Financial sustainability of higher education providers in England

2024

Reference OfS 2024.21

Publication date 16 May 2024

Contents

Executive summary 2

Introduction 5

Financial health of the sector and future outlook 6

Key risks to the financial sustainability of the sector 8

Impact of inflation on costs and the real-terms value of income from UK undergraduates 8
Recruitment and reliance on further growth in student numbers 10
Exposure to reliance on international student fee income 10
Investment in facilities and carbon reduction 10
Cost of living 11
Providers' exposure to risks in combination 11
Longer-term view and risk mitigation 11
Implications of the steps providers take to mitigate risks 12

Student trends and recruitment 13

Student numbers over time 13
A changing recruitment landscape 15

Analysis of the latest financial data from providers 20

Financial performance 21
Financial position: Strength and resilience 34

Potential impact of reduction in student numbers: modelling outcomes 42

Scenario 1: No growth 43
Scenario 2: Minor reduction in student numbers 44
Scenario 3: Larger reduction in student numbers 44
Scenario 4: Significant reduction in international student numbers 45

Annex A: Summary of OfS roundtable meetings with finance directors 47

Roundtable meeting groups 47
Summary of discussions 47

Annex B: Scenario modelling – additional analysis 51

Variations in student recruitment 51
The modelling 52

Annex C: How we regulate financial sustainability 65

Annual financial return and other data sources 65
Engaging with the sector and other stakeholders 66
Modelling and stress testing 66

Annex D: Notes on the data 67

Annex E: Aggregate financial data 69

Executive summary

The Office for Students (OfS) regulates higher education providers in England and protects the interests of students in the higher education sector. To register and remain registered with the OfS, higher education providers must show that they are financially viable and sustainable. Providers submit financial information to the OfS, routinely after the end of their financial year and whenever something happens that is material to their financial sustainability.

This report sets out our impartial, independent view of the financial condition of the higher education sector and its resilience to financial challenge. It is based on our analysis of the financial data returned to the OfS from universities, colleges and other higher education providers in England (excluding further education colleges) for the financial year ending in 2023, and covers audited data showing actual performance for the years from 2021-22 to 2022-23 and forecast data for the years from 2023-24 to 2027-28. The analysis in this publication uses forecast data to 2026-27.

In recent years, like many other sectors, higher education providers have managed significant and multiple financial challenges. Throughout this period, the sector has responded by strengthening student recruitment, protecting its liquidity position and maintaining its strong asset base. While there is variation across providers, at the end of 2022-23, many had maintained a focus on sustaining cash reserves and their asset base in the face of further financial challenges.

Overall, providers are forecasting deterioration in the short- to medium-term financial outlook. Their data returns show that the sector's financial performance was weaker in 2022-23 than in 2021-22, and is expected to decline further in 2023-24, with 40 per cent of providers expecting to be in deficit and an increasing number showing low net cashflow.

The sector is predicting an improvement in outlook from 2026-27 onwards, however, this position is based on significantly optimistic predictions of student recruitment for the sector as a whole. Our modelling of different recruitment rates suggests that the actual outturn position for the sector in the short and medium term is likely to be even more challenging than providers have forecast and the longer-term recovery they forecast is significantly uncertain. Without the growth assumed in providers' student recruitment forecasts, our analysis suggests that the recovery providers are anticipating would be reversed and the financial situation would continue to weaken across the period to 2026-27 unless mitigating action is taken.

In aggregate, the forecasts submitted by providers assume growth of 35 per cent in international student entrants and 24 per cent in UK student entrants between 2022-23 and 2026-27. The latest data on undergraduate applications and student sponsor visa applications indicates that there has been an overall decline in student entrants this year, including a significant decline in international students. This contrasts starkly with the sector's growth forecast at an aggregate level. The international student market is showing increased signs of volatility, making it harder to predict which providers or types of providers will be most affected by changes in recruitment, especially among those that may be particularly exposed to changes in recruitment from individual countries.

As well as an increase in international student entrants, providers have on aggregate forecast a significant uplift in the tuition fees received from international students. Given the volatility in the international student market, it is not clear whether these increases can be achieved. The forecast

increase in income therefore heightens the impact on providers if international recruitment is not as expected and also creates a risk that less income is received from students who are recruited.

Providers need to be ready to manage this uncertainty. They need to have plans in place to respond proactively if they are not able to achieve their student number targets and to respond to other risks that may be present in their specific context. We know that many are taking action to secure their financial position. While this can involve making difficult decisions, leadership teams are right to take action to ensure their institutions are financially sustainable over the medium to long term and to ensure they can continue to provide a high quality education to students.

An increasingly challenging environment

Multiple factors are driving the financial challenges that the sector is facing. We expect some of these to increase over the forecast period to 2026-27, and this has to some extent been reflected in the weakened financial forecasts submitted by providers. However, on student recruitment in particular, we are concerned that the sector's forecasts are based on an assessment of potential growth that is too optimistic. The key drivers of continuing financial challenges include:

- Continuing decline in the real-terms value of income from UK undergraduates combined with inflationary and economic pressures on operating costs and the costs of developing buildings and facilities, as well as increasing employer contributions to some pension schemes.
- A recent apparent reduction in UK and international applications after years of strong growth, especially from international students.
- A higher education financial model that has become reliant on fee income from international students, with a particular vulnerability where recruitment is predominantly from a single country.
- The affordability of necessary estate maintenance and development and the significant cost of investment needed to reduce carbon emissions as part of providers' commitments to achieve net zero.
- Cost of living difficulties for students and staff, which challenge both student recruitment and the support needed by students during their time in higher education.

We highlighted many of these risks in our report last year, but their scale and immediacy have increased and we expect that to continue over the short term. These risks are explored in more detail later in the report, and we also explore how different risks can interact for different types of providers.

Managing financial sustainability

Financial performance and strength vary significantly between providers. However, projections from the sector's financial data show that an increasing number of providers will need to make significant changes to their funding model in the near future to avoid facing a material risk of closure.

We are seeing some strong examples of this in the sector, with providers proactively identifying risk and adapting their operating model to respond to the emerging challenges. Within the information submitted by providers, there are examples of steps to improve efficiency. Many providers have put significant focus on protecting their cashflow, ensuring they are well placed to

maintain their viability and are prepared for future financial risks. However, our view is that many providers will need to take additional, or more significant, action to fully respond to the financial risks that the sector is facing. It is important that providers are developing robust and realistic financial plans that incorporate stress testing and contingency planning. Our Insight brief on financial sustainability, also published today, explores these challenges and the steps providers can take to maintain financial sustainability and protect students' interests.[1]

This report sets out the aggregate position for the sector. The risks explained above, particularly those relating to student recruitment, will inevitably affect different providers in different ways. Different providers will also have different mitigations available to address risks as they arise. Context and operating environment matter and this means that it is not possible to draw conclusions from this report alone about the financial position of any individual provider.

In parallel to developing the sector-wide analysis in this report, we are assessing the data submitted by individual providers and engaging with providers as part of our risk-based regulatory approach. Providers are required to tell us when something happens that has a material impact on their financial viability or sustainability. We encourage any provider concerned about its financial position to get in touch with their OfS contact at an early stage.

We recognise that the bold steps providers may need to take to manage tightening finances and reduce costs are likely to have consequences. For some providers, responding to financial challenges will deliver positive change and innovation. Others will need to guard carefully against a negative impact on the quality of students' education and their wider experience.

At a system level, we are concerned about the aggregate impact of the many discrete decisions individual autonomous institutions are making in response to significant financial risk. Across the sector as a whole this may over time reduce student choice: in some subject areas, or in some regions, or for some types of students. The OfS has an important role in monitoring and reporting on financial sustainability, and intervening to protect the interests of students, as far as is possible, if a provider is at risk of closure. But we do not have the powers or remit to intervene to preserve provision or providers in support of sustaining the system as a whole.

This report sets out our analysis of the financial position of the higher education sector. It paints a picture that will be of concern to universities and colleges, and to their students. We hope it will inform future discussions about the implications of the risks we see affecting the sector in England, now and into the future.

[1] OfS, 'Navigating financial challenges in higher education', Insight brief #21.

Introduction

1. The OfS regulates higher education providers in England. To register and stay registered with the OfS, a provider must show that it is financially viable and sustainable. In addition, the OfS has a duty to monitor and report on the sustainability of higher education providers.
2. All registered higher education providers are required to submit financial data annually, including financial and student forecasts.[2] Where appropriate, we require some providers to submit financial information more regularly.
3. This report starts by setting out an overall view of the financial health of the sector and the future outlook. It then explores the key risks facing the sector. Since our last report in May 2023, the financial landscape has become more challenging and the risks have increased in scale. This section has been informed by engagement with the sector, including through a series of roundtable meetings with finance directors from a wide cross-section of providers. We have summarised our findings from these roundtables in Annex A.
4. The report particularly focuses on the risks relating to student recruitment because our view is that these risks have not sufficiently informed providers' forecasts. This section analyses how student recruitment is changing and the reasons we consider sector forecasts to be too optimistic.
5. The report then moves on to summarise our analysis of financial data, including forecast data, submitted by 269 higher education providers in their most recent annual financial return. We set out our analysis for different peer groups of providers to explore the context for different parts of the sector.
6. Most of this data was submitted in December 2023 and January 2024, or before. It may therefore not take full account of more recent trends in undergraduate applications for 2024 entry, nor the recent adverse trends in international recruitment. We have, however, considered the impact of these changes in applications in our modelling section.
7. Finally, the report sets out the results of the scenario modelling we have undertaken. Because of the increased levels of financial risk in the sector, we are adapting our approach to data collection to ensure the data we collect is timely and facilitates effective monitoring in key risk areas. We are also increasingly intervening with providers where there are potential risks to students' studies, to drive improvements in financial management and governance. For more information on how we regulate the financial sustainability of providers, see Annex C.

[2] Except further education colleges and sixth form colleges, where the Education and Skills Funding Council oversees financial performance.

Financial health of the sector and future outlook

8. Overall, at an aggregate level, the sector reported a decline in financial operating performance and strength in 2022-23, with surplus levels, operating cash flow and net liquidity falling compared with 2021-22. The overall financial performance in 2022-23 was similar to the level forecast by providers for 2022-23 in the previous year. Liquidity (measured at the end of the year in 2023) was lower than the previous year, by a small margin. However, it is stronger than was projected by the sector in the previous forecasts and this is evidence of the sector adjusting to protect its cash flow in the face of financial challenges.

9. The financial outlook has however deteriorated further since last year's projections, with the latest forecasts showing a further weakening of the financial position in 2023-24 with 40 per cent of providers forecasting a deficit in 2023-24. A gradual recovery in surplus and operating cash flow levels is projected by providers from 2024-25, but aggregate cash holdings are expected to decline across the forecast period from £16.5 billion (equivalent to 148 days of expenditure) in 2022-23 to £13.8 billion (102 days of expenditure) in 2026-27.

10. Overall, although financial performance is expected to be weaker than historical levels, the sector has forecast an improving outlook in the medium to long term. The sector's performance in aggregate does not reflect the picture for all individual providers, as financial performance and strength vary significantly. However, the latest projections show that the number of providers expecting to report deficits or low operating cash flow is much higher than projected in the past, and the financial environment remains significantly challenging.

11. The position set out above is based on providers' forecasts and the assumptions on which they are built and can only be relied on to the extent that those forecasts are credible. We are concerned that at an aggregate level, the sector's forecasts are too optimistic. In particular, aggregated income is forecast to rise by £10 billion between 2023-24 and 2026-27. However:

    a. Half of this increase arises from projected increases in tuition fee income from international students, with the sector forecasting an increase in EU entrants of 18 per cent and non-EU entrants of 36.2 per cent between 2022-23 and 2026-27.

    b. 22 per cent of this increase is from rises in UK tuition fee income, where the sector is forecasting an increase in entrants of 23.9 per cent during the same period.

12. These increases at a sector-wide level are not supported by the latest trends in student applications from UCAS, for undergraduate applicants, and from Home Office visa application data, which show declining numbers relative to the same point in the previous year. Reports suggest that recruitment of international students in the 2023-24 mid-year recruitment cycle could be in the region of 40 per cent or more below the same point in the previous year, and it is feasible that this scale of reduction could carry over into 2024-25. These reports from the sector, are at odds with the aggregate position shown in the forecasts submitted to the OfS, and there is a significant risk that the true financial position for the sector will be worse than that described above.

13. In addition as set out in more detail in paragraph 73, overall, providers appear to have forecast a large uplift in the average tuition fee received from international students. Given the increasing volatility in the international market, and the sensitivity in some particular countries to price and other economic factors, there is uncertainty about whether this uplift is achievable, resulting in increased risks that the forecasts could be too optimistic.

14. Given the increasing volatility in student recruitment described in paragraph 12, we have modelled a simple scenario where there are very modest increases in entrants from the UK and a 45 per cent reduction in international entrants across the sector in 2024-25 compared with 2023-24, with no further growth for the rest of the forecast period. We estimate this could represent a net reduction in income of over £4.3 billion in 2024-25 and over £8.4 billion by 2026-27, compared with providers' forecasts. This scale of impact would represent a significant challenge for the sector to overcome and based on the latest information about international recruitment, appears to be realistic.
15. We have modelled a range of other, more complex, scenarios to anticipate the potential financial impact of reduced income arising from lower student recruitment than the sector has forecast. Details of our modelling analysis are provided in paragraphs 142 to 161 and Annex B.

Key risks to the financial sustainability of the sector

16. The higher education sector in England is facing a number of financial risks and challenges, which are increasing in scale. Individual providers may be facing many of these simultaneously. In recent years, the sector has responded to challenges by strengthening student recruitment, protecting its liquidity position and maintaining its strong asset base. There will be significant variation between providers in terms of how they would be impacted if these risks occur, and the scale of the challenge they would face in mitigating the risks. For some providers, more significant mitigation plans may be needed to address the impact of these risks.

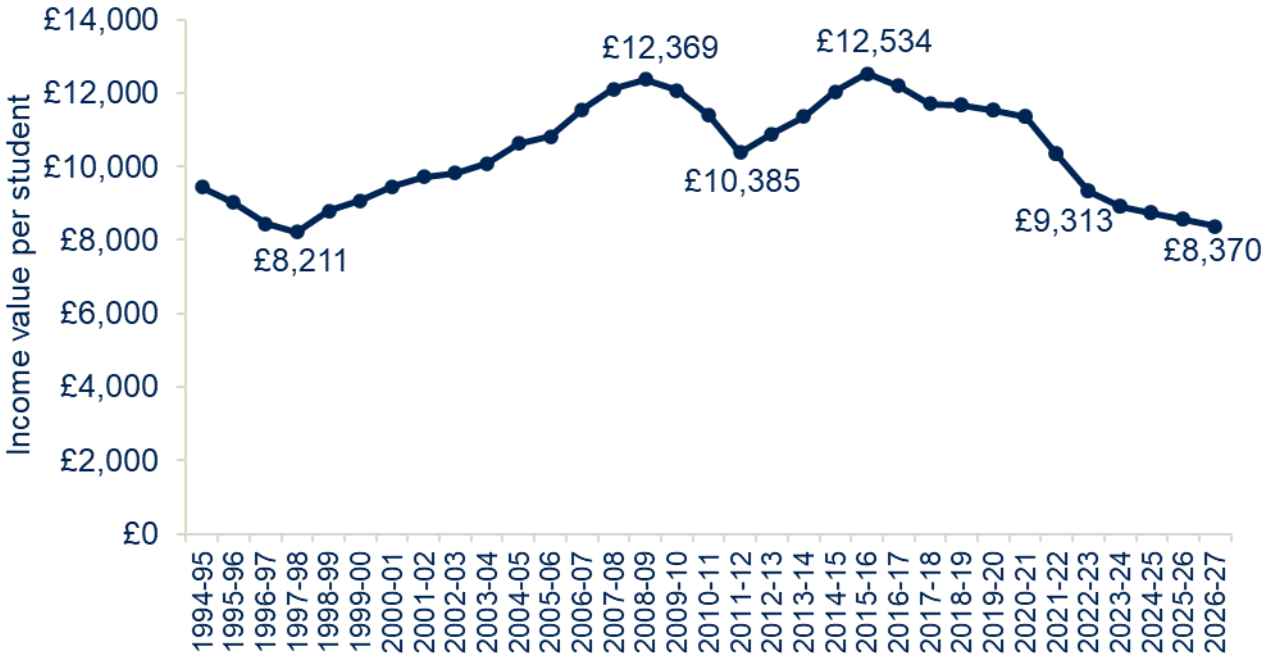
Impact of inflation on costs and the real-terms value of income from UK undergraduates

17. The value of money changes over time with inflation. By adjusting past and future monetary values, we can show past money at current value – in real terms. The statutory fee limit for UK undergraduate students has remained at a cash sum of £9,250 since 2017 with no inflationary increase. Its value today, in real terms, is much less than it was, as the prices of goods and services have increased, with particularly high rates of inflation in recent years.

18. Our analysis suggests that the 'real-terms value' of income for teaching UK students (tuition fee plus teaching grant from UK public funding, per UK student) is approximately 25 per cent lower than it was in 2015-16, when adjusted for inflation over time.[3] Figure 1 illustrates this. Inflation continues to put significant pressure on operating costs, and the financial performance of providers is being affected.

[3] At 2022-23 academic year price value. (Retail Price Index, excluding mortgage interest payments, inflation statistics. This is a price inflation metric appropriate for the measurement of operating costs over time.)

Figure 1: Teaching unit of resource (fees and grant per full-time equivalent student eligible for UK fees), valued in real terms at 2022-23 prices



Note: Source data includes Higher Education Statistics Agency (HESA) student and finance records to 2021-22 and OfS annual financial return data for forecast years (from 2022-23 onwards). The real time calculation uses inflation statistics from the Retail Price Index, excluding mortgage interest payments.

19. Over time, providers have taken action to adapt to the declining real-terms value of UK teaching income, per UK student, to support their financial sustainability. This has included generating efficiencies in costs, increasing scale (i.e. recruiting more UK students) and increasing non-publicly funded activities, which typically provide a higher financial contribution (e.g. teaching more international students or other commercial activities). There are risks associated with relying on student growth, and particularly on growth in international students, to underpin financial sustainability.

20. If this trajectory continues, some higher education ‘activities’ (for example, some research activity, taught courses or subject areas), as well as elements of costed activities that contribute to the student experience, could become unviable, at least at the level that students currently experience them. The aggregate impact of the many discrete decisions by individual providers to reduce costs is uncertain and, over time, could reduce student choice. Furthermore, if providers are not able to evolve and adapt successfully to the changing financial landscape, there is a significant risk that some will become unsustainable. This could lead to individual providers leaving the higher education market, causing disruption for students, and wider consequences for the regional and national contributions made by higher education providers.

Recruitment and reliance on further growth in student numbers

21. Recent trends in UK and international recruitment suggest that achieving providers' student recruitment aspirations is becoming much more challenging. This risk is discussed in more detail in paragraphs 41 to 61.

22. Making necessary financial adjustments if forecast recruitment is not achieved is potentially a very significant challenge for providers. More than 76 per cent of the forecast growth in total income across the sector between 2022-23 and 2026-27 is expected to be from tuition fee income and education contracts.

Exposure to reliance on international student fee income

23. There is a reliance within the higher education system on fee income from international students to sustain publicly funded teaching and research activities as well as other student support activities. This is an increasingly precarious model because:

    a. Factors that have previously driven successful growth in international recruitment can change quickly, and current indications suggest that this risk is increasing, with some significant variations for different countries.

    b. A significant proportion of international students are from a very small number of countries. International student recruitment can be influenced by numerous factors, including: political and economic circumstances in individual countries; global economics and currency movements; and international relations and global higher education competition. The UK has limited control over these factors, and this exposes higher education in England to risk factors outside its control.

    c. Because of the higher fees that international students pay, even small changes in the flow of fee income from non-publicly funded teaching activities could have a greater impact on the financial performance of an individual higher education provider, and on the sustainability of publicly funded teaching and research across the higher education system. This is demonstrated in some of the stress testing scenarios in this report.

24. The international student recruitment risk is explored in more detail in paragraphs 41 to 61.

25. In reality, a significant reduction in non-UK student recruitment would be likely to affect most parts of the sector to some extent, although there would be significant variation for different providers, and variation within peer groups of similar providers. Some providers will be more prepared for and insulated from this risk than others, and will have more mitigations available.

26. This scenario is also likely to prompt a market readjustment as providers take action to adjust to the changes. Some will be able to exert more strength in recruitment and be relatively insulated in later years, but others may lose further international students through competition. For these providers, the financial risk is likely to be exacerbated.

Investment in facilities and carbon reduction

27. Ongoing investment in infrastructure, facilities, and equipment (the capital cycle) is necessary for longer-term sustainability. The financial operating disruption brought about by the coronavirus pandemic and subsequent economic downturn has required businesses of all kinds to focus on protecting operating viability. Higher education providers have demonstrated

this by protecting cashflow and liquidity. For many providers this has meant a reduction in capital investments when compared with previous forecasts.

28. A long period of underinvestment in facilities could result in deterioration in condition and functional suitability, and an accumulating future investment need. There has also been a significant inflationary impact on the costs of capital development.

29. The sector also faces significant investment needs in meeting carbon reduction goals to achieve important net zero targets. These investments are estimated by the Association of University Directors of Estates in 2023 at £37.1 billion. This unlikely to be affordable in the current financial environment.

Cost of living

30. Continued increases in the cost of living are having an impact on many higher education students. These issues are likely to have a bearing on the decisions prospective students make about whether and when to enter higher education, or on the ability of existing students to progress through their course to completion. Recent downward trends in applicants to higher education providers are likely to be largely related to concerns about the cost of living.

31. Finance directors of providers from across the sector have reported significantly increased demand from students for financial and mental health support, and that the cost of delivering this support is increasing.

32. Cost of living increases also affect many staff working in higher education providers. Payroll costs represent a significant proportion of providers' total expenditure, and there is significant pressure to increase pay costs to mitigate rising living costs.

Providers' exposure to risks in combination

33. Each higher education provider will be exposed to a particular combination and scale of risks. These are likely to include additional challenges beyond those set out in paragraphs 17 to 33, often simultaneously.

Longer-term view and risk mitigation

34. Many higher education providers have taken, or are taking, action to manage tightening finances, including making cost savings, rationalising courses, modules and other activities, and making other efficiencies. However, the scale of the current financial challenges facing the sector means there is an increasing need for further and bolder efforts to make cost savings to maintain financial sustainability into the longer term. We have set out concerns in this report about the optimism in providers' student recruitment forecasts, and this means it would be prudent for many providers to consider how they would remain financially sustainable without the growth of UK students they have projected and with significantly fewer international students.

35. The ability of each provider to take appropriate action to mitigate the risks it faces will vary depending on its particular circumstances. We have seen providers pursue various strategies in response to financial pressures. All providers should be assessing their own risks and considering where early action may be needed to ensure long-term sustainability. We have

published an Insight brief alongside this report which contains more information for providers about these issues.[4]

Implications of the steps providers take to mitigate risks

36. Changes to a provider's operating model can be a healthy response to financial challenge. The sector as a whole has been in a relatively strong financial position for much of the past decade, and has expanded its delivery to more UK and non-UK students. The financial challenges it is facing now could be a catalyst to drive positive change and innovation. Actions being taken by providers can result in more efficient operation, and could have benefits for students, including improved value for money.
37. However, some of these strategies could have a negative impact on the quality of students' education and their wider experience. In this context, it is important that providers continue to meet their regulatory obligations, including those relating to quality, consumer protection and access and participation.
38. We also expect that we might see some changes to the size and shape of the sector, for example, through mergers and acquisitions or increase specialisation. We will continue to consider these factors as part of our work on financial sustainability.
39. The actions individual providers take to manage financial risk could, over time, have direct and indirect implications for the provision of higher education, including:
    - the choice, educational experience and support available to existing and prospective students
    - the development of skills for industry and to support local and national economies
    - the economic contribution that providers make to the regions in which they operate.
40. At an aggregate level, the steps providers take to address financial risks could affect the size, shape and reputation – both national and international – of the English higher education sector. In the longer term, sustained reductions in income to higher education providers and their ability to invest may have a significant impact. It will be important to recognise where this results in:
    - significant rationalisation of courses that are not financially sustainable, which reduces the breadth and depth of academic provision available to students
    - consolidation of courses and providers, as well as potential market exits, which reduces the range and diversity of providers and limits student choice
    - reduction of providers' research activities, particularly research they fund, which has an impact on system-wide research capacity and innovation
    - reduction in the extent to which providers can contribute to local and national economies.

[4] OfS, 'Navigating financial challenges in higher education', Insight brief #21.

Student trends and recruitment

41. Annual financial return (AFR) data submitted to the OfS indicates that in 2022-23 the total number of full-time equivalent (FTE) students studying at the 269 providers included in this analysis was more than 2 million. This included 851,305 FTE students who providers reported as ‘entrants’, i.e. those on the first year of their course.

42. Course fees and education contracts amounted to £24,326 million, 54.4 per cent of the total income for the sector. For individual providers, this can range from 0 per cent, where subcontracted course arrangements are in place, to 100 per cent of total income. Other income sources are set out in Table 4 and include grant income for teaching and research activity, as well as other income generating activities.

43. While the ‘retention’ of students, i.e. students continuing from one year to the next, is important from a financial perspective, this analysis focuses on ‘entrants’ because this is a better indicator of the attractiveness of English higher education to prospective students and is a core driver for a significant proportion of the sector’s income. Table 1 highlights student entrants and tuition fees, split by mode of study, for 2022-23.

Table 1: Student entrants and total tuition fees, 2022-23

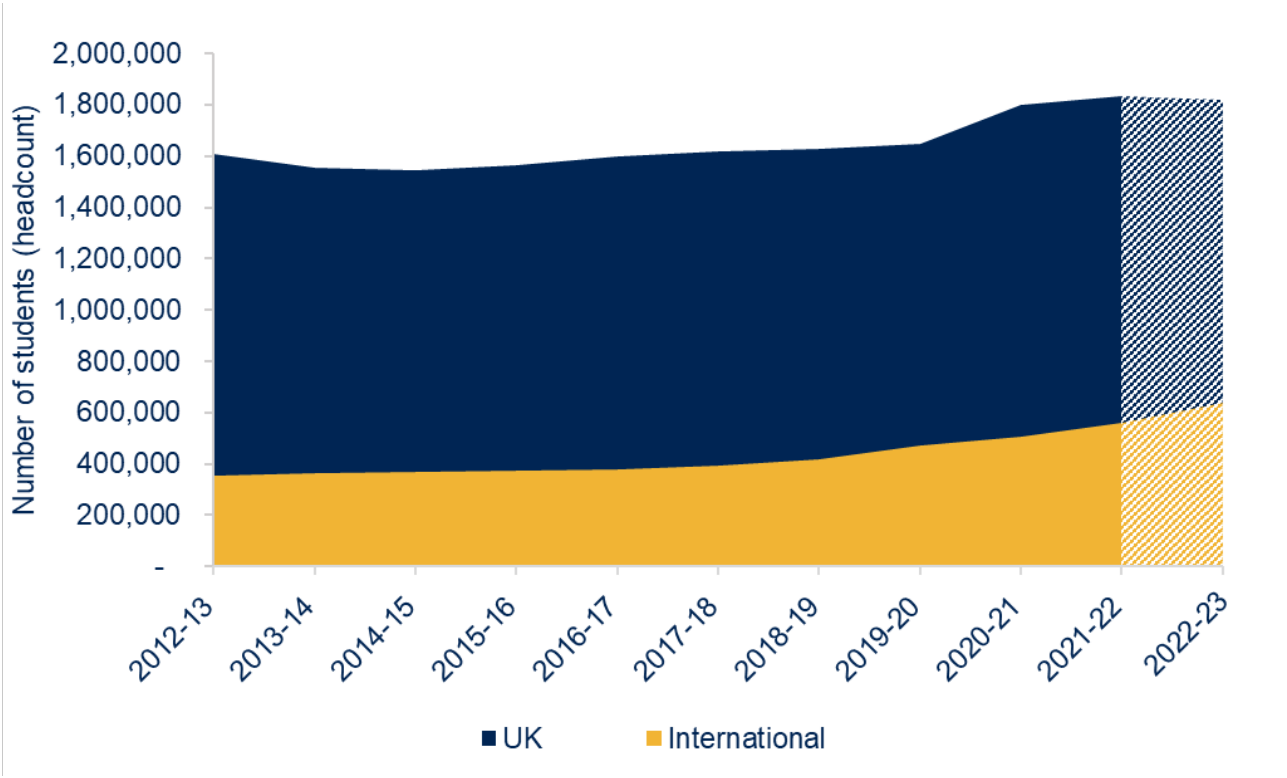
Level	Student entrants (FTE) 2022-23	Percentage of total entrants 2022-23	Tuition fees (all students) (£M) 2022-23	Percentage of total income 2022-23
Undergraduate	531,728	62.5%	£15,557	34.8%
Postgraduate taught	300,550	35.3%	£6,732	15.1%
Postgraduate research	19,027	2.2%	£707	1.6%

Data source: OfS AFR.

Student numbers over time

44. Higher Education Statistics Agency (HESA) student data submitted by providers to 2021-22, and projected student numbers for 2022-23 using OfS annual financial return data, show student numbers have increased significantly in the last decade. This includes an increase of nearly 80 per cent in total non-UK students since 2012-13. Figure 2 presents the trend in UK and non-UK student numbers between 2012-13 and 2022-23 and shows that the proportion of international students relative to total students has increased over this period.

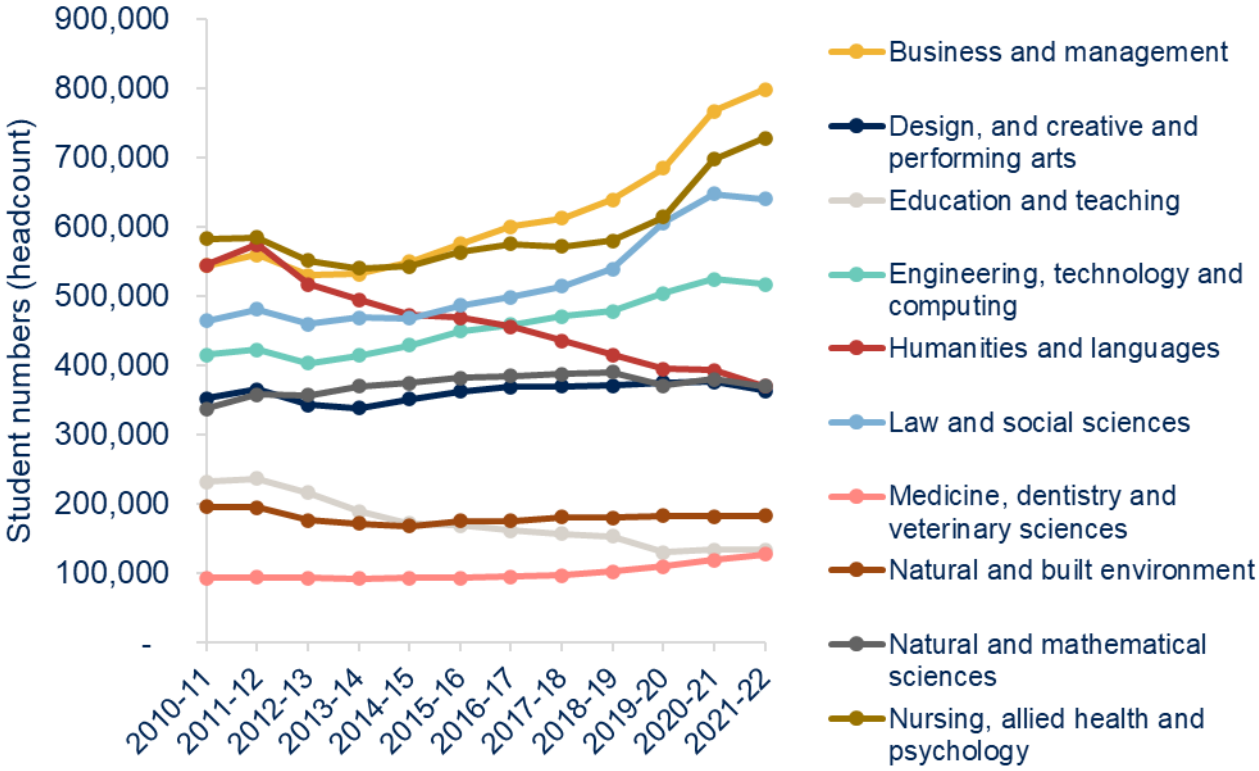
Figure 2: Student numbers, UK and international, 2012-13 to 2022-23



Data source: HESA student data to 2021-22. HESA student data for 2022-23 was not published at the time of writing. The shaded area is a projection for 2022-23 based on the trends indicated in the OfS AFR.

45. The HESA student data also shows the number of students by broad subject area, with some interesting variation, particularly since 2014-15. The growth in business and management, law and social sciences correlate with those subject areas that are often considered less expensive to deliver, where there is greater demand and where less specialised facilities and equipment are required for students' learning.

Figure 3: Undergraduate student numbers by broad subject of study



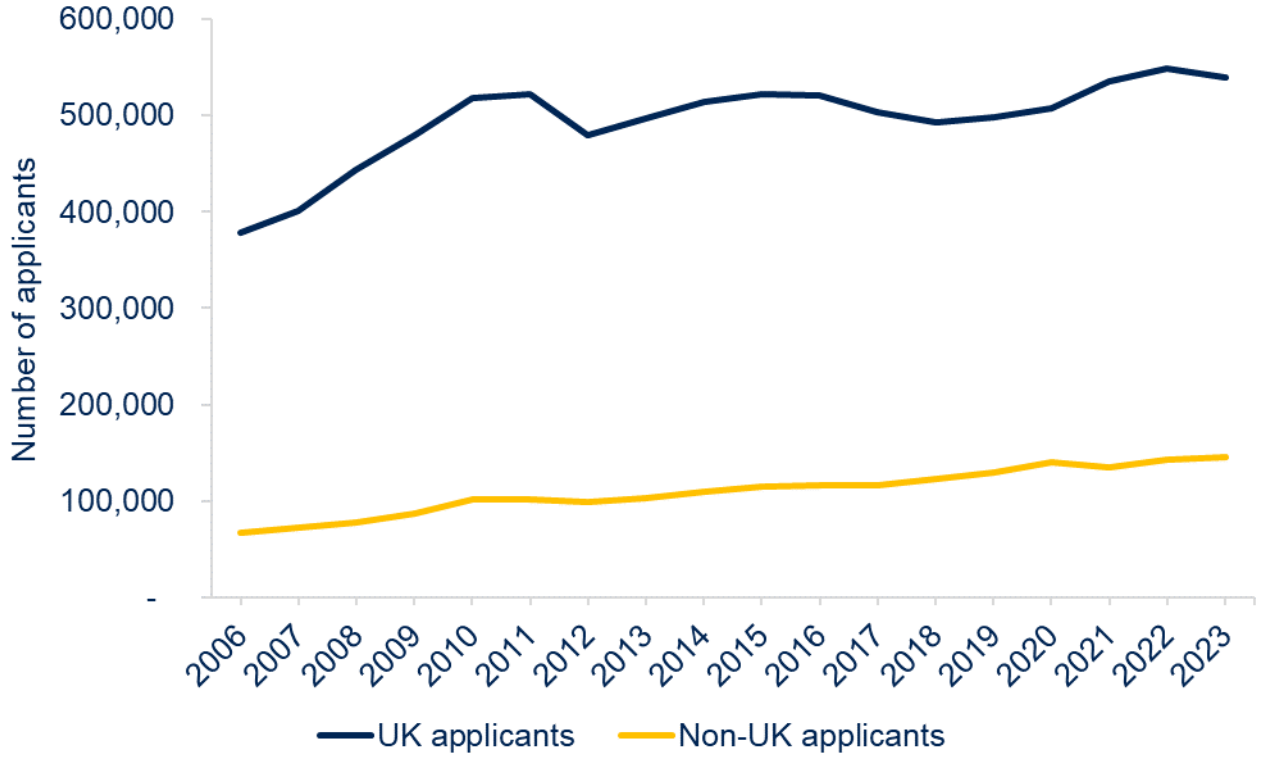
Data source: HESA student data.

A changing recruitment landscape

46. The sector has forecast in aggregate a 24 per cent increase in UK student entrants between 2022-23 and 2026-27. However, recent data suggests that this growth is too optimistic.

47. End of cycle UCAS data for undergraduate applicants and acceptances to English higher education providers shows steady levels of growth since 2006. However, the 2023 cycle shows an overall 1 per cent decline in UCAS applicants.

Figure 4: UCAS end of cycle applicants, 2006 to 2023



Data source: UCAS.

48. More recent data from UCAS, showing applications for the 2024-25 cycle at the January 2024 deadline, shows that the total number of UK undergraduate applicants to English providers has decreased further by 0.9 per cent compared with the same point in the previous year's application cycle. This is a smaller decline than seen between January 2022 and 2023, but shows a continuing downward trend in applications, which is a concern for providers wishing to expand recruitment.

49. In contrast to the UCAS end of cycle data for 2023-24, providers have forecast a total increase of 6.0 per cent in UK undergraduate entrant FTE numbers in 2023-24, compared with the previous year.

50. Applicant data from UCAS at the January 2023 deadline reported a decline of 3.1 per cent in UK applicants to English providers compared with the previous year. In the 2022 AFR, the aggregate position forecast by the sector was an increase of 6.3 per cent between 2021-22 to 2022-23 in UK undergraduate entrants. However, actual data reported by the sector in the 2023 AFR for the same period (2021-22 and 2022-23) shows a total increase of 0.1 per cent in UK undergraduates. This suggests that, for the past two years, providers' forecasts for UK undergraduate entrants have been above actual recruitment and therefore too optimistic.

51. Table 2 shows UCAS applicants split by student domicile.

Table 2: UCAS applicants to English providers, January 2022 to January 2024 deadlines

Domicile	January 2022 deadline applicants	January 2023 deadline applicants	January 2024 deadline applicants	Change 2023-24	Percentage change 2023-24
UK	446,760	432,930	429,140	-3,790	-0.9%
EU	18,550	18,130	17,360	-770	-4.2%
Non-EU	89,260	93,060	94,020	960	1.0%
Total	554,570	544,120	540,530	-3,590	-0.7%

Data source: UCAS.

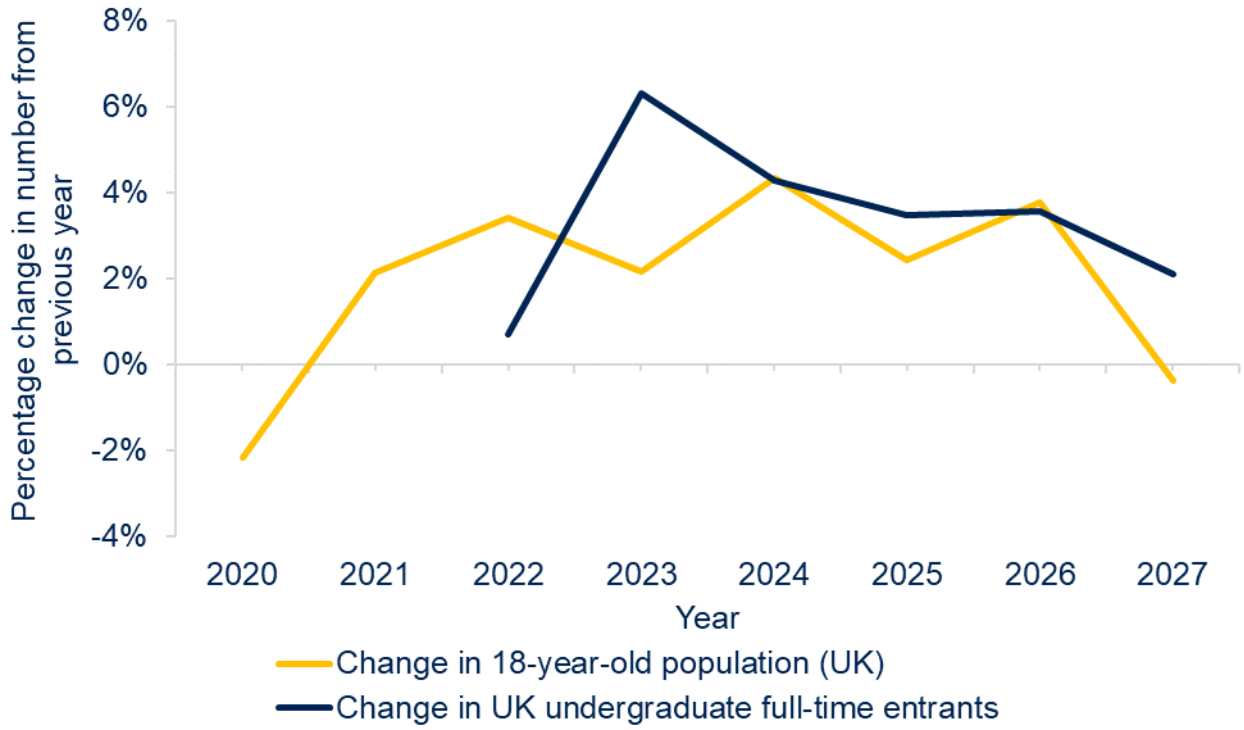
52. In 2023 the proportion of UK 18-year-olds entering higher education dropped to 35.8 per cent (from 37.5 per cent in 2022).[5] The reasons for this declining trend in participation are not clear, although they could relate to increased cost of living combined with below inflation increases in the available maintenance loan. They could also relate to good availability of employment or alternative training options. It also comes after a significant increase in the UCAS application rate immediately following the effects of the coronavirus pandemic. However, if this trend of declining entry rates of UK 18-year-olds continues, it is unlikely that all providers will meet their forecast recruitment targets.

53. The Office for National Statistics projects an increase of over 13 per cent in the UK 18-year-old population between 2022-23 and 2026-27. If applied to the number of UK undergraduate students entering higher education, this increase would result in an additional 53,379 students by 2026-27. The sector has forecast an increase of 75,525 FTE (18.8 per cent) in UK full-time undergraduate entrants between 2022-23 and 2026-27, which outstrips the projected demographic growth. Forecast growth therefore exceeds the rate of demographic growth. Combined with the downward trends in UCAS application rates discussed in paragraph 50, this leads us to conclude that the sector's forecast for UK student recruitment is unlikely to be achieved over this timeframe.

54. Figure 5 shows the change in the 18-year-old population between 2020 and 2027, alongside the change in UK undergraduate entrants from 2022 to 2026.

[5] House of Commons Library, 'Higher education student numbers', page 23.

Figure 5: Annual change in full-time UK undergraduate student entrants (from provider forecasts) compared with the estimated change in the UK 18-year-old population, 2020 to 2027



Data source: 18-year-old population data is based on Office for National Statistics estimates. UK undergraduate full-time entrants from OfS AFR. Note: 2023 to 2027 are based on providers' forecasts.

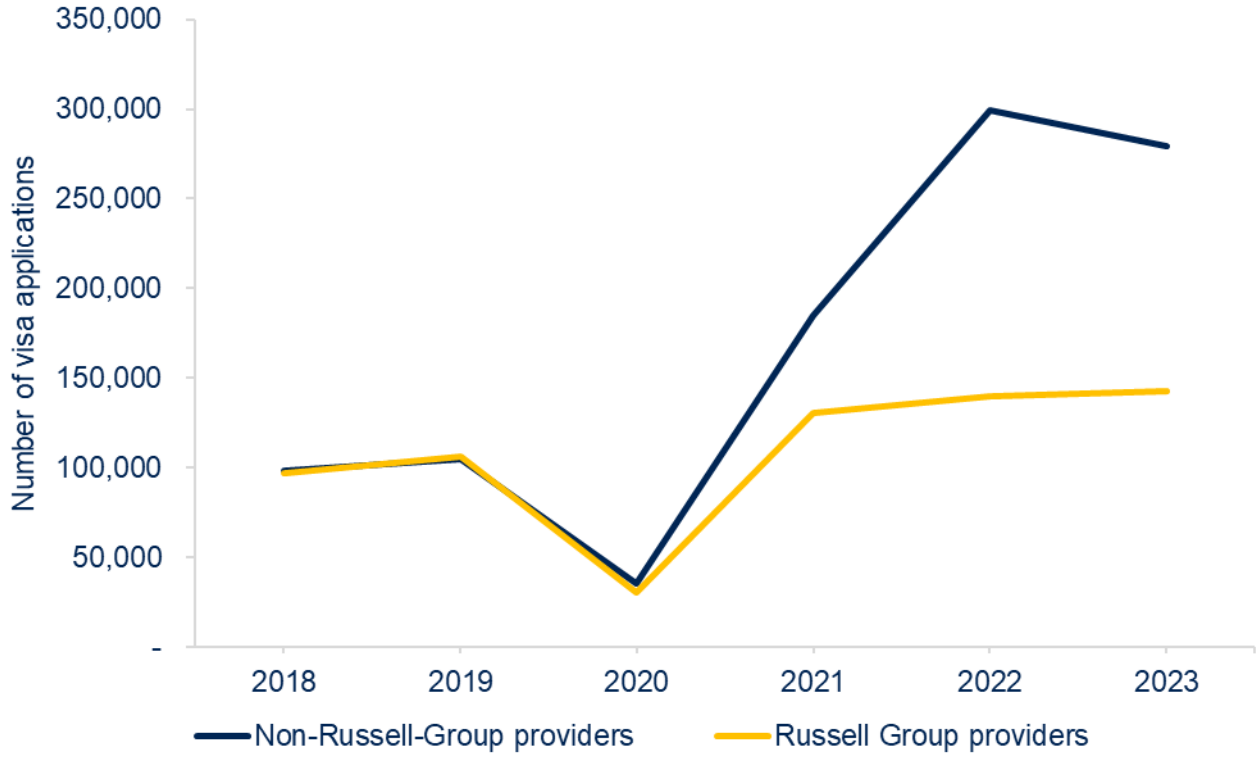
55. International recruitment has been a significant success story for English higher education in the recent past, with high levels of growth being achieved. International students make a significant contribution to higher education providers, and their fee income is a significant part of the financial model for some providers.

56. The sector has forecast that in aggregate international (EU and non-EU) student entrants will increase by 35 per cent between 2022-23 and 2026-27. However, there are more recent indications that international recruitment has become more challenging for providers.

57. As shown in Table 2, the number of EU UCAS applicants has decreased by 4.2 per cent between 2023 and 2024 (-6.4 per cent between 2022 and 2024). Non-EU student applicants via UCAS increased by 1.0 per cent between 2023 and 2024 (5.3 per cent from 2022 to 2024), although this increase is at a slower rate than in previous years. It is important to note that many EU and non-EU applicants apply without involving UCAS, so this data reflects only a portion of applications.

58. Published Home Office data shows a trend of declining applications from prospective students for study sponsored visas. Figure 6 shows the number of student visa applications to Russell Group and non-Russell Group providers from 2018 to 2023.

Figure 6: Summary visa applications by provider type



Note: Data as at 31 December 2023, published by the Home Office 29 February 2024.

59. More recent information from the sector suggests that mid-year recruitment in 2023-24 has been significantly lower than both historic and forecast levels, with suggestions of an average decline in entrants of over 40 per cent compared with the previous year, and a range of more significant reductions for individual providers.

60. The flow of international students to English higher education providers is influenced by a number of factors including the economic environment, currency values, geopolitical issues and global higher education competition. Changes in immigration policy could increase uncertainty and affect the reliability of forecasts in relation to future recruitment of international students.

61. Fluctuations in recruitment can have a significant financial impact on providers. Data has consistently shown that income from international student fees provides a positive financial contribution to wider higher education activities.[6]

[6] Data from the Transparent Approach to Costing data returned by providers to the OfS.

Analysis of the latest financial data from providers

62. We have analysed the data submitted by 269 registered higher education providers in England as part of the annual financial return. Table 3 provides a summary of key financial information for all higher education providers (excluding further education colleges).

Table 3: Summary of aggregate financial data from providers

Aggregate financial data	2021-22 (actual)	2022-23 (actual)	2023-24 (forecast)	2024-25 (forecast)	2025-26 (forecast)	2026-27 (forecast)
Total income	£41,176M	£44,703M	£46,377M	£49,315M	£52,184M	£54,621M
Surplus/(Deficit)	£2,290M	£1,284M	£357M	£1,112M	£1,785M	£2,116M
Surplus/(Deficit) as a % of total income	5.6%	2.9%	0.8%	2.3%	3.4%	3.9%
Cash flow from operating activities	£4,795M	£2,907M	£2,398M	£3,403M	£4,111M	£4,680M
Cash flow from operating activities as a % of total income	11.6%	6.5%	5.2%	6.9%	7.9%	8.6%
Net liquidity	£16,709M	£16,506M	£14,601M	£13,761M	£13,474M	£13,790M
Net liquidity days	168	148	123	111	104	102
External borrowing	£13,731M	£13,422M	£13,451M	£13,338M	£13,576M	£13,536M
External borrowing as a % of total income	33.3%	30.0%	29.0%	27.0%	26.0%	24.8%

Data source: OfS AFR.

Note: Surplus/(Deficit) is total income less total expenditure, excluding other gains or losses (from investments and fixed asset disposals), the share of surplus or deficit in joint ventures and associates, and changes to pension provisions.

63. At an aggregate level, the sector reported a decline in financial operating performance and strength in 2022-23, with a further decline expected in 2023-24. This means surplus levels, operating cash flow and net liquidity are all decreasing. This is contrary to the projections submitted last year, which showed that cash flow from operating activities and surplus levels were expected to start recovering in 2023-24.

64. Although there is a wide spread of financial performance between providers, which is not reflected in the aggregate indicators, our analysis found that 60 per cent of providers are now expecting to report weaker financial results in 2023-24 compared with their previous forecasts.

65. The latest projections also show that, for the remainder of the forecast period (2024-25 to 2026-27), providers have forecast aggregate financial performance that is weaker than historical levels.

Financial performance

Overall income

66. In aggregate, total income increased by 8.6 per cent, from £41.2 billion in 2021-22 to £44.7 billion in 2022-23. Providers are projecting this to rise further across the forecast period, to reach £54.6 billion by 2026-27.

67. Table 4 gives a breakdown of the sources of income across the sector in the period 2021-22 to 2026-27.

Table 4: Sources of income, 2020-21 to 2025-26

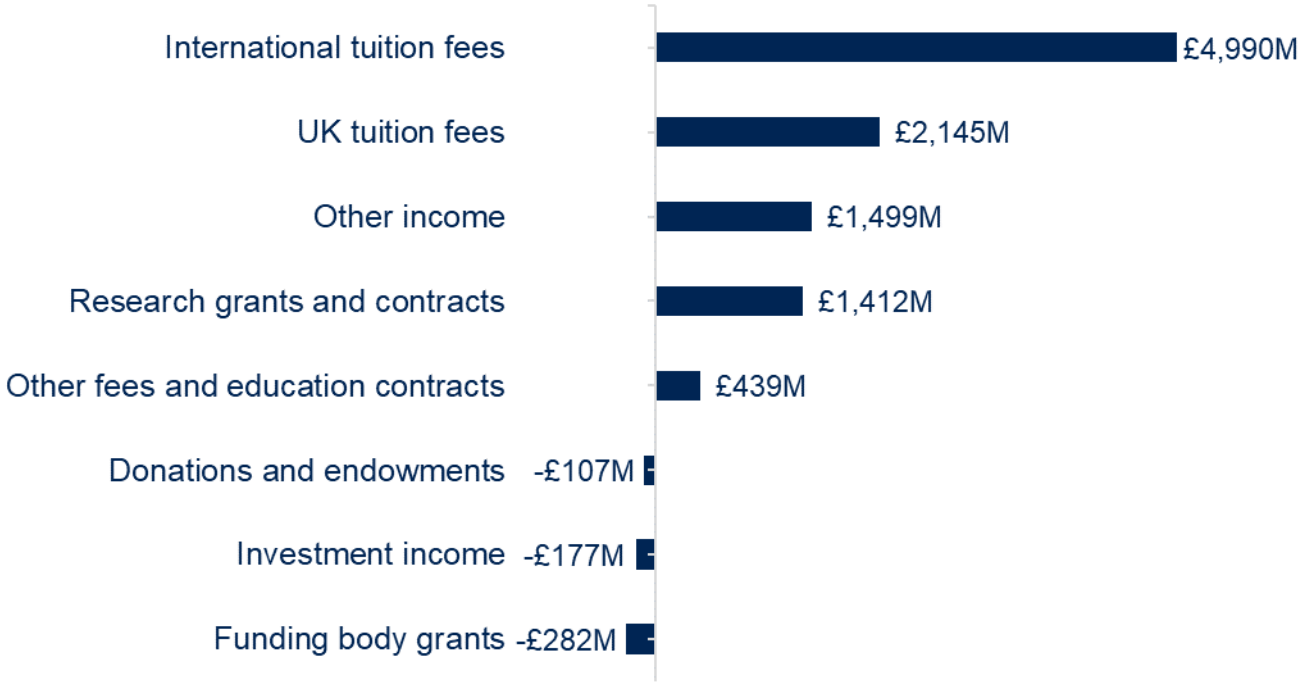
Income source	Income £M					
	2021-22 (actual)	2022-23 (actual)	2023-24 (forecast)	2024-25 (forecast)	2025-26 (forecast)	2026-27 (forecast)
Course fees and education contracts	22,771	24,326	25,921	28,036	30,026	31,900
Funding body grants	4,041	4,530	4,314	4,276	4,236	4,248
Research grants and contracts	5,748	6,018	6,288	6,665	7,020	7,430
Other income	7,468	8,079	8,297	8,806	9,389	9,578
Investment income	319	772	741	671	633	595
Donations and endowments	829	978	816	861	880	871
Total income	**41,176**	**44,703**	**46,377**	**49,315**	**52,184**	**54,621**

Data source: OfS AFR.

68. Providers have forecast an increase in aggregate income of £9.9 billion between 2022-23 and 2026-27, with much of this growth expected to come from a rise in income from course fees and education contracts. Within this, international (EU and non-EU) tuition fee income is projected to rise by £4,990 million and UK tuition fees income by £2,145 million.

69. The scale of these increases compared with changes in other sources of income over the forecast period is shown in Figure 7.

Figure 7: Breakdown of projected changes in aggregate income, 2022-23 to 2026-27



Data source: OfS AFR.

70. While aggregate projections show that providers expect total income to be 22.2 per cent higher in 2026-27 compared with 2022-23, below the aggregate level there is significant variation in the income projections of individual providers.

71. Table 5 shows the value and percentage change in income between 2022-23 and 2026-27 for all peer groups and the sector as a whole.

Table 5: Peer group analysis of changes in income, 2022-23 to 2026-27

Peer group	Forecast income change, 2022-23 to 2026-27	
	£M	%
Larger teaching-intensive	913	17.6%
Larger research-intensive	4,130	18.9%
Medium	2,114	20.4%
Smaller	1,150	37.2%
Specialist creative	473	33.0%
Specialist	633	33.9%
Level 4 and 5	505	53.3%
Sector	**9,918**	**22.2%**

Data source: OfS AFR.

72. As with the aggregate picture, the majority of income growth projected at a provider and peer group level is driven by forecast increases in tuition fee income.

Tuition fee income

73. Providers have forecast an increase of 31.0 per cent (£7,135 million) in total higher education course fee income between 2022-23 and 2026-27. Across the same period, they have projected a smaller increase of 16.5 per cent in FTE student numbers. Their fee income forecasts therefore generally suggest an increase in fee level per student. Providers have assumed minimal changes in UK fees. However, they have forecast an increase of 17.4 per cent, an additional £3,400, per non-EU student fee between 2022-23 and 2026-27. This may be ambitious given the overall context for international students that we have discussed in paragraph 60. In addition, demand in some of the countries that account for a high proportion of international students is more sensitive to economic factors, and therefore this level of fee increase may not be attainable.

74. Table 6 displays the predicted change in total tuition fee income by student domicile between 2022-23 and 2026-27.

Table 6: Forecast change in tuition fee income by domicile, 2022-23 to 2026-27

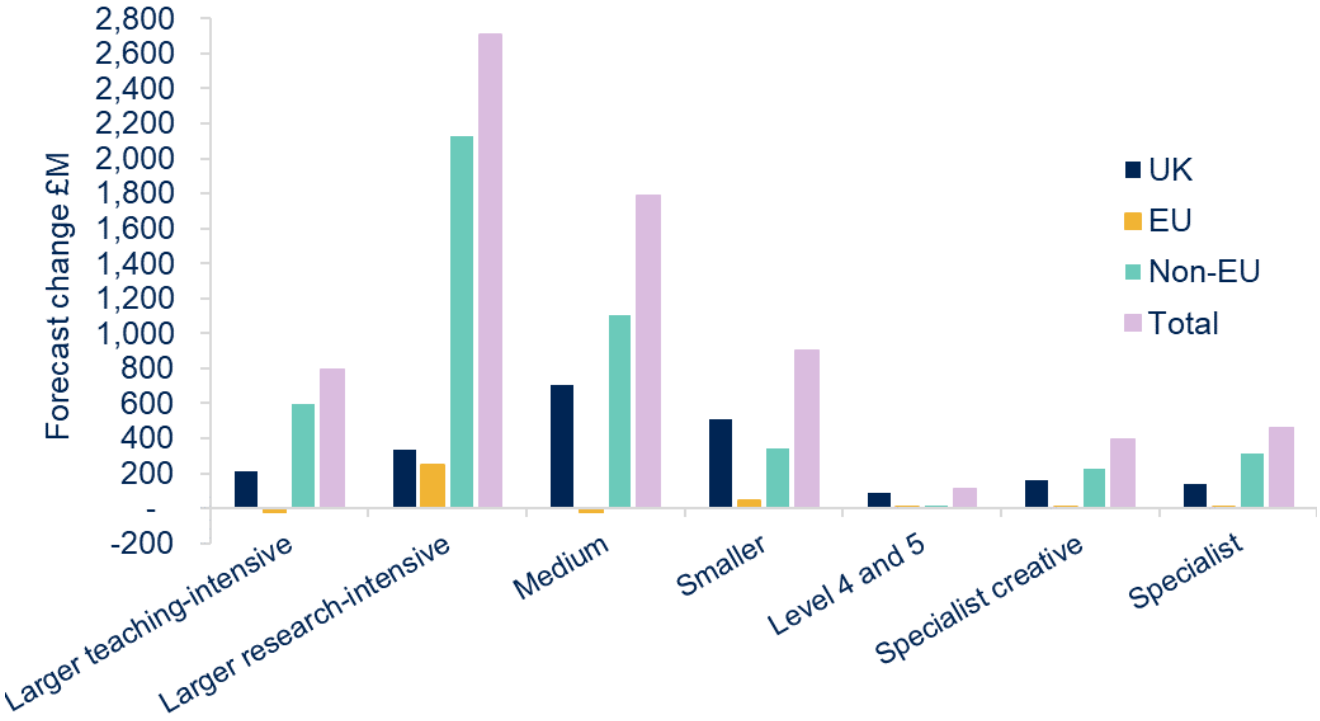
Tuition fee income by domicile £K	2022-23 (actual)	2023-24 (forecast)	2024-25 (forecast)	2025-26 (forecast)	2026-27 (forecast)	Forecast change 2022-23 to 2026-27		
						Tuition fee income change £M	Tuition fee income change %	Total student FTE change %
Total	**£22,996**	**£24,515**	**£26,518**	**£28,373**	**£30,131**	**£7,135**	**31.0%**	**16.5%**
UK	£12,657	£13,027	£13,639	£14,249	£14,802	£2,145	16.9%	14.7%
EU	£830	£911	£950	£1,021	£1,088	£257	31.0%	-20.8%
Non-EU	£9,509	£10,577	£11,928	£13,103	£14,242	£4,733	49.8%	27.6%

Data source: OfS AFR.

75. Forecasts for all peer groups show an increase in UK tuition fee income between 2022-23 and 2026-27. This projected increase ranges from an average 7.8 per cent rise for larger teaching-intensive providers to an average 74.3 per cent for Level 4 and 5 providers.

76. Medium and larger teaching-intensive providers have forecast a decline in EU tuition fee income from 2022-23 to 2026-27. All other groups have forecast an increase. This is despite some peer groups forecasting a decline in total EU student numbers over the same period. Those forecasting an increase in EU fee income but a decline in EU student numbers will be particularly reliant on a higher fee per EU student FTE to meet their fee income forecasts.

Figure 8: Forecast change in tuition fee income by domicile and peer group from 2022-23 to 2026-27



Data source: OfS AFR.

77. The sector has forecast an increase in total undergraduate tuition fee income from £15,557 million to £19,265 million between 2022-23 and 2026-27, a rise of 23.8 per cent (£3,708 million). Fee income from postgraduate taught courses is forecast to increase by 47.0 per cent (£3,162 million) to £9,894 million and for postgraduate research courses by 37.4 per cent (£0.265 million) to £972 million over the same period.

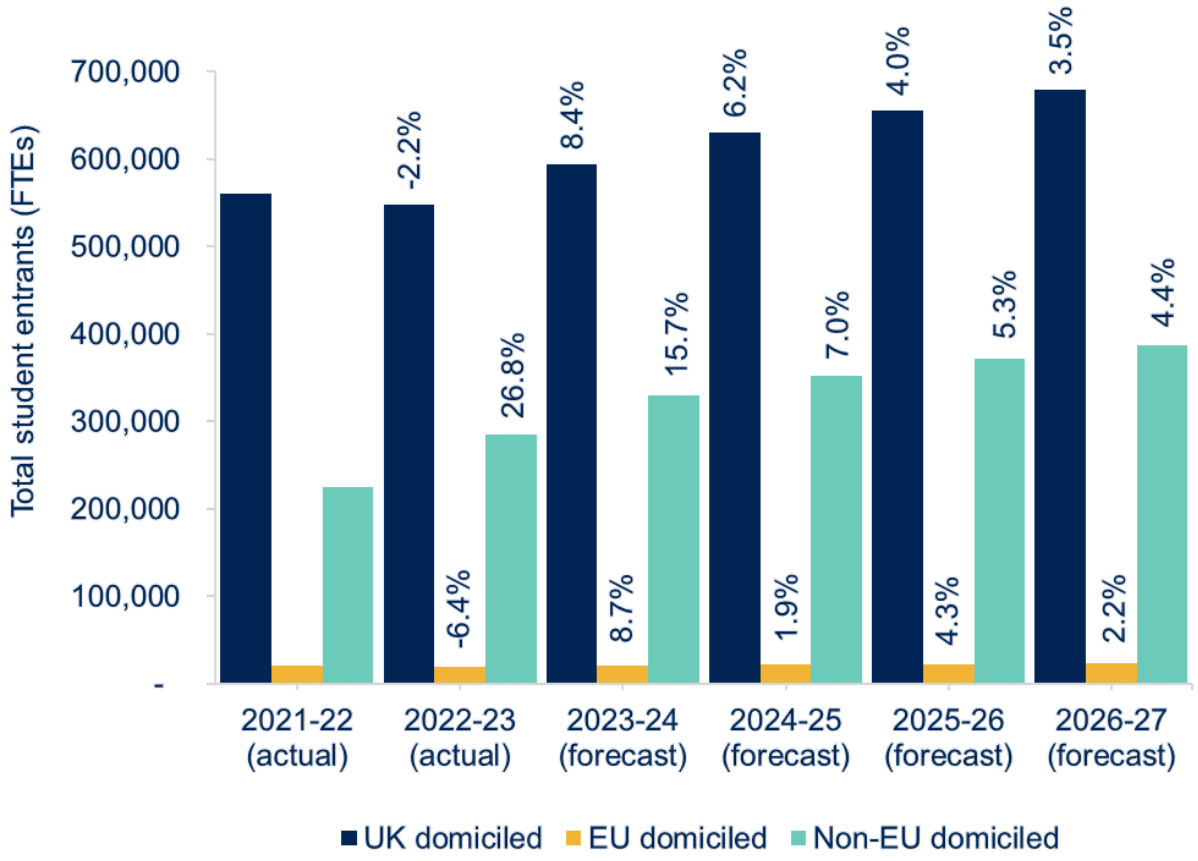
78. As a proportion of total tuition fee income, postgraduate taught fees have been forecast to increase annually over the forecast period from 29.3 per cent of total tuition fee income in 2022-23 to 32.8 per cent in 2026-27. Undergraduate fees as a proportion of total tuition fee income are forecast to decline from 67.7 per cent to 63.9 per cent over the same period.

Student numbers

79. At an aggregate level, providers reported a decline in both UK and EU domiciled entrants, of 2.2 per cent and 6.4 per cent respectively, between 2021-22 and 2022-23. However, despite the challenging environment in which providers are currently operating, as well as indications from UCAS applicant data and student visa applications, they have forecast annual increases of between 3.5 and 8.4 per cent from 2022-23 onwards for UK entrants and between 1.9 and 8.7 per cent for EU entrants. For non-EU entrants, the sector reported an increase of 26.8 per cent between 2021-22 and 2022-23 and has continued to estimate annual increases of between 4.4 and 15.7 per cent over the forecast period.

80. Figure 9 displays the annual change in actual and forecast entrants (FTE) by domicile across all levels of study.

Figure 9: Student numbers and annual growth for all entrants (FTE) by domicile (UK, EU, and Non-EU), 2021-22 to 2026-27

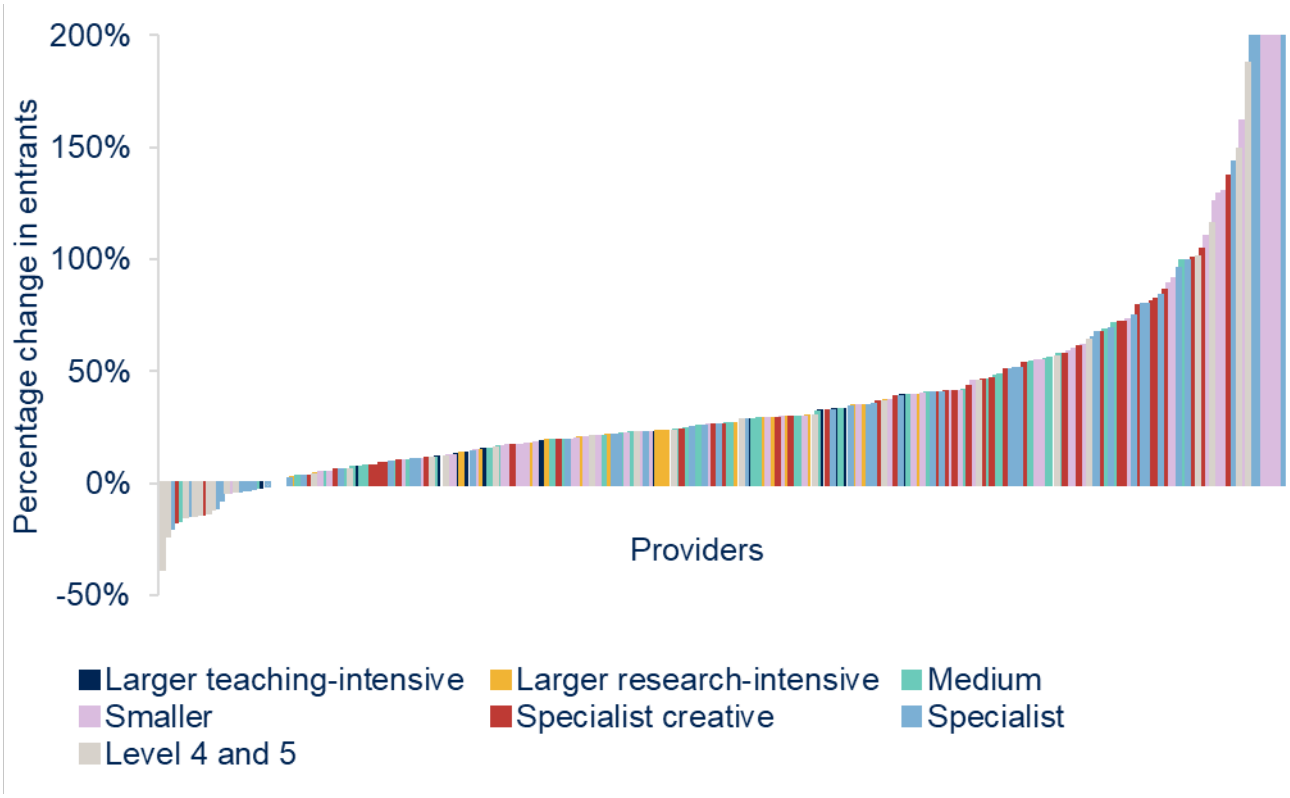


Data source: OfS AFR.

81. Providers forecast an increase of 27.9 per cent in total entrant numbers, at all levels of study between 2022-23 to 2026-27. However, 9.3 per cent of providers (25) are forecasting a decline in total entrants over this period. This is made up of nine Level 4 and 5 providers, nine specialist, two medium, two smaller, two specialist creative and one larger teaching-intensive.

82. Figure 10 displays the percentage change in total entrants between 2022-23 and 2026-27, by provider and highlighted by peer group.

Figure 10: Forecast change in total entrant numbers (FTE) by provider, 2022-23 to 2026-27



Data source: OfS AFR.

83. 29 providers have forecast an increase in their student entrants of 100 per cent or more over the forecast period. These are primarily providers with small numbers of students, and therefore the increase in actual student numbers is not significant.

84. Providers have estimated that UK, EU and non-EU entrant numbers will increase by 131,071 FTE (23.9 per cent), 3,526 FTE (18.0 per cent) and 102,906 FTE (36.2 per cent) respectively between 2022-23 and 2026-27.

85. Despite an increase in entrant numbers across all domicile groups, providers forecast total EU student numbers to decline by 14,815 FTE (-20.8 per cent) between 2022-23 and 2026-27. This is largely a continued impact of a very significant reduction in entrants following the removal of UK fee status for EU students from 2021-22. Total UK and non-EU student numbers are predicted to increase by 218,851 FTE (14.7 per cent) and 133,828 FTE (27.6 per cent).

86. At an aggregate level, providers have forecast that full-time undergraduate entrants (FTE) will increase by 21.0 per cent (103,240 FTE) between 2022-23 and 2026-27. Nearly three-quarters of this increase is forecast to be from UK students. Table 7 shows full-time total undergraduate entrants by domicile from 2022-23 to 2026-27.

Table 7: Full-time undergraduate entrants by domicile, 2022-23 to 2026-27

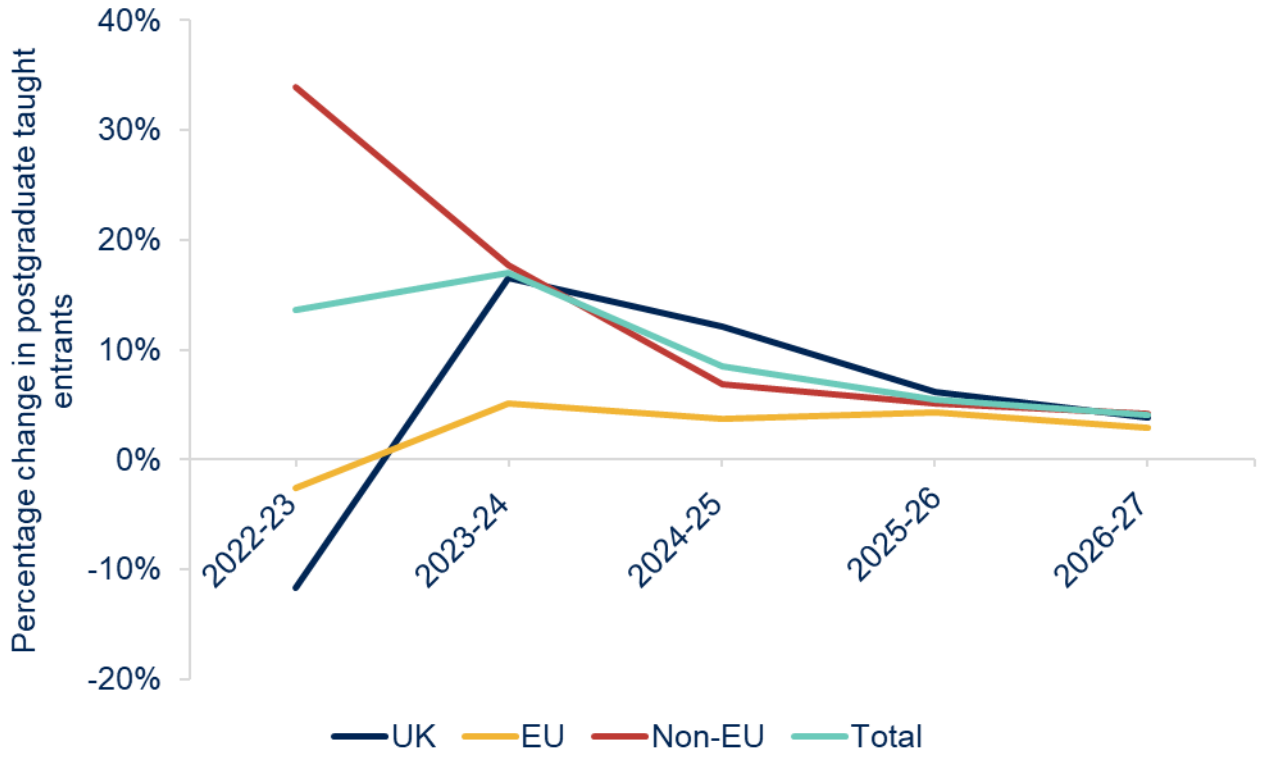
						Forecast change 2022-23 to 2026-27	
Full-time undergraduate entrants (FTE)	**2022-23 (actual)**	**2023-24 (forecast)**	**2024-25 (forecast)**	**2025-26 (forecast)**	**2026-27 (forecast)**	**FTE**	**%**
Total	**492,693**	**527,883**	**552,663**	**574,357**	**595,933**	**103,240**	**21.0%**
UK	401,785	427,136	445,424	460,869	477,310	75,525	18.8%
EU	9,638	10,804	10,761	11,285	11,464	1,826	18.9%
Non-EU	81,270	89,943	96,478	102,203	107,159	25,889	31.9%

Data source: OfS AFR.

87. The sector has forecast that postgraduate entrant numbers (FTE) will increase by 39.6 per cent (126,530 FTE) between 2022-23 and 2026-27. 93.4 per cent of this growth is from the taught postgraduate market, with all peer groups forecasting an increase.

88. Figure 11 displays the annual forecast change in taught postgraduate (PGT) entrants by domicile grouping, from 2022-23 to 2026-27.

Figure 11: Annual percentage change in postgraduate taught entrants (FTE) by domicile group, 2022-23 to 2026-27



Data source: OfS AFR.

89. Following an increase of 33.9 per cent in non-EU PGT entrants between 2021-22 and 2022-23, the sector's forecasts are for continued increases at a declining rate through the forecast period, from 17.7 to 4.2 per cent. UK and EU PGT entrants are expected to recover from a

decline between 2021-22 and 2022-23 (-11.6 and -2.6 per cent respectively), to surpass 2021-22 PGT recruitment by 2023-24.

International student numbers

90. In 2021-22, international students came to study in the UK from 239 different countries, and their tuition fee income (EU and non-EU) continues to make up a large proportion of income for the sector. In 2021-22, international fee income (EU and non-EU) accounted for 39.1 per cent of total fee income and 21.6 per cent of total income. This increased to 42.5 per cent of total fee income and 23.1 per cent of total income for the sector in 2022-23 and is predicted to rise to 48.1 per cent of total fee income and 28.1 per cent of total income by 2026-27.

91. International students represented 24.6 per cent of total students studying at English providers in 2021-22 rising to 27.1 per cent in 2022-23, based on OfS annual financial return data. Providers have forecast that this will increase to 28.3 per cent of total students by 2026-27.

92. Table 8 highlights the top ten source countries for international students from 2020-21 and 2021-22 (at all levels and studying in the UK) based on HESA student data. HESA student data for 2022-23 has not been published at the time of writing.

Table 8: Top ten source countries for international (EU and non-EU) students, 2020-21 to 2021-22 (sorted by largest 2021-22 student numbers by headcount)

Country	2020-21 (actual)	2021-22 (actual)	Proportion of total international students 2020-21	Proportion of total international students 2021-22
China	119,902	125,130	23.6%	22.3%
India	72,242	106,534	14.2%	19.0%
Nigeria	16,960	33,912	3.3%	6.0%
Pakistan	10,966	18,866	2.2%	3.4%
United States	13,384	15,843	2.6%	2.8%
Hong Kong	15,029	15,828	3.0%	2.8%
Malaysia	9,945	10,146	2.0%	1.8%
Bangladesh	5,406	10,034	1.1%	1.8%
France	11,783	9,988	2.3%	1.8%
Italy	12,430	9,601	2.5%	1.7%

Data source: HESA data, including amendments approved by the OfS data amendment panel.

Note: HESA student data for 2022-23 has not published at the time of writing this publication.

93. The number of Indian, Nigerian and Pakistani students studying at English providers increased by 34,292 students (headcount) (47.5 per cent), 16,952 students (100.0 per cent) and 7,900 students (72.0 per cent) respectively between 2020-21 and 2021-22. The number of Chinese students increased by 5,228 headcount (4.4 per cent) over the same period.

94. There has been a similar trend in the change in total student entrants by domicile between 2020-21 and 2021-22. Indian entrants increased by 29,184 students (headcount) (66.5 per cent), Nigerian entrants by 13,777 students (122.5 per cent) and Pakistani entrants by 6,032 (headcount) (84.1 per cent). Chinese entrants increased by 1,595 (2.0 per cent).

95. Visa data published by the Home Office indicates that international student numbers increased further in 2022-23, with a notable increase in student visa applications from India. However, despite the increase in Indian and Nigerian entrants between 2020-21 and 2022-23, more recent student visa data from the Home Office indicates a marked decline of 11.1 per cent in visa applications from Indian students, and a decline of 25.4 per cent from Nigerian students between the year ending December 2022 and the year ending December 2023. Visa applications from Chinese students appear to have increased by 4.7 per cent over the same period, although this is a smaller annual increase than has been seen historically.

96. Furthermore, as set out in paragraph 12, more recent intelligence from the sector suggests that there has been an even more significant decline in international students joining in the mid-year recruitment cycle for 2023-24.

Operating cash flow performance

97. Operating cash flow fell from £4,795 million (11.6 per cent of income) in 2021-22 to £2,907 million (6.5 per cent of income) in 2022-23.

98. Below the aggregate level, performance varies considerably between providers and peer groups. The peer group variation can be seen in Table 9, which shows the average cash flow levels for each peer group, together with a breakdown by quartile.

Table 9: Cash flow from operating activities as a percentage of total income, 2022-23

Cash flow from operating activities as a % of total income								
2022-23	**Sector**	**Larger teaching-intensive**	**Larger research-intensive**	**Medium**	**Smaller**	**Specialist creative**	**Specialist**	**Level 4 and 5**
Total cash flow from operating activities (£M)	2,907	425	1,130	823	283	120	62	65
Lower quartile	0.6%	5.9%	3.7%	4.4%	-3.8%	0.3%	-5.7%	2.6%
Average	6.5%	8.2%	5.2%	8.0%	9.2%	8.4%	3.3%	6.8%
Upper quartile	12.1%	14.3%	8.2%	11.6%	12.0%	15.8%	9.9%	20.7%

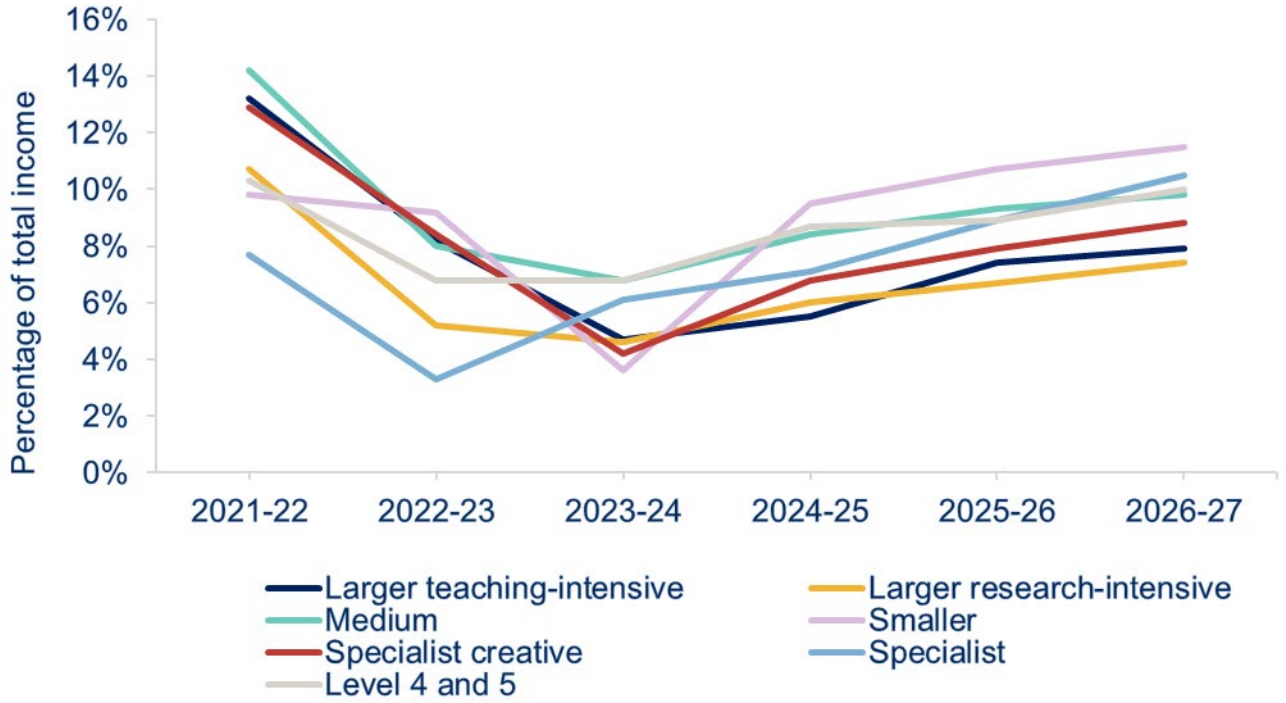
Data source: OfS AFR.

99. Projections show that, in aggregate, providers are expecting operating cash flow to fall further in 2023-24, to 5.2 per cent of income, before gradually rising from 2024-25 to reach 8.6 per cent of income by 2026-27.

100. This trend is repeated at a peer group level, with the exception of the specialist peer group, which expects operating cash flow to rise in 2023-24. However, even within this group, half of providers are projecting operating cash flow to fall in this year.

101. The peer group trend for the period 2021-22 to 2026-27 is shown in Figure 12.

Figure 12: Cash flow from operating activities as a percentage of total income by peer group, 2021-22 to 2026-27



Data source: OfS AFR.

Surplus

102. Surplus levels show a provider's ability to generate income above its costs, including the cost of depreciating assets. Generating surpluses over time is important to enable a provider to make investments in infrastructure and academic quality, as well as protecting against financial risk. Conversely, a deficit shows the extent to which a provider's costs exceed its income.

103. A deficit indicator should not, on its own, be used to judge longer-term sustainability. A business with continued, underlying deficits will not be able to cover its full costs indefinitely, and is therefore unlikely to be sustainable in the longer term. Although an extended period of consecutive deficits might, on the face of it, suggest weaker underlying financial performance, we consider supporting financial data and other contextual factors to determine whether a provider's financial sustainability is at increased risk.

104. Accounting treatments can often distort movements in surplus and deficit levels between years, meaning that there are risks in using surplus levels alone to assess underlying financial performance. Non-cash accounting adjustments relating to the Universities Superannuation Scheme (USS) and other defined benefit pension schemes can have a significant impact on total staff costs. This, in turn, affects surplus levels.

105. The impact of these accounting adjustments on surplus levels can distort the picture of underlying financial performance so, to aid comparability, we have excluded these pension scheme accounting adjustments from total expenditure, to show the sector's underlying surplus levels more accurately.

106. The latest data returns show that, on aggregate, surplus levels fell from £2,290 million (5.6 per cent of income) in 2021-22 to £1,284 million (2.9 per cent of income) in 2022-23, and providers have forecast these to fall further in 2023-24 to £357 million, equivalent to just 0.8 per cent of income. Thereafter, the sector is expecting aggregate surplus levels to rise but to be lower than historic levels.

107. As with other financial indicators, beneath the aggregate level, there is considerable variability within and between peer groups. Table 10 shows the forecast average adjusted surplus levels (excluding pension provision adjustments) for all peer groups for 2022-23, alongside the percentage of total income by quartile and average.

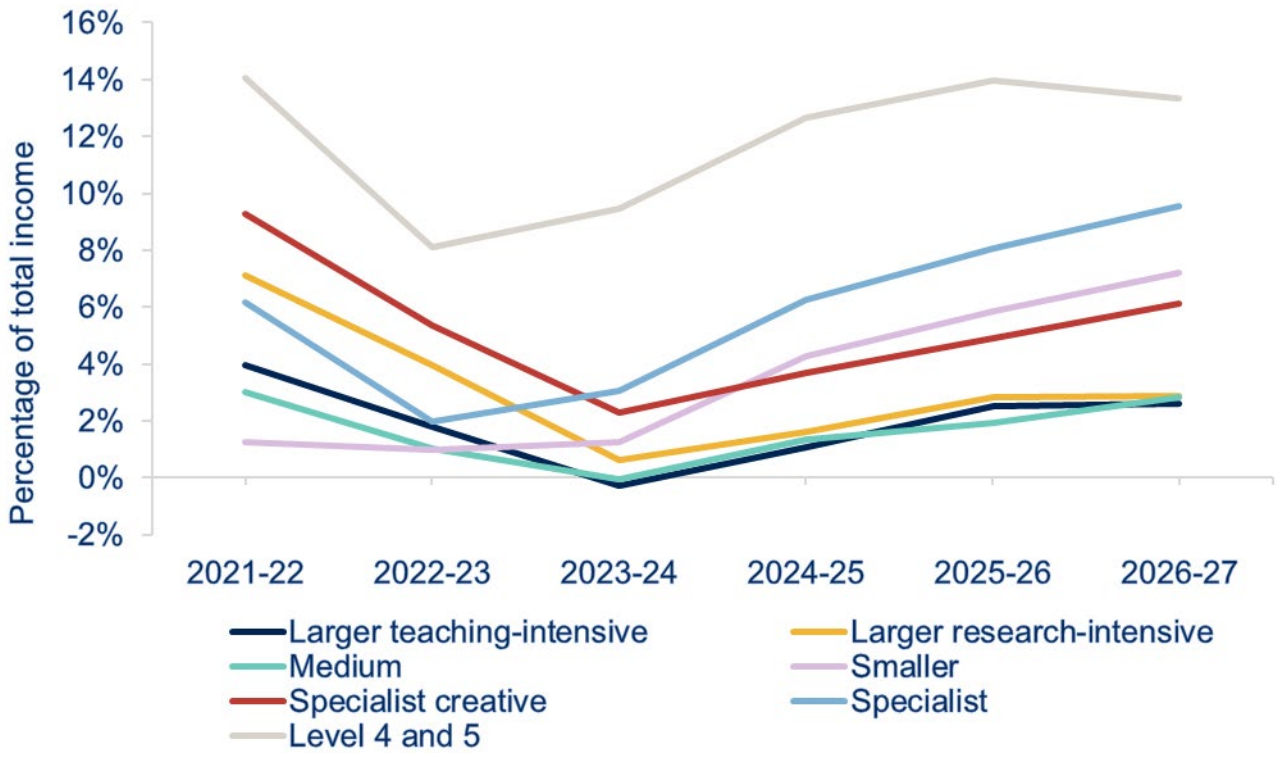
Table 10: Adjusted surplus as a percentage of income from providers' forecasts, 2022-23

Surplus as a % of total income								
2022-23	**Sector**	**Larger teaching-intensive**	**Larger research-intensive**	**Medium**	**Smaller**	**Specialist creative**	**Specialist**	**Level 4 and 5**
Total surplus (£M)	1,284	93	866	104	30	77	37	77
Lower quartile	-3.0%	-0.2%	0.6%	-3.1%	-8.5%	0.0%	-4.9%	1.3%
Average	2.9%	1.8%	4.0%	1.0%	1.0%	5.4%	2.0%	8.1%
Upper quartile	7.7%	6.8%	5.7%	5.3%	7.5%	9.4%	4.3%	19.0%

Data source: OfS AFR.

108. Figure 13 shows the variability of surplus levels across peer group for the period 2021-22 to 2026-7. Both the medium and smaller peer groups reported surpluses of 1.0 per cent of income in 2022-23, and in 2023-24 the larger teaching-intensive peer group and the medium peer group expect to report deficits of 0.3 per cent and 0.1 per cent of income respectively.

Figure 13: Surplus/(deficit) as a percentage of total income by peer group, 2021-22 to 2026-27



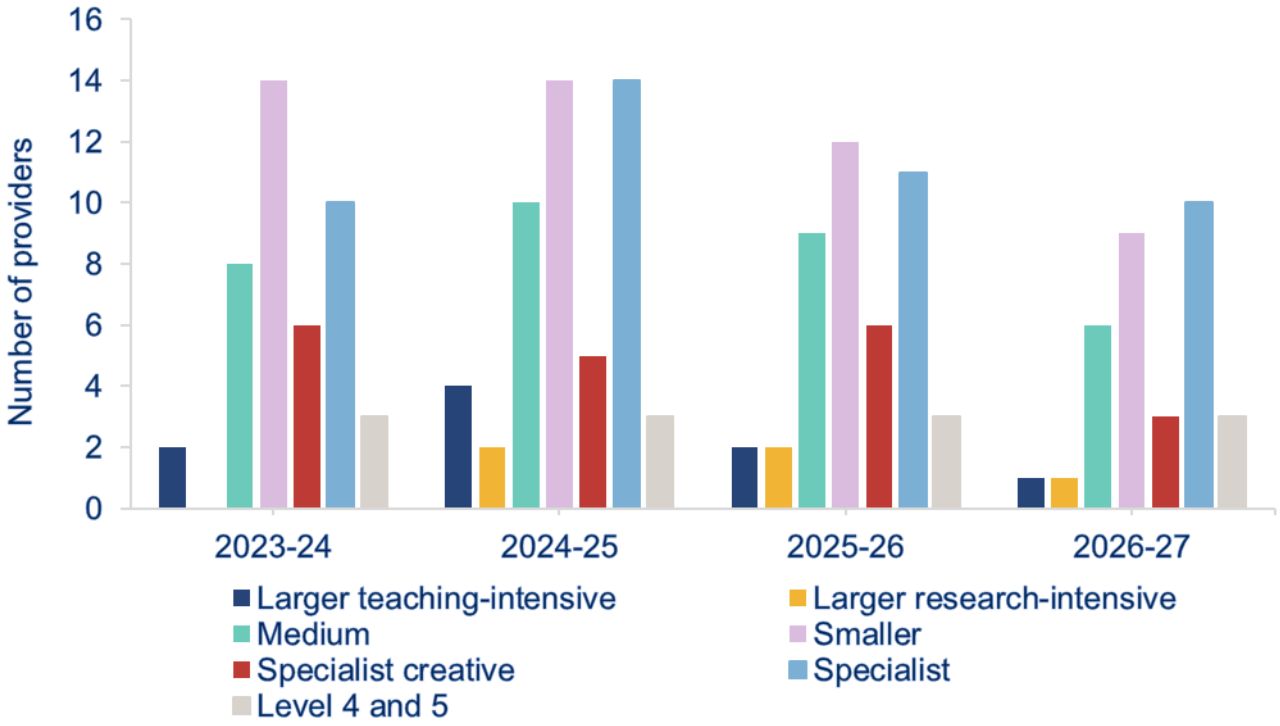
Data source: OfS AFR.

Note: Surplus/(Deficit) is total income less total expenditure, excluding other gains or losses (from investments and fixed asset disposals), the share of surplus or deficit in joint ventures and associates, and changes to pension provisions.

109. There is also considerable variation in the surplus and deficit levels reported by individual providers. In 2022-23, 43 providers (16 per cent of the sector) reported surpluses that exceeded 10 per cent of income, whereas 93 providers (35 per cent of the sector) reported deficits. Providers' forecasts show this increasing to 108 providers (40 per cent of the sector) in 2023-24, with 43 of these expecting to report a deficit for three consecutive years (2021-22, 2022-23 and 2023-24).

110. Figure 14 shows the number of providers by peer group forecasting three consecutive years of deficits (excluding pension provision adjustments).

Figure 14: Number of providers forecasting three-year consecutive deficits, 2023-24 to 2026-27



Data source: OfS AFR.

111. In aggregate, total expenditure (adjusted to exclude pension accounting adjustments) increased by 11.7 per cent, from £38.9 billion in 2021-21 to £43.4 billion in 2022-23. Providers have forecast this to increase further in 2023-24, by 6 per cent, reflecting further inflationary pressure on costs. Between 2024-25 and 2026-27, expenditure is forecast to rise by an average of 4.5per cent.

112. A breakdown expenditure by cost type for the period 2020-21 to 2026-27 is shown in Table 11.

Table 11: Expenditure by category, 2021-22 to 2026-27

Expenditure £M	2021-22 (actual)	2022-23 (actual)	2023-24 (forecast)	2024-25 (forecast)	2025-26 (forecast)	2026-27 (forecast)
Staff costs (excluding pension adjustments)	20,672	22,537	24,294	25,565	26,779	28,058
Restructuring costs	105	89	84	61	27	26
Other operating expenses	15,039	17,245	18,072	18,802	19,655	20,352
Depreciation and amortisation	2,585	2,791	2,815	3,054	3,202	3,314
Interest and other finance costs	485	756	755	720	735	728
Total expenditure (excluding pension adjustments)	38,886	43,418	46,019	48,203	50,399	52,505
Pension adjustments	5,630	-1,169	-2,950	2	7	3
Total expenditure	**44,516**	**42,249**	**43,069**	**48,204**	**50,406**	**52,507**

Data source: OfS AFR.

Note: Aggregate interest and finance costs are low in 2021-22 as they include material fair value accounting adjustments relating to bond liabilities that were made by a small number of providers.

113. As discussed in paragraph 104, non-cash accounting adjustments relating to pension schemes can have a significant impact on staff costs and so we have shown these separately in Table 11. In 2022-23, these accounting adjustments caused expenditure to fall by £1,169 million, driven by a decrease in the USS pension provision.

114. Table 11 shows that the USS pension provision is expected to decrease again in 2023-24, to coincide with the improvement in the USS funding position, following the March 2023 valuation. However, as set out in paragraphs 134 to 141, only a small proportion of providers have included these pension adjustments in their 2023-24 forecasts, and so the aggregate figure will be significantly higher than that reported in Table 11.

Financial position: Strength and resilience

Cash holding

115. In aggregate, the sector's cash holding fell 1.2 per cent, from £16.7 billion at the end of 2021-22 to £16.5 billion at the end of 2022-23. As a result, net liquidity days (the number of days of average cash expenditure that are covered by the cash holding) decreased from 168 to 148 at the end of 2022-23.

116. Table 12 shows net liquidity days for 2022-23 by quartile across all peer groups, with the lowest liquidity days reported in the specialist and Level 4 and 5 peer groups.

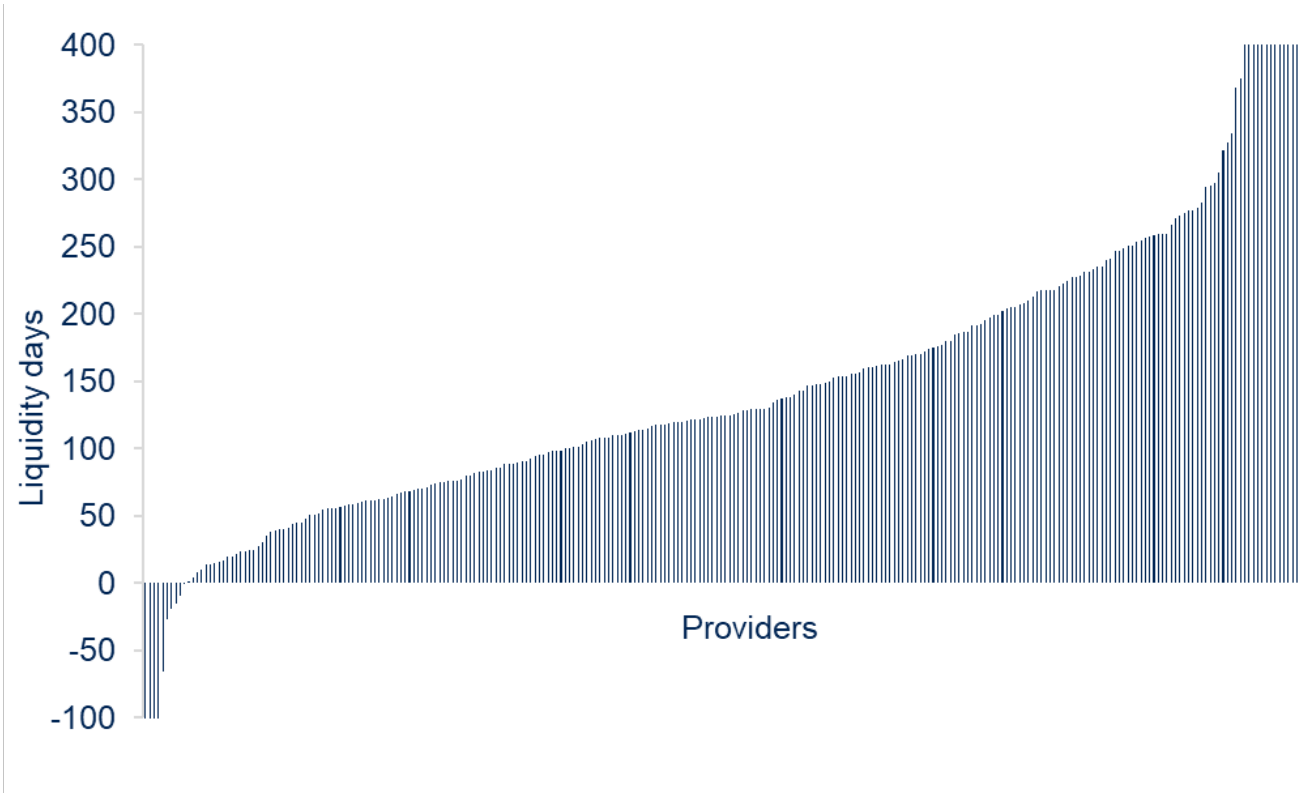
Table 12: Net liquidity days, 2022-23

Liquidity days								
2022-23	Sector	Larger teaching-intensive	Larger research-intensive	Medium	Smaller	Specialist creative	Specialist	Level 4 and 5
Total net liquidity (£M)	16,506	2,443	7,787	3,777	1,244	512	529	215
Lower quartile	74	134	122	80	88	55	60	58
Average	148	185	145	145	157	145	112	93
Upper quartile	205	227	192	206	222	158	169	211

Data source: OfS AFR.

117. Cash holdings continue to vary considerably across peer groups and providers. Figure 15 shows net liquidity days at the end of 2022-23 for all providers, demonstrating this variability.

Figure 15: Net liquidity days by provider, 2022-23



Data source: OfS AFR.

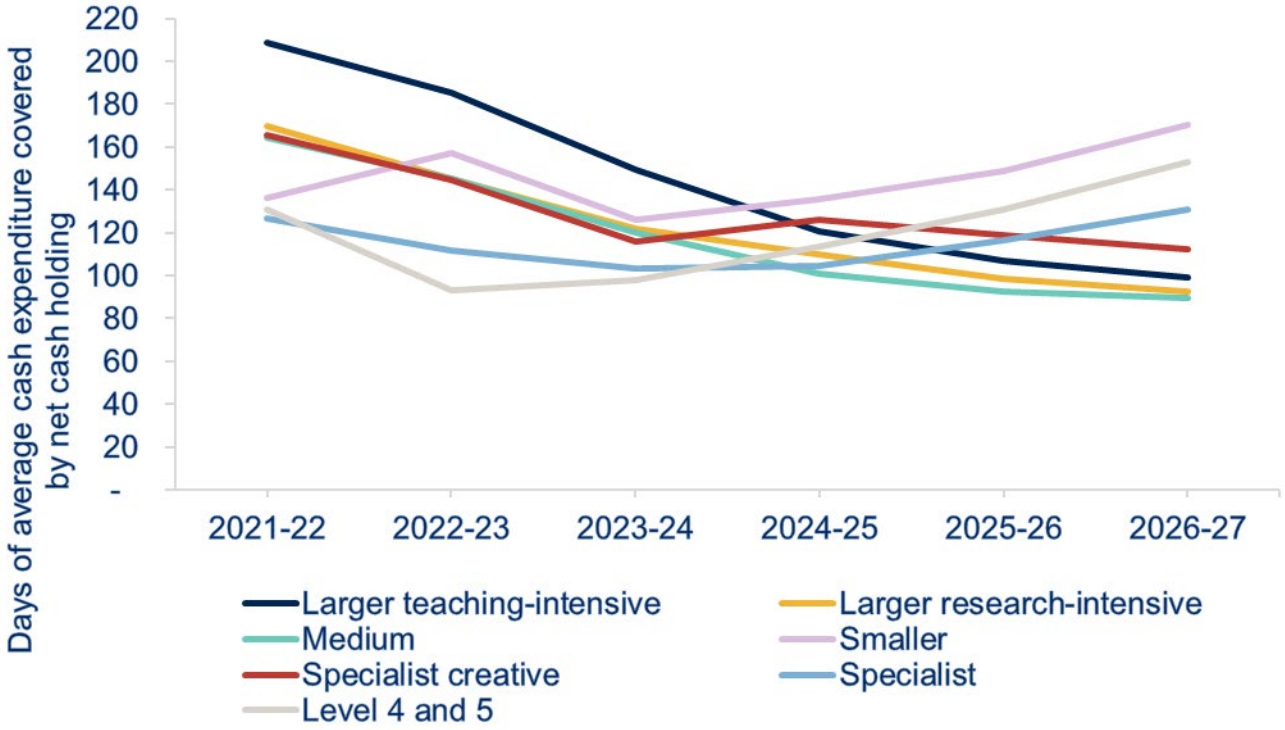
Note: 13 providers reported net liquidity above 400 days and four reported negative net liquidity of below 100 days.

118. This variability can also be seen across peer groups. Figure 16 shows average net liquidity days for each peer group for the period 2021-22 to 2026-27. This shows that all groups,

except for the smaller peer group, reported a drop in liquidity days in 2022-23 and all groups, except for the Level 4 and 5 peer group, are projecting that net liquidity days will fall again in 2023-24.

119. Projections vary more widely from 2024-25, with the smaller, Level 4 and 5 and specialist peer groups forecasting that liquidity days will rise and all other peer groups forecasting a decline.

Figure 16: Net liquidity days by peer group, 2021-22 to 2026-27



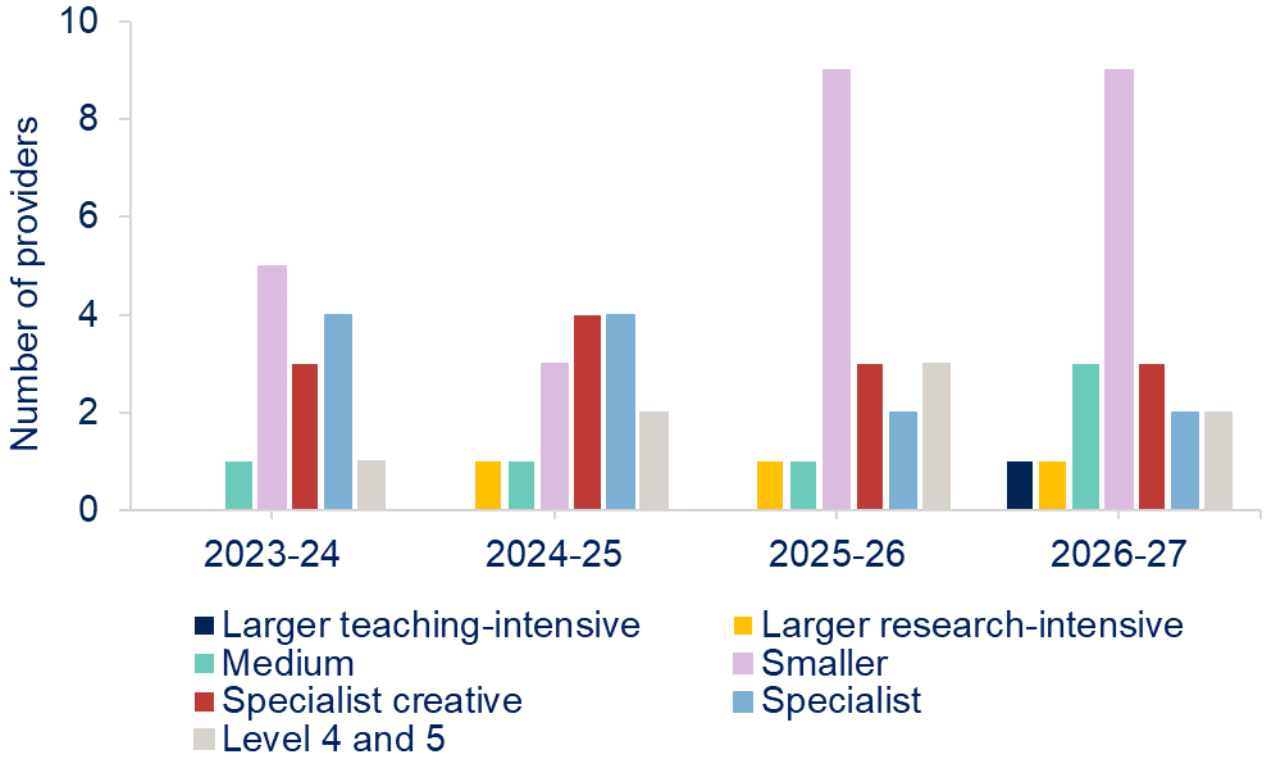
Data source: OfS AFR.

120. Ten providers reported negative net liquidity days in 2022-23. In some of these cases, this was because of relationships with, and obligations to, parent companies in a wider group structure. For the remaining providers in this group, net liquidity was lower in 2023-24 because of short-term borrowing or other borrowing commitments (due within 12 months at the financial year end in 2024).

121. Overall, 27 providers reported net liquidity of under 30 days in 2022-23, compared with 36 in 2021-22. In 2023-24, providers' forecasts suggest that this number will increase to 29, with 14 of these reporting net liquidity of under 30 days for three consecutive years (2021-22, 2022-23 and 2023-24).

122. Figure 17 shows the number of providers (by peer group) forecasting three consecutive years where net liquidity is expected to be under 30 days at the financial year end.

Figure 17: Number of providers forecasting three consecutive years of net liquidity under 30 days, 2023-24 to 2026-27



Data source: OfS AFR.

Borrowing

123. In aggregate, gearing levels (borrowing and other financial commitments relative to total income) fell from 33.3 per cent of income in 2021-22 to 30.0 per cent of income in 2022-23.

124. At a peer group level, the larger research-intensive group reported the highest gearing levels, at £7,577 million, equivalent to 34.7 per cent of income, and the Level 4 and 5 group reported the lowest gearing levels, at £61 million, equivalent to 6.4 per cent of income. Table 13 shows borrowing as a percentage of income across all peer groups in 2022-23.

Table 13: Borrowing as a percentage of total income, 2022-23

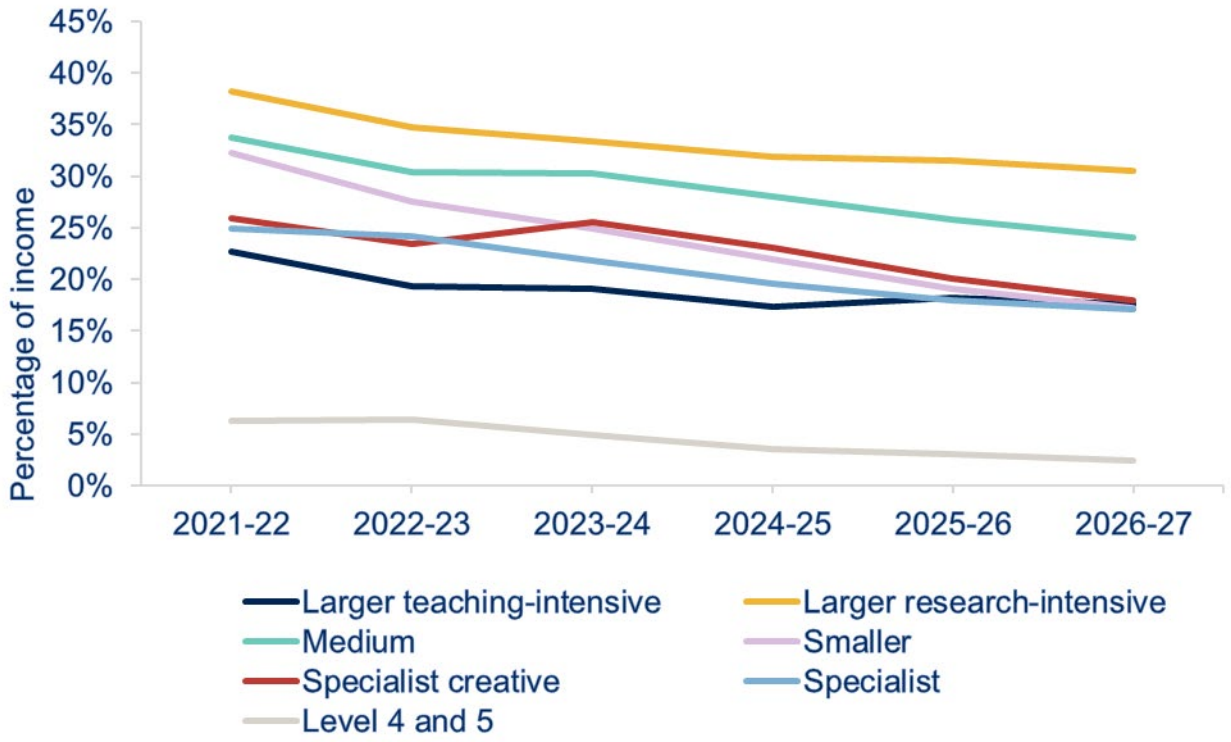
Borrowing as a % of total income								
2022-23	**Sector**	**Larger teaching-intensive**	**Larger research-intensive**	**Medium**	**Smaller**	**Specialist creative**	**Specialist**	**Level 4 and 5**
Total borrowing (£M)	13,422	1,006	7,577	3,139	851	336	451	61
Lower quartile	0.0%	10.4%	28.3%	16.8%	0.0%	0.0%	0.0%	0.0%
Average	30.0%	19.4%	34.7%	30.3%	27.6%	23.5%	24.1%	6.4%
Upper quartile	33.6%	26.1%	43.7%	36.5%	21.6%	26.1%	36.8%	17.0%

Data source: OfS AFR.

125. In 2023-24, providers have forecast aggregate gearing levels to fall to 29.0 per cent of income, with the specialist creative peer group being the only peer group projecting a rise in gearing levels in 2023-24). However, this is because two providers forecast significant increases in borrowing in 2023-24. Also, the increase in the gearing levels of the larger teaching-intensive peer group in 2025-26 is caused by one provider forecasting a significant increase in borrowing in that year.

126. Figure 18 shows the gearing levels – borrowing and other financial commitments as a percentage of total income – by peer group for the period 2021-22 to 2026-27.

Figure 18: Average borrowing and other financial commitments as a percentage of total income by peer group, 2021-22 to 2026-27



Data source: OfS AFR.

Capital expenditure

127. Capital expenditure – investment in infrastructure, facilities, IT and equipment – is necessary for a provider's longer-term sustainability. Total capital expenditure increased from £3.4 billion in 2021-22 to £3.9 billion in 2022-23. When compared with income, the aggregate capital expenditure ratio increased from 8.3 per cent of income in 2021-22 to 8.8 per cent in 2022-23.

128. Table 14 shows the variation in capital investment across peer groups.

Table 14: Capital expenditure as a percentage of total income, 2022-23

Capital expenditure as a % of total income								
2022-23	**Sector**	**Larger teaching-intensive**	**Larger research-intensive**	**Medium**	**Smaller**	**Specialist creative**	**Specialist**	**Level 4 and 5**
Total capital expenditure £M	3,915	455	1,917	951	242	139	124	86
Lower quartile	1.7%	6.0%	6.2%	5.6%	0.9%	0.9%	1.2%	0.8%
Average	8.8%	8.8%	8.8%	9.2%	7.8%	9.7%	6.6%	9.1%
Upper quartile	9.5%	9.6%	9.6%	11.4%	10.2%	8.6%	6.2%	4.9%

Data source: OfS AFR.

129. While capital expenditure grew by 14 per cent in 2022-23, this was 27 per cent lower than projected in previous forecasts submitted by providers. This suggests that many providers may be continuing to protect cash flow and increase liquidity in response to uncertainty and increased financial risks.

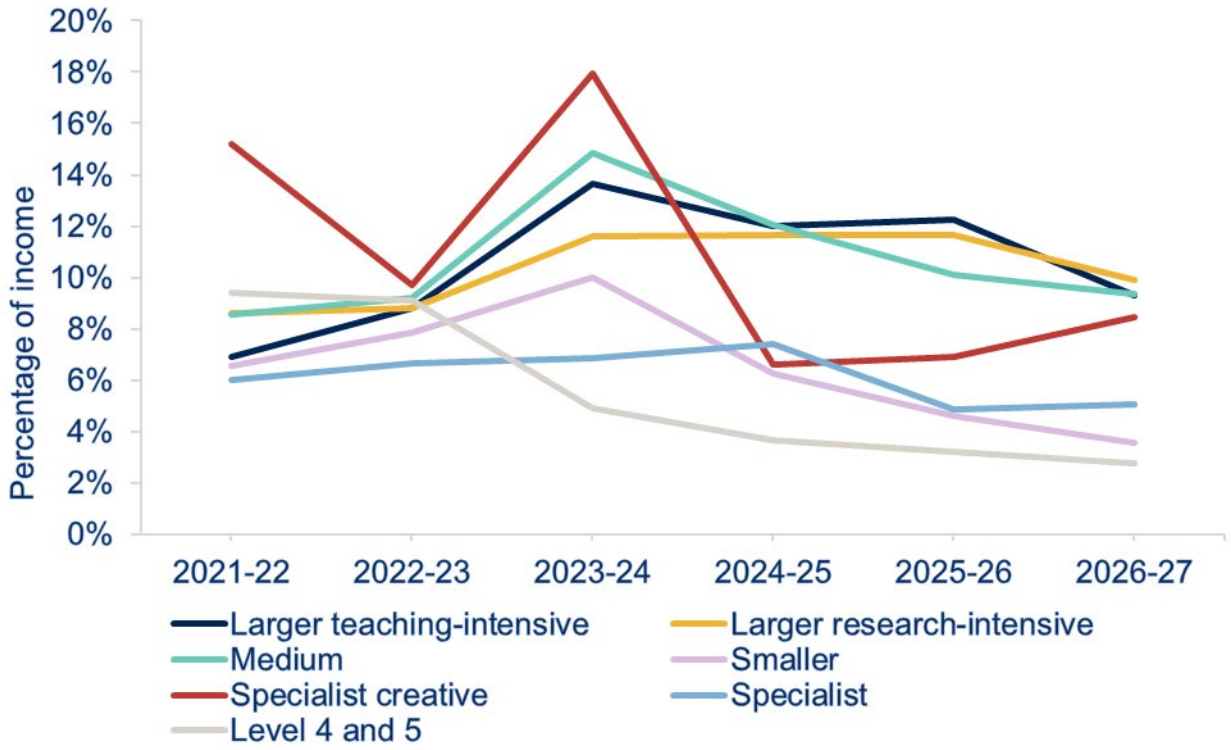
130. A large rise in capital investment is now projected for 2023-24, with aggregate forecasts suggesting this could rise by 46 per cent to reach £5.7 billion by the end of 2023-24 (equivalent to 12 per cent of income). However, given the continued pressure on providers' finances, there is uncertainty about whether capital expenditure on this scale will be delivered as projected in 2023-24.

131. There is a risk that delaying capital investment could result in deterioration in the condition of facilities and accommodation, increasing costs of maintenance.

132. As well as the large rise projected in 2023-24, significant capital investment of £5.3 billion (over 10 per cent of income) is also planned for 2024-25 and 2025-26, before dropping to £4.8 billion in 2026-27. Although the aggregate picture shows average capital expenditure will be higher in the forecast period (2023-24 to 2025-26), 40 per cent of providers are projecting capital expenditure to fall in this period.

133. Figure 19 shows capital expenditure as a percentage of total income by peer group for the period 2021-22 to 2026-27.

Figure 19: Capital expenditure as a percentage of total income by peer group, 2021-22 to 2026-27



Data source: OfS AFR.

Pensions

134. The largest pension schemes affecting many OfS-registered providers are the USS, Local Government Pension Schemes (LGPS) and Teachers Pension Scheme (TPS). These

schemes are predominantly used by higher education providers that were publicly funded during the period before the OfS existed. However, many providers, from across the sector, contribute to a wide variety of other pension schemes.

135. Total annual cash employer pension contributions to all schemes were £3,163 million in 2022-23 and providers have forecast these to rise by 4 per cent to £3,289 million in 2023-24. By 2026-27, pension contributions are expected to rise to £3,704 million.

136. Our latest data shows that there were 104 OfS-registered providers contributing to the USS scheme in 2022-23 and aggregate employer contributions to the USS scheme were £1,706 million, representing 54 per cent of total employer pension contributions paid by providers in the sector.

137. The latest USS valuation, based on the funding position at 31 March 2023, was concluded in December 2023. This found that the value of the scheme's assets exceeded the value of its liabilities. This means that the deficit recovery plan (reflecting the increased employer contributions needed to reduce the deficit), agreed as a result of the previous valuation, is no longer required. Instead, the employer contribution rate has decreased from 21.6 per cent to 14.5 per cent (with effect from 1 January 2024).

138. Rules for pension accounting mean that, now the USS scheme is in surplus, the provision that providers put in place in response to the previous deficit recovery plan can be removed. This will result in a material (non-cash) accounting adjustment in providers' financial accounts in 2023-24.

139. Given the timing of data submissions, only a small proportion of providers contributing to the USS scheme included these adjustments in their financial projections for 2023-24, and so aggregate pension adjustments will be significantly higher than those reported in paragraphs 111 to 114. However, as these are non-cash accounting adjustments, the underlying financial performance and position reported in these forecasts will not change.

140. LGPS is a funded defined benefit scheme with assets held in 88 separate trustee administered funds. There are currently 93 OfS-registered providers participating in the scheme. In 2022-23, the data shows that these providers paid £420 million in employer pension contributions to the LGPS (13 per cent of total pension contributions).

141. TPS is the main academic scheme for post-92 universities. The latest data shows that 86 providers contributed towards the scheme, with employer contributions rising from £484 million in 2021-22 to £519 million in 2022-23. The employer contribution rate is rising by 5 per cent from 23.6 per cent to 28.6 per cent from 1 April 2024 and provider forecasts for 2023-24 show the partial year impact of this rise, before taking full effect in 2024-25. By 2026-27, forecasts show that providers expect TPS employer contributions to total £725 million, 40 per cent higher than reported in 2022-23.

Potential impact of reduction in student numbers: modelling outcomes

142. As described in paragraphs 21 to 22, many higher education providers have based their forecasts on growth in the numbers of UK and non-UK students they will recruit. However, there are significant risks that this level of recruitment will not be achievable for all providers, given recent trends in UK and international applications (indicated through UCAS data and through Home Office visa applications).

143. To assess the impact of less optimistic levels of recruitment on the sector's finances, we have modelled a number of scenarios relating to variations in student recruitment. Financial modelling and scenario analysis are based on multiple assumptions and are therefore inherently unreliable, on their own, in determining risk for individual providers; but they are helpful in giving an indication of the possible impact of a scenario at a sector level. Further details and analysis are presented in Annex B.

144. In reality, significant variation in UK or international student recruitment will affect all parts of the sector to some degree, and there will be significant variation for different providers, including within each peer group. Some providers will be more prepared for, and insulated from, these risks than others.

145. It is also likely that any sustained significant reduction in international recruitment across the sector would prompt the market to reset. It is likely that some providers would be successful at continuing to recruit international students even in this context, and so may face less financial challenge. Others, however, may see even sharper decreases in their recruitment. The ability to take mitigating action would vary between providers, and those unable to respond effectively could face significant risk.

146. These scenarios estimate the reduction in projected fee income that would arise from lower numbers of students entering higher education, subtracting an assumed, direct, variable cost saving related to the provision of teaching to those students. In other words, while providers will receive no fee income from students who do not enrol, they will not need to teach them or provide them with other services. In the real world, the level of this cost will vary between each provider.

147. Within these results, no adjustments have been made to predict the mitigating actions providers might take to manage financial challenges. The capacity of different providers to manage such a loss of forecast income will vary significantly. This analysis therefore represents an aggregation of the potential scale of the challenge facing providers and shows the possible consequences for financial performance and accumulated liquidity holdings, if mitigating actions are not taken. It is worth recognising that providers may take varied approaches to forecasting, which may mean the potential impact shown in the models may not reflect the impact in the real world.

148. In some scenarios we have modelled a variable impact for different provider tariff groups, to anticipate how the competitive market could operate in favour of those with more selective power in recruitment.

149. The impact of our models is demonstrated though a financial performance indicator – number of providers in income and expenditure deficit – and a financial position indicator – low levels

of liquidity (less than 30 days average cash expenditure cover). For comparison with the modelled impact, the forecasts from providers show the following.

Forecast information in 2026-27

- 41 providers could be reporting deficits (15 per cent of providers in this analysis)
- 27 providers could report low year end liquidity (10 per cent of providers).

Scenario 1: No growth

No growth in UK or non-UK student recruitment.

150. The 'no growth' scenario considers a situation where both UK and non-UK student entrants at sector level are held at 2023 levels throughout the forecast period. In this scenario, the total 'net' reduction in annual fee income could be £3,383 million by 2026-27, a gross reduction in forecast total income of 7.6 per cent.[7]

Possible effect in 2026-27 without significant cost reduction measures

- £3,383 million estimated net income reduction against forecasts, annually, by 2026-27
- 176 providers could be reporting deficit (64 per cent of providers in this analysis)
- 107 providers could report low year end liquidity (40 per cent of providers).

151. This emphasises the important role that growth in UK and international student recruitment plays in the continued financial sustainability of the sector. It also highlights the scale of the challenge that many providers could face in managing financial sustainability if their plans for growth are not delivered in practice.

Reduction in students entering higher education

152. We have modelled three scenarios to consider different levels of reduction in UK and international entrants. These include variable rates of reduction for different groups of providers, based on tariff entry point score, on the basis that some provider types may have more, or less, strength in competitive international recruitment market. While, in the real world, competitive strength will be different for individual providers, the model broadly assumes that higher-tariff providers are more insulated from the risk, and therefore experience a more modest impact than lower-tariff providers.

[7] Net reduction is fee income less an assumed percentage to reflect the cost savings from reduced teaching activity.

Scenario 2: Minor reduction in student numbers

An overall reduction of 11 per cent in total entrants across the sector, per year, by 2026-27.

153. This scenario is based on a reduction in UK and non-UK student recruitment. Forecasts are reduced by a small margin annually from 2024-25 compared with the base level in 2023-24. We have applied different reductions to different provider types based on tariff score (set out in Table 15), to assess how different providers could be affected in this scenario based on their recruiting power. In aggregate this scenario suggests an **overall reduction in entrants of 11 per cent per year by 2026-27**, compared with providers' forecasts for the number of entrants for the current year (2023-24).

154. In this scenario, the total net reduction in fee income could be £4,539 million by 2026-27, a gross reduction in forecast total income of 10.3 per cent.

Possible effect in 2026-27 without cost reduction measures

- £4,539 million estimated net income reduction against forecasts, annually, by 2026-27
- 202 providers could be reporting deficits (75 per cent of providers)
- 135 providers could report low year end liquidity (50 per cent of providers).

Table 15: Minor reduction – scenario parameters

Student group	High tariff	Medium tariff	Low tariff	Specialist
UK undergraduate entrants	No growth	-2%	-4%	-3%
UK postgraduate entrants	No growth	-2%	-4%	-3%
Non-UK undergraduate entrants	No growth	-2%	-4%	-3%
Non-UK postgraduate entrants	No growth	-2%	-4%	-3%

Scenario 3: Larger reduction in student numbers

An overall reduction of 35 per cent in total entrants across the sector, per year, by 2026-27.

155. This scenario is based on a reduction in UK and non-UK recruitment by a more significant level annually from 2024-25 compared with the base level in 2023-24. As above, we have applied different reductions to different groups of providers based on tariff score as set out in

Table 16. In aggregate this scenario suggests **an overall reduction in entrants of 35 per cent per year by 2026-27**, compared with forecast entrants for the current year (2023-24).

156. In this scenario, the total net reduction in fee income could be £9,283 million by 2026-27, a gross reduction in forecast total income of 21 per cent.

Possible effect in 2026-27 without cost reduction measures

- £9,283 million estimated net income reduction against forecasts, annually, by 2026-27
- 239 providers could be reporting deficits (89 per cent of providers)
- 200 providers could report low year end liquidity (74 per cent).

Table 16: Larger reduction – scenario parameters

Student group	High tariff	Medium tariff	Low tariff	Specialist
UK undergraduate entrants	-8%	-11%	-17%	-12%
UK postgraduate entrants	-8%	-11%	-17%	-12%
Non-UK undergraduate entrants	-12%	-17%	-20%	-15%
Non-UK postgraduate entrants	-12%	-17%	-20%	-15%

Scenario 4: Significant reduction in international student numbers

No growth in UK student recruitment and significant reduction in non-UK student recruitment – an overall reduction of 22 per cent in total entrants across the sector, per year, by 2026-27.

157. This scenario is based on no growth in UK entrants, with levels remaining as set out in providers' 2023-24 forecasts until 2026-27. In this scenario there is also no growth of non-UK entrants in 2023-24, and a significant reduction of non-UK entrants from 2024-25 compared with the base level in 2023-24. We have again applied different levels of reductions to different groups of providers by tariff score (as set out in Table 17). In aggregate this scenario is suggesting a **reduction in entrants of 61 per cent per year by 2026-27**, compared with modelled international entrants, for the current year (2023-24).

158. In this scenario, the total net reduction in fee income could be £9,692 million by 2026-27, a gross reduction in forecast total income of 22 per cent.

159. This scenario demonstrates the significant impact that a large reduction in international recruitment could have on providers. In financial terms, because of the higher fees paid by international students, reductions in recruitment will have a more significant impact on financial performance. It is also well understood that international student fees make a

financial contribution to a wide range of other higher education activities, including research, capital development and other costed support activities.

160. The latest intelligence we are receiving from providers, as set out in paragraph 13, suggests that international student numbers may have reduced by over 40 per cent in the January 2024 intake, with some experiencing greater reductions. This means that a scenario of reductions in international recruitment of this scale is within the bounds of possible outturns for the sector and should be seriously considered when assessing sector-wide and provider-level risk.

Possible effect in 2026-27 without cost reduction measures

- £9,692 million estimated net income reduction against forecasts, annually, by 2026-27
- 226 providers could be reporting deficits (84 per cent of providers)
- 196 providers could report low year end liquidity (73 per cent).

Table 17: Significant international reductions – scenario parameters

Student group	High tariff	Medium tariff	Low tariff	Specialist
UK undergraduate entrants	No growth	No growth	No growth	No growth
UK postgraduate entrants	No growth	No growth	No growth	No growth
Non-UK undergraduate entrants				
2023-24	No growth	No growth	No growth	No growth
2024-25	-25%	-50%	-70%	-50%
25-26 and thereafter	-10%	-20%	-35%	-20%
Non-UK postgraduate entrants				
2023-24	No growth	No growth	No growth	No growth
2024-25	-25%	-50%	-70%	-50%
25-26 and thereafter	-10%	-20%	-35%	-20%

161. This modelling illustrates how sensitive the higher education income model is to variations in student recruitment, and the scale of the challenge in maintaining financial sustainability if student numbers stay static or decline. Even in a steady recruitment environment, there would be an uneven exposure to recruitment risk for different providers, and we would expect this unevenness to feature even more strongly in more challenging operating environments. Even in Scenario 4, some providers may not see a drop off in international students, and others would therefore see an even more significant reduction.

Annex A: Summary of OfS roundtable meetings with finance directors

Roundtable meeting groups

1. To test our understanding of the potential impact of the financial risks facing the sector, we again sought views from higher education providers through roundtable events this year. Seven of these were held in September 2023 and February 2024, with finance directors or those in equivalent roles. In total, attendees from 43 providers (34 in 2022-23) joined the roundtables this year.
2. The sessions were grouped by providers with the same or similar financial typology as shown in Table A1.

Table A1: Groupings for finance director roundtable meetings

Group	Finance typology or theme	Group name
A	QI over £200m and over 70% of income QI over £200m and less than 70% of income	Larger research-intensive Larger teaching-intensive
B	QI £100m to £200m	Medium
C	Majority Level 4 and 5 QI less than £100m or unknown	Level 4 and 5 Smaller
D	Specialist: creative Specialist: other	Specialist creative Specialist

Summary of discussions

3. During discussions, providers reported a material change in some of the risks we have previously discussed. Some risks had dissipated but most had intensified. The continuing key risks that finance directors and providers raised with us were inflationary and cost of living pressures, student recruitment volatility, recruitment and retention of staff, pension scheme risk, research funding, capital and maintenance of estates, and the availability of borrowing. Additional key themes raised were the tightening timescales for renegotiating borrowing, reliance on international markets, the need to close courses and the potential for mergers.
4. This summary represents the key risks articulated by providers, not necessarily the views of the OfS. The challenges discussed vary for different types of providers.

Inflationary and cost of living pressures

5. Providers reported that the impact of high inflation continues to put increased pressure on their finances, as well as those of their staff and students. With much of providers' income coming from fixed fees, which have reduced in real terms, and rising costs of staff pay, pensions and utilities, providers explained they faced diminishing margins, and so a reduced ability to invest. Energy and maintenance costs are particularly challenging for those with older, less energy-efficient buildings.
6. The impact of cost of living increases on students has also affected providers' income; for example, making students more likely to commute, leaving some provider-owned

accommodation empty, or to spend more time on paid work, risking withdrawal as they struggle to keep up with their academic commitments. Providers noted the strain this places on their budgets.

7. Providers recognised the importance of achieving efficiencies, but some suggested they have a limited ability to continue to cut costs and maintain value for money for students. Providers not subject to a statutory fee limit have an opportunity to increase their tuition fees, but the market is price-sensitive and it is possible to outprice students. Providers suggested that divesting assets is often a course of action to raise funds, but recognised that this has limitations and needed to be carefully managed.

Student recruitment

8. Providers have found that the volatility of student recruitment has increased and this has made predicting future recruitment increasingly challenging. There continues to be increased competition between providers for UK students, with lower-tariff providers sometimes losing out. Some providers rely on income from international students, but it is recognised that this can be subject to geopolitical uncertainty, especially where providers rely heavily on fees from students from a few countries.

9. Many providers are keen to diversify, though this can be challenging. New student entrants are leaving it later to decide whether to enter higher education or choose other routes. The increase in the cost of living is having a material impact on potential students, particularly in providers with a reliance on postgraduate students, who are often self-funded. Providers reported that demand from students has become less predictable following the pandemic and increases in the cost of living. Providers had previously found it easier to plan and model.

10. Providers also suggested that since the pandemic, students appear to be less prepared for the higher education experience than previously. In some cases this was reported to be resulting in increasing attrition rates and the need for greater ongoing pastoral support. This support often has significant cost implications, requiring specialist trained staff resource.

Recruitment and retention of staff

11. Providers told us that it is becoming increasingly difficult to attract and retain high quality staff, especially academic staff. Staff costs are the most significant cost to the sector and pay inflation has been higher than providers budgeted for. Providers said staff expectations are affected by pay increases in other sectors, and the competitive job market has made it difficult for some providers to attract and retain staff. There is growing competition from other employers, offering better pay and conditions, especially in large cities or conurbations. Some providers have sought cost savings and increased flexibility by using visiting lecturers in the face of financial difficulties. Providers raised concerns about the risk that staff will leave the sector in greater numbers.

Increasing pension costs and volatility of schemes

12. Providers expressed concerns about the uncertainty of future pension scheme valuations and increasing employer contributions associated with the revaluation of defined benefit schemes. Providers do not have control over the prescribed contribution rates resulting from periodic scheme valuations, or those set by government. A scheme valuation can also cause significant shifts in the accounting provisions required, which can affect the levels of reported surplus or deficit in those years. Although these accounting transactions do not affect cash or

reflect the underlying financial performance of providers in that year, providers thought that this may be misunderstood by those reading financial statements.

13. The USS position has improved following the latest valuation, and this has been helpful in improving balance sheet strength for its members. Members of the TPS raised concerns about the impact of increased contributions, and their limited ability to influence negotiations.

Funding

14. Providers raised concerns about very tight timescales in which to frame and submit bids for funding. They face uncertainty about when they will receive funding and how much they will receive, with narrow timeframes in which some funding should be spent. This affects their ability to plan investments and decide a long-term investment strategy. Providers facing lower operating margins have found it more difficult to fund research activities. Providers suggested that this could make it difficult to attract the necessary talent. This can also lead to loss of Higher Education Innovation Funding, compounding this impact.

Capital, estates and sustainable investments

15. Providers recognised that buildings and infrastructure need investment. This is particularly challenging for providers with ageing estates. Providers reported that routine maintenance is slipping because of cost pressures, causing maintenance backlogs. In parallel, maintenance and building costs have increased. Providers reported a risk that, without investment, parts of estates could become unfit for purpose and this could materially affect the student experience.

16. Another key area that providers identified as requiring investment is in IT, with some providers running outdated IT systems, which are no longer supported by suppliers. There is a widespread understanding that this is building up problems for the future and will have to be addressed at some stage and likely at inflated costs.

17. Providers have also made decisions to delay capital investment projects and the costs of projects have increased after commencement. Some governors and trustees have had a preference to maintain cash reserves in response to financial pressures, rather than investing in capital projects. These factors have a knock-on effect for the ability of providers to meet net zero targets.

18. Divesting assets to raise funds is a course of action some providers have looked to, but this option is not available to many, and it is recognised that this has limitations and should be carefully managed.

Borrowing

19. Providers thought that lenders appear to be becoming more risk-averse, and the sector is not as attractive to lenders as it once was. Borrowing is becoming more expensive because of higher interest rates and the perceived increased risk profile of the sector. Loan approvals are taking longer. Providers suggested that lenders require greater assurances and are attaching more stringent borrowing covenants when loans are agreed.

Dependence on international markets

20. With the rising cost of living, changing trends in UK applicants and declining unit of resource, providers are seeking to mitigate constriction of the UK market by increasing numbers of international students. International students attract fees well above the fixed UK rates. There is an understanding among providers that it is desirable to reduce dependency on any single

market, given geopolitical issues and possible changes in UK government policy. There is uncertainty about how elastic the pricing for international students can be, and there is a risk of pricing students out of the market.

21. Providers reported that the volatility of currency exchange rates has had an impact on applications. For example, the recent devaluation of the Nigerian naira was cited as having an adverse effect on recruitment. The policy of limiting visas for dependants has had a particular impact on providers' ability to recruit in certain international markets. Providers have also seen the increasing costs of obtaining visas and complying with UK Visa and Immigration requirements as a barrier to recruitment.

Student accommodation

22. Some providers in larger cities, and other places with high housing demand, have found it more difficult to accommodate students locally, while others have an excess of accommodation that they are unable to fill. Residential income makes up a significant percentage of total income for a number of providers. It was reported that significant numbers of students are choosing to continue to live at home given the increased cost of living in recent years. This can have a detrimental impact on providers' income and often erodes planned surpluses, especially in smaller providers. Where there is high demand, providers noted the cost of building new accommodation has increased and recruitment volatility has made investment decisions more difficult.

Artificial intelligence

23. Providers suggested that recent developments in the sophistication of Artificial Intelligence (AI) technology have made it increasingly difficult to identify its use in student work. The cost of identifying AI use can be significant, and this is raising increasing concerns.

Savings and efficiency

24. Providers have said that, having already reviewed their course portfolios, it is difficult to make significant additional savings, and that efficiencies sought during Covid lockdowns were implemented and costs removed from budgets. They reported that activity has been rationalised over time, to reduce loss-making activity and accommodate rising costs. However, there is more discussion now about the need for course closures and the potential for mergers, as a large proportion of providers' cost base is fixed and cannot easily be reduced.

Course closures

25. Providers highlighted the difficulty in continuing to deliver loss-making courses and the need to consider diversification and rationalisation of courses. They suggested that this can be challenging when considering the mission of the provider and can affect the attractiveness of the provider to staff and students.

Mergers and consolidations

26. Providers reported that mergers are becoming an increasing part of conversations about financial sustainability. Discussions included the potential efficiencies if providers in close geographical proximity could use a shared services approach, with functions such as finance, human resources and IT being operated from a central hub. Providers also suggested that merger objectives could vary; focusing on diversifying provision, merging local providers or seeking economies of scale from similar but geographically spread providers.

Annex B: Scenario modelling – additional analysis

1. The OfS has always used financial data from providers, as well as other information, to estimate the potential financial implications of hypothetical risk scenarios. Over time, we have developed this activity to model more detailed and complex scenarios.
2. Scenario modelling provides a valuable guide to how sensitive the sector and providers are to risk, and it can usefully articulate the scale of the financial challenge that providers might need to mitigate. However, there are significant limitations in using financial models, as they are based on hypothetical assumptions applied to the forecast data from providers, which are already build around a wide variety of assumption. Modelling is therefore inherently limited in its accuracy. It does not forecast what will happen, but it does predict what could happen.
3. Theoretical variations in student recruitment scenarios will never accurately represent what will happen in real life at a provider level within a competitive market. Providers will compete more actively for growth, and those with lower competitive strength will probably lose students to those with more attractive offers. In response, providers may pursue other actions to attract students, such as reforming or restructuring provision, or reducing their tariff entry requirements to accept more students.
4. We intend to build on the theoretical no growth scenario by modelling potential ways in which the market may respond. We present some options on how we might do this to further develop our understanding of how many providers may be more exposed to the risk of losing students to competitors.

Variations in student recruitment

5. This annex provides a summary of the outcome of scenarios of variations in students entering higher education over the forecast period and the subsequent loss of fee income.
6. Student recruitment from the UK and internationally represents a key financial driver for sustainability. Fee income represents a significant proportion of total sector income and can vary from year to year.
7. In recent times, particular factors have underlined the importance of student recruitment to financial sustainability. These include in particular the fixed UK undergraduate fee cap, uninflated since 2017-18, which has reduced significantly in real-terms value; and the significant and unforeseen recent increases in costs, including operating costs, capital development costs and the cost of living for students.
8. Providers have taken action to adapt to these factors to ensure their financial sustainability. These actions include generating efficiencies in costs, increasing scale (i.e. more students) and increasing non-publicly funded activities, which typically provide a higher financial contribution (e.g. teaching more international students or other commercial activities). There are risks associated with relying on student growth and on non-publicly funded income streams to underpin financial sustainability.
9. This modelling demonstrates that for many providers financial performance could be significantly affected by an inability to expand its student base or manage a decline in students.

The modelling

10. The financial forecasts from providers make assumptions about growing student numbers over the forecast period and we believe there are significant risks that, for many providers, those aspirations are not achievable.

11. In order to test the sensitivity of provider finances to funding model risks, we have modelled a range of scenarios where providers are not able to meet their recruitment forecasts to mitigate the impact of sustained decline in the unit of resource. By removing anticipated growth from forecasts, we present a summary of the scale of the challenge for providers if increases in fee income were achieved.

12. The modelling reflects a reduction in income from fees only. We have not assumed a reduction in additional income that providers may receive from increased student numbers, such as accommodation and catering or assumptions about changes to funding body grants, albeit in reality these may also be reduced.

13. The models include an assumption that there will be variable, direct cost savings associated with this reduction in teaching activity, although it is impossible to accurately estimate the value of variable costs relating to each student. These will vary significantly across providers, and are likely to be stepped, with increases in students and development costs relating to new course provision. For illustrative purposes, we have assumed that 20 per cent of the fee income not generated by reduced student recruitment will be mitigated as variable cost saving.

14. However, the models do not make any assumption of more significant mitigation action, such as further cost savings.

15. We have modelled the following four scenarios:

    a. **No growth:** For each provider, all undergraduate and postgraduate entrants remain at the level forecast for 2023-24 in its 2023 AFR data returns.

    b. **Minor reduction in student numbers:** All providers will see no growth in entrants beyond 2023-24, and then a further reduction in their entrants at a relatively modest level overall.

    c. **Larger reduction in student numbers:** All providers will see no growth in entrants beyond 2023-24, and then a further reduction in their entrants, at a more significant level than the reductions modelled in the ‘minor student’ model.

    d. **Significant reduction in international student numbers:** All providers will see no growth in UK undergraduate and postgraduate entrants beyond 2023-24. There will be no growth in international entrants in 2023-24, followed by significant reductions in 2024-25 and smaller reductions in the years thereafter.

16. When presenting the impact on financial sustainability in this paper, we have focused on three indicators:

    a. The number of providers in deficit (adjusted for pension adjustments). This is a financial performance measure.

    b. Operating cash flow. This is also a financial performance measure and, in a financially sustainable organisation, should be sufficiently positive to support debt service costs and

future investment needs. In the modelling outcomes, we have defined low operating cash flow as below 5 per cent of income.

c. Liquidity (coverage of average days cash expenditure) – in particular, the cumulative impact of reduced net income generation on forecast net liquidity holdings (cash and short-term investments) over the forecast period. In our modelling outcomes, we have defined low liquidity as below 30 days of annual expenditure as at the year end.

17. Table B1 show a summary of the modelling outcomes for the four scenarios modelled.

Table B1: Summary of modelling outcomes

No growth model	2022-23 (actual)	2023-24 (forecast)	2024-25 (estimate)	2025-26 (estimate)	2026-27 (estimate)
Net income impact £M			-£965	-£2,100	-£3,383
Number of providers with a deficit	93	108	133	162	176
Number of providers with low operating cash flow	116	124	132	153	179
Number of providers low liquidity	27	29	48	78	107
Minor reduction model	**2022-23 (actual)**	**2023-24 (forecast)**	**2024-25 (estimate)**	**2025-26 (estimate)**	**2026-27 (estimate)**
Net income impact £M			-£1,235	-£2,777	-£4,539
Number of providers with a deficit	93	108	146	189	202
Number of providers with low operating cash flow	116	124	148	186	219
Number of providers low liquidity	27	29	50	89	135
Larger reduction model	**2022-23 (actual)**	**2023-24 (forecast)**	**2024-25 (estimate)**	**2025-26 (estimate)**	**2026-27 (estimate)**
Net income impact £M			-£2,359	-£5,537	-£9,283
Number of providers with a deficit	93	108	188	222	239
Number of providers with low operating cash flow	116	124	187	239	248
Number of providers low liquidity	27	29	56	139	200

Significant international reduction model	2022-23 (actual)	2023-24 (estimate)	2024-25 (estimate)	2025-26 (estimate)	2026-27 (estimate)
Net income impact £M		-£1,128	-£4,244	-£7,172	-£9,692
Number of providers with a deficit	93	147	197	220	226
Number of providers with low operating cash flow	116	151	209	228	237
Number of providers low liquidity	27	38	92	159	196

Model 1: No growth

18. The underpinning hypothetical assumption here is that, for each provider, all undergraduate and postgraduate entrants remain at the level forecast for 2023-24 in its 2023 AFR data returns.

Figure B1: Number of providers reporting deficits and low operating cashflow, comparison of forecast and modelled data, no growth scenario

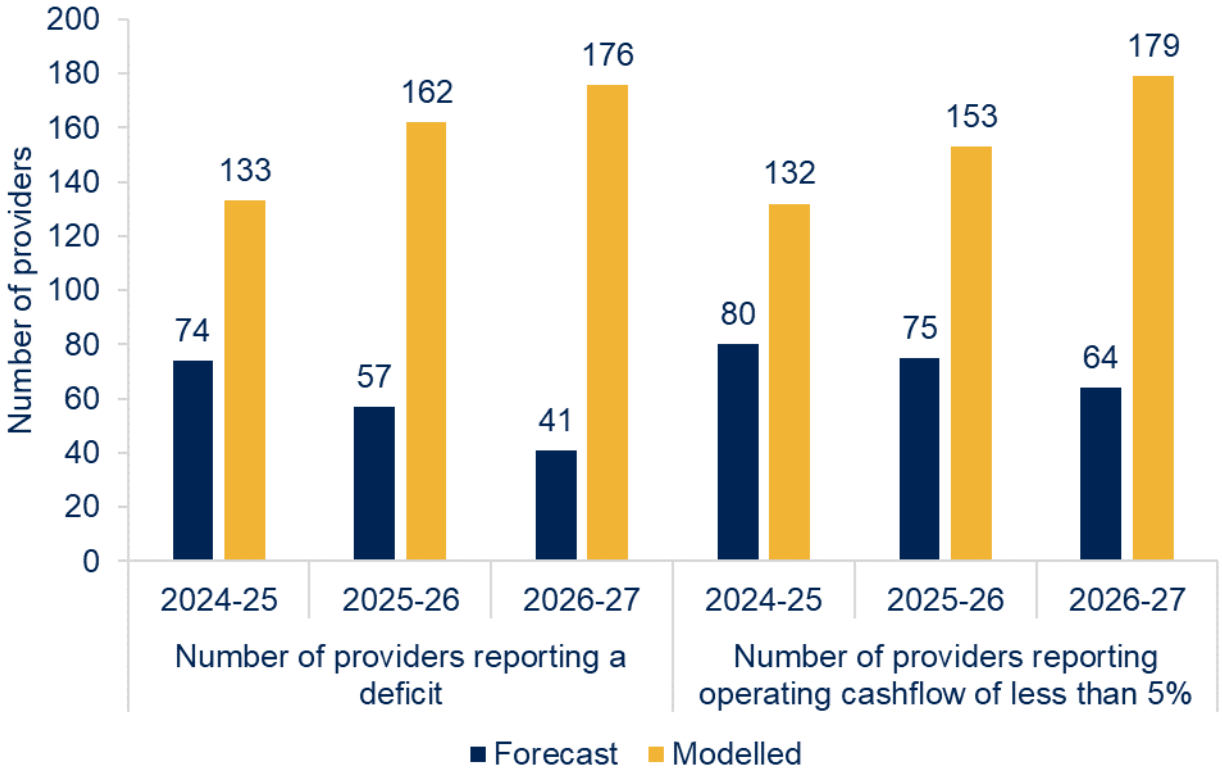


Figure B2: Number of providers reporting low liquidity and operating cashflow, comparison of forecast and modelled data, no growth scenario

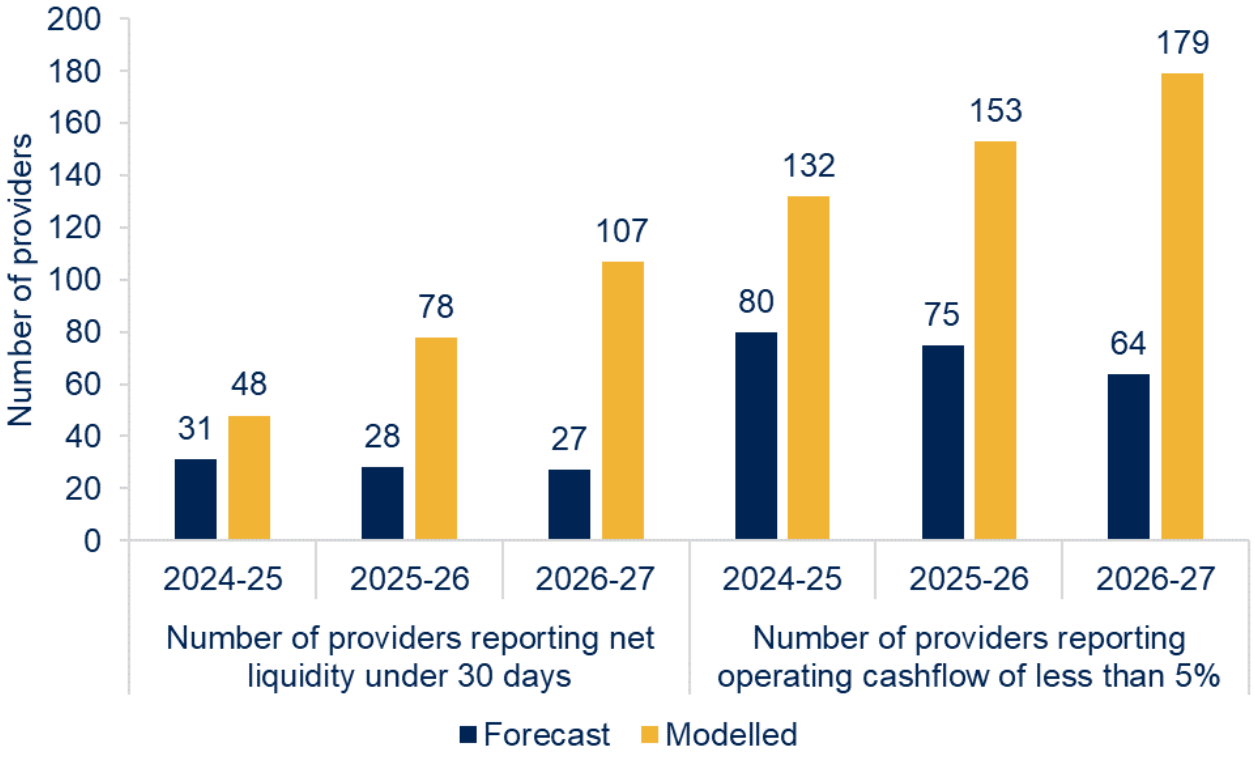


Table B2: Number of providers with deficits, modelled per 'no growth' parameters

	Forecast 2024-25	Modelled 2024-25	Forecast 2025-26	Modelled 2025-26	Forecast 2026-27	Modelled 2026-27
Larger teaching-intensive	5	9	3	9	1	12
Larger research-intensive	4	9	2	11	2	13
Medium	13	26	11	33	7	37
Smaller	19	35	13	45	11	47
Specialist creative	9	22	11	25	4	25
Specialist	21	25	12	28	11	30
Level 4 and 5	3	7	5	11	5	12
Total	**74**	**133**	**57**	**162**	**41**	**176**
% of sector	**21%**	**60%**	**15%**	**65%**	**13%**	**64%**

Table B3: Number of providers with net cash flow from operating activities as a percentage of total income below 5 per cent, Modelled per 'no growth' parameters

	Forecast 2024-25	Modelled 2024-25	Forecast 2025-26	Modelled 2025-26	Forecast 2026-27	Modelled 2026-27
Larger teaching-intensive	3	8	2	9	1	12
Larger research-intensive	5	6	4	6	2	9
Medium	5	15	2	19	4	28
Smaller	22	39	23	45	20	51
Specialist creative	14	22	11	27	10	31
Specialist	26	33	26	34	22	35
Level 4 and 5	5	9	7	13	5	13
Total	**80**	**132**	**75**	**153**	**64**	**179**
% of sector	**30%**	**49%**	**28%**	**57%**	**24%**	**67%**

Table B4: Number of providers with liquidity days below 30 days, modelled per 'no growth' parameters

	Forecast 2024-25	Modelled 2024-25	Forecast 2025-26	Modelled 2025-26	Forecast 2026-27	Modelled 2026-27
Larger teaching-intensive	1	1	1	3	1	6
Larger research-intensive	1	1	4	5	2	8
Medium	4	5	3	9	4	17
Smaller	12	19	11	25	11	35
Specialist creative	5	8	3	12	3	15
Specialist	5	8	3	14	4	17
Level 4 and 5	3	6	3	10	2	9
Total	**31**	**48**	**28**	**78**	**27**	**107**
% of sector	**12%**	**18%**	**10%**	**29%**	**10%**	**40%**

Model 2: Minor reduction in student numbers

19. The hypothetical assumption here is that providers will see no growth in entrants beyond 2023-24, and then a further reduction in their entrants at a relatively modest level overall. The scale of reduction is varied, depending on the tariff score of each provider, on the assumption that providers are more or less susceptible to reductions depending on their overall recruitment selectivity.

Figure B3: Number of providers reporting deficits and low operating cashflow, comparison of forecast and modelled data, minor reduction scenario

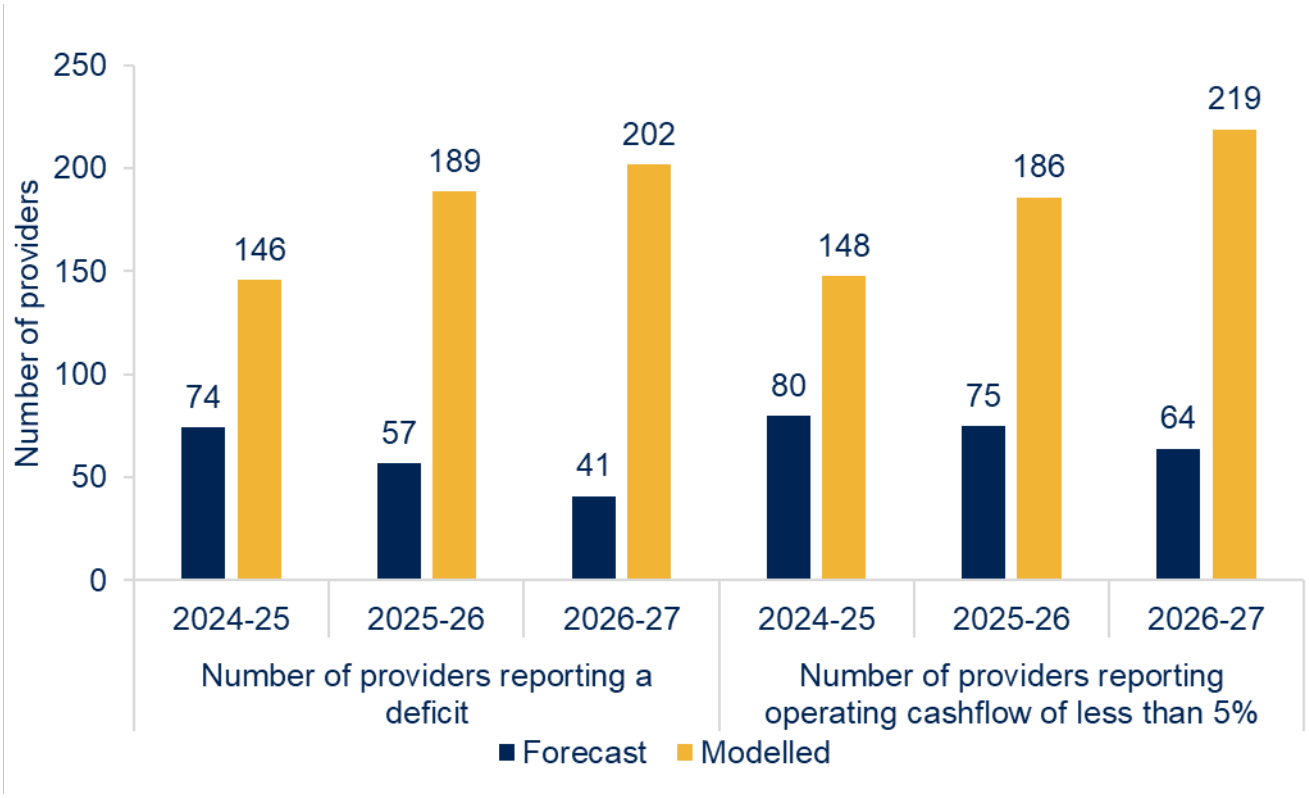


Figure B4: Number of providers reporting low liquidity and operating cashflow, comparison of forecast and modelled data, minor reduction scenario

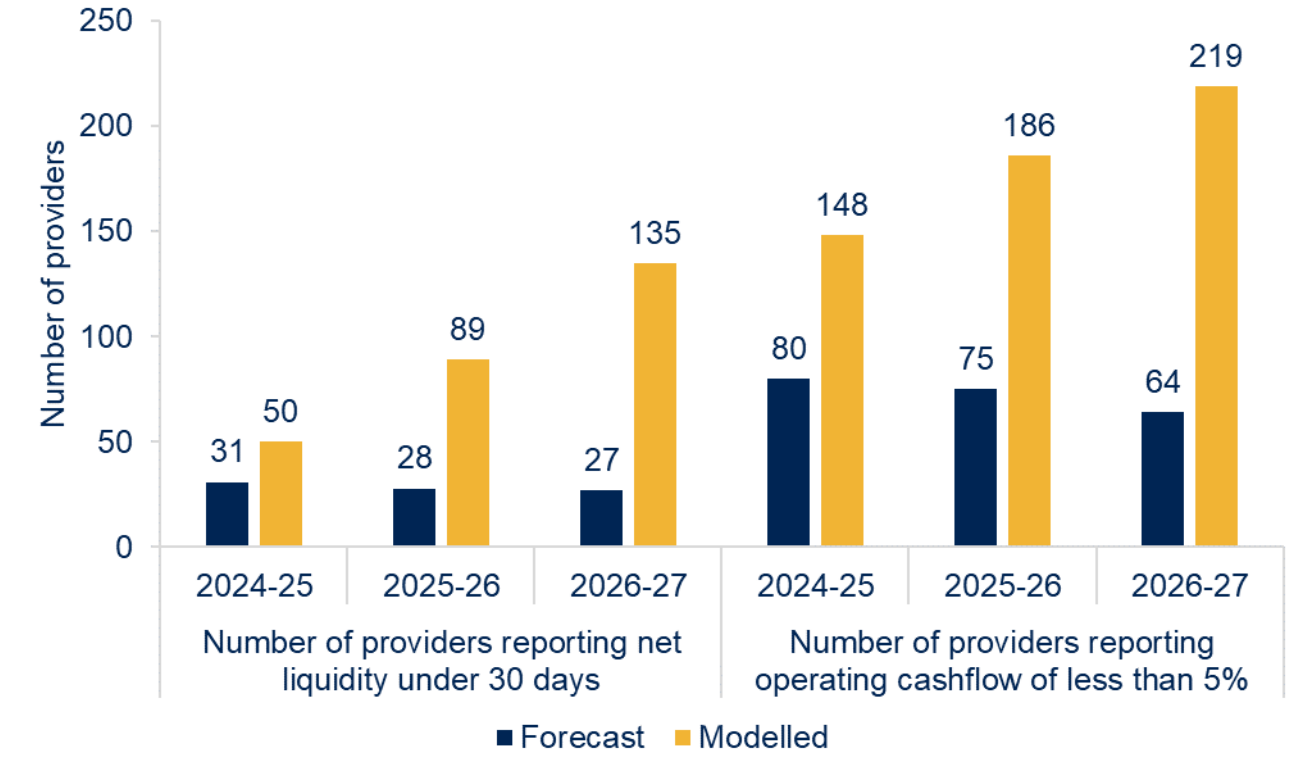


Table B5: Number of providers with deficits, modelled per 'minor reduction' parameters

	Forecast 2024-25	Modelled 2024-25	Forecast 2025-26	Modelled 2025-26	Forecast 2026-27	Modelled 2026-27
Larger teaching-intensive	5	10	3	12	1	14
Larger research-intensive	4	9	2	13	2	15
Medium	13	29	11	40	7	41
Smaller	19	38	13	50	11	52
Specialist creative	9	24	11	28	4	31
Specialist	21	28	12	35	11	36
Level 4 and 5	3	8	5	11	5	13
Total	**74**	**146**	**57**	**189**	**41**	**202**
% of sector	**21%**	**54%**	**15%**	**70%**	**13%**	**75%**

Table B6: Number of providers with net cash flow from operating activities as a percentage of total income below 5 per cent, modelled per 'minor reduction' parameters

	Forecast 2024-25	Modelled 2024-25	Forecast 2025-26	Modelled 2025-26	Forecast 2026-27	Modelled 2026-27
Larger teaching-intensive	3	11	2	12	1	12
Larger research-intensive	5	6	4	8	2	16
Medium	5	19	2	30	4	40
Smaller	22	43	23	54	20	58
Specialist creative	14	23	11	28	10	34
Specialist	26	35	26	41	22	43
Level 4 and 5	5	11	7	13	5	16
Total	**80**	**148**	**75**	**186**	**64**	**219**
% of sector	**30%**	**55%**	**28%**	**69%**	**24%**	**81%**

Table B7: Number of providers with liquidity days below 30 days, modelled per 'minor reduction' parameters

	Forecast 2024-25	Modelled 2024-25	Forecast 2025-26	Modelled 2025-26	Forecast 2026-27	Modelled 2026-27
Larger teaching-intensive	1	2	1	4	1	10
Larger research-intensive	1	1	4	5	2	10
Medium	4	6	3	12	4	25
Smaller	12	19	11	27	11	39
Specialist creative	5	8	3	16	3	19
Specialist	5	8	3	15	4	23
Level 4 and 5	3	6	3	10	2	9
Total	**31**	**50**	**28**	**89**	**27**	**135**
% of sector	**12%**	**19%**	**10%**	**33%**	**10%**	**50%**

Model 3: Larger reduction in student numbers

20. The hypothetical assumption here is similar to Model 2, but with a more significant assumed reduction in entrants.

Figure B5: Number of providers reporting deficits and low operating cashflow, comparison of forecast and modelled data, larger reduction scenario

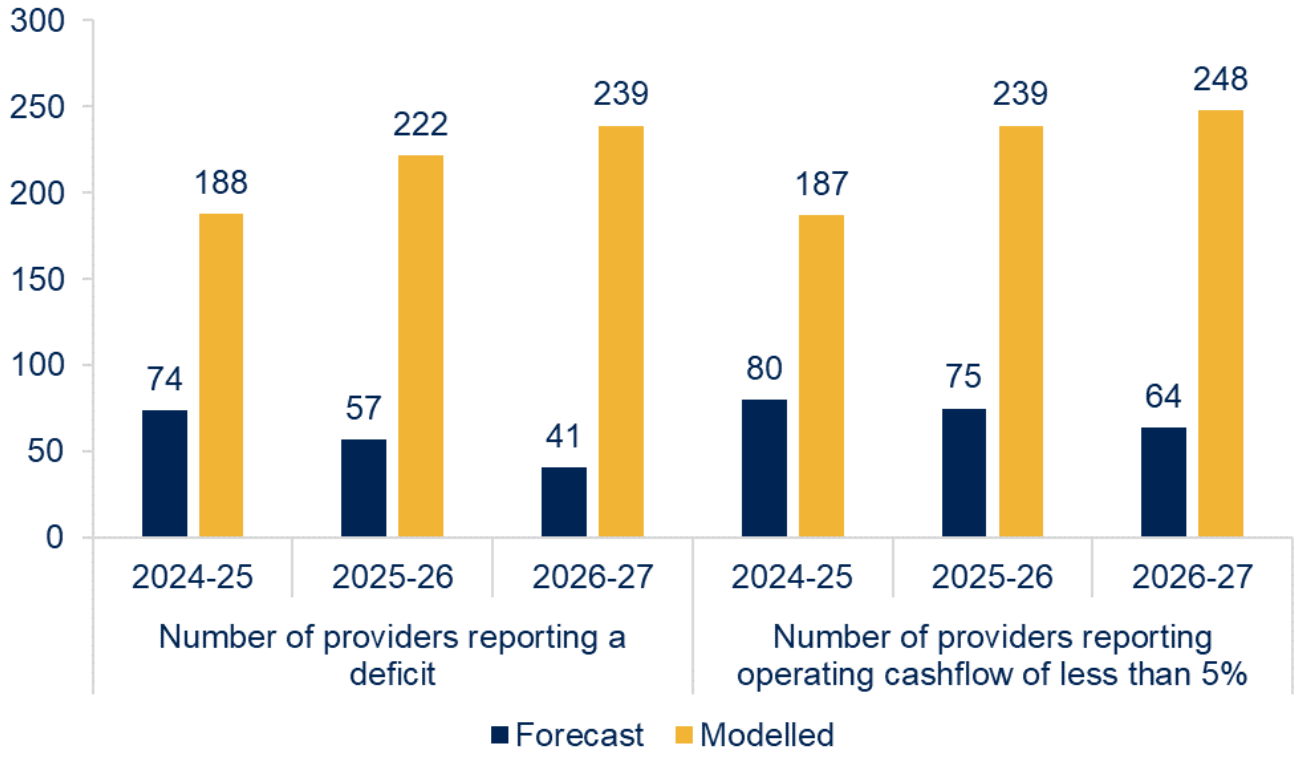


Figure B6: Number of providers reporting low liquidity and operating cashflow, comparison of forecast and modelled data, larger reduction scenario

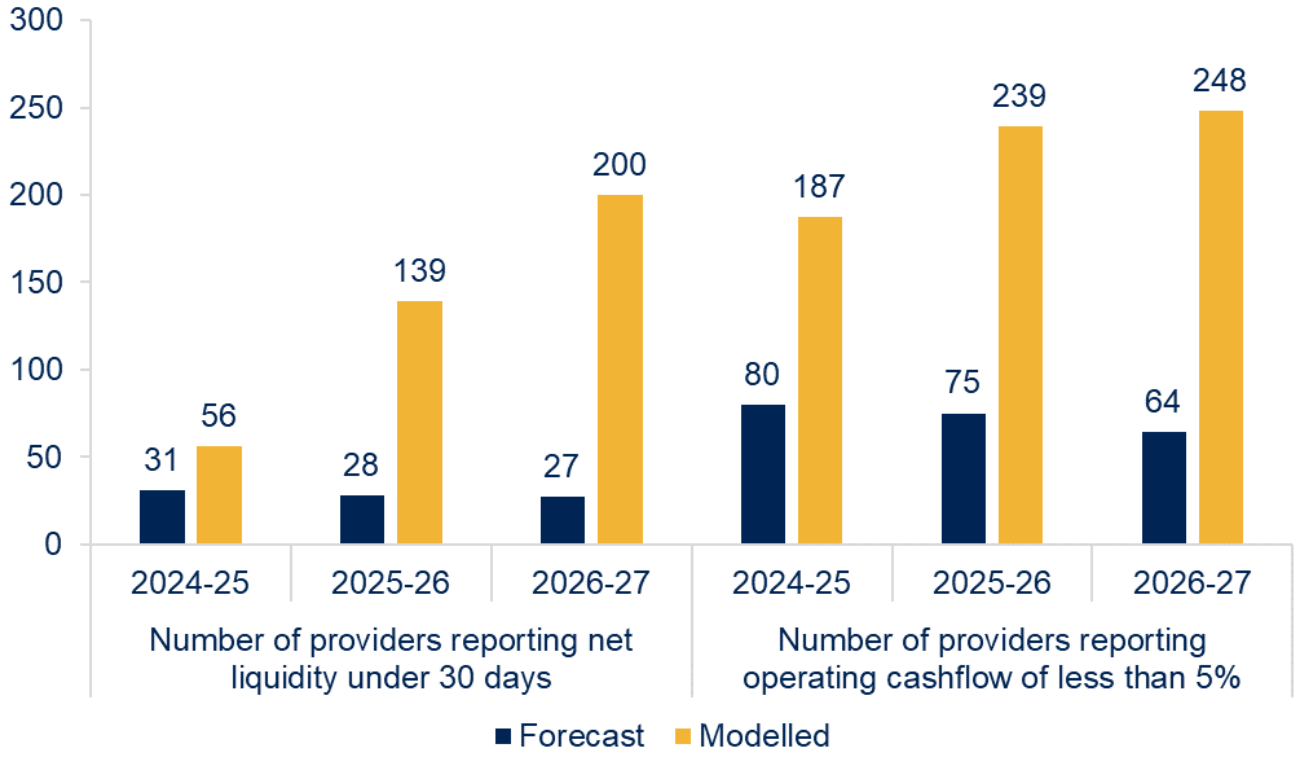


Table B8: Number of providers with deficits, modelled per 'larger reduction' parameters

	Forecast 2024-25	Modelled 2024-25	Forecast 2025-26	Modelled 2025-26	Forecast 2026-27	Modelled 2026-27
Larger teaching-intensive	5	13	3	14	1	14
Larger research-intensive	4	14	2	20	2	20
Medium	13	39	11	43	7	43
Smaller	19	51	13	58	11	62
Specialist creative	9	27	11	31	4	35
Specialist	21	34	12	40	11	45
Level 4 and 5	3	10	5	16	5	20
Total	**74**	**188**	**57**	**222**	**41**	**239**
% of sector	**28%**	**70%**	**21%**	**83%**	**15%**	**89%**

Table B9: Number of providers with net cash flow from operating activities as a percentage of total income below 5 per cent, modelled per 'larger reduction' parameters

	Forecast 2024-25	Modelled 2024-25	Forecast 2025-26	Modelled 2025-26	Forecast 2026-27	Modelled 2026-27
Larger teaching-intensive	3	14	2	14	1	14
Larger research-intensive	5	13	4	21	2	21
Medium	5	29	2	43	4	43
Smaller	22	53	23	61	20	65
Specialist creative	14	27	11	34	10	35
Specialist	26	38	26	46	22	46
Level 4 and 5	5	13	7	20	5	24
Total	**80**	**187**	**75**	**239**	**64**	**248**
% of sector	**30%**	**70%**	**28%**	**89%**	**24%**	**92%**

Table B10: Number of providers with liquidity days below 30 days, modelled per 'larger reduction' parameters

	Forecast 2024-25	Modelled 2024-25	Forecast 2025-26	Modelled 2025-26	Forecast 2026-27	Modelled 2026-27
Larger teaching-intensive	1	2	1	9	1	11
Larger research-intensive	1	2	4	9	2	14
Medium	4	7	3	27	4	42
Smaller	12	20	11	42	11	57
Specialist creative	5	9	3	19	3	27
Specialist	5	9	3	23	4	35
Level 4 and 5	3	7	3	10	2	14
Total	**31**	**56**	**28**	**139**	**27**	**200**
% of sector	**12%**	**21%**	**10%**	**52%**	**10%**	**74%**

Model 4: Significant reduction in international student numbers

21. The hypothetical assumption here is that there will be no growth in UK entrants, with levels remaining as per 2023-24 forecasts until 2026-27. International entrants will remain at 2022-23 levels in 2023-24, and then will reduce by a significant level annually from 2024-25. Entrant reductions are applied, on an increasing scale depending on tariff score strength.

Figure B7: Number of providers reporting deficits and low operating cashflow, comparison of forecast and modelled data, significant international reduction scenario

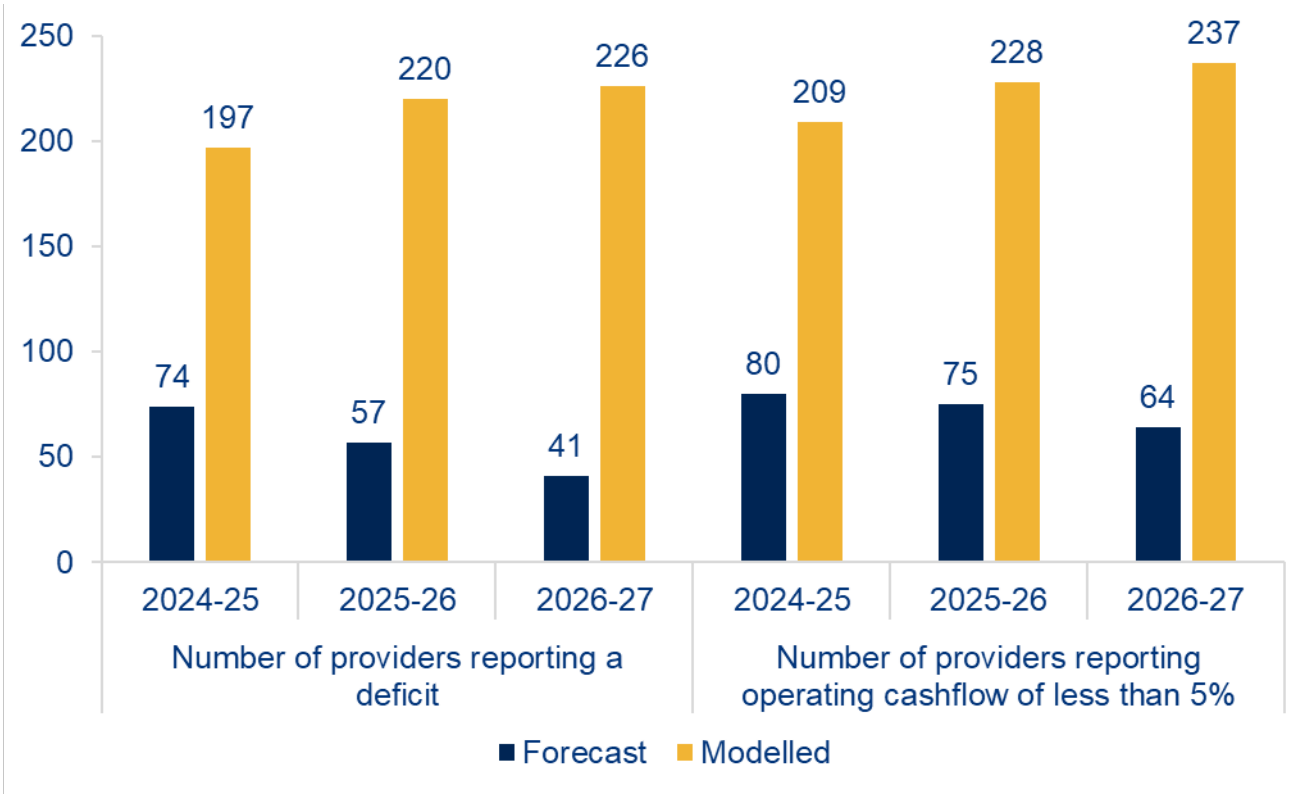


Figure B8: Number of providers reporting low liquidity and operating cashflow, comparison of forecast and modelled data, significant international reduction scenario

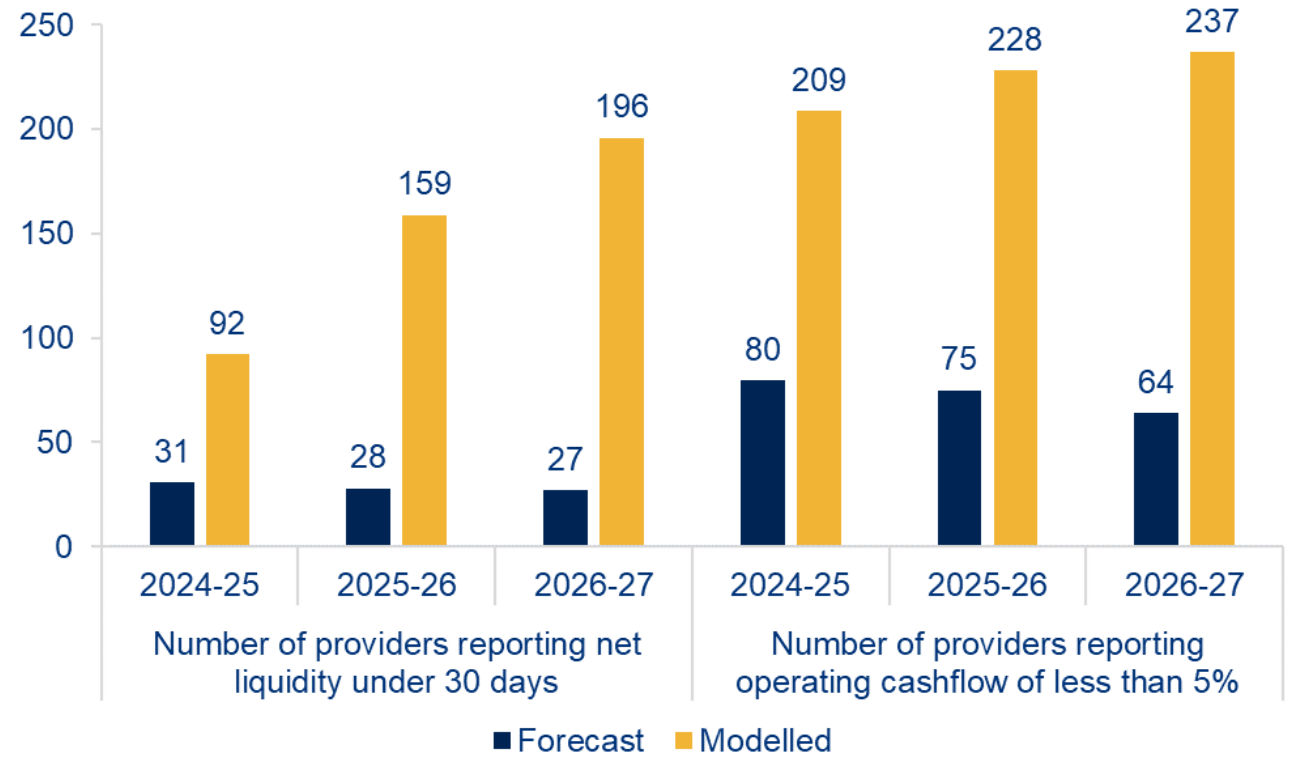


Table B11: Number of providers with deficits, modelled per 'significant international reduction' parameters

	Forecast 2024-25	Modelled 2024-25	Forecast 2025-26	Modelled 2025-26	Forecast 2026-27	Modelled 2026-27
Larger teaching-intensive	5	14	3	14	1	14
Larger research-intensive	4	20	2	20	2	20
Medium	13	39	11	43	7	43
Smaller	19	49	13	55	11	57
Specialist creative	9	29	11	34	4	35
Specialist	21	35	12	38	11	40
Level 4 and 5	3	11	5	16	5	17
Total	**74**	**197**	**57**	**220**	**41**	**226**
% of sector	**28%**	**73%**	**21%**	**82%**	**15%**	**84%**

Table B12: Number of providers with net cash flow from operating activities as a percentage of total income below 5 per cent, modelled per 'significant international reduction' parameters

	Forecast 2024-25	Modelled 2024-25	Forecast 2025-26	Modelled 2025-26	Forecast 2026-27	Modelled 2026-27
Larger teaching-intensive	3	14	2	14	1	14
Larger research-intensive	5	20	4	21	2	21
Medium	5	37	2	42	4	43
Smaller	22	51	23	56	20	62
Specialist creative	14	32	11	34	10	35
Specialist	26	40	26	43	22	43
Level 4 and 5	5	15	7	18	5	19
Total	**80**	**209**	**75**	**228**	**64**	**237**
% of sector	**30%**	**78%**	**28%**	**85%**	**24%**	**88%**

Table B13: Number of providers with liquidity days below 30 days, per 'significant international reduction' parameters

	Forecast 2024-25	Modelled 2024-25	Forecast 2025-26	Modelled 2025-26	Forecast 2026-27	Modelled 2026-27
Larger teaching-intensive	1	6	1	9	1	11
Larger research-intensive	1	4	4	15	2	19
Medium	4	15	3	31	4	38
Smaller	12	31	11	45	11	55
Specialist creative	5	15	3	22	3	28
Specialist	5	12	3	23	4	31
Level 4 and 5	3	9	3	14	2	14
Total	**31**	**92**	**28**	**159**	**27**	**196**
% of sector	**12%**	**34%**	**10%**	**59%**	**10%**	**73%**

Annex C: How we regulate financial sustainability

1. The OfS monitors and assesses the financial viability and sustainability of registered higher education providers. In addition to the sector-wide analysis set out in this report, we assess financial risk for individual providers. These assessments are informed by the data that providers submit to us and take account of the particular circumstances of an individual provider, its exposure to risk, its capacity to respond to financial challenges, and other available information. In line with our risk-based approach, we undertake a more detailed assessment where a provider's exposure to financial risk appears to be increased.
2. As well as reviewing each provider's financial position, we use the financial data we receive to model how certain risks could affect providers' sustainability. We use the information collected through the annual financial return, information in reportable events submitted by providers, information submitted by third parties through our notifications process, and other intelligence to support our analysis. Where we identify that a provider is experiencing financial difficulties, we work with it to understand and assess the extent of the issues.
3. For the universities and colleges that are performing well and are at low risk of experiencing financial difficulties, the regulatory burden in this area remains appropriate for the low likelihood of financial failure. Where our assessment identifies concerns about an individual provider, we are likely to increase our engagement and monitoring activity. We have published information and case studies that show the approach we have taken for particular providers that were at risk of exiting or did exit the market.[8]

Annual financial return and other data sources

4. The AFR is the primary source of financial data from all providers, except further education colleges, whose financial sustainability is overseen by the Education and Skills Funding Agency. The data contained in the AFR consists of two years' historical audited data, including the most recently completed year, plus forecasts for five years into the future. It covers data on income, expenditure, cashflows, balance sheet strength and other details on students and fees and borrowing.
5. We have reviewed the data specification for the AFR, to ensure it remains fit for purpose and appropriately balances the burden on providers with collecting the data required around key risks, and to facilitate our duties to monitor the financial sustainability of providers.
6. In addition to quantitative data, the AFR requires providers to submit important qualitative evidence, including the most recent signed and audited financial statements, a qualitative financial commentary document, and the annual management letters from auditors to those charged with governance in providers.
7. We also draw on other information to support our understanding of sector and provider finances. This includes:
    - data and information on recruitment and student numbers (UCAS data and HESA student data)
    - Home Office data on study sponsored visa applications, by country of origin

[8] See OfS, 'Financial sustainability and market exit cases'.

- other econometric data, including inflation, interest rates, population estimates, etc.
- notifications of reportable events from providers to the OfS.

Engaging with the sector and other stakeholders

8. Our engagement with the higher education sector, particularly with finance leaders, provides valuable insight that helps inform our understanding and assessment of sector finances and the challenges that different providers face. We have continued to hold rich roundtable discussions with finance directors from a wide range of provider types. We have summarised those discussions in Annex A.
9. As a risk-based regulator, we have a higher degree of engagement with providers that show increased levels of exposure to financial risks.
10. We have also continued to maintain regular engagement with sector bodies, banks, auditors, other funders and government departments.

Modelling and stress testing

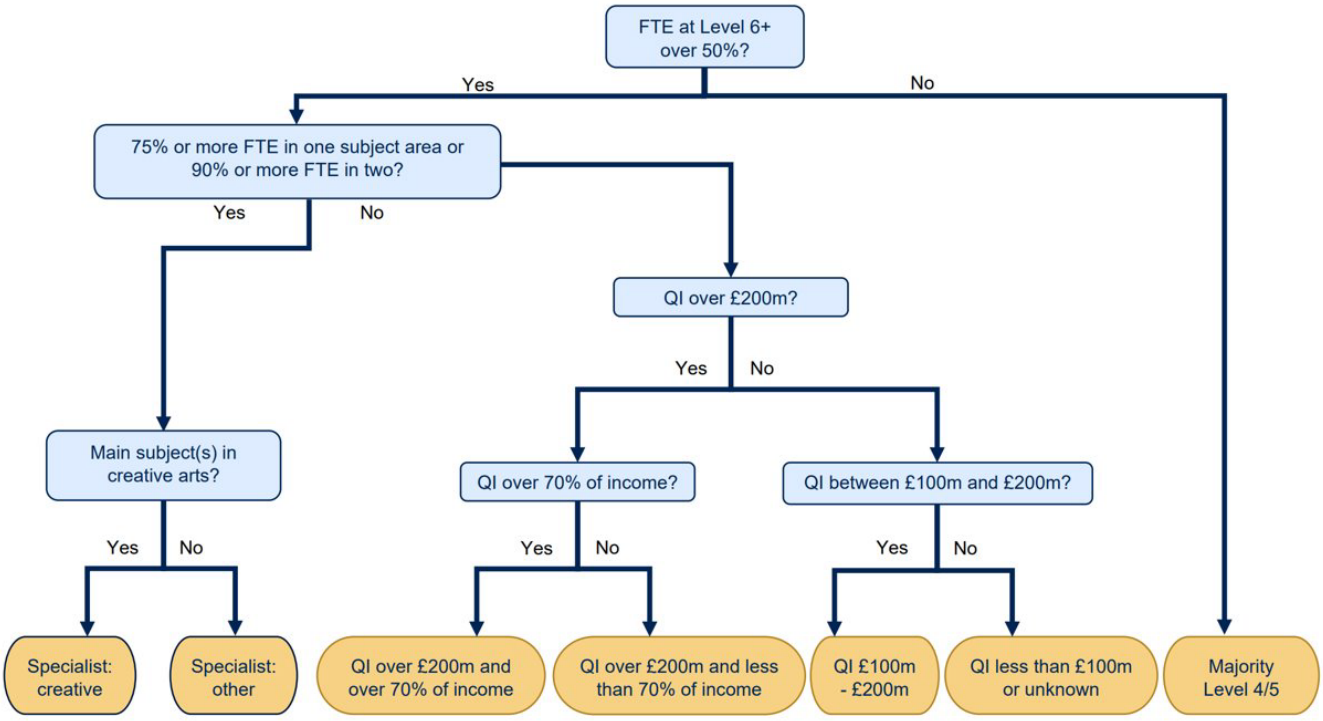
11. We have modelled various scenarios that test how certain financial challenges might impact the finances of individual providers, the sector and of peer groups in aggregate. These focus on significant financial challenges, including scenarios where providers are unable to meet the ambitious, and at an aggregate level unrealistic, growth projections they have forecast. These scenarios show that, if providers fail to meet their growth targets or do not see any growth in their student numbers, a significant number would fall into deficit unless they can find ways to significantly reduce their costs.
12. We have also modelled scenarios that explore the impact of continued inflationary pressure on different kinds of operating costs.
13. We have provided a summary of the impact of some of these scenarios in Annex B.

Annex D: Notes on the data

1. The report draws on financial data, including forecast data, submitted by 269 higher education providers. Throughout the report we refer to 'higher education providers', 'providers', 'universities and colleges', and 'the sector' as shorthand for this group.
2. This report does not include analysis of further education colleges registered with the OfS. Registered further education colleges must also comply with the OfS's regulatory requirements, including the condition of registration relating to financial viability and sustainability. Their financial data is, however, submitted directly to the Education and Skills Funding Agency.
3. The data for 2021-22 and 2022-23 reflects providers' last two years of audited financial statements (i.e., the data for these years is historical and has been assured by an independent auditor), except for a small number of providers (25) that have not yet submitted their final data for 2022-23. This is mainly because either they have financial years ending in the last three months of the calendar year, or the OfS has agreed an extension to the deadline for submission. In these cases, this analysis uses forecast data for 2022-23, submitted to the OfS in the AFR, in place of audited data. Because of the timing of the data submissions, no forecast data for 2027-28 is available for these providers. As a result, the data presented in this report covers only a six-year period and includes data for the period 2021-22 to 2026-27.
4. For most providers (167), the financial year reflects the period from 1 August to 31 July.
5. The data is presented as an aggregate view of providers' financial records and forecasts, for the sector overall and for seven 'finance typology' peer groups.
6. The 'finance typology' peer groupings are based on the amount and type of income received by providers, as well the level and subject areas predominantly studied by their students. The methodology and the data sources used to assign providers to these groups is set out in our paper published in November 2022.[9] This is the first-time financial data analysis has been presented in this way.
7. The 'financial typology' groups providers on the basis of the resources available to them. The factors used in defining these peer groups are:
    a. Proportion of higher education student FTE at Level 4 or 5.
    b. Specialist indicators (i.e. the proportion of provision across one or two subject areas).
    c. Qualifying income (QI) – (i.e. public grant funding from the OfS, any fee income from taught awards (exclusive of VAT) and any fee income from research awards (exclusive of VAT)).
    d. Proportion of total income from QI.
8. Figure D1 describes how each 'finance typology' peer group is derived.

[9] See OfS, 'Provider typologies 2022: Methodology for grouping OfS-registered providers'.

Figure D1: Finance typology flow diagram



9. Analysis and charts will use the following naming conventions described in Table D1 for ease of reference and the number of providers in each group.

Table D1: Peer group naming conventions used throughout report

Description	Name for peer group	Count of providers
Specialist: creative	**Specialist creative**	40
Specialist: other	**Specialist**	50
QI over £200m and over 70% of income	**Larger teaching-intensive**	14
QI over £200m and less than 70% of income	**Larger research-intensive**	21
QI £100m to £200m	**Medium**	43
QI less than £100m or unknown	**Smaller**	71
Majority Level 4 and 5	**Level 4 and 5**	30

Annex E: Aggregate financial data

See separate Excel file, available at www.officeforstudents.org.uk/publications/financial-sustainability-of-higher-education-providers-in-england-2024/.

© The Office for Students copyright 2024

This publication is available under the Open Government Licence 3.0 except where it indicates that the copyright for images or text is owned elsewhere.

www.nationalarchives.gov.uk/doc/open-government-licence/version/3/