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Financial implications of COVID-19 for Ireland's university sector

Introduction

COVID-19 has had an enormous impact on the public finances. The Exchequer deficit reached €7.4 billion in July, a result of both a dramatic and broad-based decline in tax revenues and pandemic-related spending pressures, most notably in Health and Social Protection.[1] This deficit will likely rise in the coming months as the State continues to navigate the public health emergency.

Previous PBO analysis examined the specific impact of COVID-19 for State-owned companies operating in the transport sector,[2] faced with a significant reduction in demand for public transport and air travel. In this note, we provide an overview of the financial implications of the pandemic for Ireland's higher education institutions (HEIs), with a focus on the university sector (specifically those HEIs represented by the Irish Universities Association).

Following the reductions in public spending on third level education that were introduced during the last economic and fiscal crisis, HEIs have diversified their revenue streams, with non-EU (or international) student fees and commercial revenues accounting for a larger portion of their annual incomes.

With administrative restrictions on international travel, poorer employment prospects for students and graduates, and the shift toward remote learning, fewer enrolments of students from non-EU countries is expected. Similarly, administrative restrictions on economic activity have impacted on the commercial revenues of universities (e.g. incomes from gym fees, student accommodation, catering activities and cultural attractions have all been impacted).

In response to some of the challenges facing the higher education sector, financial supports have been announced by Government. On 22 July, the Minister for Further and Higher Education, Research, Innovation and Science announced a package of supports totalling €168 million. Of this, €15 million will be used to facilitate online learning, with €3 million allocated for mental health support. A further €16 million was announced for the student assistance fund, to help students dealing with the loss of part-time work.[3] On 27 August, the Minister announced another grant of €25 million for capital works and equipment for the 2020/21 academic year.[4]

This note references data provided by the Irish Universities Association (IUA) that outlines and quantifies the impact of the pandemic for income and expenditure across the seven universities that comprise the IUA's membership. This information was provided to the IUA by the individual universities. While the impact of COVID-19 on the higher education sector is dynamic and evolving as the crisis progresses, this data was provided to the PBO on Monday 17 August and is assumed to be correct as of that date.[5]

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1 PBO Publication 49 of 2020, 6 August 2020.
2 PBO Publication 33 of 2020, 29 May 2020.
3 Press Release, Department of Education and Skills, 22 July 2020.
4 Press Release, Department of Education and Skills, 27 August 2020.
5 The PBO was unable to obtain the same data for the Institute of Technology (IoT) sector (from the Department of Education and Skills, the Higher Education Authority (HEA) or the Technological Higher Education Association). For this reason, these HEIs are not included in our analysis. The data obtained by the PBO relates specifically to: Maynooth University, Dublin City University, Trinity College Dublin, NUI Galway, University College Cork, the University of Limerick, and University College Dublin. However, it is worth noting that universities derive substantially more income from the most impacted revenue sources (non-Exchequer fees and commercial revenues) than IoTs, which are significantly more reliant on State funding (see: HEA Key Facts and Figures 2017/18).

Key Issues

Below are some of the key issues explored in this note:

- To-date, the third level sector has played an active role in responding to the COVID-19 pandemic, contributing resources and expertise, and making university facilities available for use;
- In recent years, higher education institutions (HEIs) have become increasingly reliant on non-Exchequer funding, however, the pandemic has placed a significant portion of this income at risk;
- Non-exchequer fees are now the largest single source of income for universities. The ratio of non-Exchequer to Exchequer fee income has risen from 2.3 in 2015/16 to almost 2.8 in 2018/19. That is, for every €1 received in Exchequer fee income, universities received approximately €2.80 in non-Exchequer fee income (which mostly consists of the fees paid by international or non-EU students, EU postgraduate students and mature students);
- Due to restrictions on international travel, weak employment prospects for students and graduates, and the move to remote learning, fewer enrolments of international students are expected in the near term, post-COVID-19. Furthermore, restrictions on economic activity have undermined key sources of commercial revenue for HEIs;
- Across 2019/20 and 2020/21, of the total projected income loss of €348 million, 46% (or €160 million) is due to a loss in fee income from international students, while 39% (or €135 million) relates to a loss in commercial revenues;
- Overall, the net cost of the COVID-19 pandemic for the university sector is projected to be €328 million over 2019/20 to 2020/21, with all seven universities projecting deficits in each of these years;
- To date, €209 million has been announced by Government in COVID-19 related supports for higher education.

The state of public funding for higher education

The funding of higher education by the Department of Education and Skills (DES) is allocated through Vote 26 of the Revised Estimates. This allocation covers State spending on primary, secondary and third level education.[6]

Vote 26 is the third largest area of Government spending, with €10.1 billion sought for 2020. As outlined in PBO Publication 45 of 2020, the net allocation sought under the Revised Estimates is unchanged from what was set out pre-COVID-19.[7] However, a new Vote will need to be presented to the Dáil for the new Department of Further and Higher Education, Research, Innovation and Science (DFHERIS). This Department will presumably be responsible for Programme C of the current Vote 26, which refers to higher education.

Of the projected allocation for Vote 26 in 2020, over three-quarters is delivered through Programme A, for First, Second and Early Years. The projected allocation to Higher Education (under Programme C), is €1.7 billion, with roughly the same allocation made for 2019. This is approximately 16% of the total Vote 26 allocation in both years.[8]

A significant portion of the allocation to higher education is in the form of student supports, delivered by Student Universal Support Ireland (SUSI). Third level students who fit the eligibility

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6 Vote 26 also consists of Programme B (Skills Development) and the National Training Fund, with gross spending planned for 2020 across both of €1.2 billion (€0.6 billion each). Spending from the NTF is not subject to Dáil approval as part of the Revised Estimates process.

7 PBO Publication 45 of 2020, 14 July 2020.

8 The Revised Estimates note that the allocation for Programme C (Higher Education) is affected by the reallocation of programmes between the NTF and the Vote. When the Voted and NTF expenditure are both taken into account, the increase in total expenditure for Higher Education programmes in 2020 over 2019, is actually 4.9%.

criteria are entitled to claim two grants; a maintenance grant (intended to cover costs, such as books) and a fee grant (intended to cover some, or all, of the Student Contribution Charge of €3,000 *per annum*). Approximately €360 million was spent on student grants in 2019.[9]

As outlined in PBO publication 72 of 2019,[10] higher education funding is delivered to HEIs in three ways. A **block grant** is provided, comprised of two elements – the recurring grant allocation model, and the free fees grant. The first component is calculated based on last year's student numbers (excluding non-EU students), weighted by the cost across different disciplines, with additional support for research and to promote access for under-represented cohorts. The second component, the free fees grant, is based on student numbers in each undergraduate programme, multiplied by the fee associated with each programme. The student contribution is then deducted from the grant allocation. This covers the cost of fees for Irish and EU students who are eligible for the Free Fees Initiative.

A portion of the block grant may be ring-fenced for a specific purpose (e.g. to steer systemic change or to cover an urgent *ad hoc* requirement) with this portion referred to as a **direct top-sliced allocation**. Finally, a **performance-based** funding component is allocated, based on the three-year mission-based compact each institution makes with the Higher Education Authority (HEA, each institution identifies key targets as defined by Ministerial objectives). Of the 38 HEIs in Ireland, 19 receive these contributions from the HEA (these are the public HEIs).

State spending on higher education remains below the pre-crisis peak in 2008 of €1.85 billion (with a low of €1.56 billion in 2014), despite significant increases in student numbers during this time.[11] Across all HEA funded institutions, the PBO estimates that (in nominal terms) funding per student enrolled in the 2018/19 academic year was 44% lower than in 2007/08.[12] This decrease is likely to be more significant in real terms.[13]

The Cassells Report[14] (published in 2016) found that in large part, these reductions in public funding were covered through internal efficiencies and cost cutting measures (including cuts to staff numbers and capital investments), which have generally been exhausted. It is worth noting that much of the universities' cost base is relatively fixed, with pay levels (which represent about 60% of spending for the sector) set centrally.

As most university funding comes from non-public sources, universities are classified as market producers, and are outside of General Government or 'off-balance sheet'. Specifically, universities are classified as publicly controlled market producers. This means that, while the stock of universities' liabilities is included in the contingent liabilities of Government, it is not on the balance sheet of Government. For this reason, universities have autonomous borrowing powers, and their debt does not impact on the level of Government debt.

However, should Exchequer funding increase as a proportion of total funding, this may result in universities falling under General Government,[15] and university debt would become part of Government debt. Ahead of Budget 2020, the IUA reported that private borrowing by the university sector was approaching €800 million, with annual capital repayments of €20 million in addition to interest payments of €14 million. By 2022, the IUA predict that repayments will have grown to €43 million, with interest costs of €24 million. As such, there appears to be limited scope for universities to increase borrowing.[16]

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9 See Department of Education and Skills, Press Release, 25 April 2019.

10 PBO Publication 72 of 2019, 25 November 2019.

11 Related to this, the student-to-staff ratio increased in the ten years between 2007 and 2017, from 16:1 to 20:1 (IGEES, 2018), and the Department projects an annual increase in third level enrolments through 2029 (Department of Education and Skills, 2018).

12 The student contribution charge (introduced in 2011) replaced some portion of State spending in the sector.

13 Although not an ideal deflator, using the CSO's sub-index of price inflation for tertiary education we estimate this decrease to be as much as 72% in real terms.

14 Investing in National Ambition: A Strategy for Funding Higher Education, Report of the Expert Group on Future Funding for Higher Education, March 2016.

15 For this to happen, the proportion of State funding received by an institution would have to be in excess of 50%, and sustained over a number of years.

16 Investing in Ireland's future talent and innovation: IUA Budget 2020 Priorities, IUA, 2019.

Funding from non-public sources

Table 1 provides a breakdown of university income (consolidated across seven universities) for 2017/18 and 2018/19 (draft). For the academic year 2017/18 (the latest year of audited accounts), universities recorded income of €2.38 billion. State grants comprised 13.3% of this while Exchequer fee income comprised 10.2%, for a total State contribution across these two categories of 23.5%.

State funding aside, several other sources make up the remainder of the income base for universities. Non-exchequer fees (paid by international students, mature students, and EU postgraduate students) contributed 27.5% (approximately €655.61 million), while research grants and contracts accounted for 19.6%. Other commercial revenues (including visitor attractions, student accommodation, gym fees, conferences and events etc.) accounted for 15.5%. The draft figures for 2018/19 indicate that these proportions generally held year-on-year.

Non-exchequer fees are the largest single source of income for universities, with the reliance of the sector on this revenue stream increasing in the last number of years. The ratio of non-Exchequer to Exchequer fee income has risen from 2.3 in 2015/16 to 2.7 in 2017/18, as the number of international relative to domestic (and EU) students has increased. Based on the draft figures for 2018/19, the PBO estimates that this was closer to 2.8. That is, for every €1 received in Exchequer fee income, universities received approximately €2.80 in non-Exchequer fee income[17] (which mostly consists of the fees paid by international or non-EU students, EU postgraduate students and mature students).

Table 1 – Consolidated university income for academic years 2017/18 and 2018/19 (draft)

	2017/18 (as audited, €000)	**2018/19** (draft, €000)
State Grant	315,826 (13.3%)	344,276 (13.9%)
Academic/Tuition Fees:	898,010 (37.7%)	925,482 (37.5%)
Exchequer	*242,400 (10.2%)*	*245,200 (9.9%)*
Non-Exchequer	*655,610 (27.5%)*	*680,282 (27.5%)*
Amortisation of capital grants	52,920 (2.2%)	55,191 (2.2%)
Research grants and contracts	467,635 (19.6%)	465,460 (18.9%)
Other commercial income	370,022 (15.5%)	410,856 (16.7%)
Deferred income for pensions	276,863 (11.6%)	266,875 (10.8%)
Total Income	**2,381,276**	**2,468,140**

Source: PBO analysis based on data that was obtained *via* correspondence with the Irish Universities Association (IUA). The IUA compiled this data based on the information provided by individual HEIs.
Notes: Figures in parentheses detail the percentage of *Total Income* that each individual income source represents.

17 PBO calculation based on data received from the IUA.

The impact of COVID-19

The third level sector has played an active role in responding to the COVID-19 pandemic, contributing resources and making university facilities available for use.[18]

For example, third level expertise has been leveraged in developing epidemiological models, in training COVID-19 testers, and in trialling methods aimed at assisting in virus detection and treatment. University laboratory facilities have also been used in COVID-19 related diagnostic testing, while on-campus accommodation has been offered to provide bed space for HSE staff (estimates by the IUA suggest 5,000 bed spaces have been made available).

Universities are facing significant additional costs arising from the pandemic. These include costs related to the transition to remote learning and the provision of additional student supports, as well as investment in personal protective equipment (PPE) and losses in key revenue sources as a result of the administrative restrictions imposed in response to the crisis. The financial position of the sector pre-COVID-19, and the impact of the pandemic on this position, is outlined in the consolidated financial accounts shown in Table 2.

Table 2 shows the estimated impact of COVID-19 on each item of income and expenditure for the seven universities, relative to baseline projections. All seven universities are projecting a deficit for 2019/20 and 2020/21 as a result of the pandemic.

An income loss of €104 million is projected for 2019/20. The vast majority of this relates to losses in commercial revenue at 69% (23% relates to losses in research grants and contracts, while 7% relates to a loss in tuition fee income).

For 2020/21 an income loss of €244 million is projected. Of this, 71% relates to a loss in tuition fee income, while 64% relates to a loss in fee income from international students alone. A fall in other (commercial) revenue represents 26% of the loss.

Across both years, of the total income loss of €348 million, 46% (or €160 million) is due to a loss in fee income from international students, while 39% (or €135 million) relates to a loss in other commercial income.

Losses in "Other commercial income" can be further broken down as follows:

- Student accommodation (€23.5m and €13.5m for 2019/20 and 2020/21 respectively);
- Visitor attractions (€11.5m and €6m);
- Summer schools (€6m and €4m);
- Conferences & events (€6m and €2m);
- Other commercial revenues - including sport centres/gyms, catering, professional education, shops/rentals etc. (€15m and €28.5m); and,
- Other revenues – including losses in endowment income, philanthropic income etc. (€10m and €10m).

Figure 1 and Figure 2 illustrate the impact of the pandemic on income projections for the two years.

The loss in tuition fee income, as projected, will likely have financial implications for the sector beyond 2020/21, as students enrolling in that year would likely have enrolled for two to three additional years, depending on the duration of study. Other potential costs (not included in projections) that could arise, include delay claims from contractors regarding capital projects currently in progress. The IUA have suggested that (although highly uncertain), costs may be compensated to some extent by business interruption insurance claims, and payment for the provision of facilities/services (to the HSE and others).

18 Higher Education Research Activity in response to COVID-19, Higher Education Authority, 27 May 2020.

On the spending side, there are €19.5 million in savings now projected for 2019/20 (split between pay at €2.9 million and non-pay at €16.6 million), with €1.7 million in additional spending projected for 2020/21 (split between pay at €0.5 million and non-pay at €1.2 million).

This means that, overall, the net cost of COVID-19 for the university sector is projected to be approximately €83 million in 2019/20 and €245 million in 2020/21 - a total of €328 million over the two years. This is expected to result in a deficit for the sector of approximately €67 million in 2019/20 and €225 million in 2020/21 (a total of €292 million over the two years).

It is important to note that this projected impact does not take account of the Government's announcement of COVID-19 related supports for the sector, which should help to mitigate some of the projected losses. To date, €209 million has been announced by Government in COVID-19 related supports for higher education.

Table 2 – Projected impact of COVID-19 on university income 2019/20 and 2020/21

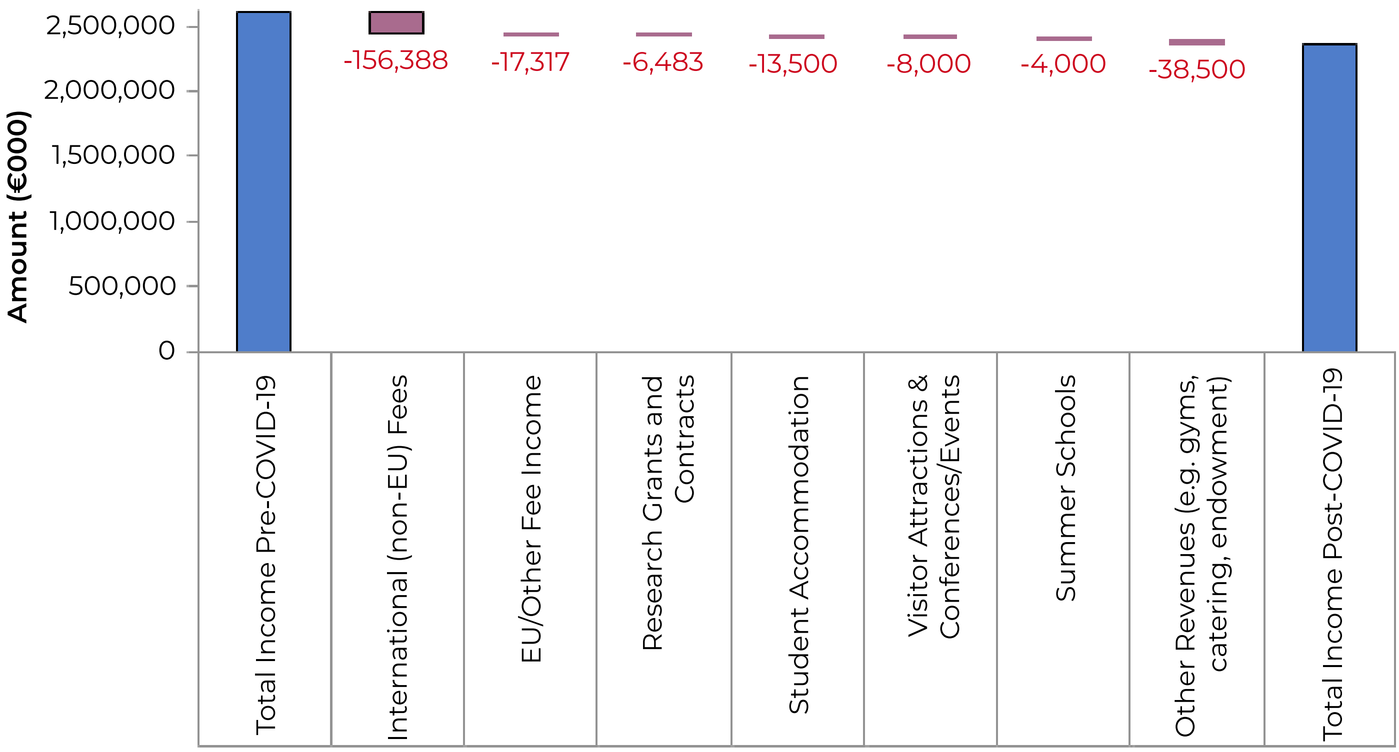
	2019/20		2020/21	
	(original, €000)	(revised, €000)	(original, €000)	(revised, €000)
INCOME				
State Grant	362,777	364,517 (+1,740)	379,545	379,545
Academic/Tuition Fees	978,831	971,209 (-7,622)	1,004,164	830,459 (-173,705)
Amortisation of capital grants	54,888	55,288 (+400)	55,762	55,762
Research grants and contracts	488,271	464,234 (-24,037)	480,862	474,379 (-6,483)
Other commercial income	412,261	340,346 (-71,915)	420,101	356,769 (-63,332)
Deferred income for pensions	267,360	267,360	267,910	267,910
Total Income	***2,564,388***	***2,462,954 (-101,434)***	***2,608,344***	***2,364,823 (-243,521)***
EXPENDITURE				
Pay	1,595,075	1,592,207 (-2,868)	1,623,557	1,624,057 (500)
Non-Pay	729,322	712,713 (-16,609)	736,640	737,838 (1,198)
Other (e.g. depreciation, interest payable, taxation etc.)	223,603	224,706 (1,103)	227,525	227,525
Total Expenditure	***2,548,000***	***2,529,626 (-18,374)***	***2,587,722***	***2,589,420 (1,698)***
Operating Surplus/Deficit	***16,387***	***-66,673 (-83,060)***	***20,622***	***-224,597 (-245,219)***

Source: PBO analysis of data obtained *via* correspondence with the Irish Universities Association (IUA). The IUA compiled this data based on the information and projections provided by individual HEIs.
Note: Figures in parentheses represent the difference between the original and the revised estimates. All seven universities are projecting deficits in 2019/20 and 2020/21, as a result of COVID-19.

Figure 1: Impact of COVID-19 on university income, academic year 2019/20

Source: PBO analysis of data that was obtained *via* correspondence with the Irish Universities Association (IUA). The IUA compiled this data based on the information and projections provided by individual HEIs.

Figure 2: Impact of COVID-19 on university income, academic year 2020/21



Source: PBO analysis of data that was obtained *via* correspondence with the Irish Universities Association (IUA). The IUA compiled this data based on the information provided by individual HEIs.

Conclusion

COVID-19 continues to have a transformative impact on Ireland's economy and the stability of the public finances. This note sought to provide an overview of the financial implications of the pandemic for Ireland's university sector, using data sourced from individual HEIs by the IUA.

State funding for higher education (allocated through Vote 26 of the Revised Estimates) peaked in 2008. Since then, HEIs have become increasingly reliant on non-Exchequer funding, specifically non-Exchequer fee income and income from commercial revenue sources. The pandemic has placed a significant portion of this income at risk.

Administrative restrictions on international travel, weak employment prospects for students and graduates, and the widespread transition to remote learning, means that fewer enrolments of international (non-EU) students are expected. Furthermore, restrictions on commercial activity have undermined key sources of commercial revenue for HEIs.

The net cost of the pandemic for the university sector alone is projected to be €328 million over 2019/20 to 2020/21, with all seven universities projecting deficits in each of these years. To date, €209 million has been announced by Government in COVID-19 related supports for the higher education sector at large.