Financial sustainability of higher education providers in England

Reference OfS 2021.20

Publication date 25 June 2021

Contents

Summary 2

The short term: 2019-20 to 2021-22 2
The medium and longer terms: 2021-22 to 2024-25 3

Introduction 4

Analysis findings 4

Aggregate financial performance and trends in income and expenditure 4
Forecast student recruitment 4
Financial resilience, liquidity and borrowing 5
Borrowing and government-backed coronavirus support schemes 6
Variation among individual providers 6
Future risks and uncertainties 7

Annex A: Financial analysis data and charts 9

Notes on the data 9
Income 9
Student recruitment 11
Tuition fees 14
Expenditure 18
Cashflow from operating activities 20
Surplus (adjusted) 21
Liquidity 23
Borrowing and other financial commitments 24
Capital expenditure 26
Sustainability of pension schemes 28

Summary

1. The overall financial position of universities, colleges and other higher education providers registered with the Office for Students (OfS) across the higher education sector remains sound, with generally reasonable financial resilience, despite the many operational and financial challenges arising from the coronavirus pandemic. However, there continues to be significant variation in the financial performance and strength of individual higher education providers. Looking ahead, the environment remains challenging, and providers will need to continue to adapt to uncertainties and financial risks to protect their longer-term sustainability.

2. Annex A contains charts that illustrate analysis of key financial data.

The short term: 2019-20 to 2021-22

3. Overall, the short-term financial health of higher education providers in England is reasonable at an aggregate level. The sector is forecasting a decline in financial performance and strength in 2020-21, relative to 2019-20, followed by an expected slow recovery from 2021-22.

4. Higher education providers have generally responded to the challenging circumstances brought about by the pandemic through sensible and prudent financial management, including good control of costs and the effective management of cashflow to protect sustainability. There is evidence of prudent management of liquidity, building contingency to accommodate the financial pressure expected from coronavirus. This has been achieved through the generally effective management of cash outflow, including restraint on capital expenditure, where this has been possible.

5. The sector in aggregate experienced stronger student recruitment in 2020-21 than many predicted at the height of the pandemic. 2020-21 saw overall strong demand from UK students, and overseas students held up well, albeit at lower levels than were forecast before the pandemic.

6. Despite this, an overall decrease in income in 2020-21 will reduce the financial operating performance. Net operating cashflow, necessary to support longer term sustainability, fell from 8.4 per cent of total income in 2019-20 to 4.2 per cent in 2020-21. This appears to be manageable in the short term, but at this level will not support sustainability in the longer term.

7. Some higher education providers have applied borrowing instruments, including through some of the government-backed loan schemes, as contingency to safeguard operational cashflows in the event of financial risks. Many of these borrowing instruments remain in place, but are not drawn down and are not forecast to be drawn down.

8. Despite the overall satisfactory findings of our analysis at this time, significant uncertainty remains, and the impact of the pandemic globally could change quickly. Issues that could affect income include restrictions on the movement of students domestically and internationally, higher numbers of students dropping out, and reduced income from accommodation and commercial activities that rely on open buildings and facilities.

9. While the aggregate position is reasonably positive, relative to the risks that have been managed recently, there continues to be significant variability between the financial

performance of individual providers, and we expect this will continue as providers adapt to the post-pandemic operating environment. However, we consider that, at this time, the likelihood of multiple providers exiting the sector in a disorderly way because of financial failure is low.

The medium and longer terms: 2021-22 to 2024-25

10. Overall, the sector is forecasting continued income growth in the next four years, supported primarily by expectations of strong domestic and international student recruitment. Domestic and international student numbers are projected to increase by 12.3 and 29.5 per cent respectively between 2020-21 and 2024-25, with associated rises of 14.4 and 46.6 per cent for the related income. UCAS data1 on applications for the 2021 cycle at the January equal consideration deadline indicates increased demand from UK and non-EU students to study at English providers. The forecast growth in fee income from domestic students is based on a broad assumption that there is no material change to level of government funding of teaching, be that through tuition fee loans or OfS grant funding.

11. Net liquidity (net cash holdings) is forecast to be lowest in 2020-21 and 2021-22 as providers manage the financial implications from coronavirus. However, in aggregate, net liquidity remains at reasonable levels and we also know that the banking sector has often provided short-term finance facilities to providers as contingency, in the rare circumstances when this is needed. All tariff groups forecast steady growth in net liquidity from 2022-23, underpinned by expectations of strong student recruitment.

12. While the sector is hopeful of a post-coronavirus recovery in financial performance from 2021-22, there are a number of potentially significant financial challenges to overcome in the forecast period. Examples could include: extended operational restrictions from new variants of coronavirus, which could affect student recruitment; the implications of global economic recovery for spending, business interaction and the employment market; and the need to secure the financial sustainability of pension schemes.

[1] Available at https://www.ucas.com/data-and-analysis/undergraduate-statistics-and-reports/ucas-undergraduate-releases/applicant-releases-2021/2021-cycle-applicant-figures-january-deadline.

Introduction

13. The Office for Students regulates higher education providers in England. As part of the registration and ongoing monitoring process, all higher education providers are required to demonstrate that they are financially viable and sustainable.

14. Every OfS registered higher education provider is required regularly – at least annually – to submit financial data, including financial and student forecasts. This report summarises our analysis of financial data returned by 226 registered higher education providers in England (excluding further education colleges) to us as part of the 'annual financial return'.

15. This report follows on from our update report on financial sustainability in December 2020, 'Higher education financial sustainability: An update',2 which provided the first opportunity to analyse the financial implications of coronavirus on the short-term financial performance and position of the sector. This report provides an update on how higher education providers have so far managed their finances through the pandemic and follows the completion of annual accounts for 2019-20 and the arrival of students for 2020-21. This report also analyses the trends in providers' forecasts to 2024-25.

Analysis findings

Aggregate financial performance and trends in income and expenditure

16. In the aggregate, financial performance in the sector in 2019-20 has been reasonable, particularly considering the significant disruption to operations during the year, and there is evidence of generally good financial management.

17. Providers forecast total aggregate income to reduce marginally in 2020-21 compared with 2019-20, despite better than anticipated student recruitment. Reductions are expected in other income (from accommodation and commercial activities), investment income and sources of donations and endowments. 2020-21 is also expected to see a reduction in tuition fee income from overseas students.

18. Total income is forecast to increase steadily over the forecast period, underpinned by expectations of strong student demand.

Forecast student recruitment

19. Income from course fees and educational contracts represents between 55 and 57 per cent of total sector income over the forecast period. Forecast income from tuition fees is dependent on assumptions made by providers about student demand and retention, and on the level of the fees. Providers have generally assumed that there is no change to the tuition fee limit for UK undergraduate students. Uncertainty about ongoing coronavirus restrictions, particularly on the

[2] OfS 2020.56, available online at www.officeforstudents.org.uk/publications/financial-sustainability-of-higher-education-providers-in-england-update/.

movement of students, domestic and international, may continue to affect and challenge fee income in the short term.

20. Overall, providers expect total student numbers to grow in aggregate by 12.3 per cent in the period between 2020-21 and 2024-25. Home (UK) recruitment is forecast to increase, as is recruitment of non-EU overseas students, by 12.3 and 29.5 per cent respectively. Recruitment from within the EU is expected to decline by 34.8 per cent following the withdrawal of student loan entitlement for EU students from 2021-22.

21. Total tuition fee income is forecast to increase by nearly 23.4 per cent between 2020-21 and 2024-25.

22. Fee income from overseas students is a critical part of the financial model of many higher education providers in England. Amid the measures to restrict movement to tackle coronavirus issues, recruitment of overseas students has held up remarkably well in 2020-21, with a modest decline of 2.0 per cent in total overseas students in 2020-21 compared with the previous year. However, at an aggregate level, providers anticipate fee that income from overseas students will bounce back, with an increase by 14.8 per cent in 2021-22. This may be dependent on the ability of students to travel amid coronavirus restrictions. In the longer term providers predict that overseas fee income will rise by 46.6 per cent between 2020-21 and 2024-25.

23. However, it should be noted that, while fee income is expected to continue to increase at an aggregate level, there is variability for individual providers.

24. The aggregate student growth forecasts may appear ambitious, and providers will need to be careful not to rely on assumptions of growth for their sustainability. However, there are a number of reasons why providers might feel confident about recruitment over the forecast period.

25. The pandemic has accelerated the development of remote higher education delivery models, which potentially provide opportunities for more students to enter higher education in a different way, and for providers to utilise their facilities differently. Operating models will need to adapt to the post-coronavirus demands, but providers' estate may be less of a constraining factor to student numbers in future.

26. A trend of growth in the 18-year-old population in the UK may provide opportunities for higher education providers to expand their student populations, subject to demand from students. Analysis suggests that providers have forecast an increase of 124,000 full-time undergraduate students (FTEs) from 2020-21 to 2024-25 (11.6 per cent). This is mirrored by an increase of 11.4 per cent in the estimated 18-year-old population over the same period.

27. Evidence from recent recruitment activity suggests that strong demand remains for higher education in England from both domestic and international students.

Financial resilience, liquidity and borrowing

28. Providers have acted to find efficiencies and reduce cash outflows, for instance by postponing capital expenditure, in response to financial risks arising from the pandemic during 2019-20 and in anticipation of continued financial risk in 2020-21.

29. Reductions in cash outflows, and an increased focus on protecting future cashflows in the face of future financial challenges have, overall, strengthened aggregate liquidity at the end of 2019-20, improving the sector's resilience to financial risks in 2020-21. Liquidity is expected to decline by over 11.0 per cent in 2020-21, a consequence of a forecast decline in financial performance in this year, although aggregate cash holdings remain comfortable at £11 billion (122 liquidity days).

30. Operating cashflow is forecast to recover gradually from 2021-22 onwards, strengthening thereafter to pre-coronavirus levels. Positive operating cashflow is important, as it allows providers to bolster cash reserves and create funds for developments and capital investment.

31. Where possible, many providers paused major capital investment plans in 2019-20 in response to coronavirus. Capital spending is expected to increase in 2020-21, albeit remaining lower than pre-coronavirus levels, as many providers begin to invest in capital developments again.

32. The longer-term expectation is for annual capital investments to begin to reduce steadily from 2021-22, and to continue at an overall lower level than we have seen in recent, pre-coronavirus years. However, providers may revisit their capital and estates strategies as they adapt to the post-coronavirus operating environment.

Borrowing and government-backed coronavirus support schemes

33. Overall, gearing levels (borrowing and other financial commitments relative to total income) have increased in 2019-20. Further increase in gearing is expected in 2020-21 across all tariff groups, as total income remains flat in this year. Gearing is expected to reduce steadily from 2022-23.

34. Some providers have agreed short-term loan facilities with their bankers, such as overdrafts or revolving credit facilities, as contingent arrangements to support cashflow. Approximately £1.4 billion of these facilities remain undrawn at this time but are available if needed, to support operations if significant risks materialise.

35. During 2020, the government established various financial support mechanisms for businesses of different types and sizes, to help mitigate the financial stress arising from coronavirus. A number of higher education providers report that they have entered into agreements to access financial support from government-backed coronavirus loan schemes, but a significant amount of this remains undrawn and in place as contingency support if needed.

Variation among individual providers

36. The sector's performance in aggregate does not reflect the picture for all individual providers. As we have reported previously, there continues to be a wide variation between providers, and a spread of financial performance. This trend is forecast to continue, as the sector deals with post-coronavirus operations.

37. The financial circumstances of providers are unique, and they must manage their own financial risks. We continue to monitor the financial position of individual providers, and consider that the virtually all providers are managing their financial risks effectively at this time. We engage more closely with a provider where we consider there to be increased financial risks, and we are

monitoring more closely how a small number of providers are addressing the challenges to their financial viability and sustainability.

38. Our judgement remains that the likelihood of multiple providers exiting the sector in a disorderly way because of financial failure is low at this time.

Future risks and uncertainties

39. Providers appear to have managed their finances well through the pandemic period so far. However, there remain financial challenges facing the sector over the forecast period, including the following.

Uncertainty and adapting to change

40. Providers have been operating and managing their financial sustainability through a recent period of considerable uncertainty. Uncertainty itself brings risks for the sector, which relies significantly on enrolment of students, mostly on multiyear courses. The implications of interrupted income streams in one year often last for multiple years.

41. Significant uncertainty remains about the operating environment for higher education providers in 2021, particularly in relation to the financial consequences of restrictions on the movement of students, domestically and internationally.

42. There also remain considerable challenges for the generation of commercial and other income streams that are reliant on freely open campuses and facilities.

43. Higher education providers have, like other organisations, adapted their operating environments to accommodate coronavirus-secure delivery. As we move into 2021-22 and beyond, they will need to consider how best to adapt to the new operating environment during the recovery from the pandemic, which will provide both opportunities and potential threats.

Sustainability of pension schemes

44. The sustainability of pension schemes continues to be a significant concern, not limited to the higher education sector. Both defined benefit and defined contribution pension schemes have required increased contributions from both employers and scheme members to support their sustainability. This trend is widely expected to continue over the forecast period and proposes a potentially significant financial challenge for some higher education providers.

45. For some higher education providers in the UK, the 2020 revaluation of the Universities Superannuation Scheme is in progress. This has re-opened the difficult debate about how to ensure the financial sustainability of this scheme in a way that is affordable for those contributing. There is a risk of longer-term financial sustainability challenges, and potentially short-term operational implications from industrial action.

European activity

46. 2020-21 was the final year that EU students were able to enter English higher education providers on the same fee and financial support terms as UK students. Aggregate EU student numbers are expected to decline significantly over the forecast period, and providers will need to address the price sensitivity of EU students in future.

47. Providers will also need to continue to make appropriate adjustments to its various EU-related activities as the UK's relationship with the EU develops.

International activity

48. A significant proportion of sector income (16.6 per cent in 2019-20) derives from overseas students. Previous studies have shown that this represents a fundamentally important and valuable part of the English higher education system, supporting a wide range of higher education activities and supporting world-class higher education provision. However, it should be noted that the finances of some providers, particularly those with higher reliance on overseas students, are likely to be more sensitive to changes in demand from overseas students.

49. The English higher education sector is also particularly reliant on students from certain domiciles. 2019-20 Higher Education Statistics Agency student record data indicates that Chinese students account for the largest proportion of overseas students, approximately 34.6 per cent of all overseas (non-EU) students. 14.1 per cent of overseas students are from India, where the impact of coronavirus continues to be very significant. Coronavirus could continue to present challenges to inward mobility of students from overseas.

50. Higher education providers operate in a global market and are therefore also subject to changing competition from other countries.

Economic recovery and public spending

51. As world economies begin to recover from the coronavirus disruption, a number of economic factors may present both challenges and opportunities to the sector. For example, the employment market may influence the demand for higher education from students. The availability of public and private funding for higher education may also be impacted. In addition, the performance of financial markets will inevitably have implications for borrowing and pensions.

Annex A: Financial analysis data and charts

Notes on the data

1. The report draws on financial data, including forecast data, submitted by 226 higher education providers, including providers that do not currently receive OfS funding, that were registered with the OfS as at 24 May 2021. Throughout the report we refer to ‘higher education providers’, ‘providers’, ‘universities and colleges’, and ‘the sector’ as shorthand for this group.

2. This report does not include analysis of further education colleges registered with the OfS. These providers are required to demonstrate compliance with the OfS’s regulatory requirements, including the condition of registration relating to financial viability and sustainability. Their financial data is monitored primarily by the Education and Skills Funding Agency.

3. The data is presented as an aggregate view of providers’ financial records and forecasts, for the sector overall and for four broad ‘tariff peer groups’.

4. Three of these peer groups (‘non-specialist: high average tariff’, ‘non-specialist: medium average tariff’ and ‘non-specialist: low average tariff’) are based on the tariff entry points of providers’ undergraduate student population. The ‘specialist: all’ group includes providers offering specialist provision (a high proportion of students concentrated in a small number of subject areas), regardless of tariff entry points. A fifth group (‘non-specialist: unclassified’) consists of 21 providers with no tariff classification. This group includes a diverse range of providers with different financial structures, and its aggregate data can be skewed by a few individual providers. The data for this group is included in the data on sector totals, but is excluded from the peer group analysis because their small number distorts comparison.

5. The report covers a seven-year period and includes data for the financial years 2018-19 to 2024-25. For the majority of providers (153), the financial year reflects the period from 1 August to 31 July.

6. Data for 2018-19 and 2019-20 reflects most providers last two years’ audited financial statements, except for a small number of providers (16) with financial years ending in the last three months of the calendar year. In these cases forecast data for 2019-20, submitted to the OfS during 2020, has been used in place of audited data. Also, because of a change in the deadlines for the finance data submissions in response to the pandemic, data for the full forecast period is not yet available for all providers, particularly for 2024-25. As a result, the data presented in absolute terms in Tables 1 and 5 only includes the period 2018-19 to 2023-24 (where data has been submitted) as this is the most complete value for the aggregate sector. Likewise, other trends in the report showing relative changes in data until 2024-25 include only those providers that have submitted data to the OfS for this period.

Income

7. The aggregate data shows that the sector is expecting to report similar levels, of income of £35 billion across all three years (2018-19 to 2020-21). Thereafter, income is expected to grow to £41 billion by 2023-24. Table 1 shows the breakdown of income by source for the period from 2018-19 to 2023-24.

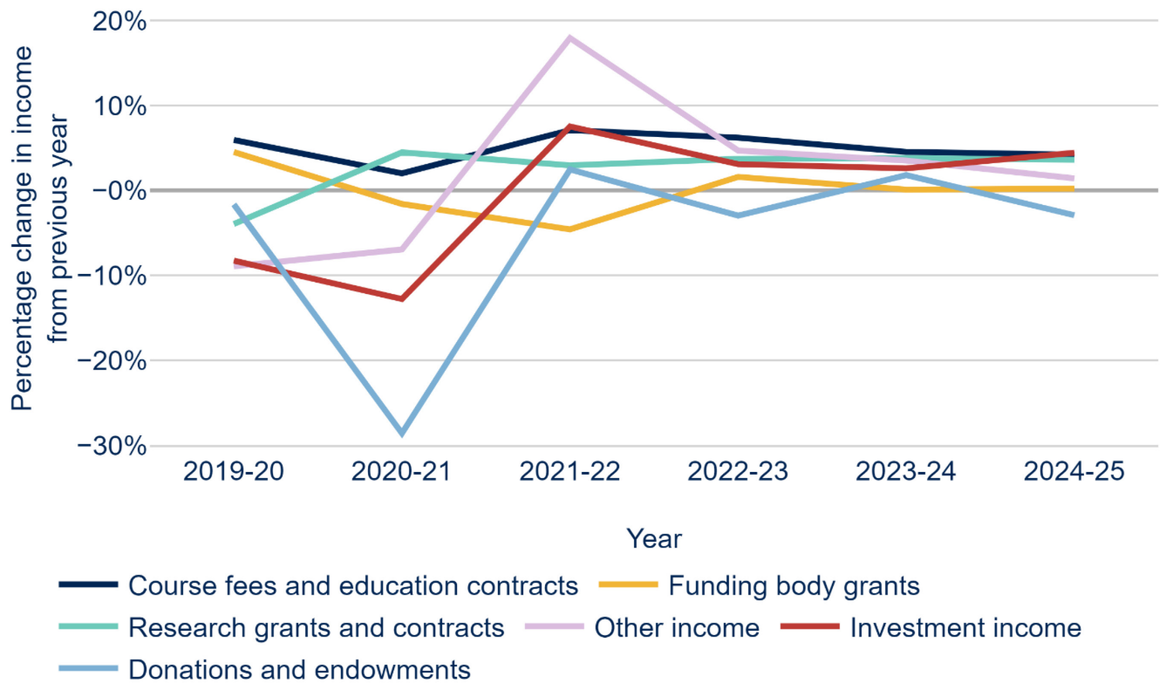
Table 1: Total income by source (£ million)

Source	2018-19	2019-20	2020-21 (forecast)	2021-22 (forecast)	2022-23 (forecast)	2023-24 (forecast)
Course fees and education contracts	17,794	18,877	19,273	20,641	21,926	22,925
Funding body grants	3,724	3,893	3,831	3,656	3,714	3,717
Research grants and contracts	5,377	5,164	5,395	5,554	5,759	5,978
Other income	6,776	6,170	5,741	6,770	7,086	7,334
Donations and endowments	653	641	458	469	455	463
Investment income	342	314	274	295	304	313
Total	34,666	35,060	34,973	37,383	39,245	40,730

8. In 2020-21, the sector is expecting increased income from course fees, educational contracts, and research grants and contracts, which largely offset falls in other income streams. From 2021-22, other income, from income-generating activities such as catering and conferences, is projected to rise as coronavirus restrictions ease.

9. Figure 1 shows the expected change in income by source over the period from 2018-19 to 2024-25.

Figure 1: Year-on-year change in income by source, 2019-20 to 2024-25

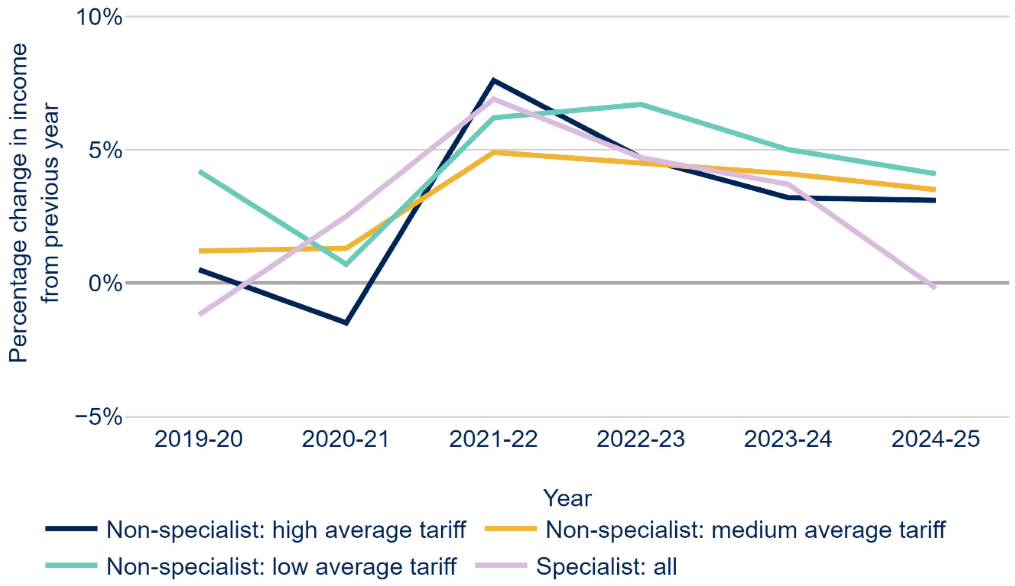


10. When looking at projected income levels by peer group, the data shows that all peer groups, with the exception of the high-tariff group, expect income to rise in 2020-21. All groups expect

income to rise in 2021-22, with the greatest rises expected in the high-tariff and specialist groups.

11. Figure 2 shows the annual change in income by tariff group from 2019-20 to 2024-25.

Figure 2: Annual change in income by tariff group, 2018-19 to 2024-25

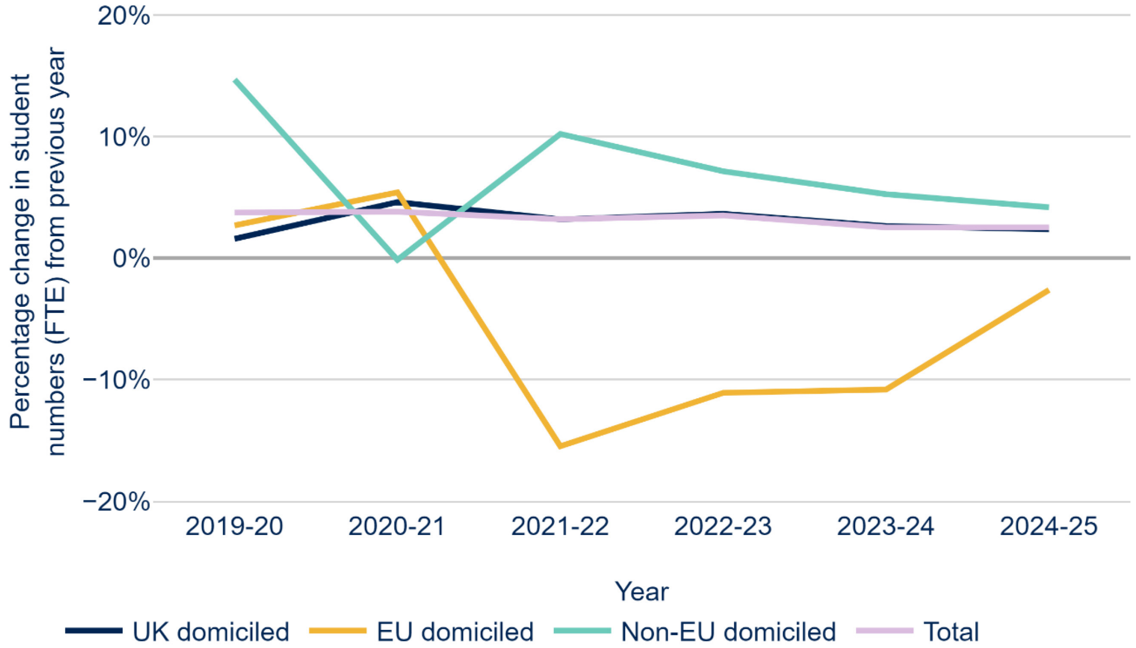


Student recruitment

12. This part of the report looks at providers' estimates for student numbers and associated fee growth to 2024-25.

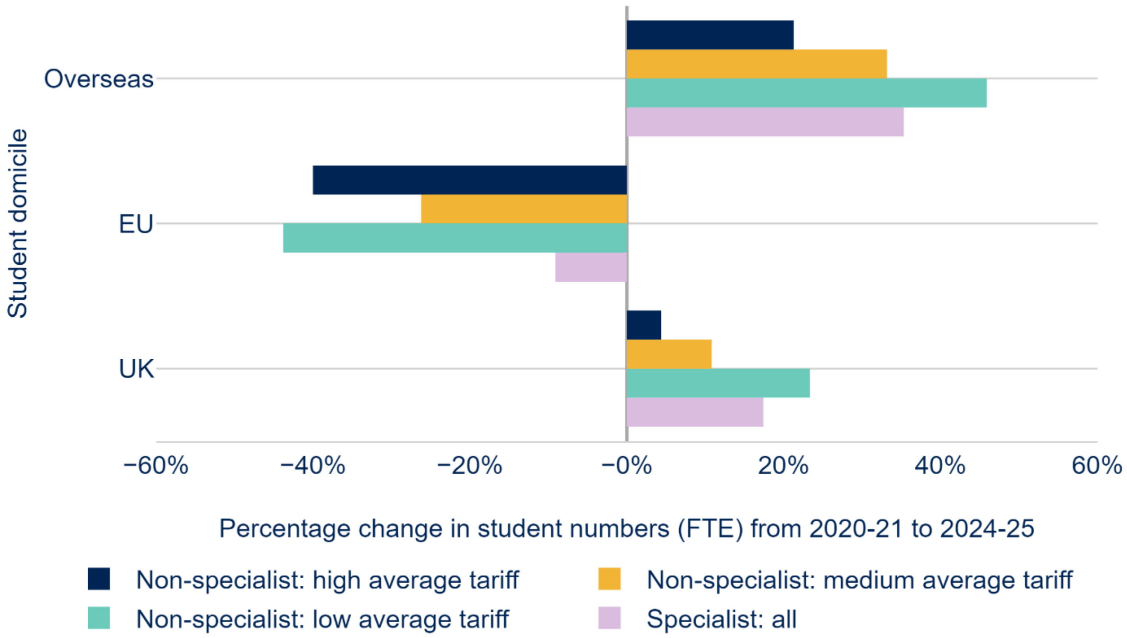
13. Figure 3 highlights the forecast annual change in FTEs by domicile.

Figure 3: Annual change in student numbers by domicile



14. At an aggregate position (for providers that have submitted seven years of data), the sector is forecasting an increase of more than 222,000 FTEs (12.3 per cent) over the same period, although the extent of the increase varies by tariff group, as shown in Figure 4.

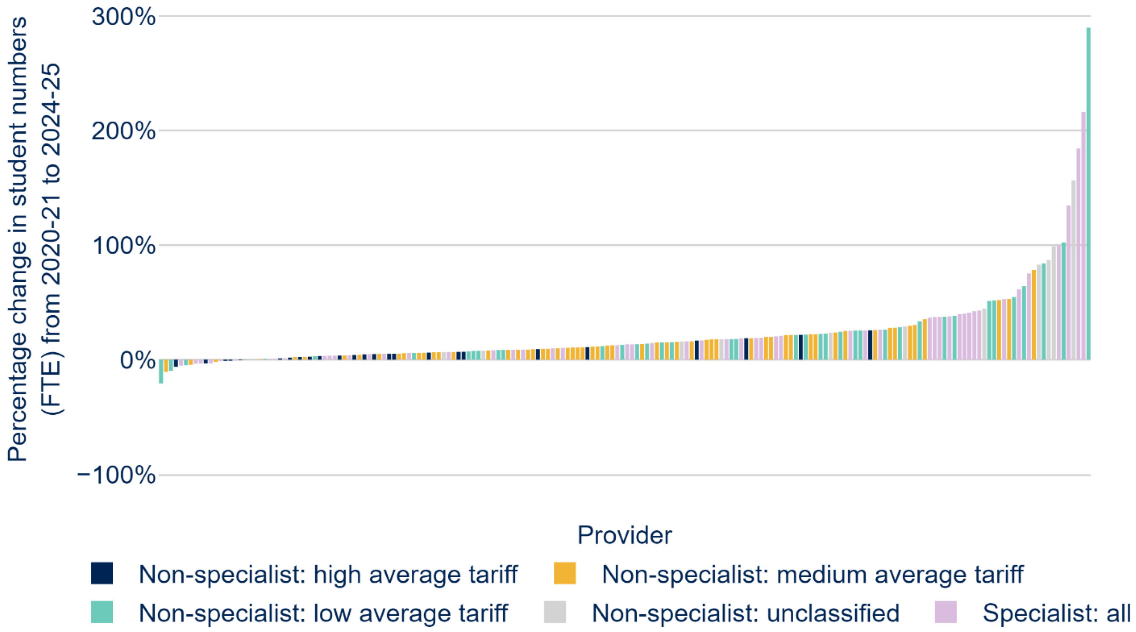
Figure 4: Change in student numbers by tariff group, 2020-21 to 2024-25



15. Of those providers analysed (with seven years of data submitted), 148 have forecast an increase in their student numbers of more than 5 per cent between 2020-21 and 2024-25.

16. Figure 5 highlights the change in total student numbers over the forecast period, by provider.

Figure 5: Change in student numbers by provider, 2020-21 to 2024-25



Note: Excludes four outliers.

17. Providers forecast that the aggregate number of EU students will decline by 40,000 FTEs (-34.8 per cent) over the forecast period. 2020-21 was the final year that EU students were able to enter English providers with the same fee and student financing regime as UK students. Providers have prudently assumed that any increase in fees will deter EU students from studying in England.

18. Overseas students are forecast to increase by almost 91,000 FTEs (29.5 per cent) between 2020-21 to 2024-25.

Applications and demand

19. Latest UCAS application data (29 January 2021 deadline[3]) indicates that total undergraduate applicants to English providers have increased by 8.5 per cent from the same point last year. Table 2 highlights this split by domicile. Both home and non-EU applications have increased, but EU applications have decreased by nearly 40 per cent. It is important to note that for EU and overseas applicants this is only a proportion of their applications.

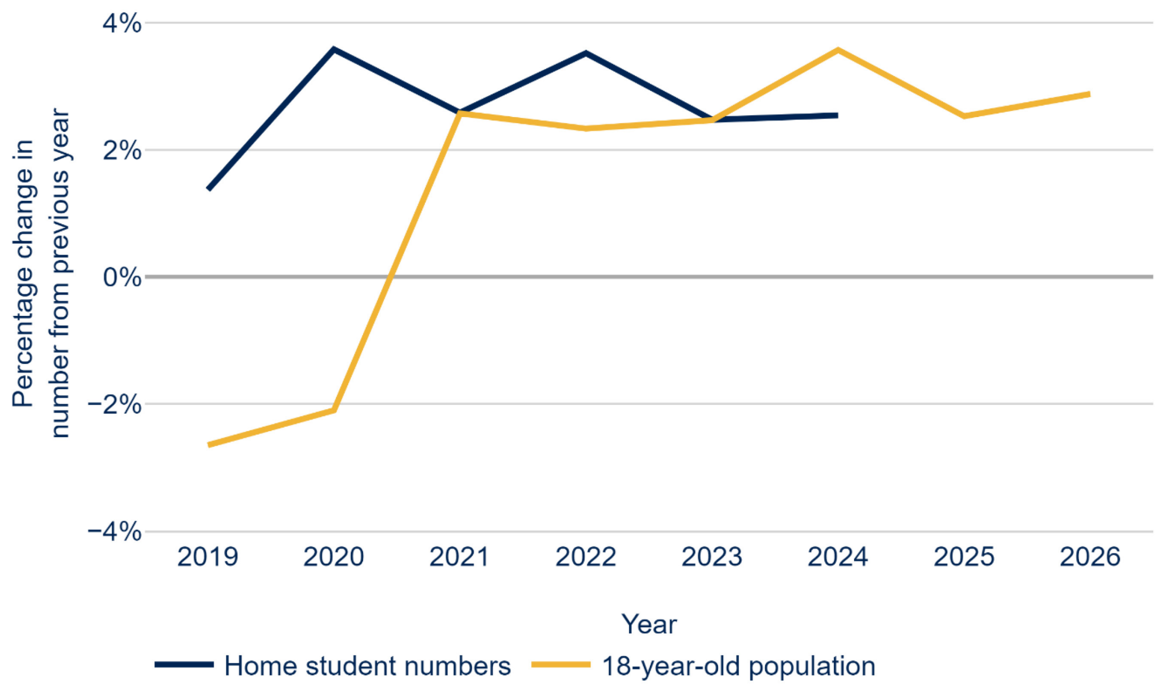
[3] In previous years this was the 15 January deadline.

Table 2: UCAS applicants to English providers, January 2021 and January 2020 deadlines

Domicile	January 2021 deadline applicants	January 2020 deadline applicants	Change	Percentage change
Home	444,860	399,970	44,890	11.22%
EU	23,180	37,200	-14,020	-37.69%
Non-EU	83,910	71,740	12,170	16.96%
Total	551,950	508,910	43,040	8.46%

20. A trend of growth in the 18-year-old population in the UK may provide opportunities for providers to expand their student populations in line with their forecasts. Analysis suggests that, over the period 2020-21 to 2024-25, providers have forecast an increase of 124,000 FTEs, 11.6 per cent, in UK full-time undergraduate students. This is mirrored by an increase of 11.4 per cent in the estimated UK 18-year-old population over the same period. Figure 6 highlights the forecast change in the 18-year-old population between 2019 and 2026, alongside the aggregate forecast of UK full-time undergraduates for all providers.

Figure 6: Annual change in full-time UK undergraduate student numbers compared with the estimated change in the UK 18-year-old population

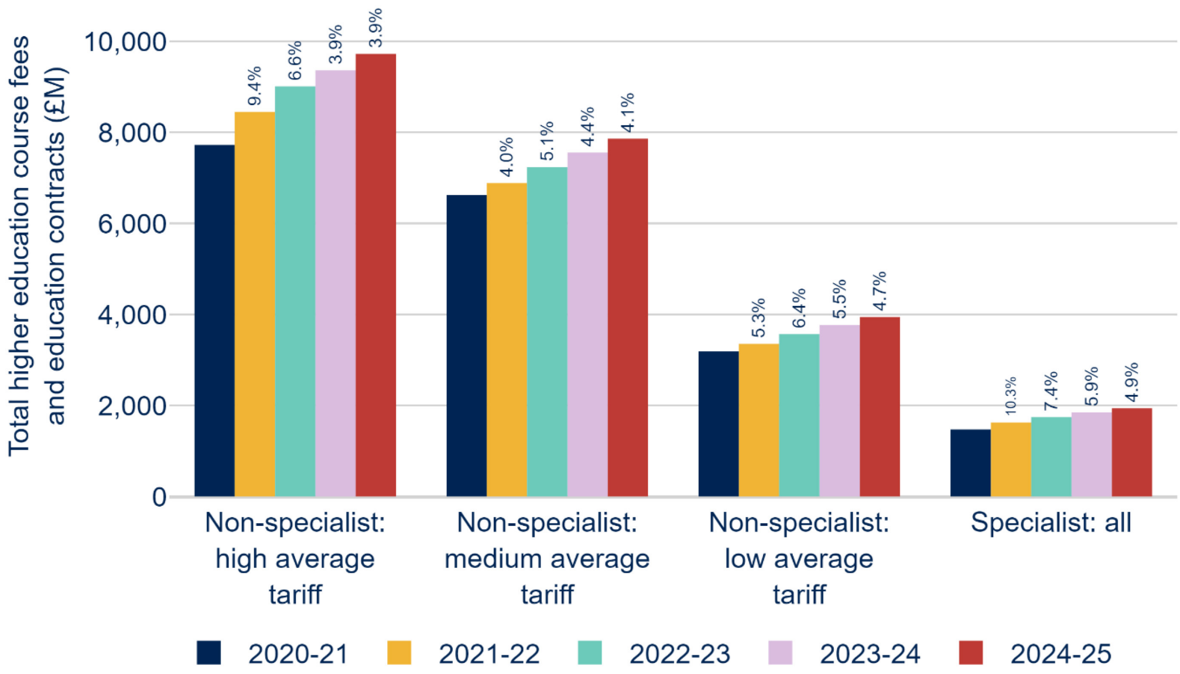


Tuition fees

21. In 2019-20, total higher education course fees and education contracts were reported at £18.7 billion, an increase of 5.9 per cent compared with 2018-19 (£17.7 billion). Following positive student recruitment in 2020, providers have forecast that this will increase marginally by 2.0 per

cent in 2020-21 to £19.1 billion. At a tariff group level, all are forecasting an increase in fees to 2020-21 despite the impacts of the global pandemic. This is displayed in Figure 7.

Figure 7: Total higher education course fees and education contracts by tariff group



22. Total tuition fee income is forecast to increase by 23.4 per cent between the years 2020-21 and 2024-25. Table 3 displays this increase by domicile.

Table 3: Change in tuition fee income by domicile

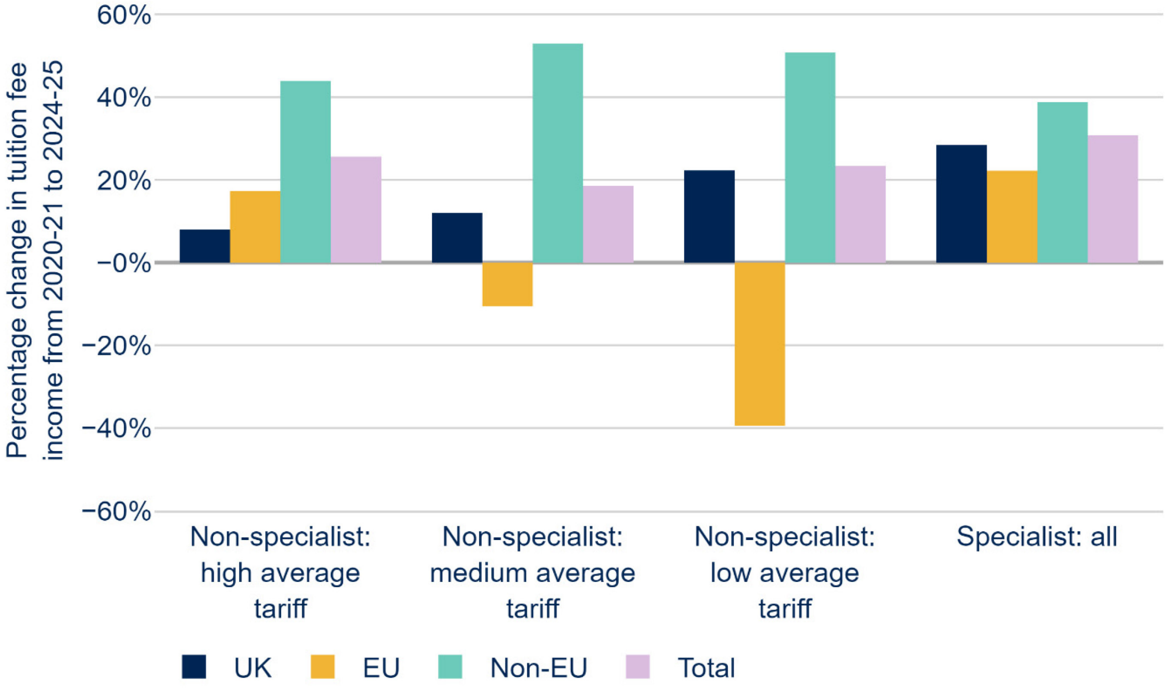
Change in tuition fee income by domicile	Forecast change, 2020-21 to 2024-25 (£000s)	% Change
Total	£4,261,139	23.4%
UK	£1,645,707	14.4%
EU	-£12,744	-1.1%
Non-EU	£2,628,176	46.6%

23. All tariff groups are forecasting an increase in home and non-EU tuition fee income over the period.

24. Fee income from EU students is expected to decline by a small margin (-1.1 per cent) between 2020-21 and 2024-25, which, relative to the forecast decline in EU student numbers (-34.8 per cent), indicates an anticipated higher fee per student. However, at a tariff group level there is a mixed picture. Medium average tariff and low average groups forecast a decline in EU fee income over the forecast period. All other groups expect EU fee income to increase, indicating a higher level of confidence that EU students will be willing to pay higher fees for their courses.

25. Figure 8 shows this forecast change by tariff group.

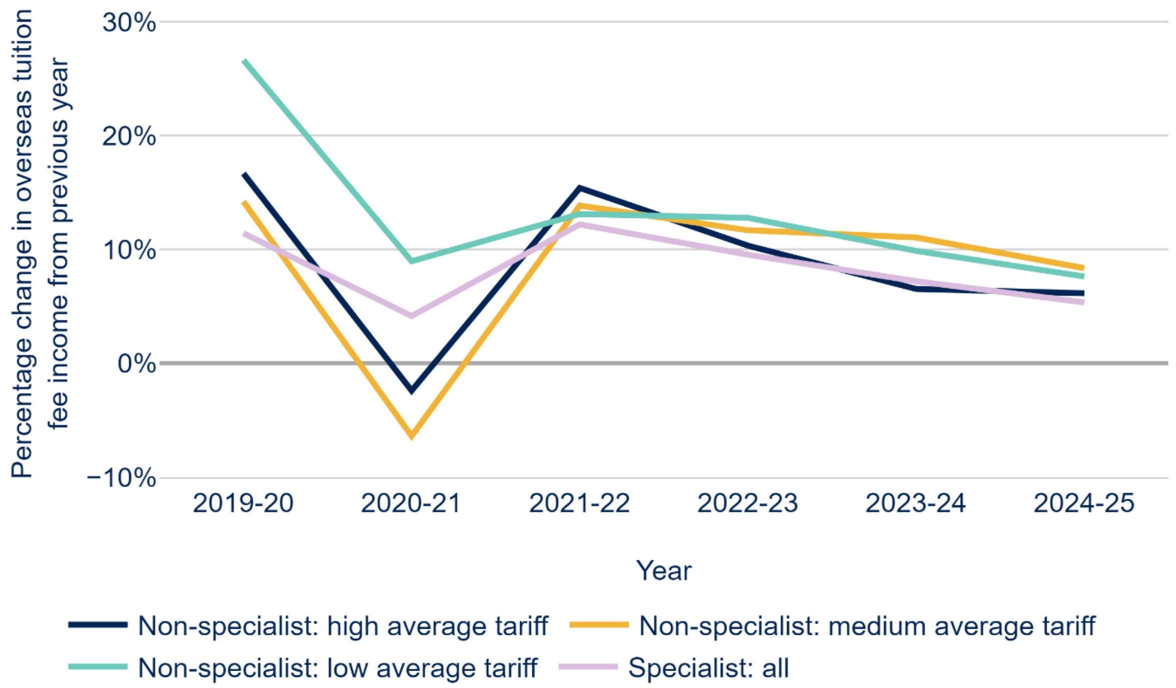
Figure 8: Change in tuition fees by domicile and tariff group



26. Total non-EU overseas tuition fee income was reported at £5.9 billion in 2019-20, an increase of 16.4 per cent compared with 2018-19 (£5.1 billion). (Note that this recruitment was primarily pre-coronavirus.)

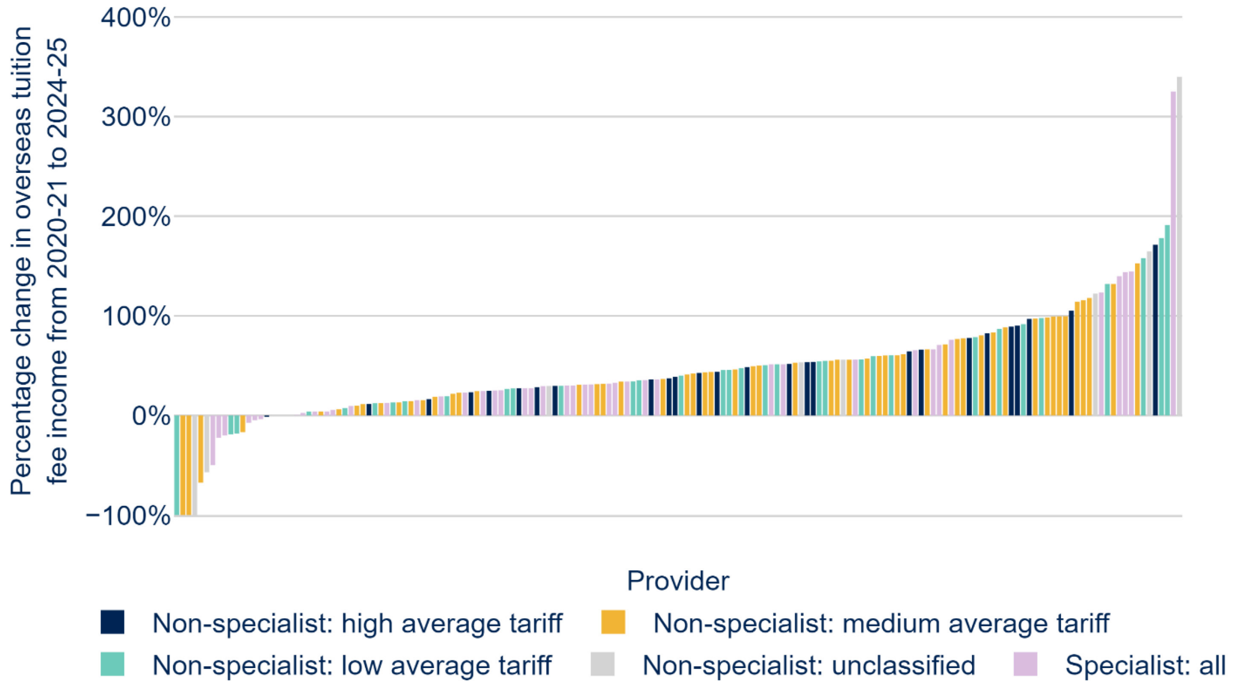
27. At an aggregate level, providers anticipate that this will decrease by 3.8 per cent in 2020-21 to £5.7 billion. Providers' forecasts indicate confidence that the overseas market will recover following coronavirus; the aggregate position anticipates an increase of 46.6 per cent over the forecast period. Figure 9 highlights this annual change in overseas fee income by tariff group.

Figure 9: Annual change in overseas fee income by tariff group, 2018-19 to 2024-25



28. The aggregate trends in income from overseas fees do not apply to all providers, and there are a wide range of expectations. Figure 10 shows the variation in expected overseas fee income at each provider.

Figure 10: Change in non-EU overseas fee income by provider, 2020-21 to 2024-25



Note: Excludes seven outliers.

29. Four providers report declines of 100 per cent in their overseas fee income. In material terms, however, this only represents a decline of £0.267 million in fees across the four-year period.

30. The English higher education sector is particularly reliant on students from particular domiciles for its overseas students and associated fee income. China makes up the largest proportion, with approximately 34.6 per cent of all overseas (non-EU) students from China. Coronavirus will continue to present challenges to the inward mobility of students from overseas. 14.1 per cent of overseas students are from India, where the impact of coronavirus continues to be very significant.

31. Table 4 highlights the top 10 source countries of overseas (non-EU) students in 2019-20 (at all levels of study). Students from China make up a number similar to the total of the next eight top countries.

Table 4: Top 10 source countries of overseas (non-EU) students

Country	2017-18	2018-19	2019-20	Proportion of total overseas students 2019-20
China	90,475	101,825	119,380	34.6%
India	17,700	24,145	48,455	14.1%
United States	13,890	14,675	14,895	4.3%
Hong Kong	15,005	14,760	14,790	4.3%
Malaysia	12,810	11,780	11,205	3.2%
Nigeria	9,060	9,100	10,620	3.1%
Saudi Arabia	6,375	6,480	6,635	1.9%
Pakistan	5,075	5,470	6,610	1.9%
Thailand	5,630	5,600	5,970	1.7%
Singapore	6,270	5,955	5,955	1.7%

Source: Higher Education Statistics Agency student record

Expenditure

32. At an aggregate level, total expenditure fell from £37 billion in 2018-19 to £32 billion in 2019-20. However, much of this fall was due to the inclusion of significant non-cash pension adjustments, which inflated costs in 2018-19 and reduced them in 2019-20. Without these adjustments, expenditure totalled £33 billion in 2018-19 and £34 billion in 2019-20. This is expected to rise to £35 billion in 2020-21. Table 5 shows the breakdown of income by source for the period 2018-19 to 2023-24.

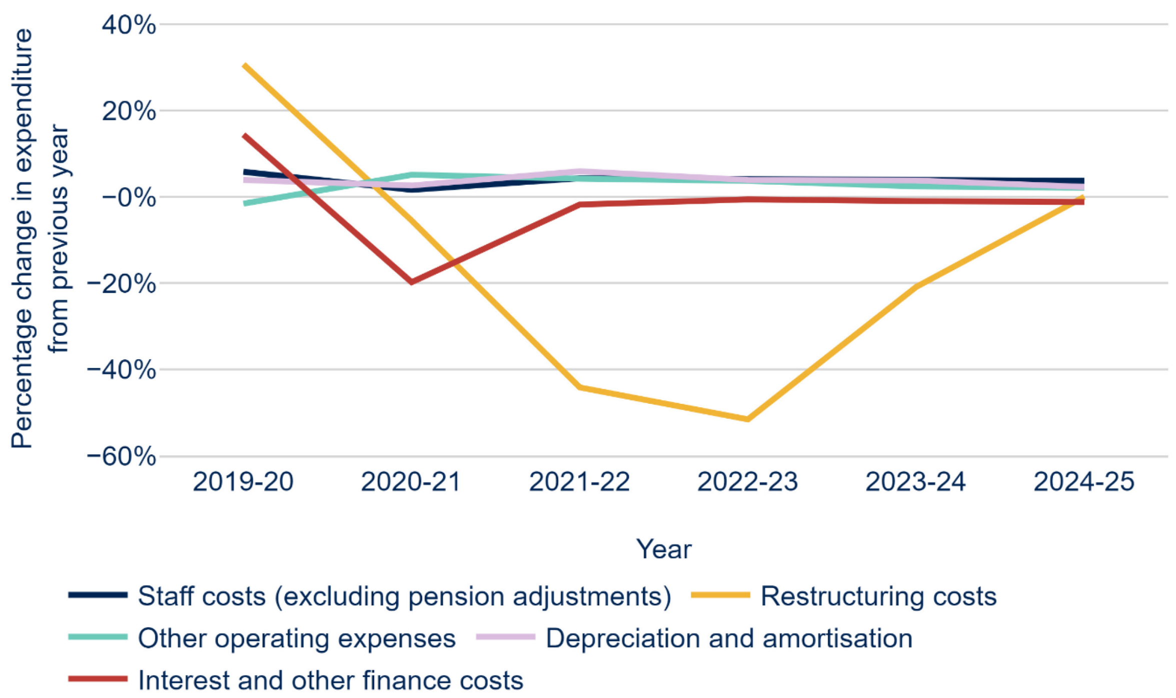
Table 5: Breakdown of total expenditure (£million)

	2018-19	2019-20	2020-21 (forecast)	2021-22 (forecast)	2022-23 (forecast)	2023-24 (forecast)
Staff costs (excluding pension adjustments)	17,769	18,810	19,113	19,929	20,719	21,515
Restructuring costs	108	141	133	74	36	28
Other operating expenses	12,469	12,289	12,924	13,462	14,962	14,301
Depreciation and amortisation	2,246	2,332	2,394	2,534	2,634	2,733
Interest and other finance costs	715	818	656	644	640	633
Total expenditure (excluding pension	**33,306**	**34,390**	**35,219**	**36,643**	**37,990**	**39,211**
Pension adjustments	3,983	- 2,259	480	214	124	120
Total expenditure	**37,288**	**32,131**	**35,699**	**36,857**	**38,114**	**39,331**

33. The sector's largest expenditure is staff costs. The latest forecasts show that the sector expects staff costs (excluding pension adjustments) to increase by 1.3 per cent in 2020-21, much lower than the rise between 2018-19 and 2019-20, which was 5.8 per cent. Thereafter, the sector is expecting staff costs to rise between 3.7 per cent and 4.3 per cent per year.

34. Figure 11 shows the change in expenditure by type over the period 2018-19 to 2024-25.

Figure 11: Year-on-year change in expenditure by type, 2019-20 to 2024-25



Cashflow from operating activities

35. Operating cashflow measures a provider's net cash generated from its operations to meet day-to-day obligations. This is the cash that a provider generates from its core business activities, such as teaching and research, after paying its usual costs, such as salaries and other operational expenses.

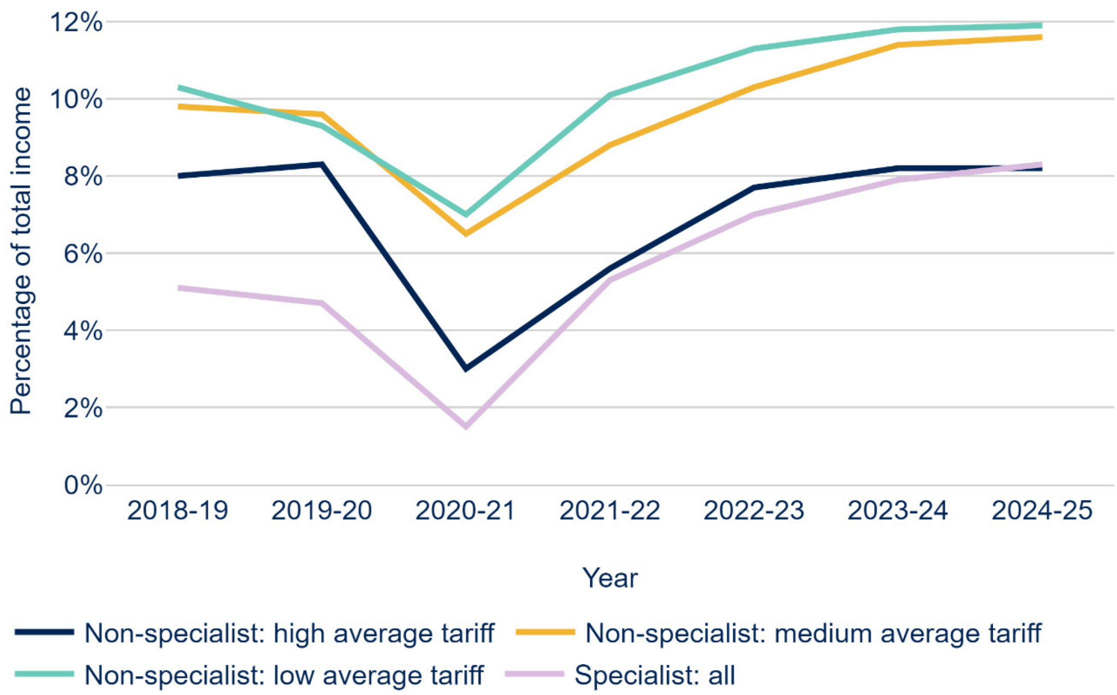
36. Positive operating cashflow allows providers to bolster cash reserves and create funds for capital investment. Medium and low-tariff providers continue to deliver the strongest operating cashflow performance, although this varies considerably between providers and tariff groups. Some of this variation can be seen in Table 6, which shows results for 2019-20 by quartile, average and median value.

Table 6: Cashflow from operating activities as a percentage of total income 2019-20

2019-20	Sector	Non-specialist: high average tariff	Non-specialist: medium average tariff	Non-specialist: low average tariff	Non-specialist: unclassified	Specialist
Total (£M)	2,989	1,547	883	408	16	135
Average (%)	8.4	8.3	9.6	9.3	4.2	4.7
Lower quartile (%)	2.1	5.6	5.6	1.4	-10.9	-1.3
Median (%)	8.0	8.7	9.2	7.7	1.3	6.6
Upper (%)	13.1	10.9	13.0	13.1	14.2	17.0

37. At an aggregate level, operating cashflow was £3 billion in 2019-20 (8.4 per cent of income), a similar level to 2018-19. However, cashflow is forecast to dip in 2020-21 as income is affected by coronavirus, despite strong recruitment and evidence of restraint in operating costs during 2019-20. Operating cashflow is expected to recover from 2021-22 and strengthen thereafter to pre-coronavirus levels. Figure 12 shows the level of operating cashflow (after debt servicing costs) as a percentage of total income by peer group in 2018-19 to 2024-25.

Figure 12: Cashflow from operating activities as a percentage of total income, 2018-19 to 2024-25



Surplus (adjusted)

38. Surplus levels show a provider's ability to generate income above its accounting costs. Generating surpluses over time is important to enable a provider to invest in future sustainability (e.g. infrastructure and academic quality) and protect against financial risk.

39. Accounting treatments can sometimes distort movements in surplus levels between years, making it difficult to use overall surplus as an indicator to assess underlying financial performance.

40. In 2018-19 and 2019-20, the sector reported significant non-cash pension adjustments following the 2017 and 2018 Universities Superannuation Scheme valuations, as well as accounting adjustments relating to other defined benefit pension schemes. While the financial sustainability of pension schemes is an important concern for the sector, the resulting impact of these particular accounting entries on surplus levels does not reflect the underlying financial performance of the sector in those particular years.

41. To aid comparability, excluding these pension scheme accounting adjustments from total expenditure, the sector's surplus levels fell from £1,362 million (3.9 percent of income) in 2018-19 to £682 million (1.9 per cent of income) in 2019-2,0 and are expected to fall to an overall deficit of £233 million, equivalent to -0.7 per cent of income in 2020-21. However, there is considerable variability in the financial performance between providers and tariff groups across the sector.

42. Table 7 shows surpluses (excluding pension provision adjustments) as a percentage of total income for 2019-20 by quartile, average and median value. This shows the level of variation in reported surpluses across all the peer groups.

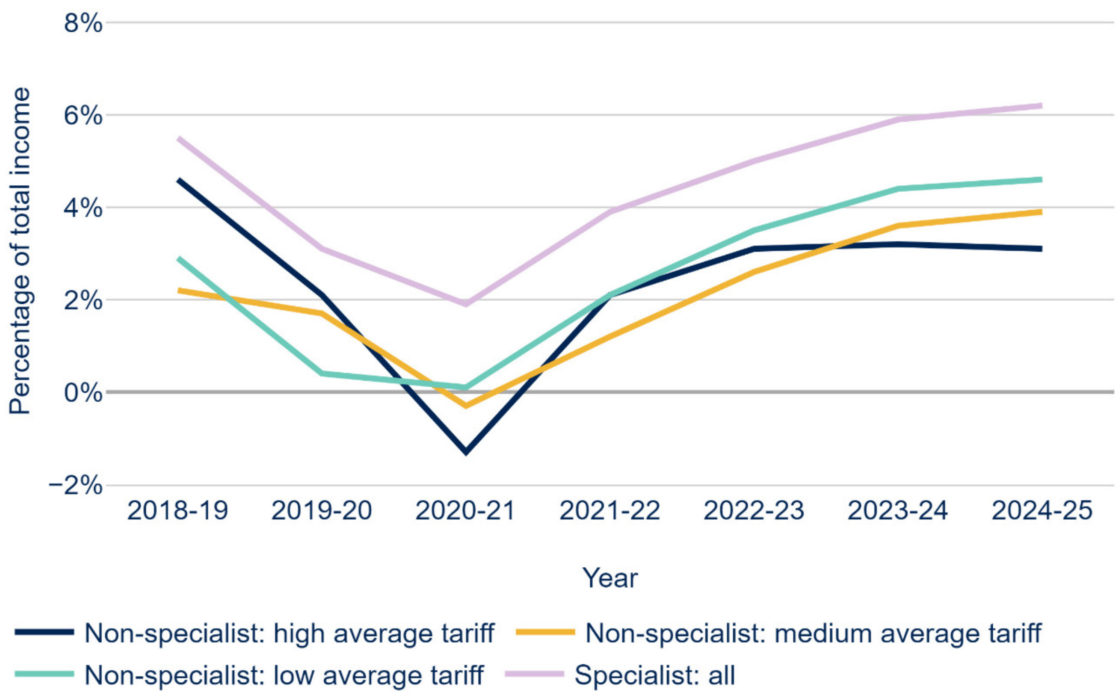
Table 7: Surplus as a percentage of income, 2019-20

2019-20	Sector	Non-specialist: high average tariff	Non-specialist: medium average tariff	Non-specialist: low average tariff	Non-specialist: unclassified	Specialist
Total (£M)	682	401	159	18	16	88
Average (%)	1.9	2.1	1.7	0.4	4.4	3.1
Lower quartile (%)	-0.8	-2.1	-0.3	-1.4	-10.3	-0.4
Median (%)	2.7	2.7	1.8	3.0	2.4	4.0
Upper quartile (%)	7.8	5.1	5.5	9.4	6.8	11.7

43. The deficit in 2020-21 is forecast on the basis that costs are expected to rise at a much greater rate than income. In particular, staff costs (excluding pension provision changes) and other operating expenses are expected to rise by £244 million and £526 million respectively in 2020-21.

44. Figure 13 shows the level of surpluses (excluding pension scheme adjustments) as a percentage of total income by peer group for 2018-19 to 2024-25.

Figure 13: Surplus (excluding pension scheme adjustments) as a percentage of total income by tariff group, 2018-19 to 2024-25



Liquidity

45. Net liquidity is cash and liquid investments, less overdrafts and debt repayments due within a year. Net liquidity days shows the number of days from the financial year end for which a provider is able to pay its day-to-day expenses from the net liquidity that it holds.

46. Table 8 shows liquidity days for 2019-20 by quartile, average and median value across all the peer groups.

Table 8: Liquidity days, 2019-20

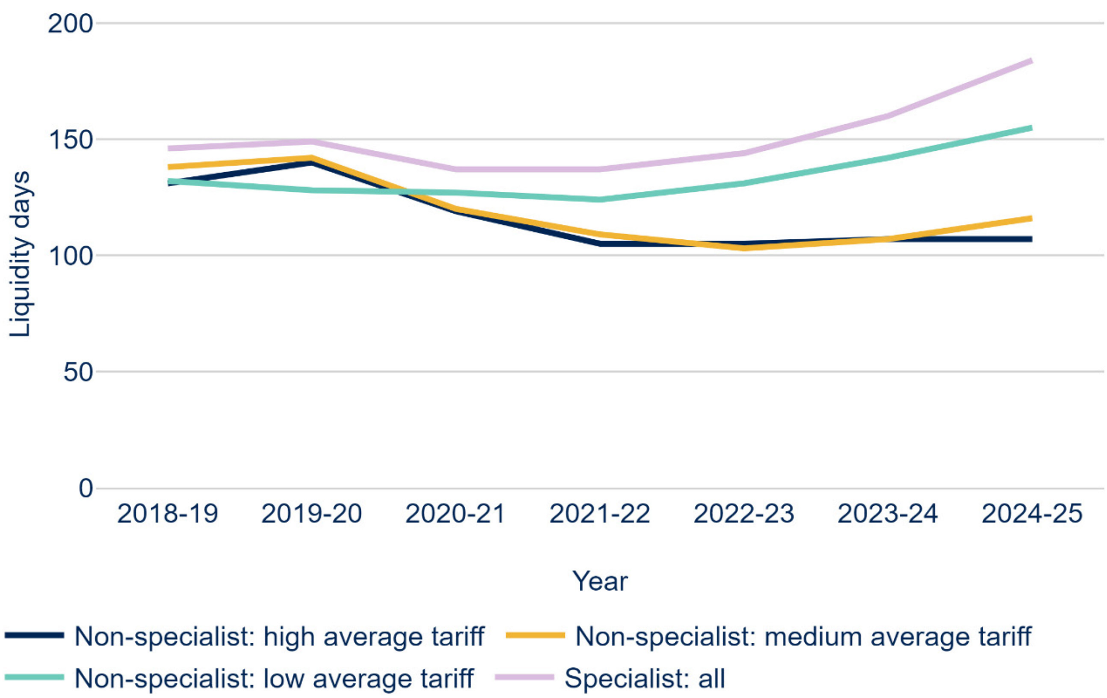
2019-20	Sector	Non-specialist: high average tariff	Non-specialist: medium average tariff	Non-specialist: low average tariff	Non-specialist: unclassified	Specialist
Total (£M)	12,382	6,492	3,267	1,440	92	1,090
Average (days)	139	140	142	128	99	149
Lower quartile (days)	69	75	68	66	50	66
Median (days)	116	99	112	115	125	138
Upper quartile (days)	190	164	160	189	211	226

47. The sector has typically held reasonable levels of cash reserves to secure its sustainability. This trend, in aggregate, remains through these forecasts, and cash holding increased overall at the end of 2019-20 as the sector prudently held increased cash reserves to address financial challenges in 2020-21.

48. Reductions in cash outflows in 2019-20, such as spending on capital projects, and an increased focus on protecting future cashflows to manage future financial risk and uncertainty, have resulted in a stronger cash holdings and a rise in net liquidity from £11.6 billion at the end of 2018-19 (134 days' expenditure) to an expected £12.4 billion (139 days') at the end of 2019-20. However, as expected, the impact on coronavirus will marginally reduce cash levels in the short term, with forecasts showing liquidity declining to 111 days to the period ending 2022-23, before starting to rise in 2023-24 and 2024-25.

49. Figure 14 shows the average number of liquidity days by tariff group for 2018-19 to 2024-25.

Figure 14: Liquidity days by tariff group, 2018-19 to 2024-25



Borrowing and other financial commitments

50. Aggregate sector borrowing includes both short- and long-term financial commitments, including loans from directors and shareholders as well as from other sources, such as banks, bonds etc.

51. At the end of 2019-20, sector borrowing was £13.4 billion (equivalent to 37.6 per cent of income), a rise of £0.7 billion compared with 2018-19. Forecasts show that borrowing will rise again by the end of 2020-21, to reach £13.6 billion (38.5 per cent of income). This is a slower increase in borrowing than in previous years.

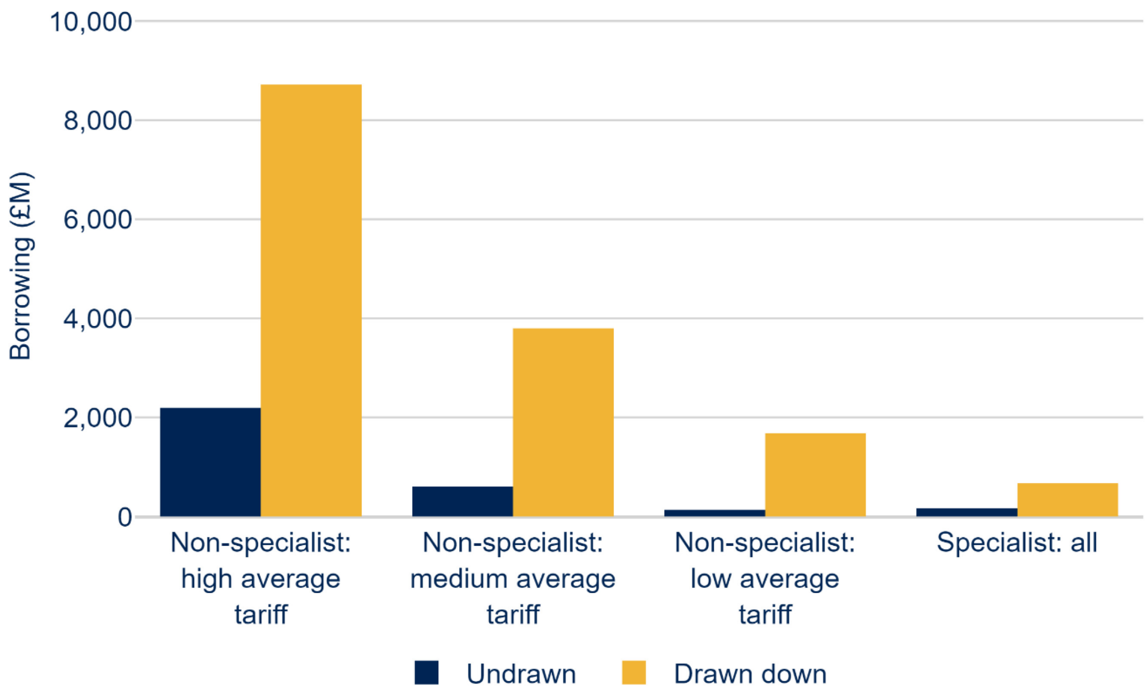
52. Table 9 shows the gearing levels (borrowing and other financial commitments) as percentage of total income at the end of 2019-20 broken down by quartile, average, and median value.

Table 9: Borrowing as a percentage of total income, 2019-20

2019-20	Sector	Non-specialist: high average tariff	Non-specialist: medium average tariff	Non-specialist: low average tariff	Non-specialist: unclassified	Specialist
Total (£M)	13,377	8,021	3,219	1,375	95	667
Average (%)	37.6	43.0	34.9	31.2	25.4	23.2
Lower quartile (%)	0.3	23.1	14.2	0.0	0.0	0.0
Median (%)	20.0	41.9	31.0	10.5	0.1	5.6
Upper quartile (%)	42.0	52.6	47.8	35.3	12.4	31.2

53. Overall, gearing levels (borrowing as a proportion of income) have increased in 2019-20, although this is in the high-tariff and specialist groups. Table 9 includes all borrowing drawn down by providers. However, a number of providers have taken out coronavirus support loans and other borrowing, which remain undrawn at the end of 2019-20. Figure 15 shows both undrawn and drawn-down borrowing by tariff group at the end of 2019-20.

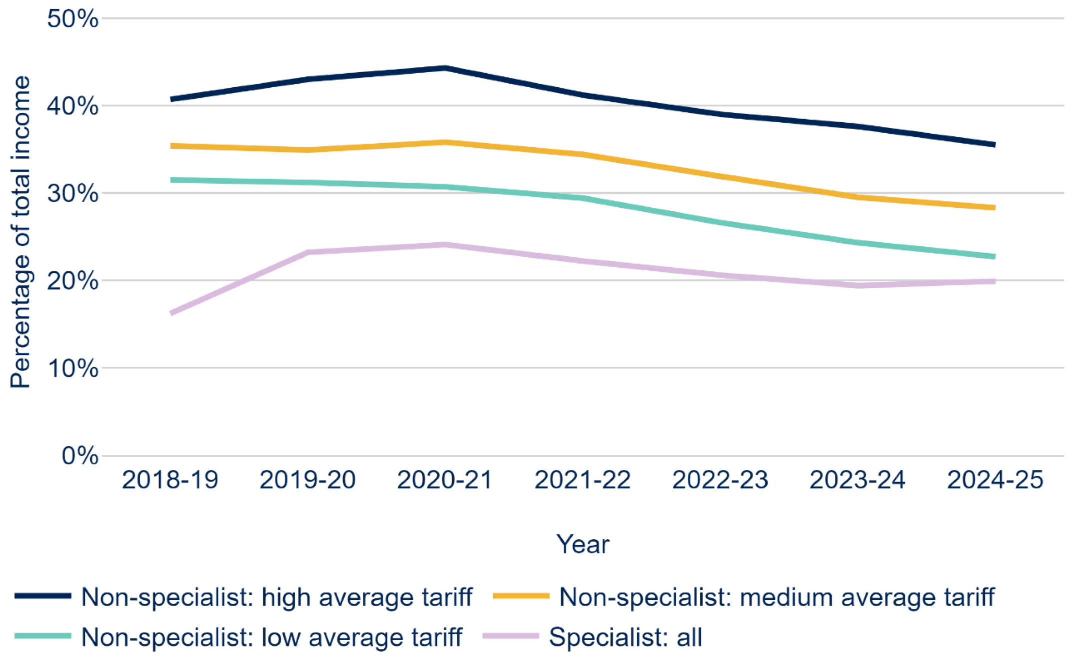
Figure 15: Undrawn and drawn-down borrowing by tariff group, 2019-20



54. Further increase to gearing is expected in 2020-21 across all tariff groups, although overall, total income remains static in this year. Gearing is expected to reduce steadily from 2022-23.

Figure 16 shows borrowing as a percentage of income by tariff group over the period 2018-19 to 2024-25.

Figure 16: Borrowing as a percentage of total income by tariff group, 2018-19 to 2024-25



Capital expenditure

55. Capital expenditure reduced in 2019-20, as many providers paused their intended capital plans to protect cashflow while managing operations through coronavirus.

56. Capital spending is expected to increase in 2020-21 as many providers begin to plan for post-coronavirus investment plans. This is consistent with reports from many lenders.

57. The longer-term expectation is for annual capital investments to begin to reduce steadily from 2021-22, and continue at an overall lower level than we have seen in recent, pre-coronavirus years. However, providers may revisit their capital and estates strategies as they adapt to the post-coronavirus operating environment.

58. Figure 17 shows capital expenditure by tariff group (for providers submitting seven years' worth of data to the OfS as part of their 2021 annual financial return) for the period from 2018-19 to 2024-25. Figure 18 shows capital expenditure as a percentage of total income for the same period. Both show the rise in capital expenditure om 2020-21, followed by a decline in the latter years.

Figure 17: Capital expenditure by tariff group 2018-19 to 2024-25 (£million)

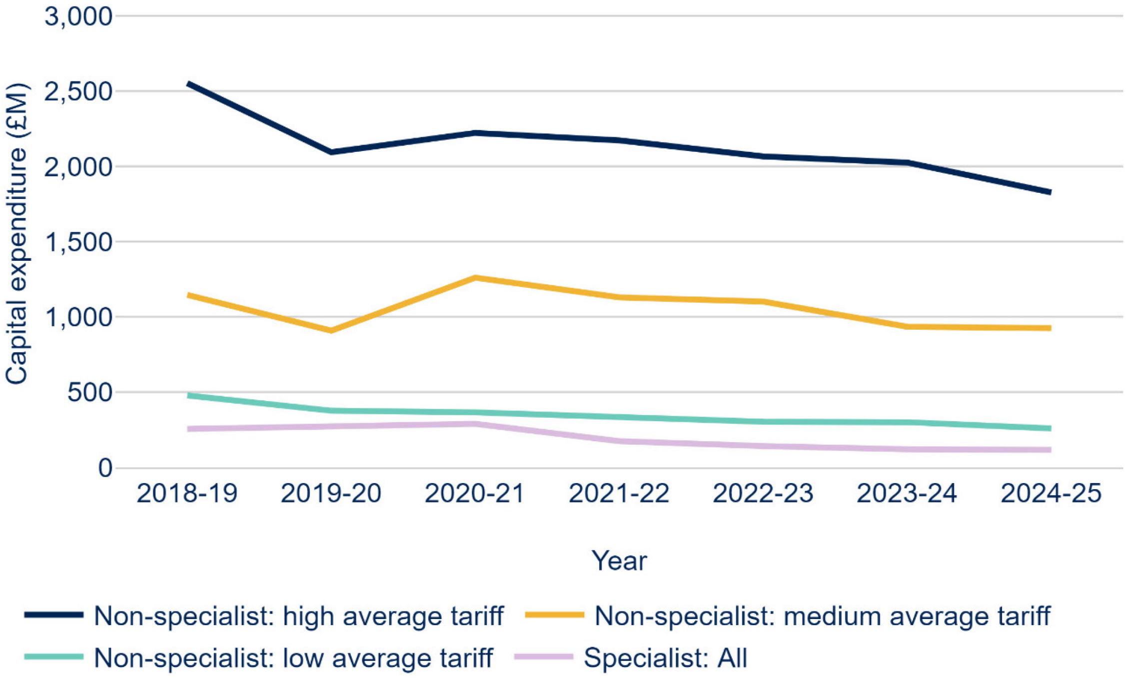
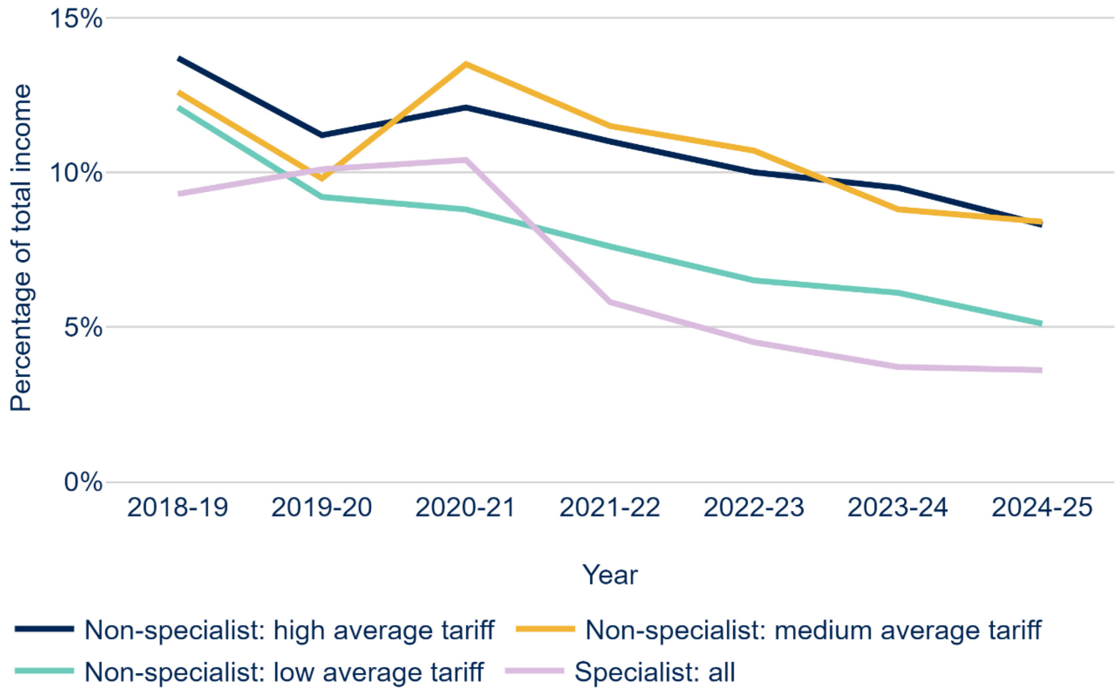


Figure 18: Capital expenditure as a percentage of total income by tariff group, 2018-19 to 2024-25



Sustainability of pension schemes

59. At a sector level, ensuring the financial sustainability of pension schemes into the future continues to be a challenge and an increasing cost burden. Higher education providers employ staff in many pension schemes, and the required contribution rates from employers and scheme members can change. In 2019-20 providers made cash contributions to pension schemes of over £2.7 billion.

60. In addition to annual cash contributions from employers and scheme members, accounting rules for pension schemes mean that for many providers there has been an exceptional, non-cash expense adjustment to reflect the changes in provision for future pension deficit reductions. This adjustment has had the effect of increasing staff costs in 2018-19, by £3,983 million; and then, conversely, reducing staff costs by £2,259 million in 2019-20. This materialises as unusual fluctuation in reported surplus figures in these years for some providers.

61. This has, in recent data, most prominently impacted on the circa 100 higher education providers that contribute to the Universities Superannuation Scheme (USS), which continues to be subject to large movements in the valuation of projected scheme assets and liabilities.

62. Annual cash contributions to the USS by higher education providers increased in 2019-20 to £1,469 million and are expected to further increase (by approximately £200 million) from October 2021 under the stepped increase in contributions agreed as part of the 2018 valuation.

63. The 2020 valuation of the USS, which is not finalised at the time of writing, proposes further and more significant increased contributions. A range of scenarios have been proposed by the trustee, involving various increases to contributions alongside various degrees of other mitigating covenant assurance measures (e.g. debt monitoring arrangements).

64. The sector has made assumptions of a small increase in USS contributions over the forecast period. However, as agreement is yet to be reached on new contributions, forecast increases in future contributions are not on the scale proposed by the USS trustee.

65. In addition to the USS, other prominent schemes in the sector include the Teachers' Pension Scheme, which has recently increased required contributions, and Local Government Pension Schemes, which will be subject to its next triannual revaluation as of 31 March 2022.