

# Insight:

## Higher education – degrees of distress – a framework to address the issues



Since we issued our [Insight paper](#) in the Spring looking at how board observers could support higher education institutions with the challenges ahead, the issues faced by them seem to have increased further.

Our universities are world-leading and one of the UK's largest export sectors. What impact would a failure have on the reputation of the sector and the potential liability from graduates with degrees from a failed institution? As Philip Augar, Chair of the 2018 Augar Review into the UK's post-18 education landscape, suggested in his recent opinion piece in the FT – Universities, like banks, are too big to fail.

In this Insight we aim to share our thoughts on a framework to address the issues facing universities.

### The issues in five quotes

“The major problem with university finance is that for the past eight to nine years, direct government grants and fees haven't kept up with the cost of teaching and with inflation, so more and more institutions are facing a budget deficit overall.”

- **Professor Dame Sally Mapstone, Universities UK President**

“About 40% of universities are expecting to return a budget deficit this year.”

- **Office for Students**

“The tuition fee model has become unworkable, it leads to yearly cycles of job cuts, hurting staff and damaging student provision, and, by accelerating the decline of our universities, it ultimately harms us all.”

- **Jo Grady, University and College Union Leader**

“The harsh reality is that unless the student and/or the taxpayer pay some more, the sector will shrink or the quality will go down. There are no alternatives.”

- **Professor Chris Day, Russell Group of Universities Chair**

“Universities should put their own finances in order before looking for help from the taxpayer...Labour recognise universities as a 'public good' and would seek a firmer financial footing for the sector in the long term.”

- **Bridget Phillipson, Education Secretary**

### A two-strand solution

These views from the main players in the sector show the complexity of the situation, and the delicate balance that will be required to adequately resolve the issues. We see there being two strands to the solution:

- A nationwide government intervention
- Life saving surgery at the most challenged institutions

### A nationwide government intervention

There is no magic bullet to resolve what is a nationwide

issue without intervention from the government.

There needs to be the ability to increase fees from UK students as institutions have effectively had fixed income over the last seven years where inflation has increased costs by c 30%. This has been further impacted by the governments position on migration reducing the numbers of foreign students who pay higher fees. Even the best management teams in the best businesses would have problems dealing with this.

Teaching and research grants also need to be addressed to ensure our universities maintain their world-leading position.

This would put institutions generally on a better footing and give more stability to some of the main employers in the regional economy. However, we envisage that for the government to increase funding they will want change within the sector to address issues in the weaker institutions. This will be the second strand of the solution.

### Life saving surgery at the most challenged institutions

Government changes will only partially solve the problem and some institutions will require additional support at a local level to stabilise their position.

This will require turnaround expertise to bring change in four main areas:

- Improving management to ensure a balance between academic rigor and commercial acumen
- Generating cash from the disposal of ancillary parts of their estates, which may be reinvested in providing more modern, sustainable facilities
- Rationalising the student offer to ensure courses contribute to the university, both financially and in terms of its academic standing
- Merging institutions to optimize the cost base whilst enhancing their academic pool and portfolio of courses

Every situation will be different depending on the university's appetite for change, its estate, the demand for its courses and the potential complimentary offering (and geographical location) which would give the synergies from merging with another institution.

We see the turnaround expertise consisting of a lead financial adviser, legal assistance and board/trustee support. Universities are not dissimilar to other organisations that need board support to implement change, and we at MRC, have the skills and experience to guide the university boards and trustees through these complex changes to put them on a stable financial footing for the future.



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