Financial sustainability of higher education providers in England

2025

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Contents

Executive summary

The Office for Students (OfS) is the independent regulator of higher education in England. We are working towards a new strategy to ensure that students from all backgrounds benefit from high quality higher education, delivered by a diverse, sustainable sector that continues to improve.

This is the latest of our annual reports setting out our independent, impartial view of the financial condition of the sector and its resilience to financial challenge. It is based on our analysis of the financial data returned to the OfS by universities, colleges and other higher education providers in England (excluding further education colleges). The report covers audited data showing actual performance for the years from 2022-23 to 2023-24, and providers' own forecast data for the years from 2024-25 to 2027-28. It looks at patterns across the sector and groups of providers with similar typologies, rather than drawing conclusions about any individual provider's financial position.[1]

Key findings

We are seeing the third consecutive annual decline in the sector's finances, based on data for 2022-23 and 2023-24 and forecast data for 2024-25. The sector is expecting an improvement in financial performance from 2025-26 to 2027-28, although aggregate liquidity levels are expected to continue to fall throughout the period.

As expected, the aggregate financial performance of providers deteriorated in 2023-24, driven by broadly flat student recruitment and increasing costs. Student recruitment was significantly below previous forecasts for 2023-24, partly because of challenging international student recruitment from January 2024 onwards.

At a sector level, some key financial performance and strength indicators reduced this year. The aggregate sector surplus reduced by 37 per cent and significantly more providers than before reported an income and expenditure deficit.[2] Financial performance continues to vary significantly between different categories of higher education provider, with the larger teaching-intensive and medium provider groups moving into overall deficit, although there is also significant variation for individual providers within the typology groups. As a result, the challenges faced by many providers have grown significantly. Many providers are responding proactively to these challenges and taking steps to address them, to ensure that they remain financially sustainable.

The outlook for 2024-25 has deteriorated since last year's forecasts. The aggregate surplus is anticipated to reduce by a further 64 per cent to 0.6 per cent of income. This is largely due to an expected reduction of 21 per cent in new international student entrants compared with last year's forecasts. The effect of this under-recruitment varies across the sector, with some types of provider much more affected than others.

In the longer term, providers predict a strengthened financial performance, as a result of a forecast increase of 23.9 per cent in tuition fee income between 2023-24 and 2027-28. Over 60 per cent of this increase is expected to come from international students' tuition fees. We are concerned that this expected recovery is based on overly ambitious figures for recruitment growth over this period: 26 per cent growth in UK student entrants and 19.5 per cent growth in international student

[1] For typologies, see Annex C of this document and OfS, 'Provider typologies 2022: Methodology for grouping OfS-registered providers'.

[2] 'Surplus' here refers to surplus/(deficit) before other gains or losses, and share of surplus/(deficit) in joint ventures and associates, adjusted to exclude pension provision changes.

entrants. Our modelling suggests that the recovery could be slower, or even reversed, if these recruitment assumptions are not met.

Changing recruitment patterns

Recruitment patterns in 2023-24 and 2024-25 for UK and non-UK students have seen significant change. If this trend continues it has the potential to further challenge providers' finances.

The reported non-UK student recruitment in 2023-24 was 15.5 per cent lower than last year's forecast, largely because of a reduction in recruitment from January 2024 onwards. This reduction is forecast to continue in 2024-25 with a small overall decrease in student numbers, meaning that entrant numbers are now projected to be 21 per cent lower than previous forecasts.

The impact of this change has affected all groups of providers, but it is most significant for larger and medium-sized providers. There is also significant variation in how this has affected providers within different typology groups.

There have also been notable changes in recruitment of UK students. There was a small increase (0.3 per cent) in UK student recruitment in 2023-24, but providers have responded to reduced non-UK student recruitment by increasing their focus on UK students for 2024-25. UK student entrants are forecast to grow by 10.8 per cent in 2024-25. There has been an increase in competition for students, resulting in significantly increased recruitment by some providers, particularly in the larger and higher tariff groups.

This more competitive environment means that some providers are facing significant reductions in both non-UK and UK student entrants.

Our view is that, at an aggregate level, providers' forecasts for recruitment growth continue to be too ambitious. The forecasts for 2024-25 and beyond are uncertain and it is important that providers continue to manage this risk. Although the latest aggregate growth for the longer term is forecast to be lower than in last year's forecasts, we are concerned that it is unlikely to be achieved.

Using the latest forecast data, we have again modelled a range of scenarios that predict how under recruitment could affect different types of provider through the forecast period. Our modelling does not account for mitigating actions that providers are likely to take to respond to risk.

The results of the modelling indicate that providers would face significant financial challenges in all scenarios. Without mitigating action, the number of providers reporting deficits, low operating cash flow, and low liquidity could rise substantially, highlighting increasing financial pressures on the sector. In the 'No growth' model, where we assume that student recruitment is stagnant from 2024/25 onwards, net income losses, relative to forecast, could reach £3 billion by 2027-28, with 167 providers in deficit. In our most severe model, the income losses reach £4.4 billion, with 200 providers in deficit.

Investing for the long term

Capital investment increased in aggregate in 2023-24 compared with 2022-23, and is forecast to increase again in 2024-25. However, investment in 2023-24 was lower than previously forecast. In the last few years, providers have told us that, when facing financial challenges, they have paused or halted capital expenditure and infrastructure improvements to protect operational expenditure.

We remain concerned that underinvestment in facilities, infrastructure and equipment could lead to increased financial sustainability concerns in the future, especially where more urgent and significant maintenance investment is required, or where the quality or suitability of facilities, equipment and infrastructure restricts operations or necessary strategic developments. Unavoidable investment may be required in the very short term, so it is important that providers identify, plan, fund and undertake necessary investment.

Financial resilience for future uncertainty

The types of financial challenges facing the sector remain much the same as outlined in our May 2024 report and November 2024 update.[3] The student recruitment picture has become increasingly unpredictable. Inflation and rising costs, uncertain geopolitics and economics affecting international recruitment continue to play a part. And we continue to see rapid growth in subcontractual partnerships, which, in the absence of robust oversight, can result in risks for students and taxpayers.

We said in May 2024 that providers would have to be ready to manage this financial uncertainty and should plan to respond proactively to risks, including in relation to student recruitment.

Through our monitoring activity, we’ve seen increasing numbers of providers taking action to manage financial pressures, including protecting their liquidity through cost management, boosting student recruitment and strategically assessing their asset base. There are some instances of more strategic cost reduction plans being implemented to manage costs proportionate to income. This activity has made an impact and as a result we saw better than forecast aggregate financial performance and liquidity in 2023-24, albeit reduced from the previous year.

It is important that providers and their governing bodies continue to grapple with these serious issues to build resilience and support sustainability, while continuing to provide a high quality education for students from all backgrounds. Financial change is not easy, nor quick, and providers should ensure they have the right skills, expertise and capacity, across management and governance, to deliver the changes necessary to manage and respond to these long-term challenges.

What the OfS is doing

During this year we have increased our monitoring activity and engagement with the sector and individual providers. We continue to build our understanding of how risks are materialising and how providers are responding, to inform our ongoing work with those experiencing financial difficulty. We also continue to engage with banks, lenders and other organisations on these issues.

We recognise there will be more difficult decisions ahead, and the risks set out in this report will affect individual providers and parts of the sector in different ways.

We are building a greater understanding of the aggregate impact of the changes providers are making in response to financial challenges. We regularly talk to providers about changes that they are undertaking. We are also engaging with students to hear about the ways their experiences are being affected, and with other stakeholders to understand a wider range of changes. This will help us to understand where risks to provision and students’ experiences may emerge and how these can be mitigated. It also helps us to identify changes to the size and shape of higher education provision. We will work with the sector as we develop this bigger picture.

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[3] See OfS, ‘Financial sustainability of higher education providers in England: November 2024 update’.

Universities and colleges are autonomous institutions. They will need to make their own decisions about how best to preserve their own financial sustainability. The OfS does not have the power or remit to intervene in these decisions, but we will act to protect students’ interests where there are significant risks to a provider’s sustainability. This could range from convening discussions with experts on financing arrangements to ensuring effective communications with students.

We remain concerned about the medium and longer-term picture, and the extent to which the sector’s aggregate forecast improvement in financial performance is predicated on increased student recruitment. Our analysis suggests increasing variation in student recruitment for different providers is likely to have a detrimental impact on some parts of the sector in particular. We encourage all providers and their governing bodies to use this report in their work to monitor and mitigate the impact of any adverse changes in student recruitment and other financial pressures to build and sustain long-term resilience.

Introduction

1. The OfS has a statutory duty to monitor the financial sustainability of registered higher education providers in England and to report on its findings.
2. Registered providers must demonstrate that they are financially viable in the short term (up to three years in the future) and sustainable into the longer term (up to five years). As they are autonomous institutions, the responsibility for financial sustainability, including the management of financial risks, rests clearly and unambiguously with the providers themselves.
3. All registered providers submit detailed financial data to the OfS, including financial and student forecasts, on at least an annual basis.[4] In April 2025 we introduced an interim collection of financial data for most providers to improve our understanding of the impact of in-year changes to income and expenditure and the actions providers are taking to respond to changing circumstances. Where appropriate, we engage directly with individual providers about their finances, and we require some to submit financial information more regularly.
4. During 2024 and early 2025, we increased our direct engagement with an expanding group of providers to improve our detailed understanding of how each is managing its finances in the current context. We described our approach in an article on the OfS website in January 2025.[5]
5. The current report sets out an overall view of the financial health of the sector and the future outlook, underpinned by analysis of key historical and forecast trends. It then explores some of the key challenges facing the sector.
6. A significant focus of the report is on student recruitment trends, which are a key driver of income for most providers. Variations in student recruitment in 2023-24 and 2024-25 are prominent in the financial challenges facing the sector. Further volatility in recruitment could present further significant challenges. As in last year's report, we also present some of our financial modelling, which illustrates the scale of the challenge that could arise from recruitment volatility.

Note on the data

7. This report summarises our analysis of financial data, including forecast data, submitted by 270 higher education providers in their most recent, detailed, annual financial return (AFR). Most of this data was submitted in or before December 2024 and January 2025, and may not therefore account for circumstances since then. We set out our analysis for different groups of providers, to explore the context for different parts of the sector, and provide tables of aggregated data, which we hope will be useful to providers in benchmarking against peers.

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[4] This excludes further education colleges, which are monitored by the Department for Education.

[5] See OfS, 'What the OfS is doing to help universities and colleges ensure their long-term financial sustainability'.

Financial health of the sector and future outlook

8. At an aggregate level, the sector reported a decline in surplus, operating cash flow and net liquidity in 2023-24 compared with 2022-23. In aggregate, the surplus in 2023-24 was marginally stronger than forecast last year. All provider groups reported a decline in operating cash flow and net liquidity between 2022-23 and 2023-24; however, there was more variation in the change in surplus levels by group. Specialist, smaller and Level 4 and 5 providers reported an increase in surplus levels across the period, but all others reported a decline, with larger teaching-intensive and medium provider groups moving into overall deficit.

9. Aggregate income levels increased by 4.7 per cent between 2022-23 and 2023-24. Student recruitment is the key driver for income across the sector; income from tuition fees and education contracts made up more than 50 per cent of total income in 2023-24. Total student entrant numbers remained flat between 2022-23 and 2023-24. UK entrants increased marginally, and international entrants declined marginally, over this period. However, analysis shows that the aggregate fee per student for international students increased, resulting in an increase in tuition fee income over the period.

10. Although total student entrant numbers remained broadly flat between 2022-23 and 2023-24, recruitment was significantly lower than forecast by the sector last year. The outturn number of UK entrants was 10.8 per cent lower, and 15.5 per cent lower for non-UK students, in 2023-24 compared with last year's forecast.

11. Despite efforts by providers across the sector to make cost savings, including through course rationalisation and redundancy programmes, aggregate expenditure (excluding pension adjustments) has increased between 2022-23 and 2023-24. Cost pressures facing providers, such as inflationary increases in operating costs and increasing pay costs, as well as the initial cost of implementing cost-saving initiatives such as severance payments, are continuing to affect providers' ability to reduce expenditure.

12. Total sector borrowing as a percentage of total income declined between 2022-23 and 2023-24. Although only marginal, this decrease is largely driven by a decline in the use of longer-term bank loans. Instead, providers are looking to borrowing options such as overdrafts and revolving credit facilities, which offer flexible, contingent borrowing for operational purposes.

Future outlook

13. In aggregate, providers have forecast that surplus levels will decline further in 2024-25. The sector has also forecast a continuing decline in liquidity levels in 2024-25. If the latest forecast for 2024-25 is correct, this will be the third consecutive year of declining surplus and liquidity levels. For the remainder of the forecast period, the sector is anticipating a continuing decline in liquidity levels. It is important for providers to maintain healthy levels of liquidity to ensure they have the available cash (or liquid investments) to respond agilely to unplanned situations and remain resilient during ongoing periods of economic uncertainty.

14. Operating cash flow is forecast to increase in 2024-25, but at a lower rate than previously forecast. This forecast increase indicates that the sector is adjusting to strengthen its operating cashflows, which are necessary to support future investment and as a buffer to financial risk.

15. Data on 2024-25 student recruitment shows a shifting pattern compared with previous years. Numbers of non-UK students enrolling in English providers are expected to be significantly

below those previously forecast, and the impact of this is seen in increasingly competitive UK student recruitment. In aggregate, providers now expect to recruit 21 per cent fewer non-UK students for 2024-25 compared with last year's forecast.

16. Income from tuition fees and education contracts is forecast to increase annually from 2024-25 and for the remainder of the forecast period. Although an increase in student recruitment underpins some of the anticipated growth in tuition fee income, providers have also forecast an increase in the fee per student for both UK and international students. This income supports the remainder of the forecast growth in tuition fee income.

17. In aggregate, the sector has forecast that total expenditure will increase across each year of the forecast period. Increasing costs, such as changes to employers' national insurance contribution rate and threshold criteria, implemented in April 2025, will continue to have an impact on providers' cost-saving ability.

18. A provider's investment in its infrastructure, facilities, IT and equipment, or 'capital expenditure', is important for its longer-term financial sustainability. The sector has forecast an aggregate increase in capital expenditure in 2024-25 (following an increase between 2022-23 and 2023-24), although at a lower level than previously forecast. However, the ongoing financial pressure on providers may lead to changes to capital investment plans, with providers reducing, delaying or cancelling projects.

19. Although the aggregate financial performance and position is predicted to be weaker than historical levels to 2024-25, the sector has forecast an improving outlook for the medium and longer terms, although as mentioned in paragraph 13 liquidity levels are expected to continue to fall. It is important to state that the sector-level performance described in paragraphs 8 to 18 does not reflect the picture for all providers, as financial performance and strength vary significantly at a provider level.

Other trends of note

20. For many providers, the audit cycle for 2023-24 financial statements has been longer than in previous years. This has been primarily to allow time for additional audit work relating to 'going concern' audit opinions of a provider's accounts. A 'going concern' audit opinion is provided by financial statements auditors following assurance work on a provider's assumption that the organisation is financially viable and likely to be able to continue to operate for the foreseeable future (normally 12 to 18 months). The need for additional time is partly due to increased uncertainty about student recruitment and costs in the next two years. Banks and other lenders often have an important part to play in 'going concern' arrangements, particularly for compliance with loan covenants and in providing contingency loan facilities where needed.

21. A small number of audit opinions in 2023-24 annual accounts include a statement of 'material uncertainty' in relation to going concern, which sets out particular factors of uncertainty in a provider's future operating environment that could have significant financial impact. The reasons for this have included uncertainty about the delivery of cost-saving plans, or receipt of proceeds from asset sales to improve cash resilience. While these do not suggest that these providers are not viable, material uncertainty statements are unusual for the higher education sector, and this highlights uncertainty as an increasing feature of the current environment.

In-year financial update

22. Our financial sustainability update in November 2024 commented on increasing financial challenges, and increasing variation in financial performance, across the sector.[6] We said that we would need to improve the agility of our monitoring approach, and to collect core financial information from providers on a more real-time basis throughout the year.

23. We discussed our plans for an in-year data return with sector finance directors and with sector representative bodies and mission groups. We responded to feedback to ensure we are asking only for information necessary for our statutory financial monitoring function, and to minimise the burden on providers.

24. In March 2025, we asked most providers to submit a limited set of core financial information about their expected outturn for the current year.[7] We wanted to understand any changes since the previous data was submitted, and to identify where these changes might indicate financial sustainability concerns for individual providers. This information was collected from 223 providers in April 2025.

25. Table 1 shows the aggregate key forecast financial information of these providers for 2024-25 based on the AFR and interim return[8].

Table 1: Key forecast financial information, 2024-25

Aggregate forecast financial data	Interim return	Previous annual financial return
Total income (£M)	44,699	44,891
Surplus/(Deficit) (£M)	351	309
Surplus/(Deficit) as a % of total income	0.75%	0.65%
Cash flow from operating activities (£M)	1,926	1,878
Cash flow from operating activities as a % of total income	4.3%	4.2%
Net liquidity (£M)	12,713	12,304
Net liquidity days	112	108
Net liquidity as a % of total expenditure	28.7%	27.6%

26. Although the in-year data, at a sector level, displays a marginally improving financial position, just over 40 per cent of providers forecast lower surplus levels, and 35 per cent of providers forecast lower operating cash flow and lower liquidity days, compared with their AFR forecasts for 2024-25.

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[6] See OfS, 'Financial sustainability of higher education providers in England: November 2024 update'.

[7] Providers that had submitted an AFR24 one month before, or were due to submit an AFR24 two months after, the interim return deadline, and those providers that had already submitted more recent data because of the increased levels of monitoring, were not required to submit an interim return.

[8] The interim return contained no automated data verification checks. In a small number of cases we have identified some data quality issues, and we are undertaking more data quality assurance. Where possible we have removed errors for the analysis in Table 1.

27. As with the data submitted in the AFR, there is also variation at a provider group level in the in-year data. Aggregated data for the medium, specialist and Level 4 and 5 provider groups all forecast a decline in surplus and operating cash flow between their latest AFR results and the in-year collection. The specialist group forecast the largest decline in surplus levels, from 5.7 per cent of total income to 3.4 per cent. The Level 4 and 5 group forecast the largest decline in operating cash flow, from 10.1 per cent to 7.9 per cent.

28. The larger teaching-intensive, larger research-intensive, smaller and specialist creative provider groups all reported improved financial performance between the AFR and in-year collection, all forecasting either the same result or an improvement, in surplus, operating cash flow and liquidity levels. The smaller provider group has forecast the largest increase in surplus levels, a rise of 0.7 per cent of total income, and the specialist creative group the largest increase in cash flow, a rise of 1.0 per cent of total income.

29. The results from the in-year finance data collection demonstrate that, at a sector level, providers have made changes to increase their liquidity, most significantly an increase of 8 per cent in liquid (current asset) investments. In aggregate, forecast liquidity days increased from 108 days in the AFR to 112 days based on the in-year collection. Almost all provider groups forecast an increase in liquidity days between the two collections (Level 4 and 5 providers results show a decrease between collections). The larger teaching-intensive provider group has forecast the largest increase in liquidity days between the AFR and in-year collection, of 8 days more. This is due to a small number of providers in the group forecasting a significant increase in current asset investments.

Key risks

30. The risks facing the sector and individual providers are wide-ranging, with some providers experiencing multiple risks in combination. During 2024 we continued our series of round table discussions with finance directors, with a focus on exploring the types of risks providers are managing. A summary of these discussions can be found at Annex A.

31. The key pressures affecting financial sustainability are:

    a. High levels of variability in student recruitment across the sector last year, and resultant changes to fee income and uncertainty in forecasting future tuition fee income flows.

    b. Continuing decline in the real-terms value of tuition fee income from UK undergraduates, relative to costs, despite the increase to fee limits announced by government as part of the October 2024 budget.

    c. Inflationary and economic pressures on operating costs, particularly pay costs with recent increases to employers' national insurance contributions and some pension schemes, and other costs such as the maintenance and development of buildings and facilities.

    d. The overall higher education financial model, including the sustainability of many higher education activities, has become reliant on fee income from international students, with a particular vulnerability where recruitment is predominantly from a single country.

    e. External influences on the international student market such as global economics and volatile geopolitics bring uncertainty, risks and opportunity.

    f. Cost of living challenges for students and staff, which affect the recruitment and participation of students and the financial support needed by many of them during their time in higher education.

g. Increasing backlog maintenance and strategic capital investment needs; the affordability of necessary estate maintenance and development, and the significant cost of investment needed to reduce carbon emissions as part of a commitment to tackling environmental sustainability.

h. The need to have the skills, knowledge and capacity in management and governance, as well as the resources, to deliver operational change and strategic financial reform.

i. High levels of variability among providers. All providers have to manage financial challenge of some kind, but there is significant variation in the scale and type of challenges they face. This has been demonstrated more recently in relation to changes in student recruitment patterns, where 'market competitiveness' has been more evident in UK student recruitment.

j. A lack of certainty in the future funding and economic environment, which increases the challenge for providers in transforming operating models to be financially sustainable in the long term.

k. Significant increases in many providers' subcontractual partnership arrangements. Managed well, and with robust controls, these partnerships can represent opportunities for students and a diversification opportunity for providers. However, there are some significant challenges and risks to such ventures, particularly where there could be a material impact on a provider's financial model if risks crystallise.

l. The importance of the role of banks and other lenders in provider financial viability, and the need for providers to retain lenders' confidence.

32. The impact of these risks on providers is becoming more evident in the following ways:

a. Some instances of pressure on operating cashflow and diminishing liquidity levels. Some reliance on credit banking facilities to support operating cashflow, accommodating peaks and troughs of cash inflows and outflows. In some providers, at some points in the year, there is minimal liquidity contingency to manage sudden costs.

b. An increase in requirement for in-year cost-saving measures to manage cashflow and respond to variations in income and expenditure, especially if student recruitment targets are not met.

c. More instances where strategically surplus assets are sold to release proceeds to support cashflow. This option is not available to many providers and, where it is, the timing and value of cash inflows can be uncertain or subject to external influence, such as planning regulations.

d. Reductions in capital expenditure where possible, and reduced spending on non-frontline services.

e. A small number of providers proactively considering significant changes to their business models, including different ways of collaborating across the sector and considering different merger models. While mergers are not always going to be the right answer, in some situations closer collaboration and merger could represent opportunities to generate efficiencies that sustain higher education delivery.

f. An increase in instances of non-compliance with the covenant tests associated with loans, and a subsequent need for providers and lenders to renegotiate terms.

g. Some providers facing more limited options from lenders when seeking borrowing, particularly to support cashflows.

h. Seeking and relying on financial support guarantees from principal shareholders, wealthy benefactors or philanthropic donors.

i. A notable increase in the work auditors feel they need to do to provide their required annual opinions on the 'going concern' statement used by governing bodies in producing accounts.

Student trends and recruitment

33. The AFR data submitted to the OfS shows that in the 2023-24 academic year, there were nearly 2.1 million full-time equivalent (FTE) students studying at the 270 providers included in this analysis. This figure includes 841,722 FTE students identified by providers as 'entrants,' meaning they were in the first year of their course.[9]

34. Course fees and education contracts for the same year amounted to £25,466 million, 54.4 per cent of the total income for the sector. This proportion varies considerably between providers, ranging from 0 per cent of total income, where subcontractual arrangements are in place, to 100 per cent. Other income sources are set out in Table 5 and include grant income for teaching and research activity, as well as other income-generating activities.

35. The AFR requires each provider to return data on the numbers of entrants and of continuing students. Table 2 outlines total FTE students and tuition fees, split by student domicile and level of study, for 2022-23 and 2023-24.

[9] When reporting data to the AFR, a student is an 'entrant' if it is their first time being counted in the population for a higher education course and they have not been active at the same level (undergraduate, postgraduate taught or postgraduate research) as a student of the same registering provider in either of the previous two financial years. Students repeating the first year of a course would not therefore be included as new entrants, whereas those entering directly into the second or later year of a course could be.

Table 2: Total student numbers and total tuition fees, 2022-23 and 2023-24

Level	Total students (FTEs) 2022-23	Total students (FTEs) 2023-24	% change	Tuition fees (£M) 2022-23	Tuition fees (£M) 2023-24	% change
UK Undergraduate	1,280,549	1,318,511	3.0%	10,945	11,347	3.7%
UK postgraduate taught	154,336	150,015	-2.8%	1,488	1,502	0.9%
UK postgraduate research	47,087	47,036	-0.1%	184	184	0.1%
Non-UK undergraduate	246,867	242,972	-1.6%	4,578	4,875	6.5%
Non- UK postgraduate taught	271,096	284,425	4.9%	5,277	5,505	4.3%
Non- UK postgraduate research	36,152	36,747	1.6%	522	555	6.2%

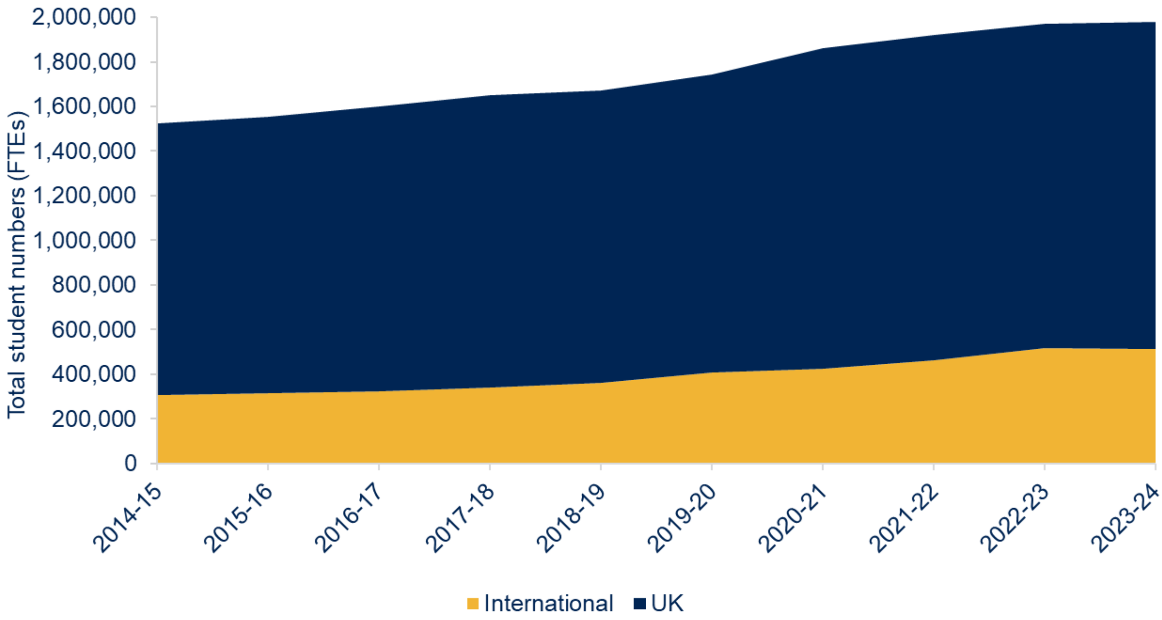
Data source: OfS AFR.

Student numbers over time

36. Higher Education Statistics Agency (HESA) student data submitted by providers between 2014-15 and 2023-24 shows student numbers have increased significantly in the last decade. Figure 1 presents a longer historical trend in UK and non-UK student numbers between 2014-15 and 2023-24, and shows the growth in recruitment over time, including an increase of nearly 70 per cent in non-UK students between 2014-15 and 2023-24.

37. The AFR data shows that providers are forecasting an overall decrease of -6.5 per cent in total non-UK students between 2023-24 and 2024-25.

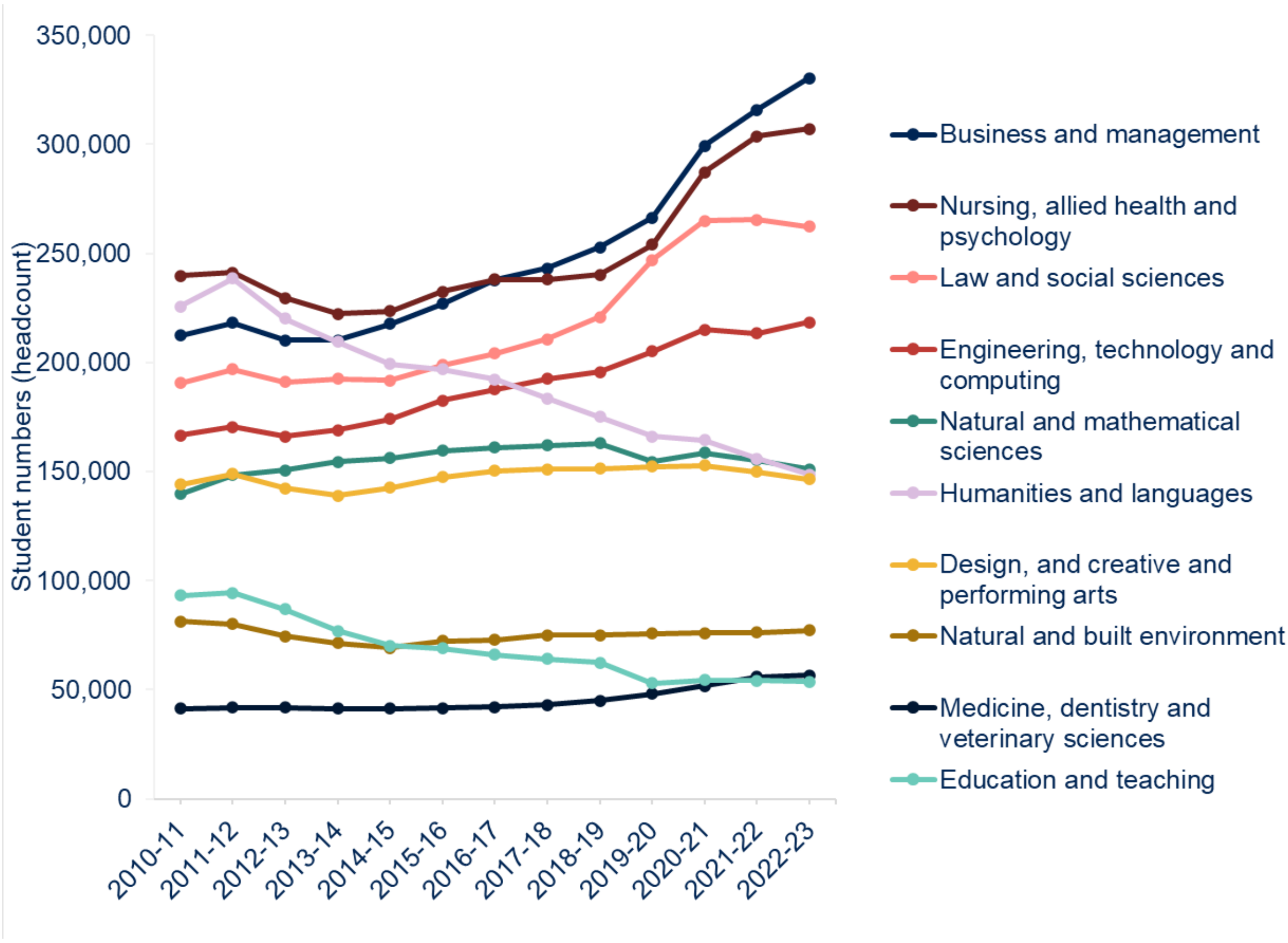
Figure 1: UK and international student numbers, 2014-15 to 2023-24



Data source: HESA student data.

38. Figure 2 illustrates subject-level student data to 2022-23, which shows the number of students by broad subject area, with some interesting variation, particularly since 2014-15. In the last five years, there has been notable growth in the business and management, law and social sciences and nursing, allied health and psychology subject areas.

Figure 2: Undergraduate student numbers by broad subject of study



Data source: OfS student characteristic data.

Changing recruitment patterns in 2023 and 2024

39. This analysis focuses on 'entrants', as this is a better indicator of recruitment performance and the attractiveness of English higher education providers to prospective students, and a core driver for a significant proportion of the sector's income.

40. Growing student recruitment remains a significant feature of many providers' financial sustainability plans, and the recent evidence suggests there is considerable risk that this will not be achieved. Our analysis of the AFR 2024 submissions shows continued volatility and uncertainty in the recruitment market for both UK and non-UK students.

41. In 2023-24, there was a minor reduction in overall non-UK recruitment, and in 2024-25 non-UK student entrants are expected to be broadly level with those reported in 2023-24 in the AFR.

42. Compared with previous forecasts, the information provided in AFR 2024 shows that the number of non-UK entrants in 2023-24 was approximately 15.5 per cent lower in 2023-24 than previous expectations, and the forecast numbers for 2024-25 were 21.0 per cent lower than previous expectations. All provider types apart from Level 4 and 5 providers appear to have under recruited non-UK students relative to their previous forecasts, with declines in forecast entrant numbers more significant in larger teaching-intensive, larger research-intensive and medium-sized providers.

43. Overall, the recruitment of non-UK postgraduate students is forecast to reduce by 2.7 per cent between 2023-24 and 2024-25, although there has been significant change between different provider groups, which reflects their recruiting strength. Larger and medium-sized teaching providers have forecast reductions in non-UK postgraduate entrants, of 10.4 per cent and 19.5 per cent respectively, in 2024-25 compared with 2023-24. All other provider groups expect to have increased non-UK postgraduate recruitment in 2024-25. There is variation within these groups, though, with some providers in all groups performing significantly more strongly than others.

44. Table 3 shows the change in non-UK entrants in 2023-24 and forecasts in 2024-25 returned in in the latest finance returns (AFR24), compared with the previous forecasts.

Table 3: Change in non-UK entrants compared with previous forecast

Provider group	2023-24 change in FTEs	2023-24 % change	2024-25 change in FTEs	2024-25 % change
Larger teaching-intensive	-10,136	-20.2%	-14,440	-28%
Larger research-intensive	-14,025	-11.2%	-14,145	-11%
Medium	-19,066	-18.7%	-39,643	-36%
Smaller	-4,339	-20.8%	-4,029	-19%
Specialist creative	-2,478	-17.6%	-4,057	-26%
Specialist	-1,231	-6.9%	1,468	7%
Level 4 and 5	88	13.5%	885	123%
Sector	**-51,187**	**-15.5%**	**-73,961**	**-21.0%**

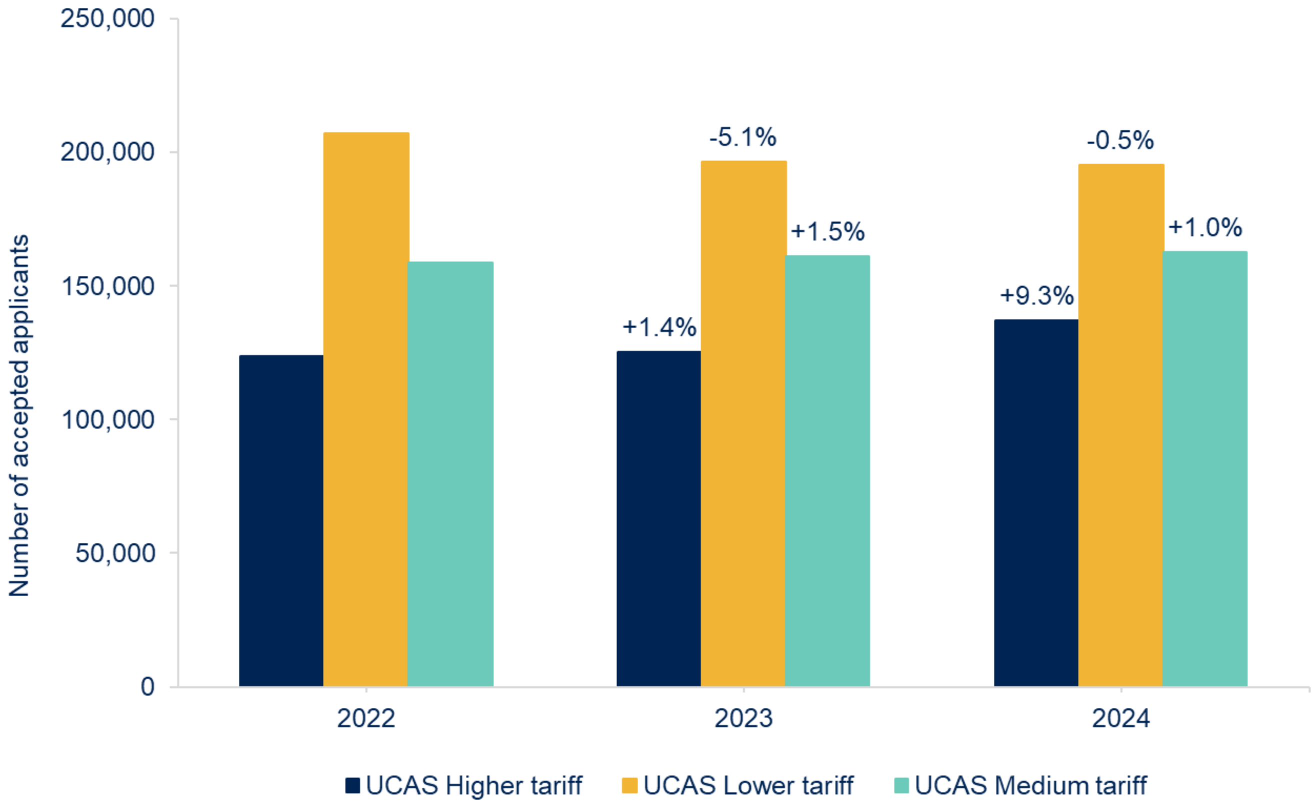
45. Failure to achieve the overall forecast growth in non-UK recruitment in both 2023-24 and 2024-25 has affected UK student recruitment as providers seek to achieve their financial targets. In 2023-24, UK entrants were reported at broadly the same level as the previous year, but 10.8 per cent lower than forecast. In 2024-25, providers are forecasting an increase in UK home entrants of more than 10 per cent (although this is 7.5 per cent below previous forecasts for 2024-25). This increase between years includes an overall expected increase in UK postgraduate entrants of around 16.8 per cent in 2024-25 compared with 2023-24, after a period of declining numbers. This growth is largely due to increased recruitment by larger research-intensive providers.

46. There have also been changes in the recruitment of UK undergraduate students. Published UCAS end of cycle data for 2024-25 shows an overall increase of 2.3 per cent in UK undergraduate student acceptances to English providers compared with the previous year. However, this increase is not evenly distributed across provider groups. Figure 3 shows the numbers of accepted applicants and annual change by UCAS tariff group from 2022 to 2024.

47. In contrast to the UCAS end of cycle data for 2024-25, which suggests a 2.3 per cent increase in UK undergraduate student acceptances, the sector's latest forecast suggests an increase of 9.8 per cent in UK-domiciled full-time undergraduate entrants for the same year. There could be a number of reasons for the differences in these numbers. The UCAS data captures

approximately 80 per cent of the total UK-domiciled full-time undergraduate entrants. There could also be differences resulting from factors including the numbers of students deferring, the reporting of headcount versus FTEs, and the reporting of actual versus forecast data. We can expect to see a difference between the forecast student numbers and outturn and providers should continue to monitor this closely in relation to their own student numbers.

Figure 3: UK-domiciled accepted applicants to UK providers by provider group

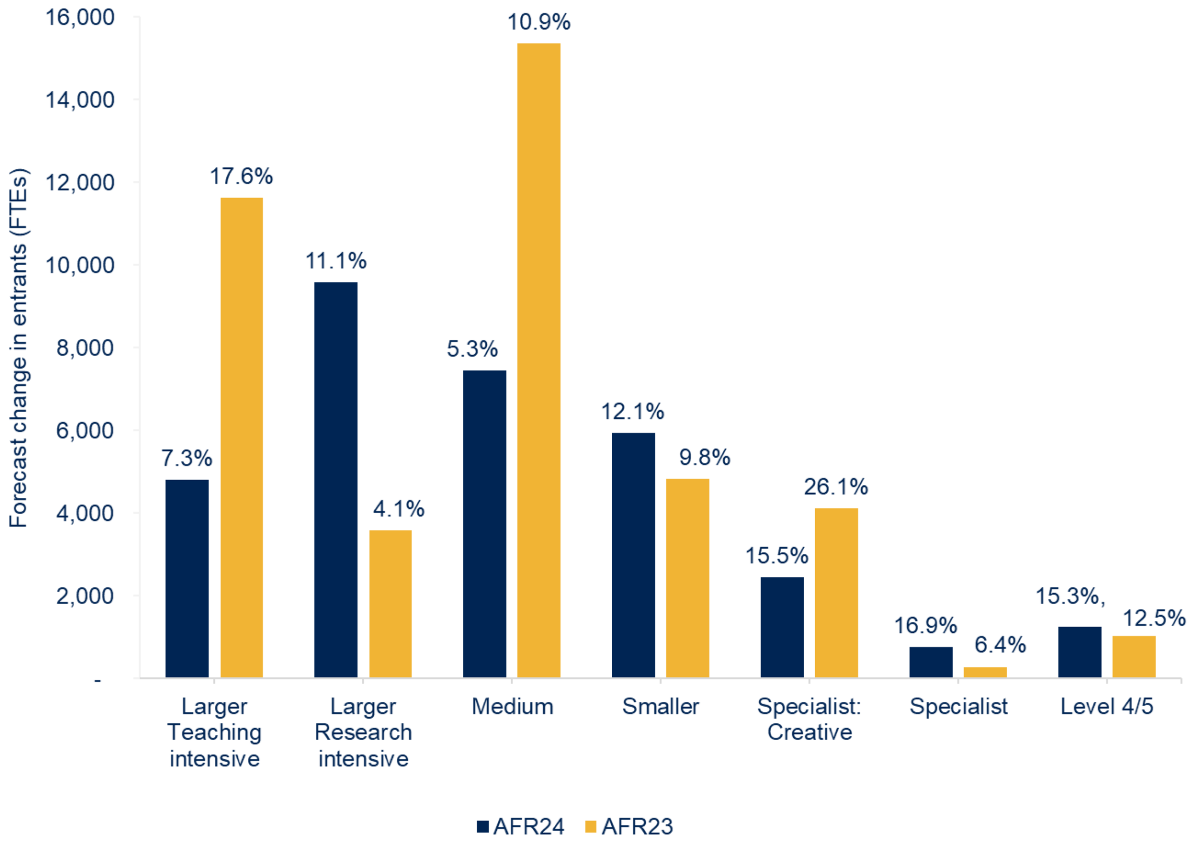


Source: OfS analysis of published UCAS data.

48. The overall changes in UK student recruitment, particularly the increases in recruitment by larger and higher tariff providers are likely to be a direct response to the failure to achieve the forecast non-UK recruitment. It demonstrates that changes in non-UK student recruitment patterns can affect all providers, directly or indirectly.

49. Figure 4 shows the change in UK full-time undergraduate entrants between 2023-24 and 2024-25 by provider group, compared with the forecast from the previous year, for the same period. Larger research-intensive, smaller, specialist and Level 4 and 5 provider groups are expecting a larger proportional increase in UK full-time undergraduate entrants in 2024-25 than previously. The larger research-intensive group's latest forecast shows the largest change of the provider groups, with 6,003 more UK full-time undergraduate entrants than previously. The Level 4 and 5 group shows the smallest increase, a forecast change of 232 entrants between AFR23 and AFR24. Larger teaching-intensive, medium and specialist creative group members' latest forecasts are all lower than previous forecasts for the same period, by -7,924, -6,821 and -1,666 respectively.

Figure 4: Forecast change to UK-domiciled full-time undergraduate student entrants between 2023-24 and 2024-25



Note: AFR24 forecast for 2024-25 and AFR23 forecast for 2024-25 compared with AFR24 2023-24 results.

50. The ability of a provider to change recruitment strategy and adjust to changing trends will depend on its market strength, ability to pivot to the demands of students and capacity to deliver the provision. Some providers will be less able to do this than others, and this group could face challenges resulting from reductions in recruitment of both UK and non-UK students.

The recruitment landscape in the longer term

51. In aggregate, the sector has forecast an increase in total student entrants between 2023-24 and 2027-28, although this varies by provider group and individual provider. The overall forecasts estimate an increase of 26.0 per cent in UK entrants and 19.5 per cent in non-UK entrants between 2023-24 and 2027-28. Although this represents a reduction in aggregate forecast growth compared with previous forecasts, our view is that the latest forecasts are still too optimistic, because of the recent trends and significant future uncertainty in the recruitment market.

52. As set out in paragraph 42, the sector has underperformed against its AFR23 forecast recruitment for 2023-24 and is predicting underperformance against its AFR23 forecast position for 2024-25. The difference in new entrants across the sector for 2023-24 and 2024-25 compared with the forecast discussed in paragraph 49 demonstrates the volatility that can happen within a year as well as across years. We think it is likely that this volatility will continue over the forecast period, and this increases uncertainty about whether the sector will achieve its growth forecasts between 2023-24 and 2027-28.

53. In addition, as described in paragraph 48, we have seen a significant shift in the patterns of recruitment of UK students for 2024-25, as a result of the lack of growth in non-UK students. Changes in providers' approach to a more competitive recruitment environment means that there is increased uncertainty for providers in meeting income targets.

Early indications for 2025-26

54. Looking ahead, recent data published by UCAS (at the January 2025 application deadline) on applicants for the 2025-26 cycle shows that the total number of UK full-time undergraduate applicants has increased by 0.4 per cent compared with the same point last year. A lot can change over the next few months, but if this is taken as a guide for acceptances for the majority of provider types in the 2025-26 cycle, it is a lower rate of increase than the 3.7 per cent growth in entrant numbers that providers have forecast for 2025-26.

55. The variation in UCAS applications by provider group, at the January 2025 application deadline, follows a similar trend to that reported at the end of the 2024 cycle. Applications to providers in the higher UCAS tariff group have increased by 3.8 per cent between January 2024 and January 2025. Applications made to the medium tariff group have increased by 0.7 per cent and those to the lower tariff group have declined by 2.7 per cent. Table 4 shows UCAS applicants split by student domicile.

Table 4: UCAS applicants to English providers, January 2023 to January 2025 deadlines

Domicile	January 2023 deadline applicants	January 2024 deadline applicants	January 2025 deadline applicants	Change 2024-25	Percentage change 2024-25
UK	432,930	429,140	430,940	1,800	0.4%
Non-UK	111,190	111,380	113,560	2,180	2.0%
Total	544,120	540,520	544,500	3,980	0.7%

Data source: Contents of table OfS analysis of published UCAS data.

UK age demographics

56. The 18-year-old population can be a reference point for the pipeline for future undergraduate students, although it is not necessarily a reliable basis on which to predict undergraduate recruitment.

57. In 2024, the proportion of UK 18-year-olds entering higher education increased to 36.4 per cent (from 35.7 per cent in 2023), an increase of 7,815 UCAS accepted applicants between 2023 and 2024.[10] This is an encouraging sign after decreases in the entry rate for this age group in the two previous years.

58. Figures derived from the Office for National Statistics (ONS) data suggest an increase of 10.1 per cent in the UK 18-year-old population between 2023-24 and 2027-28. If the proportion of UK 18-year olds entering higher education remained at 36.4 per cent, the number of UK undergraduate students entering higher education could potentially increase by 40,000 students by 2027-28. However, the sector's forecasts far exceed that, with an increase of 100,000 UK full time undergraduate students (25.1 per cent). Age demographics have not

[10] See UCAS, 'Undergraduate end of cycle data resources 2024' and 'Undergraduate end of cycle data resources 2023'.

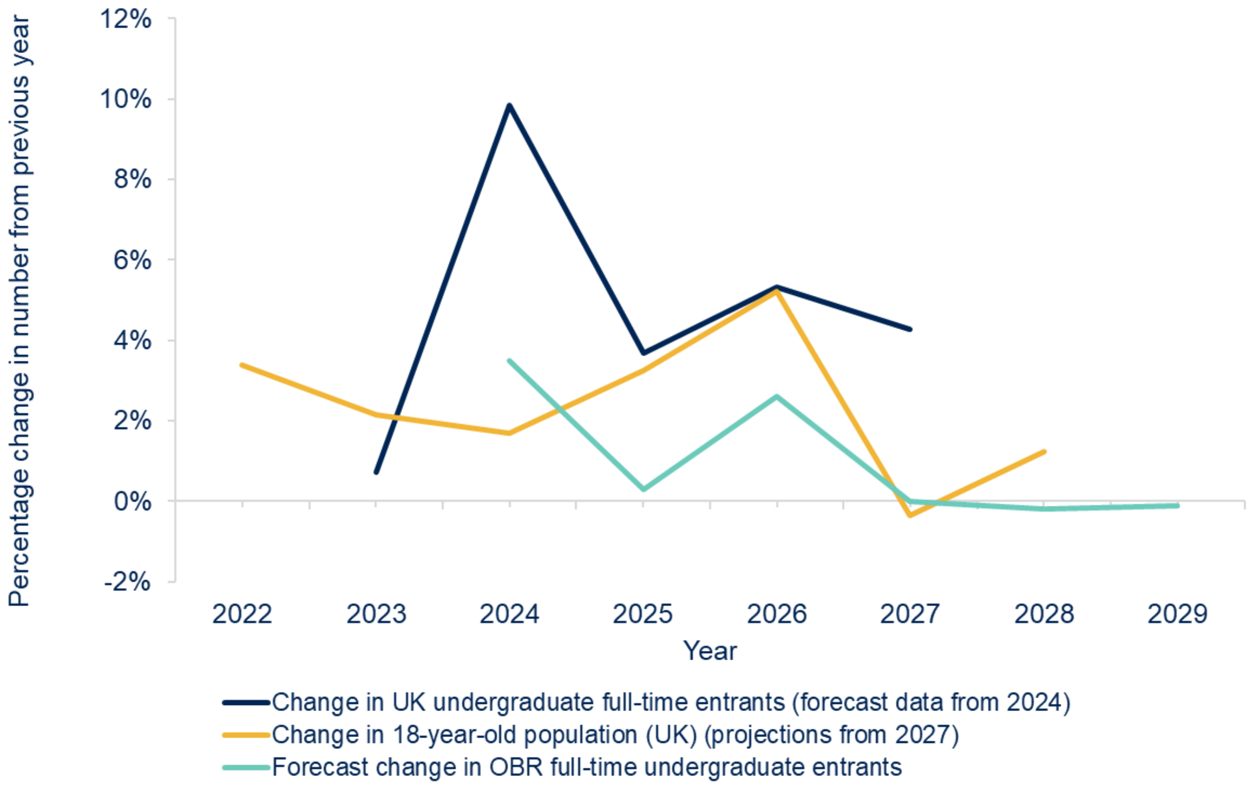
typically been a reliable indicator of future trends in higher education applications, but the overall forecast growth exceeds the rate of demographic growth for this period.

59. The Office for Budget Responsibility (OBR) includes student number forecasts in its six-monthly economic and fiscal outlook. The most recent update from March 2025 forecasts annual changes of between -0.1 per cent and 3.5 per cent in full-time undergraduate entrants between 2024-25 and 2029-30.

60. These changes, combined with the 18-year-old population projections derived from ONS data, and the minimal increase in UCAS application rates discussed in paragraph 54, suggest there is considerable uncertainty surrounding the sector's aggregate forecast for UK student recruitment over this timeframe.

61. Figure 5 shows the forecast change in UK undergraduate entrants from 2023 to 2027 alongside the estimated change in the 18-year-old population between 2021 and 2027 and OBR forecast change in full-time undergraduate entrants from 2024-25 to 2029-30.

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, 2021 to 2027 and OBR forecast change in full-time undergraduate entrants, 2024-25 to 2029-30



Data source: UK undergraduate full-time entrants from OfS AFR (2024 to 2027 are based on providers' forecasts). 18-year-old population data is based on estimates derived from ONS data. OBR forecast change in full-time undergraduate entrants taken from the OBR's March 2025 Economic and fiscal outlook.

Non-UK student recruitment

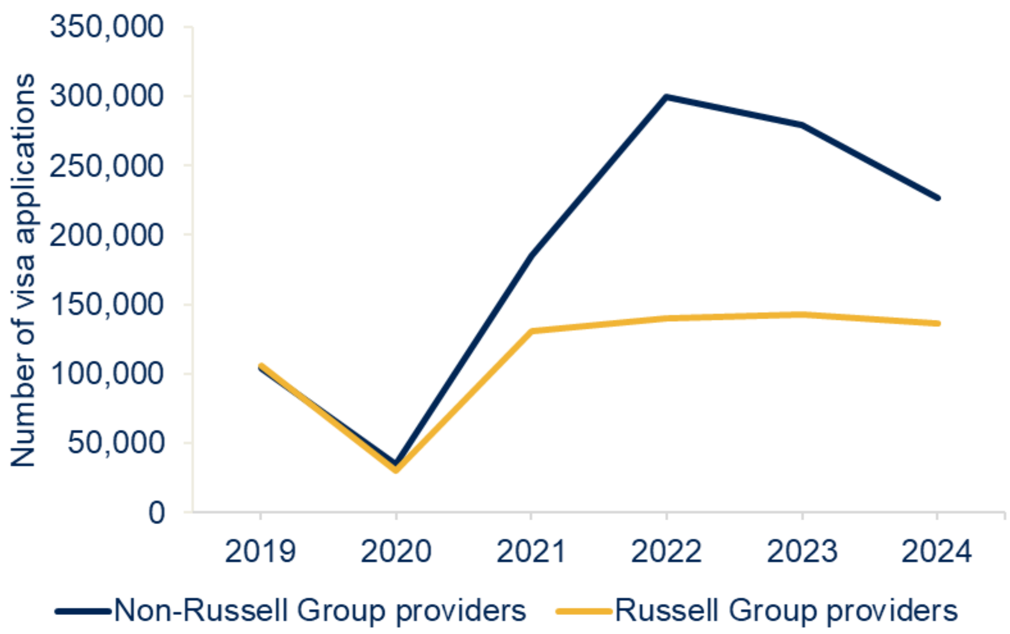
62. International recruitment has been a notable success for English higher education in the last decade, with substantial growth. International students contribute significantly to higher

education institutions, and their fee income constitutes a significant component of the financial model for some providers.

63. Non-UK undergraduate student applicants accepted via UCAS to English providers decreased by 3.3 per cent between 2023 and 2024. Although this is a noticeable decline it is important to note that many non-UK applicants apply through other routes, so this data reflects only a portion of applications.

64. Published (quarterly) Home Office data for the year to December 2024 shows a continuing trend of declining applications from prospective students for study sponsored visas to higher education providers, decreasing by 14.0 per cent between 2023 and 2024. Figure 6 shows the number of student visa applications made to Russell Group and non-Russell Group providers (UK-wide) from 2019 to 2024.

Figure 6: Student visa applications to UK higher education providers by provider type

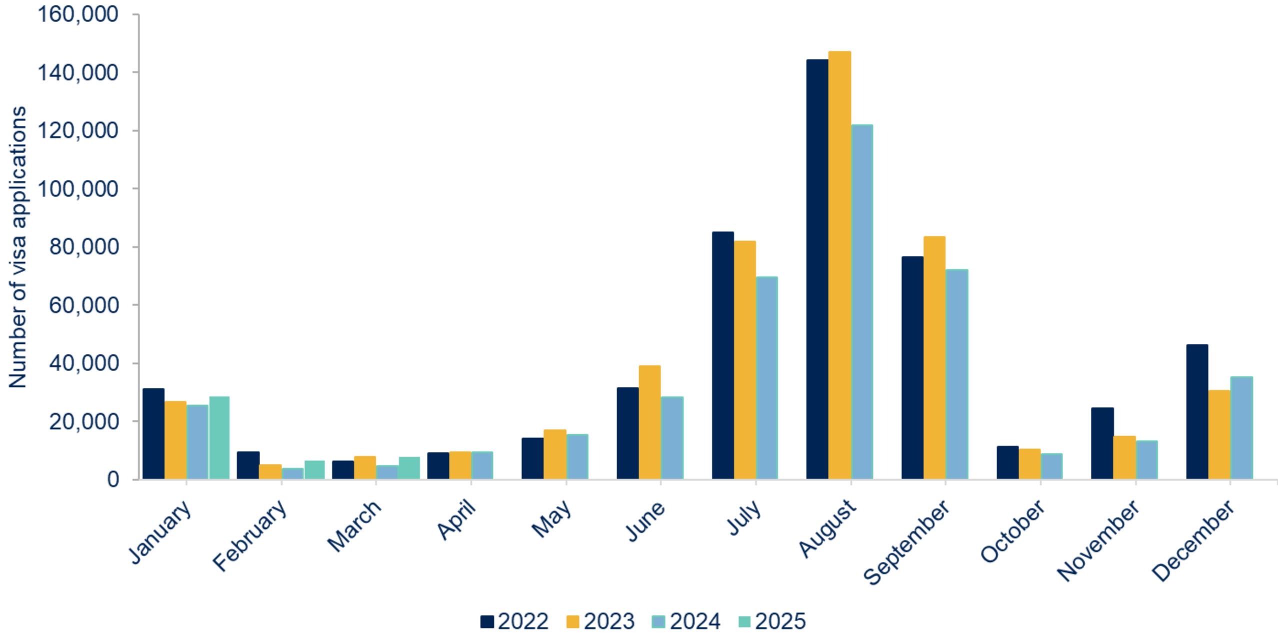


Note: Data as at 31 December 2024, published by the Home Office 27 February 2025.

65. More recent published information from the Home Office (monthly total study visa applications) suggests that study visa applications (for all provider types, not just higher education providers) for January to March 2025 have surpassed 2024 and 2023 levels for those months, although the number of applications for January to March represents a relatively small proportion of total annual study visa applications. Therefore, although the trend for January to March 2025 may indicate that international student recruitment is beginning to recover following a recent period of decline, it is not a reliable indicator for non-UK recruitment in future years and we have seen that this can be unpredictable.

66. Figure 7 shows the numbers of study visa applications per month for 2022, 2023, 2024 and 2025.

Figure 7: Main applicant study visa applications (total) per month for 2022, 2023, 2024 and 2025



Note: Data as at 31 March 2025, published by the Home Office 10 April 2025.

67. The flow of international students can be influenced, favourably as well as adversely, by a range of factors including the economic environment, currency values, geopolitical issues and global higher education competition. There are currently increased tensions in all of these factors. Changes in the government's immigration policy could also increase uncertainty and affect the reliability of forecasts for international student recruitment.

68. Fluctuations in recruitment can have a significant impact on the financial sustainability of providers. Data has consistently shown that income from international student fees provides a positive financial contribution to wider higher education activities.[11]

69. Although some of the latest data from UCAS and visa data from the Home Office may suggest the start of a recovery in student recruitment levels, the aggregate growth forecast by providers in their AFR still appears too optimistic.

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

Analysis of the annual financial return data from providers

70. We have reviewed the data from 270 registered higher education providers in England, submitted as part of the annual financial return. Table 5 presents a summary of key financial information for all higher education providers (excluding further education colleges).

Table 5: Summary of aggregate financial data from providers

Aggregate financial data	2022-23 (actual)	2023-24 (actual)	2024-25 (forecast)	2025-26 (forecast)	2026-27 (forecast)	2027-28 (forecast)
Total income (£M)	44,693	46,805	47,828	50,152	52,667	55,086
Surplus/(Deficit) (£M)	1,289	809	295	1,067	1,593	1,995
Surplus/(Deficit) as a % of total income	2.9%	1.7%	0.6%	2.1%	3.0%	3.6%
Cash flow from operating activities (£M)	2,845	1,452	2,044	3,071	3,968	4,489
Cash flow from operating activities as a % of total income	6.4%	3.1%	4.3%	6.1%	7.5%	8.1%
Net liquidity (£M)	16,476	14,864	12,842	12,424	12,457	12,965
Net liquidity as a % of total expenditure	38.0%	32.3%	27.0%	25.3%	24.4%	24.4%
External borrowing (£M)	13,343	13,290	13,516	13,744	13,989	13,849
External borrowing as a % of total income	29.9%	28.4%	28.3%	27.4%	26.6%	25.1%

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.

71. At an aggregate level, the sector reported a decline in financial operating performance and strength in 2023-24. Surplus levels, operating cash flow, and net liquidity all decreased. Surplus and net liquidity fell at a lower rate than previously forecast. However, the aggregate decline in operating cash flow was greater than previously forecast.

72. Surplus levels and net liquidity are forecast to continue to decline in 2024-25, whereas cash flow is forecast to increase. This is contrary to the projections submitted last year, which showed that surplus levels would improve in 2024-25; if the new forecasts are accurate this would mean that the sector's aggregate surplus will have declined for three consecutive years. Cash flow was also previously forecast to continue to increase, but current forecasts show a slower recovery than previously forecast.

73. There continues to be significant variation in forecast financial performance between providers for 2024-25. Our analysis found that around 73 per cent of providers are expecting lower surplus levels, around 75 per cent lower cash flow and around 59 per cent lower liquidity, than previously forecast. 44 per cent of providers are reporting a decline in all these measures compared with previous forecasts.

74. The latest forecasts for 2024-25 compared with the previous year's forecasts show that the number of providers forecasting a deficit in 2024-25 has increased from 29.6 per cent of providers to 45.2 per cent, and the proportion forecasting low net operating cash flow levels from 27.4 per cent to 47.8 per cent.

75. The latest projections indicate that, for the rest of the forecast period (2025-26 to 2027-28), providers are expecting overall financial performance to be weaker than historical levels.

Financial performance

Overall income

76. Overall, total income rose by 4.7 per cent, from £44.7 billion in 2022-23 to £46.8 billion in 2023-24. Providers anticipate this figure will continue to increase throughout the forecast period, reaching £55.1 billion by 2027-28.

77. Table 6 provides a detailed breakdown of income sources for 2022-23 to 2027-28.

Table 6: Sources of income, 2022-23 to 2027-28

Income source	2022-23 income (actual) £M	2023-24 income (actual) £M	2024-25 income (forecast) £M	2025-26 income (forecast) £M	2026-27 income (forecast) £M	2027-28 income (forecast) £M
Course fees and education contracts	24,371	25,466	26,263	28,142	29,976	31,708
Funding body grants	4,502	4,419	4,374	4,257	4,272	4,284
Research grants and contracts	6,005	6,231	6,815	6,943	7,305	7,677
Other income	8,059	8,588	8,762	9,197	9,502	9,803
Investment income	775	1,057	793	710		
Donations and endowments	982	1,044	820	904		
Total income	**44,693**	**46,805**	**47,828**	**50,152**	**52,667**	**55,086**

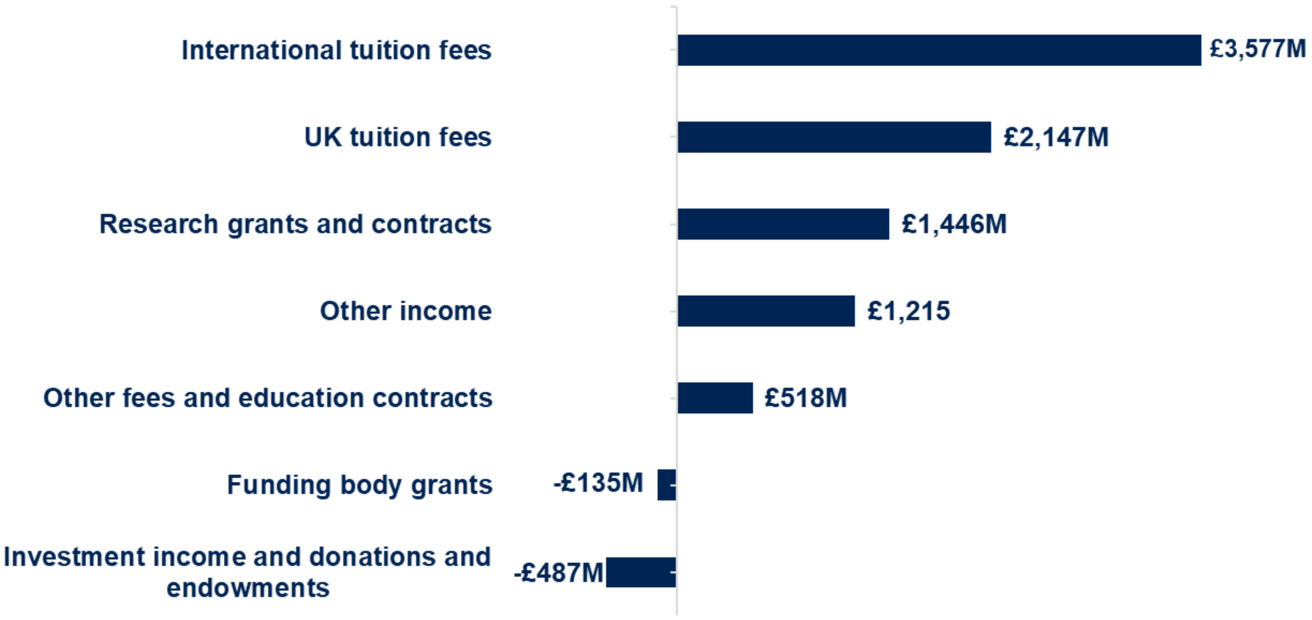
Data source: OfS AFR.

Note: Investment income and donations and endowments were not collected for years 2026-27 and 2027-28 as part of the AFR24 return.

78. Providers have projected an increase in total income of £8.3 billion between 2023-24 and 2027-28, with over three-quarters of this growth coming from higher education course fees and education contracts. International tuition fee income is expected to rise by £3.6 billion and UK tuition fee income by £2.1 billion.

79. Figure 8 shows the scale of these increases in comparison to changes in other sources of income across the forecast period.

Figure 8: Breakdown of projected changes in aggregate income, 2023-24 to 2027-28



Data source: OfS AFR.

80. Although aggregate projections indicate that providers expect total income to be 17.7 per cent higher in 2027-28 compared to 2023-24, there is considerable variation in the income projections of individual providers and of groups or providers.

81. Table 7 shows the value and percentage change in income between 2023-24 and 2027-28 for all provider groups (see Annex C) and the sector.

Table 7: Provider group analysis of changes in income, 2023-24 to 2027-28

Provider group	£M	%
Larger teaching-intensive	462	**8.7%**
Larger research-intensive	3,814	**16.7%**
Medium	1,270	**11.9%**
Smaller	849	**26.1%**
Specialist creative	420	**27.0%**
Specialist	677	**36.5%**
Level 4 and 5	790	**62.3%**
Sector	**8,281**	**17.7%**

Data source: OfS AFR.

Tuition fee income

82. Providers have forecast an increase of 23.9 per cent (£5,724 million) in total higher education course fee income between 2023-24 and 2027-28. Over 60 per cent of this increase is from non-UK students. Across the same period, providers have projected a considerably smaller increase of 12.6 per cent in total student numbers, suggesting an increase in fee level per student.

83. Table 8 displays the predicted change in total tuition fee income by student domicile between 2023-24 and 2027-28.

Table 8: Predicted change in tuition fee income by domicile, 2023-24 to 2027-28

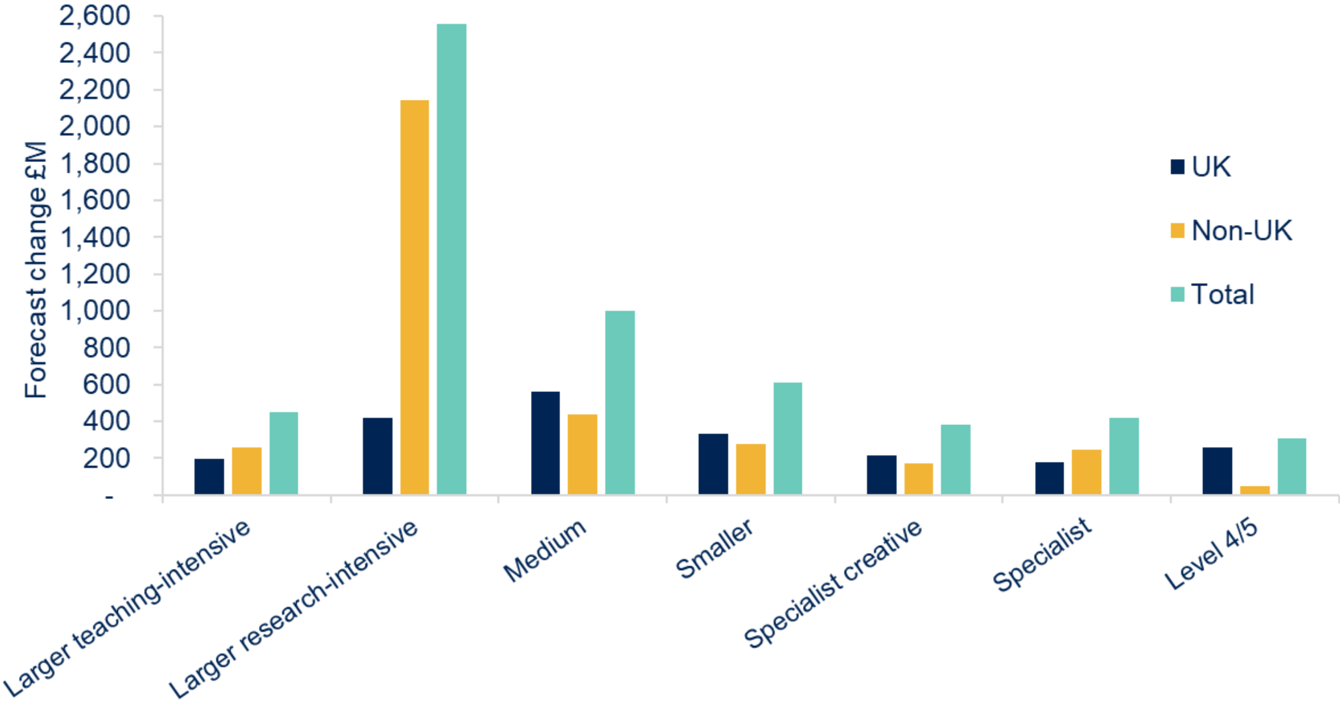
Tuition fee income by domicile £M	2022-23 (actual)	2023-24 (actual)	2024-25 (forecast)	2025-26 (forecast)	2026-27 (forecast)	2027-28 (forecast)	Forecast change to tuition fee income £M	Forecast change to tuition fee income %	Forecast change to total student FTE %
Total	£22,995	£23,967	£24,679	£26,414	£28,106	£29,691	£5,724	23.9%	12.6%
UK	£12,617	£13,033	£13,528	£14,064	£14,635	£15,180	£2,147	16.5%	14.1%
Non-UK	£10,378	£10,934	£11,151	£12,349	£13,471	£14,512	£3,577	32.7%	8.8%

Data source: OfS AFR.

84. Forecasts for all provider groups show an increase in UK tuition fee income between 2023-24 and 2027-28. This projected increase ranges from an average 7.3 per cent rise for larger teaching-intensive providers to an average 163.0 per cent for Level 4 and 5 providers.

85. All provider groups have forecast an increase in non-UK tuition fees between 2023-24 and 2027-28. Specialist and Level 4 and 5 groups have forecast an increase of more than 50 per cent over this period. Figure 9 shows the forecast change in tuition fee income by domicile and provider group from 2023-24 to 2027-28.

Figure 9: Forecast change in tuition fee income by domicile and provider group from 2023-24 to 2027-28



Data source: OfS AFR.

86. Between 2023-24 and 2024-25 there is a forecast increase in tuition fees from undergraduate (UG) courses of 5.0 per cent, alongside a decrease in tuition fees for postgraduate taught (PGT) courses of 2.2 per cent over the same period. Table 9 shows the forecast change in tuition fee income for these groups and postgraduate research (PGR) between 2023-24 and 2027-28, at a sector level.

Table 9: Forecast tuition fee income (£M) 2023-24 to 2027-28 and change in tuition fee income between 2023-24 and 2027-28

Level of study	2023-24 (actual)	2024-25 (forecast)	2025-26 (forecast)	2026-27 (forecast)	2027-28 (forecast)	Change in tuition fee income between 2023-24 and 2027-28 £M	change in tuition fee income between 2023-24 and 2027-28 %
UG	£16,222	£17,036	£17,863	£18,846	£19,787	£3,566	22.0%
PGT	£7,007	£6,853	£7,698	£8,344	£8,949	£1,942	27.7%
PGR	£739	£790	£852	£916	£955	£217	29.3%

87. As a proportion of total tuition fee income, the sector has forecast that undergraduate fee income will increase from 67.7 per cent in 2023-24 to 69.0 per cent in 2024-25, before declining to 66.6 per cent by 2027-28. Conversely, the sector has forecast that postgraduate taught income will decline from 29.2 per cent to 27.8 per cent between 2023-24 and 2024-25,

before increasing over the remainder of the forecast period. Forecast data submitted last year showed as a trend a declining proportion of undergraduate fees as a percentage of total income, and an increase in postgraduate taught income as a percentage of total income, between 2023-24 and 2026-27.

88. At an aggregate level, providers reported an increase in both UK and non-UK tuition fee income, of 3.3 per cent and 5.4 per cent respectively, between 2022-23 and 2023-24. This varies at a provider group level. The Level 4 and 5 provider group reported the largest percentage increases in UK and non-UK tuition fee income, of 20.4 per cent and 19.3 per cent respectively, between 2022-23 and 2023-24. The larger teaching-intensive group reported a decline of 1.9 per cent in UK tuition fee income over the same period.

Table 10: Percentage change in tuition fees between 2022-23 and 2023-24, by domicile and provider group

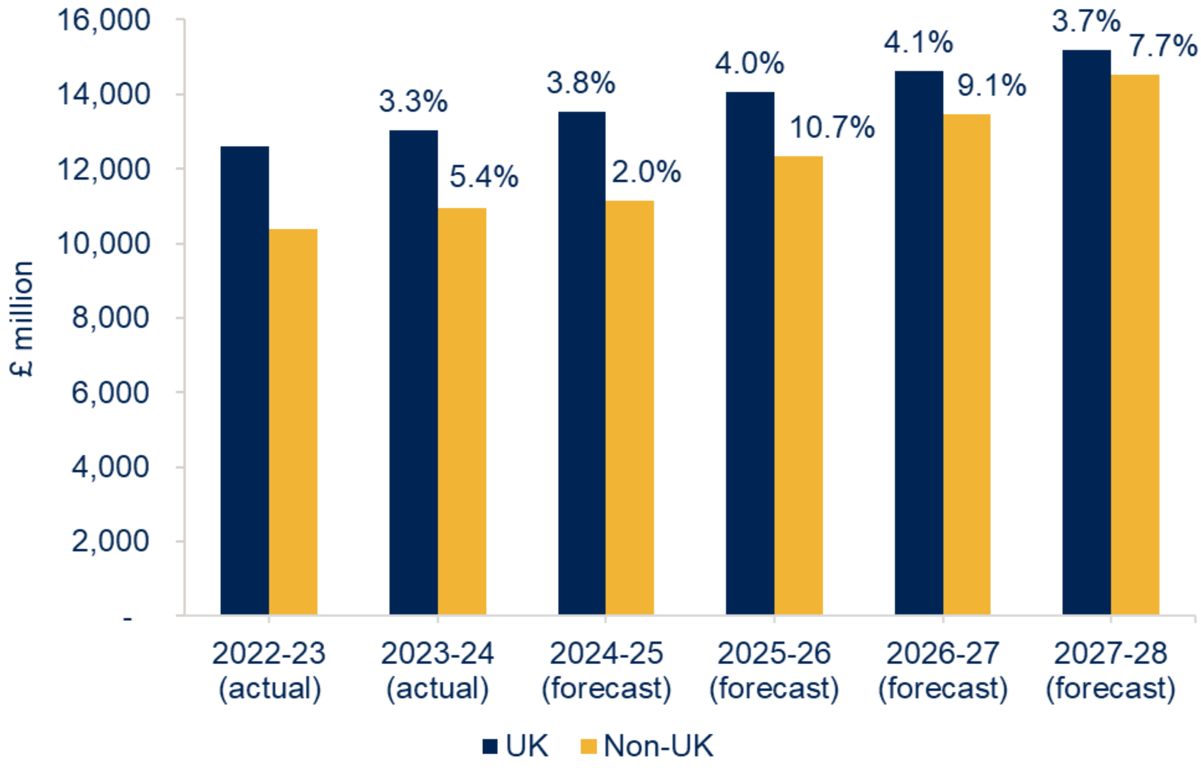
Provider group	UK	Non-UK
Larger teaching-intensive	-1.9%	3.9%
Larger research-intensive	2.2%	6.6%
Medium	3.5%	2.0%
Smaller	12.4%	4.5%
Specialist creative	6.1%	8.0%
Specialist	7.9%	11.4%
Level 4 and 5	20.4%	19.3%

89. Providers have forecast annual increases of between 3.7 and 4.1 per cent from 2023-24 to 2027-28 for UK tuition fee income. For non-UK tuition fee income, the sector has forecast annual increases of between 2.0 per cent and 10.7 per cent over the forecast period.

90. Forecasts vary considerably at a provider group level. For UK tuition fee income, Level 4 and 5 providers are forecasting the largest annual percentage changes over the forecast period, of between 16.8 and 40.2 per cent. Larger teaching-intensive providers are reporting the smallest changes between 2024-25 and 2026-27, varying between a reduction of 0.3 per cent and a modest increase of 2.6 per cent. For non-UK tuition fee income, most of the provider groups are forecasting annual increases, but the larger teaching-intensive and medium groups are forecasting declines of 2.6 per cent and 9.0 per cent respectively between 2023-24 and 2024-25. However, these two provider groups are then forecasting annual percentage increases for the remainder of the forecast period. Larger teaching-intensive providers' annual percentage forecast growth for the remainder of the forecast period is the lowest among all groups.

91. Figure 10 shows tuition fee income and the annual change by domicile for 2022-23 to 2027-28.

Figure 10: Tuition fee income and annual growth by domicile (UK and non-UK), 2022-23 to 2027-28, £M

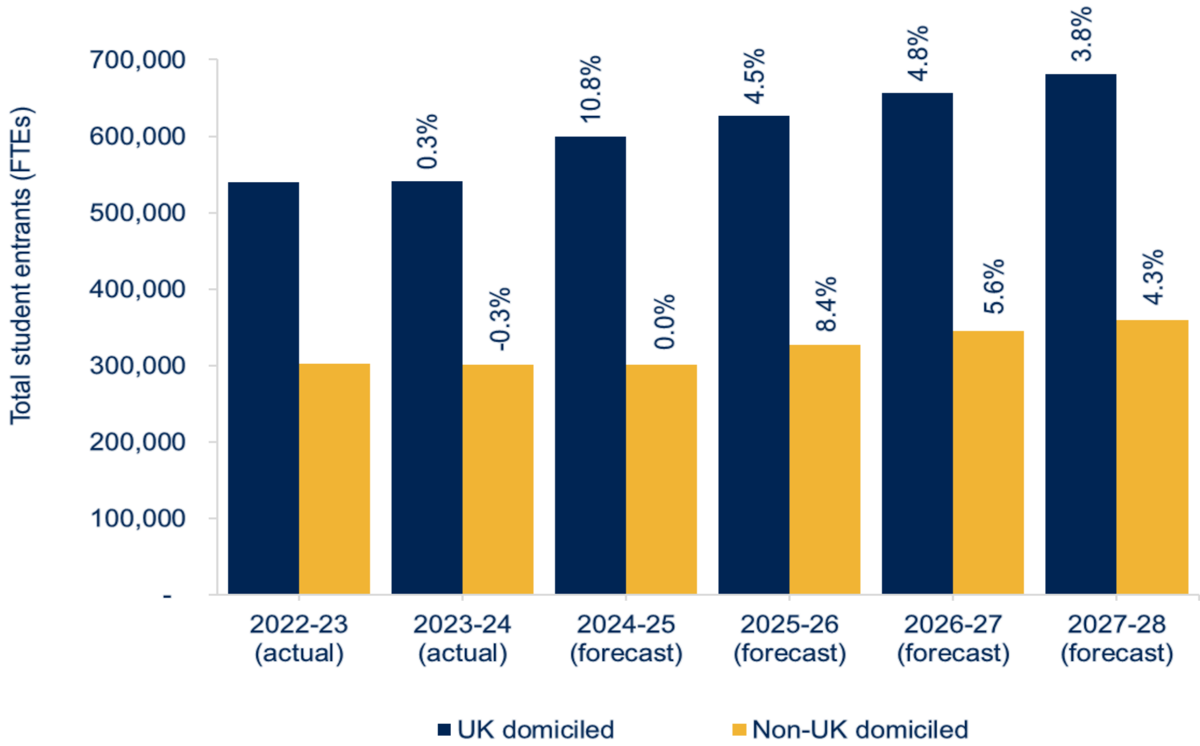


Data source: OfS AFR.

Student numbers

92. At an aggregate level, providers reported a small increase in UK-domiciled entrants, of 0.3 per cent between 2022-23 and 2023-24. They have forecast annual increases of between 3.8 and 10.8 per cent from 2023-24 onwards. For non-UK entrants, the sector reported a decline of 0.3 per cent between 2022-23 and 2023-24 and has forecast no change in 2024-25. It has estimated annual increases of between 4.3 and 8.4 per cent over the remainder of the forecast period. Figure 11 displays the annual change in actual and forecast FTE entrants by domicile across all levels of study.

Figure 11: Student numbers and annual change for all entrants (FTE) by domicile (UK and Non-UK), 2022-23 to 2027-28



Data source: OfS AFR.

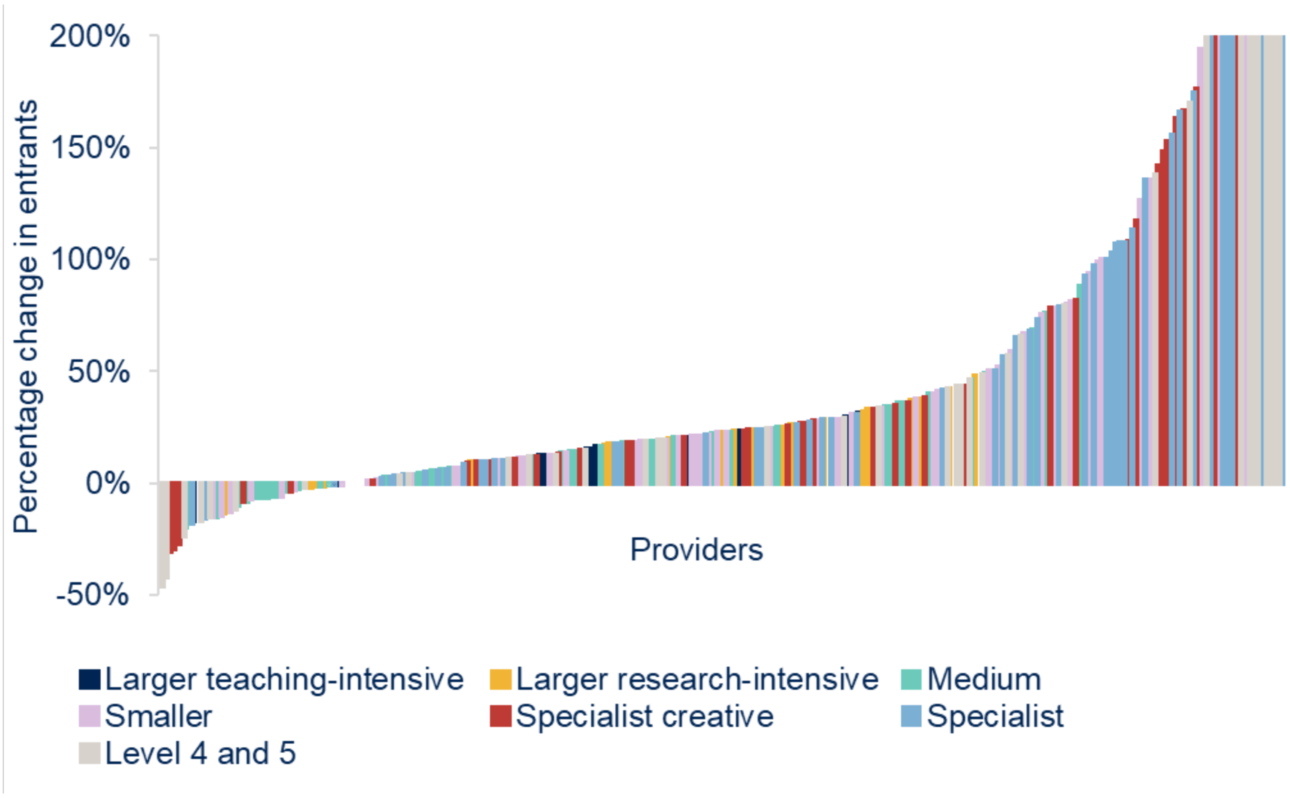
93. Providers forecast an increase of 7.0 per cent in total entrant numbers, at all levels of study, between 2023-24 and 2024-25, and an increase of 23.7 per cent between 2023-24 to 2027-28. However, 32.2 per cent of providers (87) are forecasting a decline in total entrants between 2023-24 and 2024-25, and 15.9 per cent of providers (43) forecasting a decline between 2023-24 and 2027-28. Table 11 shows those providers forecasting a decline in total entrants by provider group between 2023-24 and 2024-25 and between 2023-24 and 2027-28.

Table 11: Number of providers forecasting a decline in total entrants between 2023-24 and 2027-28, by provider group

Provider group	Number of providers in group	Number of providers forecasting a decline in total entrants between 2023-24 and 2024-25	Number of providers forecasting a decline in total entrants between 2023-24 and 2027-28
Larger teaching-intensive	14	5	3
Larger research-intensive	21	3	4
Medium	43	25	14
Smaller	55	14	7
Specialist creative	42	13	5
Specialist	53	14	3
Level 4 and 5	42	13	7

94. Figure 12 displays the percentage change in total entrants between 2023-24 and 2027-28, by provider, highlighted by provider group.

Figure 12: Forecast change in total entrant numbers (FTE) by provider, 2023-24 and 2027-28



Data source: OfS AFR.

95. 43 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 actual increase is not significant.

96. At an aggregate level, providers have estimated that UK and non-UK entrant numbers will increase by 140,614 FTE (26.0 per cent) and 58,610 FTE (19.5 per cent) respectively between 2023-24 to 2027-28. Providers have forecast that full-time FTE undergraduate entrants will increase by 25.2 per cent (124,141 FTE) between 2023-24 and 2027-28. More than 80 per cent of this increase is forecast to be from UK students. Table 12 shows full-time total undergraduate entrants by domicile from 2023-24 to 2027-28.

Table 12: Full-time undergraduate entrants by domicile, 2023-24 to 2027-28

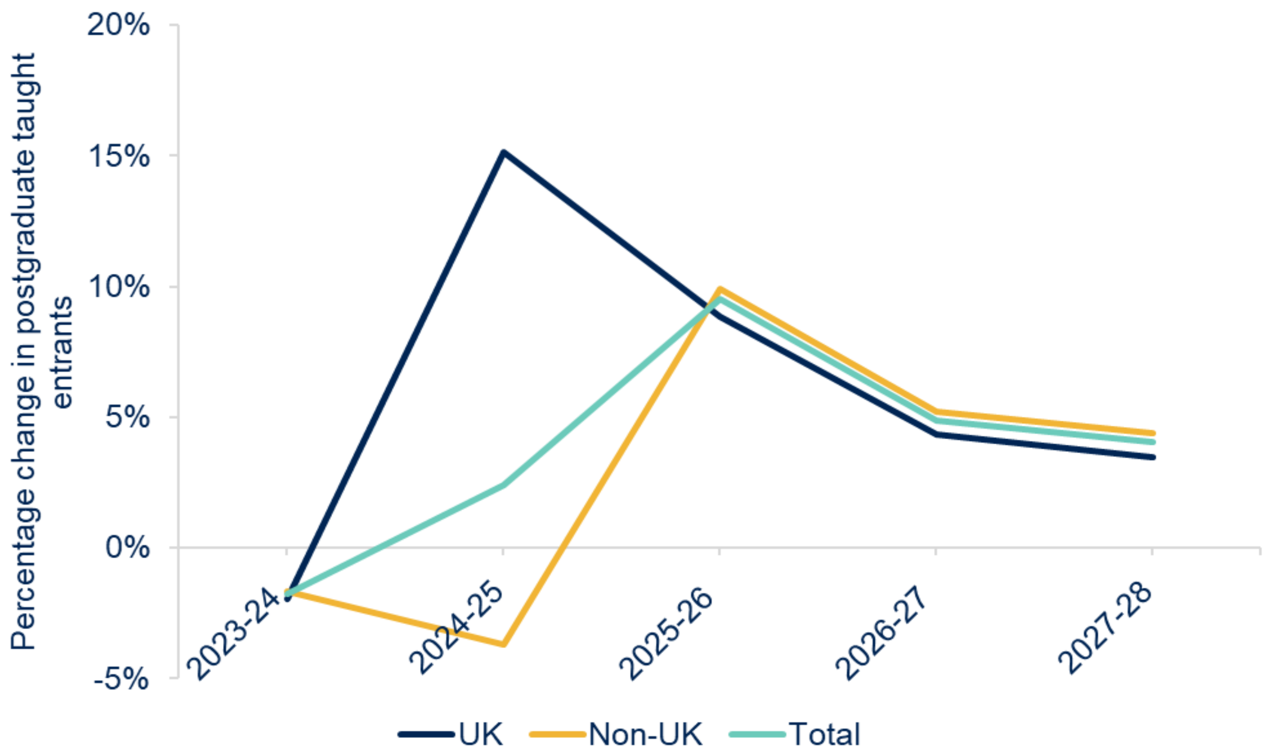
Full-time undergraduate entrants (FTE)	2023-24 (actual)	2024-25 (forecast)	2025-26 (forecast)	2026-27 (forecast)	2027-28 (forecast)	Forecast change 2023-24 to 2027-28 (FTE)	Forecast change 2023-24 to 2027-28 (%)
Total	492,594	537,899	559,980	591,222	616,735	124,141	25.2%
UK	398,941	438,209	454,379	478,521	499,000	100,059	25.1%
Non-UK	93,653	99,690	105,601	112,701	117,735	24,082	25.7%

Data source: OfS AFR.

97. The sector has forecast that postgraduate FTE entrant numbers will increase by 23.2 per cent (72,180 FTE) between 2023-24 and 2027-28. 90.1 per cent of this growth is from the taught postgraduate market, with all provider groups forecasting an increase.

98. Figure 13 displays the annual forecast change in PGT entrants by domicile grouping, from 2023-24 and 2027-28.

Figure 13: Annual forecast percentage change in postgraduate taught entrants (FTE) by domicile group, 2023-24 and 2027-28



Data source: OfS AFR.

99. Following a decrease of 2 per cent in both UK and non-UK PGT entrants between 2022-23 and 2023-24, the sector has forecast an increase of 15.1 per cent in UK PGT entrants in 2024-25, followed by increases at a declining rate through the remainder of the forecast period, from 8.8 to 3.5 per cent. Non-UK PGT entrants are expected to continue to decline between 2023-24 and 2024-25 (-3.7 per cent), before increasing by 9.9 per cent in 2025-26 5.2 per cent in 2026-27 and 4.4 per cent in 2027-28.

100. The sector reported an increase of 9.0 per cent in non-UK PGR entrants between 2022-23 and 2023-24 and has forecast an increase of 18.0 per cent between 2023-24 and 2024-25. PGR student entrants make up approximately 5 per cent of the total non-UK postgraduate population, so the increases in entrant numbers are small.

International student numbers

101. In 2023-24, international students came to study in English providers from more than 200 different countries, and their tuition fee income continues to make up a large proportion of income for the sector.[12] In 2023-24, international fee income accounted for 45.6 per cent of total higher education fee income and 23.4 per cent of total income. This has increased from 45.1 per cent of total higher education fee income and 23.2 per cent of total income for the sector in 2022-23, and is predicted to rise to 48.9 per cent of total higher education fee income and 26.3 per cent of total income by 2027-28.

102. International students represented 27.1 per cent of total students studying at English providers in 2023-24, maintaining the proportion in 2022-23, based on OfS annual financial return data. Providers have forecast that this will decrease to 26.2 per cent of total students by 2027-28.

103. Table 13 highlights the top ten source countries for international students from 2022-23 and 2023-24 (at all levels and studying in English providers) based on HESA student data.

Table 13: Top ten source countries for international students, 2022-23 to 2023-24, sorted by largest 2023-24 student numbers

Country	Total students in 2022-23	Total students in 2023-24	Change in total students between 2022-23 and 2023-24	Percentage change in total students between 2022-23 and 2023-24
India	150,875	145,650	-5,225	-3.5%
China	130,050	127,875	-2,175	-1.7%
Nigeria	55,340	45,525	-9,815	-17.7%
Pakistan	27,165	35,880	8,715	32.1%
United States	15,465	15,985	520	3.4%
Hong Kong	16,200	15,650	-550	-3.4%
Nepal	6,485	11,265	4,780	73.7%
Malaysia	10,510	10,485	-25	-0.2%
Bangladesh	11,625	9,185	-2,440	-21.0%
Saudi Arabia	7,545	8,210	665	8.8%

[12] HESA, 'Country of permanent address'.

Data source: HESA Higher Education Student Statistics: UK 2023-24, Figure 11.

104. Among international students entering English providers in 2023-24, there have been decreases in the numbers of student entrants from India (-5,225, -3.5 per cent), China (-2,175, -1.7 per cent) and Nigeria (-9,815, -17.7 per cent), which are the top three countries in terms of total international students studying at English providers. The largest increases in student entrants have been from Pakistan (+8,715, +32.1 per cent) and Nepal (+4,780, +73.7 per cent).

105. Forecast information relating to the domiciles of international students for 2024-25 and 2025-26 is set out in paragraphs 156 to 157. This information was collected as part of the AFR for the first time in the 2024 return.

Operating cash flow performance

106. Operating cash flow decreased from £2,845 million (6.4 per cent of income) in 2022-23 to £1,452 million (3.1 per cent of income) in 2023-24.

107. At a more detailed level, performance varies significantly among providers and provider groups. Table 14 illustrates the average cash flow levels for each provider group, together with a breakdown by quartile.

Table 14: Cash flow from operating activities as a percentage of total income, 2023-24

2023-24	Total cash flow from operating activities (£M)	Lower quartile	Average	Upper quartile
Sector	1,452	-2.8%	3.1%	9.1%
Larger teaching-intensive	103	2.1%	1.9%	4.2%
Larger research-intensive	707	1.7%	3.1%	6.4%
Medium	436	1.0%	4.1%	6.9%
Smaller	134	-9.9%	4.1%	6.9%
Specialist creative	57	-1.8%	3.7%	12.6%
Specialist	-0.4	-11.2%	0.0%	7.5%
Level 4 and 5	15	-3.5%	1.2%	23.9%

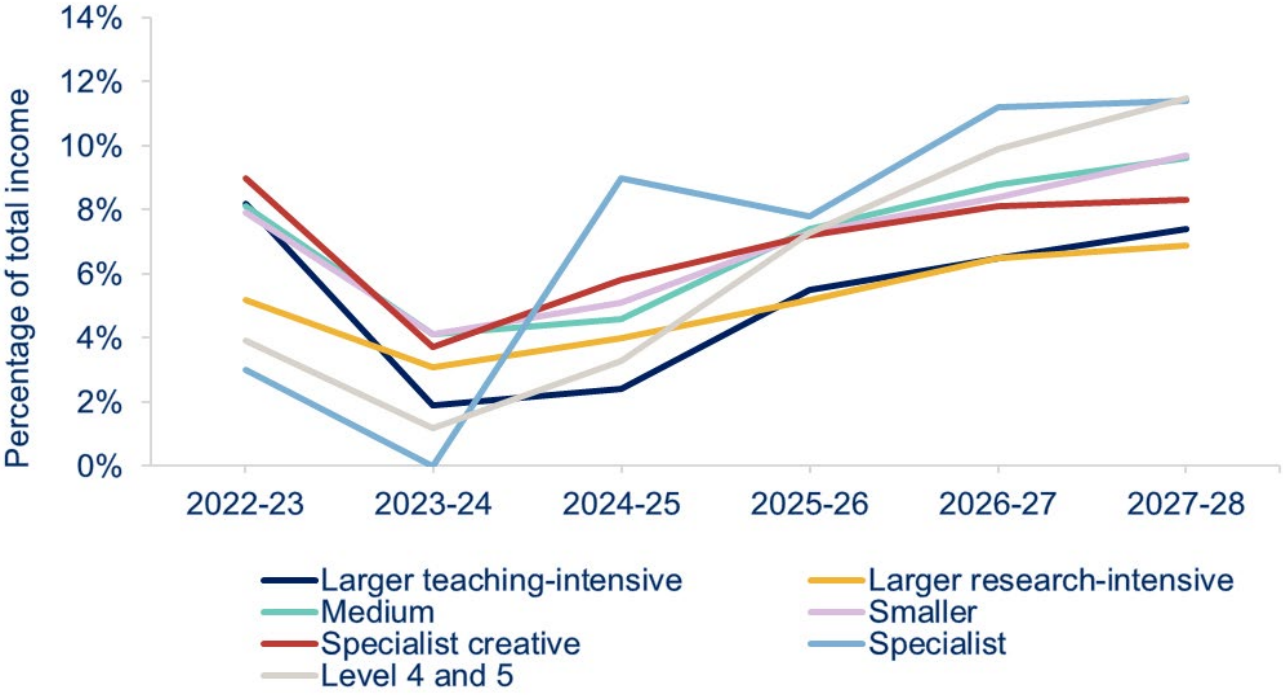
Data source: OfS AFR.

108. In aggregate, providers are forecasting that operating cash flow will increase across the remainder of the forecast period, from 4.3 per cent of income in 2024-25 to 8.1 per cent of income by 2027-28. A strong operating cash flow is necessary for providers to support future investment and as a buffer to financial risks.

109. This trend is repeated at a provider group level, except for the specialist provider group, which expects operating cash flow to sharply increase in 2024-25 followed by a decline in 2025-26, before increasing again in 2026-27. However, fewer than a quarter of providers within this group have forecast a decline in 2025-26.

110. Figure 14 displays this trend by provider group from 2022-23 to 2027-28.

Figure 14: Cash flow from operating activities as a percentage of total income by provider group, 2022-23 to 2027-28



Data source: OfS AFR.

Surplus

111. Surplus levels indicate a provider's capacity to generate income exceeding its costs, including the depreciation of assets. Consistently generating surpluses is crucial for a provider to invest in infrastructure and academic quality, as well as to safeguard against financial risks. Conversely, a deficit highlights the extent to which a provider's costs exceed its income.

112. 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.

113. 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), the main pension scheme provided by UK higher education providers primarily for those providers established before 1992, and other defined benefit pension schemes, can have a significant impact on total staff costs. This, in turn, affects surplus levels.

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

115. The latest data indicates that overall surplus levels decreased from £1,289 million (2.9 per cent of income) in 2022-23 to £809 million (1.7 per cent of income) in 2023-24. Providers predict a further decline to £295 million (0.6 per cent of income) in 2024-25. Subsequently, the sector anticipates a significant increase in aggregate surplus levels. However, providers' forecasts have tended to be optimistic for the later years of the forecast period and therefore we are uncertain that surplus levels will recover this quickly.

116. Table 15 shows the forecast average adjusted surplus levels (excluding pension provision adjustments) for all provider groups for 2023-24, alongside the percentage of total income by quartile and average, which shows the considerable variability between provider groups.

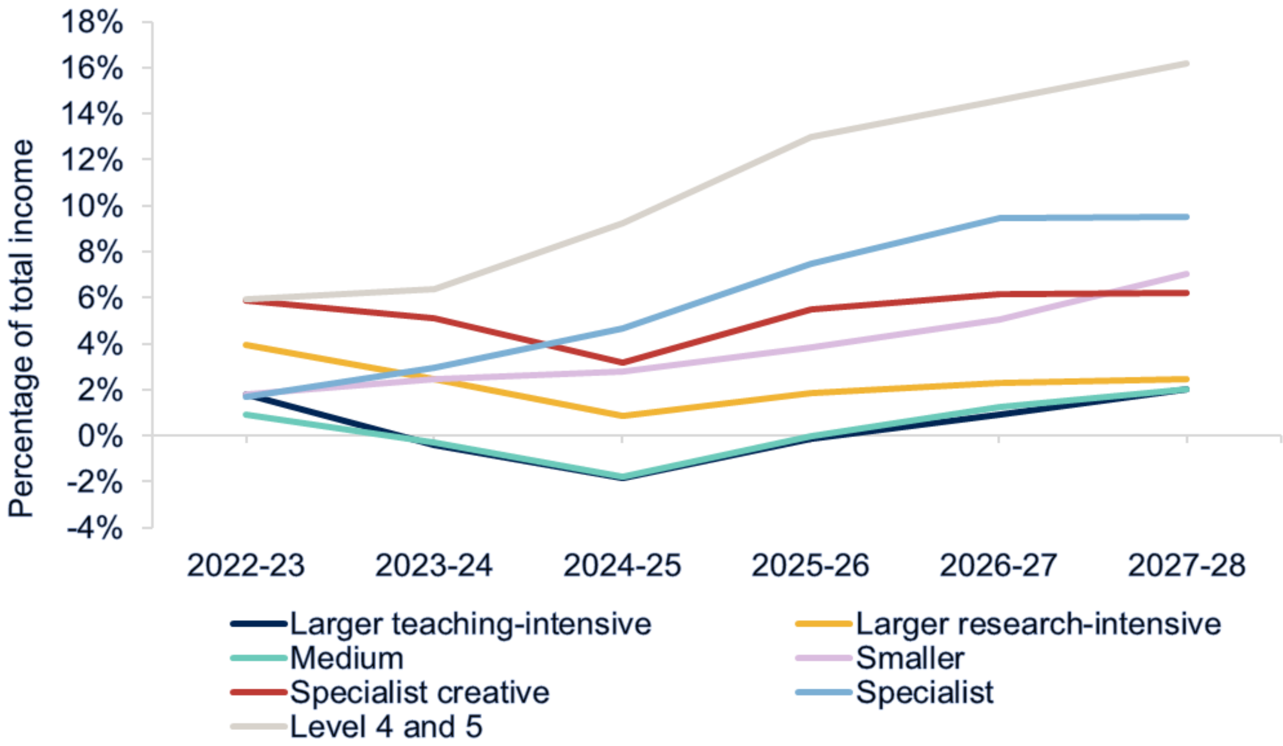
Table 15: Adjusted surplus as a percentage of income from providers' forecasts, 2023-24

2023-24	Total surplus (£M)	Lower quartile	Average	Upper quartile
Sector	£809	-4.9%	1.7%	6.4%
Larger teaching-intensive	-£21	-2.1%	-0.4%	2.1%
Larger research-intensive	£567	-1.3%	2.5%	4.4%
Medium	-£32	-3.8%	-0.3%	2.4%
Smaller	£80	-6.2%	2.5%	4.7%
Specialist creative	£79	-3.7%	5.1%	7.6%
Specialist	£55	-11.4%	3.0%	5.6%
Level 4 and 5	£81	4.2%	6.4%	24.5%

Data source: OfS AFR.

117. Figure 15 shows the variability of surplus levels by provider group for the period 2022-23 to 2027-28. All provider groups reported a decline in surplus levels between 2022-23 and 2023-24 except for the specialist and Level 4 and 5 groups. The larger teaching-intensive and medium provider groups reported deficits in 2023-24 and both groups forecast that they will continue this downward trend into 2024-25.

Figure 15: Surplus/(deficit) as a percentage of total income by provider group, 2022-23 to 2027-28



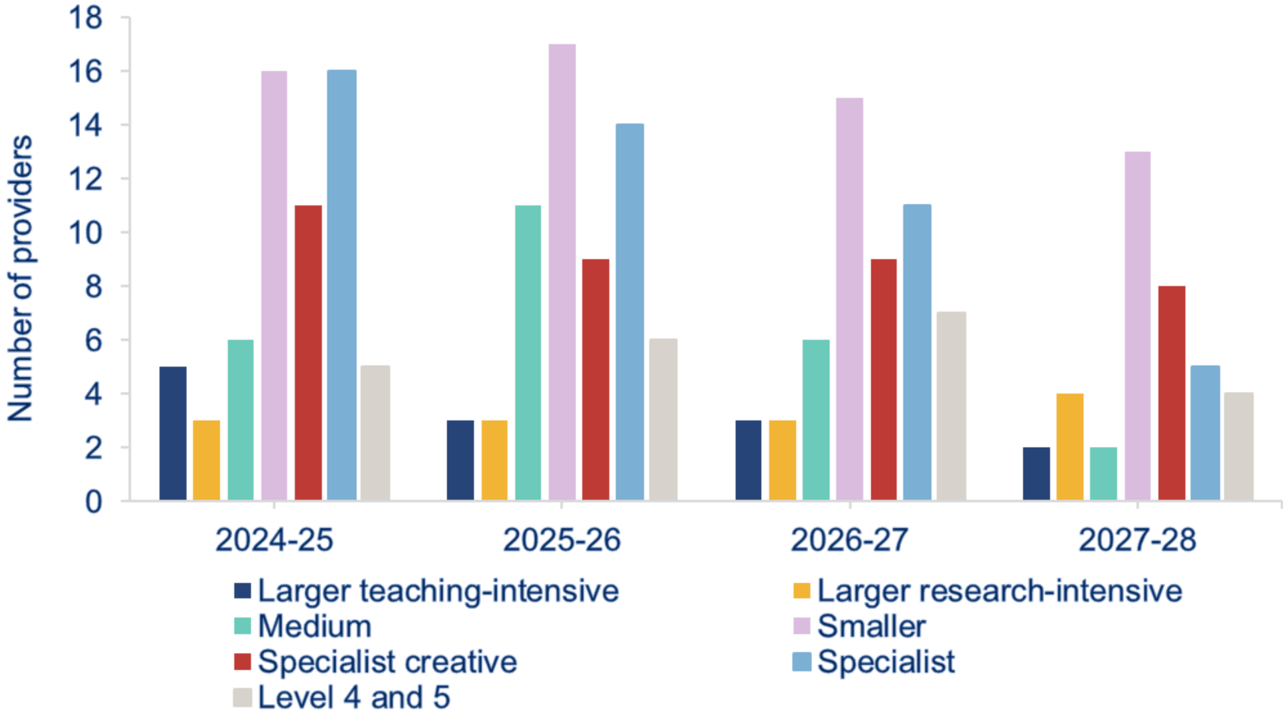
Data source: OfS AFR.

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.

118. There is significant variation in surplus and deficit levels reported by individual providers. In 2023-24, 50 providers (19 per cent of the sector) reported surpluses that exceeded 10 per cent of income, whereas 109 providers (40 per cent of the sector) reported deficits. Providers' forecasts show the number forecasting deficits increasing to 117 providers (43 per cent of the sector) in 2024-25, with 62 of these expecting to report a deficit for three consecutive years (2022-23, 2023-24 and 2024-25). Providers facing three consecutive year deficits are in each of the provider groups.

119. Figure 16 shows the number of providers within each provider group predicting three consecutive years of deficits (excluding pension provision adjustments).

Figure 16: Number of providers forecasting three-year consecutive deficits, 2024-25 to 2027-28



Data source: OfS AFR.

120. In aggregate, total expenditure (adjusted to exclude pension accounting adjustments) increased by 6.0 per cent, from £43.4 billion in 2022-23 to £46.0 billion in 2023-24. Providers have forecast that this will increase into 2024-25, by 3.3 per cent, indicating an ongoing inflationary pressure on costs. Between 2025-26 and 2027-28, expenditure is forecast to rise by 8.2 per cent, peaking at £53.1 billion in 2027-28.

121. A breakdown expenditure by cost type for the period 2022-23 to 2027-28 is shown in Table 16.

Table 16: Expenditure by category, 2022-23 to 2027-28

Expenditure £M	2022-23 (actual)	2023-24 (actual)	2024-25 (forecast)	2025-26 (forecast)	2026-27 (forecast)	2027-28 (forecast)
Staff costs (excluding pension adjustments)	22,478	23,998	25,205	26,145	27,241	28,410
Restructuring costs	89	163	190	75	-	-
Other operating expenses	17,291	18,194	18,559	19,077	-	-
Depreciation and amortisation	2,790	2,980	3,031	3,208	-	-
Interest and other finance costs	756	662	548	581	-	-
Total expenditure (excluding pension adjustments)	**43,404**	**45,995**	**47,533**	**49,085**	**51,074**	**53,091**
Pension adjustments	- 1,181	-7,134	- 18	4	15	8
Total expenditure	**42,223**	**38,862**	**47,515**	**49,089**	**51,089**	**53,099**

Data source: OfS AFR.

Note: Restructuring costs, other operating expenses, depreciation and amortisation and interest and other finance costs were not collected for years 2026-27 and 2027-28 as part of the AFR24 return.

122. As highlighted in the May 2024 report, the USS March 2023 valuation indicated an improvement in the scheme's funding position. This led to pension adjustments reported by providers in 2022-23, resulting in a £1,181 million reduction in expenditure. As expected, there was a more substantial impact in 2023-24, with these accounting adjustments causing a £7,134 million decrease in expenditure. Adjustments are projected to minimise throughout the forecast period, thus having a smaller effect on total expenditure. These pension adjustments are detailed separately in Table 16.

Financial position: Strength and resilience

Cash holding

123. In aggregate, the sector’s cash holding fell by 9.8 per cent, from £16.5 billion at the end of 2022-23 to £14.8 billion at the end of 2023-24. As a result, net liquidity days (the number of days of average cash expenditure that are covered by the cash holding) decreased from 148 to 126 at the end of 2023-24.

124. Table 17 presents net liquidity days for 2023-24 by quartile across all provider groups, with the lowest liquidity days observed in the specialist and smaller provider groups.

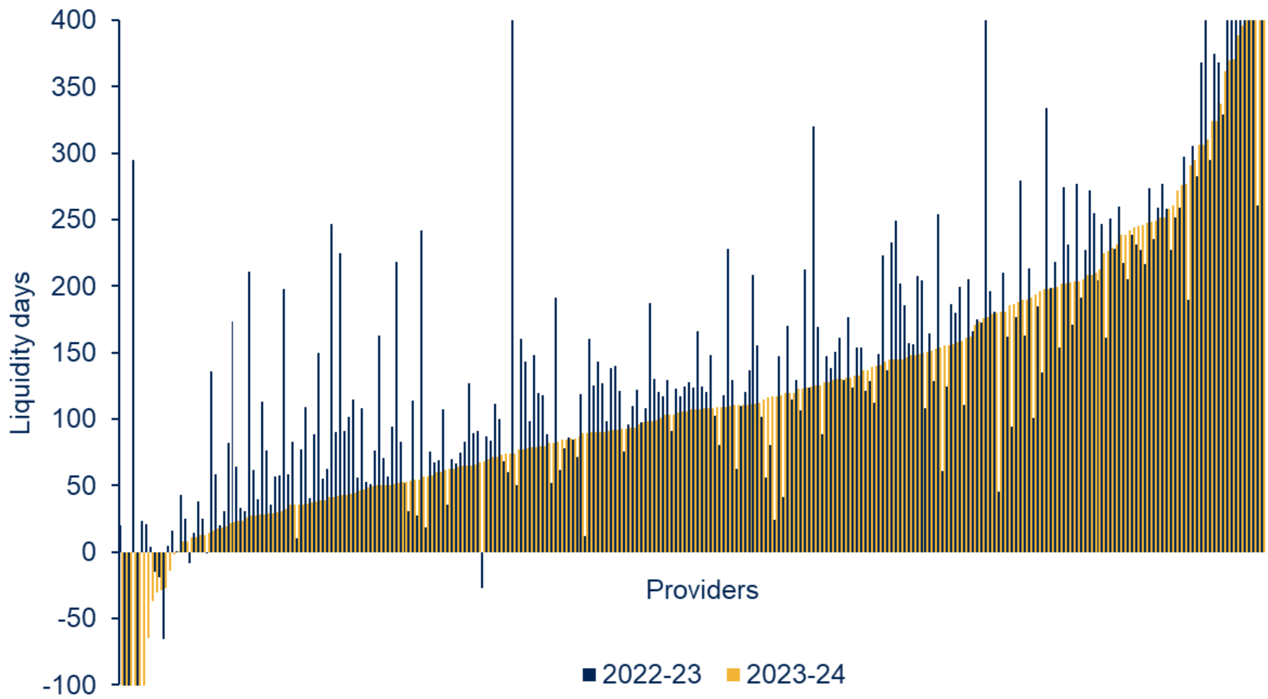
Table 17: Net liquidity days, 2023-24

2023-24	Total net liquidity (£M)	Lower quartile	Average	Upper quartile
Sector	£14,864	53	126	176
Larger teaching-intensive	£2,066	113	151	175
Larger research-intensive	£7,441	96	130	179
Medium	£3,223	63	119	158
Smaller	£840	48	102	132
Specialist creative	£442	50	115	145
Specialist	£466	41	100	145
Level 4 and 5	£384	53	121	232

Data source: OfS AFR.

125. Cash holdings continue to vary significantly by provider group and provider. Figure 17 highlights this variability and shows net liquidity days at the end of 2023-24 compared with 2022-23.

Figure 17: Net liquidity days by provider, 2023-24 compared with 2022-23

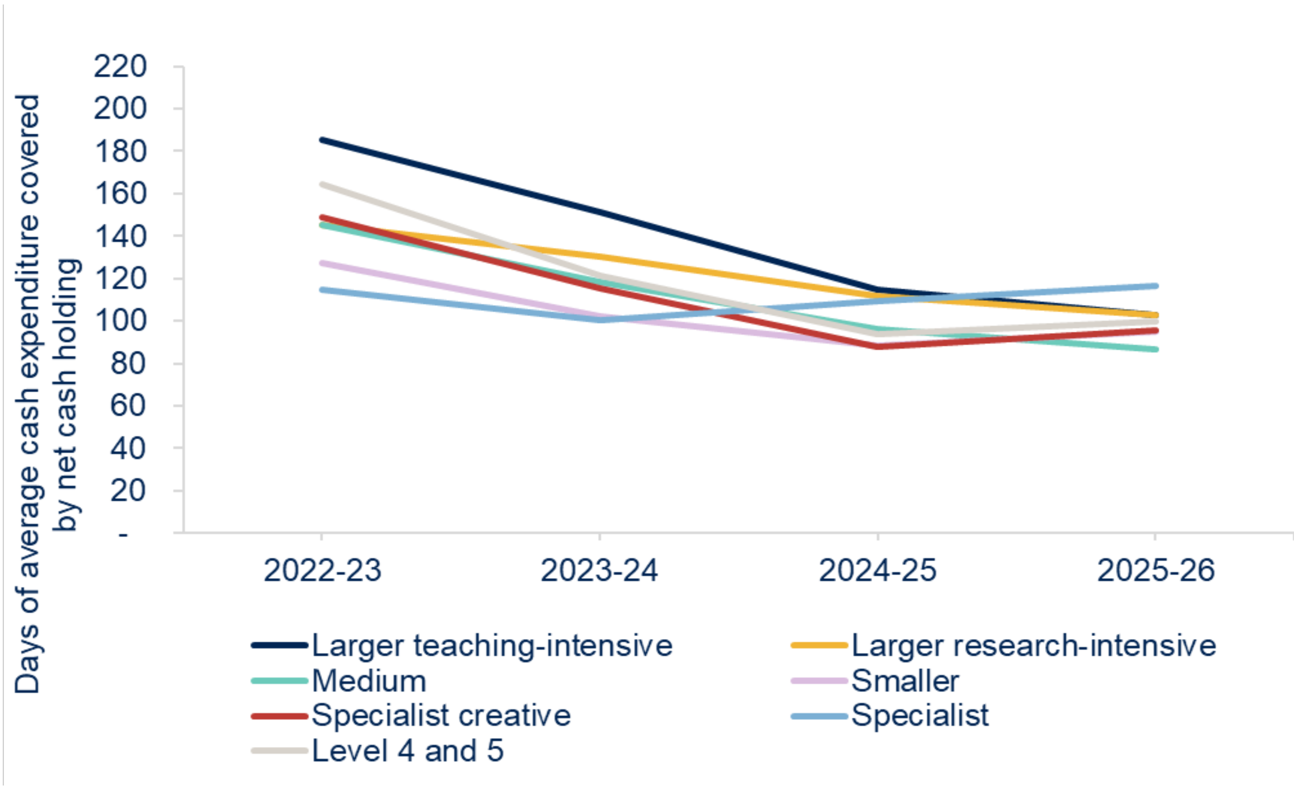


Data source: OfS AFR.

Note: In 2022-23, 13 providers reported net liquidity above 400 days and three providers reported negative net liquidity of below 100 days. In 2023-24 seven providers reported net liquidity above 400 days and six reported negative net liquidity of below 100 days.

126. This variability can also be seen across provider groups. Figure 18 shows average net liquidity days for each provider group for the period 2022-23 to 2025-26. This shows that all groups reported a drop in liquidity days in 2023-24. All groups except for the specialist group are projecting that net liquidity days will fall again in 2024-25. Projections vary more widely in 2025-26. The larger teaching-intensive, larger research-intensive and medium provider groups forecast that liquidity days will continue to decline. All other provider groups forecast an increase.

Figure 18: Net liquidity days by provider group, 2022-23 to 2025-26



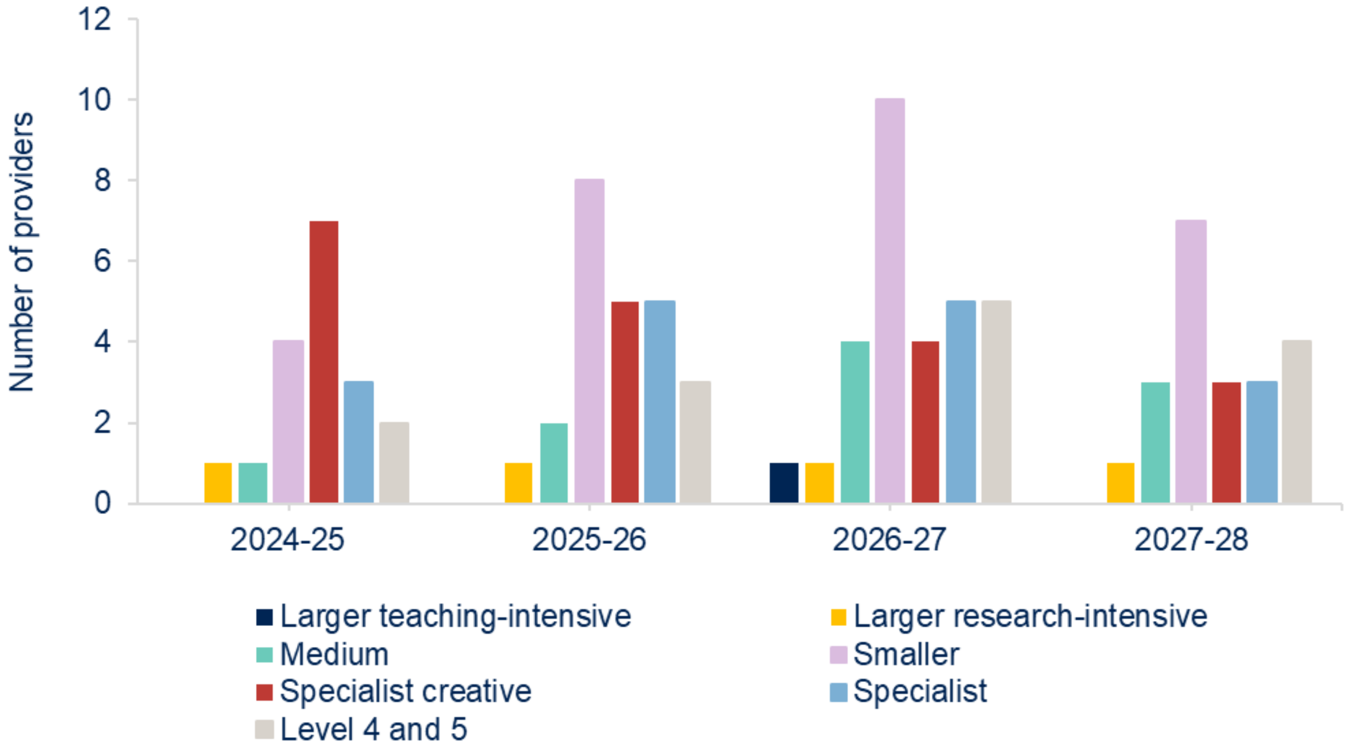
Data source: OfS AFR.

127. 13 providers reported negative net liquidity days in 2023-24. In some instances, this was due to relationships with, and obligations to, parent companies within a broader group structure. For the remaining providers in this category, net liquidity was lower in 2023-24 because of short-term borrowing or other borrowing commitments that were due within 12 months at the financial year end in 2024.

128. Overall, 36 providers reported a net liquidity under 30 days in 2023-24, compared with 25 providers in 2022-23. In 2023-24, providers' forecasts suggest that this number will increase to 43, with 18 of these reporting net liquidity of under 30 days for three consecutive years (2022-23, 2023-24 and 2024-25).

129. Figure 19 shows the number of providers (by provider group) forecasting three consecutive years where net liquidity is expected to be under 30 days at the financial year end.

Figure 19: Number of providers forecasting three consecutive years of net liquidity under 30 days, 2024-25 to 2027-28



Data source: OfS AFR.

Borrowing

130. In aggregate, gearing levels (borrowing and other financial commitments relative to total income) fell from 29.9 per cent of income in 2022-23 to 28.4 per cent of income in 2023-24.

131. At a provider group level, the larger research-intensive group reported the highest gearing levels, at £7,521 million, equivalent to 32.9 per cent of income, and the Level 4 and 5 group reported the lowest gearing levels, at £73 million, equivalent to 5.8 per cent of income. Table 18 shows borrowing as a percentage of income across all provider groups in 2023-24.

Table 18: Borrowing as a percentage of total income, 2023-24

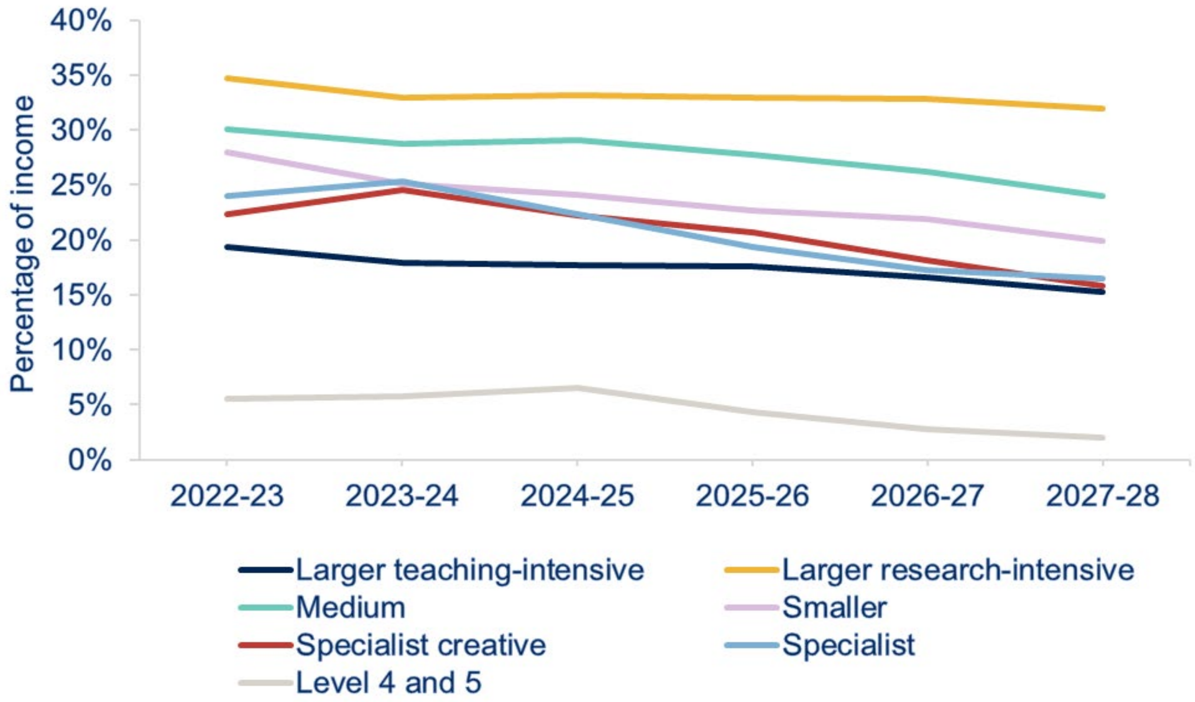
2023-24	Total borrowing (£M)	Lower quartile	Average	Upper quartile
Sector	£13,290	0.0%	28.4%	32.0%
Larger teaching-intensive	£949	10.3%	17.9%	21.8%
Larger research-intensive	£7,521	26.5%	32.9%	41.4%
Medium	£3,079	14.7%	28.8%	38.1%
Smaller	£818	0.0%	25.1%	29.4%
Specialist creative	£381	0.0%	24.5%	27.6%
Specialist	£469	0.0%	25.3%	32.0%
Level 4 and 5	£73	0.0%	5.8%	10.8%

Data source: OfS AFR.

132. For 2024-25, providers forecast that overall gearing levels will slightly decrease from 2023-24 levels to 28.3 per cent of income. This downward trend is expected to continue, reaching 25.1 per cent by 2027-28. All provider groups have projected an overall decline over the forecast period apart from Level 4 and 5 providers, which are forecasting an increase in 2024-25 followed by annual declines for the remainder of the forecast period.

133. Figure 20 shows the gearing levels – borrowing and other financial commitments as a percentage of total income – by provider group for the period 2022-23 to 2027-28.

Figure 20: Average borrowing and other financial commitments as a percentage of total income by provider group, 2022-23 to 2027-28



Data source: OfS AFR.

Capital expenditure

134. Investment in infrastructure, facilities, IT, and equipment – referred to as capital expenditure – is essential for a provider's long-term sustainability. The total capital expenditure rose from £3.9 billion in 2022-23 to £4.3 billion in 2023-24. When compared with income, this increased from 8.7 per cent of income in 2022-23 to 9.3 per cent in 2023-24.

135. Table 19 shows the variation in capital investment across provider groups.

Table 19: Capital expenditure as a percentage of total income, 2023-24

2023-24	Total capital expenditure (£M)	Lower quartile	Average	Upper quartile
Sector	£4,332	1.5%	9.3%	9.3%
Larger teaching-intensive	£522	7.1%	9.8%	12.6%
Larger research-intensive	£1,916	6.2%	8.4%	10.1%
Medium	£1,199	7.1%	11.2%	14.4%
Smaller	£279	1.5%	8.6%	7.4%
Specialist creative	£258	1.5%	16.6%	8.7%
Specialist	£96	0.6%	5.2%	6.9%
Level 4 and 5	£61	0.3%	4.8%	3.9%

Data source: OfS AFR.

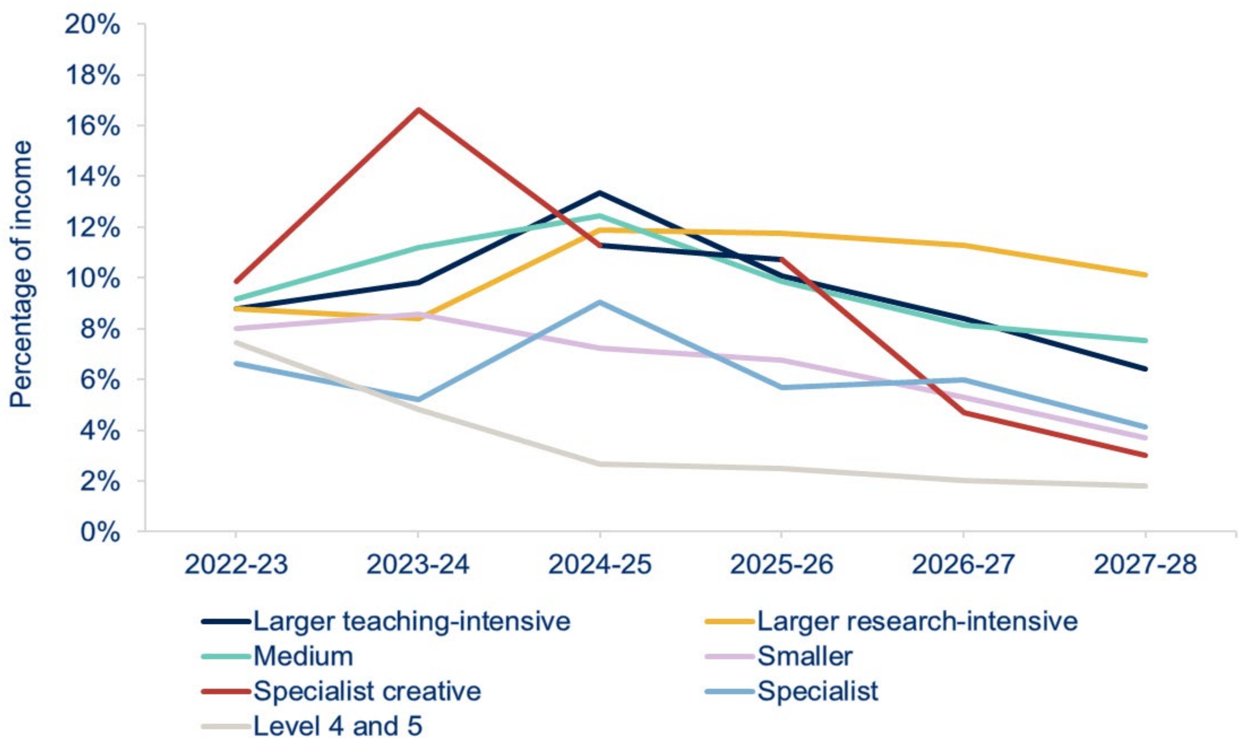
136. While capital expenditure grew by 11 per cent in 2023-24, this was 25 per cent lower than projected in previous forecasts submitted by providers. This suggests that many providers may be continuing to protect cash flow and increase liquidity in response to uncertainty and increased financial risks. This has been a trend in past years, with providers pushing capital expenditure into forecast years.

137. A large rise in capital investment is now projected for 2024-25, with aggregate forecasts suggesting this could rise by 26.1 per cent, to reach £5.5 billion by the end of 2024-25 (equivalent to 11.4 per cent of income). However, previous forecasts have shown us that providers forecasting large increases in capital expenditure in the short term tend not to achieve the level of expenditure they forecast, which could potentially mean a deteriorating estate, increasing maintenance costs and impacts on the student experience.

138. After the anticipated increase in capital investment in 2024-25, the aggregate position falls across the remaining forecast period, by 21 per cent to £4.3 billion in 2027-28.

139. Figure 21 shows capital expenditure as a percentage of total income by provider group for the period 2022-2023 to 2026-27.

Figure 21: Capital expenditure as a percentage of total income by provider group, 2022-23 to 2027-28



Data source: OfS AFR.

Pensions

140. The largest pension schemes affecting OfS-registered providers are the USS, Local Government Pension Schemes and Teachers Pension Scheme. These schemes are mainly used by higher education providers that were publicly funded before the OfS was established. However, numerous providers across the sector contribute to a range of other pension schemes.

141. Total annual cash employer pension contributions to all schemes was £3,156 million in 2023-24. Providers have forecast that these will fall by 2.5 per cent to £3,077 million in 2024-25 before increasing in 2024-25 and 2025-26 by 1.2 and 2.1 per cent respectively, to reach £3,202 million in 2025-26.

142. Our latest data shows that there were 103 OfS-registered providers contributing to the USS scheme in 2023-24 and aggregate employer contributions to the USS scheme were £1,565 million, representing half of total employer pension contributions paid by providers in the sector.

143. Following the March 2023 valuation, the USS scheme moved from being in deficit to a surplus. Accounting treatment means that the provision that providers put in place in response to the previous deficit and the associated recovery plan can be removed. This resulted in a material (non-cash) accounting adjustment in providers' financial accounts in 2023-24 of £7,041 million.

144. Local Government Pension Schemes is a funded defined benefit scheme with assets held in 87 separate trustee administered funds. There are currently 90 OfS-registered providers participating in the scheme. In 2023-24, the data shows that these providers paid £425 million in employer pension contributions to the scheme (13.8 per cent of total pension contributions).

145. Teachers Pension Scheme is the main academic scheme for post-1992 universities. The latest data shows that 85 providers contributed towards the scheme, with employer contributions rising by 12.8 per cent from £519 million in 2022-23 to £585 million in 2023-24. Contributions are forecast to continue to increase in 2024-25 and 2025-26, by 8.3 and 1.6 per cent respectively, to reach £644 million by 2025-26. A proportion of this increase is due to a 5 per cent increase in the employer contribution rate, which came into effect from 1 April 2024.

Sale of assets

146. Providers may opt to sell assets such as buildings, land, and equipment, often following a strategic review and in alignment with the organisation's long-term direction, or simply to release cash. In the 2023-24 period, the aggregate proceeds from the sale of such assets amounted to £157 million. The latest forecasts predict this figure will peak at £435 million in 2025-26. Previous forecasts anticipated more modest growth, indicating that providers are having to make substantial decisions to safeguard their financial viability and sustainability.

New data items in AFR24

147. As part of the AFR24 return, providers submitted some elements of new data for the first time. Details of this new data and key themes from our analysis are set out below.

148. As this is the first year this data has been collected, the group of providers included in the analysis below differs from the other analyses in this report. It includes only the 232 providers that had signed off their AFR24 return by 20 March 2025. We are in the process of reviewing these new data elements, particularly where, in a small number of cases, data returned appears to show anomalous patterns. We will identify opportunities to improve data quality in future years, which may include data verification or improvements to guidance for providers.

Forecast assumptions

149. Providers were asked to complete an 'assumptions' table, submitting information about the assumptions they had made when formulating forecasts for the AFR. This included changes to

their assumptions about fee levels, grant levels, pension contribution rates, rates of inflation across various cost types, building maintenance costs, and any backlog maintenance. Data was collected for 2025-26 to 2028-29.

150. Annual building maintenance costs are forecast to increase each year over the forecast period, rising from £759 million in 2025-26 (1.8 per cent of total expenditure) to £792 million (1.7 per cent of total expenditure) in 2028-29. At the provider level, these costs range from 56.4 per cent to 0 per cent of total expenditure.

151. Backlog maintenance is an estimate of the current total value of capital investments required to bring a provider's infrastructure, facilities, and equipment up to a 'good' standard of condition, suitable for delivering a high quality higher education and student experience.[13] The sector estimate for total backlog maintenance is approximately £10 billion, 50 per cent of which is already included in the AFR24 forecasts.

Transnational education

152. As part of the income breakdown, providers were asked to submit details of net income from transnational education (TNE) for the years 2022-23 to 2025-26. TNE refers to the provision of higher education by providers to students who are studying entirely outside the UK. Examples of TNE include overseas campuses, distance learning, and franchise provision.

153. Between 2022-23 and 2023-24, TNE reported income increased by 13.6 per cent. It is forecast to increase by a further 28.1 per cent by 2025-26.

Income from contracted-out activity

154. Providers returned data relating to their net income from contracted-out activity. This is where academic delivery is provided by another party under a subcontractual arrangement. This was collected for 2022-23 to 2028-29.

155. At an aggregate level, reported net income relating to contracted-out activity increased by 31.9 per cent between 2022-23 and 2023-24. For providers returning this data, income from contracted-out activity is forecast to increase by a further 16.5 per cent by 2028-29.

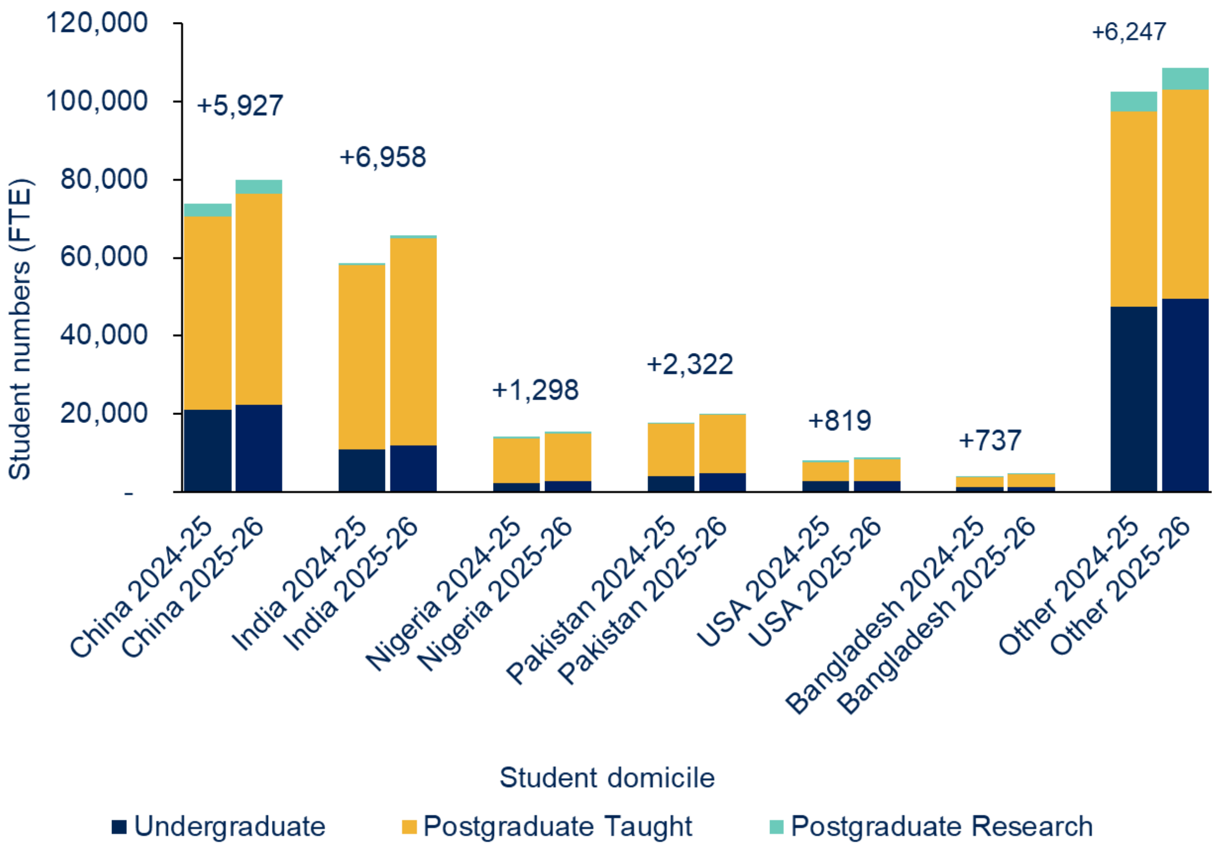
Non-UK student entrants by domicile

156. In addition to student entrant numbers split by level and mode of study, providers returned projections of the domiciles for international students for 2024-25 and 2025-26.

157. Figure 22 shows the forecast change in FTE student entrant numbers by domicile split by level of study between 2024-25 and 2025-26.

[13] A definition of 'good' can be found in the guidance for Condition B in the HESA estates management return.

Figure 22: Non-UK student entrant numbers by domicile split by level of study, 2024-25 and 2025-26



Data source: OfS AFR.

Potential impact of reduction in student numbers: Modelling outcomes

158. Many higher education providers have based their financial forecasts on growing UK and non-UK student recruitment. However, there remains a significant risk that these recruitment projections will not be achievable for all providers, and that this will increase financial sustainability challenges.

159. The decline in the value in real terms of the UK undergraduate fee limit, coupled with substantial rises in operating and capital expenses, has resulted in a drive to increase income through student recruitment. However, as we have reported previously, there are risks associated with relying on student growth and on non-publicly funded income streams to underpin financial sustainability.

160. We have modelled a number of scenarios relating to various degrees of variation in student recruitment to assess the potential impact on the sector's finances.

161. Scenario modelling provides a valuable guide to how sensitive 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 built on a wide range of assumptions and uncertainty. Modelling therefore has inherently limited accuracy due to the simplifications and assumptions on which it relies. It does not forecast what 'will' happen, but it predicts what 'could' happen if the modelling scenarios play out and no mitigating action is taken.

162. Theoretical variations in student recruitment scenarios will never accurately represent what will happen in real life for individual providers in a competitive market. As is evident in the 2024-25 recruitment cycle, providers will compete more actively for growth. Those with lower competitive strength will be likely to 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.

163. We have tested the sensitivity of forecasts by modelling a range of scenarios where providers may encounter a stagnant student recruitment market (no growth model), or a range of reductions in UK and international recruitment.

164. We have also modelled a market competition scenario to show how the market might respond to student recruitment pressures and help us understand how many providers may be more exposed to the risk of losing students to competitors.

165. This modelling estimates a reduction in income from tuition fees relative to the income that was expected. It does not assume a reduction in the additional income that providers may receive from increased student numbers, such as accommodation, catering and consumables, or make assumptions about changes to grant funding that is related to student numbers.

166. The models do incorporate an assumption of variable direct cost savings linked to a reduction in teaching activity. However, it is impossible to accurately determine the value of variable costs relating to each student for individual providers. These will vary significantly for different providers and types of students. Variable direct costs linked to activity are likely to be stepped with increases in students, and development costs relating to new courses to be front-loaded. Increased activity may also increase indirect overhead costs.

167. For illustrative purposes, the models assume that 20 per cent of the fee income not generated by reduced student recruitment will be mitigated as variable direct cost savings.

168. The models do not make any assumption of more significant mitigation action, such as further cost savings and efficiencies. Capacity to deliver mitigations will differ significantly for different providers.

169. It is important to note that in our modelling, we have made no adjustments to predict the mitigating actions that 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 challenges facing providers and shows the possible consequences for financial performance and accumulated liquidity holdings, if mitigating actions are not taken.

170. The impact of our models is demonstrated though:

    a. A calculation of the total amount of net income reduction (i.e lower fee income, minus an assumed 20 per cent from lower direct costs) that providers might need to mitigate.

    b. A financial performance indicator – the number of providers in income and expenditure deficit.

    c. A financial position indicator – low levels of liquidity (less than 10 per cent of expenditure).

171. For comparison with the modelled impact, the latest baseline forecasts from providers show the following:

Forecast information in 2027-28

- 45 providers could be reporting deficits (17 per cent of providers in this analysis)
- 43 providers could report low year end liquidity (16 per cent of providers).

Scenario 1: No growth

172. The ‘no growth’ scenario considers a situation where both UK and non-UK student entrants at sector level are held at 2024 levels throughout the forecast period, and no provider achieves an increase in student recruitment over the forecast. In this scenario, the total ‘net’ reduction in annual fee income could be £3,002 million by 2027-28, with a 15 per cent reduction in total student entrants compared with forecasts.

Possible effect in 2027-28 without cost reductions

- £3,002 million estimated net income reduction against forecasts by 2027-28
- 167 providers could be reporting deficits (62 per cent of providers)
- 127 providers could report lower year end liquidity (47 per cent).

173. This scenario emphasises that growth in UK and international student recruitment continues to play a vital role in the 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.

174. It is important to highlight that all of our modelling uses 2024-25 student numbers as a baseline (based on providers’ forecasts), so if recruitment does not meet these projections, the potential impact outlined in this report would be more severe. For example, in the ‘no growth’ scenario, if we assumed student entrants would remain at 2023-24 levels, the total ‘net’ reduction in annual fee income could reach £5,153 million by 2027-28 compared with the £3,002 million shown in Scenario 1.

Scenario 2: Modest reductions

175. This scenario is based on overall modest reductions in UK and non-UK student recruitment in 2025-26, compared with the base level in 2024-25. We have applied different reductions to different provider types based on their relative market strength. For the ‘high’ market strength group, we have assumed that growth will be limited (as guided by the OBR forecasts) for the period 2025-26 to 2027-28, but medium and lower strength providers will experience modest reductions in 2025-26, followed by no growth. In aggregate this scenario suggests that the total net reduction in fee income could be £3,656 million, with an 18 per cent reduction in total student entrants compared with forecasts in 2027-28.

Possible effect in 2027-28 without cost reductions

- £3,656 million estimated net income reduction against forecasts by 2027-28
- 186 providers could be reporting deficits (69 per cent of providers)
- 150 providers could report lower year end liquidity (56 per cent).

Scenario 3: Larger reductions

176. This scenario is similar to Scenario 2, but with more significant variable reductions in entrants in 2025-26 for 'low' and 'medium' market strength providers. For the 'high' market strength group, we have assumed there will be no growth in UK undergraduate and postgraduate entrants beyond 2024-25. In aggregate, this scenario suggests that the total net reduction in fee income could be £4,407 million by 2027-28, with 200 providers potentially reporting a deficit position. In this scenario, total student entrants could be 21 per cent lower than forecasts in 2027-28.

Possible effect in 2027-28 without cost reductions

- £4,407 million estimated net income reduction against forecasts by 2027-28
- 200 providers could be reporting deficits (80 per cent of providers)
- 169 providers could report lower year end liquidity (63 per cent).

Scenario 4: Market competition

177. This scenario is based on a hypothetical market competition scenario where the 'low' and 'medium' market strength groups face variable reductions to student entrants in 2025-26 and the 'high' market strength group achieves growth in UK recruitment to compensate for reductions in non-UK students. This model broadly assumes that higher tariff and more highly selective providers are better insulated from student reductions, and therefore experience a more modest impact than other providers. As with the other scenarios, entrant numbers remain at modelled 2025-26 levels.

178. In this scenario, the total net reduction in fee income could be £3,896 by 2027-28 and total entrant numbers could be 19 per cent lower than forecast, although the impact on individual providers will be more variable than in the other scenarios.

Possible effect in 2027-28 without cost reductions

- £3,896 million estimated net income reduction against forecasts by 2027-28
- 184 providers could be reporting deficits (68 per cent of providers)
- 161 providers could report lower year end liquidity (60 per cent).

179. As reported previously, this modelling demonstrates the sensitivity of the higher education income model to variations in student recruitment, and highlights the scale of the challenge in maintaining financial sustainability if student numbers remain stagnant or decline. Even with a stable recruitment environment, different providers would be exposed to varying levels of recruitment risk, and this variation is likely to become more pronounced in more challenging operating environments.

180. Further details on the scenarios we have modelled and their impact can be found in Annex B.

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. Three of these were held in October 2024, with finance directors or those in equivalent roles. In total, attendees from 21 providers joined the roundtables this year. The sessions were grouped by providers with the same or similar financial typology.[14]

Summary of discussions

2. Many of the risks that were discussed by providers in previous financial roundtable events remain key themes. However, providers reported that some of those risks had intensified.
3. This summary represents the key risks articulated by providers, and not necessarily the views of the OfS. The challenges discussed vary for different types of providers.

Inflationary and cost of living pressures

4. 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. Providers explained that with much of their income coming from fixed fees, which have reduced in real terms, and rising costs of staff pay, pensions and utilities, 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.

Student recruitment

5. Providers have found that the volatility in student recruitment has increased while the number of 18-year-olds coming through the system has reduced, and this has made predicting future recruitment increasingly challenging. Providers have found more students postponing or deferring their courses. 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.
6. 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 increases in the cost of living.
7. Providers also suggested that students appear to be less prepared for higher education than previously. In some cases, this was reported to be resulting in increasing attrition rates and

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

the need for greater ongoing pastoral support. This support often has significant cost implications, requiring specialist trained staff resource.

Recruitment and retention of staff

8. Some 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 high. 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

9. Providers expressed concerns about the uncertainty of 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 and limited ability to influence negotiations. They also have little control over those rates 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.

Funding and research

10. Providers raised concerns about very tight timescales in which they must 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.
11. Providers are finding it more difficult to fund research activities, as research grants do not cover the cost of research, particularly in high-cost subjects. 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. Providers cited the importance of research for attracting students and in global rankings, despite its being loss-making, with the Research Excellence Framework in 2029 already prompting concerns.

Capital, estates and sustainable investments

12. 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.
13. Another key area that providers identified as requiring investment is in IT, with some providers running outdated IT systems that 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, probably at inflated costs.

14. 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 on the ability of providers to meet net zero targets.

15. 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

16. 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

17. With the rising cost of living, changing trends in UK applicants and declining unit of resource in real terms,[15] providers are seeking to mitigate constriction of the UK market by increasing their numbers of international students, who 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.

18. Providers reported that the volatility of currency exchange rates has had an impact on applications. 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 Visas and Immigration requirements as a barrier to recruitment.

19. Providers have suggested that diversification into other markets through international partnerships and branching out into transnational education may be a potential strategy.

Student accommodation

20. 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, including accommodation and catering, and often erodes planned surpluses, especially in smaller providers. Where there is high demand for accommodation, providers noted that the cost of building new accommodation has increased and recruitment volatility has made investment decisions more difficult.

[15] 'Unit of resource' refers to income resource per UK undergraduate student.

21. Some providers are considering incentives to attract students by providing accommodation where they can in cities and other areas where accommodation can be expensive or difficult to find .

Artificial intelligence

22. Providers suggested that recent developments in the sophistication of artificial intelligence technology have made it increasingly difficult to identify its use in student work. The cost of identifying such use can be significant, and this is raising increasing concerns.

Savings and efficiency

23. 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 have said that having already reviewed their course portfolios, it is difficult to make significant additional savings, and that efficiencies have been sought and implemented and costs already 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

24. 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 its attractiveness to staff and students.

Mergers and consolidations

25. 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 share services, 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. 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.

The modelling

2. To show the scale of the recruitment challenge for providers, we have modelled the following four scenarios:

    a. **No growth:** For each provider, all undergraduate and postgraduate entrants remain at the level forecast for 2024-25 in its latest AFR data returns.

    b. **Modest reduction in student entrants:** Most providers will incur variable reductions in UK and international entrants in 2025-26 based on market strength, and then no growth in entrants beyond this point.

    c. **Larger reduction in student entrants:** Providers will incur more significant reductions in UK and international entrants in 2025-26 based on market strength, and then no growth in entrants beyond this point.

    d. **Market competition:** Providers will face a range of recruitment changes (reductions and increases) in 2025-26 based on their market strength category, and then no growth in entrants beyond this point.

3. For the 'Modest reduction', 'Larger reduction' and 'Market competition' scenarios, we have varied the scale of reductions (or increases) using three 'market strength' categories (high, medium and low) on the basis that some provider types may have more, or less, strength in a competitive recruitment market. While competitive strength will be different for individual providers, the model broadly assumes that higher tariff and more highly selective providers are better insulated from student reductions and therefore experience a more modest impact than other providers.

4. These categories are derived from the provider's tariff group (as set out in the published provider typologies), the type of student provision delivered by the provider, and qualitative data collected during our financial monitoring process.[16]

5. To present the results of our scenario modelling, we have focused on the following financial performance and sustainability indicators:

    a. The number of providers in deficit, to show the potential impact that modelled income reductions could have on a provider's ability to cover its costs (excluding pension adjustments).

    b. The number of providers with low operating cash flow. This shows whether a provider would still be able to generate sufficient cash from its core operations to meet its short-term obligations, such as paying staff and servicing debt after modelled income reductions. We have defined low operating cash flow as below 5 per cent of income.

    c. The number of providers with low liquidity. In this case we have modelled the cumulative impact of annual income reductions on forecast liquidity holdings (cash and short-term investments less overdrafts) at the end of each financial year. In our modelling outputs,

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

we have defined low liquidity as net liquidity of below 10 per cent of annual expenditure (excluding pension adjustments).

6. It is important to note that in our modelling, we have made no adjustments to predict the mitigating actions that 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.

7. We also recognise that providers take varied approaches to forecasting, which means the potential impact shown in the models is unlikely to reflect the impact in the real world.

Table B1: Summary of the modelling outcomes for the four scenarios modelled

Scenario 1: No growth	2023-24 (actual)	2024-25 (forecast)	2025-26 (estimate)	2026-27 (estimate)	2027-28 (estimate)
Net income impact £M			-£857	-£1,872	-£3,002
Number of providers with a deficit	110	118	140	159	167
Number of providers with low operating cash flow	150	147	149	159	180
Number of providers low liquidity	47	52	80	106	127
Scenario 2: Modest reduction	**2023-24 (actual)**	**2024-25 (forecast)**	**2025-26 (estimate)**	**2026-27 (estimate)**	**2027-28 (estimate)**
Net income impact £M			-£1,193	-£2,399	-£3,656
Number of providers with a deficit	110	118	159	173	186
Number of providers with low operating cash flow	150	147	169	184	204
Number of providers low liquidity	47	52	84	121	150
Scenario 3: Larger reduction	**2023-24 (actual)**	**2024-25 (forecast)**	**2025-26 (estimate)**	**2026-27 (estimate)**	**2027-28 (estimate)**
Net income impact £M			-£1,518	-£2,965	-£4,407
Number of providers with a deficit	110	118	170	188	200
Number of providers with low operating cash flow	150	147	178	198	216
Number of providers low liquidity	47	52	88	133	169
Scenario 4: Market competition	**2023-24 (actual)**	**2024-25 (forecast)**	**2025-26 (estimate)**	**2026-27 (estimate)**	**2027-28 (estimate)**
Net income impact £M			-£1,332	-£2,608	-£3,896
Number of providers with a deficit	110	118	162	171	184

Number of providers with low operating cash flow	150	147	174	190	199
Number of providers low liquidity	47	52	84	122	161

Scenario 1: No growth

8. The underpinning hypothetical assumption here is that, for each provider, all undergraduate and postgraduate entrants remain at the level forecast for 2024-25 in its latest AFR data returns.

Table B2 Parameter summary, no growth scenario

Scenario 1: % changes 2025-26	Low	Medium	High
UK undergraduate entrants	No growth	No growth	No growth
UK postgraduate entrants	No growth	No growth	No growth
Non-UK undergraduate entrants	No growth	No growth	No growth
Non-UK postgraduate entrants	No growth	No growth	No growth

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

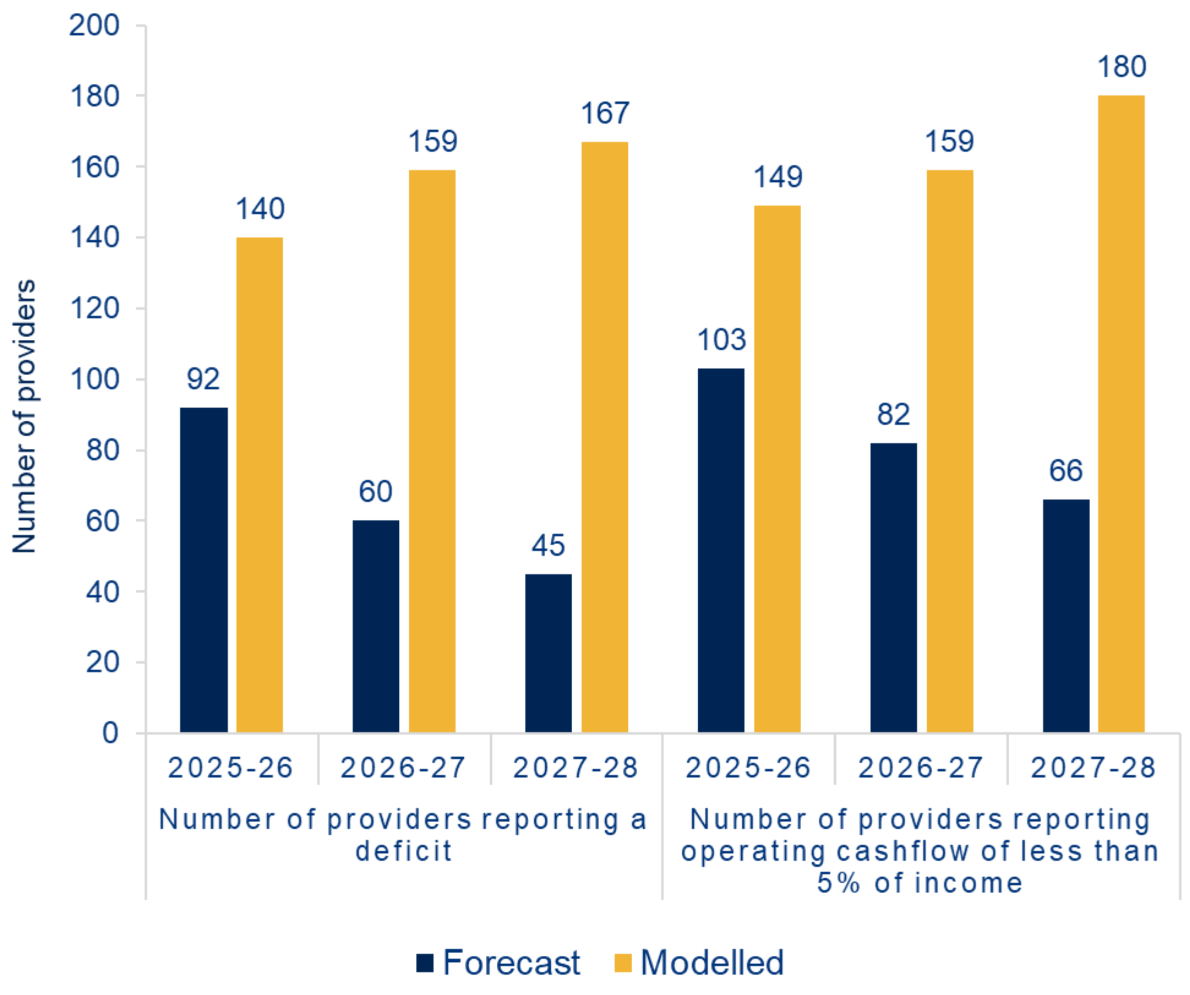


Figure B2: Number of providers reporting low liquidity and operating cashflow, comparison of forecast and modelled data, no growth scenario

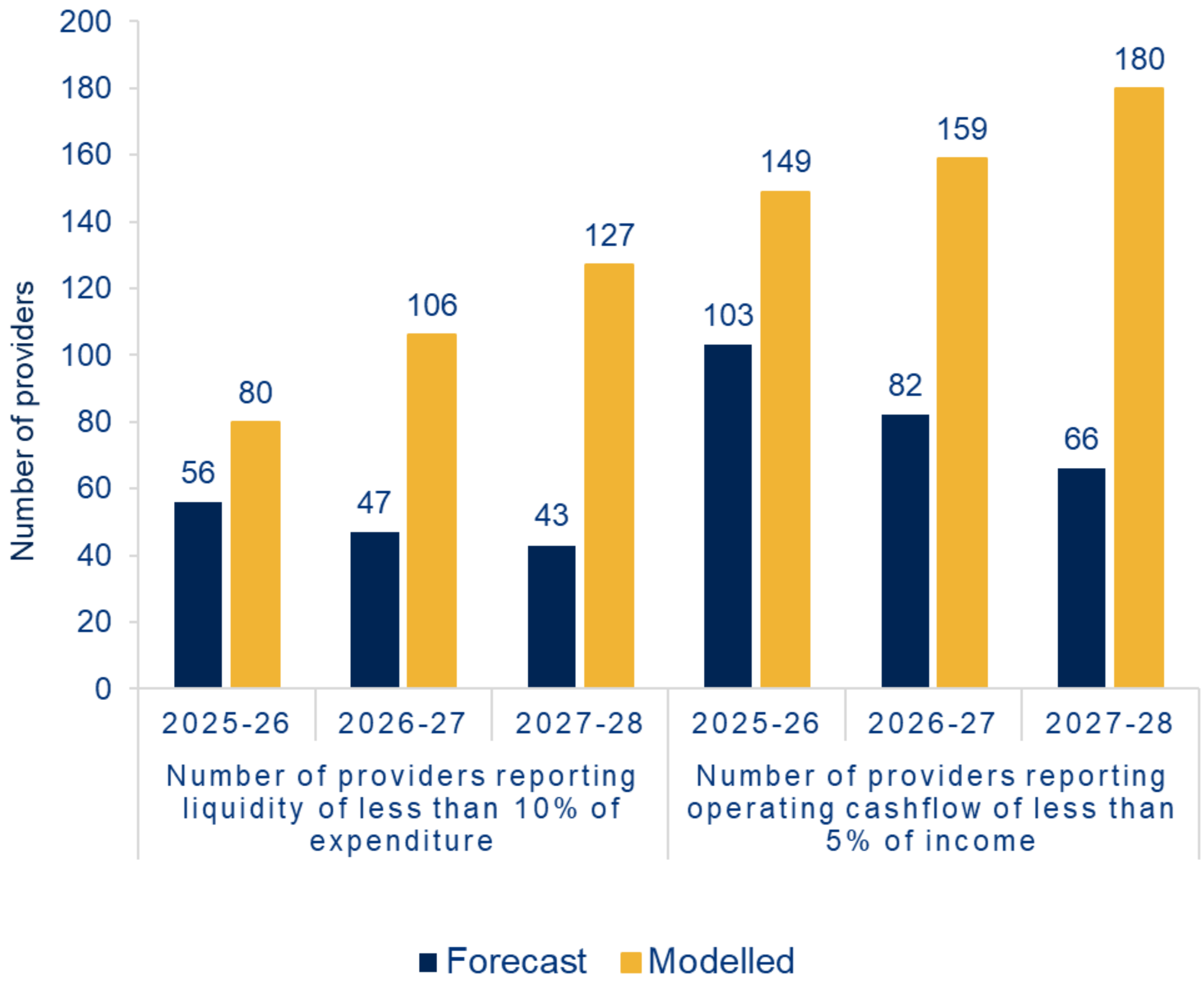


Table B3: Number of providers with deficits, modelled per 'no growth' parameters

	Forecast 2025-26	Modelled 2025-26	Forecast 2026-27	Modelled 2026-27	Forecast 2027-28	Modelled 2027-28
Larger teaching-intensive	7	**10**	5	**13**	2	**12**
Larger research-intensive	5	**9**	2	**11**	2	**15**
Medium	20	**29**	11	**31**	8	**35**
Smaller	23	**34**	20	**37**	12	**38**
Specialist creative	12	**18**	6	**21**	5	**23**
Specialist	18	**26**	9	**27**	10	**23**
Level 4 and 5	7	**14**	7	**19**	6	**21**
Total	**92**	**140**	**60**	**159**	**45**	**167**
% of sector	**34%**	**52%**	**22%**	**59%**	**17%**	**62%**

Table B4: Number of providers with net cash flow from operating activities below 5 per cent of total income, modelled per 'no growth' parameters

	Forecast 2025-26	Modelled 2025-26	Forecast 2026-27	Modelled 2026-27	Forecast 2027-28	Modelled 2027-28
Larger teaching-intensive	4	**8**	3	**10**	1	**11**
Larger research-intensive	4	**8**	3	**5**	1	**13**
Medium	12	**17**	8	**20**	5	**24**
Smaller	29	**38**	22	**40**	18	**42**
Specialist creative	14	**21**	15	**24**	13	**26**
Specialist	29	**36**	22	**39**	21	**38**
Level 4 and 5	11	**21**	9	**21**	7	**26**
Total	**103**	**149**	**82**	**159**	**66**	**180**
% of sector	**38%**	**55%**	**30%**	**59%**	**24%**	**67%**

Table B5: Number of providers with liquidity below 10 per cent of expenditure, modelled per 'no growth' parameters

	Forecast 2025-26	Modelled 2025-26	Forecast 2026-27	Modelled 2026-27	Forecast 2027-28	Modelled 2027-28
Larger teaching-intensive	1	**2**	1	**5**	0	**8**
Larger research-intensive	5	**5**	5	**9**	5	**10**
Medium	6	**11**	6	**17**	7	**22**
Smaller	17	**19**	15	**23**	11	**26**
Specialist creative	11	**16**	8	**19**	8	**20**
Specialist	8	**14**	6	**18**	7	**21**
Level 4 and 5	8	**13**	6	**15**	5	**20**
Total	**56**	**80**	47	**106**	43	**127**
% of sector	**21%**	**30%**	**17%**	**39%**	**16%**	**47%**

Scenario 2: Modest reduction in student numbers

9. The underpinning hypothetical assumption here is that providers will see a modest reduction in entrants in 2025-26 compared with 2024-25 forecasts, varied by provider group, and then no growth for the remainder of the forecast period. For the 'high' market strength group, we have applied the OBR student number growth forecast to both UK undergraduate and postgraduate entrants in the period 2025-26 to 2027-28.[17]

[17] See OBR, 'Economic and fiscal outlook: March 2025'.

Table B6: Parameter summary, modest reduction scenario

Scenario 2: % changes 2025-26	Low	Medium	High
UK undergraduate entrants	-5%	-3%	+0.3%
UK postgraduate entrants	-10%	-5%	+0.3%
Non-UK undergraduate entrants	-5%	-3%	-1%
Non-UK postgraduate entrants	-12%	-6%	-1%

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

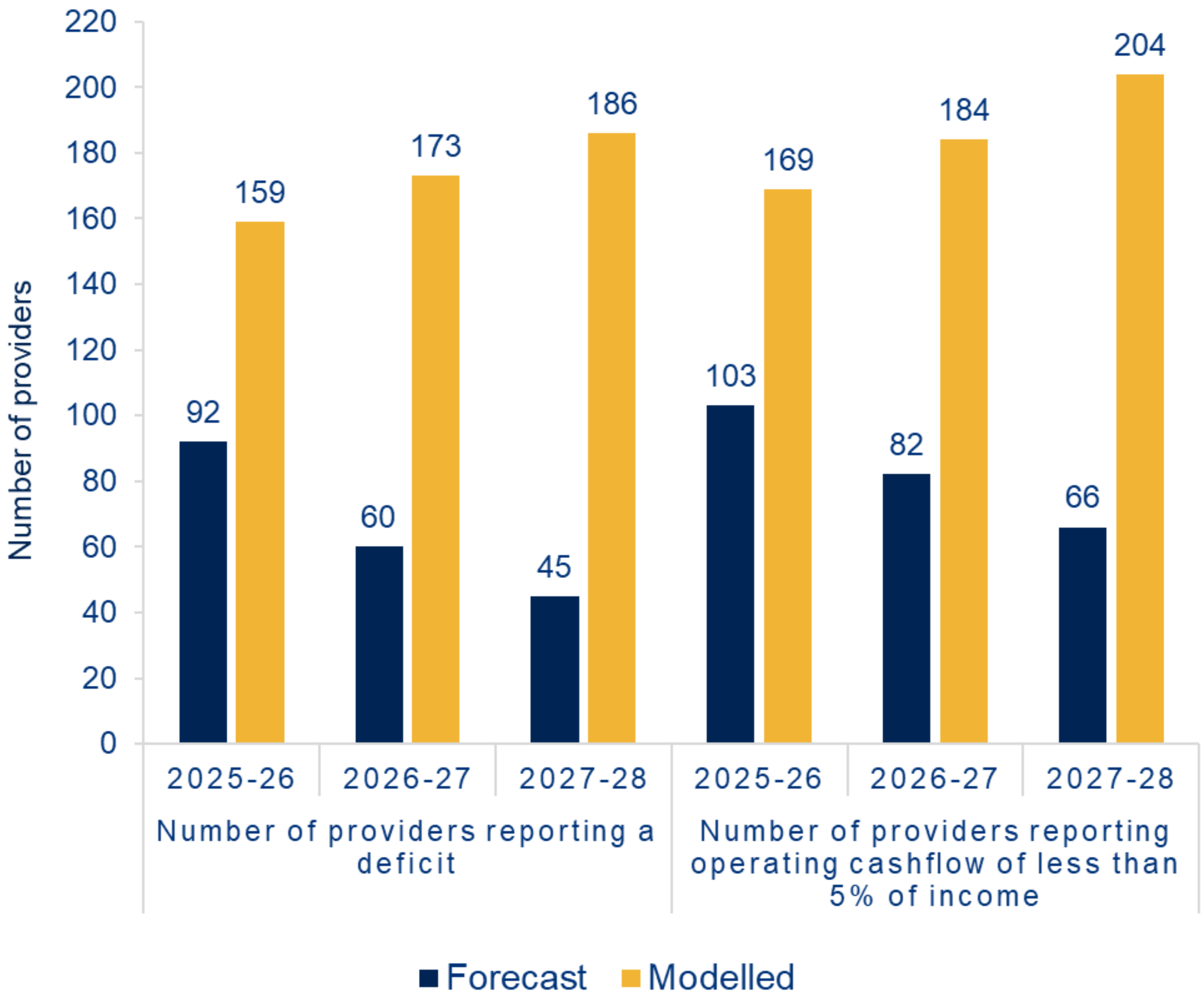


Figure B4: Number of providers reporting low liquidity and operating cashflow, comparison of forecast and modelled data, minor reduction scenario

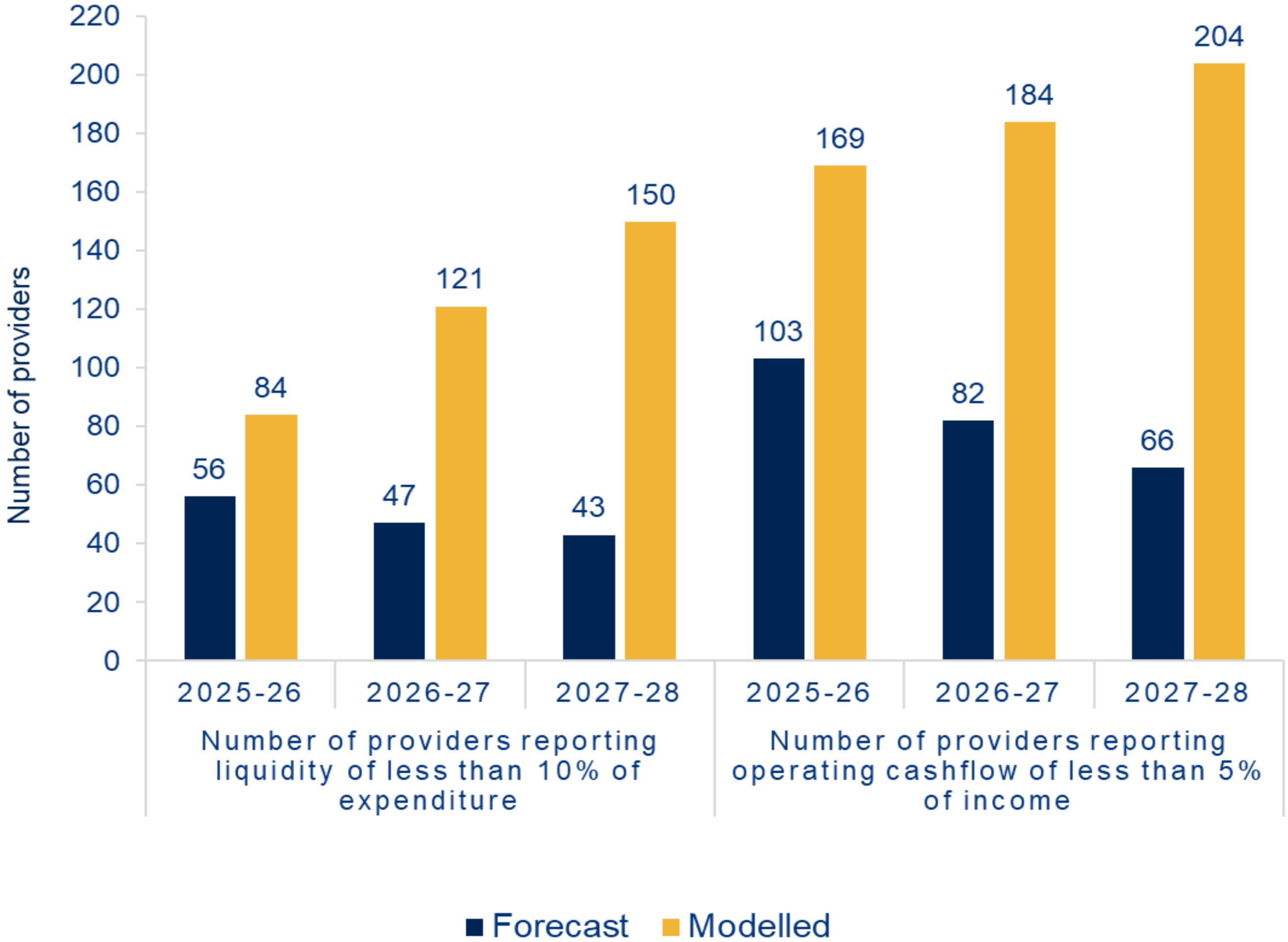


Table B7: Number of providers with deficits, modelled per 'modest reduction' parameters

	Forecast 2025-26	Modelled 2025-26	Forecast 2026-27	Modelled 2026-27	Forecast 2027-28	Modelled 2027-28
Larger teaching-intensive	7	**13**	5	**14**	2	**13**
Larger research-intensive	5	**9**	2	**11**	2	**15**
Medium	20	**36**	11	**37**	8	**39**
Smaller	23	**37**	20	**41**	12	**42**
Specialist creative	12	**20**	6	**21**	5	**24**
Specialist	18	**29**	9	**30**	10	**31**
Level 4 and 5	7	**15**	7	**19**	6	**22**
Total	**92**	**159**	**60**	**173**	**45**	**186**
% of sector	**34%**	**59%**	**22%**	**64%**	**17%**	**69%**

Table B8: Number of providers with net cash flow from operating activities below 5 per cent of total income, modelled per 'modest reduction' parameters

	Forecast 2025-26	Modelled 2025-26	Forecast 2026-27	Modelled 2026-27	Forecast 2027-28	Modelled 2027-28
Larger teaching-intensive	4	**12**	3	**14**	1	**14**
Larger research-intensive	4	**10**	3	**5**	1	**13**
Medium	12	**27**	8	**32**	5	**36**
Smaller	29	**39**	22	**44**	18	**45**
Specialist creative	14	**21**	15	**24**	13	**27**
Specialist	29	**39**	22	**41**	21	**41**
Level 4 and 5	11	**21**	9	**24**	7	**28**
Total	**103**	**169**	**82**	**184**	**66**	**204**
% of sector	**38%**	**63%**	**30%**	**68%**	**24%**	**76%**

Table B9: Number of providers with liquidity below 10 per cent of expenditure, modelled per 'modest reduction' parameters

	Forecast 2025-26	Modelled 2025-26	Forecast 2026-27	Modelled 2026-27	Forecast 2027-28	Modelled 2027-28
Larger teaching-intensive	1	**3**	1	**7**	0	**9**
Larger research-intensive	5	**5**	5	**9**	5	**10**
Medium	6	**11**	6	**20**	7	**30**
Smaller	17	**19**	15	**27**	11	**33**
Specialist creative	11	**17**	8	**20**	8	**21**
Specialist	8	**16**	6	**21**	7	**26**
Level 4 and 5	8	**13**	6	**17**	5	**21**
Total	**56**	**84**	47	**121**	43	**150**
% of sector	**21%**	**31%**	**17%**	**45%**	**16%**	**56%**

Scenario 3: Larger reductions

10. The underpinning hypothetical assumption here is similar to Model 2, but with a more significant assumed reduction in entrants in 2025-26, varied by provider group, and then no growth for the remainder of the forecast period. For the 'High' market strength group, we have assumed there will be no growth in UK undergraduate and postgraduate entrants beyond 2024-25.

Table B10: Parameter summary, larger reduction scenario

Scenario 3: % changes 2025-26	Low	Medium	High
UK undergraduate entrants	-10%	-7%	No growth
UK postgraduate entrants	-12%	-10%	No growth
Non-UK undergraduate entrants	-10%	-7%	-3%
Non-UK postgraduate entrants	-20%	-10%	-3%

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

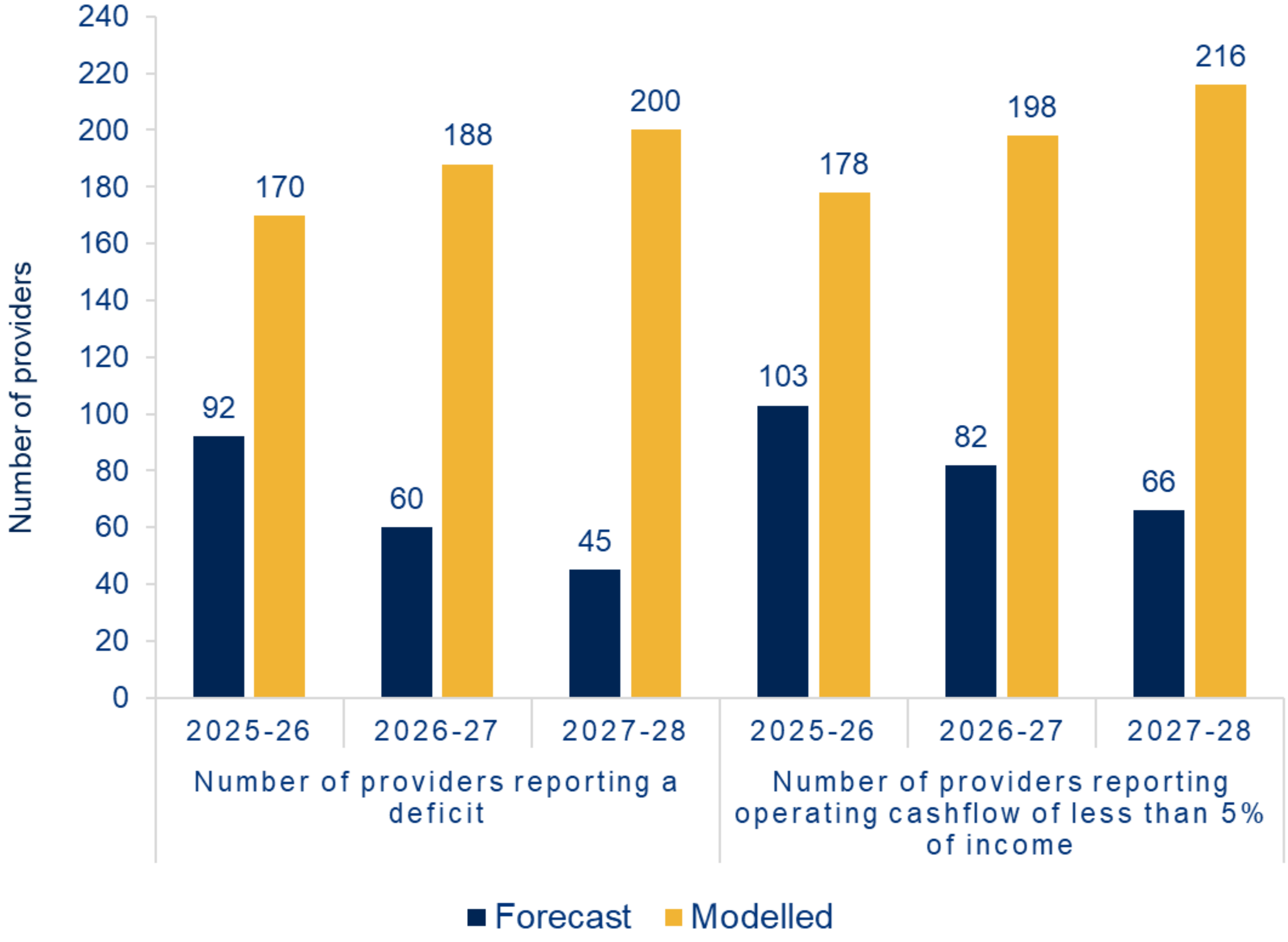


Figure B6: Number of providers reporting low liquidity and operating cashflow, comparison of forecast and modelled data, larger reduction scenario

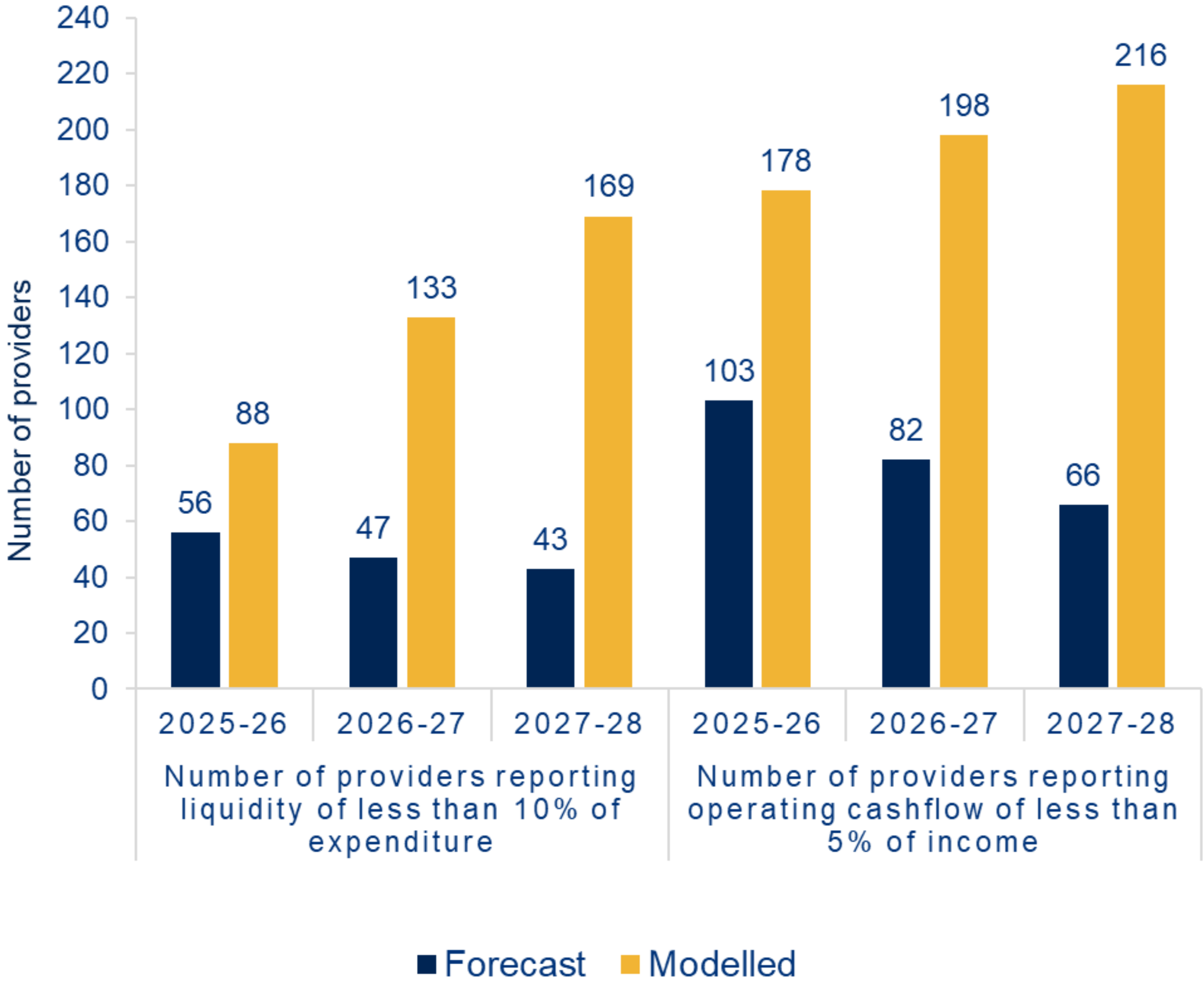


Table B11: Number of providers with deficits, modelled per 'larger reduction' parameters

	Forecast 2025-26	Modelled 2025-26	Forecast 2026-27	Modelled 2026-27	Forecast 2027-28	Modelled 2027-28
Larger teaching-intensive	7	**14**	5	**14**	2	**13**
Larger research-intensive	5	**10**	2	**13**	2	**15**
Medium	20	**39**	11	**41**	8	**42**
Smaller	23	**37**	20	**43**	12	**43**
Specialist creative	12	**22**	6	**25**	5	**27**
Specialist	18	**32**	9	**32**	10	**36**
Level 4 and 5	7	**16**	7	**20**	6	**24**
Total	**92**	**170**	**60**	**188**	**45**	**200**
% of sector	**34%**	**63%**	**22%**	**70%**	**17%**	**74%**

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

	Forecast 2025-26	Modelled 2025-26	Forecast 2026-27	Modelled 2026-27	Forecast 2027-28	Modelled 2027-28
Larger teaching-intensive	4	**13**	3	**14**	1	**14**
Larger research-intensive	4	**12**	3	**9**	1	**14**
Medium	12	**29**	8	**35**	5	**39**
Smaller	29	**40**	22	**45**	18	**46**
Specialist creative	14	**22**	15	**28**	13	**30**
Specialist	29	**39**	22	**42**	21	**44**
Level 4 and 5	11	**23**	9	**25**	7	**29**
Total	**103**	**178**	**82**	**198**	**66**	**216**
% of sector	**38%**	**66%**	**30%**	**73%**	**24%**	**80%**

Table B13: Number of providers with liquidity below 10 per cent of expenditure, modelled per 'larger reduction' parameters

	Forecast 2025-26	Modelled 2025-26	Forecast 2026-27	Modelled 2026-27	Forecast 2027-28	Modelled 2027-28
Larger teaching-intensive	1	**4**	1	**8**	0	**10**
Larger research-intensive	5	**5**	5	**9**	5	**11**
Medium	6	**12**	6	**25**	7	**34**
Smaller	17	**20**	15	**29**	11	**37**
Specialist creative	11	**17**	8	**21**	8	**22**
Specialist	8	**16**	6	**22**	7	**32**
Level 4 and 5	8	**14**	6	**19**	5	**23**
Total	**56**	**88**	47	**133**	43	**169**
% of sector	**21%**	**33%**	**17%**	**49%**	**16%**	**63%**

Scenario 4: Market competition

11. The underpinning hypothetical assumption here is that providers will face a range of recruitment changes in 2025-26 based on their relative market strength, with providers in the 'high' market strength category able to increase students and other providers facing recruitment declines. We have assumed no growth in entrants beyond this point.

Table B14 Parameter summary, 'market competition' scenario

Scenario 4: % changes 2025-26	Low	Medium	High
UK undergraduate entrants	-10%	-3%	+10%
UK postgraduate entrants	-15%	-5%	+10%
Non-UK undergraduate entrants	-20%	-3%	-3%
Non-UK postgraduate entrants	-20%	-10%	-3%

Figure B7: Number of providers reporting deficits and low operating cashflow, comparison of forecast and modelled data, per 'market competition' scenario

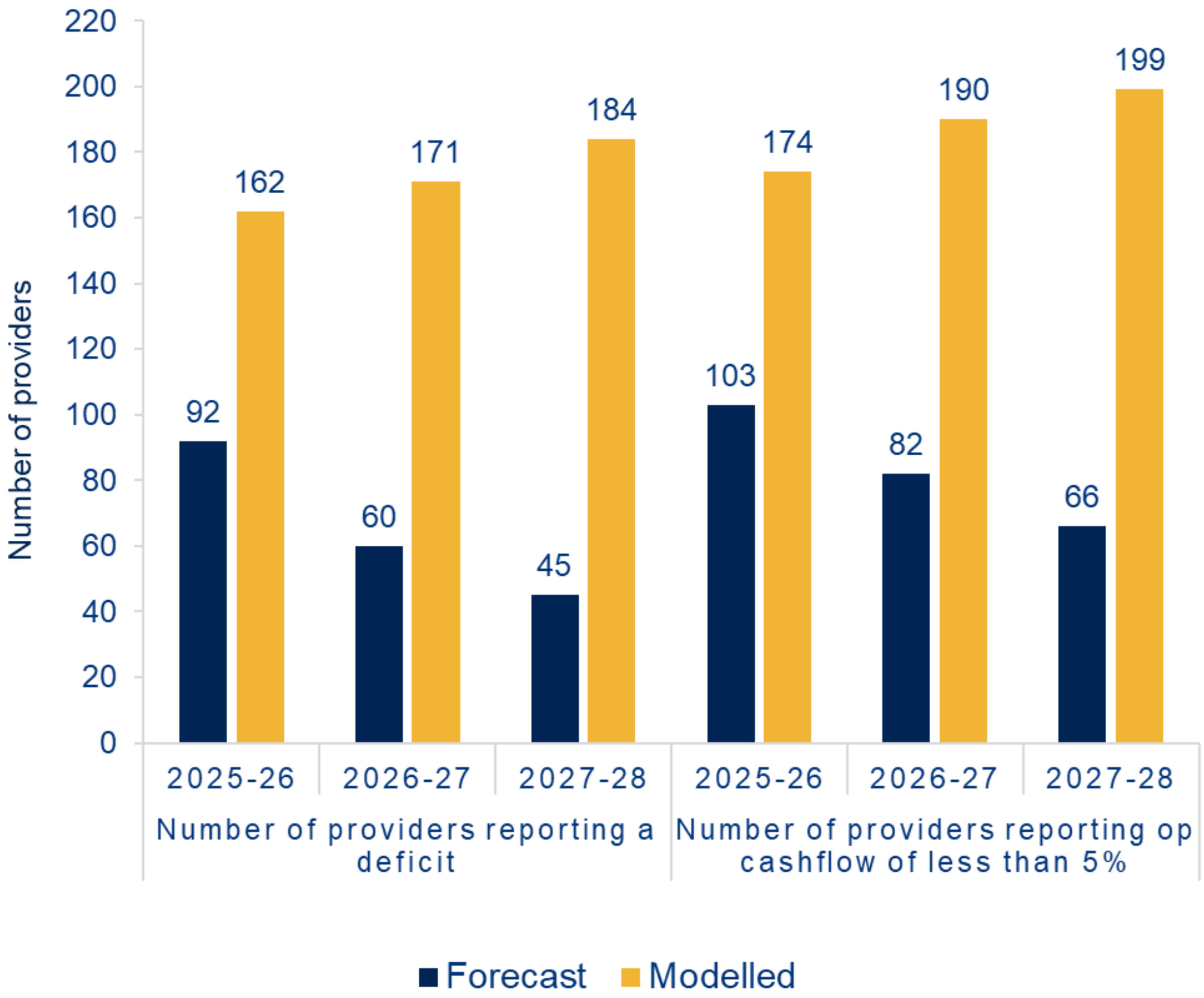


Figure B8: Number of providers reporting low liquidity and operating cashflow, comparison of forecast and modelled data, per 'market competition' scenario

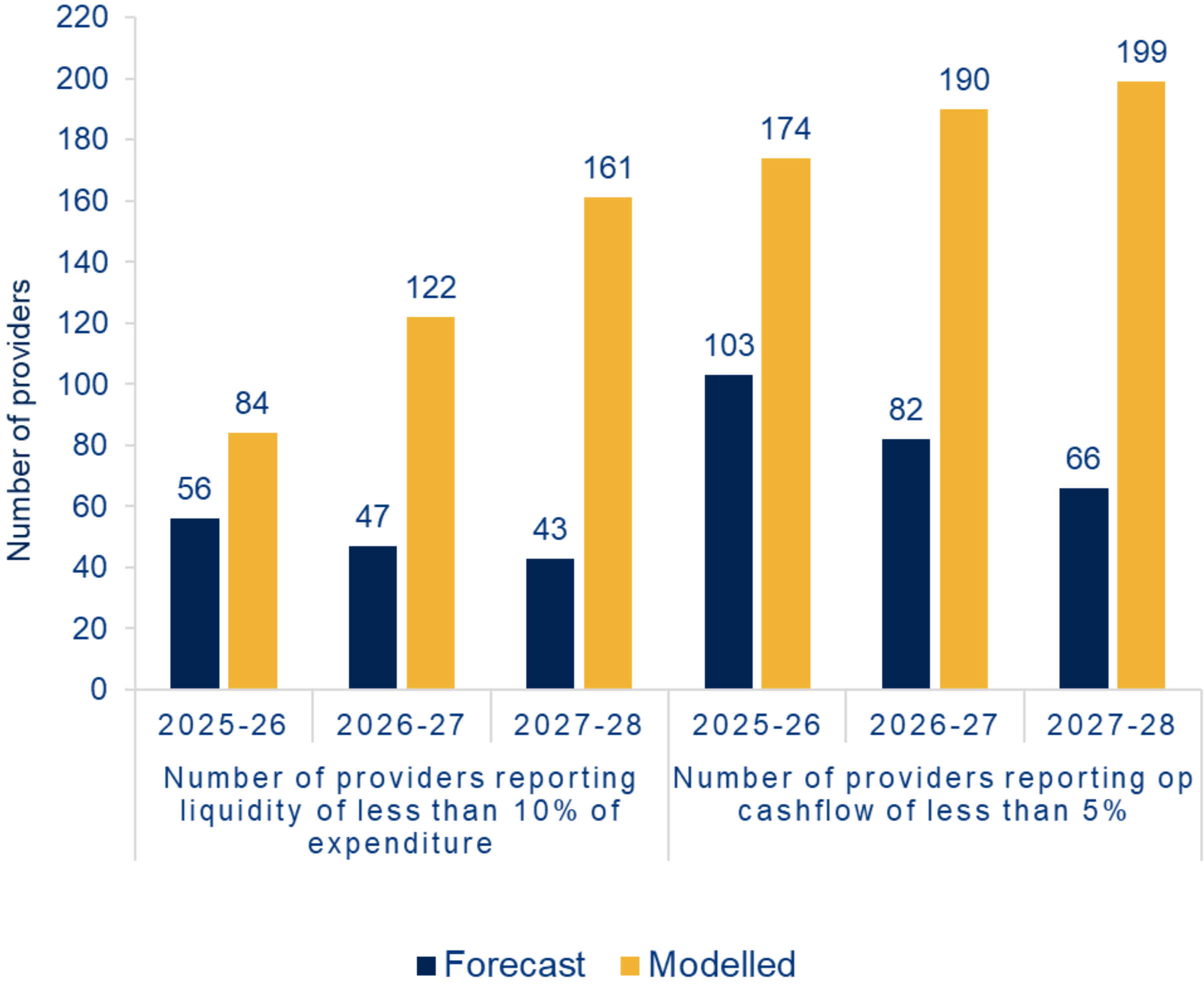


Table B15: Number of providers with deficits, modelled per 'market competition' scenario

	Forecast 2025-26	Modelled 2025-26	Forecast 2026-27	Modelled 2026-27	Forecast 2027-28	Modelled 2027-28
Larger teaching-intensive	7	**14**	5	**14**	2	**13**
Larger research-intensive	5	**8**	2	**8**	2	**13**
Medium	20	**37**	11	**39**	8	**40**
Smaller	23	**37**	20	**40**	12	**42**
Specialist creative	12	**19**	6	**19**	5	**22**
Specialist	18	**31**	9	**31**	10	**31**
Level 4 and 5	7	**16**	7	**20**	6	**23**
Total	**92**	**162**	**60**	**171**	**45**	**184**
% of sector	**34%**	**60%**	**22%**	**63%**	**17%**	**68%**

Table B16: Number of providers with net cash flow from operating activities below 5 per cent of total income, modelled per market competition scenario

	Forecast 2025-26	Modelled 2025-26	Forecast 2026-27	Modelled 2026-27	Forecast 2027-28	Modelled 2027-28
Larger teaching-intensive	4	**14**	3	**14**	1	**14**
Larger research-intensive	4	**7**	3	**5**	1	**9**
Medium	12	**30**	8	**34**	5	**37**
Smaller	29	**40**	22	**44**	18	**45**
Specialist creative	14	**20**	15	**25**	13	**24**
Specialist	29	**40**	22	**42**	21	**41**
Level 4 and 5	11	**23**	9	**26**	7	**29**
Total	**103**	**174**	**82**	**190**	**66**	**199**
% of sector	**38%**	**64%**	**30%**	**70%**	**24%**	**74%**

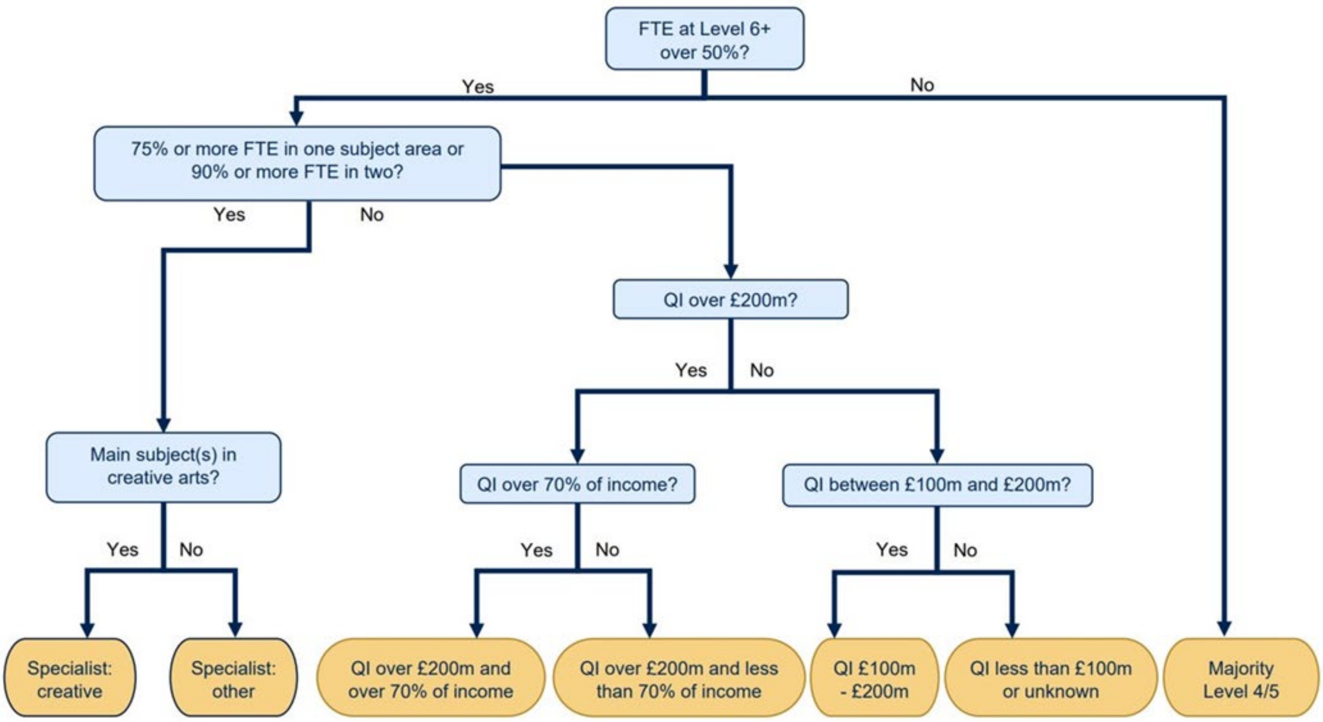
Table B17: Number of providers with liquidity below 10 per cent of expenditure, modelled per 'market competition' scenario

	Forecast 2025-26	Modelled 2025-26	Forecast 2026-27	Modelled 2026-27	Forecast 2027-28	Modelled 2027-28
Larger teaching-intensive	1	**3**	1	**7**	0	**10**
Larger research-intensive	5	**5**	5	**7**	5	**10**
Medium	6	**11**	6	**24**	7	**31**
Smaller	17	**19**	15	**27**	11	**40**
Specialist creative	11	**15**	8	**18**	8	**19**
Specialist	8	**17**	6	**20**	7	**29**
Level 4 and 5	8	**14**	6	**19**	5	**22**
Total	**56**	**84**	47	**122**	43	**161**
% of sector	**21%**	**31%**	**17%**	**45%**	**16%**	**60%**

Annex C: Provider typology groups

1. The 'finance typology' provider groupings are based on the amount and type of income received by providers, as well as the level and subject areas predominantly studied by their students. The methodology and data sources used to assign providers to these groups are set out in our paper published in November 2022.[18]
2. The 'financial typology' groups providers on the basis of the resources available to them. The factors used in defining these provider 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.
3. Figure C1 describes how each 'finance typology' provider group is derived.

Figure C1: Finance typology flow diagram



4. Analysis and charts use the naming conventions described in Table C1 for ease of reference.

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

Table C1: Provider group naming conventions used throughout report

Description	Name for provider group
Specialist: creative	**Specialist creative**
Specialist: other	**Specialist**
QI over £200 million and over 70% of income	**Larger teaching-intensive**
QI over £200 million and less than 70% of income	**Larger research-intensive**
QI £100 million to £200 million	**Medium**
QI less than £100m or unknown	**Smaller**
Majority Level 4 and 5	**Level 4 and 5**

Annex D: Aggregate financial data

See the separate Excel file available at www.officeforstudents.org.uk/publications/financial-sustainability-of-higher-education-providers-in-england-2025.