically about the most effective use of their estate and the digital-physical interface.

Capital expenditure and investment requirements

Although the sector's footprint has grown in recent years, and much of this relates to new, fit-for-purpose, energy efficient buildings, there is still a large proportion of the university estate in the UK that is aged or not fit-for-purpose for evolving course delivery models, technology and student expectations, and is therefore in need of capital investment.

As wider financial challenges mount, operating margins are increasingly squeezed, and many universities choose to defer capital investment to protect cashflow and liquidity – particularly when faced with higher costs of borrowing and construction cost inflation. Although capital expenditure grew by 11% in 2023-24, this was 25% lower than in previous forecasts, as capital projects are pushed out a further year to 2024-25. If this pattern of deferral continues in the long term, it may impact on institutional competitiveness and the student experience.

Many universities have also set ambitious sustainability targets that will require the decarbonisation of estates in the near term, which will require further investment, estimated by AUDE, BUFDG and EAUC in July 2023 to be c.£6.6bn.

Only
1%
of participants stated that no (further) optimisation was needed at their institution.

66%
of participants stated their institution has already begun rationalising academic or non-academic space.

c.85%
of participants do not have a comprehensive understanding of their estates at a building level.

29%
of participants stated that their institution had commenced data gathering to inform optimisation.

The journey to optimisation

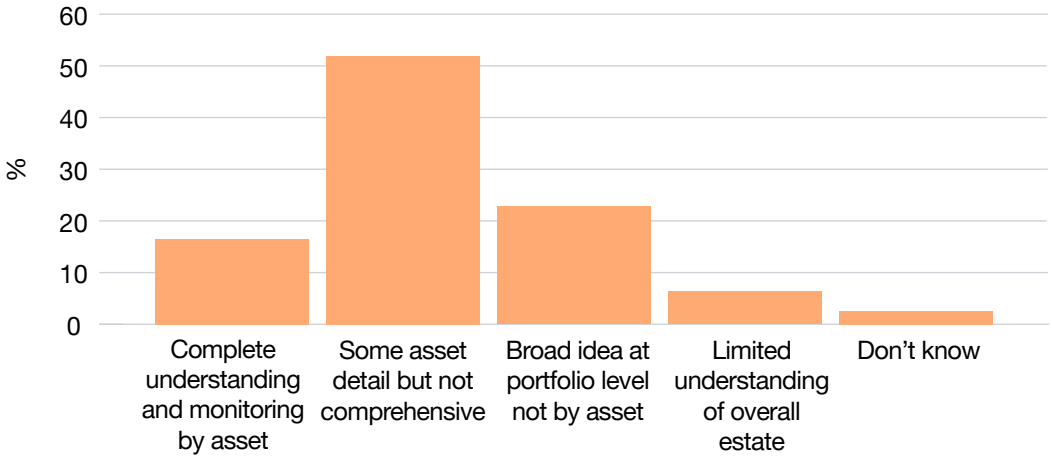
There are a number of benefits to optimising and improving the quality of estates including:

- Increased attractiveness for student recruitment and talent attraction
- Contribution to the institution's overarching brand
- Increased quality of available space which contributions to improved research and grant winning capability
- Greater efficiency of the estate resulting in reduced running costs.

As a whole, the majority of the sector has now begun thinking about and acting upon the opportunity to optimise or rationalise their estate. An understanding of how an institution's estate is used and how much it costs to run, is critical to inform optimisation.

As part of the roundtable exercise, we sought to build a picture of universities' understanding of the current state of their estates. Noting that participants had a range of roles within their universities, and therefore may have also had varied visibility of estates information.

How well do you understand how your estates are currently utilised and how much they cost?



Source: Combined results from Slido polls across the four events

PwC view – Understanding the estate baseline

Understanding an institution's current estates baseline is critical to informing decision-making around estates optimisation – whether that is to reduce its footprint, or to determine where to invest for growth.

Without a baseline, it is difficult to understand where operating costs are being consumed on underutilised buildings, which type of buildings are more expensive than others, and the quantity of potential savings that could be made through increasing densification in certain spaces, and mothballing or disposing of others. This highlights that for most universities, there are potential cost savings that have not yet been identified (with 29% still in the data gathering stage).

A comprehensive baseline could include the following details by building:

- Historic and current utilities costs
- Historic and current maintenance costs (reactive repairs, lifecycle)
- Historic, current and approved or committed capital or major projects costs
- Building condition and age
- Floor area
- Use (e.g. laboratory, lecture space, workspace)
- Capacity
- Occupancy by room
- Room booking history
- Legal and statutory compliance

For many institutions not all of the above data will be readily available and of a good enough quality to inform granular decision making, and investment will be required in technology and systems to improve data quality, consistency and availability.

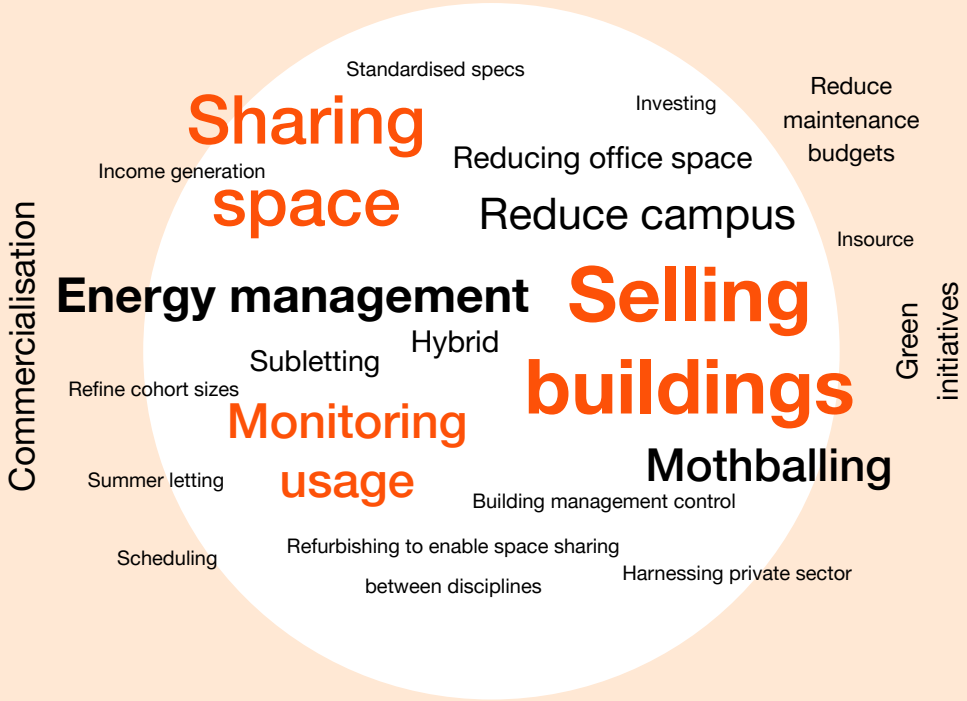
However, perfection should not be the enemy of progress and an approximation of cost and utilisation data or a portfolio view can inform more significant decision around growth or reduction for an interim period as data quality improves.

Successful solutions for estates optimisation

Opportunities to optimise estates

Participants were asked to identify the greatest opportunities for optimising their estates. The ideas cloud below highlights the key opportunities, with the most frequently suggested ones appearing larger and bolder.

Greatest areas of opportunity for estates optimisation highlighted by attendees



Source: Combined results from Slido polls across the four events

40%

of participants stated that they had already delivered commercial income opportunities on their estate.

46%

of participants had considered commercial income opportunities, but had not yet pursued them.

Most cited successful solutions for estates optimisation:

- **Reducing footprint through rationalisation and disposals:** The most frequently cited opportunity amongst participants was further rationalisation to reduce campus size and dispose of assets – both to potentially release capital, and also reduce ongoing running costs with a smaller estate. This indicates that there is still a substantial amount of 'rightsizing' that can be done, and perhaps that we may see the sector's total footprint reduce in the future. Participants were keen to point out the tension between tactical short term decisions (e.g. disposals to release capital or reduce opex), without clarity on future estates needs or on how the capital would be invested.
- **Reducing using and mothballing buildings**: For some, most likely as a result of location, disposal is not an option and therefore whilst running costs can be reduced, there is unlikely to be an active market for disposal. Instead the building is 'mothballed', with only critical maintenance undertaken. Others too have cited the carbon impact and cost of demolition as a reason to mothball.
- **Increased use of shared spaces:** Acting as an enabler for rationalisation, a high proportion of participants believed there were further opportunities to use existing assets more efficiently through the creation of shared spaces and shared offices.
- **Enhanced usage monitoring and building management control**: Similarly, many participants cited gains to be made from an enhanced understanding of how the building is used, and creating policies to support that, including scheduling, out of hours use, and refining cohort sizes.
- **Improved energy management and green initiatives:** Many participants also suggested that more could be done to better manage energy usage to cut ongoing utilities cost and carbon emissions.
- **Commercialisation and lettings:** Sub-lettings, summer lettings and broader commercialisation of existing estates were also seen as significant areas of opportunity to subsidise estates running costs and make use of underutilised spaces.

Source: Combined results from Slido polls across the four events

Specific examples of successful solutions

Alongside the broad themes of opportunity for estates optimisation, participants shared specific examples to demonstrate the success that many organisations have already had in making better use of their assets and reducing both their running costs and energy consumption.

Monitoring usage to inform building controls and ways of working policies

Participants discussed the savings that they had successfully achieved already through enhanced monitoring of building usage and associated energy costs. By improving their understanding of how different buildings were being used, they were able to adapt their building operational policies to make savings without impacting on student or staff experience or productivity. This included:

- Monitoring building utilisation using a range of tools including swipe card entry and desk sensors to monitor number of occupants, but also radar technology to understand the different way in which spaces have been used – to inform rationalisation next steps.
- Monitoring out-of-hours energy usage and amending building control parameters to significantly reduce energy consumption and costs associated with it.
- Significant savings made by implementing new green initiatives and more efficient technology at a granular level (e.g. lighting). More state-of-the-art technology (e.g. Internet of Things) can also be used to monitor usage itself and to minimise energy wastage.
- Amending room booking parameters to prevent block booking and to release rooms that have not been occupied for a certain period.
- Reviewing timetabling, changing building hours and updating remote working policies to manage peak occupancy throughout the week, for example:
    - Stricter remote working policies – for both academic and non-academic spaces
    - Extending class hours
    - Introducing a third trimester to extend teaching time
    - Changing types of space available to better align to timetabling

Co-location & Collaboration

The general consensus amongst participants was that there remained significant opportunity to further rationalise estates within an institution before looking beyond their walls. However, when asked about opportunities for co-location and sharing spaces with other parties, a few key themes emerged:

- Significant opportunity and existing examples of success for sharing specific types of spaces including:
  - Libraries
  - Student accommodation
  - Research and laboratories
  - Sports centres and facilities
  - Specialist equipment
  - Energy provision and facilities management
- Very few examples of shared academic spaces between institutions – and generally a reticence to explore at this stage before further optimisation within institution itself
  - Concern over impact on student experience and potential impact on institutional competitiveness or unique selling points being undermined.
  - A more challenging proposition for certain universities given their location and distance to potential collaborators.
- There remains a significant opportunity to co-locate with other non-HE partners – the sector already does a lot with the NHS, but other stakeholders may also provide attractive opportunities, for example:
  - Student support centres co-funded by the city council.
  - New developments that coalesce around a common research theme (e.g. climate change, innovation) – examples both with private sector and with non-profit sector partner organisations.

Leveraging the private sector

A number of participants referenced arrangements that they had entered into with private sector parties to provide upfront funding for refurbishment, decarbonisation or new development on their estate. For example:

Forward funding (decarbonisation) refurbishment: Entering into a partnership arrangement whereby the private sector provides upfront capital funding to install energy efficient technology across the estate that will drive down energy consumption and utilities costs. In return, the private sector party receives a proportion of the anticipated cost savings from the more efficient energy bill.

- This gives universities access to upfront capital funding that they might otherwise be unable to afford – or would necessitate borrowing to fund – whilst also lowering their future running costs.
- Whilst this may not be possible for all capital projects on the estate, for those that anticipate a future annual saving, participants agreed this would be worthy of further exploration.

Leveraging developer's planning obligations (e.g. Section 106): Through engagement with both private sector developers and the local council, institutions have been able to benefit from investment that developers are required to spend to mitigate the impact of their development on the local community (i.e. the Section 106 agreement).

- This requires positive engagement with stakeholders, and clear rationale of the contribution to the local community. It will be highly dependent on location and its timing will be dependent on upcoming developments.
- For locations with significant interest for multiple developments, participants discussed whether there might be an opportunity to speak to the local authority about pooling S106 requirements for larger capital projects.
- Participants agreed that entering into such arrangements risked being a financial drain by adding to the estate, if there was a not a clear need for the development.

Asset-backed finance: Leveraging the value of the existing estate through financing arrangements that raise capital secured against university assets. This offers universities an alternative source of capital, with a different pool of investors, that leverages the potential alternative use value of an asset – as opposed to traditional debt instruments that focus primarily on a university's creditworthiness and financial performance.

- University receives upfront capital receipt in return for ongoing annual payments that are index – linked.
- As a result it is most commonly seen on income producing assets, such as student accommodation, and is the financing instrument that underpins a number of Design-Build-Finance-Operate partnerships (see below).
- Requires in-house or access to financial or transactional expertise to understand full commercial implications.
- Alternate use value will depend upon location and condition of assets – and may not be a solution for assets in more remote locations or on campuses.

Joint Venture / Development partnership: Entering into partnership agreements with private sector developers and operators, with better access to upfront capital and / or more operational or facilities management expertise.

- Design-Build-Finance-Operate (DBFO) partnerships are well-established for the development of individual student accommodation assets.
- Increasingly there are examples of more strategic Joint Ventures being put in place between universities and developer-operators with shared ownership and responsibility for the development.
- Can be tailored to specific needs such as buyback options, sinking funds, long lease terms, specific returns modelling (i.e. hurdle rates).

Revised approach to new development

Participants discussed their revised approaches to new development and refurbishment in order to minimise running costs and to future-proof their estates. In particular this included:

- Refreshing 'standard' specifications for academic and non-academic spaces within new buildings to ensure they are flexible, and fit-for-purpose, including:
  - Less (or no) single offices
  - Higher densification of workspaces
  - "Unique" spaces such as lecture halls to be adapted to become multi-functional
  - Limited provision of specialist space and instead collaborate or rent from others
  - Layouts and spaces that enable multi-faculty occupancy
  - Embedded technology into built environment (combined estates and digital masterplan)
- Considering interoperability, and the risk of obsolescence when developing requirements for building controls and mechanical and electrical systems – including net zero requirements.
- Some have instigated a principle of 'no new build' to ensure that they are making the most of assets they already own and operate.

Challenges and mitigations

Overview

Institutions highlighted a number of challenges and blockers which are limiting their ability, to varying degrees, to successfully optimise their estates. Of those discussed, four key themes were identified alongside the steps that can be taken by institutions to address these challenges and blockers.

1. Culture

- Long-standing culture and expectation of access to single occupancy offices, even if underutilised, and significant resistance to open floor plan working.
- Culture of departmental protectionism preventing co-location and 'ring-fencing' space for individual faculties with "specific needs".
- Some resistance to the perceived intrusion of data monitoring and gathering to understand utilisation.
- Broader lack of commerciality within culture resulting in missed opportunities.
- Concern that reductions to footprint, or excessive or misaligned co-location may have a negative impact on student experience or institutional offering.
- Proud heritage of legacy buildings results in an even more challenging narrative.
- Ongoing tension between competition and collaboration amongst universities limits collaboration and co-location opportunities.

Steps to address these challenges and blockers

- Engage and **bring stakeholders along on the journey early** through consistent internal communication strategy, backed by data – note there were conflicting opinions on whether incremental or wholesale change to space usage policy is more effective.
- Top-down messaging and **clear alignment between long-term estate strategy and organisational vision**.
- **Incentivisation mechanisms** such as optimisation savings being retained by departments for (approved areas of) investment.
- **Strategic engagement (with dedicated resource) with local universities** (and wider stakeholder group) on respective roles and objectives within region, to identify potential synergies.

2. Physical constraints

- Significant number of institutions have heritage assets on their estates, which are often more expensive to operate and maintain – and are more difficult to retrofit or decarbonise, and often harder to dispose of for cultural reasons.
- Retrofitting is often significantly more expensive than new build development – although retrofit should be more carbon-efficient than new development.
- Participants cited a significant degree of in-built obsolescence of facilities, particularly specialist equipment and utilities, which results in increased refurbishment and replacement costs.
- Constraints on available resource and capacity to undertake maintenance and / or estates projects to accelerate optimisation.
- High cost of specialist equipment (e.g. laboratory freezers) challenges affordability.

Steps to address these challenges and blockers

- Implement **more stringent challenge upfront on building design specification** to avoid in-built obsolescence and to future-proof buildings. Ensure whole life costs of buildings are fully understood before development.
- Similarly **clear criteria on asset acquisition opportunities** to avoid taking on more assets that require significant investment and / or have inherent physical constraints (e.g. heritage buildings).
- For buildings that are harder to retrofit or to dispose of, **review building control and operations policies** to ensure optimised usage within constraints (e.g. opening hours, temperature control).

3. Organisational capacity and policies

- Lack of capital to invest in optimisation initiatives.
- Limited understanding of space demand and impact of timetabling / cohort size / course mix on utilisation of assets.
- Remote-working policies not being followed or enforced leading to unpredictable estates utilisation.
- In some instances, a lack of organisational expertise in negotiations and on capital release transactions limit commercial opportunities, and tie organisations into onerous leases or contracts with limited flexibility to adapt estate.

Steps to address these challenges and blockers

- **Leverage the private sector** with better access to capital to provide forward funding – whilst being mindful not to turn a capital problem into a revenue problem down the line
- **Strategic and proactive engagement** with developers' within region and local authority to ensure visibility of opportunities and ability to influence.
- **Improve and enhance data collection** across entire estate at an asset-level – requires investment, but some ability to leverage suppliers' and private sector through private-partnership arrangements.
- **Clear and consistent internal messaging on working policies**, with consequences or incentivisation mechanisms.
- Where needed, **upskill finance and leadership teams** for more complex or novel transactions and contractual negotiations, or seek access to those skillsets through collaboration.

4. Tax, regulatory and contractual complexities

- A range of tax complexity and pitfalls, including:
  - Council tax exemption hampers commercialisation by impeding change of use in non-term time.
  - VAT on shared services acts as an impediment to collaboration – ensuring wider options to address this barrier are considered.
  - VAT on capital expenditure – ensuring usage of VAT relief at source and VAT recovery is fully maximised.
  - Considering impact of change of use/disposal of existing estate on VAT cost.
- Engaging with the local authority can be difficult in securing support or the conditions required for transformation initiatives.
- Compliance requirements for 'high risk' buildings are often interpreted locally by local authorities, and therefore inconsistently, creating unpredictability.
- Onerous leases or contracts, existing covenants and break clauses cause inflexibility of commercial commitments and block ability to drive efficiency.

Steps to address these challenges and blockers

- **Upfront consideration of contract and tax implications** and regular communication across estates, finance and tax teams.
- **Seek advice where required on specialist contracting and tax considerations**.
- **Proactive and enhanced engagement with local authority** to discuss challenges and arrive at joint solutions.

Broader observations and reflections

PwC view – Broader observations

Location matters

Location will be a key influencing factor in how estates optimisation can be achieved and the suitability of different optimisation solutions – in particular, different solutions are likely to be successful for those located in a city as opposed to those located on a campus.

Location also impacts alternative use value and market appetite for commercialisation or disposal when looking to rationalise the size of the estate; and an institutions ability to co-locate or sub-let, depending on proximity to other stakeholders. As a result, not all solutions will be available for all institutions.

Data matters

The most successful optimisation decisions and estates strategies will be informed by robust data on how the estate is currently being used, how much it costs to operate and maintain, and being able to monitor that going forward.

Leveraging advances in technology in the estates management space and advanced Computer Aided Facilities Management systems can support these insights, and enable universities to make proactive decisions. Inevitably developing this enhanced data collection through technology-enabled solutions may require time and financial investment, as well as third-party specialist support, and may therefore be more difficult for certain institutions to obtain.

PwC view – Reflections

The **vast majority of the sector have begun their journey** towards optimising their estates – with many acknowledging the importance of data to inform that process, and many are therefore still in a data gathering stage.

There was general consensus that there is **still considerable space to rationalise** and work to be done within institutions before looking to collaborate with external parties.

The biggest barrier for the vast majority of institutions remains cultural resistance amongst internal stakeholders, highlighting the importance of bringing stakeholders on the journey towards a new vision of the university estate of the future that is fit-for-purpose for a more tech-enabled delivery model.

Inevitably there will be parts of the estate, and certain institutions, that will have more challenges than others – in particular heritage assets and more remote campus institutions, for which **asset-specific solutions** will need to be found, or exceptions made.

Generally **there is opportunity to work more with external parties** whether that is to collaborate and co-locate, or to leverage private capital, or to work together to provide solutions that improve the built environment for the community and local economy as a whole.

PwC roundtable team

The following individuals led the discussions across the four roundtables.

Damien Ashford
Partner
M: +44 (0) 7787 120228
E: damien.j.ashford@pwc.com

Paul Kett
Senior Advisor
M: +44 (0) 7483 398299
E: paul.kett@pwc.com

Karen Best
Partner
M: +44 (0) 7818 068600
E: karen.best@pwc.com

Jacqui Dudley
Director
M: +44 (0) 7841 570653
E: jacqui.a.dudley@pwc.com

Sheena Owen
Director
M: +44 (0) 7525 281623
E: sheena.l.owen@pwc.com

Kitty Kent
Associate Director
M: +44 (0) 7841 789149
E: kitty.kent@pwc.com

Utha Ilderton
Associate Director
M: +44 (0) 7841 074706
E: utha.ilderton@pwc.com

Lydia Mitchell
Senior Manager
M: +44 (0) 7802 659007
E: lydia.r.mitchell@pwc.com

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