Office for Students

Financial sustainability of higher education providers in England

2023 update

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Executive summary

1. The OfS regulates higher education providers in England. To register and stay registered with the OfS, all higher education providers must show that they are financially viable and sustainable. Providers submit financial data annually.

2. This report analyses the financial data returned to the Office for Students (OfS) from universities, colleges and other higher education providers in England (excluding further education colleges). It covers the period from August 2020 to November 2026. The report shows trends in financial performance for the higher education sector and looks at four-year forecasts from 2022 to 2026 for the whole sector and for particular groups of providers. It also discusses the financial risks facing the sector.

3. The aggregate financial position of universities, colleges and other higher education providers registered with the OfS remains sound, although there is significant variation between providers. Detailed analysis showing how different types of provider might be affected is covered later in the report (see paragraphs 55 to 117 below).

4. Providers acted quickly to manage risks to their financial performance from the pandemic and subsequent increases in the cost of living. However, the financial environment and outlook is increasingly challenging.

Engaging with the sector

5. To inform this report and our work assessing the financial position of individual providers, we engage with banks, auditors, government and sector bodies. This year, we also introduced direct engagement with finance directors from a wide cross-section of providers through a series of roundtable meetings. This allowed us to hear first-hand the financial risks that face different parts of the higher education sector and the mitigations available to address these.

6. This report covers a number of the risks identified by providers at those meetings. We have summarised those in Annex A.

A challenging environment

7. The financial environment remains challenging in the medium to long-term.[1] The risks providers face include: impact of inflation, reliance on international student recruitment (particularly from a single country such as China), sustainability of pension schemes and the need for investment in facilities and environmental policies. These risks are covered in more detail later in the report (see paragraphs 30 to 50 below), and we also draw out how different risks can interact for different types of providers.

[1] Where we refer to the short-term we mean 0-2 years, medium-term 3-4 years and long-term 5 years onwards.

8. These risks could have a significant impact on a provider’s financial sustainability and could result in some providers having to make significant changes to their operating model or face a material risk of closure.

Financial outlook

9. Overall we are not currently concerned about the short-term viability of most providers. Our analysis suggests that the likelihood of a large number of providers having to close as a result of financial failure remains low at this time and in the short and medium-term. Indeed, the majority of providers performed better over the last year than anticipated in last year’s forecasts.

10. However, we consider that there is an increasing financial sustainability risk for some providers in the longer-term, particularly if multiple risks materialise at the same time. We are continuing to monitor the sector and individual providers closely given the various challenges in the operating environment.

11. To protect their longer-term sustainability, providers must continue to adapt to specific challenges and other uncertainties. Financial challenges could affect individual providers differentially and each will have its own range of mitigating actions available. We expect providers to be alive to the risks to their financial position and know how they would address these risks if they were to materialise in isolation or in combination.

12. We have seen providers that faced challenging circumstances successfully address these issues and restore their financial position, for example by rationalising their teaching portfolio. This has been most successful where there has been strong leadership and governance, active planning and rapid action. We would encourage providers to consider the range of options available to them early, so they are prepared to act quickly as and when risks do begin to materialise.

13. If a provider identifies a material risk to its financial viability or sustainability, it is required to report this to the OfS. It should do so where it faces a likely drop in liquidity to below 30 days’ average expenditure or a likely breach of any financial covenant attached to a loan.

14. It is important that all universities and colleges understand the financial risks they face and the OfS’s approach to monitoring financial sustainability and intervening where appropriate. We have recently hosted a series of roundtable events with the sector’s finance directors to explore our collective understanding of financial risk and will continue to engage with universities and colleges to share perspectives on these important issues.

Introduction

15. The OfS regulates higher education providers in England. To register and stay registered with the OfS, all higher education providers must show that they are financially viable and sustainable.

16. Registered higher education providers are required to submit financial data annually, including financial and student forecasts. Where appropriate we require some providers to submit financial information more regularly. This report summarises our analysis of financial data, including forecast data, submitted by 254 higher education providers in their Annual Financial Return.[2] Throughout the report we refer to 'higher education providers', 'providers', 'universities and colleges', and 'the sector' as shorthand for this group.

17. We present analysis for seven 'finance typology' peer groups, to describe the trends apparent in groups of providers with similar financial characteristics. For further information and important notes on the data, see Annex B.

18. This report also considers the key risks facing the sector. Since our last report in June 2022[3] the economic landscape has changed. This analysis provides information on how higher education providers have continued to manage their finances through the pandemic and subsequent economic pressures. It draws on data from the completion of annual accounts for 2021-22 and the autumn registration of students for 2022-23. It also analyses trends in providers' financial and student number forecasts to 2025-26.

19. The OfS has also hosted a series of roundtable meetings with finance directors from a wide cross-section of provider types to discuss the risks facing the sector and the mitigations available to manage them. This report covers a number of the risks providers identified at those meetings. We have summarised our findings from the roundtables in Annex A.

[2] Further education colleges (FECs) are not required to complete the OfS's Annual Financial Return. They report financial information directly to the Education and Skills Funding Agency.

[3] See www.officeforstudents.org.uk/publications/financial-sustainability-of-higher-education-providers-in-england-2022-update/.

How the OfS assesses financial sustainability

20. One of our 11 strategic goals is that providers are financially viable and sustainable and have effective governance arrangements. The OfS monitors and assesses the financial viability and sustainability of registered providers. Our assessments are informed by the data that providers submit to us, their individual circumstances, their exposure to risk, their capacity to respond to financial challenges, and other available information. In line with our risk-based approach, we undertake a more detailed assessment where a provider's exposure to financial risk appears to be increased.

21. As well as reviewing each provider's financial position, we use the financial data we receive to model how certain risks could affect providers' sustainability. We use the information collected through the Annual Financial Return, information in reportable events submitted by providers, information submitted by third parties through our notifications process, and other intelligence to support our analysis. Where we identify that a provider is experiencing financial difficulties, we work with it to understand and assess the extent of the issues.

22. For the large majority of universities and colleges that are currently performing well, the regulatory burden in this area remains appropriate for the low likelihood of financial failure. Where our assessment identifies concerns about an individual provider, we are likely to increase our engagement and monitoring activity. We have published a fuller explanation[4] of our approach to monitoring financial viability and sustainability of registered providers, together with case studies[5] that show the approach we have taken for particular providers.

[4] See www.officeforstudents.org.uk/advice-and-guidance/regulation/how-we-regulate-financial-sustainability-within-higher-education/monitoring-financial-performance/.

[5] See http://www.officeforstudents.org.uk/publications/financial-sustainability-and-market-exit-cases/.

Financial health of the sector

23. Our 2022 report covering the financial year 2020-21 noted that, during the pandemic, many providers protected their financial sustainability by strengthening their cash reserves (liquidity). This trend continued into 2022, despite early indications of further cost pressures. Strong cash reserve levels help providers manage increased financial risk and support the investments necessary for sustainable businesses. Looking forward, the aggregate trend is for liquidity to reduce by 2027, while remaining at reasonable levels for most providers.

24. Despite the challenges of the pandemic, the aggregated data indicates that the higher education sector is currently in good financial shape. However, there continue to be quite significant differences between individual providers, both across the sector and within peer groups. Our analysis highlights some of that variation. The range of financial risks we have identified will apply to each provider differently and the net impact of these risks on each provider will depend on the particular mix of mitigating actions available to each. We expect providers to come under greater financial pressure in the coming year, in part due to inflation.

25. The overall financial performance of the sector, measured by income and expenditure and by net operating cash flows, was good in the year ending in 2022, and significantly better than previously forecast. In the short-term, providers are anticipating significant decline in financial performance as inflationary pressures mount. They also expect cash flows to remain lower than historical levels for much of the next five years. However, most providers expect their financial performance to improve in the medium and longer-term.

26. The trend in recent years shows an increase in the number of providers in deficit (excluding the accounting impact of pension provision adjustments). A deficit in a single year is not necessarily an indicator of significant concern, although a continued pattern without an underlying reason may indicate weak underlying financial performance.

27. Borrowing remains an important part of the financial model for many providers, although the forecast trend is for a reduction in overall borrowing levels and new borrowing.

28. Providers continue to expect high levels of growth in student numbers towards 2025-26, from both the UK (16 per cent) and from overseas (35 per cent). Some providers are forecasting very significant increases and there is a real risk that some of this growth will not be achieved.

29. For many providers, the sustainability of current delivery models for higher education activity is significantly underpinned by income from overseas students’ fees. This is underscored by providers’ expectations of further growth in overseas student numbers at a time when there is a forecast decline in overall financial performance. Overreliance on overseas fees, particularly where recruitment is heavily weighted to a single country, remains a vulnerability for some providers (see the section on financial risk relating to international student recruitment).

Key risks facing the financial sustainability of the sector

30. The English higher education sector is facing a number of financial risks and challenges. If they materialise or challenges continue at current levels, this could have a material impact on the financial sustainability of individual providers, particularly where a provider faces multiple challenges simultaneously.

Impact of inflation

31. Providers have, like many other organisations in the economy, faced significant increases in inflation. Inflation will continue to have an impact on providers' income, particularly as the value of undergraduate tuition fees is fixed for UK students studying at providers registered in the OfS's Approved (fee cap) category. This means providers in this category with a high level of reliance on undergraduate fees are more exposed to inflation, although providers do potentially have scope to increase other income streams.

32. There are high levels of inflationary pressure across all costs, including staff, utilities and equipment costs. With tightening financial margins there is an increasing challenge in maintaining sufficient and sustainable levels of investment for the maintenance and development of higher education buildings, infrastructure and facilities, though these costs will differ significantly depending on a provider's business model and asset base.

Cost of living

33. Many students and staff working across the sector are also facing challenges associated with rising costs of living. Recruiting, supporting and retaining students and staff can be more challenging in this environment.

34. Increasing living costs affect students and staff and may affect the ability of providers to recruit both. Students may choose not to study or may face financial hardship when they do, and the job market is increasingly competitive for some providers to attract staff. This increases the costs of recruiting students and staff and means providers need to make important investments in support activities to retain them.

Sustainability of pension schemes

35. In the recent past, there has been increased pressure to support the ongoing sustainability of pension schemes in the sector.

36. Protecting the sustainability of pensions schemes for a provider's previous and current workforce requires higher contributions from many employers and employees and future contributions are unpredictable. Further fluctuations in scheme valuations could increase this cost pressure further.

Investment in facilities and environmental policies

37. High quality facilities are necessary to support high quality higher education provision. Across the sector there is also commitment to significant investment in environmental sustainability to meet net zero goals. The cost of maintaining and investing in facilities has materially increased. Investing in and maintaining high quality buildings and facilities to meet the needs of students and environmental targets may be challenging for some providers. The cost of construction materials, labour and the price of equipment has increased and in many cases work planned was postponed during the pandemic meaning some providers face a backlog in estates costs. Failure to continue investing in facilities (the capital cycle) is not sustainable in the longer-term.

38. Borrowing remains important for capital developments across the sector. Many providers have enjoyed access to a range of borrowing options on reasonable terms. However, economic constraints and weaker financial performance could limit the availability of affordable borrowing options, affecting the feasibility of some providers' development plans.

Reliance on international student recruitment

39. The OfS recognises the important role that international students play in the English higher education sector, including the significant role that fees from these students has in the financial model for many providers. Overreliance on overseas fees remains a vulnerability for some providers. In our analysis last year, we noted the sector, and some providers in particular, continue to rely on recruitment of students from China. We reiterate that concern here. Any event that reduces the flow of such students to English providers could have a significant impact.

40. Indeed, our recent series of roundtable events with finance directors confirmed that overreliance on international student recruitment is a material risk for many types of providers where a sudden decline or interruption to international fees could trigger sustainability concerns. We also note that a number of providers are forecasting significant growth in overseas student numbers. We expect providers that rely on overseas fees and growth in overseas students to have contingency plans that protect financial sustainability and the interests of the wider student population in the event that there is an interruption to the flow of overseas students. Such interruptions could result from, for example, a changing geopolitical environment, which could cause an immediate and significant impact on income. We have written to providers that are particularly exposed to these risks to ask them to share their plans with us.

Providers' exposure to risks in combination

41. The characteristics and circumstances of individual providers differ, sometimes significantly. This means the particular risk exposure of each provider varies, between and within peer groups. Nevertheless, we see some broad themes for providers in different peer groups in the risks they face. It is possible providers could be exposed to a number of risks at once.

42. Many large research-intensive providers recruit significant numbers of overseas students, particularly from China, and often on one-year postgraduate taught masters courses. They have large staff and pension costs. This means that they could be exposed to a recruitment shock and changes in pension contributions. They often have large estates that can be costly

to maintain and develop and may face significant investment needs, including in their efforts to move towards net zero carbon emissions. However, these providers also often have healthy cash reserves, considerable asset bases, capacity to borrow if needed and a strong competitive position. This means they would be in a good position to weather multiple risks, including a reduction in recruitment from a particular source.

43. Teaching-intensive providers can be particularly reliant on tuition fees from students. In recent years, many have successfully increased their recruitment of overseas students, particularly from India and Nigeria, onto postgraduate and undergraduate courses. These providers also face significant staff and pensions costs. In the event of a reduction in the total numbers of students coming to the UK from China, it may be that research-intensive providers are able to attract UK and international students away from teaching-intensive providers.

44. Specialist providers can be exposed to risks that are related to their specialisms. In many cases they are smaller organisations, potentially less resilient and often receive specialist grant funding that is not guaranteed. They also have a narrower focus, meaning they may have less option to diversify or refocus their provision to more financially sustainable activity should they need to. Particularly in the case of providers delivering creative and performing arts, they may have particular requirements for estates, equipment and facilities that are costly to run and maintain and less efficient to use. They may also be exposed to increases in pensions costs.

45. Smaller and new providers entering the market can face challenges in forecasting their student numbers. It can be difficult to assess the market and predict growth and small changes in student numbers can have a significant impact on recruitment in percentage terms. Some of these providers predict, and achieve, rapid growth and large surpluses. Others can face unanticipated financial challenges. This creates risk because new providers are less likely to have accumulated financial resilience, or have as many assets they could sell or borrow against to support their finances in the face of financial challenges. However, some are able to reduce their costs quickly, for example through the use of leased buildings and more flexible staffing arrangements.

46. Providers that focus on Level 4 and 5 provision are typically smaller with a high proportion of income from tuition fees and funding body grants, and a small proportion from other income sources. However, there are some exceptions. Overseas fees represent a small proportion of their income. They also forecast an increase in student numbers and some providers in this category have significant growth aspirations. Typically, they hold reasonable levels of liquidity and have lower borrowing. They do not generally contribute to the large sector pension schemes (USS, TPS or LGPS) but do contribute to other schemes.

Longer-term view – income, costs and mitigations

47. Inflation has had an impact on providers' income and costs. The real-term value of the fixed fee level for UK undergraduate students has decreased. Meanwhile staff costs and the costs of maintenance, goods and services has increased. If this continues over a longer-term period, it will continue to put pressure on the financial performance of providers. At the current trajectory, we would expect the sustainability of some providers to come under threat over the longer-term if further action is not taken. The mitigations providers may need to adopt could have an impact on their approach to, and the variety of, higher education provision in England.

48. In recent years, the sector has implemented various actions to manage tightening finances, including implementing cost efficiencies, recruiting more students overall and increasing the proportion of international students they recruit. We have also seen effective examples of course consolidation and activity rationalisation at some providers.

49. The ability of each provider to employ actions that mitigate the risks it faces is particular to its circumstances and some providers will be able to do this more successfully than others. In response to these pressures, we may see providers pursue the following strategies:

    a. **Increase recruitment of overseas students** – providers that have not previously recruited internationally may be tempted to do so, but there are significant barriers to entry and the market is already highly competitive. Any contraction of the overseas market will increase these barriers.

    b. **Further activity rationalisation –** including:

        - close courses which are less financially sustainable
        - shift the balance of recruitment from UK students to overseas students
        - rationalise research activity where funding may not cover the full cost of research.

    c. **Consolidation of the sector –** pursuing strategic mergers and/or collaborations or sharing resources and centralising costs.

    d. **Changes to course delivery models** – including standardisation in academic subjects, more online and distance learning.

    e. **Increases in specialisation** – we may see a concentration of more providers with academic specialisms or niches, with the aim of reducing competition risks.

    f. **Diversifying commercial income streams –** from activity that is not teaching or research. This may not be easily achieved.

    g. **Rightsizing –** reducing the size and complexity of estates. Pursuing further efficiency and flexibility in how buildings and facilities are used, liquidating surplus buildings, and reducing annual maintenance costs. This can take a significant amount of time, may not be possible for many providers and may require further short-term investment.

50. Some of these strategies could have an impact on student choice and the student experience, and on the size, shape and capacity of the sector more widely in relation to both teaching and research. We will continue to consider these factors as part of our work on financial sustainability.

Analysis of the latest financial data from providers

51. We have analysed the data submitted by 254 registered higher education providers in England as part of the Annual Financial Return. Table A1 provides a summary of key financial information for all higher education providers (excluding FECs).

Table A1: Summary of aggregate financial data

Sector	2020-21 (Actual)	2021-22 (Actual)	2022-23 (Forecast)	2023-24 (Forecast)	2024-25 (Forecast)	2025-26 (Forecast)
Total income	£37,181M	£40,848M	£42,947M	£45,461M	£47,855M	£50,107M
Surplus/(Deficit)[6]	£1,705M	£2,367M	£637M	£877M	£1,428M	£1,794M
Surplus/(Deficit) as a % of total income	4.6%	5.8%	1.5%	1.9%	3.0%	3.6%
Cash flow from operating activities	£4,941M	£4,768M	£2,869M	£3,386M	£4,177M	£4,598M
Cash flow from operating activities as a % of total income	13.3%	11.7%	6.7%	7.4%	8.7%	9.2%
Net liquidity	£15,016M	£16,563M	£14,552M	£13,674M	£13,609M	£13,807M
Net liquidity days	166	168	134	120	114	111
External borrowing	£14,081M	£13,617M	£13,687M	£13,644M	£13,612M	£13,459M
External borrowing as a % of total income	37.9%	33.3%	31.9%	30.0%	28.4%	26.9%

52. At an aggregate level, the data for 2021-22 shows an improvement in surplus and liquidity levels, alongside a fall in operating cash flow compared with 2020-21. Overall, the financial out-turn for the majority of providers was stronger than anticipated in forecasts collected last year but there remains a wide spread of financial performance across the sector. A minority of providers report a weaker financial performance in 2021-22 than anticipated in their previous forecasts.

53. The sector is forecasting a decline in financial operating performance and strength in 2022-23, with costs increasing at a faster rate than income. From 2023-24, cash flow from operating activities and surplus levels is expected to gradually recover but not to the level reported in 2020-21 and 2021-22.

54. We have reported previously that many providers reduced cash outflows and increased their focus on protecting future cash flows to strengthen aggregate liquidity in response to the financial challenges brought about by the pandemic. From 2022-23, aggregate liquidity is

[6] Surplus 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.

expected to decline, indicating that providers are releasing some of their cash holdings to finance increasing costs and to resume capital investments paused during the pandemic.

Financial performance

Overall income

55. In aggregate, providers reported an increase in income of 9.9 per cent in 2021-22 compared with 2020-21, although growth in income is expected to be lower in the forecast period, 2022-23 to 2025-26.

56. Table A2 shows the annual percentage change in income in the period 2021-22 to 2025-26 across all peer groups and the sector. The annual average growth rate in income between 2021-22 and 2025-26 is expected to be 5.7 per cent but this varies considerably between peer groups. There is also considerable variation within each of the peer groups.

Table A2: Peer group analysis of changes in income, 2021-22 to 2025-26

Peer group	Total income (year-on-year change)				
	2021-22	2022-23	2023-24	2024-25	2025-26
Larger Teaching intensive	6.3%	4.9%	5.7%	4.3%	5.0%
Larger Research intensive	11.2%	4.0%	4.8%	4.3%	4.1%
Medium	7.2%	5.5%	5.7%	5.8%	4.6%
Smaller	11.4%	10.1%	10.3%	8.8%	7.2%
Specialist: creative	12.6%	9.0%	8.2%	7.0%	5.2%
Specialist	8.4%	0.9%	6.3%	5.7%	5.1%
Level 4/5	26.6%	17.7%	14.1%	11.9%	7.8%
Sector	**9.9%**	**5.1%**	**5.9%**	**5.3%**	**4.7%**

57. Table A3 gives a breakdown of the sources of income across the sector in the period 2020-21 to 2025-26.

Table A3: Sources of income, 2020-21 to 2025-26

Income source	Income £M					
	2020-21 (Actual)	2021-22 (Actual)	2022-23 (Forecast)	2023-24 (Forecast)	2024-25 (Forecast)	2025-26 (Forecast)
Course fees and education contracts	20,682	22,501	24,139	25,974	27,690	29,280
Funding body grants	4,105	4,042	4,049	4,044	4,042	4,032
Research grants and contracts	5,377	5,748	5,966	6,254	6,583	6,916
Other income	5,941	7,438	7,648	8,060	8,397	8,719

Income source	Income £M					
	2020-21 (Actual)	2021-22 (Actual)	2022-23 (Forecast)	2023-24 (Forecast)	2024-25 (Forecast)	2025-26 (Forecast)
Investment income	288	291	383	400	382	376
Donations and endowments	789	829	761	727	761	785
Total income	**37,181**	**40,848**	**42,947**	**45,461**	**47,855**	**50,107**

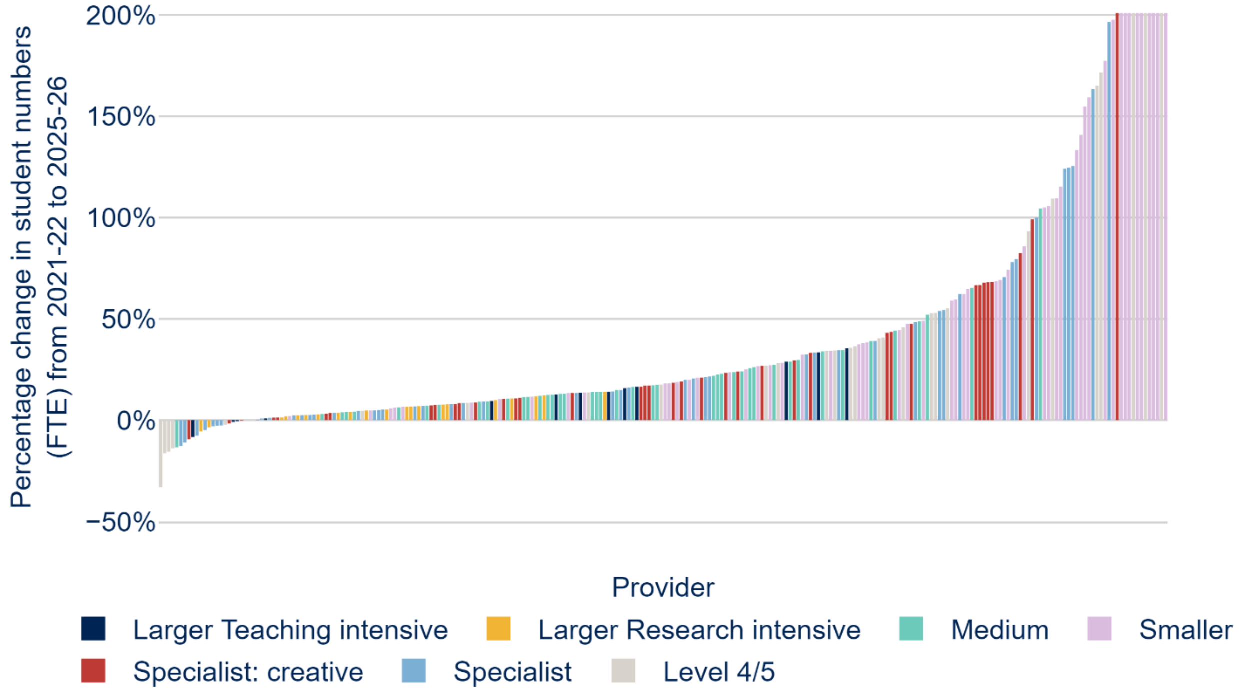
Student numbers

58. Providers have forecast total student numbers, across all levels of study, to increase by 17.5 per cent in the period between 2021-22 and 2025-26. There continues to be significant variation in the trajectory of student number forecasts made by individual providers. However, at an individual provider level 21 providers (8.2 per cent) predict a downturn in student numbers during this period.

59. At an aggregate level, providers have forecast UK and non-EU student numbers to grow by 16.0 per cent (238,000 FTEs) and 35.3 per cent (142,000 FTEs) respectively between 2021-22 and 2025-26. EU student numbers are projected to fall by 37.8 per cent (34,000 FTEs) over the same period.

60. Figure A1 displays the percentage change in total student numbers between 2021-22 and 2025-26, by provider and highlighted by peer group.

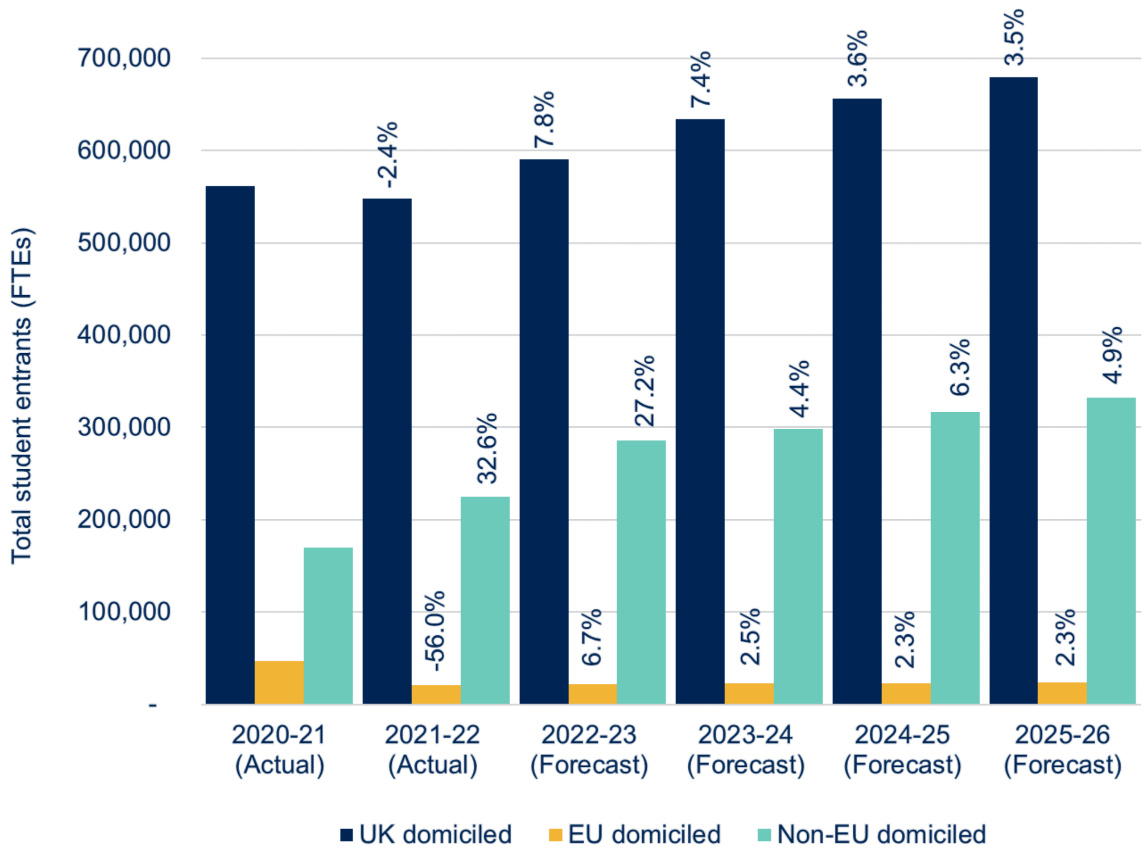
Figure A1: Forecast change in total student numbers (FTE) by provider, 2021-22 to 2025-26



Note: Some providers have predicted growth in excess of 200 per cent. However significant relative per cent movements may represent small numbers of students.

61. Figure A2 shows the annual change in actual and forecast entrants (FTEs) by student domicile across all levels of study.

Figure A2: Student numbers and annual growth for all entrants (FTE) by domicile (UK, EU, and Non-EU), 2020-21 to 2025-26



62. Providers have forecast total EU-domiciled student entrants (FTEs) to increase by 14.5 per cent from 2021-22 to 2025-2026. This is despite the impact of the UK's exit from the EU, meaning EU students are no longer eligible for home fee status and cannot access student loans in the UK. However, there is considerable variation at a provider level with 69 providers (27.1 per cent) forecasting a decline over the period.

63. When split by peer group Larger Teaching intensive is the only peer group forecasting a decline in EU entrants between 2021-22 to 2025-26. All others are forecasting a small increase in total EU entrants.

64. At an aggregate level providers have forecast total postgraduate student numbers (FTEs) to increase by 28.4 per cent (130,000 FTEs) between 2021-22 and 2025-26. More than 60 per cent of this growth is from non-EU students, an increase of 35.7 per cent or 80,000 FTEs. UK postgraduate student numbers are forecast to increase by 24.9 per cent (53,000 FTEs) while EU postgraduate student numbers are projected to decrease by 10.6 per cent (2,000 FTEs) over the period.

Applications and demand

65. UCAS application data (January 2023) indicates that the total number of undergraduate applicants to English providers has decreased by nearly two per cent from the same point in January 2022. Table A4 highlights this split by student domicile.

Table A4: UCAS applicants to English providers, January 2023 and January 2022 deadlines

Domicile	January 2023 deadline applicants	January 2022 deadline applicants	Change	Percentage change
Home	432,930	446,760	-13,830	-3.1%
EU	18,130	18,550	-420	-2.3%
Non-EU	93,060	89,260	3,800	4.3%
Total	544,120	554,570	-10,450	-1.9%

Data source: UCAS

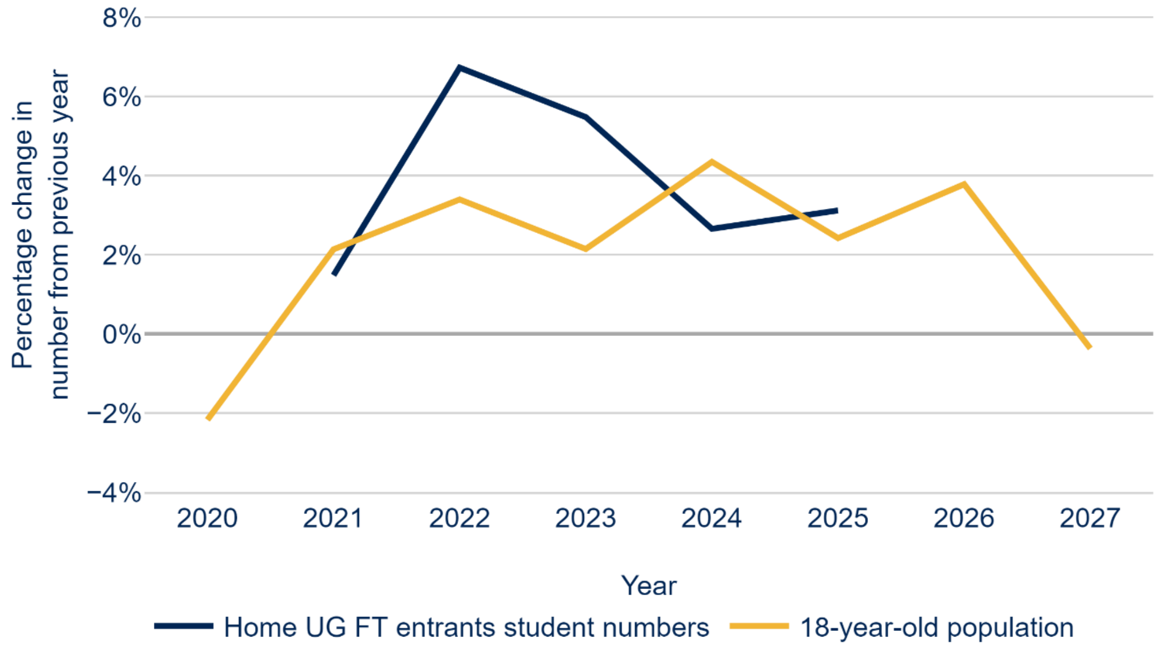
66. The number of home and EU UCAS applicants has decreased by 3.1 per cent and 2.3 per cent respectively. Non-EU applicants have increased by 4.3 per cent. It is important to note that many EU and non-EU applicants apply outside of UCAS so this data only reflects a portion of applications.

67. Despite the reduction in the number of home UCAS applicants between January 2022 and January 2023, the sector has forecast an increase of 6.9 per cent in the number of UK undergraduate entrants for 2023-24 compared with the previous year.

68. The Office for National Statistics (ONS) projects a cumulative increase of 12.9 per cent in the UK 18-year-old population between 2021-22 and 2025-26. The sector has forecast an increase of 19.2 per cent or 76,000 UK full-time undergraduate entrants (FTEs) across the same period.

69. Some providers have forecast large increases. Considering sector-level expectations as a whole suggests that not all providers will be able to meet their targets. Providers that are unable to meet their recruitment forecasts will need to ensure that sustainability is not dependent on ambitious growth.

Figure A3: Annual change in full-time UK undergraduate student entrants compared with the estimated change in the UK 18-year-old population, 2020 to 2027



Note: Student numbers 2022 to 2025 are based on provider forecasts and the 18-year-old population data is based on ONS estimates.

Tuition fees

70. Providers have forecast that total income from course fees and educational contracts will increase by 30.1 per cent between 2021-22 and 2025-26. This is a greater increase than the forecast rise in student numbers over the same period (17.5 per cent), suggesting providers have forecast that they will charge higher fees. Providers have generally assumed that there is no change in the tuition fee limit for UK undergraduate students, although both EU and non-EU fees are forecast to increase.

71. Table A5 shows the expected change in tuition fee income by student domicile over the period 2020-21 to 2025-26.

Table A5: Forecast change in tuition fee income by domicile, 2021-22 to 2025-26

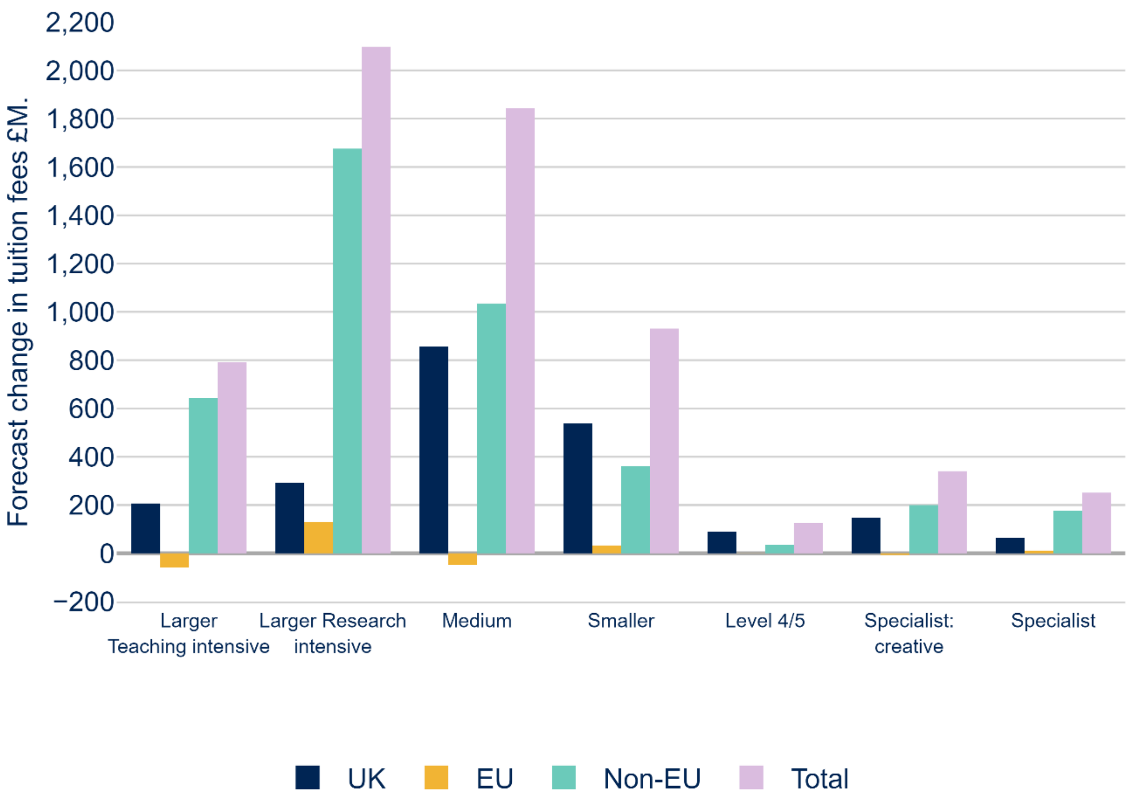
Tuition fee income by domicile £K	2021-22 (Actual)	2022-23 (Forecast)	2023-24 (Forecast)	2024-25 (Forecast)	2025-26 (Forecast)	Forecast change 2021-22 to 2025-26		
						Tuition fee income change £M	Tuition fee income change %	Total student FTE change %
Total	**£21,310**	**£22,859**	**£24,578**	**£26,192**	**£27,690**	**£6,380**	**29.9%**	**17.5%**
UK	£12,439	£12,825	£13,552	£14,104	£14,635	£2,196	17.7%	16.0%
EU	£989	£950	£972	£990	£1,049	£60	6.0%	-37.8%
Non-EU	£7,881	£9,083	£10,054	£11,098	£12,006	£4,125	52.3%	35.3%

72. Fee income from EU-domiciled students is expected to increase by 6.0 per cent between 2021-22 and 2025-26. This shows that the new fee regime for these students is offsetting the overall decline in EU students over this period. As EU students on the previous fee regime complete their courses, there is a higher average fee per EU student, bringing EU student fees in line with the average fee of a non-EU student.

73. 'Larger Research Intensive', 'Smaller', 'Specialist', and 'Level 4/5' peer groups are forecasting an increase in tuition fees from EU-domiciled students between 2021-22 and 2025-26. For these peer groups, other than 'Specialist', this is in contrast to their EU student number expectations, which are forecast to decline. This indicates providers within these groups will be particularly reliant on a higher fee per EU student (FTE) to meet their fee income projections.

74. Fee income from non-EU overseas students continues to be a significant income stream and a material constituent of the financial model for many providers. This is projected to increase further across each peer group between 2021-22 and 2025-26. At an aggregate level non-EU fee income as a proportion of total income is forecast to increase from 19.3 per cent in 2021-22 to 24.0 per cent in 2025-26, highlighting the sector's increasing reliance on fees income from non-EU students to sustain its activities.

Figure A4: Forecast change in tuition fees by domicile and peer group from 2021-22 to 2025-26



75. Total higher education course fees and educational contracts are forecast to increase annually across all peer groups. This indicates that, overall, the sector remains confident in the demand for English higher education as well as overseas students' (EU and non-EU) willingness to pay increasing fees.

Overseas student numbers

76. The sector as a whole is highly reliant on fee income from overseas students (EU and non-EU) and particularly on fee income from Chinese students. However, various initiatives have diversified the countries from which overseas students come, which is apparent in the increasing proportion of Indian and Nigerian students as a percentage of total overseas students.

77. Taken from HESA data, Table A6 highlights the top 10 source countries for overseas students from 2020-21 to 2021-22 (at all levels of study and studying in the UK).

Table A6: Top 10 source countries for overseas (EU and non-EU) students, 2020-21 to 2021-22

Country	2020-21 (Actual)	2021-22 (Actual)	Proportion of total overseas students 2020-21	Proportion of total overseas students 2021-22
China	119,275	124,385	23.6%	22.3%
India	72,110	107,320	14.3%	19.2%
Nigeria	16,980	34,010	3.4%	6.1%
Pakistan	10,975	18,305	2.2%	3.3%
United States	13,260	15,825	2.6%	2.8%
Hong Kong	15,035	15,805	3.0%	2.8%
Bangladesh	5,420	10,005	1.1%	1.8%
France	11,710	9,905	2.3%	1.8%
Malaysia	9,565	9,715	1.9%	1.7%
Italy	12,390	9,580	2.5%	1.7%

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

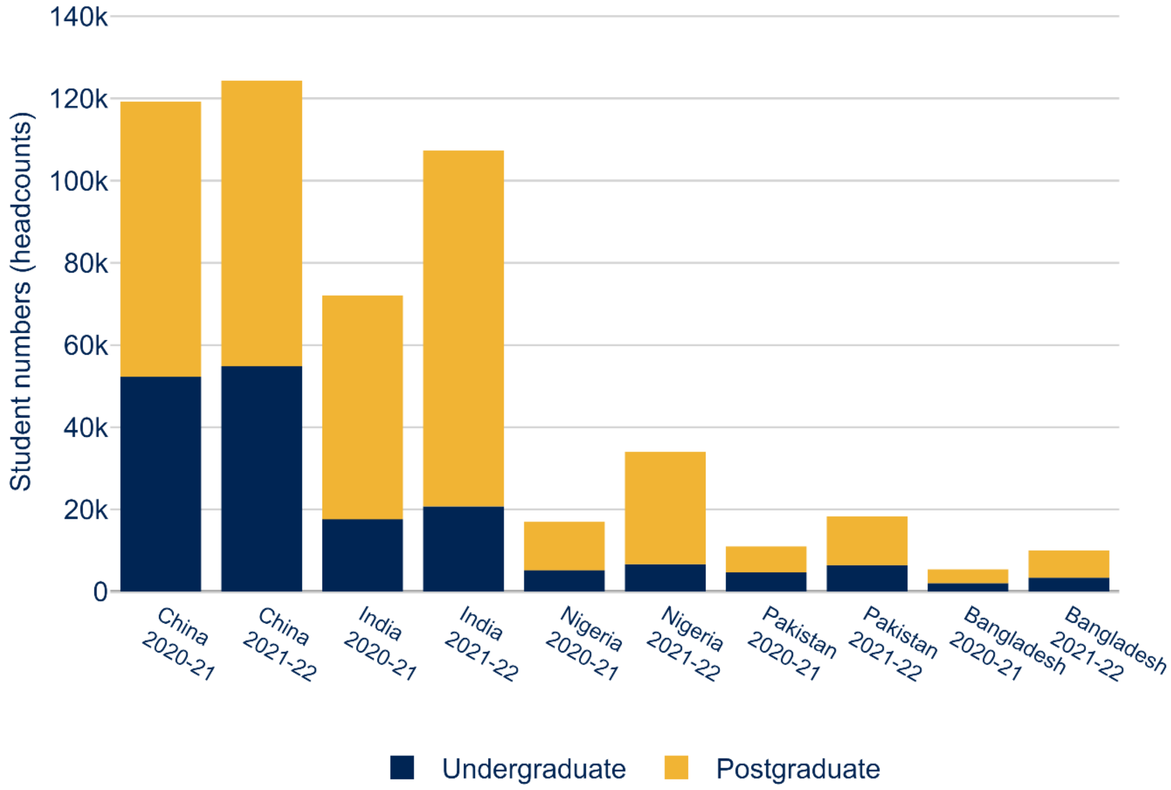
78. The number of Indian and Nigerian students studying at English providers has increased by 35,210 (48.8 per cent) and 17,030 (100.3 per cent) respectively, between 2020-21 and 2021-22, compared with an increase of 5,110 (4.3 per cent) in Chinese students.

79. India sends the second most overseas students to English providers. In 2021-22 there were 107,320 Indian students studying at English providers, 86 per cent of the number of Chinese students (up from 60 per cent in 2020-21).

80. When split by level of study the number of postgraduate non-EU students has increased by 33.9 per cent (68,985 headcounts) between 2020-21 and 2021-22. This is in comparison with an increase of 7.4 per cent (13,150 headcounts) in undergraduate non-EU students over the same period. The majority of postgraduate students are registered on shorter-term courses. This means that if registration of non-EU students were to fall materially, the impact would be realised more quickly for those providers with significant numbers of non-EU postgraduate students.

81. Figure A5 displays those top five source countries for non-EU students that have seen the greatest increase in postgraduate students between 2020-21 and 2021-22 split by student study level. India has seen the largest growth, with an increase of more than 32,000 postgraduate students.

Figure A5: Top five source countries of non-EU students with the largest increase in postgraduate students by study level, 2020-21 and 2021-22



82. Typically, providers from the Larger Research Intensive group recruit the largest number of Chinese students. However, providers from the Medium and Larger Teaching Intensive provider groups, recruit the largest number of students from India.

Operating cash flow performance

83. Positive cash flow is necessary to maintain liquidity reserves and to generate funds to service borrowing costs and to fund future investments.

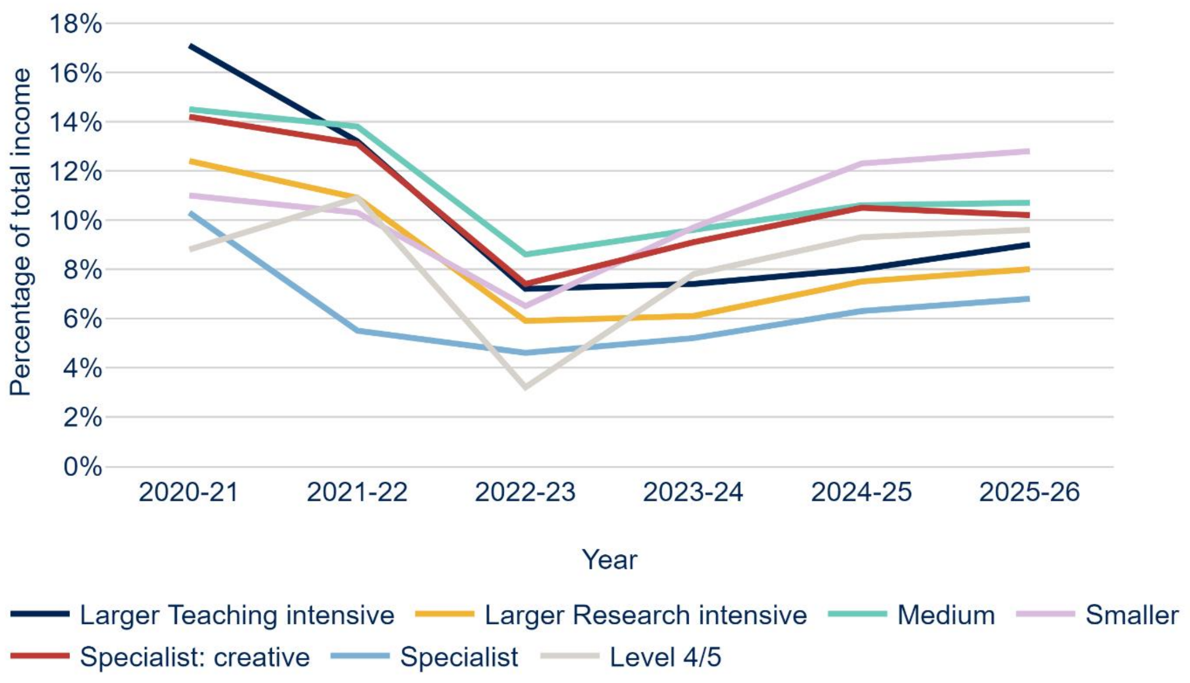
84. Overall, operating cash flow fell from 13.3 per cent in 2020-21 to 11.7 per cent in 2021-22, although below the aggregate level, performance varies considerably between providers and peer groups. Some of this variation can be seen in Table A7, which shows forecast cash flow from operating activities as a percentage of total income for 2021-22. This includes the average cash flow and a breakdown by quartile.

Table A7: Cash flow from operating activities as a per cent of total income, 2021-22

Cash flow from operating activities as a % of total income								
2021-22	Sector	Larger Teaching intensive	Larger Research intensive	Medium	Smaller	Specialist : Creative	Specialist	Level 4/5
Total cash flow from operating activities £M	4,768	640	2,195	1,311	279	169	89	86
Lower quartile	1.9%	7.4%	12.3%	9.6%	-1.1%	2.4%	-4.8%	1.5%
Average	11.7%	13.2%	10.9%	13.8%	10.3%	13.1%	5.5%	10.9%
Upper quartile	17.0%	15.8%	18.1%	19.6%	15.2%	15.9%	9.6%	23.6%

85. Average levels of operating cash flow by peer group for the period 2020-21 to 2025-26 are also shown in the chart below. This shows that operating cash flow levels are forecast to fall across all peer groups in 2022-23 before strengthening again from 2023-24. At an aggregate level, this pattern continues for the remainder of the forecast period.

Figure A6: Cash flow from operating activities as a percent of total income by peer group, 2020-21 to 2025-26



Surplus

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

87. Accounting treatments can often distort movements in surplus levels between years, making it a difficult metric to assess underlying financial performance. Non-cash accounting adjustments relating to new Universities Superannuation Scheme contribution agreements, and those relating to other defined benefit pension schemes, can have a significant impact on total staff costs. This, in turn, affects surplus levels. In 2021-22, these accounting adjustments caused staff costs to rise by £5.2 billion (with £5 billion of this representing the increase in the USS pension provision).

88. Although the financial sustainability of pension schemes is an important concern for the sector, the impact of these accounting adjustments on surplus levels can distort the picture of underlying financial performance. To aid comparability, we have excluded these pension scheme accounting adjustments from total expenditure to more accurately show the sector's underlying surplus levels. The latest data returns show that, on aggregate, surplus levels increased from £1,705 million (4.6 per cent of income) in 2020-21 to £2,367 million (5.8 per cent of income) in 2021-22 but providers have forecast that surpluses will fall to £637 million (1.5 per cent of income) in 2022-23. Thereafter, sector surpluses are forecast to rise, to reach 3.6 per cent by 2025-26. However, beneath the aggregate level, there is considerable variability in the financial performance (as measured by surplus or deficit) within and between peer groups across the sector.

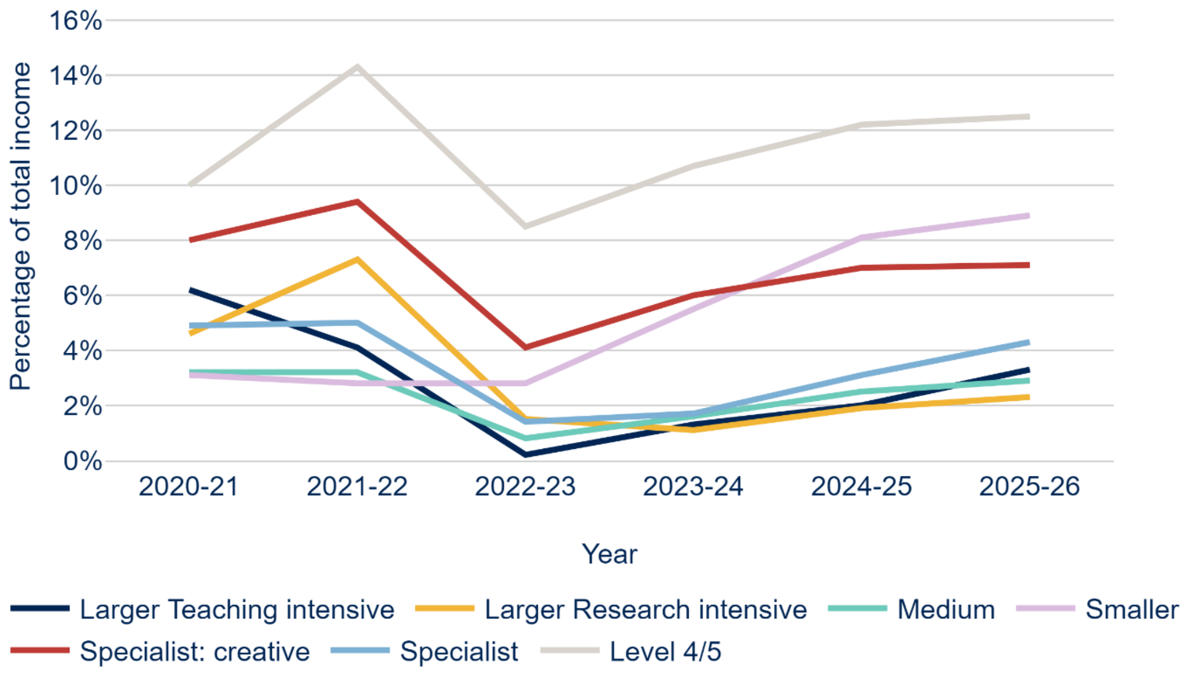
89. Table A8 shows the average adjusted surplus levels (excluding pension provision adjustments) for all peer groups for 2021-22, alongside the percentage of total income by quartile and average. This shows the level of variation in reported surpluses across the sector.

Table A8: Adjusted surplus as a percentage of income, 2021-22

	Surplus as a % of total income							
2021-22	Sector	Larger Teaching intensive	Larger Research intensive	Medium	Smaller	Specialist : creative	Specialist	Level 4/5
Total surplus £M	2,367	198	1,474	304	77	121	81	112
Lower quartile	-2.6%	5.3%	2.8%	-0.3%	-8.1%	-2.8%	-7.8%	0.4%
Average	5.8%	4.1%	7.3%	3.2%	2.8%	9.4%	5.0%	14.3%
Upper quartile	9.0%	9.0%	8.2%	7.8%	7.4%	10.8%	5.5%	22.8%

90. Figure A7 shows the level of surpluses (adjusted to exclude pension scheme adjustments) as a percentage of total income by peer group for 2020-21 to 2025-26.

Figure A7: Surplus/(deficit) as a percentage of total income by peer group, 2020-21 to 2025-26

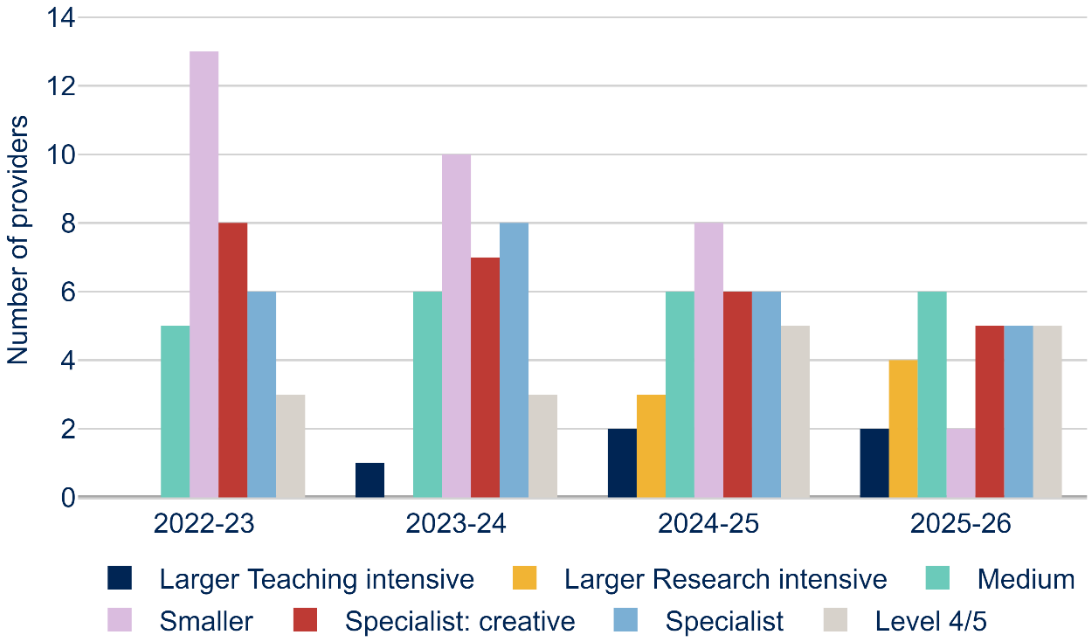


91. Figure A7 shows that surplus levels are expected to fall across all peer groups in 2022-23. The lowest group (Larger Teaching intensive) expects to report a surplus of just 0.2 per cent of income and the highest group (Level 4/5) expects to report a surplus of 8.5 per cent of income.

92. For individual providers, surplus and deficit levels vary considerably. In 2021-22, 58 providers (23 per cent of the sector) reported surpluses that exceeded 10 per cent of income whereas 78 providers (31 per cent of the sector) reported deficits. 96 providers are forecasting deficits in 2022-23, with 35 of these expecting to report a deficit for three consecutive years (2020-21, 2021-22 and 2022-23).

93. Figure A8 shows the number of providers by peer group forecasting three consecutive years of deficits (excluding pension provision adjustments).

Figure A8: Number of providers forecasting three-year consecutive deficits, 2022-23 to 2025-26



94. A business with continued, underlying deficits will not be able to cover its costs indefinitely, including the necessary re-investments in its infrastructure, and is likely to not be sustainable in the longer-term. An extended period of consecutive deficits might suggest weaker underlying financial performance. However, we would not use this indicator, on its own, to reach a firm view of a provider's financial position. For example, investment in restructuring or loss-leading developments could result in deficits but be for the benefit of longer-term sustainability. The OfS reviews all financial data and other contextual factors and mitigations when considering whether a provider's financial sustainability is at increased risk.

Expenditure and cash outflow trends

95. In aggregate, total expenditure (adjusted to exclude pension accounting adjustments) increased by 8.5 per cent, from £35 billion in 2020-21 to £38 billion in 2021-22. Providers have forecast this to increase further in 2022-23, by 9.9 per cent, reflecting inflationary pressure on costs. Thereafter, expenditure is forecast to rise between 4 and 5.4 per cent.

96. A breakdown of expenditure by cost type for the period 2019-20 to 2025-26 is shown below.

Table A9: Expenditure by category, 2020-21 to 2025-26

Expenditure £M	2020-21 (Actual)	2021-22 (Actual)	2022-23 (Forecast)	2023-24 (Forecast)	2024-25 (Forecast)	2025-26 (Forecast)
Staff costs (excluding pension adjustments)	19,457	20,526	22,498	23,689	24,789	25,909
Restructuring costs	80	79	72	47	48	35
Other operating expenses	12,725	14,852	16,336	17,239	17,848	18,529
Depreciation and amortisation	2,530	2,563	2,669	2,865	2,995	3,100
Interest and other finance costs	683	461	734	744	747	739
Total expenditure (excluding pension adjustments)	35,475	38,481	42,309	44,584	46,427	48,313
Pension adjustments	462	5,640	57	54	50	46
Total expenditure	35,937	44,121	42,366	44,638	46,477	48,359

Note: Aggregate interest and finance costs are lower in 2021-22, however this includes material fair value accounting adjustments relating to bond liabilities that were made by a small number of providers.

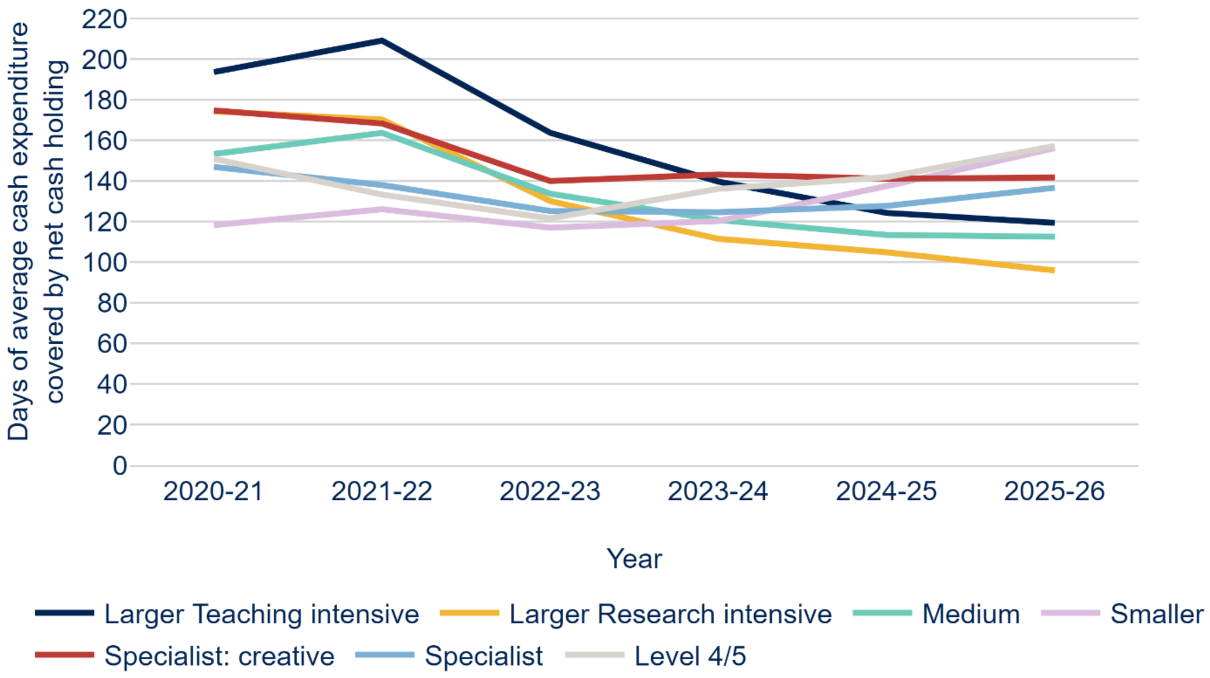
Financial position – strength and resilience

Cash holding

97. In aggregate, the sector's cash holding increased from £15.0 billion at the end of 2020-21 to £16.6 billion at the end of 2021-22 (a rise of 10.3 per cent). As a result, net liquidity days (the number of days of average cash expenditure that are covered by the cash holding) rose from 166 to 168 at the end of 2021-22. However, from 2022-23, on average providers have forecast net liquidity days to decrease to 111 days by the end of 2025-26.

98. Figure A9 shows average net liquidity days for each peer group for the period 2020-21 to 2025-26. This shows that, despite the overall increase in liquidity days, some peer groups reported a decrease in liquidity days in 2021-22. For these peer groups, cash holdings actually increased but rises in expenditure caused net liquidity days to fall.

Figure A9: Net liquidity days by peer group, 2020-21 to 2025-26



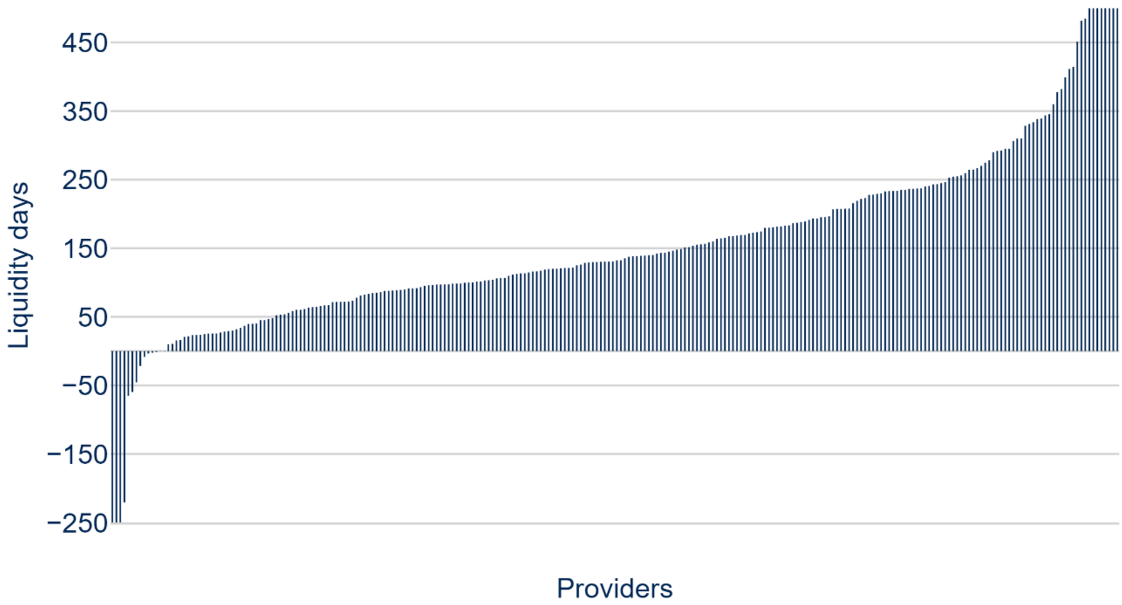
99. Table A10 shows liquidity days for 2021-22 by quartile across all the peer groups.

Table A10: Net liquidity days, 2021-22

	Liquidity days							
2021-22	**Sector**	**Larger Teaching intensive**	**Larger Research intensive**	**Medium**	**Smaller**	**Specialist: creative**	**Specialist**	**Level 4/5**
Total net liquidity £M	16,563	2,503	8,115	3,798	854	511	545	237
Lower quartile	82	131	162	102	66	56	60	75
Average	168	209	170	164	126	168	138	133
Upper quartile	224	195	232	234	204	193	172	283

100. Cash holdings continue to vary considerably across peer groups and providers. Figure A10 shows net liquidity days at the end of 2021-22 for all providers, demonstrating this variability.

Figure A10: Net liquidity days by provider, 2021-22



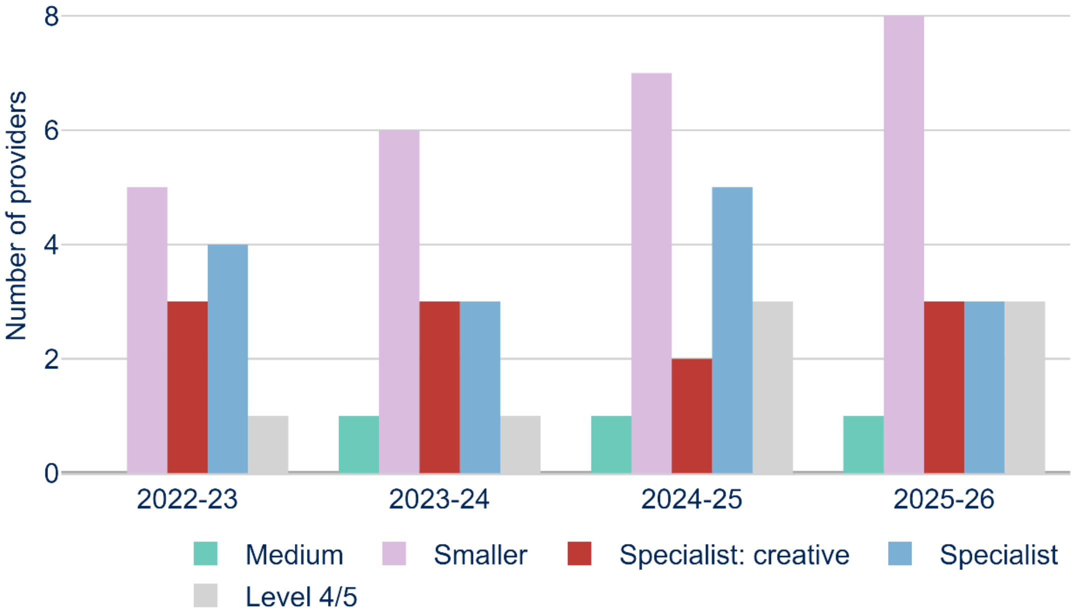
Note: Four providers reported net liquidity above 600 days and three reported negative liquidity of below 400 days.

101. Twelve providers reported negative net liquidity days in 2021-22. In half of these cases, this was due to relationships with, and obligations to, parent companies where the provider is in a wider group structure. For the remaining providers in this group, net liquidity was lower in 2021-22 due to short-term borrowing or other borrowing commitments due within 12 months at the financial year end 2022.

102. Overall, 31 providers reported net liquidity of under 30 days in 2021-22 compared with 25 in 2020-21. In 2022-23, this is expected to be 27 providers, with 13 of these reporting net liquidity of under 30 days for three consecutive years (2020-21, 2021-22 and 2022-23).

103. Figure A11 shows the number of providers (by peer group) forecasting three consecutive years where net liquidity is expected to be under 30 days at the financial year end.

Figure A11: Number of providers forecasting three consecutive years of net liquidity under 30 days, 2022-23 to 2025-26



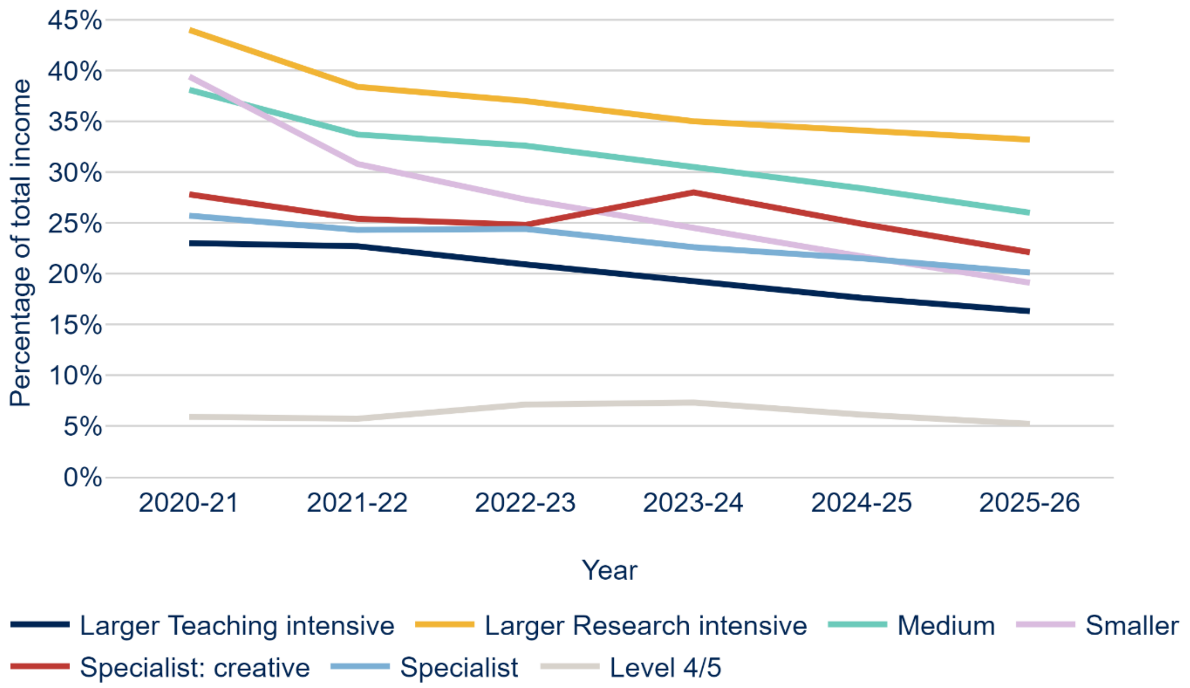
104. It is important for providers to maintain sufficient cash levels to help mitigate financial risks. Providers with low net liquidity levels are particularly vulnerable to financial shocks and so we monitor liquidity levels closely to assess whether providers are managing these risks effectively.

Borrowing

105. In aggregate, gearing levels (borrowing and other financial commitments relative to total income) fell from 37.9 per cent of income in 2020-21 to 33.3 per cent of income in 2021-22. They are then expected to fall further across the forecast period, to 26.9 per cent of income in 2025-26. However, some providers (8 per cent) are forecasting higher gearing levels in 2025-26 compared with 2021-22.

106. Figure A12 shows the gearing levels – borrowing and other financial commitments as a percentage of total income – by peer group for the period 2020-21 to 2025-26.

Figure A12: Borrowing and other financial commitments as a per cent of total income by peer group, 2020-21 to 2025-26



107. Table A12 shows the gearing levels (borrowing and other financial commitments) as a percentage of total income by peer group at the end of 2021-22, broken down by quartile and average.

Table A12: Borrowing as a percentage of total income, 2021-22

	Borrowing as a % of total income							
2021-22	Sector	Larger Teaching intensive	Larger Research intensive	Medium	Smaller	Specialist: creative	Specialist	Level 4/5
Total borrowing £M	13,617	1,096	7,731	3,194	836	327	389	44
Lower quartile	0.0%	32.4%	13.3%	19.0%	0.0%	0.0%	0.0%	0.0%
Average	33.3%	22.7%	38.4%	33.7%	30.8%	25.4%	24.3%	5.7%
Upper quartile	38.2%	47.3%	29.8%	41.2%	34.0%	28.3%	35.3%	23.1%

Capital expenditure

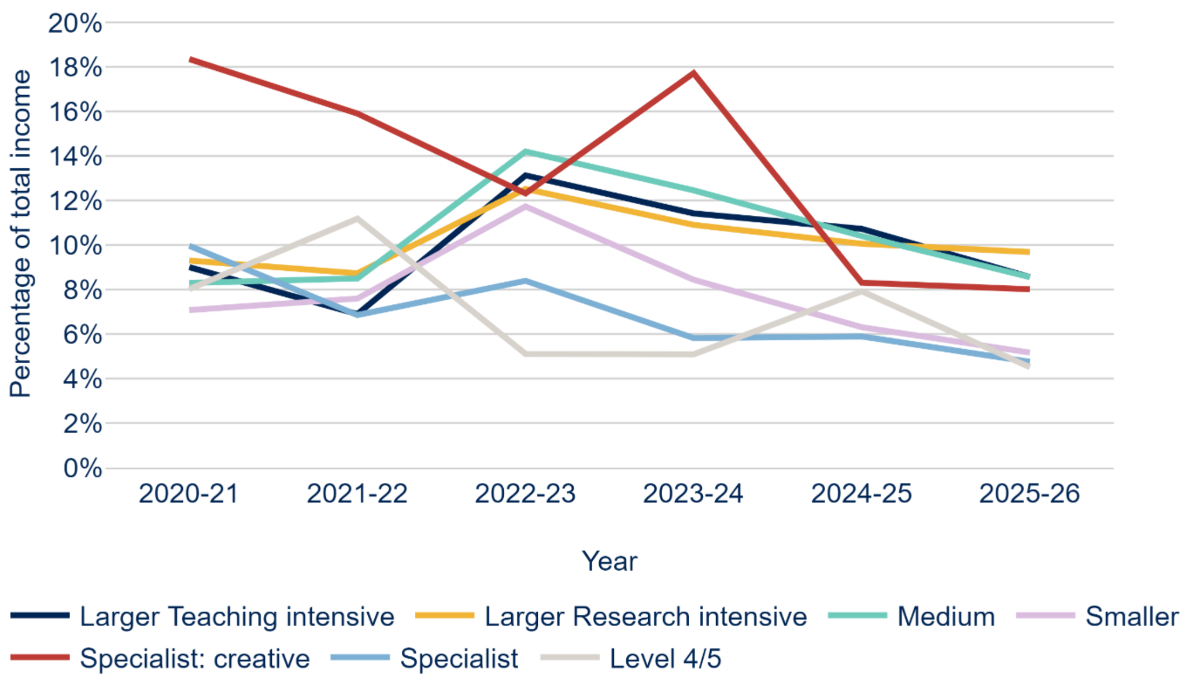
108. Total capital expenditure increased from £3.3 billion in 2020-21 (9.2 per cent of income) to £3.5 billion in 2021-22 but was much lower than forecast by providers last year (£4.6 billion). This indicates that many providers continued to pause their capital investment plans in order to protect cash flow and increase liquidity in response to uncertainty and increased financial risks.

109. The large increase in capital investment forecast last year is now expected to be made in 2022-23, with expenditure predicted to grow by 54 per cent to reach £5.3 billion by the end of 2022-23. Thereafter, forecasts show a reduction in aggregate capital investment, with average annual capital spending totalling £4.6 billion in the period 2023-24 to 2025-26. However, this aggregate picture masks significant variation across the sector, with just under half of providers forecasting an increase in capital investment over the same period.

110. Measuring capital expenditure as a percentage of income gives an indication of the extent to which providers are investing their income in new and improved buildings and equipment. The aggregate ratio for 2021-22 was 8.6 per cent. Providers' forecasts suggest an increase to 12.6 per cent in 2022-23 before falling back to 8.6 per cent of income by 2025-26.

111. Figure A13 shows capital expenditure as a percentage of total income by peer group for the period 2020-21 to 2025-26. This shows some of the variation in capital investment forecasts referred to above.

Figure A13: Capital expenditure as a per cent of total income by peer group, 2020-21 to 2025-26



Pensions

112. The largest pension schemes affecting many OfS providers are the Universities Superannuation Scheme (USS), Local Government Pension Schemes (LGPS) and Teachers Pension Scheme (TPS). These schemes are predominantly used by higher education providers that were publicly funded during the period before the OfS. However, many providers, from across the sector, contribute to a wide variety of other pension schemes.

113. Total annual cash employer pension contributions to all schemes were £2,984 million in 2021-22 and are expected to rise by 8 per cent in 2022-23, with further increases of between 4 and 5 per cent in the remainder of the forecast period. There were 106 OfS-registered providers contributing to the USS scheme in 2021-22. Aggregate employer contributions to the USS scheme were £1,591 million in 2021-22, representing 53 per cent of total employer pension contributions paid by providers in the sector. In addition, these providers reported a £5 billion increase in USS pension provisions, reflecting the 2022 deficit recovery plan (following the last actuarial valuation of the scheme in March 2020).

114. A recent monitoring review of the value of USS assets and liabilities, taking account of changes in market conditions since the last valuation, reported a significant reduction in the deficit at the monitoring date of 31 December 2022. Annual scheme contributions will not be changed until after the next scheduled triannual valuation, which will reflect the funding position of the scheme at the end of March 2023, and market conditions could yet be different at that point.

115. Rules for pension accounting mean that there was a large and non-recurrent accounting cost (non-cash cost) made in 2021-22 to reflect the changes in provision for future pension deficit reductions in the USS (agreed in 2022 following the 2020 valuation). This adjustment resulted in an additional £5 billion of staff costs reported in 2021-22, representing 80 per cent of the total increase in staff costs for that year.

116. LGPS is a funded defined benefit scheme with assets held in 88 separate trustee administered funds. There are currently 94 OfS-registered providers participating in the scheme and in 2021-22, the data shows that these providers paid £440 million in employer pension contributions to the LGPS (15 per cent of total pension contributions).

117. TPS is the main academic scheme for post-92 universities. The latest data shows that 88 providers contributed towards the scheme in 2021-22, with employer contributions totalling £484 million. The current employer contribution rate, which has been in place since September 2019, is 23.68 per cent and is currently being reviewed by government as part of its latest valuation of unfunded public service pension schemes. Any increase in the contribution rate will put additional pressure on the cost base of participating providers that may not be reflected in their most recent financial forecasts.

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 sought views from providers through roundtable events. These were held in March 2023 with finance directors or those in equivalent roles. In total, attendees from 34 providers joined the roundtables.

2. The sessions were grouped by providers with the same or similar financial typology or, for our thematic roundtables, by the type of risks they face as follows:

Financial typology or thematic group	Typology or theme	Group name
Financial typology	QI over £200m and over 70% of income QI over £200m and less than 70% of income	Larger Research intensive Larger Teaching intensive
Financial typology	QI £100m-£200m	Medium
Financial typology	Majority Level 4/5 QI less than £100m or unknown	Level 4/5 Smaller
Financial typology	Specialist: creative Specialist: other	Specialist: creative Specialist
Thematic	International student recruitment	
Thematic	Pension contributions and staff costs	

Summary of points raised

3. Below is a summary of the key risks raised by providers – this should not be read as agreement by the OfS with the points made. The challenges discussed vary for different types of providers. Providers reported the following:

   a. **Inflation and cost of living.** Inflation has put increased pressure on providers as well as their staff and students. With much of providers' income from fixed fees, rising costs from staff pay, pensions and energy have reduced margins, and so their ability to invest. This is particularly challenging for those with older, less energy-efficient buildings. The impact of cost-of-living increases on students can also affect providers. This happens, for example, where students are more likely to commute in, leaving some provider-owned accommodation empty, or where students have to spend more time on paid work and this risks leading to withdrawals as they struggle to keep up with their academic commitments.

   b. **Student recruitment**. There is 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. Many providers are keen to diversify, though this can be challenging.

c. **Staff costs.** Staff costs are the most significant cost to the sector and pay inflation has led to higher than budgeted annual settlements. Staff expectations of pay are affected by pay settlements in other sectors and the competitive job market has made it difficult for some providers to attract and retain staff. There is a risk that staff will leave the sector in greater numbers and it has become more difficult to attract suitably qualified staff.

d. **Pensions.** There is uncertainty about future pension scheme valuations and increasing employer contributions associated with the revaluation of defined benefit schemes. Providers do not have control over the prescribed contribution rates resulting from periodic scheme valuations or those set by government. The 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, this may be misunderstood by the readers of financial statements.

e. **Funding.** Providers 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 providers' ability to plan investments and decide a long-term investment strategy. Providers facing lower operating margins are less able to cross-subsidise research activities from other funding streams. Reduction in funding for certain areas such as arts subjects or upkeep of old or historic buildings affect some providers more than others.

f. **Capital, estates and sustainable investments.** Many of providers' buildings and much of their infrastructure needs investment. This is particularly challenging for providers with ageing estates. Some providers paused all but essential maintenance work during the pandemic. Maintenance backlogs have increased and maintenance and building costs have increased. There is a risk that without investment, parts of estates could become unfit for purpose and could materially affect the student experience.

g. **Borrowing.** Borrowing costs have risen due to an increase in interest rates. The availability and ease of lending differs between providers and can be challenging for some.

4. Providers also discussed the mitigations available to them and the associated challenges. Many considered that, having previously reviewed their course portfolios, it is difficult to make significant additional savings. A large proportion of their cost base is fixed and cannot easily be reduced. Efficiencies sought during lockdown were implemented and costs removed from budgets. Over time, providers reported that activity has been rationalised to reduce loss-making activity and accommodate rising costs. Achieving further efficiencies will require significant investment over many years, particularly in IT and infrastructure. Some providers have told us that some of their IT platforms are no longer supported and infrastructure is poor. Some of the mitigations mentioned are as follows:

- increased flexibility, such as allowing students to switch on and off demand from full-time and part-time courses and moving from two intakes a year to a ‘roll on and roll off’ course that can start at any time
- reducing staff numbers through redundancy, not filling vacancies or removing posts, reducing the staff to student ratio
- flexibility in the workforce by using a combination of freelance and permanent staff
- estates strategy being reviewed to ensure empty space is removed, reducing the size of estates and using estates more efficiently
- investing in solar farms to mitigate increases in energy costs and support achievement of net zero targets
- further rationalising activities, including reviewing course portfolios and changing teaching models to include more online teaching
- undertaking cost bench-marking exercises
- conserving cash by further reviewing, delaying or pausing capital programmes
- selling assets such as land and buildings, where they are surplus to current and future requirements.

Annex B: Notes on the data

1. The report draws on financial data, including forecast data, submitted by 254 higher education providers. Throughout the report we refer to 'higher education providers', 'providers', 'universities and colleges', and 'the sector' as shorthand for this group.

2. This report does not include analysis of further education colleges registered with the OfS. Registered further education colleges must also comply with the OfS's regulatory requirements, including the condition of registration relating to financial viability and sustainability. Their financial data is, however, submitted directly to the Education and Skills Funding Agency.

3. The data for 2020-21 and 2021-22 reflects providers' last two years of audited financial statements (i.e. the data for these years is historical and has been assured by an independent auditor), except for a small number of providers (27) which have not yet submitted their final data for 2021-22. This is mainly because they either have financial years ending in the last three months of the calendar year or the OfS has agreed an extension to the deadline for submission. In these cases, this analysis uses forecast data for 2021-22, submitted to the OfS in the Annual Financial Return, in place of audited data. Due to the timing of the data submissions, no forecast data for 2026-27 is available for these providers. As a result, the data presented in this report covers only a six-year period and includes data for the period 2020-21 to 2025-26.

4. For most providers (164), the financial year reflects the period from 1 August to 31 July.

5. The data is presented as an aggregate view of providers' financial records and forecasts, for the sector overall and for seven 'finance typology' peer groups.

6. The 'finance typology' peer groupings are based on the amount and type of income received by providers, as well the level and subject areas predominantly studied by their students. The methodology and the data sources used to assign providers to these groups is set out in our Provider typologies 2022 paper published in November 2022 (Provider typologies 2022).[7] This is the first-time financial data analysis has been presented in this way.

7. The 'financial typology' groups providers on the basis of the resources available to them. The factors used in defining these peer groups are:

    a. Proportion of higher education student full-time equivalent (FTE) at Level 4 or 5.

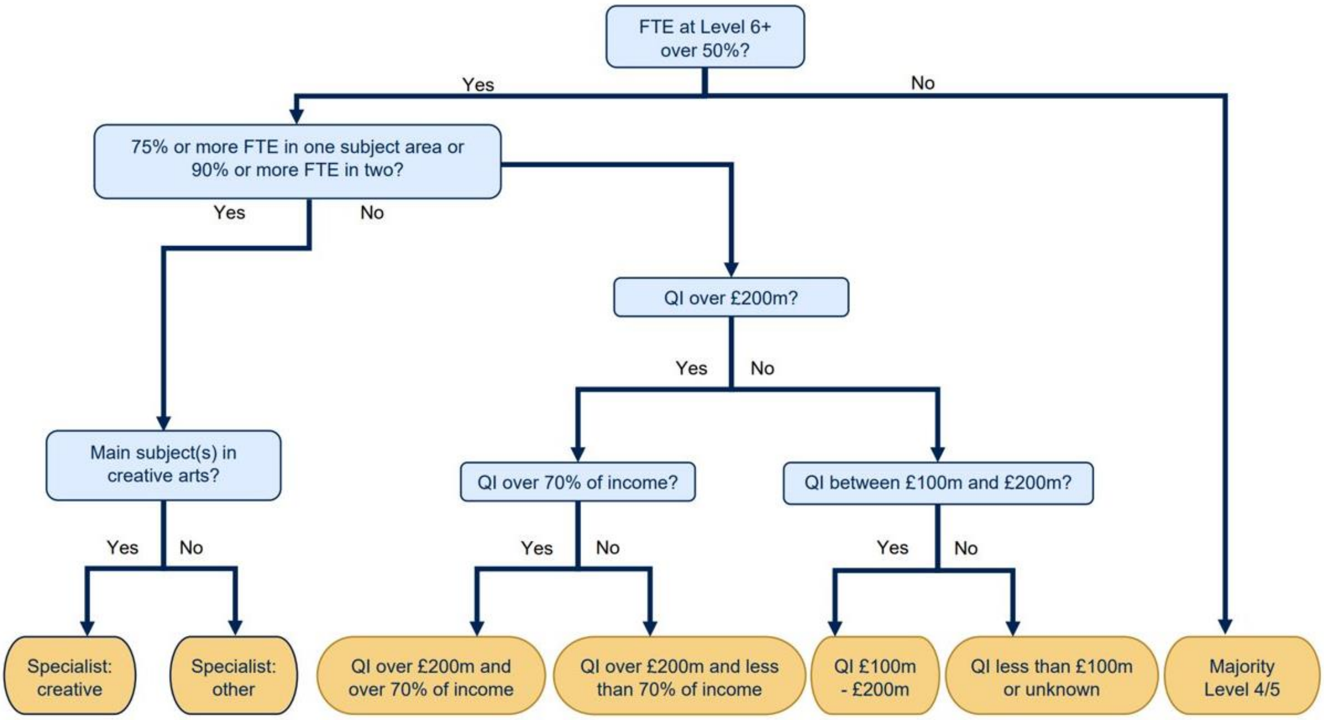
    b. Specialist indicators (i.e. the proportion of provision across one or two subject areas).

    c. Qualifying income (QI) – (i.e. public grant funding from the OfS, any fee income from taught awards (exclusive of VAT) and any fee income from research awards (exclusive of VAT)).

    d. Proportion of total income from QI.

8. The following flow diagram describes how each 'finance typology' peer group is derived:

[7] See www.officeforstudents.org.uk/publications/provider-typologies-2022/.



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

Description	Name for peer group	Count of providers
Specialist: creative	**Specialist: creative**	39
Specialist: other	**Specialist**	48
QI over £200m and over 70% of income	**Larger teaching intensive**	14
QI over £200m and less than 70% of income	**Larger research intensive**	21
QI £100m - £200m	**Medium**	43
QI less than £100m or unknown	**Smaller**	59
Majority Level 4/5	**Level 4/5**	30