OfS financial viability and sustainability risk assessment framework

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Enquiries to: regulation@officeforstudents.org.uk

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Executive summary

1. This guidance sets out our financial viability and sustainability risk framework. It:

   - explains how we assess financial risk in practice
   - highlights the characteristics and indicators that inform financial risk judgements for individual providers
   - explains how we apply regulatory judgement concerning our published regulatory requirements in practice
   - highlights the level of regulatory intervention the OfS is likely to take in response to escalating risk.

2. This guidance applies to providers registered with the OfS in either the Approved or Approved (fee cap) category of the OfS Register.

3. Further education colleges or sixth form colleges regulated primarily by the Department for Education (DfE) do not need to submit financial data to the OfS and this guidance does not apply to them. For these providers, we work closely with the DfE to ensure that it can monitor financial viability and sustainability as needed.

4. Providers can use this document to:

   a. understand how we evaluate risk in practice and how that assessment directly informs the level and type of regulatory engagement we have with providers, in line with the OfS's risk based approach.

   b. assess their own financial risk exposure using an approach that is consistent with the OfS's assessment, so they can put in place appropriate mitigating measures and avoid risk escalation.

5. The assessment of provider financial risk is grounded in the OfS regulatory framework, including Condition D: Financial viability and sustainability.[1] Individual assessments are dynamic and based on a range of risk factors and mitigations that are specific to each provider's circumstances.

6. We will intervene according to the level of risk and the capacity and capability of individual providers to mitigate risks. Our engagement with providers focuses on understanding how they ensure their financial sustainability and, in high-risk cases, how they would protect their students in the event of institutional closure.

7. This process is designed for the OfS's purposes only. For these reasons, the OfS does not consider it would be appropriate for third parties to seek to rely on the OfS's risk assessments in other contexts. The OfS will not ordinarily publish risk assessments for individual providers.

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[1] See OfS, Condition D: Financial viability and sustainability.

8. Provider risk categories may change often as risks are identified and managed. Being assessed in any given category should not be taken as a long-term sign of financial health. For this reason, we do not expect institutions to share their category or risk level publicly.

9. OfS judgements on provider finances cannot be recreated solely through the use of publicly available information and to do so would be unreliable. OfS risk assessments are informed by information and insight only available to OfS as the regulator. We make balanced and dynamic judgements based on a wide range of factors, including those gained through detailed engagements with the institutions we regulate.

10. This framework does not introduce new regulatory requirements, nor is our assessment of financial risk a formal regulatory judgement about a provider's compliance with any ongoing conditions of registration. It does not constitute legal or regulatory advice.

Introduction

11. We are publishing this framework to provide further clarity about how we assess financial viability and sustainability risk and how those assessments inform our regulatory engagement with providers in practice. In setting out the factors we consider, the characteristics associated with different levels of risk, and the way these translate into regulatory responses, we aim to help providers understand how and why we reach particular judgements about financial risk, and what this is likely to mean in terms of monitoring, engagement and potential intervention.

12. This framework is also intended to support providers' assessment and management of their own financial risks to ensure compliance with existing regulatory requirements. By describing the indicators, risk characteristics and categories we use, we aim to enable providers to consider their position against the framework, identify emerging risks at an earlier stage and take appropriate mitigating actions. In this way, the framework is designed not only to give even greater clarity about our regulatory approach, but to support providers in strengthening their financial resilience and reducing the likelihood of risk escalating to levels that may have adverse consequences for students.

13. As part of our assessment of financial risk, we place providers into one of five risk categories. We describe these in detail below, but in summary the categories are:

    - Category 1 – No financial concerns
    - Category 2 – Possible financial concerns
    - Category 3 – Actual financial concerns
    - Category 4 – Acute financial concerns
    - Category 5 – Market exit.

14. Providers are responsible for managing their own financial risks and ensuring that they are financially sustainable. The OfS does not have a duty, or powers, to manage a provider's financial risk, or prevent a provider from closing.

15. However, the OfS does have a duty, under section 68 of the Higher Education and Research Act 2017 (HERA), to monitor the financial sustainability of registered providers. There are approximately 425 OfS-registered providers, and the OfS directly monitors the finances of approximately 285 providers (excluding further education colleges).

16. The OfS has developed conditions that providers registered with the OfS must meet. Some of these apply when a provider first registers ('initial conditions'). Others apply on an ongoing basis ('ongoing conditions'). One of these ongoing conditions of registration, condition D, requires institutions to be financially viable and sustainable.[2] Paragraphs 397 to 423 of the OfS regulatory framework explain how the OfS assesses condition D.[3]

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[2] See OfS, Condition D: Financial viability and sustainability.

[3] See OfS regulatory framework.

17. The OfS will not, ordinarily, publish the financial risk assessment of individual providers, but we will work with individual providers to understand how they address financial risks. In rare situations, we may consider that it is appropriate to publish individual provider risk assessments so we can meet our duties (for example, to protect the interests of students and taxpayers). If this applied, we would follow our existing guidance on the publication of information and inform any affected provider ahead of publication.[4]

18. The OfS is subject to the Freedom of Information Act 2000 and will consider any requests for information in accordance with its statutory obligations.[5] We will assess requests relating to information gathered or generated through the risk framework on a case-by-case basis. Where appropriate, the OfS may withhold information under exemptions in the Act. This includes cases where disclosure would be likely to prejudice its regulatory functions or the effective conduct of public affairs, prejudice any person's commercial interests, or breach confidence. We will decide to withhold information by following the Act and the specific circumstances of the request.

Monitoring and engagement

19. Providers must submit annual financial returns, which include financial and student recruitment forecasts, audited financial statements and a commentary to explain financial performance and resilience matters.[6]

20. The detailed annual financial data returns are supplemented by interim financial returns. This helps us to monitor in-year changes to income and expenditure and the actions providers are taking in response to changing circumstances.[7]

21. Providers must also notify the OfS of any significant issues or events that may negatively affect financial performance on a rolling basis through the reportable events framework.[8]

22. We consider the annual and interim financial returns (detailed data and qualitative information), together with any reported issues or events, to build a rounded picture of a provider's financial situation. Where we identify specific financial challenges, we may require a provider to submit more frequent financial information to better understand their nature and extent of its financial issues.

23. Where we identify specific financial concerns, we will meet with providers to understand their individual context in more detail. Based on our own financial analysis and discussions with the provider, we will typically then increase our monitoring and engagement. This could include a legally binding directive that will compel a higher education institution to submit specific information or report critical events (an 'F3 Notice').[9] Alternatively, we might apply a 'Student Protection Direction', which is a legally binding set of requirements for a provider at

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[4] See OfS, Regulatory advice 21: Publication of information.

[5] See GOV.UK, https://www.legislation.gov.uk/ukpga/2000/36/contents.

[6] See OfS, Regulatory advice 14: Guidance for providers for the Annual Financial Return.

[7] See OfS, Interim financial return April 2026 – deadlines and requirements.

[8] See OfS, Regulatory advice 16: Reportable events.

[9] For further information, see OfS, Condition F3: Provision of information to the OfS.

risk of closure, or a 'specific ongoing condition', which is a requirement specific to a provider that it must meet to stay registered.[10,11]

Our approach to assessing financial risk

24. We recognise that our view of financial viability and sustainability risk may differ from a provider's view of risk, particularly when we consider a provider's circumstances in the context of prevailing trends across the sector.

25. Our approach to assessing financial risk is structured, but not mechanistic. We consider financial data, provider-specific information (including reportable events) and wider intelligence on sector trends and current and future risks to form a comprehensive view of financial risk.[12] We seek to apply balanced regulatory judgement throughout.

26. We look at both current performance and forecasts. That includes forecast financial outcomes, cash positions and trends over time, as well as how credible a provider's plans and assumptions appear to be. We consider a core set of indicators, such as income and expenditure performance, operating cashflow, net liquidity and indebtedness, alongside qualitative factors like strength of governance, leadership and delivery capability. We also then assess how risks interact and how likely they are, overall, to materialise. This is a dynamic process and our objective is always to recognise improvement in financial performance quickly, and to de-escalate risk assessments in response wherever possible.

27. Generally, no single measure, formulaic metric or threshold determines how we view financial risk at a provider. However, the management of risks that challenge operating cash is the primary driver for significant risk escalation and the principal reason, in our view, for the potential for institutional closure.

28. Depending on the outcome of our assessment process, we then place providers within different categories across a risk spectrum, reflecting the severity and proximity of financial risk, including the risk of institutional closure. This helps us to act early where concerns emerge and ensures our engagement is proportionate – from routine monitoring at lower risk to more intensive oversight and targeted regulatory interventions where risks are higher.

29. Throughout, we aim to be transparent about what we are assessing and why. This approach is intended to help providers understand their position, take action where needed and maintain the financial resilience that underpins a high quality experience for students.[13]

30. Regulatory oversight increases when we identify worsening or material risks to a provider's financial sustainability, particularly where those risks could affect students. This could be at any time during the year.

31. In practice, this is triggered by:

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[10] See OfS, Condition C4: Student protection directions.

[11] See OfS, Conditions of registration.

[12] See OfS, Reportable events.

[13] See OfS, Regulatory advice 15: Monitoring and intervention.

a. Deteriorating financial circumstances – for example, sustained, worsening or unplanned deficits, negative operating cashflow, weak liquidity or pressure on debt obligations.

b. Heightened short-term risk, especially where financial risk is likely to crystallise in the near term, such as low cash headroom, refinancing uncertainty or lending covenant breaches. This could also include notifications of non-compliance with UK Visa and Immigration (UKVI) metrics for non-UK recruitment activity.

c. A lack of credible financial planning, as evidenced by poor forecasting accuracy, overly optimistic assumptions where financial sustainability relies on growth which is uncertain, or limited evidence that recovery plans are deliverable.

d. Adverse qualitative factors, such as perceived governance or leadership weaknesses, financial control concerns or complex operating models that reduce a provider's ability to respond to financial pressures on time.

32. When we assess providers at a higher risk level (categories 3 and 4), we will increase our engagement from routine monitoring to more regular and intensive oversight and intervention. Where risks decrease, and providers move out of either category, we will scale down related regulatory action or cease it, as appropriate.

Information sharing across government

33. HERA gives the Secretary of State the power to require information and advice from the OfS. The DfE maintains overall strategic responsibility for the higher education sector, including financial sustainability. The DfE may require the OfS to share detailed information about individual providers where financial risk escalates that could have significant implications for students and the local, regional or national economy.

34. HERA also permits the OfS to co-operate and share information with other parties where it means the OfS can operate more efficiently or if the Secretary of State requires it. In practice, that may include sharing detailed information about individual providers at financial risk not just with the DfE, but also with the Department for Business, Innovation, Science and Trade (DBIST) and UK Research and Innovation (UKRI). This is to support cross-government co-ordination where needed, enabling DBIST and UKRI to assess the risk to research and innovation capability. Information sharing will be proportionate and in line with confidentiality and information handling arrangements. This cooperation will minimise demands on affected providers, which may arise if action wasn't effectively co-ordinated.

35. In most cases, we will share case-specific information about individual providers at financial risk, through the statutory methods discussed above, only if they are in risk category 3 or 4 of the risk framework. If we intend to share this information, we will inform the affected provider.

What this means for providers

36. The following paragraphs outline the regulatory expectations for all providers relative to the level of financial risk. We give more detail against each risk category in the section on the risk framework below (see page 11).

37. Providers in categories 1 and 2 should expect engagement about financial risk from the OfS to be minimal and limited to routine regulatory interactions, with no enhanced monitoring or additional regulatory intervention unless new risks emerge.

38. Providers in categories 3 and 4 should expect more engagement from the OfS, relative to the level of financial risk. This engagement will be with both the accountable officer and head or chair of the governing body in all cases, reflecting both the seriousness of the situation and the shared financial leadership responsibility. As a risk-based regulator, we are likely to focus our engagement more intensively on larger providers in category 3 or 4.

39. Providers in categories 3 and 4 will typically be subject to enhanced monitoring.[14] The OfS can require specified additional information through an F3 notice.[15]

40. In all cases where we assess a provider to be in risk category 3 or 4, we will communicate directly with the accountable officer and head or chair of the governing body to discuss our judgement and what that will mean in terms of further action. This will provide an early opportunity to take into account any new or changed information, enabling us to adjust our assessment as needed.

41. Under Condition C4: Student protection directions, we can make a formal assessment that a provider is at material risk of market exit.[16] We will typically notify providers that we have made this decision under condition C4 at the same point we notify them of our assessment that they are in category 4. Ordinarily, where we have assessed a provider is at material risk of market exit, we will also then issue a Student Protection Direction.

42. We are aware that affected providers will have obligations to third parties, such as lenders and others with a financial interest, about the disclosure of regulatory actions. The OfS has no expectation that institutions provide stakeholders with copies of our regulatory decisions. However, we understand that lenders and others with a financial interest may expect providers in category 4 that are in receipt of a material risk of market exit assessment and/or a Student Protection Direction to share relevant information with them. Conversely, we do not believe third parties should need providers to supply them with a copy of any F3 Notices the OfS has issued. In all cases, it remains the provider's responsibility to determine the extent of any disclosure, considering their specific circumstances and contractual obligations.

43. We appreciate that providers may be concerned about where we place them in these categories. We will seek in all cases to be transparent, open and fair about the process surrounding any move to these categories. Where new or changed information materially affects our judgement, we will review our view of risk as needed and as promptly as possible. We want our risk ratings to be as accurate and current as possible. Where financial risk is decreasing, we will always aim to reassess that promptly.

44. Where we judge a provider to be within either category 3 or 4, we will be in contact as soon as possible. Where such risks decrease, and providers move out of either category, we will

[14] See OfS, Regulatory advice 15: Monitoring and intervention.

[15] See OfS, Condition F3: Provision of information to the OfS.

[16] See OfS, Condition C4: Student protection directions.

also communicate that to providers as soon as possible. We will also scale down or cease related regulatory action in parallel and as appropriate.

Validation and subcontractual partnerships

45. If a provider is in category 3 or 4 and is part of a validating or subcontractual partnership, either as the lead or delivery partner, the OfS may actively engage with its validating or subcontractual partners where necessary. This engagement will help ensure that partners understand the risk exposure and that the OfS considers the interests of all students.

46. We expect lead providers in validating arrangements (i.e. the validator) to take primary responsibility for identifying, monitoring and managing risks to students arising from any risk of institutional closure. If a provider delivering courses through a validating arrangement is at risk of closure or exits the market, we expect the validator to take responsibility for those students, including making arrangements to protect their continuity of study, in line with its responsibilities under Conditions B1 to B5, which relate to quality and standards.[17]

47. Similarly, where a provider delivering courses through a subcontractual arrangement is at risk of closure or exits the market, we expect the lead provider to comply with its responsibilities under our conditions of registration for quality and standards (conditions B1 to B5) and to comply with Condition E10: Subcontracting, which requires providers to ensure effective oversight of risks in subcontractual provision.[18]

48. We expect all parties in subcontracting and validation arrangements to undertake due diligence in developing detailed contingency plans that assess the risk for each individual partner, and to plan for how and where students may continue their studies if that partner closes. If it is not clear what form these contingency plans could take, we recommend not entering into a subcontracting or validating arrangement until this has been definitely established.[19]

Student protection directions

49. Where we have assessed a provider as being at material risk of market exit, we will typically then issue a Student Protection Direction under condition C4.[20] This enables the OfS to intervene quickly and in a targeted way, by imposing requirements on the provider to minimise the impact on students through measures to avoid a disorderly exit where possible.

50. We recognise that engagement with a provider is important in these circumstances to understand the factors that need to be considered and what the implications are for students in that context. We will normally discuss the requirements with an affected provider in advance and explain what student protection planning we may need it to undertake. However,

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[17] See OfS, How we regulate quality and standards.

[18] See OfS, Subcontracting or validating higher education.

[19] See OfS, Insight brief 24: Protecting the interests of students when universities and colleges close

[20] See OfS, Condition C4: Student protection directions and Regulatory notice 6: Condition C4: Student protection directions.

we may need to act promptly if we judge that any delay in imposing a Student Protection Direction would disadvantage students.

51. Student protection directions will typically require providers to specify:

    a. How they will protect continuity of study for affected students. This might include determining whether and how it is possible to teach out existing students, identifying potential receiving providers that may be able to accept students for transfer, and/or considering exit awards to give students a formal record of their achievement.

    b. How they would secure current student and alumni records to allow continuity of study and recognition of prior learning. This may involve identifying a third party able to accept transfer of records and ensuring GDPR-compliant data-sharing is in place in advance of closure.

    c. How students would be supported to understand the impact on their studies and what their options are, to inform choices about their next steps, including advice on accommodation, access to campus, return of property, financial and welfare matters.

    d. How they will handle student complaints and requests for refunds and compensation, including how they will fund them when finances are stretched.

52. We may also explore with providers the options they are considering that could ensure they are financially viable and sustainable in the long term.

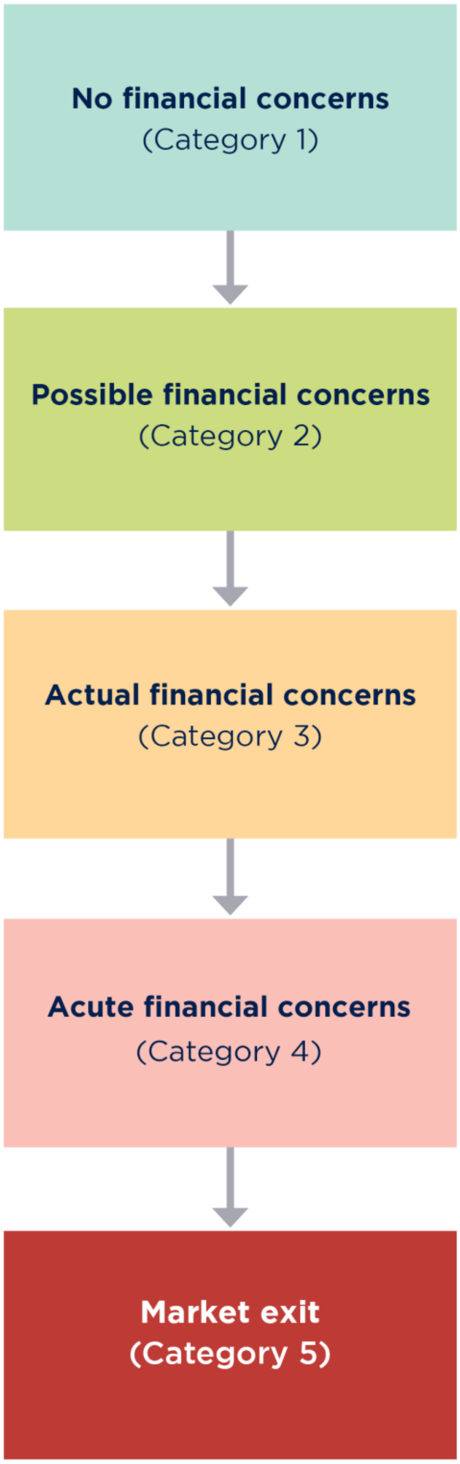
53. We expect providers to give enough detail in their responses to student protection directions to assure us that they could deliver the measures in practice if needed. Responses should also explain how providers would put the measures into effect in both an orderly and a disorderly exit scenario. Providers will need to make a realistic assessment of what resources would be required to implement its plans, including financial and staffing. It is important in these circumstances that providers seek professional advice to understand the insolvency pathway they would follow, according to their particular legal form.

54. To share our experience and knowledge of protecting the interests of students when an institution closes, we published an insight brief in April 2025.[21] This sets out in practical terms what a provider's regulatory obligations are, what student protection measures under C4 might look like, the work necessary to operationalise these and the challenges a provider might face.

[21] See OfS, Protecting the interests of students when universities and colleges close.

The financial viability and sustainability risk framework

55. As part of our assessment of financial viability and sustainability risk, we place providers into one of five risk categories, reflecting the severity and proximity of risk. These categories range from providers with no financial concerns to those with acute financial issues and those facing actual institutional closure. Ordinarily we would expect movement through the categories to be linear, but this is not always the case. For example, our assessment of financial risk may result in a provider moving from category 2 to category 4 as we receive new information or an unforeseen event occurs.



56. The categories are not determined by a single metric or threshold, but by balancing a range of financial indicators, qualitative factors and the individual circumstances of the provider and our assessment of the capability of the provider to mitigate or tolerate uncertainty or risk. Our assessments of financial performance are holistic and not purely numeric. We use terms like 'strong', 'positive', 'satisfactory', 'adequate', 'reasonable', 'weak,' 'limited' or 'poor' to describe financial health. These terms correspond to patterns in profitability, liquidity, debt, forecasting reliability and governance. We use these terms consistently in our assessments to compare financial risk profiles in a structured way

57. Table 1, below, sets out in more detail what the typical financial characteristics are for each category in the risk framework. Alongside this is a description of what providers can expect from the OfS in terms of monitoring, engagement and intervention at each risk category.

Table 1: Typical financial characteristics for each category

	'Typical' financial characteristics could include:	What providers should expect of the regulator
Category 1 – No financial concerns	• Strong historical and forecast financial performance that shows a healthy surplus relative to income and the ability to withstand adverse variations to income and expenditure. • Positive operating cash inflows relative to income. • Strong liquidity levels in cash or cash equivalent holdings relative to cash expenditure. • Good debt service coverage, comfortably able to repay debt when it falls due. • Sufficient headroom on debt covenants over the forecast period. • A track record of accurate forecasting, outturn against previous forecasts. • Credible future forecasts based on reasonable assumptions and growth. • Adequate financial controls and financial management information. • Detailed activity costing systems, supporting financial decision making. • Capable financial management and governance. • Good financial risk management, identification of financial risks and	• Providers should expect only routine monitoring and intelligence-gathering, including compliance with standard OfS requirements such as reportable events requirements. • Engagement about financial risk will be minimal and proportionate, limited to routine regulatory interactions, with no enhanced monitoring or additional regulatory intervention unless new risks emerge.

	stress testing undertaken and ability to maintain sufficient financial resilience and develop contingency planning to manage risks. • Appropriate capital investments that sustain good estate condition and suitability.	
	‘Typical’ financial characteristics could include:	**What providers should expect of the regulator**
Category 2 – Possible financial concerns	• Weakening financial performance, for example, surplus turning to a small deficit relative to income and limited ability to withstand adverse variations to income and expenditure. • Weak operating cash inflow or small, occasional negative operating cashflows relative to income. • Reasonable liquidity levels in cash or cash equivalent holdings relative to cash expenditure or deteriorating (good cash levels but declining over the forecast period). • Low or weakening debt service coverage, continued ability to pay debts when due but limited or weakening levels. • Higher leverage (borrowing levels relative to financial performance). • Forecast compliant with debt covenants. • Debt refinancing or due in medium term • Consistent adverse variances in delivering against previously forecast financial performance or strength. • Forecast assumptions which may not be achievable. • Minor financial control weaknesses. • Some plans in place to mitigate future risks and/or uncertainty, but limited in cases of more significant downside risks, which may adversely impact financial performance or liquidity levels in future years.	• Providers will be subject to routine monitoring and intelligence-gathering only, including compliance with standard OfS requirements such as reportable events requirements. • Engagement about financial risk will be minimal and proportionate, limited to routine regulatory interactions, with no enhanced monitoring or additional regulatory intervention unless new risks emerge.

	• Low levels of capital investment in the estate infrastructure with potential to impact condition and suitability.	
	'Typical' financial characteristics could include:	**What providers should expect of the regulator**
Category 3 – Actual financial concerns	• Poor financial performance with a trend of consecutive historical or forecast deficits and/or significant deficits relative to income and little ability to withstand variations to income and expenditure. • Consecutive underlying negative operating cashflows relative to income. • Trend of declining liquidity or low liquidity levels in forecast period, relative to cash expenditure, but remaining positive in the short term (indicative of weak operating resilience). • Weak debt service cover, continued ability to pay debts when due but limited or weakening levels. • High leverage (borrowing levels relative to financial performance). • Very low covenant headroom. • Significant debt refinancing/renewal event in the medium term (i.e. the significance of the value of debt repayment/refinancing due relative to the capacity to repay the debt when due). • Evidence of poor forecast delivery, for example, significant adverse variations in recruitment and/or income levels relative to recent forecasts. • Financial forecasts based on unrealistic assumptions, relative to prevailing sector trends, on key drivers for income and expenditure. • Financial sustainability and/or recovery is reliant on optimistic	• Monitoring and engagement will become more structured and regular. • The OfS is likely to require enhanced monitoring of financial information, typically through an F3 Notice. • The OfS will undertake early discussions on risks to students and student protection arrangements. Depending on the types of risk that apply, the OfS may expect management and governance teams within individual providers to be exploring different types of actions in response. • Where appropriate, the OfS may engage with key stakeholders, including, where applicable, validation or subcontractual partners. • The OfS may share relevant provider information with the DfE, DBIST and UKRI to enable cross-government co-ordination and to minimise compliance demands on providers.

	income growth assumptions over the forecast period. • Lack of robust and detailed stress testing on a range of financial risks. • No evidence of a credible plan to turn around finances or address financial risks and secure longer-term sustainability. • Identified financial management and control deficiencies. • Risk of a low or negative liquidity event in the medium term, unless sufficient action is taken. • Consistent trend of underinvestment in infrastructure and the estate and its declining condition. • Identified weakness in capacity in financial management and governance. • Limited headroom on UKVI compliance measures, or UKVI action plan in place, where international fee income is material to the financial model of the provider.	
	'Typical' financial characteristics could include:	**What providers should expect of the regulator**
Category 4 – Acute financial concerns	• Provider is facing acute financial challenges. • Consistently negative operating cashflow relative to income, demonstrating unviability. • Risk of a potential liquidity event (negative cash) or forecast in the shorter term. • Over-reliance on borrowing or short-term credit facility to sustain operating expenditure, where there is a risk that the lending facility may be withdrawn (for example, failure to service the debt, or a forecast breach of debt covenant). • Provider is reliant on third-party support (where this is not legally binding or where the third party has a	• Escalated engagement with the accountable officer and chair or head of the governing body. • The OfS may undertake a formal assessment, under condition C4, and share that with the provider. • The OfS may engage with key stakeholders, including, where applicable, validation or subcontractual partners. • The OfS may engage with DfE, DBIST, UKRI and Office of the Independent Adjudicator for higher education (OIA) and share provider information. • In most cases, student protection expectations will be established through a Student Protection

	weak financial position) to maintain operating liquidity. • Forecast breach of borrowing covenant (where there is uncertainty over lender approach to such a breach). • Debt refinancing in the shorter term, where there may be challenge in securing refinancing). • Actual or forecast UKVI non-compliance, which could result in suspension or revocation of tier 4 sponsorship license, with material income impact.	Direction under regulatory condition C4. • Regular and detailed financial reporting will be required, typically through an F3 Notice (which may already be in place, if a provider has progressed from category 3 to 4 sequentially). • We may consider pausing OfS funding in the interests of protecting public funding. • We may consider whether further regulatory requirements are needed. • We may consider whether it is appropriate to require a provider to communicate the risk of institutional closure to current and future students, along with further action to ensure compliance with wider obligations.
	'Typical' financial characteristics	**What providers should expect of the regulator**
Category 5 – Market exit	• The provider is intent on ceasing or substantively ceasing higher education provision (or is forced to do so).	• Providers will typically already have been subject to category 4 interventions. • Focus will shift to oversight of institutional closure arrangements to ensure effective delivery of student protection measures. • The OfS will monitor implementation of student protection measures and engage closely with providers and stakeholders to ensure regulatory expectations are met during closure or exit. • Student protection arrangements move from planning to implementation, with a focus on protecting continuity of study, supporting student transfers and minimising disruption.

		• Implementation of student protection measures may be supported through establishing a multi-agency group, with cross-government involvement. The OfS will work with stakeholders to ensure communications are aligned and appropriate.

Annex A: Core financial indicators and other factors

1. We assess a range of data and indicators to support the financial viability and sustainability risk framework, but there is no single measure, or individual threshold, that determines our balanced view of risk. Assessment of provider individual circumstances and the ability to mitigate or tolerate risk or uncertainty ensures a balanced judgement of overall risk. The section below describes some of the main financial indicators that we consider in our assessments and provides some examples of how they relate to our view of the severity and likelihood of risk.

Financial performance (surplus/deficit) – adjusted to remove exceptional pension adjustments

2. We assess surplus or deficit, excluding pension adjustments across current and forecast years. We consider whether the financial performance reflects underlying operations or one-off and/or exceptional activity and whether performance is consistent with a deliverable financial strategy. While exceptional deficits may be acceptable in the short term, a surplus or profit is necessary over the long term to sustain operations and to cover the notional cost of sustainable asset use.

(Surplus/(deficit) before other gains/losses and share of surplus/(deficit) in joint ventures and associates + Changes to pension provisions and pension adjustments) ÷ Total Income × 100

Operating cashflow

3. We assess the net cash flow from operating activities, from the annual statement of cashflows, and forecast net operating cashflow, as an indicator of financial performance.

Net cash inflow/(outflow) from operating activities ÷ Total income

4. Negative cashflow from operating activities is not sustainable and we will seek to understand any exceptional reasons for instances of negative cashflow as well as implications for meeting debt servicing and other cost obligations.

Liquidity

5. Liquidity (cash and cash equivalent funds) is a key indicator for both short-term viability and longer-term sustainability. Providers should maintain sufficient liquidity to, at least, maintain their operations relative to their future risks and uncertainties. It may also be necessary to ensure there is sufficient resources to fund capital and other developmental investment needs.

6. Liquidity risk, or uncertainty, is often the reason for escalating risk towards institutional closure.

7. We review cash holding, as well as the availability of other liquid funds. We do not consider regular or ‘over-reliance’ on short-term credit facilities (such as overdrafts or revolving credit facilities) to fund operating costs to be a positive indicator of liquidity, particularly where there is underlying weak financial performance. Although in some cases we accept that they are used to provide contingency and cash for operations for short periods throughout the year.

8. Typically, we measure liquidity in terms of the number of days liquidity will cover the notional average cash expenditure.

> (Short-term investments + Cash – Overdrafts – Bank loans and borrowing falling due within one year – Directors’ loans falling due within one year) ÷ (Total Expenditure – Changes to pension provisions and pension adjustment – Depreciation and amortisation) × Number of days in financial year

9. We do not set a threshold for this, because it will depend on institutional circumstance and other financial considerations.

10. In reviewing liquidity risk, we will also typically consider other factors, such as:

    - the monthly cashflow forecasts submitted by providers in regulatory returns or submitted in year by providers
    - forecast lowest cash position in year to date and the following year
    - access to committed lending and draw down of credit facilities
    - any dependence on asset sales or non-recurring actions
    - future risks or uncertainties that could draw on liquidity.

Debt service capacity

11. We assess the ability of providers to cover the cost of debt servicing when due. Typically, this is based on debt service coverage ratio (DSCR) as follows:

> Total net cash inflow/(outflow) ÷ (Interest paid + Interest element of finance lease payments + Repayments of amounts borrowed + Capital element of finance lease payments)

12. We do not set a threshold for this, because it will depend on institutional circumstance and other financial considerations.

Leverage

13. Leverage measures the volume of debt and other financial commitments, relative to a measure of financial performance, such as adjusted operating surplus.

Borrowing (Overdraft + Bank loans + Obligations + Director loans) ÷ (Operating surplus + Changes to pension provisions and pension adjustment + Depreciation and amortisation - Interest)

Capital expenditure

14. We will consider the provider's ongoing and forecast capital programmes, where these are material to liquidity, borrowings or net assets. This may consider expenditure backlogs; estimates of the investment necessary; commitments made and flexibility to change plans; necessary and discretionary capital expenditure; and risks to the successful delivery and expenditure controls.

Covenant headroom

15. We assess the level of headroom against lender covenants. This is based on forecasts provided by institutions of covenant compliance as well as a range of financial indicators and what we know about debt covenants at providers.

16. We expect that providers will be monitoring forecast covenant compliance regularly and reporting these through management and governance reports. We also expect providers to have open and proactive dialogue with their lenders on their finances and any future risks to covenant headroom.

17. We will look to providers to submit assurances that future covenant compliance, or any implications that non-compliance could risk financial viability.

Refinancing

18. We will review the details of borrowing, noting those financial commitments that are expected to be 'refinanced' or substantially repaid at term, to assess any risks or uncertainties that may present challenge for providers.

Forecasting accuracy

19. We will review the historical trend in providers finances compared with budget and/or forecast, taking into consideration exceptional reasons for variances. Of particular interest is the achievement of income targets and the proportionate management of expenditure.

Credibility of forecasts

20. We will consider the provider forecasts and key assumptions (such as near and long-term recruitment forecasts) alongside a range of factors to form a view on the credibility of a provider's future forecasts. These factors could include:

- historical performance trends, and the achievement of forecasts
- historical trends (such as recruitment) which might indicate track record in delivering ambition

- sector-level factors – prevailing trend in international or domestic recruitment market
- prevailing domestic or international economic factors
- policy environment that could have a bearing on provider finances
- challenging the deliverability of some of the critical financial milestones – such as asset sales, restructuring plans, capital investment intentions, access to future borrowing etc.

Qualitative risk factors

21. We consider financial indicators alongside a range of qualitative factors, including:

    - governance effectiveness
    - leadership stability and capability
    - audit findings and control weaknesses
    - complexity of operating structures
    - transformation or restructuring plans
    - reliance on external funding or partnerships.