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Will a pre-Brexit building boom now bust Britain's universities?

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At every glass, steel or thatch-clad turn of a British university campus, the building boom becomes apparent. The recent removal of controls on the number of students each university in England can admit has resulted in a mad scramble for students from both home and abroad as universities struggle to maintain their market share. Now the UK's decision to leave the EU could put the future of this strategy in doubt.

As a reaction to higher education's exposure to free market forces, universities have been spending money on new buildings and facilities. A Higher Education Statistics Agency (HESA) report for 2014-15 shows around £3.7 billion was spent on premises by British higher education providers. A report for the Russell Group states that their 24 member universities alone planned to invest £9 billion between 2012-13 and 2016-17.

Some are merely entering a building beauty contest in order to avoid becoming the rejected ugly duckling among emergent campus swans. Others are building for growth. If students can elect where they go to study then they want to ensure that their institution is the chosen one. State-of-the-art facilities will be used to vie for limited research grants.

The University of Huddersfield, where I teach, has spent more than £250m on providing new teaching space and facilities for increased student numbers. The University of York's £750m campus extension is designed to provide "scope for growth" in both teaching and research. The same is true of the University of Manchester's jaw-dropping £1 billion 2012-2022 Campus Masterplan which follows on the heels of their already massive investment in university estates since 2004.

Cranes over Manchester as part of a ten-year development plan. csmcr/flickr.com, CC BY-SA

What students want

Some 56% of UK university chief finance officers **interviewed by Deloitte in 2015** thought that estates investment was a number one priority for enhancing the student experience and securing the financial stability of their institution.

There are some merits to this strategy. In 2013, the **Higher Education Design Quality Forum** reported that 36% of students had rejected a university based upon poor infrastructure, buildings and facilities and a student survey by the **Association of University Directors of Estate found that 67%** viewed facilities as crucial when choosing where to study.

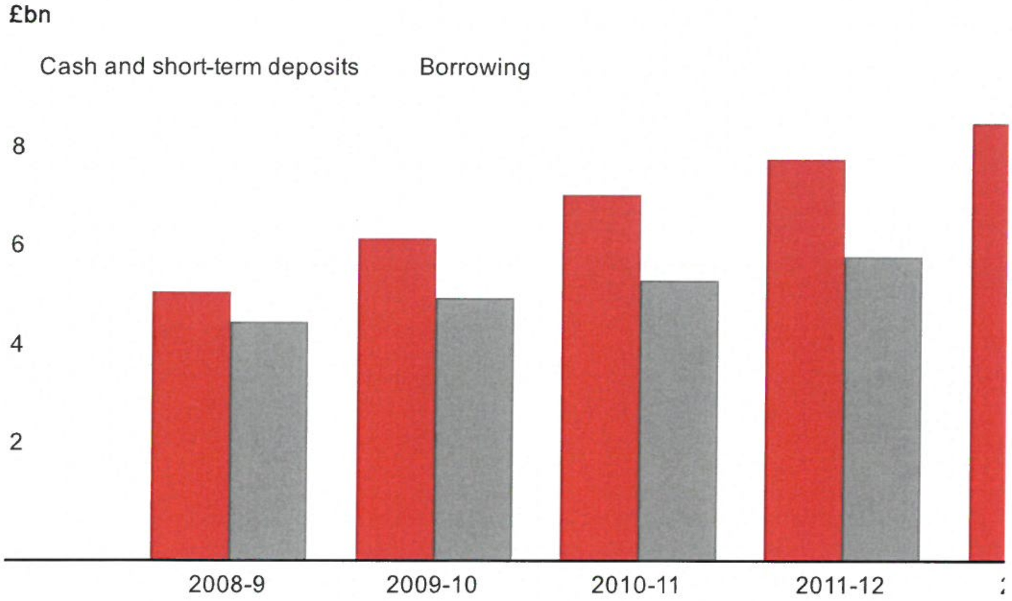
But other students are not impressed. Hundreds of students at **UCL** and **Bournemouth** are demanding compensation for work which they say has disrupted their sleep and study. In addition, almost half of respondents to a **2016 Higher Education Policy Institute survey** of students on their academic experience felt that universities should reduce spending on buildings.

Universities are funding their building projects through various sources including accumulated surpluses, bank loans, issuance of public bonds, partnerships and securing donations.

Huddersfield has purposefully pursued a **debt-free capital expenditure strategy**. This no-debt, risk-free approach may well appeal to the sensibilities of students and their parents as they seek university places.

Other universities have turned to debt to finance their building work. York issued **private bonds worth £66m** in 2007 which mature in 2047. In 2013, Manchester issued an **unsecured fixed rate £300m public bond** which will also mature after 40 years. Although bonds are generally subject to lower interest rates and fewer obligations than bank loans, both pose potential risks to the university as all debt incurs interest which must be paid by the borrower regardless of the level of revenue. Still, there remains a general trend towards increased levels of borrowing in Britain's universities, **which has risen 43.8% over the six years to 2013-14**.

Money coming in to universities



Source: Grant Thornton; Financial health of the Higher Education sector in the UK 2015 Get the data

Brexit turn-off

Brexit and changing demographics bring more risk to the table. The number of 18-year-olds in the UK is shrinking and will continue to do so for the next few years as a result of a **declining birth rate around the new millennium**. This leaves fewer students to go around.

But there are now question marks around the recruitment of EU students following Britain's decision to leave the EU, too. According to the UK Council for International Student Affairs, there were some **107,925 full-time, non-UK EU**) students studying in UK higher education in 2014-15. Assuming they pay £9,000 per year each in tuition fees, this generates around £1 billion per year.

Unsettling findings from an **International Student Survey** conducted by Hobsons found more than 80% of EU students will class post-Brexit Britain as a less attractive place to study. This poses a material potential loss of EU students and their accompanying income. More surprisingly, 35% of international students from non-EU respondents also agreed, indicating that the UK's image problem is wider.

Now Theresa May has become prime minister, concerns have emerged around increased toughness on overseas student visas, with **reports** that she is considering a further clampdown in order to bring down the UK's net migration figure.

The final, unquantified risk is the **potential loss of EU research funding** which brought **£687m** to British institutions in 2014. Losses of income could well leave universities with shiny but empty buildings, posing some serious financial problems to institutions already burdened by debt.

A **new government white paper** makes clear that universities will be allowed to fail as a healthy example of a "well-functioning market". Which university will confirm that the market is "working" by becoming the first to fail?

Building
Brexit
Student numbers