

SECTOR COMMENT

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 Rate this Research

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Higher Education – United Kingdom

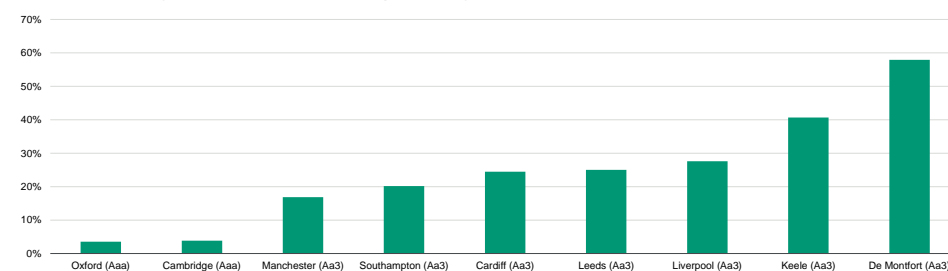
Government change to qualifications assessment will result in higher demand for rated universities, a credit positive

On 17 August 2020, the [United Kingdom](#) (UK, Aa2 negative) government announced that it would alter its method of assessing this year's exam results in England for university qualifications. The change will result in higher grades for many university-bound students,¹ which, in turn, will lead to more students qualifying for places at high in-demand universities (which includes rated universities), and higher enrolment for the next academic year starting in autumn 2020. While the last-minute change presents administrative challenges for universities, potentially raising costs, higher enrolment will boost tuition fee income, a credit positive for rated universities.

With the sudden change in the government's exam results policy raising demand significantly, the government has also abandoned its policy announced in May 2020 of a temporary student number cap for the 2020/21 academic year (set at 5% above pre-outbreak forecasts) in response to the coronavirus pandemic. The removal of the temporary student number control will enable stronger universities to recruit more domestic students and offset potential lower numbers of international students. This reversal will also fuel competition and drive credit divergence in the sector – universities with stronger market positions, which includes rated universities, will be best positioned to raise enrolments and tuition fee income. Weaker universities will lose students whose higher grades will qualify them for places at stronger institutions. Although we expect rated universities to benefit from these changes, universities have capacity constraints caused by social distancing restrictions which limit their ability to recruit significantly more undergraduate students than planned, especially at very short notice.

Exhibit 1

Rated universities have varied exposure to domestic undergraduate fee income
 (Domestic undergraduate fee income as a percentage of total revenue, %, fiscal 2019)

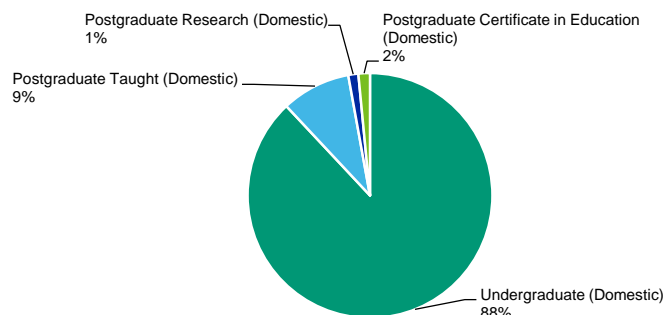


Source: Moody's Investors Service, Universities' financial statements

The coronavirus pandemic has caused high uncertainty around student demand and enrolment for the next academic year (see [Higher Education - United Kingdom: Coronavirus may cause operating deficits in 2021; strong balance sheets boost resilience](#), May 2020). However, domestic undergraduate demand has remained resilient, with acceptances 1% higher for 2020 entry versus 2019 entry (see [Higher Education - United Kingdom: Rise in undergraduate acceptances for 2020/21 despite coronavirus demonstrates resilience of UK universities](#), July 2020). Nevertheless, there is still significant uncertainty around international student enrolment, which accounts for 14% of total income for UK universities (fiscal 2019).

Exhibit 2

Undergraduate tuition fees account for the majority of domestic tuition fee income for UK universities
Breakdown of domestic tuition fee income as percentage of total, fiscal 2019



Source: Higher Education Statistics Agency

Students were unable to sit exams this year due to the pandemic. In the absence of traditional exam results, the government tasked the Office of Qualifications and Examinations Regulation (Ofqual) with devising a method for assessing A level results for English students (which qualify them for university). The method resulted in lower-than-expected grades for many students. In particular, it appeared that under the algorithm-based method, students from disadvantaged backgrounds were disproportionately negatively impacted – this runs counter to the government's agenda of increasing higher education participation in underrepresented groups. Facing widespread protests at the outcome, the government reversed its decision and announced that final grades would be the initial, generally higher, teacher-set grades.

The government has implemented numerous support measures to assist universities facing financial difficulties due to coronavirus pressures (see [Higher Education - United Kingdom: Restructuring regime confirms government support in case of financial distress from coronavirus, a credit positive](#), July 2020). For example, the government's restructuring regime announced in July 2020 confirms government support for struggling universities, although it does not guarantee that no university will fail. Weaker institutions which become financially unviable due to insufficient student demand (as a result of the coronavirus and related measures) are likely to benefit from government support through the restructuring regime.

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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

Endnotes

- 1 <https://www.gov.uk/government/news/gcse-and-a-level-students-to-receive-centre-assessment-grades>

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