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Dear Chair

Financial viability and sustainability: information for governing bodies

The Office for Students (OfS) monitors the financial viability and sustainability of registered English higher education providers on an ongoing basis. Our responsibility in this area also extends to reporting on relevant patterns, trends or other matters that we identify as a result of such monitoring.

Our latest report, 'Financial sustainability of higher education providers in England' will be published on 4 April 2019. In advance of publication I am writing to all providers registered with the OfS to share with you the section of the report which considers the assumptions that providers have made about future student recruitment.

In a financially challenging environment for higher education providers, and with the UK 18-year-old population continuing to decline in the short term, the OfS has particular concerns about the credibility of providers' student number forecasts. Our analysis suggests that over the next few years the sector in aggregate is assuming a level of growth in student numbers, and related fee income, which is not likely to be achievable.

For individual providers, there is an increased risk to financial viability and sustainability where plans are underpinned by forecast growth in student numbers that is not credible. We know that a provider's forecasts are – necessarily – prepared without knowledge of the assumptions and aspirations of competitors. In that context we hope our analysis will be useful to you and your governing body as you test the forecasts presented to you by your senior management team.

We respect and value institutional autonomy and the aim of this letter is to provide data to inform financial decisions taken by governing bodies, accountable officers and management teams. A fuller extract of our analysis is provided in the annex to this letter. We hope that it will assist you and your governing body in:

- Providing a context in which to consider your own forecast assumptions and ambitions
- Helping you assess the risk that planned student recruitment and fee income targets may not be met
- Assisting with the development of any necessary contingency plans to mitigate this risk.

We would expect you to discuss this letter and its annex at a future meeting of your governing body. I would also like to remind you that a registered provider is required to:

- Report to the OfS any material change in its financial position or forecasts
- Ensure that its student protection plan remains appropriate to mitigate any change in risk to the continuity of study for its students.

You can report any changes, or submit a revised student protection plan for approval by the OfS, by contacting regulation@officeforstudents.org.uk.

The report, which also covers analysis on relevant trends in the financial health and sustainability of registered providers, will be published on the OfS website on Thursday 4 April 2019 at www.officeforstudents.org.uk/publications/financial-sustainability-of-higher-education-providers-in-england/ (This link will not work until then.)

Yours sincerely

A handwritten signature in black ink that reads "Nicola Dandridge". The signature is written in a cursive, slightly slanted style.

Nicola Dandridge, Chief Executive, Office for Students

Annex A

Sector student recruitment forecasts, 2018-19 to 2021-22

Introduction

Higher education providers are facing considerable uncertainty and challenge from a number of directions: the UK's future relationship with the EU; potential changes in government policy following the review of post-18 education funding;¹ a short-term decline in the 18-year-old population; increasing cost pressures, including particularly those arising from recent and forthcoming university pension scheme valuations; and the impact of a more competitive higher education environment.

Providers will need to manage these uncertainties and challenges in a way that sustains the delivery of high quality higher education. Careful financial planning, based on credible forecast information, will be crucial.

The analysis that follows is drawn from an OfS report on the financial sustainability of the higher education providers in England to be published on 4 April 2019.²

Analysis

The data presented in this annex relates to 183 English higher education providers on the OfS register as at 7 March 2019. (We have not included further education colleges, whose financial sustainability is primarily monitored by the Education and Skills Funding Agency.) It includes the most recent audited financial data, which for most providers is 2017-2018, and providers' own financial and student number forecasts covering a four-year period, typically from 2018-19 to 2021-22.³ We have used these alongside other data and information, including provider contextual information, to reach a rounded judgement about the risks to financial viability and sustainability.

In considering the credibility of this forecast information, we looked at the extent to which previous forecasts had been achieved, and the assumptions underpinning the latest forecasts. The diversity of the sector, and the uncertain operating environment, meant that providers had applied a wide variety of assumptions.

The data is presented (i) for the overall sector and (ii) for four broad peer groups based on specialist providers and student tariff points⁴.

¹ See the review's terms of reference at <https://www.gov.uk/government/publications/review-of-post-18-education-and-funding-terms-of-reference>

² Available at www.officeforstudents.org.uk/publications/financial-sustainability-of-higher-education-providers-in-england/

³ Provider financial year end dates vary, so we refer to year numbers rather than dates. For most providers, their most recent audited financial data year is 2017-18 and the four-year forecast period is 2018-19 to 2021-22.

⁴ The tariff calculations that inform this peer group categorisation are based on young UK domiciled undergraduate entrants. This means that the categorisation of a provider with large populations of mature

Student number forecasts

Most of the 183 providers we looked at are assuming some level of growth in numbers of their home, EU and international (overseas) students over the forecast period. Of these, 122 have ambitions for growth of more than 5 per cent. All peer groups have growth aspirations, although the extent of the increase varies.

Taken together, these forecasts, if realised, would result in an overall increase of approximately 171,000 FTE (over 10 per cent) in student numbers over the four-year period (typically 2018-19 to 2021-22).

Table 1 shows projected student number growth over the forecast period by peer group.

Table 1: Projected student number growth, Years 3 to 6

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

This projection includes an overall predicted increase of approximately 78,000 FTE (7 per cent) in the numbers of UK and EU full-time undergraduate students over the next four years. This is despite a decline of approximately 5 per cent in the 18-year-old UK population over the same period. The population will begin to rise from 2020; however there will still be approximately 41,000 fewer 18-year-olds in 2021 compared with 2017.

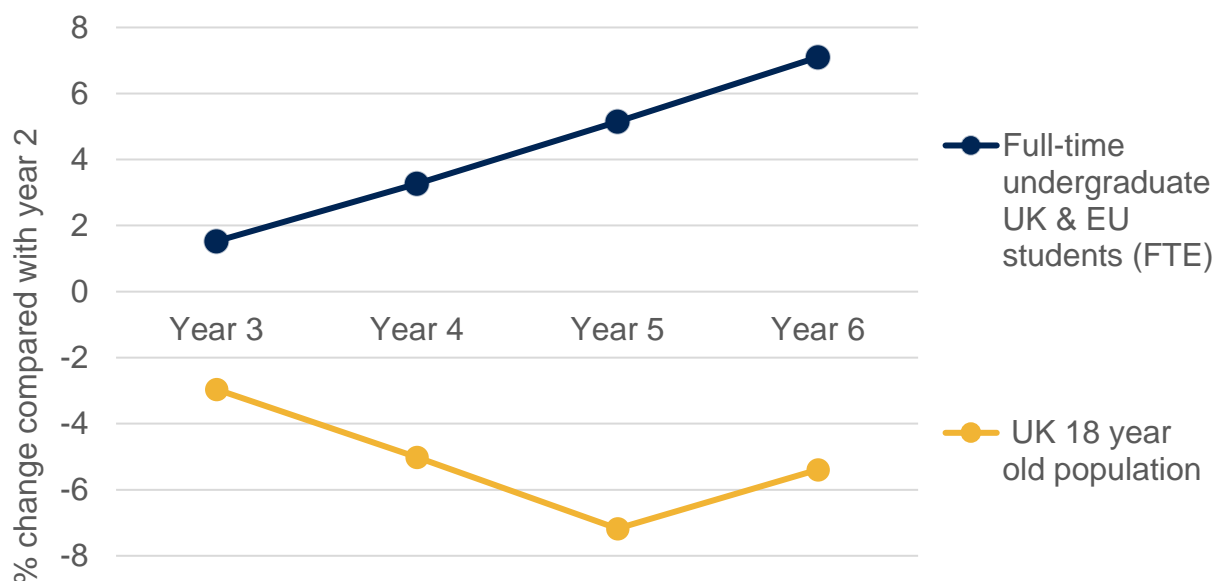
The forecast growth in Home and EU full-time undergraduate students is shown in Figure 1, alongside the estimated change in the UK 18-year-old population in Years 3 to 6.

students, non-UK students or similar may only reflect the entry tariff of a minority of their students. A small number of providers (e.g. those offering only postgraduate courses) may have no tariff data available, and may therefore be 'unclassified' on this basis.

The four peer groups are:

- High, medium, low average tariff (three groups). Providers were ordered by the average tariff scores of their UK-domiciled young undergraduate entrants with Level 3 qualifications, then divided into three groups (with each group containing a third of all students in this population)
- Specialist (one group): at least 80 per cent of students in no more than two subjects.

Figure 1: Change in forecast full-time UK and EU undergraduate student numbers compared with the estimated change in the UK 18-year-old population (Years 3 to 6)



In addition, the sector forecasts the number of overseas students to increase by approximately 56,000 FTE (20.7 per cent), with related fee income projected to rise by £1.7 billion (37.9 per cent). This suggests an anticipated increase in the average fee charged to overseas students.

Our current view is that, at sector level, these growth aspirations and related fee income will be challenging to achieve. At provider level, there is an elevated risk where financial viability and sustainability or investment plans are underpinned by a reliance on growth ambitions.

Given the challenge of achieving potentially ambitious student number projections, governing bodies will wish to be assured that comprehensive scenario planning has been undertaken. In particular, you will want to be confident that robust contingency measures are in place to mitigate any risk of underachievement, and that sustainable levels of cashflow and investment are maintained.

Financial indicators

In addition to the analysis of student number forecasts, the published report will highlight the sector's position on a number of key financial indicators for the latest year of audited annual accounts (Year 2). The tables below provide a more detailed breakdown of quartiles for three financial indicators which we hope is helpful to you in assessing the relative financial performance of your provider.

Table 2: Net operating cashflow as a percentage of total income

(Net cashflow generated from operating activities as a proportion of total income)

	Sector (registered providers)	Non- specialist: high average tariff	Non- specialist: medium average tariff	Non- specialist: low average tariff	Specialist: All
Sector average	8.6%	8.1%	9.0%	11.5%	7.0%
Lower quartile	4.6%	6.7%	5.0%	3.7%	3.3%
Median value	8.9%	8.4%	8.4%	9.9%	9.5%
Upper quartile	12.7%	9.4%	12.2%	13.8%	14.7%

Table 3: Net liquidity days

(Number of days of average expenditure, covered by net liquid holdings at year-end)

	Sector (registered providers)	Non- specialist: high average tariff	Non- specialist: medium average tariff	Non- specialist: low average tariff	Specialist: All
Sector average	138 days	131	147	130	168
Lower quartile	71 days	73	83	76	53
Median value	110 days	111	118	127	97
Upper quartile	179 days	160	177	184	209

Table 4: Gearing

(Borrowing as a proportion of total income)

	Sector (registered providers)	Non- specialist: high average tariff	Non- specialist: medium average tariff	Non- specialist: low average tariff	Specialist: All
Sector average	36.8%	40.6%	36.2%	35.7%	15.2%
Lower quartile	1.0%	24.6%	17.1%	0.2%	0.0%
Median value	22.4%	39.0%	28.9%	16.6%	3.8%
Upper quartile	40.5%	53.7%	42.4%	35.3%	20.8%