Industry in Focus

UK Higher Education Financial Sustainability Report

January 2024

Foreword

The UK Higher Education sector has a well-established international reputation for its excellent academic education and world-leading research – it is the second most popular study destination in the world. However, over the past decade the sector has been facing increasing financial pressures that threaten providers' ability to maintain the quality of their provision, and this may even bring the future of some providers into question.

PwC was commissioned by Universities UK (UUK) to consider the current financial sustainability of the UK Higher Education sector and its future outlook by analysing the 2022/23 regulatory forecasts (Annual Financial Return 2022 for England and Northern Ireland, and Strategic Plan Forecast 2023 for Scotland) of participating UUK members and assessing how those forecasts would be impacted by certain sensitivities. It is perhaps not surprising that we foresee a challenging financial outlook for the sector given a diminishing unit of resource for domestic students and increasing inflationary pressures on Higher Education provider cost bases. In England, the domestic fee cap was frozen at £9,000 from 2012 until 2017 when there was a small uplift to £9,250 for providers with a Teaching Excellence Framework award. The caps will remain frozen until at least 2024/25. Across the UK, research activity by Higher Education providers often operates at a net loss with funding further eroded by inflationary pressures. These financial constraints have put increased pressure on margins and, as well as measures to improve efficiency, we see evidence of providers opting to delay capital expenditure and increase their reliance on cross-subsidisation from international students.

When we consider the outlook for the sector, our analysis of UUK member forecasts highlights that there is provider optimism around sustained international student growth – particularly in some segments – and around expenditure growth falling below historical levels. As a result, most providers are particularly exposed to shocks in international student demand and to persistent inflationary pressures. Within a diverse sector, how these shocks impact individual institutions, and their capacity and capability to respond, will vary widely.

In the context of these financial constraints and risks, reducing cost is – and will continue to be – important for all institutions. However, meaningful and sustainable measures to reduce cost often require upfront investment and take time to implement, with many providers inevitably needing to make shorter term, tactical decisions to delay necessary investment or reduce provision to protect cashflows.

Given the scale of the challenge, and the fact that pressures are particularly acute for certain institutions, it may be inevitable that there is some loss of provision across the sector. There are measures that all providers will need to take to bring about more financially sustainable operating models in the long term without impacting the student experience or quality of provision, and many providers are already planning for the future with such measures, and drawing up contingency plans. However, in the absence of system level intervention it is likely that consolidation within the sector is needed, and as a result leaders should reflect on the vision for the future size and shape of the whole sector as well as their own institutions, to ensure the continued future success of Higher Education in the UK.

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Our scope of work

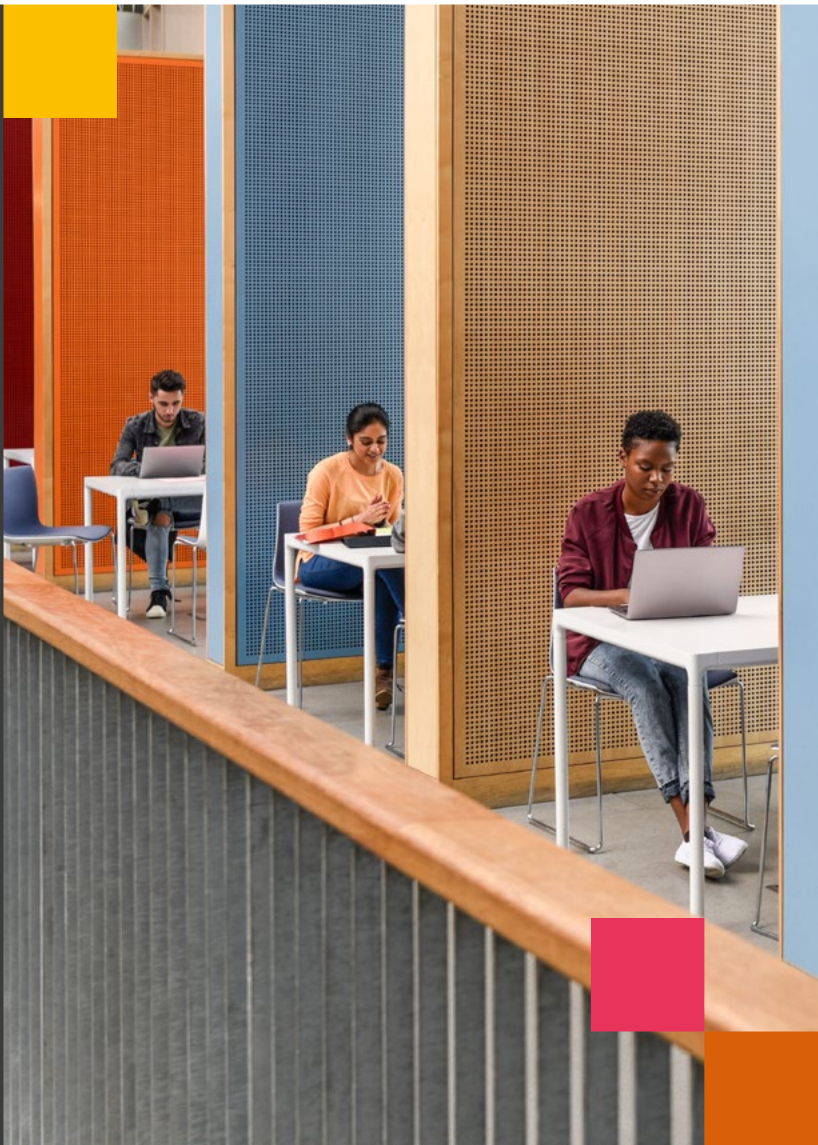
PwC were asked by UUK to provide a consolidated view on the current and potential financial sustainability challenges that the UK Higher Education sector is facing, and may face in future. Our work and findings are structured around three workstreams, as detailed below.

Section 1:
High-level overview of the UK Higher Education sector

Section 2:
Current state of the UK Higher Education sector

Section 3:
Outlook for the UK Higher Education sector

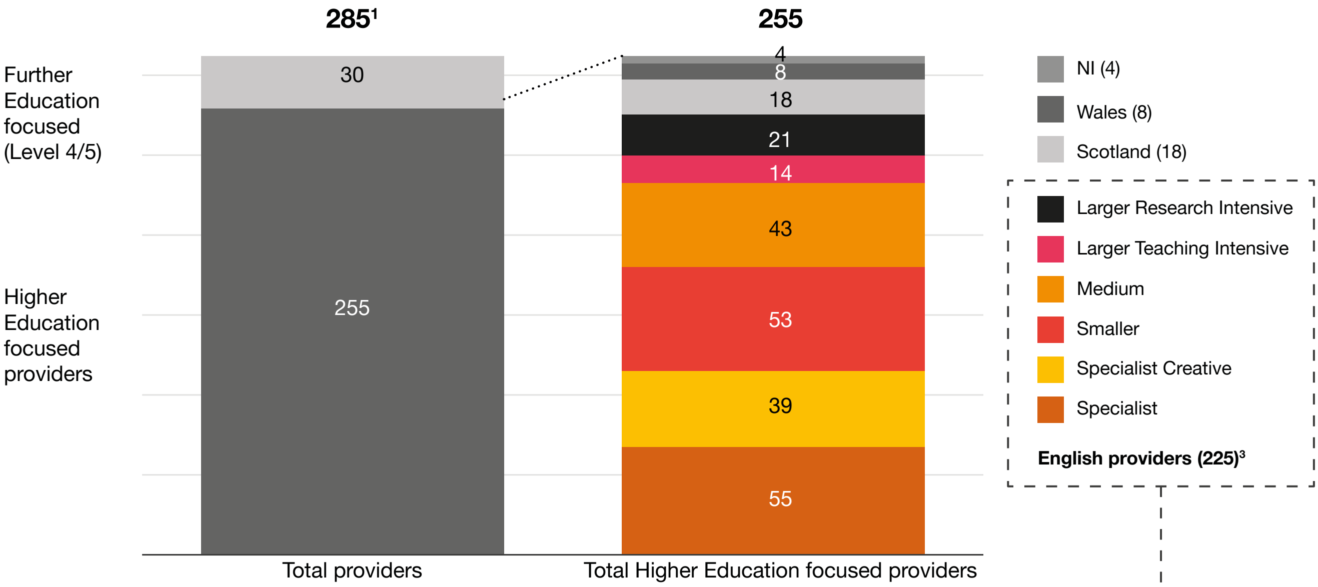
Our work was conducted over a 3-month period between July and September 2023 and our findings were finalised in November. As a result, our work may not reflect any announcements which fall outside of this period. We comment on the financial returns submitted in December 2022 for England and Northern Ireland, and in June 2023 for Scotland, that set out forecasts from 2022/23 onwards.



Provider segmentation: Overview

Of the c.285 providers within UK Higher Education, 255 of these are considered Higher Education focused. Most providers (225) are in England, followed by 18 in Scotland, 11 in Wales and four in Northern Ireland. The Office for Students (OfS) segments the 225 Higher Education focused English providers into six distinct segments – we refer to these throughout this report.

UK Higher Education providers by segment – # of providers, 2021/22



English Higher Education providers by segment – OfS classifications[2]

Larger Research Intensive
21 providers

"Qualifying Income" of more than £200m, and less than 70% of total income – Includes all Russell Group universities

Larger Teaching Intensive
14 providers

"Qualifying Income" of more than £200m, and over 70% of total income

Medium
43 providers

"Qualifying Income" between £100m – £200m

Smaller
53 providers

"Qualifying Income" less than £100m or unknown

Specialist Creative
39 providers

75% or more higher education student full-time equivalent (FTE) in one subject area, or 90% or more in two areas, where the main subject(s) in creative arts

Specialist
55 providers

75% or more FTE in one subject area, or 90% or more in two areas

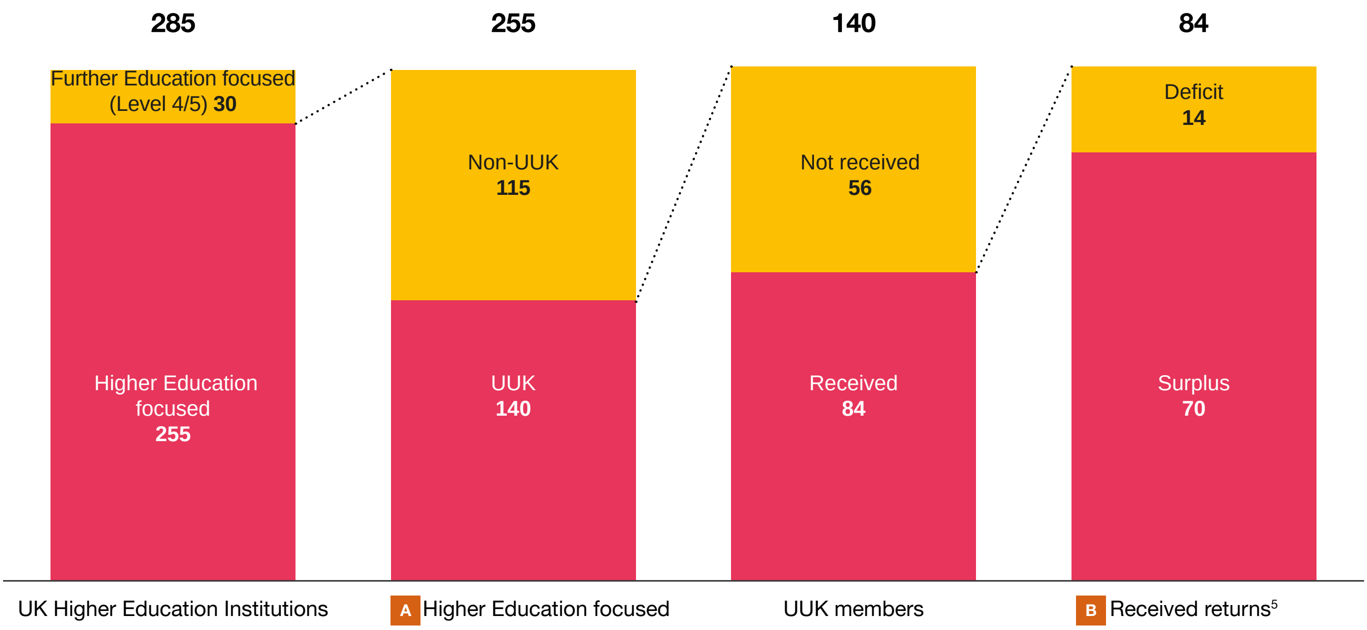
Source(s): HESA, OfS, UUK, PwC Analysis

[1] c.285 providers submit data to HESA, including further education colleges
[2] Provider typologies 2022, "Qualifying income" includes all public grant funding from the OfS, any fee income from taught awards and any fee income from research awards
[3] Including the Open University

Provider segmentation: Participating members

Our report comments on the historical financial sustainability of Higher Education focused providers (A) and provides commentary on the forecast financial performance of participating UUK members (B) – 84 UUK members participated by providing their OfS and Scottish Funding Council returns[4].

UK Higher Education providers by UUK membership and received returns[4]



A Current state of the sector

We analysed current and historical Higher Education Statistics Agency (HESA) data to comment on the financial sustainability of the 255 Higher Education focused education providers which report to HESA. We exclude the 30 Further Education focused providers.

B Outlook for the sector

We have provided commentary on the base case forecasts provided by 84 UUK members[4] and applied informed sensitivities to the base case to demonstrate the levels of volatility within forecasts. We received 70 OfS returns from England and NI members, and 14 SFC returns from Scotland members, representing c.60% of UUK's members, providing a good sample to comment on the outlook for financial sustainability. We did not receive sufficient returns from Wales, so they have been excluded from the forecast analysis.

It is also worth noting the risk of submission bias, as c.83% of returns provided were in surplus in 2021/22, compared to c.72% of the overall sector.

[4] Additional returns were received from four Welsh providers; however, these have been excluded from the analysis to avoid misrepresentation and to prevent identification of anonymised provider level data within the small sample size of four

[5] Surplus/(deficit) represents the surplus/(deficit) before other gains/losses and share of surplus/(deficit) in joint ventures and associates excluding the pension adjustments as classified by HESA data in 2021/22

Sector strengths: Overview

The UK Higher Education sector has strong market fundamentals that have driven sustained and resilient growth in student volumes, alongside it playing a pivotal role in the delivery and output of high-quality research and making a significant contribution to UK Gross Domestic Product (GDP).

The UK Higher Education sector is **longstanding and well established**, with c.285 higher education providers across the UK playing a core role in their local cities, towns and communities, including as employers, with the sector being one of the largest employers in the country.

- Latest figures suggest **that UK universities generated £116 billion in gross output** for the economy and **contributed £71 billion to GDP** (England £59.3bn, Scotland £7.4bn, Wales £3.0bn and Northern Ireland £1.6bn) in 2021/22[6].
- In general, students are highly satisfied with university provision, evidenced by (i) high continuation rates (ahead of other geographies) and (ii) promising post-study outcomes.

In 2021/22, the sector supported c.2.9m students, up from c.2.4m in 2017/18 and equivalent to growth of c.4% Compound Annual Growth Rate (CAGR) from 2017/18 to 2021/22.

- **Domestic enrolments, of which there are c.2.2m,** are generally resilient during times of uncertainty. Domestic volumes grew at c.3% CAGR 2017/18 to 2021/22, supported by an **uptick in participation rates** over the last 15 years and favourable demographics with sustained growth of 18-25 year olds (albeit this was not evenly felt across nations). However, participation **declined in the last full academic year, reverting to pre-pandemic levels** and, from 2030, the **18-25 year old population is expected to decline**[7].
- The UK is the second **most popular destination for international students (hosting 700k, or c.9% of international students worldwide**[8]) given a strong international brand (four out of the World's Top Ten universities[9]), high quality research and attractive graduate routes.
- **China and India are the largest source markets** for the sector, accounting for 100k and 87k first year enrolments respectively in 2021/22. Indian student enrolments increased by c.60% CAGR 2017/18 to 2021/22 with the emergence of a growing middle class. Conversely, Chinese student volumes declined during the pandemic.

The **Higher Education sector is a major contributor to UK research output**[10] (c.50% of research collaborations were led by academics in 2021/22) and **it enhances the UK's reputation as a hub of academic excellence** which helps to fuel economic growth, demonstrating its importance on a national and international scale:

- c.80% of research activity across UK nations is categorised as either world-leading or internationally excellent.
- c.90% of outputs were judged to have a very considerable, or outstanding impact, on society. This includes during the COVID-19 pandemic when university research was vital to the UK's response.

c.285 Higher Education providers across the UK, contributing **£71bn** to GDP in 2021/22

In 2021/22, **2.9m** students were enrolled in the sector, growing at a CAGR of c.4% since 2017/18

80% of research activity across UK nations is either world-leading or internationally excellent

Source(s): HESA, OfS, UUK, PwC Analysis, OECD

[6] The impact of the higher education sector on the UK economy
[7] Higher education student numbers
[8] International Facts and Figures 2023
[9] World University Rankings
[10] Research Excellence Framework 2021

Sector weaknesses: Overview

Universities are feeling significant pressure given constraints on their ability to generate income, increasing investment requirements and an escalating cost base. This is placing strain on margins and driving greater reliance on cross-subsidisation, particularly from international student fee income, which has led to increasing concerns about over-reliance.

The UK Higher Education sector is **facing constraints on income generation**.

- Funding per student, in tuition fees and teaching grants, has been falling across UK nations over the last decade. In England domestic fees have been capped since 2012 (with only a minor uplift of £250 in 2017 for providers with a Teaching Excellence Framework award) and are now worth only £5,990 in 2012 prices[11]. Funding per student is at its lowest level in over 25 years and, without any additional investment, is expected to fall to £5,590 in England by 2025/26 (in 2012 prices)[11], and in Scotland it is estimated that per student funding has already been cut by 39% per student in real terms since 2014/15[12].
- Grant funding has remained flat and research contracts are competitive, with **alternative commercial revenue streams interrupted** during COVID-19.
- Providers are **increasingly reliant on cross-subsidisation from international and postgraduate** fee income.

There continues to be a strong need for UK Higher Education Providers to **invest in capital.**

- An increasing number of **university estates require investment**, with some no longer fit-for-purpose and many requiring retrofitting to meet net zero targets (a 2023 British Universities Finance Directors Group (BUFDG), Association of University Directors of Estates (AUDE) and Alliance for Sustainability Leadership in Education (EAUC) report estimates that c.£6.6bn of investment is required to decarbonise all Higher Education built environments)[13].
- Many capital works (including investment in both digital and physical infrastructure) were postponed during the pandemic to preserve liquidity, meaning **significant capital expenditure is now required alongside rising maintenance costs and tightening operating margins.**

- The sector is facing i**ncreasing pressure on costs**, with limited ability to recoup through tuition fees.
- **Operating costs have been rising significantly** across staff pay, pensions, compliance and energy. Staff costs are significant (accounting for c.54% of total expenditure) and inflation has led to higher-than-expected annual settlements.

There is varying, and in some cases **limited, access to finance** across the sector.

- The ability to access finance varies significantly across the sector. Providers with scale, a strong financial standing, brand and reputation have had the choice of issuing public bonds, raising private placements and / or accessing the main clearing banks. For other providers, accessing the capital markets has not been possible and they have been more reliant on shorter term debt from the main clearing banks.
- As the financial pressures in the sector become greater, the ability for some providers to meet lending criteria will become more challenging. This is in addition to increases in the cost of borrowing. Therefore, **future economic constraints and weaker financial performance could further limit the availability of affordable borrowing options**, even to those providers that can currently access finance.

Domestic fees are now worth only **£6k** in 2012 prices

Estimated that **£6.6bn** of investment is required to decarbonise Higher Education estates in the UK

Staff costs account for **c.54%** of total expenditure leading to a material cost base exposed to inflation and salary negotiations

Source(s): HESA, OfS, UUK, PwC Analysis

[11] Provided by UUK
[12] Opportunity and inclusive growth in a time of challenge
[13] The Cost of Net Zero

Sector opportunities and threats: Overview (1 of 2)

The future of the UK Higher Education sector will depend on how well it responds and adapts to the changes that lie ahead. Whilst some providers may see these as opportunities, to others these changes will represent serious threats, particularly from a financial sustainability perspective.

Description		Near term	Longer term
Demographic outlook	• The demographic outlook for "traditional" UK undergraduates remains positive in the medium term, with the number of 18 year olds continuing to grow. However, the available pool of students will decline between 2030 and 2038 due to falling birth rates.	🟢	🟠
Domestic participation	• In the near term, the sector should be mindful of the effects on participation posed by external pressures; for example, the escalating cost of living and a sentiment that a conventional university degree might not always be the most suitable path. Top GCSE grades in England fell by 4ppt this year, followed by a fall in top A-level results across England, Wales and Northern Ireland, with only 27.2% of all grades marked at A* or A[14]. Alongside the impact on cost of living, this may result in a lower participation rate. However, in the long term, expectations are that participation rates will remain strong, given the need for skills will remain critical for the economy.	🟠	🟢
Cost base pressures	• Increasing cost base resulting from staff pay negotiations (staff costs accounted for c.54% of expenditure in 2021/22), utilities / energy costs and the current high inflationary period. • Pension contributions are volatile year-on-year. Recent announcements indicate that those with greater exposure to Universities Superannuation Scheme (USS) may benefit from lower contributions in the coming years, but those more exposed to the Teachers' Pension Scheme (TPS) may see an increase. • Domestic fee income in England has remained fixed at £9,250 since 2017 and undergraduates are often taught at a net cost to the provider. This is even more exacerbated for some devolved nations – in Scotland, where domestic fees are lower, Universities Scotland estimates that per student funding has been cut by 39% in real terms since 2014/15[15]. • Cost based transformation and optimising income sources that generate higher margins to cross subsidise tuition and research will become increasingly important to remain viable. • There may be opportunities to lower the cost base, for example, by making back-office efficiencies through shared services or automation; however, this is likely to require significant upfront investment.	🔴	🔴
International competitiveness and geopolitical climate	• As providers have sought to increase their international student base in order to compensate for the real-term decline in margin for domestic students and the low cost recovery of research activities, the sector is now becoming increasingly aware of the risk of overreliance on international students[16] – particularly if student demand is concentrated from a smaller number of origin countries (e.g. China). • Whilst the UK remains a popular destination for international students; it is highly dependent on changes in immigration policy (e.g. student and post-study work visas and visa changes limiting the ability to bring dependents). • Furthermore, in the current climate, relative affordability of studying in the UK is down, driven by the sharp increase in living costs (including rent).	🟠	🟠
Research	• Full economic cost recovery continues to decline (down to 68.1% in 2021/22)[17] due to limited and competitive funding, that is further eroded by inflation. Providers may now be less able to absorb this net loss on research, given the increasing need to cross-subsidise domestic provision as well. • The UK's aspiration to sustain international levels of Research & Development funding requires consistent efforts to secure funding and stay competitive on the global stage.	🟠	🟠

Key Potential Opportunity 🟢 Uncertain Impact 🟠 Potential Threat 🔴

Source(s): HESA, OfS, UUK, PwC Analysis

[14] Top A-levels fall, with steepest drop in England
[15] Opportunity and inclusive growth in a time of challenge
[16] Financial sustainability of the higher education sector in England
[17] Annual TRAC 2021-22

Sector opportunities and threats: Overview (2 of 2)

The future of the UK Higher Education sector will depend on how well it responds and adapts to the changes that lie ahead. Whilst some providers may see these as opportunities, to others these changes will represent serious threats, particularly from a financial sustainability perspective.

Description		Near term	Longer term
Cost of debt	• Higher debt servicing costs presents a threat, particularly to providers whose debt is due to mature in the next five years, as the cost to refinance may be materially greater than existing fixed rates.	🟠	🟠
Future UK Government policy and regulation	• Future policy changes could have a significant impact on providers, depending on the materiality and timing of the policy change; for example, changes to the student finance regime, or interventions to manage international student exposure or to integrate the tertiary sector. Funding model changes such as the Lifelong Learning Entitlement, which comes into effect in 2027, will require providers to adapt their existing business models and to manage increased administration costs and potentially lower income certainty. • Government focus on the quality of course teaching means there could be reform on minimum course standards. This is alongside continued regulatory burden and the increased costs associated with this, impacting on sector efficiency.	🟠	🟠
Alternative delivery models	• Post-COVID-19 shift to hybrid learning brings both opportunities to reform teaching to suit students and greater flexibility. • The current high cost of living is likely to drive growth in commuter students in the near term, requiring changes by Higher Education providers to existing delivery models to continue to attract and retain students. • The impact of Lifelong Learning Entitlement on consumer preferences and on delivery model (potentially more modular) post-2027, will need to be considered to keep providers' offering attractive and current.	🟠	🟢
Diversification of income streams	• Changing business models provide an opportunity for diversification, although it also bears risk – e.g. uncertain demand for modular provision, challenges with degree apprenticeships. • Provision of short study online courses can be a profitable revenue stream delivered virtually by universities. • Corporate and enterprise partnerships with local commercial organisations can give students valuable experiences and provide new income streams for universities, although there are barriers to collaboration due to competition. • Philanthropic funds have increased by 93% since 2012[18] with evidence that concerted campaigns, corporate collaborations and understanding of donors, can help providers more effectively access philanthropic funds.	🟠	🟢
Net zero transition	• Significant investment and transformation is needed to achieve universities' sustainability ambitions and net zero targets – 96%[19] of UUK members have a published strategy but there is still some way to go to deliver on these strategies. This includes retrofitting ageing estates in need of investment to meet net zero (and more broadly to be fit-for-purpose) which will require significant capital expenditure. • There may be a negative impact on reputation and brand for those providers that do not meet their stated net zero targets.	🟠	🟠 / 🔴
Economic cycles	• Historically, education participation rates tend to be counter-cyclical, as fewer job prospects push more 18-25 years old into studying. • Cost of living crisis and very high inflation could challenge this trend, meaning more students need to work alongside studying, or students more likely to study whilst living at home. This may also dilute the attractiveness of studying in the UK for international students due to the relative affordability when moving from their home countries.	🟠	🟠

Key Potential Opportunity 🟢 Uncertain Impact 🟠 Potential Threat 🔴

Source(s): HESA, OfS, UUK, PwC Analysis

[18] The CASE-More UK Philanthropy Report
[19] Climate crisis: what progress have universities made?

Current financial sustainability: Overview (1 of 2)

Strong growth in international fee income (c.12% CAGR since 2017/18) has enabled a short-term contraction in the percentage of providers realising a deficit in providers, decreasing from c.36% prior to COVID-19 to c.25% in 2021/22. However, the sector remains under pressure, with staff costs increasing across all segments and ongoing sector consultation around above-inflation pay increases.

KPI and definition		Near term
Income	**Total income**	Total income amounted to £46bn in 2021/22, growing at c.5% CAGR (2017/18-2021/22). Whilst all provider groups experienced growth, this was not realised evenly across the sector, as Larger Teaching Intensive and Medium providers in England grew slower than the rest of the sector (c.3% CAGR). Income growth across the sector has been slightly higher than expenditure which is growing at c.4% CAGR over the same period. During the pandemic, universities continued to grow income whilst being able to manage their expenditure which meant a short-term increase in providers realising a surplus.
	Tuition fees and education contracts	Tuition fees and education contracts realised the highest level of growth at c.6% CAGR 2017/18-21/22. UK domiciled students accounted for c.54% of tuition fees in 2021/22, but tuition fees from international students saw the strongest growth of c.12% CAGR – supported by the introduction of the Graduate route visa scheme and despite a decline in EU enrolments. Universities have doubled down on international recruitment to subsidise domestic and research offerings. Larger Research Intensive providers and Specialist providers in England are particularly dependent on income from international students and risk being exposed if forecast international student volumes do not materialise.
	Research grants and contracts	Research income grew at c.2% CAGR 2018/19 to 2021/22, and now sits at c.£7bn. Whilst there has been growth in income from both UK and international (excl. EU) sources, there has been a significant decline in EU funding of c.5% CAGR as Horizon wound down following Brexit (albeit, it has recently been announced that the UK has re-joined Horizon with a new bespoke deal). In general, research funds are more volatile than other income sources and vary significantly year-on-year, which is having a detrimental impact on provider ability to recover costs from research.
Expenditure	**Total expenditure**	Total expenditure in 2021/22 was c.£43bn. All provider types have realised an uptick in income slightly ahead of expenditure (c.5% CAGR for income 2017/18-21/22 vs c.4% for expenditure). This difference in growth between income and expenditure across the period is mainly driving the surplus positions experienced by the providers which are unlikely to be sustainable in the post pandemic period and longer term.
	Staff costs[20]	As a proportion of total expenditure, staff costs accounted for c.54% in 2021/22. Staff costs are increasing across segments (up c.4% CAGR 2017/18 to 21/22) – this is particularly pertinent given the current sector consultation around above inflation pay increases.
KFIs[21]	**Surplus / deficit**	At a segment level, average year-on-year level of surplus / deficit varies significantly. Whilst all segments indicated an improving financial performance 2018/19 to 2021/22, this should be viewed with caution given the impact of the pandemic. Prior to the pandemic, c.36% of providers were in deficit – this declined during COVID-19 to c.25% as universities continued to grow income whilst managing expenditure, leading to a short-term improvement in surplus.

Source(s): HESA, OfS, UUK, PwC Analysis

[20] The costs of all staff for whom the provider is liable to pay Class 1 NI contributions and / or who have a contract of employment with the Higher Education provider
[21] Key Financial Indicator (KFI)

Current financial sustainability: Overview (2 of 2)

Analysis of the historical and current performance of the entire UK Higher Education sector against key indicators of financial sustainability highlights the increasing financial pressures that universities are under. The analysis for 2021/22 shows signs of material operational challenges at a sector level with c.68 providers generating net cashflow from operations at less than 5% of income and 12 providers with net liquidity days under the OfS reportable threshold of 30 days.

KPI and definition		Near term
KFIs	**Borrowing**	Total sector external borrowing was c.£15bn in 2021/22 (compared to £14bn in 2017/18) – this is equivalent to c.34% of total income. Both Larger Research Intensive providers in England, and providers in Wales, have higher levels of external borrowing than the sector as a whole (38% and 49% respectively). The majority (c.97%) of external borrowing in the sector is due for repayment after more than one year. Medium, Smaller and Specialist Creative providers in England have a higher proportion of external borrowings that are due within one year.
	Net cashflow	Net cashflow from operations is an indicator of the income sourced from the day-to-day running of universities. Providers with net cashflow from operations of less than 5% of income are more likely to face operational challenges. In 2021/22, 68 providers were in this bracket (down from 76 in 2019/20). Of the 68 providers, 27 of these are Specialist providers in England. In the devolved nations, four of the 17 providers reporting to HESA had net cashflow from operations of less than 5% of income. In the last three years, 75 providers have been below the threshold in more than one year.
	Net liquidity days	Net liquidity days provide an assessment of how sustainable the sector would be when using current cash available. Net liquidity days increased in 2020/21 and 2021/22 to c.173 because of growth in the sector's cash holdings. The OfS requires providers to flag when net liquidity days drop below 30. In 2021/22, 12 providers had net liquidity days of less than 30, with 50% of these Specialist providers. None of the providers in the devolved nations fell below this metric (albeit they are not required to report to OfS). An additional 35 providers were in the 30-90 day range.
	Current ratio	Current ratio is a calculation of a provider's current assets to liabilities. A good current ratio is considered to be between 1.2 and 2, however in 2021/22, 43 providers reported a current ratio of less than 1.2 which indicates they may not have sufficient funds to cover debts.
Capital Expenditure (CAPEX)		Capital expenditure is highly volatile on a year-on-year basis given its nature. In 2021/22, total CAPEX was c.£4bn of which the majority of this (£2.8bn) was spent on buildings. CAPEX spend on buildings has declined at c.8% CAGR since 2019/20. In 2020/21, the only segments to have increased investment in buildings were Smaller and Specialist Creative providers (increasing 9% and 6% respectively year-on-year), with Medium sized providers marginally increasing their building CAPEX by 2%.

Source(s): HESA, PwC Analysis

Base case commentary: England and NI (1 of 2)

Analysis of 70 financial forecast returns across England and Northern Ireland (NI)* ("the base case group") highlight (i) an increased reliance on international fee income (particularly for Larger Teaching Intensive, Medium and Smaller segments), (ii) an implied increased participation rate for domestic students and (iii) optimistic assumptions on expenditure growth falling below income growth expectations.

All segments within our study are assuming **increased reliance on international fee income**. International fee income will account for between 33-66% of all course fee income by 2026/27 (compared to a range of 24-64% in 2021/22).

- Larger Teaching Intensive, Medium and Smaller segments in England and Northern Ireland are significantly increasing their reliance (by 9-13 ppt). On the other hand, Specialists (incl. creatives) and Larger Research Intensive members are increasing from an already high base (c.65% and 60% respectively).
- Whilst international volumes are generally not assumed to grow at the same rate as the last decade, the number of international entrants is still expected to grow at c.8% CAGR over the forecast period. In particular, there is significant growth forecast from Larger Teaching Intensive (c.16% CAGR), Medium (c.10% CAGR) and Smaller (c.12% CAGR) segments.
- International student growth rates are not forecast to be as high as recent years, indicating that either the base group's share of international students is declining, or that there will be a slowing of international students coming to the UK (either through the UK losing international market share or through slower growth in the internationally mobile student population).

Larger members are expecting slower growth in, or even a plateauing of, domestic undergraduates, whilst **Medium, Smaller and Specialists are forecasting stronger** growth than the historical sector average of 2.4%.

- This results in domestic undergraduates in the base case group increasing by 1.6% CAGR over the forecast period, and therefore (when compared to the ONS demographic projections of 0.9%) implies an **increase in the proportion of 18-25yr olds** in the base case group (despite factors such as popularity of alternatives and cost of living pressures which are likely to slow or mitigate growth in participation) or alternatively implies that the base case group is increasing their share of domestic undergraduates within the UK.

Following an initial assumption of increased expenditure growth in 2022/23 across the base case group, **annual expenditure growth is assumed to fall to c.3-3.5%** in the last three forecast years **– significantly below the historical growth of 8% between 2020/21 to 2021/22, and notably below overall income growth projections** (3.7-4.5%).

- Given recent pay disputes where uplifts of between 5-8% have been agreed, and the fact that limited restructuring costs have been assumed, this may be an example of optimism bias in the base case forecasts.

Domestic undergraduates forecast to grow at a CAGR of

1.6% across all segments from 2021/22 to 2026/27

Total international students forecast

to grow at a CAGR of 4.4% from 2021/22 to 2026/27

Total expenditure forecast to grow at

3.0-3.5%

across all segments from 2023/24 to 2026/27, which is below the rate of income growth projected

Source(s): HESA, ONS, PwC Analysis

* Note that we received one OfS return from the Northern Ireland members so in order to protect anonymity we have included this provider within the England provider analysis (having mapped it to an OfS segment using the criteria set out on p5)

Base case commentary: England and NI (2 of 2)

c.40% of England and NI members are expecting to be in deficit in 2023/24[22], after which many institutions are forecast to rebound into surpluses thanks, in part, to the assumption that income will grow faster than expenditure in later years. Investment levels are also forecast to fall, with capital expenditure decreasing annually by between 4% and 20% every year after 2022/23 and borrowing assumed to fall below the historical sector averages.

- In 2023/24 specifically, **c.40% of members are forecasting a deficit –** including 60% of all Larger Research Intensive members, and 25-35% of all other segments.
- As a result of the **more favourable longer-term assumptions** on income and expenditure growth, as well as reduced capital expenditure, investment and finance costs, most segments are f**orecasting a rebound in later years**. Surpluses are expected to settle at 2-5% of income, and the number of members in deficit by 2026/27 reduces to 13% of all members, spread across the segments. However, as our sensitivity analysis goes on to demonstrate, the base case group's financial position is exposed to a number of risks, and any slight movements in their assumptions, could see the number of members falling into deficit rapidly increasing.
- Reducing cost is, and will continue to be, front of mind for members. However, the levers which are typically available to members to effect change often require investment and take time:
  - Despite the assumptions around slower expenditure growth, **restructuring costs are forecasted to fall by 70%** over the forecast period and it is therefore unlikely that members are allowing for investment to optimise or transform their cost base or delivery model.
  - Across the base case group, **borrowing is assumed to go down**, falling well below the historical sector average of 34% of total income for most segments.
  - Perhaps as a result, all segments are assuming that capital expenditure will fall significantly after this year just ended 2022/23, with a lower CAPEX per FTE than they spent in 2020/21 for all segments except for the Medium segment. This decline follows a significant increase in investment anticipated in 2022/23 of up to 110%. This is likely to be driven by major CAPEX being repeatedly deferred by many members during COVID-19, due to liquidity concerns, as highlighted in the OfS' Financial Sustainability report in May 2023[23].
  - This is particularly pertinent in light of the **c.£6.6bn**[24] that **British Universities Finance Directors Group (BUFDG), Association of University Directors of Estates (AUDE) and Alliance for Sustainability Leadership in Education (EAUC) have estimated it will cost to decarbonise** the Higher Education built environment. This is in addition to other investment required to implement digital infrastructure, decarbonise supply chains, and maintain quality of provision and student experience – so it is difficult to see how the base case forecasts can be achieved without further hampering the ability of members to maintain quality.

40% of members are forecasting a deficit in 2023/24, reducing to 13% by 2026/27

Total borrowing as a % of total income is forecast to fall to

15-31%

by 2026/27, depending on segment

Total capital expenditure forecast to fall annually by

4-20%

from 2022/23, depending on segment

Source(s): HESA, PwC Analysis

[22] Surplus/(Deficit) represents the Surplus/(deficit) before other gains/losses and share of surplus/(deficit) in joint ventures and associates excluding the pension adjustments
[23] Financial sustainability of higher education providers in England – 2023 update
[24] The Cost of Net Zero

Sensitivities: England and NI (1 of 2)

Several sensitivities have been applied to the base case forecast and the impact of these on forecast surplus / deficit levels can be seen across the base case group, and on a segment basis. Analysis illustrates that, without any mitigation, many members would face an extremely challenging period from a financial sustainability perspective.

<table>
<tr><th colspan="3" rowspan="2">Sensitivity and rationale</th><th colspan="2">Members in deficit</th></tr>
<tr><th>% in deficit (2025/26)</th><th>Change vs base case (2025/26)</th></tr>
<tr><td colspan="3">Forecast % of members in deficit for our base case group in England and Northern Ireland</td><td>19%</td><td>n/a</td></tr>
<tr><td rowspan="2">Domestic fee income</td><td>Reduction in the growth rate of domestic undergraduate (UG) student FTEs by five ppt p.a. from 2024/25 onwards</td><td>• Base case forecasts imply a continued increase in participation rates over the forecast period. However, there are a number of potential market headwinds which could result in declining domestic undergraduate participation; for example, cost of living pressures and increasing alternatives to Higher Education.</td><td>56%</td><td>+ 37 ppt</td></tr>
<tr><td>Increase in domestic UG fees by 10% in 2024/25</td><td>• The current freeze on domestic UG tuition fees is locked in until at least 2024/25. There is pressure from the sector for this to be lifted given the current sector challenges.</td><td>7%</td><td>– 12 ppt</td></tr>
<tr><td rowspan="3">International fee income</td><td>Stagnation of growth in international student FTEs</td><td rowspan="3">• Base case forecasts an increased reliance on international student fee income going forward. Given sector wide concerns regarding over-reliance on international students, this sensitivity illustrates the impact of lower than forecast growth in international students.
• Stagnation or decline in international student volumes would impact the whole sector.
• Structural decline in mobility from key source markets may result from geopolitical pressures – this will likely impact some segments more than others.</td><td>27%</td><td>+ 8 ppt</td></tr>
<tr><td>Reduction to the growth rate of international student FTEs by five ppt p.a. from 2024/25 onwards</td><td>51%</td><td>+ 32 ppt</td></tr>
<tr><td>Sharp contraction in growth rate of international student FTEs by 20 ppt in 2024/25</td><td>80%</td><td>+ 61 ppt</td></tr>
<tr><td>Cost base</td><td>Increase in expenditure growth rate of two ppt p.a. 2024/25 onwards</td><td>• As noted in the previous section, expenditure growth assumptions in the later years of the forecast may be considered overly ambitious as they fall below income growth assumptions, and well below historical sector averages, to between 3-3.5%. Such increases in expenditure could, for example, be driven by higher than forecast pension contributions in future years (i.e. recent TPS announcements).</td><td>63%</td><td>+ 44 ppt</td></tr>
</table>

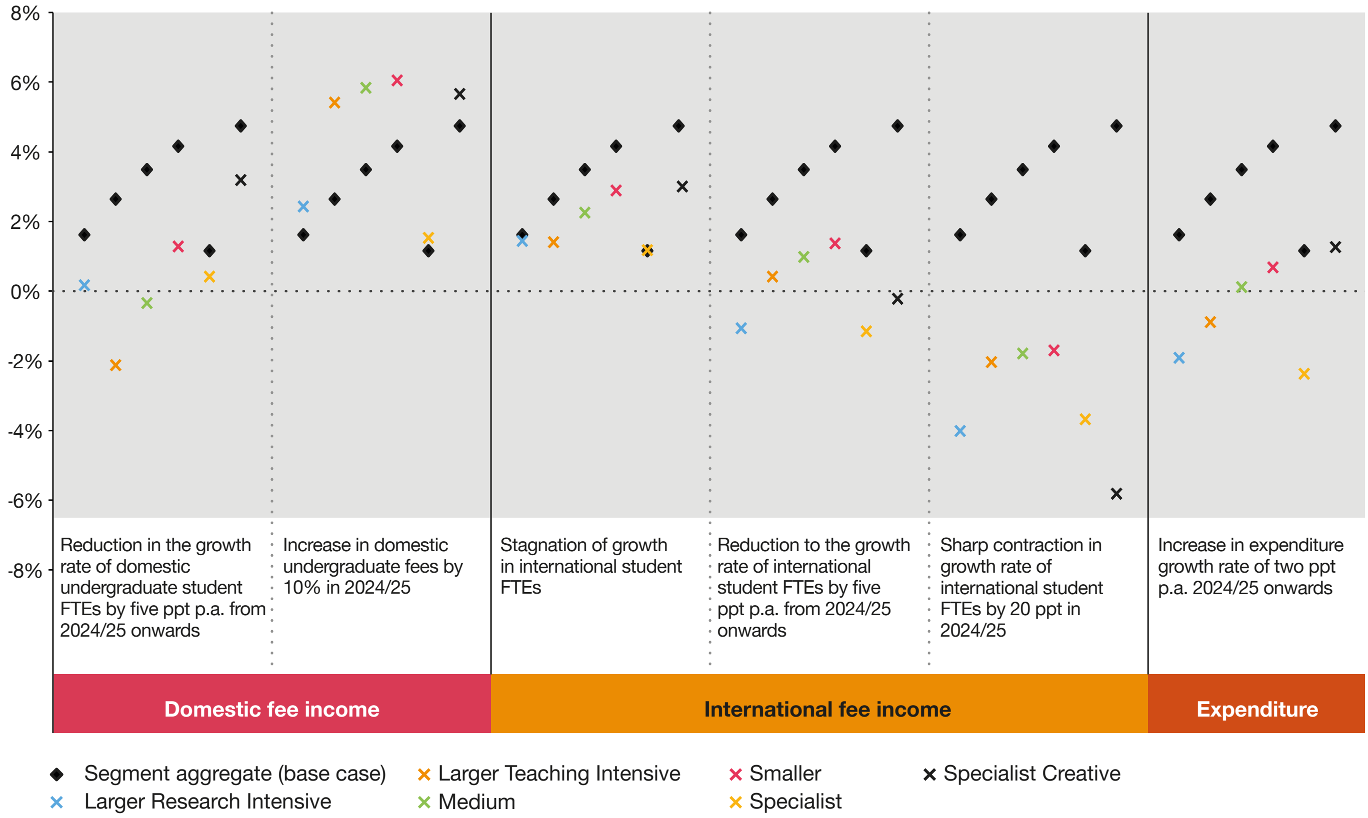
Whilst these sensitivities have been applied on a standalone basis, they could also materialise in conjunction with one another, compounding their financial pressures, and therefore likely increase the proportion of members falling into deficit.

Note(s): 2024/25 was chosen as year to apply sensitivities to avoid the current academic year 2023/24 when members will know their student intake. For the year presented (2025/26), no mitigations or actions to restructure cost bases have been assumed. It is assumed there would be a two-year lag before this would be possible, and therefore only comes into effect in 2026/27.

Base case commentary: England and NI (2 of 2)

The graph below shows a summary of the impact each sensitivity has on the segment aggregate[25] surplus/(deficit) as a % of total income in 2025/26). The scenario for a sharp contraction in international students is most detrimental, showing how the reliance on international students across segments leaves providers exposed – this would have a major impact across the sector.

Surplus/(Deficit)[26] as a % of total income – 2025/26



The effects of these sensitivities on the balance sheet have not been evaluated due to the structure of the regulatory returns of the regulatory templates. Running at a deficit for multiple years is not a sustainable position for providers, but this will have different consequences at an individual institutional level depending on their surplus management and their ability to absorb losses by using existing cash reserves. While some providers may be able to sustain operations for multiple deficit years utilising these reserves, others will deplete them quickly and their ability to maintain their provision could be impacted.

[25] Segment aggregate shows how the entire segment performs at an aggregate level (i.e. not an average of institution performance within the segment)
[26] Surplus/(Deficit) represents the Surplus/(deficit) before other gains/losses and share of surplus/(deficit) in joint ventures and associates excluding the pension adjustments

Base case commentary: Scotland

By 2024/25[27], c.36% of providers are expected to fall into deficit, partly due to forecasts assuming expenditure growth remains high. Similarly, members are accounting for the substantial capital expenditure required in the coming years. The Scottish segment is heavily reliant on cross-subsidisation and is therefore exposed to risks around international student fee income – albeit this will not be evenly felt.

- Total income is forecast to grow at a CAGR of 5.2% over the forecast period, primarily driven by income from tuition fees and education contracts, growing at a CAGR of 9.4%, significantly higher than the historical UK CAGR of 6.4% for tuition fees. In contrast, funding council grants are assumed to fall, and research activities continue to achieve only c.60-65% of cost recovery.
  - Given the cap on Scottish students, and the limited growth on domestic fees agreed annually, **the vast majority of tuition fee growth will be driven by international student fees** – therefore increasing overall reliance on international students, which **already make up 26% of total income in 2021/22,** compared to domestic fees making up only 9%.
- **Overall expenditure is assumed to grow significantly above historical sector averages** (c.7.8% vs 3.8%) and above total income. However, this primarily reflects anticipated growth in staff costs, whilst growth expectations for other operating expenses (which make up c.36% of the cost base) are more optimistic and are assumed to slow to c.2% growth by 2024/25.
- As the cost base is forecast to grow faster than income, there is an **overall decline of the Scottish segment's average surplus** from 8% of total income to 1% in 2024/25, with **c.36% of members falling into deficit**, Net Liquidity Days for the Scottish base case group falling from 218 to 129, and 29% of members falling below 90 days, by 2024/25.
- Scottish members are also anticipating **a significant increase in capital expenditure, growing at a CAGR of 18%** over the period, and rising to as high as 271% of Cashflow from Operations (compared to 83% in 2021/22). Whilst ambitious to deliver this level of investment, this more realistically reflects the requirement for both physical and digital investment that members will need to address to remain competitive, as well as any CAPEX that might have been delayed during the pandemic.
- **Total borrowing as a % of total income decreases from 35% in 2021/22 to 29% in 2024/25** – falling below historical levels of 36-42% between 2017 and 2021.

Income forecast to grow at

5.2% from 2021/22 to 2024/25, whilst the cost base is expected to grow at

7.8%

Total borrowing as a % of total income is forecast to fall to

29% by 2024/25

36% of members are expecting to be in deficit by 2024/25,

with 29% below 90 Net Liquidity Days

Source(s): HESA, PwC Analysis

[27] Scottish returns only forecast out to 2024/25, two years less than England/ NI OfS returns

Sensitivities: Scotland

As with the England and NI section, several standalone sensitivities have been applied to the base case. Due to the reduced number of years forecast by Scottish members, sensitivities have been applied from 2023/24 (compared to 2024/25 for England and NI) to assess the compound impact of the scenarios over multiple years.

Sensitivity and rationale			Members in deficit: % in deficit (2024/25)	Members in deficit: Change vs base case (2024/25)
Base case group in Scotland			**36%**	**n/a**
Domestic fee income[28]	Reduction in the growth rate of domestic undergraduate student FTEs by five ppt p.a. from 2023/24 onwards	• There are a number of potential market headwinds which could result in declining domestic undergraduate participation; for example, cost of living pressures and increasing alternatives to Higher Education.	50%	+ 14 ppt
	Increase in domestic undergraduate fees by 10% in 2023/24	• There is pressure on the sector in relation to the current levels of funding for domestic home and tuition fees for Rest of UK undergraduates.	29%	– 7 ppt
International fee income	Stagnation of growth in international student FTEs	• Given sector wide concerns regarding over-reliance on international students, this sensitivity illustrates the impact of lower than forecast growth in international students. • Stagnation or decline in international student volumes would impact the whole sector (e.g. if international student caps are introduced). • Structural decline in mobility from key source markets may result from geopolitical pressures – this will likely impact some segments more than others.	71%	+ 35 ppt
	Reduction to the growth rate of international student FTEs by five ppt p.a. from 2023/24 onwards		57%	+ 21 ppt
	Sharp contraction in growth rate of international student FTEs by 20 ppt in 2023/24		71%	+ 35 pp
Cost base	Increase in expenditure growth rate of two ppt p.a. 2023/24 onwards	• Although the Scottish segment's forecasts are not assuming overly optimistic low expenditure growth rates, costs could still increase at higher than anticipated rates (e.g. for higher pension contributions).	64%	+ 28 ppt

Source(s): HESA, PwC Analysis

Note that the Scottish returns have not been analysed on a segment basis in order to protect institutional anonymity, given the smaller sample size. As with the England / NI sensitivities, we have not evaluated the impact of these sensitivities on the balance sheet due to the structure of the regulatory returns, however, running at a deficit for multiple years is not a sustainable position for providers. The impact this will have on an institutions' ability to maintain their provision will depend upon their surplus management and ability to absorb losses with existing cash reserves.

Whilst these sensitivities have been applied on a standalone basis, they could also materialise in conjunction with one another, compounding their financial pressures, and therefore likely increase the proportion of members falling into deficit.

[28] Due to categorisation differences for fee income between Scottish returns and HESA data, we have used HESA data as a proxy for the split of domestic (home and Rest of UK) and international (EU and Non-EU) fee income. We have then used growth rates across fee income at the same rate as "Total tuition fees and education contracts" in the base case forecast, then applied the sensitivities in the scenario on these rates.

Conclusion

Despite its strong international brand and academic excellence, the UK Higher Education sector and its institutions are facing significant financial challenges that threaten to impact the quality of provision and student outcomes. In the longer term, this may impact the UK's international standing and its ability to attract and retain students, and therefore undermine the considerable economic benefits the sector brings to the UK.

Constraints on income generation, alongside cost pressures, have driven providers to increasingly cross-subsidise domestic student teaching and research activities with higher levels of non-fee-capped international students. Capitalising on strong international student growth in recent years, this strategy has led to an over-reliance in some cases and leaves some providers exposed to international demand or geopolitical shocks that they cannot control. Our analysis shows that, across the sector, providers would be materially impacted by a gradual or sudden drop in international student numbers in the coming years – with up to c.80% of providers falling into deficit.

Similarly, where provider forecasts are hopeful that cost inflation will fall to pre-pandemic levels, below their income growth assumptions, their future financial position will remain vulnerable to persistent inflationary pressures. Our analysis shows that, just a two ppt increase per annum in the cost growth assumptions, could result in c.65% of providers falling into deficit (and this analysis is before the recent announcement of increased TPS contributions has been taken into account).

Within a very diverse sector, these pressures are not felt evenly, but in times of uncertainty and squeezed financial margins, many providers have responded by delaying much needed investment in physical and digital infrastructure to protect their cashflow. Unless there is meaningful change at a sector level, there is a risk this will remain the first response, with cashflow and affordability continuing to drive investment and operating decisions ultimately at the expense of maintaining quality – which is at odds with ensuring a sustainable, thriving sector in the long term.

There are, however, strategies to adopt to drive meaningful and sustainable change. We see providers that are already taking necessary steps to optimise their operations, drive their top-line and reduce their cost base, including back-office transformation, adopting modern digital solutions, estates rationalisation and strategic partnerships. Nonetheless, these strategies alone will not solve systemic sector challenges and constraints, and for certain providers – particularly those smaller providers with less levers available to them – they are unlikely to be sufficient in the long term, and more radical solutions, such as consolidation, may be required.

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