Office for Students

Financial sustainability of higher education providers in England

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Contents

Key points

1. The Office for Students (OfS) 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.

2. This report takes an aggregate view of the financial results and forecasts submitted by registered providers[1] to the OfS in 2018. Our analysis suggests that the sector overall is currently in reasonable financial health. However, this general picture masks considerable variations in financial performance between individual providers. It is important to note that all registered providers must have demonstrated that they are financially viable and sustainable as part of the registration process.[2]

3. Providers' forecasts indicate a general weakening of financial performance over the next year, with improvements thereafter. Some of this forecast improvement is due to ambitious assumptions about growth in student numbers. Most providers are assuming growth in the total numbers of UK, EU and overseas students, with 122 (out of 183) projecting increases in total student numbers of more than five per cent over the next four years. The majority of these providers are not reliant on such projected growth to ensure their financial viability and sustainability, but they may need to reduce their projected costs if their student recruitment ambitions are not met. We are closely monitoring those providers that are reliant on growth in student numbers to continue to meet our requirements for financial viability and sustainability.

4. Collectively, providers forecast the number of overseas students to increase by approximately 56,000 full-time equivalent (FTE) (20.7 per cent). Fee income from overseas students is projected to rise by £1.7 billion (37.9 per cent), suggesting an anticipated increase in the average fee charged to overseas students. The government's recently announced international education strategy aims to support the sector to increase the number of overseas students.[3]

5. The higher education sector continues to face uncertainties, including the UK's future relationship with the EU; potential changes in government policy following the review of post-18 education funding; and as a consequence of student choice following a continuing decline in the 18-year-old UK population to 2020. The consequences of these uncertainties will require individual providers to adapt to different degrees.

6. Providers also face increased cost pressures, not least following recent valuations of large multi-employer pension schemes and more general inflationary pressure on costs.

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[1] There were 183 providers on the OfS register as at 7 March 2019. Further education colleges are excluded from this analysis.

[2] 'Financially viable and sustainable' means that the OfS judges that there is no reason to suppose a provider is at material risk of insolvency within a period of three years and that a provider's plans and projections show that it has sufficient financial resources to fulfil conditions D(iii) and D(iv) of the OfS regulatory framework for a period of five years from the date on which the judgement is made.

[3] See https://www.gov.uk/government/publications/international-education-strategy-global-potential-global-growth/international-education-strategy-global-potential-global-growth

7. In light of the uncertainties and challenges they face in the foreseeable future, providers will need to re-assess their financial assumptions and forecasts and ensure that adequate contingency measures are in place to navigate an uncertain environment and ensure financial viability and sustainability.

8. The OfS will continue to monitor individual providers for early signs of financial difficulties and will intervene where we consider there to be increased risk that a provider may not be viable or sustainable in the future.

Introduction

9. The Office for Students (OfS) monitors the financial viability and sustainability of individual registered higher education providers. This report considers an aggregate picture of registered providers. It identifies some financial trends in current financial performance and forecasts for the next four years for the sector overall and for groups of providers.

10. The report also considers providers' financial and student number forecasts for the next four years. This part of our analysis is necessarily speculative. It is often difficult to predict future outcomes with confidence, and particularly so in the current climate of heightened uncertainty. The sector is facing two big 'known unknowns'. The first relates to potential changes to the funding of higher education as a result of the Review of Post-18 Education and Funding commissioned by the government (still to report at time of writing).[4] Second, and in common with other sectors, higher education is facing uncertainties surrounding the UK's future relationship with the EU.

11. Providers are also facing financial pressure from increases in employer pension contributions and increasing competition for students.

12. We do not yet know how these and other developments will affect the financial performance and prospects of individual universities and colleges, or the sector overall. It is clear, however, that English higher education providers will continue to operate in a complex, challenging and uncertain environment for some time. They will each need to respond in a way that sustains and prioritises the delivery of high quality teaching and learning for their students.

13. In this context, careful financial management will be more important than ever, including regular review and reassessment of financial performance and assumptions as the policy and wider economic and political direction of travel becomes clearer. To this end, we have particular concerns about the reliability of some of the forecast data analysed in this report. Most providers are anticipating growth in the number of students they recruit over the next four years, with around two-thirds expecting to increase their total student numbers by more than five per cent during this period. This amounts to an overall aggregate increase of over 10 per cent which would imply an additional 171,000 full-time equivalent (FTE) students across England.

14. In our view, this aggregate growth ambition is likely to be unachievable over the forecast period, particularly at a time when the number of 18-year-olds in England will continue to decline until 2020. This matters because tuition fees, which are dependent on student numbers, are an increasingly important source of income for individual providers. A provider whose financial viability and sustainability is underpinned by reliance on fee income based on student recruitment targets which prove to be unrealistic is exposing itself to significant risk.

15. The OfS will continue to monitor the financial viability and sustainability of individual registered providers and will monitor aggregate trends across the higher education sector.

[4] See https://www.gov.uk/government/publications/review-of-post-18-education-and-funding-terms-of-reference

Alongside the publication of this report, we have written to the governing bodies of registered providers inviting them to consider our findings as they test and approve financial plans and risk management strategies.

Note on dataset and methodology

The report draws on financial data, including forecast data, submitted by 183 higher education providers, including providers not currently in receipt of OfS funding, that were registered with the OfS as at 7 March 2019. Throughout the report we refer to 'higher education provider(s)', 'provider(s)', 'universities and colleges', and 'sector' as shorthand for this group.

This report does not consider 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, but their financial performance is primarily monitored by the Education and Skills Funding Agency.

The data is presented as an aggregate view of providers' financial records and forecasts:

i. for the sector overall; and

ii. for four broad peer groups, one comprising providers offering specialist provision, and the other three based on the tariff points of providers' undergraduate student population.

A small number of providers have no tariff classification. These are included in the data on sector totals but are excluded from the peer group analysis because their small number distorts comparison.

The report covers a six-year period. For the majority of providers, we refer to each financial year as follows:

- Years 1 and 2 normally refer to financial years 1 August 2016 – 31 July 2017 and 1 August 2017 – 31 July 2018 respectively*
- Years 3 to 6 normally refer to years 2018-19 to 2021-22**.

*Data for Years 1 and 2 is sourced from HESA and from financial results submitted to the OfS by providers for registration or monitoring purposes. Year 2 includes the most recent audited financial data.

**Data for Years 3 to 6 is taken from providers' financial and student number forecasts submitted to the OfS during2018.

Further information is in the technical note at **Annex A**.

Summary of key financial indicators

16. Table 1 sets out headline financial indicators for the sector as a whole across Years 1 to 6 (2016-17 to 2021-22).

Table 1: Summary of sector financial indicators

	Actual		Forecast			
Indicator	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year5**	**Year 6**
Total income	£30.4bn	£32.7bn	£33.8bn	£35.2bn	£36.4bn	£37.5bn
Surplus[5]	£1.1bn	£1.0bn	£0.3bn	£1.0bn	£1.1bn	£1.1bn
Surplus / (deficit) as a % of total income	3.7%	3.1%	0.9%	2.8%	3.0%	2.9%
Net operating cash flow	£3.1bn	£3.3bn	£2.6bn	£2.9bn	£3.3bn	£3.5bn
Net operating cash flow as a % of total income[6]	8.7%	8.6%	6.2%	6.9%	7.6%	8.0%
Borrowing	£9.9bn	£12.0bn	£13.3bn	£13.4bn	£13.4bn	£13.3bn
Borrowing as % of income	32.6%	36.8%	39.2%	38.1%	36.8%	35.5%
Net liquidity	£10.0bn	£11.2bn	£9.4bn	£8.4bn	£8.1bn	£8.5bn
Net liquidity days	134	138	110	96	90	92
Net total assets	£37.6bn	£41.7bn	£40.5bn	£42.0bn	£43.4bn	£45.1bn
Net total assets / (liabilities) as a % of total income[7]	123.0%	126.6%	118.7%	118.1%	118.0%	119.0%

Sources: HESA and provider data

17. Overall, the sector financial position as at the end of Year 2 is sound. In aggregate, providers are forecasting some reduction in financial performance in Year 3 with improvements thereafter. In terms of cash generation – the financial measure we consider to be particularly

[5] Surplus is total income less total expenditure, excluding other gains or losses (from investments and fixed asset disposals) and the share of surplus or deficit in joint ventures and associates.
[6] Net operating cashflow after debt servicing costs as a percentage of total income.
[7] Net total assets/liabilities less intangible assets and goodwill as a percentage of total income.

important – the projections are positive. It is important to note that these forecasts were prepared by individual providers at a time of considerable uncertainty. As a result, a wide variety of assumptions were used to underpin them. Some of these uncertainties are discussed later in the report.

18. There is also significant variation between providers, which is not reflected in the aggregate indicators shown above. Some of this variation can be seen in the peer group analysis presented in the sections below.

Financial performance

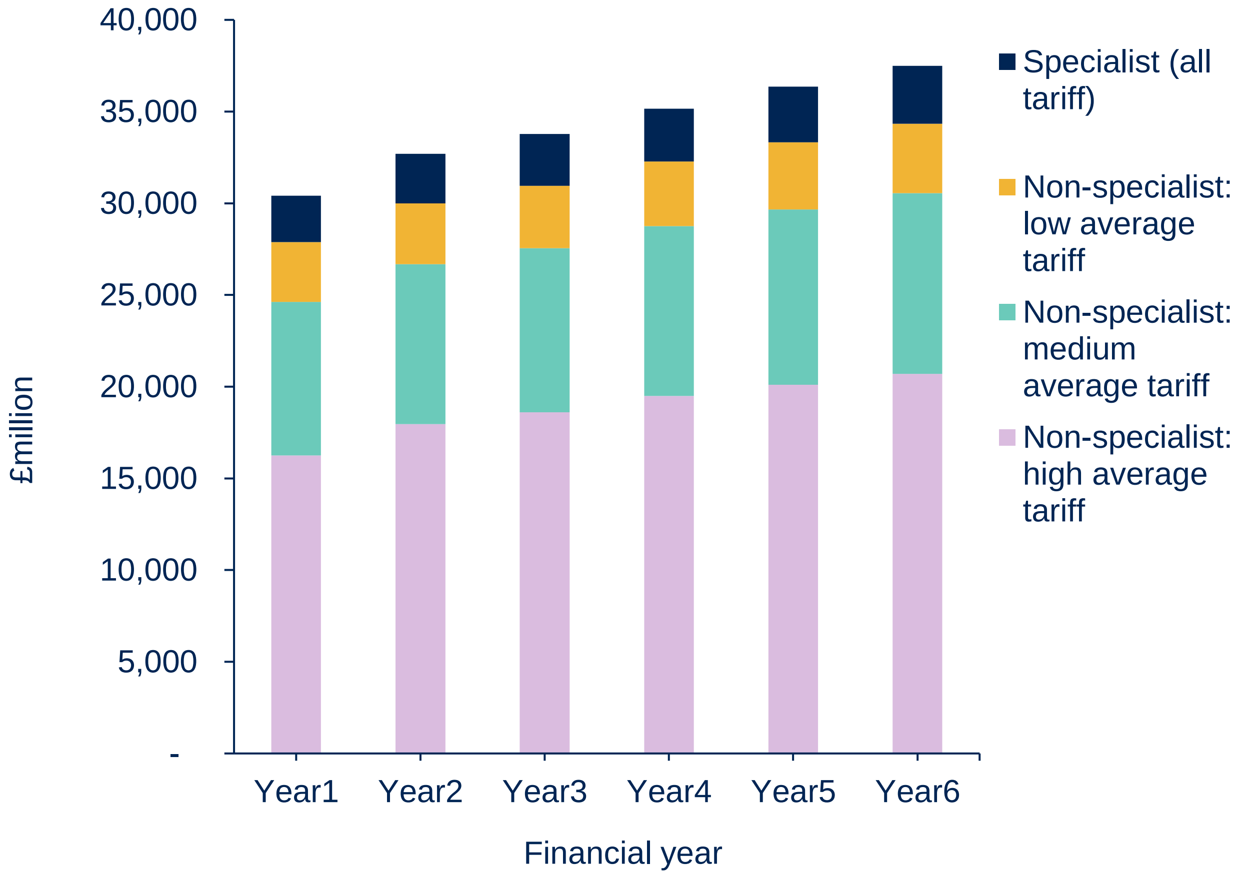
Income

19. The sector reported aggregate income of £33 billion in the latest actual year (Year 2), a rise of 7.5 per cent compared to Year 1.

20. Forecast data shows projected annual total income to rise to £37 billion over the next four years.

21. Figure 1 shows a breakdown of income received and forecast in Years 1 to 6 by peer group.[8] It shows the relative size of income and relative growth trend for each peer group.

Figure 1: Total income by peer group



[8] Further information about peer group categories is at Annex A.

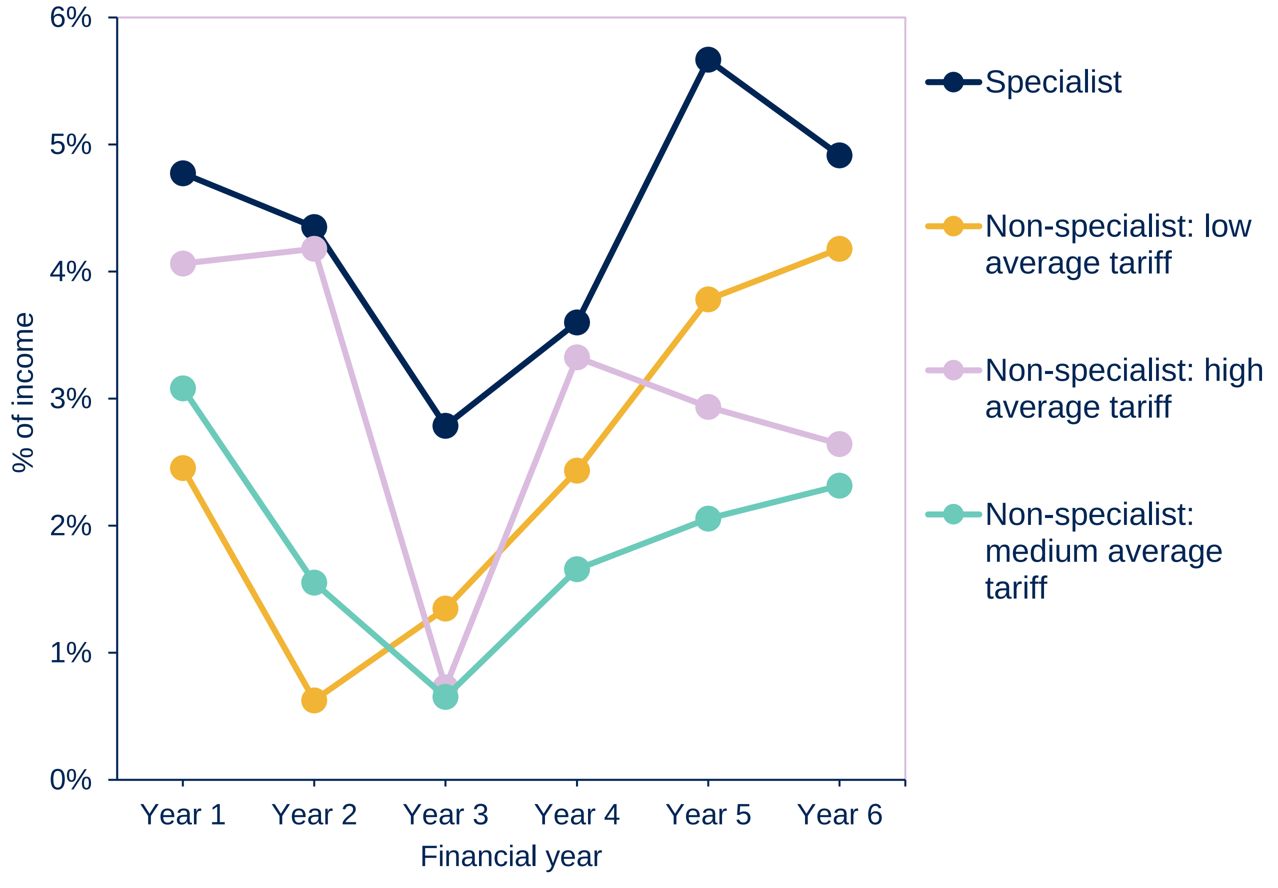
Surplus

22. 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 its business in the future, maintaining and improving the student experience. Accounting treatments can sometimes distort movements between years, so caution is required when analysing surpluses or deficits.

23. In aggregate, the sector's surplus fell from £1,118 million in Year 1 (3.7 per cent of total income) to £1,024 million (3.1 per cent of income) in Year 2.

24. Figure 2 shows the level of surpluses as a percentage of total income by peer group for Years 1 to 6.

Figure 2: Surplus as a percentage of total income by peer group



25. Table 2 presents results for Year 2 (the latest 'actual' year reported to the OfS) by quartile, average and median value. This shows the level of variation in reported surpluses across all the peer groups.

Table 2: Surplus as a percentage of total income

Year 2	Sector	Non-specialist: high average tariff	Non-specialist: medium average tariff	Non-specialist: low average tariff	Specialist
Surplus £M	1,023.8	748.9	135.2	20.7	117.8
Average %	3.1	4.2	1.6	0.6	4.4
Lower quartile %	-0.1	1.8	0.6	-5.5	0.0
Median %	2.7	2.9	2.3	0.9	3.2
Upper quartile %	7.9	6.2	5.1	6.8	12.6

26. Most providers generate a surplus of income over expenditure. However, there is variability at a provider level, with 47 providers generating an accounting deficit in Year 2 (40 in Year 1). This is expected to increase to 54 providers in the forecast for Year 3, after which the number of providers reporting deficit is forecast to reduce.

27. Taken alone, surplus/deficit is not necessarily a clear indicator of financial viability or sustainability: it can be distorted by accounting treatments. In addition, depending on a provider's context, deficits may not represent financial viability or sustainability concerns. The projected reduction in surpluses in Year 3 is in part due to a small number of providers including in their forecasts provisions for increased pension costs relating to the Universities Superannuation Scheme (USS).

28. Eight providers projecting pension provision increases are forecasting deficits in Year 3 compared with surpluses in Year 2, causing the aggregate sector surplus to fall by £337 million in that year. Due to uncertainty at the time of forecasting, most other providers did not include pension provision increases in their projections.

29. The outcome of the 2017 USS valuation resulted in a proposal to increase costs to both members and employers pending the outcome of the ongoing 2018 valuation. If a new agreement cannot be reached by the end of Year 3, the financial impact of the USS trustees' cost sharing proposal[9] will need to be reflected in the financial statements of these providers for that year. This will lead to much lower surpluses (or higher deficits) than indicated in the Year 3 forecasts, even though the amount of cash a provider pays out may only marginally change. For this reason, net operating cash flow is a better indicator of a provider's underlying financial performance.

Net operating cashflow

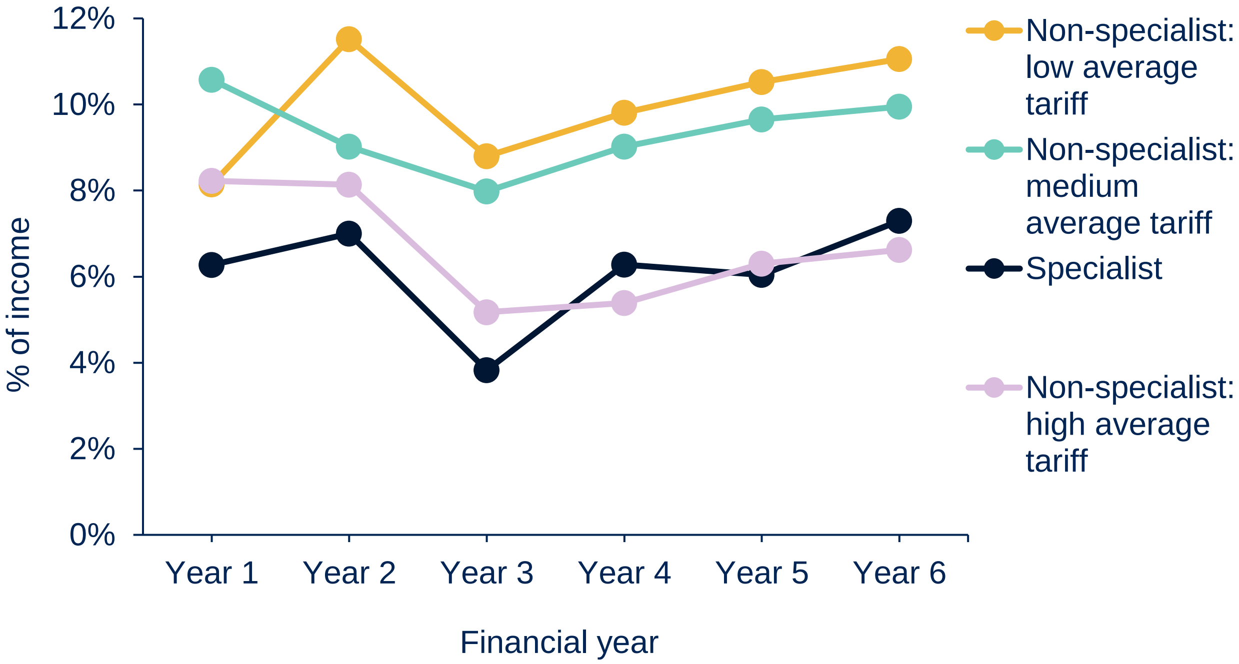
30. Operating cashflow measures a provider's net cash generated from its operations to meet day-to-day obligations – this is the cash that a provider generates from its core business activities, such as teaching and research, after paying its usual costs, such as salaries and utilities.

[9] For the USS 2017 valuation outcome, see https://www.uss.co.uk/how-uss-is-run/valuation/2017-valuation-updates/the-2017-valuation-has-been-finalised.

31. At aggregate sector level, operating cashflow (after debt servicing costs) totalled £2.8 billion in Year 2 (8.6 per cent of total income). It is forecast to rise to £3.0 billion by the end of Year 6, although this will represent a lower proportion of income, at 8.0 per cent.

32. Figure 3 shows the level of operating cashflow as a percentage of total income by peer group in Years 1 to 6.

Figure 3: Net operating cashflow as a percentage of total income by peer group



33. Financial results vary considerably between providers and tariff groups. Table 3 presents results for Year 2 (the latest 'actual' year reported to the OfS) broken down by quartile, average, and median value.

Table 3: Net operating cashflow as a percentage of total income

Year 2	Sector	Non-specialist: high average tariff	Non-specialist: medium average tariff	Non-specialist: low average tariff	Specialist
Total £M	2,818	1,458	786	381	189
Average %	8.6	8.1	9.0	11.5	7.0
Lower quartile %	4.6	6.7	5.0	3.7	3.3
Median %	8.9	8.4	8.4	9.9	9.5
Upper quartile %	12.7	9.4	12.2	13.8	14.7

Balance sheet

Net total assets

34. Net total assets represent the value of a provider's assets after its liabilities are deducted. In very broad terms, they are a proxy for the financial strength of a provider, as they show its underlying financial strength, and therefore its ability to absorb unexpected financial shocks and challenges. In aggregate, providers reported net total assets of £41.7 billion at the end of Year 2, with forecasts showing a projected rise to reach £45.1 billion by the end of Year 6.

35. Figure 4 shows the net total assets as a percentage of total income across peer groups for Years 1 to 6.

Figure 4: Net total assets as a percentage of total income

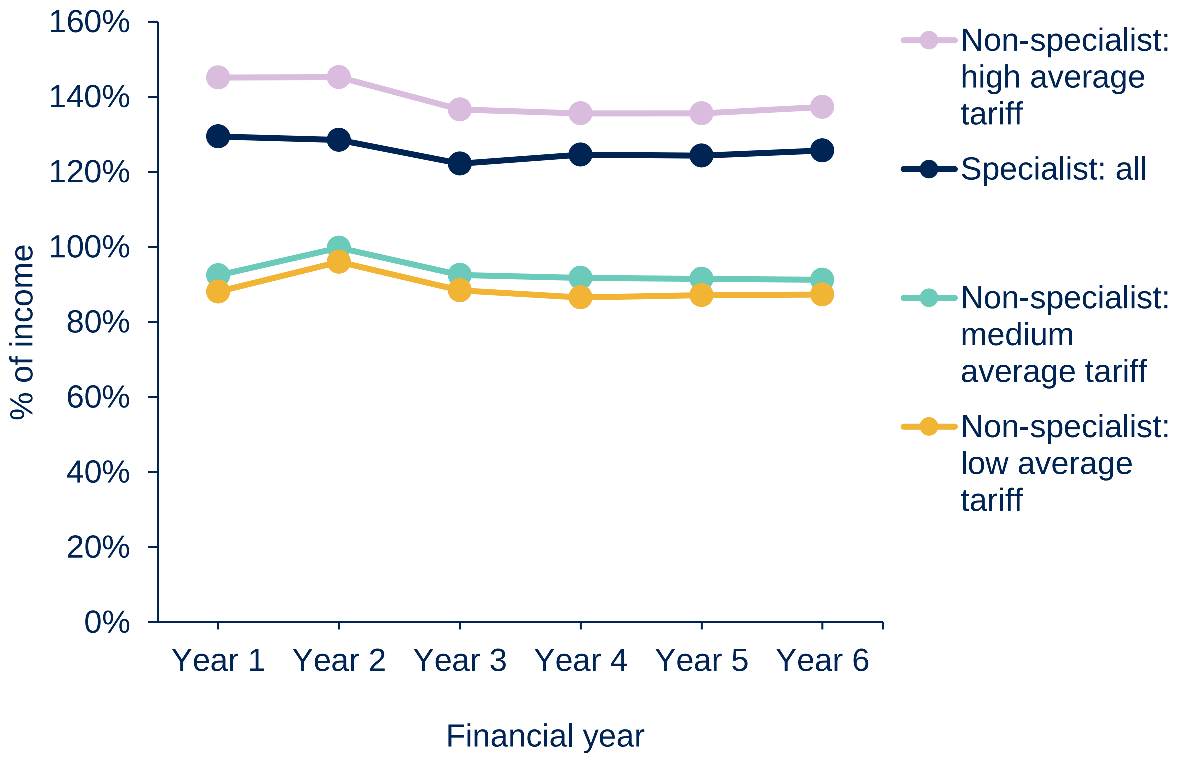


Table 4 shows net total asset levels at the end of Year 2 broken down by quartile, average and median value.

Table 4: Net total assets as a percentage of total income

Year 2	Sector	Non-specialist: high average tariff	Non-specialist: medium average tariff	Non-specialist: low average tariff	Specialist
Net total assets £bn	41.7	26.3	8.7	3.2	3.6
Average %	126.6	145.2	99.8	96.0	128.5
Lower quartile %	58.8	102.1	61.4	57.9	49.3
Median %	102.1	124.2	99.4	87.4	106.3
Upper quartile %	150.9	156.2	133.1	184.3	153.4

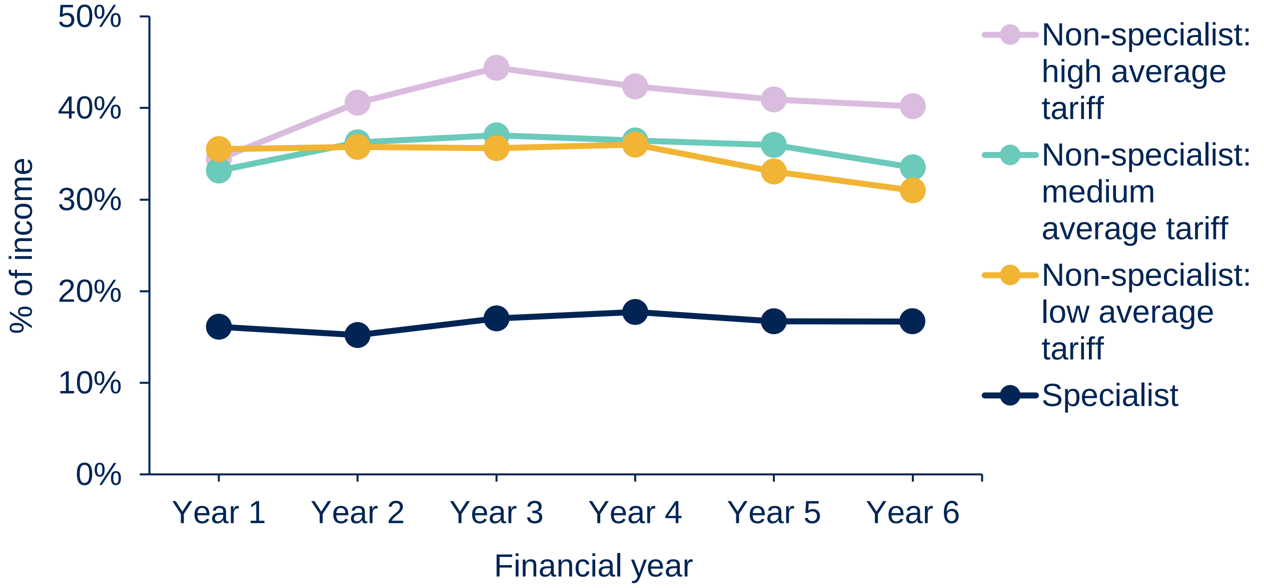
Borrowing (gearing)

36. This indicator shows a provider's borrowing in proportion to its income and is a proxy for the relative affordability of repayment of the borrowings. It is calculated as the amount of a provider's short- and long-term financial commitments compared to its total income. It includes loans from directors and shareholders, as well as other sources, such as banks, bonds etc.

37. At the end of Year 2, the sector reported aggregate borrowing of £12.0 billion (equivalent to 36.8 per cent of income), a 21 per cent rise of £2.1 billion compared to Year 1. Forecasts show that borrowing is projected to continue to rise in absolute terms over the four forecast years, reaching £13.3 billion by the end of Year 6.

38. Figure 5 shows the level of borrowing as a percentage of total income across peer groups for Years 1 to 6.

Figure 5: Borrowing as a percentage of total income (gearing) by peer group



39. As well as the variation between peer groups, borrowing levels also vary considerably within peer groups. Table 5 shows borrowing levels at the end of Year 2 broken down by quartile, average and median value.

Table 5: Borrowing as a percentage of total income

Year 2	Sector	Non-specialist: high average tariff	Non-specialist: medium average tariff	Non-specialist: low average tariff	Specialist
Total £M	12,028	7,269	3,157	1,183	412
Average %	36.8	40.6	36.2	35.7	15.2
Lower quartile %	1.0	24.6	17.1	0.2	0.0
Median %	22.4	39.0	28.9	16.6	3.8
Upper quartile %	40.5	53.7	42.4	35.3	20.8

40. Uncertainty in the current environment could lead to greater focus from lenders on the financial viability and sustainability of individual providers. Many providers rely significantly on the availability of borrowing to fund capital investment programmes and any reduction in the confidence that lenders have in the financial viability and sustainability of the sector could affect the availability and/or cost of borrowing for some providers.

Liquidity

41. Liquidity is, broadly, the balance of cash held by a provider at the end of a financial year plus investments that can easily be converted to cash, minus overdrafts. ‘Net liquidity days’ is a measure that represents the number of days from the financial year end for which a provider is able to pay its average day-to-day expenses from the cash that it holds in its bank account and any short-term investments (such as an investment savings account or short-term bond). As such, it is indicative of the size of the buffer a provider has against unexpected financial challenges, such as delays in the timing of expected cash receipts from people and businesses that owe money to the provider.

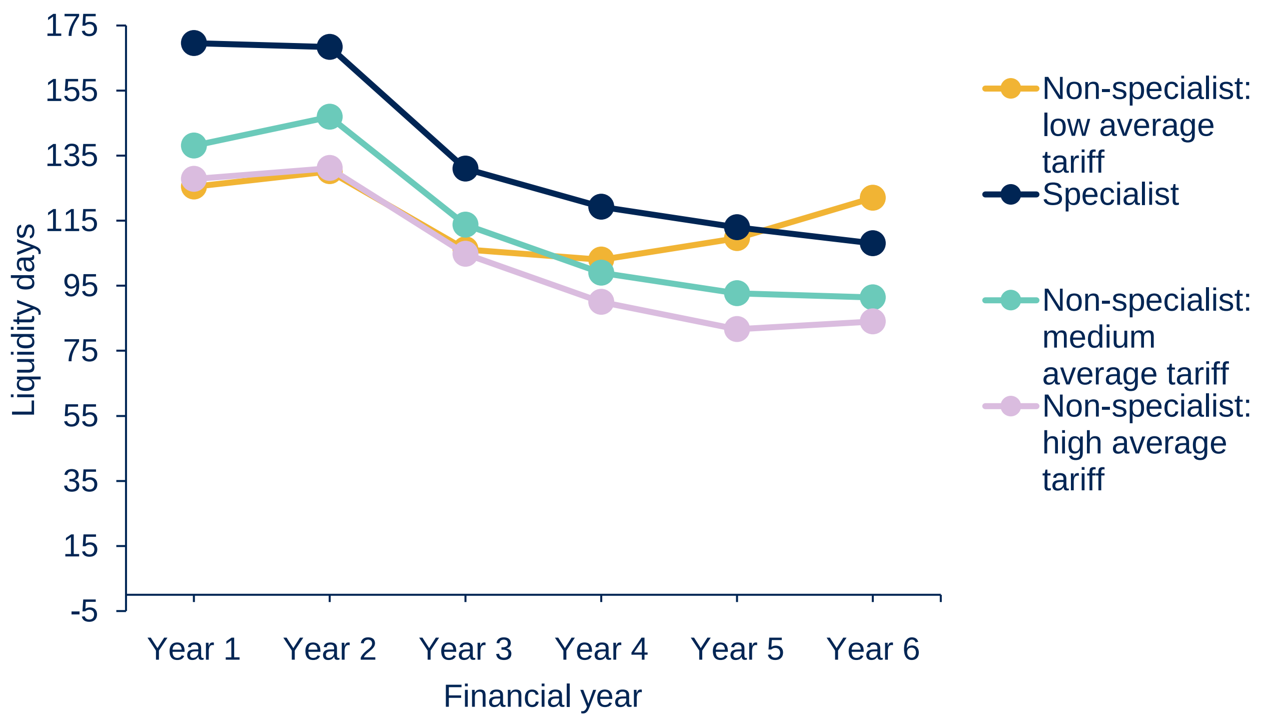
42. At the end of Year 2, the sector had aggregate net liquidity of £11.2 billion, equivalent to 138 days’ expenditure (that is, the number of days’ expenditure that the liquidity covers). This is £1.2 billion higher than the level reported at the end of Year 1, which was £10.0 billion (134 days). This is forecast to fall to a low of £8.1 billion by the end of Year 5, equivalent to 90 days of expenditure. At an aggregate level, this reduction is not of concern as the current level remains healthy.

43. Thirteen providers, across all tariff groups, reported liquidity of less than 20 days at the end of Year 2, compared with 18 at the end of Year 1. Some providers have a deliberate strategy to maintain low levels of liquidity, so, in itself, less than 20 days

does not imply an immediate concern. Providers with low cash levels will need to manage cashflows carefully, and where required we will monitor these closely.

44. Figure 6 shows the level of liquidity as a percentage of total income across peer groups for Years 1 to 6.

Figure 6: Net liquidity days by peer group



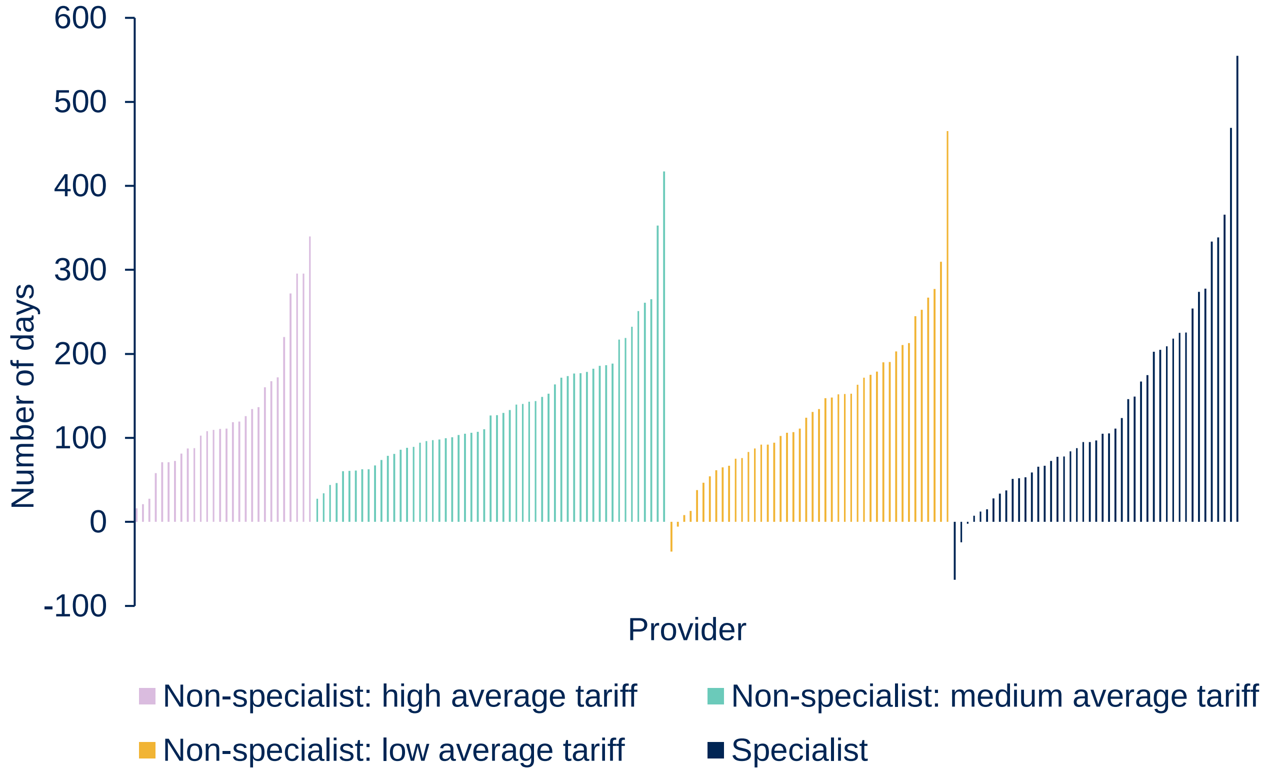
45. Table 6 shows liquidity levels at the end of Year 2 broken down by quartile, average and median value.

Table 6: Net liquidity days

Year 2	Sector	Non-specialist: high average tariff	Non-specialist: medium average tariff	Non-specialist: low average tariff	Specialist
Total net liquidity £M	11,215	5,737	3,225	1,092	1,148
Average	138	131	147	130	168
Lower quartile	71	73	83	76	53
Median	110	111	118	127	97
Upper quartile	179	160	177	184	209

46. Figure 7 shows the wide variation in the level of liquidity across the sector at the end of Year 2. It also shows the wide variation within peer groups.

Figure 7: Net liquidity days by provider at the end of Year 2



Note: Excludes 1 outlier

47. While liquidity tends to fluctuate throughout the year, liquidity levels reported by providers with a year end of 31 July may show a more positive view than at other times of the year. This is because the main period of capital spending happens during the summer months, after the financial year end, so available cash that is not reserved for capital spending is likely to be much lower.

Capital expenditure

48. Many providers continue to use cash resources, public grant funding, and borrowing to invest in estates and infrastructure. In Year 2, providers funded by the OfS invested in aggregate over £4.2 billion in fixed assets to improve and develop their estates.

Student recruitment expectations

49. This part of the report looks at providers' own estimates for student numbers and financial growth over the next four years.[10] This period is likely to see continued

[10] Higher education providers submitted financial and student number forecasts to the OfS during 2018. More information is at Annex A.

competition between universities and colleges for UK, EU and overseas students in the context of a continuing decline in the number of 18-year-olds in the UK to 2020, and greater-than-usual uncertainty about predicted numbers of EU and overseas students.

50. The diversity of providers, and the uncertain operating environment, means that individual providers have applied a wide variety of assumptions, specific to their own circumstances and expectations, to underpin their forecasts. The variation in assumptions may be related, for example, to the future funding status of EU students, UK student recruitment, and expectations about fee levels and funding.

51. Most providers are assuming growth in their total student numbers in Years 3 to 6. Of the 183 providers we analysed, 122 have forecast an increase in their student numbers by more than five per cent during this period.

52. Taken together, the sector in aggregate is forecasting an increase in total student numbers (including UK, EU and overseas students) by approximately 171,000 FTE (over 10 per cent) over the same period. All peer groups have growth forecasts, although the extent of the increase varies by peer group, as shown in Table 7.

53. Table 7 summarises providers' student number forecasts.

Table 7: Student growth projections, Years 3 to 6

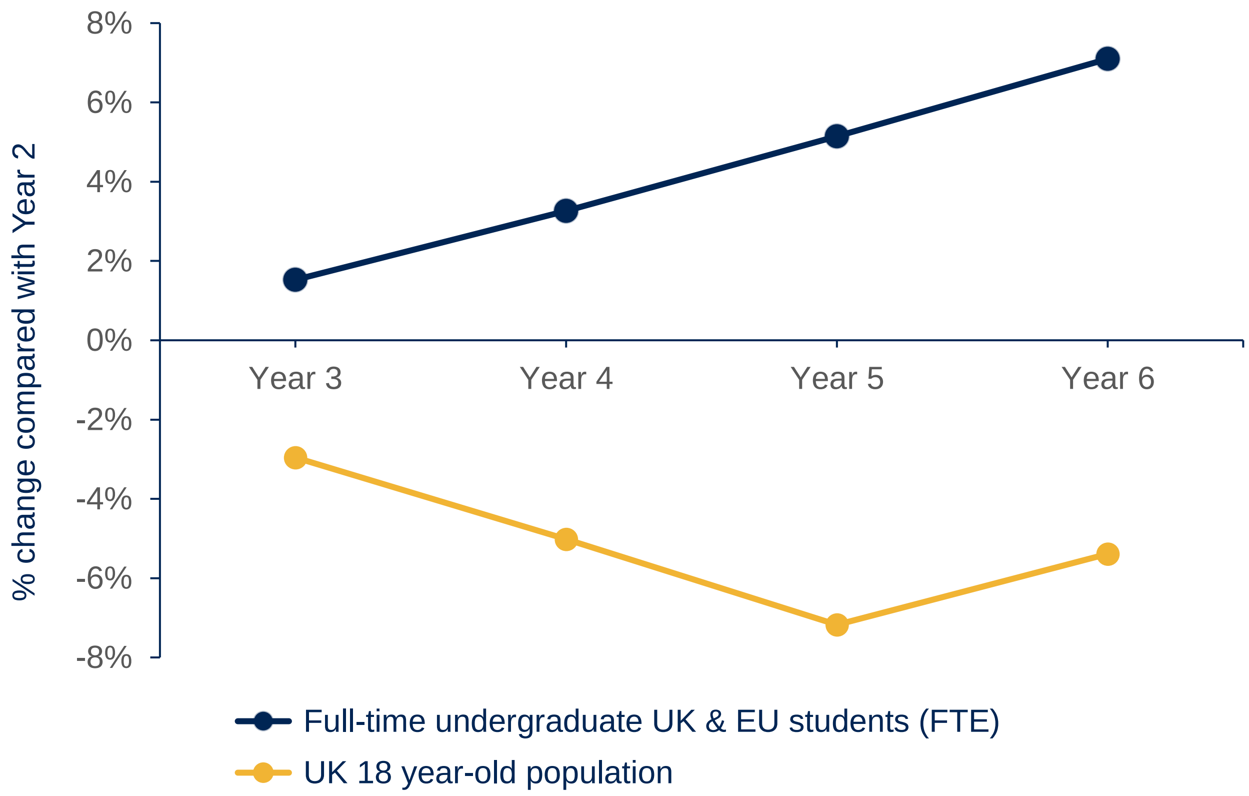
	UK and EU		Overseas		Total	
	FTE	Percentage growth	FTE	Percentage growth	FTE	Percentage growth
Total predicted numbers of students	**115,220**	**8.0**	**55,938**	**20.7**	**171,159**	**10.0**
High average tariff	22,619	5.2	27,154	19.5	49,773	8.7
Medium average tariff	45,564	7.7	15,262	19.1	60,826	9.0
Low average tariff	25,399	9.7	10,078	35.7	35,477	12.2
Specialist (all tariff)	21,379	15.0	3,420	15.7	24,799	15.1

54. Further analysis of these forecasts suggests that providers are aiming to increase the numbers of full-time undergraduate UK and EU students by approximately 78,000 FTE (seven per cent) in the four-year forecast period. This is despite a decline of approximately five per cent in the 18-year-old UK population over the same period.

55. From 2021 onwards, this population will begin a sustained period of increase, which could present opportunities for providers to increase recruitment. In the meantime, it is our view that the current aggregate growth forecasts and related fee income are likely to be unachievable over the forecast period.

56. Figure 8 shows the forecast growth in UK and EU full-time undergraduate students compared with the estimated change in the UK 18-year-old population in the forecast period.

Figure 8: Change in forecast full-time UK and EU undergraduate student numbers compared with the estimated change in the UK 18-year-old population (Years 3 to 6)



57. Providers forecast the aggregate number of overseas students to increase by approximately 56,000 FTE (20.7 per cent). Total fee income from overseas students is projected to rise by £1.7 billion (37.9 per cent), suggesting an increase in the average fee charged to overseas students. The government's International Education Strategy will aim to support the sector to increase the number of overseas students.[11]

[11] See https://www.gov.uk/government/publications/international-education-strategy-global-potential-global-growth

Context: a challenging and uncertain environment

58. Higher education providers in England are operating in a highly uncertain policy and economic environment.

Review of post-18 education and funding

59. The future of higher education funding is currently uncertain. The Review of Post-18 Education and Funding, commissioned by the government in February 2018, has been considering ways to ensure that the education system for those aged 18 years and over:

- is accessible to all
- is supported by a funding system that provides value for money and works for students and taxpayers
- incentivises choice and competition across the sector
- encourages the development of the skills that we need as a country.

60. At time of writing, the post-18 review is due to report later this year. Higher education providers will need to respond to any policy or funding changes that result from the review.

The UK's future relationship with the EU

61. The UK's exit from the EU is widely anticipated to have a major impact on higher education providers. Large numbers of students and staff from EU countries study and work in UK universities and colleges, and the UK benefits from tuition fee and research income from EU sources. Arrangements for the movement of students and staff between the UK, the EU and non-EU countries, and the UK's future involvement in EU regional and research funding programmes and partnerships, are yet to be resolved. More generally, the consequences for higher education providers of any changes in the wider UK economy, and any challenges for maintaining international competitiveness, are not well understood.

Increased employer pension contributions

62. Other developments can be predicted with more confidence, but also present potentially sizeable financial challenges. Most higher education providers will experience significant additional cost pressures arising from recent valuation exercises of a number of pension schemes. The outcome of the 2017 valuation of the USS, one of the largest sector pension schemes, resulted in a proposal to increase costs to both members and employers pending the outcome of the 2018 valuation. As part of a cost sharing agreement, providers' contributions to the scheme are currently expected to increase in three steps, from 18.0 per cent of pensionable pay to 24.2 per cent by April 2020. Employer contributions to the Teachers' Pension

Scheme will also rise significantly, from 16.48 per cent to 23.68 per cent of members' pensionable pay from September 2019.[12]

Monitoring financial viability and sustainability of registered providers

63. Higher education providers are facing significant uncertainty and the challenge of achieving ambitious or unrealistic growth predictions. Individual providers are responsible for continued compliance with the OfS's requirements for financial viability and sustainability. We have written to the chair of the governing body for each registered provider to emphasise the need for rigorous and independent scenario and contingency planning, throughout and beyond the period of this report, to ensure that sustainable levels of cashflow and investment are maintained. We have also reminded them that providers are required to report to the OfS any material changes in current or future financial position or performance as a formal reportable event.[13]

64. We will continue to monitor individual providers for early signs of financial difficulties and will intervene where we consider there to be increased risk that a provider may not be viable or sustainable in the future. Intervention may be required, for example, when a provider is not able to demonstrate that it is taking reasonable steps to mitigate any significant risks it has identified. We want providers with financial concerns to approach us early so that we can understand the emerging risks, the actions being taken to mitigate these, and to ensure that students continue to be protected.

65. Our 2020 annual report, published next spring, will include an updated analysis of the financial sustainability of registered providers, including relevant patterns, trends and other issues we have identified as part of our work.

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[12] Valuation of a third scheme, the Local Government Pension Scheme, will begin on 31 March 2019 and conclude on 31 March 2020.

[13] See paragraph 494 of the OfS's regulatory framework, available at www.officeforstudents.org.uk/publications/securing-student-success-regulatory-framework-for-higher-education-in-england/.

Annex A: Technical note

Dataset

The report draws on financial data, including forecast data, submitted by 183 higher education providers (excluding further education colleges providing higher education) on the OfS register as at 7 March 2019. (Throughout the report we refer to 'higher education provider(s)', 'provider(s)', 'universities and colleges', and 'sector' as shorthand for this group of providers.)

Presentation of time periods

Higher education providers operate across a range of different financial year dates and year ends. This means that it is not possible to report financial data as at a consistent point in time. For ease of comparison, we refer to financial year numbers.

The analysis covers a six year period, which for most providers (131) represents the period 2016-17 to 2021-22. We refer to each year as follows:

Table 1: Period of analysis

	Year 1 (prior year)	Year 2 (latest actual)	Year 3 (forecast)	Year 4 (forecast)	Year 5 (forecast)	Year 6 (forecast)
OfS fundable providers: year end	31/07/17	31/07/18	31/07/19	31/07/20	31/07/21	31/07/22
Other providers: earliest and latest year end	31/03/16 31/07/17	31/03/17 31/07/18	31/03/18 31/07/19	31/03/19 31/07/20	31/03/20 31/07/21	31/03/21 31/07/22

As Table 1 shows, Years 1 and 2 are actual data, and Year 2 relates to the most recent actual financial accounts submitted to the OfS. For most providers, this relates to the period 1 August 2017 to 31 July 2018 (financial year 2017-18), but for 'other' providers (row 2) the data may be older. Data for Years 3 to 6 is taken from provider financial and student number forecasts submitted to the OfS during 2018.

All financial data is presented in cash terms. Student numbers are presented as full-time equivalents.

Presentation of data

The data is presented as an aggregate view of provider financial records and forecasts for

i. the sector overall

ii. three broad peer groups based on providers' undergraduate student population tariff points, and a fourth comprising specialist providers.

Peer groups

The peer grouping system used in this report comprises three broad peer groups by average undergraduate entry tariff points (high, medium, and low). A fourth peer group, 'specialist providers' are those where at least 80 per cent of their provision is concentrated in one or two subjects.

Peer group status was determined using the average tariff score of the provider's young UK-domiciled undergraduate entrants (under 21) with Level 3 qualifications in the 2017-18 academic year. Providers were ordered by the average tariff score, then divided into three groups (with each group containing a third of all students in this population).

As tariff calculations are based on young UK domiciled undergraduate entrants the categorisation of a provider with large populations of mature students, non-UK students or similar may only reflect the entry tariff of a minority of their students. A small number of providers, for example those offering only postgraduate courses, may have no tariff data available and may therefore be 'unclassified' on this basis. The data for this unclassified group is excluded from the charts as their small number materially distorts the axes.

Table 2 shows the number of providers allocated to each peer group.

Table 2: Peer groups: provider numbers

Peer group	Number of providers
Non-specialist: high average tariff	29
Non-specialist: medium average tariff	56
Non-specialist: low average tariff	44
Specialist: all	45

We will continue to explore ways of constructing peer groups and other types of segmentation as we further develop our analysis of sector patterns and trends.