THE COST OF THE PANDEMIC

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Sustaining the sector

The pandemic could cost the Westminster government up to £12 billion extra in higher education funding for England over the long term in order to sustain the sector.

An increased number of domestic undergraduates starting university in 2020, coupled with lower graduate loan repayments across several cohorts, will add up to increased pressures on public financing of the system, according to a report from the Institute for Fiscal Studies.

The annual report on education spending in England says the country's income-contingent loan system means "that a large negative shock to graduate earnings can dramatically reduce lifetime repayments and hence increase the long-run cost of the system to government".

Universities face several risks to their finances, including pension deficits and reduced income from accommodation, conferences and catering.

By far the largest source of financial risk is staff pensions. Reduced interest rates and depressed rates of return have significantly increased the expected cost of pension promises, further increasing the already large deficit on the main university pension scheme. New deficit figures for that scheme suggest the long-run cost to universities could be as high as £8 billion, double our previous central estimate of around £4 billion. The long-run cost to universities could be reduced by changes to the structure of the scheme or by significant increases in employee contributions.