

SECTOR COMMENT

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 Rate this Research

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Higher Education – United Kingdom

Restructuring regime confirms government support in case of financial stress from coronavirus, a credit positive

On 16 July, the government of the [United Kingdom](#) (UK, Aa2 negative) announced a “restructuring regime” for English universities facing financial difficulty as a result of the coronavirus.¹ The formalisation of a restructuring regime is credit positive as it confirms government support (including liquidity support) if a university is struggling, and provides clarity as to how a rescue process would work in practice. The regime, together with previously announced support measures for the sector (see Exhibit 1), reinforces our view of a high probability of government support for rated UK universities, which remains unchanged. We note, however, that this regime is specific to financial difficulties as a result of the pandemic, and is temporary, and does not guarantee that no university will fail in general.

Exhibit 1

The government has implemented numerous support measures to mitigate the impact of coronavirus on universities (Key coronavirus-specific support measures announced between March and July 2020)

Date announced or confirmed	Support measure	Credit impact
25-Mar	Enhanced regulatory reporting requirements for liquidity (Office for Students)*	Strengthen regulatory oversight and ability to anticipate financial difficulty
4-May	Confirmed eligibility for Coronavirus Job Retention Scheme	Reduce staff expenses with government paying wages
4-May	Confirmed eligibility for Coronavirus Large Business Interruption Loan Scheme and COVID Corporate Financing Facility	Support liquidity through availability of loans
4-May	Bringing forward tuition fee payments for 2020/21 to start of academic year	Support cash flows for fiscal 2021, allow more time for reducing costs if necessary
4-May	Instating student number control for domestic and EU undergraduates for 2020/21	Prevent over recruitment by stronger universities, smooth student demand and support tuition fee income for weaker universities
4-May	Bringing forward £100 million of research funding to support research activity disrupted by pandemic*	Support research income to ensure research continuity, support international reputations
27-Jun	Availability of government loans and grants to cover lost research cross-subsidy due to fewer international students	Support research income to ensure research continuity, support international reputations
27-Jun	£280 million of grant funding made available to support research disrupted by pandemic	Support research income (grants) to ensure research continuity, support international reputations
16-Jul	Restructuring regime for universities in financial difficulty*	Allows for last resort intervention for struggling universities including liquidity support through loans

Note: *apply to English universities only

Source: Office for Students, Department for Education, Department for Business, Energy & Industrial Strategy

Decisions to intervene will be made on a case-by-case basis and the regime is intended as a last resort for universities that would otherwise become financially unviable and face closure. Universities which receive support will be required to implement a restructuring plan and demonstrate a clear sustainable strategy to remain financially viable over the longer term. If conditions are met, liquidity support will be made available via government loans.

The restructuring regime applies to English universities only, not all those in the UK. Given that it is temporary and related just to the effects of the coronavirus, our view of the probability of government support for the sector remains unchanged. We consider it to be high for most rated universities – [Southampton](#) (Aa3 negative), [Cardiff](#) (Aa3 negative), [Manchester](#) (Aa3 negative), [Liverpool](#) (Aa3 negative), [Leeds](#) (Aa3 negative), [Keele](#) (Aa3 negative) and [De Montfort](#) (Aa3 negative) – and very high for [Oxford](#) (Aaa negative) and [Cambridge](#) (Aaa negative). Most rated universities benefit from one or two notches of uplift from our assumption of government support.

Our assessment of extraordinary support is not limited to liquidity support but encompasses any intervention outside of business as usual to prevent a default. The UK government has announced numerous measures to support the sector since the start of the pandemic, which mitigate risks for most universities and support our high support assumption. Measures have been wide-ranging and demonstrate the government's support for the sector and its importance to the wider UK economy.

UK universities face a challenging operating environment over the next year as the pandemic is likely to lead to lower tuition fee income and higher costs compared to pre-coronavirus forecasts. Overall lower student demand would increase competition for students and lead to greater credit divergence. As a result, some weaker universities may face financial difficulties despite government support measures. We expect universities with more diverse revenues, stronger market positions and international reputations, and more resilient balance sheets (with low debt and robust liquidity) to be more resilient to the pressures arising from the pandemic, which includes rated universities.

Universities are exposed to material falls in tuition fee income and campus-based income for the 2020/21 academic year (see [Higher Education – United Kingdom: Coronavirus may cause operating deficits in 2021; strong balance sheets boost resilience](#), May 2020). Although applications and acceptances for undergraduates are higher for the 2020 entry than they were for 2019 (see [Higher Education – United Kingdom: Rise in undergraduate acceptances for 2020/21 despite coronavirus demonstrates resilience of UK universities](#), July 2020), there is still a greater degree of uncertainty in terms of how many students will enrol for the next academic year. Most UK universities will open their campuses for the start of the 2020 year in autumn and will provide a mix of in-person and online teaching – this should support higher enrolments than if campuses were to remain closed.

Enrolments from international (non-EU) students, the tuition fee of which accounts for 14% of income for UK universities (fiscal 2019), are more uncertain given potential travel restrictions, health and safety concerns, weaker home economies making international study less affordable, and immigration policies which can stifle or support demand. International undergraduate acceptances were up by 12% for the 2020 entry compared to 2019, and recent immigration policy in the UK is supportive of international students. However, enrolments may not rise in line with acceptances, resulting in lower international tuition fee income compared with pre-coronavirus forecasts.

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- » [Higher Education – United Kingdom: Coronavirus may cause operating deficits in 2021; strong balance sheets boost resilience](#), May 2020
- » [Higher Education – Global: Coronavirus will lower student demand and increase costs for universities](#), April 2020

Issuer research

- » [Cardiff University \(United Kingdom\): Update to credit analysis](#), June 2020
- » [The University of Manchester \(United Kingdom\): Update to credit analysis](#), February 2020
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- » [University of Cambridge \(United Kingdom\): Update following outlook change to negative](#), November 2019

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Endnotes

- 1 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/902608/HERR_announcement_July_2020.pdf

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