Financial sustainability of higher education providers in England

2022 update

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Contents

Summary

1. This report provides a summary of the Office for Students' (OfS's) initial analysis of financial data returned to the OfS by registered higher education providers in England (excluding further education colleges). The analysis draws on audited financial data from 2019-20 and 2020-21 and forecasts to 2024-25. It identifies some trends in current financial performance and forecasts for the next four years, covering the sector overall and specific groups of providers.

2. The overall aggregate financial position of universities, colleges and other registered higher education providers remains sound, at this time. This is despite the many operational and financial challenges arising from the coronavirus pandemic and increasing costs for providers and students.

3. Overall aggregate financial performance, measured by income and expenditure and by net operating cashflows, has been reasonable in the last year, but is forecast by most providers to reduce in the short term, before recovering in the longer term. Providers continue to expect growth in student numbers, particularly from overseas. The current financial health of the sector is underpinned by overseas fee income and overreliance on overseas fees remains a vulnerability. This is amplified by expectations of further growth at a time where there is a forecast decline in overall financial performance.

4. Across the sector, providers have moved to protect their sustainability during the pandemic and this is seen in strengthened liquidity reserves in the aggregate picture. Liquidity is expected to reduce over the forecast period albeit remaining at reasonable levels. For most providers, borrowing remains an important part of their financial model, although overall borrowing levels are forecast to reduce.

5. The sector's performance in aggregate does not, however, reflect the picture for individual providers, where financial performance and strength vary significantly.

6. The environment remains challenging. To protect their longer-term sustainability, providers will need to continue to adapt to uncertainties and financial risks. Financial challenges could affect individual providers differentially and each will have its own range of mitigating actions available.

7. The OfS assesses the financial viability and sustainability of each provider, taking account of its individual circumstances and exposure to challenges. We also model financial data to consider exposure to future risks, such as:

    - fluctuations in student recruitment
    - reliance on overseas fee income, particularly fee income from high numbers of students from particular countries, and reliance on further growth in overseas student recruitment
    - exposure to increasing pension costs
    - changes to government funding policy
    - exposure to inflationary pressure on costs.

8. The OfS monitors the viability and sustainability of registered providers using the information collected through the Annual Financial Return, notifications, reportable events, and other intelligence. We are not concerned about the short-term viability of most providers, although we are monitoring the risks for some more closely. With the information currently available we consider that the likelihood of multiple providers exiting the sector in a disorderly way due to financial failure remains low at this time and in the short term. However, we continue to monitor the sector and individual providers given the challenges in their operating environment.

9. Annex A contains data that illustrate analysis of key financial data.

Introduction

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

11. Every OfS-registered higher education provider is required regularly – at least annually – to submit financial data, including financial and student forecasts. This report summarises our analysis of financial data returned to us by 247 registered higher education providers in England (excluding further education colleges) as part of the Annual Financial Return.

12. It follows our report on financial sustainability in June 2021, 'Financial sustainability of higher education providers in England', and updates on how higher education providers have continued to manage their finances through the pandemic and beyond following the completion of annual accounts for 2020-21 and the arrival of students for 2021-22. It also analyses the trends in providers' forecasts up to 2024-25.

Analysis findings

Notes on the data

13. The report draws on financial data, including forecast data, submitted by 247 higher education providers. Throughout the report we refer to ‘higher education providers’, ‘providers’, ‘universities and colleges’, and ‘the sector’ as shorthand for this group.

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

15. Throughout the report we refer to ‘Non-EU’, ‘Non-EU domiciled’ and ‘overseas’ students. These terms are interchangeable and represent the same group of students.

16. The data is presented as an aggregate view of providers’ financial records and forecasts, for the sector overall and for five broad ‘tariff peer groups’.

17. Three of these peer groups (‘non-specialist: high average tariff’, ‘non-specialist: medium average tariff’ and ‘non-specialist: low average tariff’) are based on the tariff entry points of providers’ undergraduate student population. The ‘specialist: all’ group includes providers offering specialist provision (a high proportion of students concentrated in a small number of subject areas), regardless of tariff entry points. A fifth group (‘non-specialist: unclassified’) consists of 30 providers with no tariff classification. This group includes a range of providers with different financial structures, and its aggregate data can be skewed by a few individual providers.

18. The data for 2019-20 and 2020-21 reflects providers last two years of audited financial statements except for a small number of providers (33) which have not yet submitted their final data for 2020-21. This is mainly because they either have financial years ending in the last three months of the calendar year or the OfS has agreed an extension to the deadline for submission. In these cases, this analysis uses forecast data for 2020-21, submitted to the OfS in the Annual Financial Return, in place of audited data. Due to the timing of the data submissions, no forecast data for 2025-26 is available for these providers. As a result, the data presented in this report covers only a six-year period and includes data for the period 2019-20 to 2024-25.

19. For most providers (157), the financial year reflects the period from 1 August to 31 July.

Aggregate financial performance

Table A1: Summary of aggregate financial data

Sector	2019-20 (Actual)	2020-21 (Actual)	2021-22 (Forecast)	2022-23 (Forecast)	2023-24 (Forecast)	2024-25 (Forecast)
Total income	£36,145M	£37,306M	£39,979M	£41,768M	£43,837M	£45,729M
Surplus/(Deficit)[1]	£715M	£1,743M	£896M	£892M	£1,314M	£1,672M
Surplus/(Deficit) as a % of total income	2.0%	4.7%	2.2%	2.1%	3.0%	3.7%
Cash flow from operating activities	£3,037M	£5,009M	£2,622M	£3,140M	£3,710M	£4,189M
Cash flow from operating activities as a % of total income	8.4%	13.4%	6.6%	7.5%	8.5%	9.1%
Net liquidity	£12,426M	£15,168M	£14,000M	£13,517M	£13,052M	£13,216M
Net liquidity days	137	168	140	129	120	117
External borrowing	£13,809M	£14,104M	£14,081M	£14,220M	£14,006M	£13,784M
External borrowing as a % of total income	38.2%	37.8%	35.2%	34.0%	31.9%	30.1%

20. At an aggregate level, the data appears to show a decline in financial performance in the short term (surplus and operating cash flow) before picking up to approximately pre-coronavirus levels over the longer-term.

21. This decline in financial performance is despite forecast growth in student numbers from the UK and overseas. The trend is consistent with previous years and failure to achieve student number forecasts remains a risk for many providers, particularly when combined with the challenges of rising costs. Where financial performance is weaker, failure to recruit students at the predicted level may accentuate financial challenge if costs cannot be reduced.

22. Providers expect that their expenditure will increase over the period at an overall higher rate than income. This partly reflects increased activity. Student numbers are expected to increase; but it also reflects some anticipated inflationary pressure on costs.

23. It is likely that inflationary pressure will be more significant than the data shows, as much of it was prepared before recent changes in the macroeconomic outlook. Many providers have forecast annual inflationary rises of between 2 and 4 per cent. The Bank of England currently projects that inflation will reach 10 per cent in the next year. Financial performance for providers could therefore be lower than anticipated in the next two years and beyond. Our modelling and analysis, particularly on cost pressure and on student recruitment, will inform our

[1] Surplus is total income less total expenditure, excluding other gains or losses (from investments and fixed asset disposals), the share of surplus or deficit in joint ventures and associates and changes to pension provisions.

provider engagement targeted at those where data suggests there could be sustainability challenges.

24. The latest data shows that, in aggregate, total expenditure (adjusted to exclude depreciation and pension accounting adjustments) remained static in 2020-21 showing the restraint in operating costs over the year. However, providers have forecast that their costs will rise substantially in 2021-22 (over 10 per cent) as they re-adjust to the lifting of coronavirus restrictions. Thereafter, costs are expected to continue to rise, with total expenditure forecast to be higher than pre-coronavirus levels. Some of this rise can be accounted for by predicted increases in activity (student numbers), however it also reflects a predicted increase in inflation (discussed below).

25. The rising cost of living could have consequences for student recruitment and retention. Potential applicants, current students and their families could take the view that that attending higher education is less affordable. Such scenarios are most likely to have an impact on those providers offering higher education to students from disadvantaged backgrounds and underrepresented groups. However, data on applications suggests demand for higher education generally remains high. We recognise that the high rate of inflation may affect students' costs of living which in turn could affect their behaviour. We will continue to monitor this.

26. Interest rates are also forecast to rise. Many of the borrowing commitments in the sector are longer term and on fixed interest rates of interest and are not therefore affected by changes in interest rates. Some borrowing – including shorter term, revolving credit or overdraft facilities – could become more expensive to service. Borrowing that is subject to variable interest rates accounted for 15.8 per cent of the total owed at the end of 2020-21. Providers wishing to take out new borrowings will find the cost and interest rates greater than recent years, although there may be a time lag in the rates that banks apply to providers with perceived low credit risk.

27. Interest rates rises may benefit providers where they hold cash reserves or investment funds. Investment income was £287 million in 2020-21 when interest rates were low, but an increase in interest rates should see an increase in this income stream beyond the levels forecast.

28. Some providers will see increasing employer contributions to pension schemes, which could be more than currently forecast. Changes in pension provisions to account for rising pension contributions in the future will also have a negative impact on the forecast 'surplus' in 2021-22.

29. Overall providers have moved to protect their sustainability during the pandemic and this is seen in strengthened liquidity reserves in the aggregate picture. Providers expect liquidity holdings to return to pre-coronavirus levels over the forecast period as capital investments pick up. Overall, the amount of new borrowing is reducing.

30. There remains considerable variability in the financial strength of individual providers. Even within each peer group there is a wide spread of financial performance. Providers vary in many ways, including in their financial profile and in their capacity to address financial challenges.

Financial performance

Overall income

31. In aggregate, providers reported a moderate increase in income of 3.2 per cent in 2020-21 compared with 2019-20. This was despite forecasting, last year, a slight reduction in aggregate income for 2020-21, driven by expected reductions in other income (from accommodation and commercial activities), investment income and sources of donations and endowments. Although reductions were experienced in these categories, income from course fees and education contracts was higher than expected, compensating for these reductions.

32. Table A2 shows the annual percentage change in income in the period 2020-21 to 2024-25 across all peer groups and the sector. On average, sector income is expected to be 21.7 per cent higher in 2024-25 compared with 2019-20.

Table A2: Peer group analysis of changes in income, 2020-21 to 2024-25

Peer group	Total income (year on year change)					
	2020-21	2021-22	2022-23	2023-24	2024-25	Change 2020-21 to 2024-25
Non-specialist: high average tariff	1.5%	8.4%	3.4%	4.5%	3.3%	21.1%
Non-specialist: medium average tariff	4.3%	4.9%	4.3%	4.4%	4.7%	19.5%
Non-specialist: low average tariff	7.0%	4.1%	6.2%	5.9%	5.4%	23.2%
Non-specialist: unclassified*	-22.8%	26.8%	15.3%	15.5%	14.9%	94.2%
Specialist: all	6.4%	6.7%	6.1%	5.8%	5.6%	26.6%
Sector	3.2%	6.8%	4.3%	4.8%	4.2%	21.7%

**The non-specialist: unclassified group consists of 30 financially small providers where relatively low year-to-year changes can appear as large % movements.*

33. Table A3 gives a breakdown of the sources of income across the sector in the period 2019-20 to 2024-25.

Table A3: Sources of income, 2019-20 to 2024-25

Income source	Income £M 2019-20 (Actual)	2020-21 (Actual)	2021-22 (Forecast)	2022-23 (forecast)	2023-24 (Forecast)	2024-25 (Forecast)
Course fees and education contracts	19,394	20,811	22,449	23,771	25,117	26,425
Funding body grants	3,905	4,099	3,887	3,743	3,755	3,749
Research grants and contracts	5,188	5,364	5,692	5,835	6,103	6,371
Other income	6,482	5,960	6,967	7,434	7,853	8,138
Investment income	324	287	270	289	304	314
Donations and endowments	851	784	713	696	704	733
Total income	36,145	37,306	39,979	41,768	43,837	45,729

Student numbers

34. Overall, providers forecast total student numbers to grow by 16.5 per cent in the period between 2020-21 and 2024-25. Home (UK) and overseas (non-EU) student numbers are forecast to increase by 15.4 per cent (226,000 FTEs) and 40.2 per cent (134,000 FTEs) respectively. EU student numbers are expected to decline by 37.3 per cent (43,000 FTEs) although the financial impact of this is partly offset by increases in the fees that EU students pay.

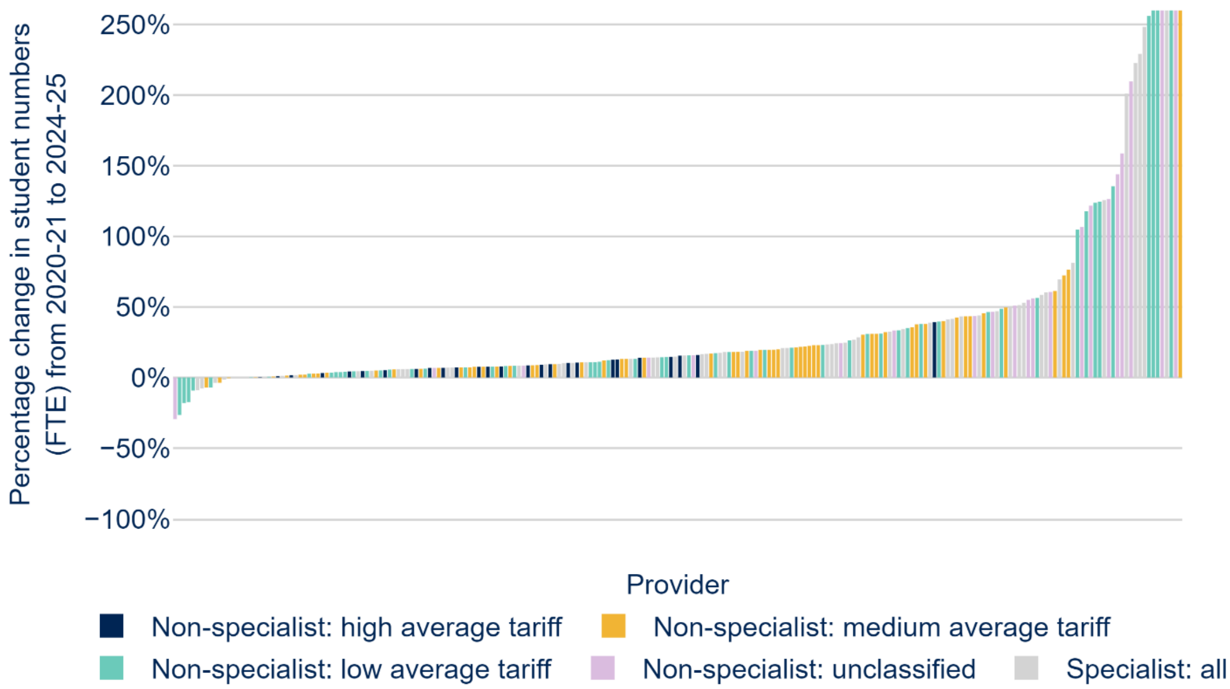
35. At an aggregate level, the forecast growth in UK students correlates broadly with a number of other sources. ONS data forecasts the number of 18-year-olds in the UK population to rise by approximately 13 per cent in the period between 2021 and 2025; and UCAS has forecast that applications could increase by 27 per cent between 2021 and 2026.

36. However, there is significant variability in forecast changes to student numbers at individual providers and these may or may not be realistic.

37. Total student numbers across the sector are due to increase by 16.5 per cent between 2020-21 and 2024-25, showing continued growth and perceived demand for higher education in England. At an individual provider level there is significant variability in the growth projections, and 14 providers (6%) predict a downturn in student numbers during this period.

38. The chart below shows the percentage change in total student numbers between 2020-21 and 2024-25, by provider and highlighted by tariff group.

Figure A1: Forecast change in total student numbers (FTE) by provider, 2020-21 to 2024-25

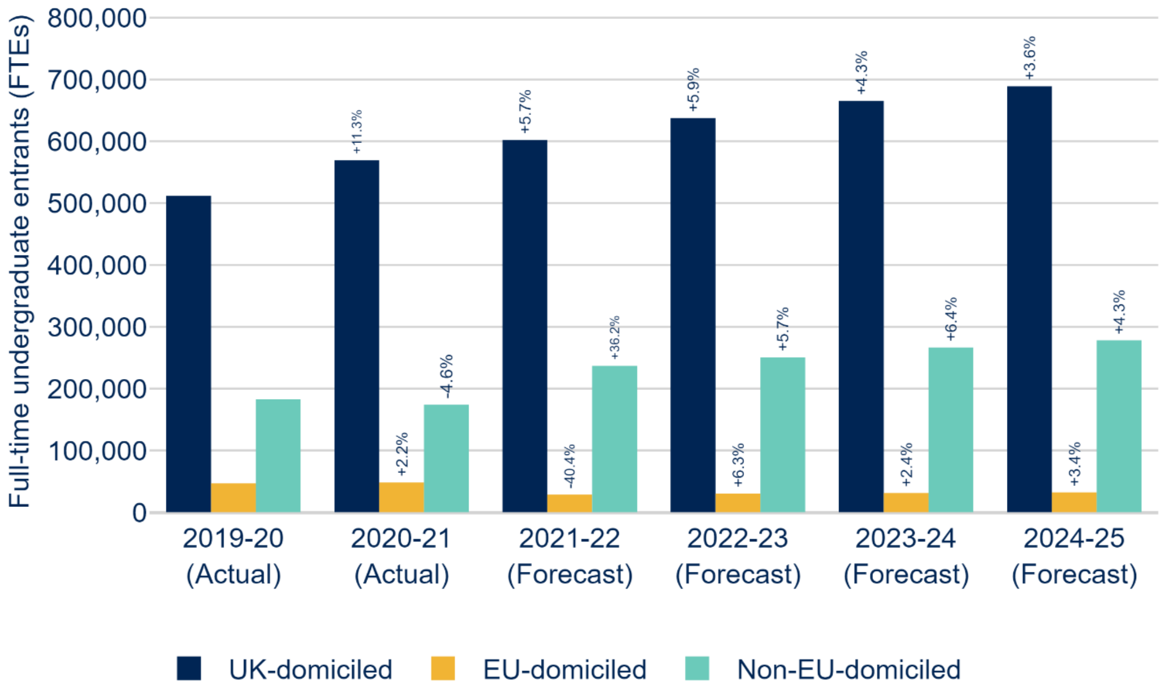


Note: Some providers have predicted growth in excess of 250 per cent. Significant relative per cent movements may represent small numbers of students.

39. Total EU-domiciled student entrant FTEs are forecast to decrease by 40.4 per cent from 2020-21 to 2021-22 when new tuition fee arrangements take effect (i.e. EU students are no longer be able to access the student finance regime and are not bound by the same tuition fee cap as UK students now that the UK has left the EU). This is followed by expected average growth of 12.6 per cent between 2021-22 and 2024-25.

40. Figure A2 shows the annual change in actual and forecast full-time undergraduate entrants (FTEs) by student domicile.

Figure A2: Student numbers and annual growth for full-time undergraduate entrants by domicile (UK, EU, and Non-EU), 2019-20 to 2024-25



Applications and demand

41. UCAS application data (January 2022) indicates that total undergraduate applicants to English providers have broadly remained consistent with the same point last year. Table A4 highlights this split by student domicile. Both home and non-EU applications have increased, and EU applications have decreased by almost 20 per cent. It is important to note that this data includes only a proportion of applications from total EU and Non-EU students, with many of these students applying outside UCAS.

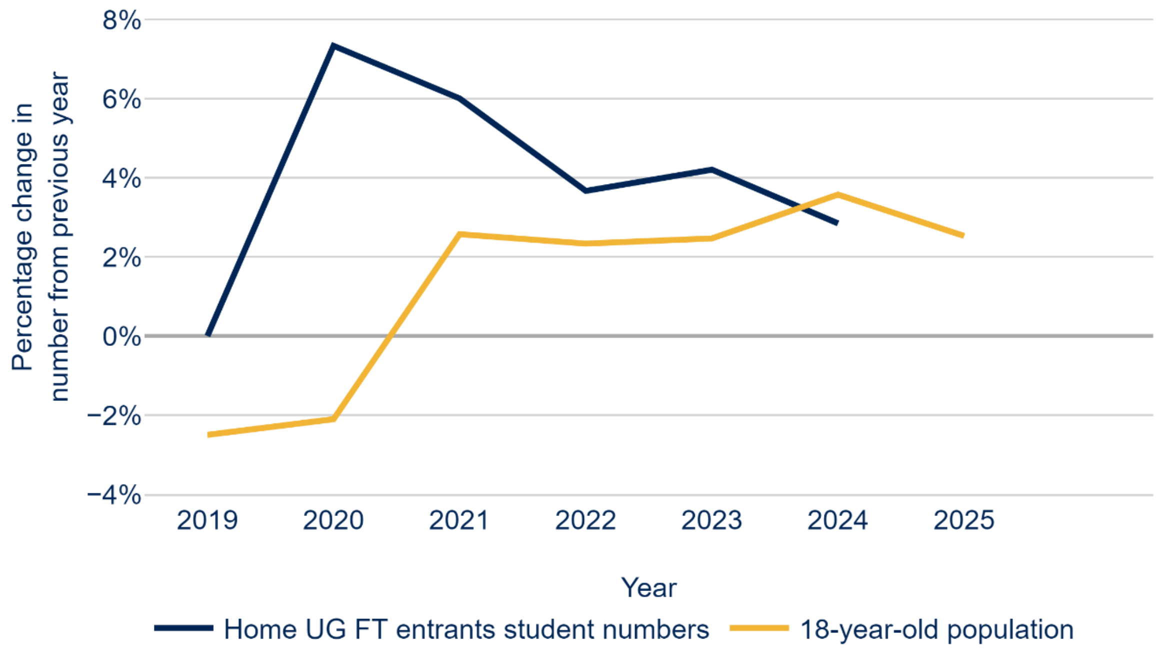
Table A4: UCAS applicants to English providers, January 2022 and January 2021 deadlines

Domicile	January 2022 deadline applicants	January 2021 deadline applicants	Change	Percentage change
Home	446,760	444,860	1,900	0.4%
EU	18,530	22,900	-4,370	-19.1%
Non-EU	89,260	84,180	5,080	6.0%
Total	554,570	551,940	2,630	0.5%

Data source: UCAS

42. A trend of growth in the 18-year-old population in the UK may provide opportunities for providers to expand their student populations in line with their forecasts. Analysis suggests that, over the period 2020-21 to 2024-25, providers have forecast an increase of 70,000 FTEs, 12.5 per cent, in UK full-time undergraduate students. This is mirrored by an increase of 11.4 per cent in the estimated UK 18-year-old population over the same period. Figure A3 highlights the forecast change in the 18-year-old population between 2019 and 2025, alongside the aggregate forecast of UK full-time undergraduates for all providers.

Figure A3: Annual change in full-time UK undergraduate student numbers compared with the estimated change in the UK 18-year-old population, 2019 to 2025



Note: Student numbers 2021 to 2024 are based on provider forecasts and the 18-year-old population data is based on ONS estimation data

Tuition fees

43. Income from course fees and educational contracts is forecast to increase by over a quarter (27 per cent) between years 2020-21 and 2024-25. Forecast income from tuition fees depends on assumptions made by providers about student demand and retention, and on the level of the fees. Providers have generally assumed that there is no change in the tuition fee limit for UK undergraduate students.

44. Table A5 shows the expected change in tuition fee income by domicile over the period 2020-21 to 2024-25.

Table A5: Forecast change in tuition fee income by domicile, 2020-21 to 2024-25

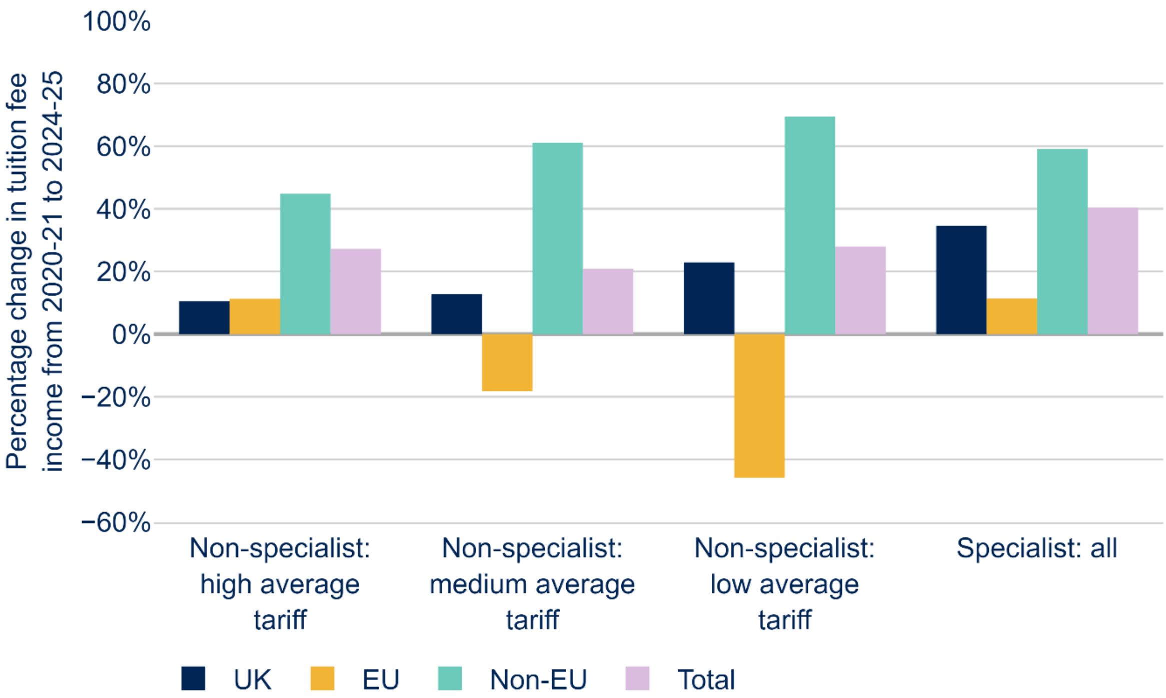
Change in tuition fee income by domicile	Forecast change year 2020-21 to 2024-25 £M	% Change
Total	£5,614	27.0%
UK	£2,007	16.4%
EU	- £103	- 8.5%
Non-EU	£3,325	52.7%

45. Fee income from EU domiciled students is expected to decline by 8.5 per cent between 2020-21 and 2024-25, which, relative to the forecast 40.2 per cent decline in EU student FTE, indicates a higher fee per student.

46. At a tariff-group level, medium and low-tariff providers are forecasting an overall decline in EU-domiciled tuition fees from 2021-22 to 2024-25. High-tariff and specialist providers are forecasting increases in EU-domiciled fees during this time despite a decrease in student FTE, implying the assumption that these students are willing to pay higher fees at these groups of providers.

47. Fees from non-EU (overseas) students are expected to continue to increase across all peer groups, demonstrating English higher education providers' continued reliance on overseas students to support their business model. Failure to achieve forecast income targets from non-EU students will affect providers differently. Increased financial pressure will be evident where a provider relies on this income for its financial sustainability. The OfS monitors this risk for individual providers.

Figure A4: Forecast change in tuition fees by domicile and tariff group from 2021-22 to 2024-25



Note: The non-specialist: unclassified group has been excluded from this chart as a small number of new providers in this group expect large % movements, which distort the average fee income changes.

48. Total higher education course fees and educational contracts are forecast to increase annually across all peer groups. This might indicate the sector assumes no further significant impacts from the global pandemic on student numbers and demand for English higher education.

Overseas (Non-EU) student numbers

49. Table A6 highlights the top 10 source countries of overseas (non-EU) students from 2018-19 to 2020-21 (at all levels of study).

Table A6: Top 10 source countries of overseas (non-EU) students, 2018-19 to 2020-21

Country	2018-19 (Actual)	2019-20 (Actual)	2020-21 (Actual)	Proportion of total overseas students 2020-21
China	101,855	119,420	119,270	30.4%
India	24,360	48,665	72,270	18.4%
Nigeria	9,215	10,660	17,065	4.3%
Hong Kong	14,800	14,845	15,085	3.8%
United States	14,675	14,900	13,265	3.4%
Pakistan	5,485	6,620	10,975	2.8%
Spain	8,835	9,435	10,275	2.6%
Malaysia	11,785	11,210	9,565	2.4%
Saudi Arabia	6,485	6,640	7,090	1.8%
United Arab Emirates	4,670	5,280	6,215	1.6%

Data source: HESA

50. The sector, and some providers in particular, continue to be reliant on recruitment of students from China. Any event that reduces the flow of such students to the UK is likely to have a significant impact. The number of Chinese students studying at English higher education providers showed no growth in 2020-21, whereas the number of Indian students studying at English providers was almost 50 per cent higher than the previous year.

Operating cash flow performance

51. Operating cash flow rose from 8.4 per cent in 2019-20 to 13.4 per cent in 2020-21, a much higher level than forecast last year. This was driven by higher income from course fees and education contracts, as well as continued restraint in operating costs during the year. Although operating cash flow looks relatively high in 2020-21, costs are expected to rise significantly in 2021-22 causing operating cash flow to fall (for all peer groups) before recovering in 2022-23 and strengthening thereafter.

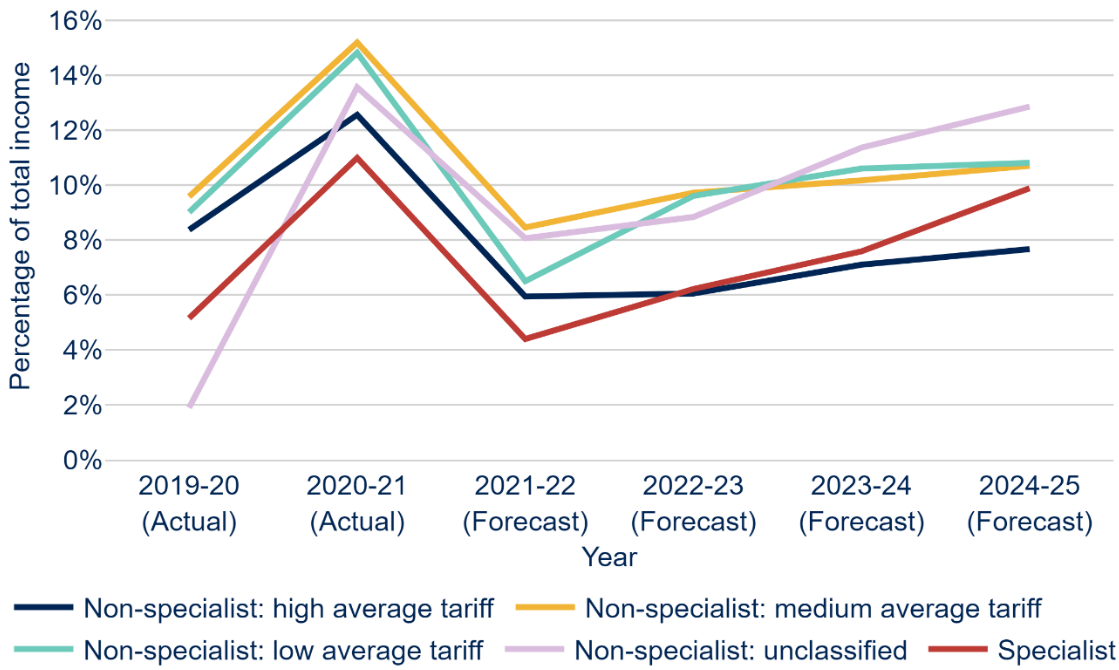
52. Below the aggregate level, performance varies considerably between providers and tariff groups. Some of this variation can be seen in the table A7, which shows forecast cash flow from operating activities as a percentage of total income for 2020-21, broken down by quartile, average and median value. The upper quartile for the sector generated net operating cash flow of 17.5 per cent of income in 2020-21. Positive cash flow is necessary to maintain liquidity reserves and to generate funds for future investment, such as capital expenditure.

Table A7: Cash flow from operating activities as a per cent of total income, 2020-21

2020-21	Cash flow from operating activities as a % of total income: Sector	Non-specialist: high average tariff	Non-specialist: medium average tariff	Non-specialist: low average tariff	Non-specialist: unclassified	Specialist
Total £M	5,009	2,378	1,490	724	67	349
Average	13.4%	12.6%	15.2%	14.8%	13.6%	11.0%
Lower quartile	5.5%	12.1%	9.0%	5.8%	-5.2%	2.8%
Median	12.0%	14.1%	12.5%	11.8%	3.1%	10.3%
Upper	17.5%	16.8%	18.9%	17.6%	12.5%	16.6%

53. Average levels of operating cash flow by tariff group for the period 2019-20 to 2024-25 are also shown in the chart below.

Figure A5: Cash flow from operating activities as a percent of total income by peer group, 2019-20 to 2024-25



Surplus

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

55. Accounting treatments can often distort movements in surplus levels between years, making it a difficult metric to assess underlying financial performance. In particular, the non-cash

accounting adjustments relating to new Universities Superannuation Scheme contribution agreements, as well as those relating to other defined benefit pension schemes, can have a significant impact on reported surplus levels. Although the financial sustainability of pension schemes is an important concern for the sector, the resulting impact of these accounting adjustments on surplus levels can distort the underlying financial performance.

56. To aid comparability, we have excluded these pension scheme accounting adjustments from total expenditure to more accurately show the sector's underlying surplus levels. The latest data returns show that on aggregate, surplus levels increased from £712 million (2.0 percent of income) in 2019-20 to £1,743 million (4.7 per cent of income) in 2020-21 but are expected to fall to £889 million (2.2 percent of income) in 2021-22. Thereafter, sector surpluses are forecast to rise. However, beneath the aggregate level, there is considerable variability in the financial performance between providers and tariff groups across the sector.

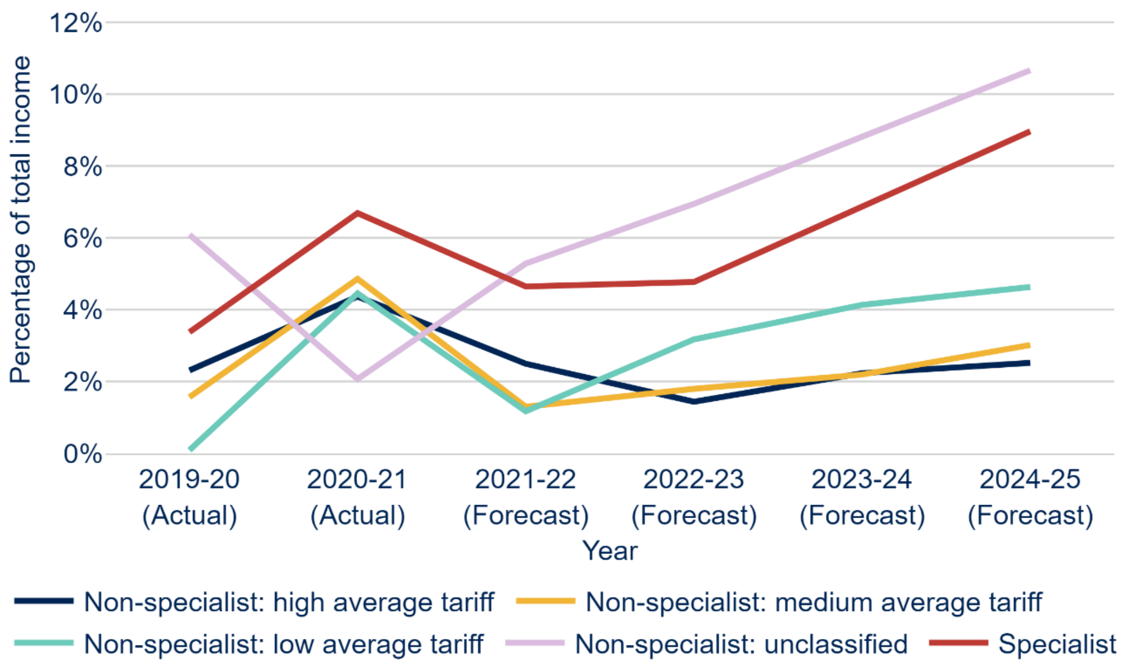
57. Table A8 shows the average adjusted surplus levels (excluding pension provision adjustments) for all peer groups for 2020-21, alongside the percentage of total income by quartile, average and median value. This shows the level of variation in reported surpluses across all the sector.

Table A8: Adjusted surplus as a percentage of income, 2020-21.

	Surplus as a % of total income					
2020-21	**Sector**	**Non-specialist: high average tariff**	**Non-specialist: medium average tariff**	**Non-specialist: low average tariff**	**Non-specialist: unclassified**	**Specialist**
Total £M	1,743	827	476	218	10	213
Average	4.7%	4.4%	4.9%	4.5%	2.1%	6.7%
Lower quartile	-0.6%	2.2%	0.7%	0.5%	-8.1%	-2.8%
Median	4.4%	4.0%	4.7%	4.6%	0.0%	3.8%
Upper	10.1%	6.9%	8.8%	11.6%	10.6%	17.6%

58. Figure A6 shows the level of surpluses (adjusted to exclude pension scheme adjustments) as a percentage of total income by peer group for 2019-20 to 2024-25.

Figure A6: Surplus/(deficit) as a % of total income by peer group, 2019-20 to 2024-25



Expenditure and cash outflow trends

59. The latest data shows that, in aggregate, total expenditure (adjusted to exclude depreciation and pension accounting adjustments) remained static in 2020-21, showing the restraint in operating costs over the year. However, providers have forecast that their costs will rise substantially in 2021-22 (over 10 per cent) as providers re-adjust to operating in an environment without coronavirus restrictions. Thereafter, costs are expected to continue to rise, with total expenditure forecast to be higher than pre-coronavirus levels. Some of this rise can be accounted for by predicted increases in activity (student numbers), however it also reflects predicted inflationary increases in costs.

60. At an aggregate level, expenditure is assumed to rise from £35.6 billion in 2020-21 to £44.1 billion in 2024-25. A breakdown of expenditure by cost type for the period 2019-20 to 2024-25 is shown below.

Table A9: Expenditure by category, 2019-20 to 2024-25

Expenditure £M	2019-20 (Actual)	2020-21 (Actual)	2021-22 (Forecast)	2022-23 (Forecast)	2023-24 (Forecast)	2024-25 (Forecast)
Staff costs (excluding pension adjustments)	19,242	19,484	20,949	21,985	22,907	23,851
Restructuring costs	143	80	77	79	62	30
Other operating expenses	12,789	12,786	14,817	15,421	16,042	16,578
Depreciation and amortisation	2,413	2,553	2,553	2,694	2,819	2,912
Interest and other finance costs	844	679	687	696	693	686
Total expenditure (excluding pension adjustments)	35,431	35,563	39,083	40,876	42,523	44,058
Pension adjustments	- 2,242	476	4,041	193	184	179
Total expenditure	33,189	36,038	43,124	41,068	42,707	44,237

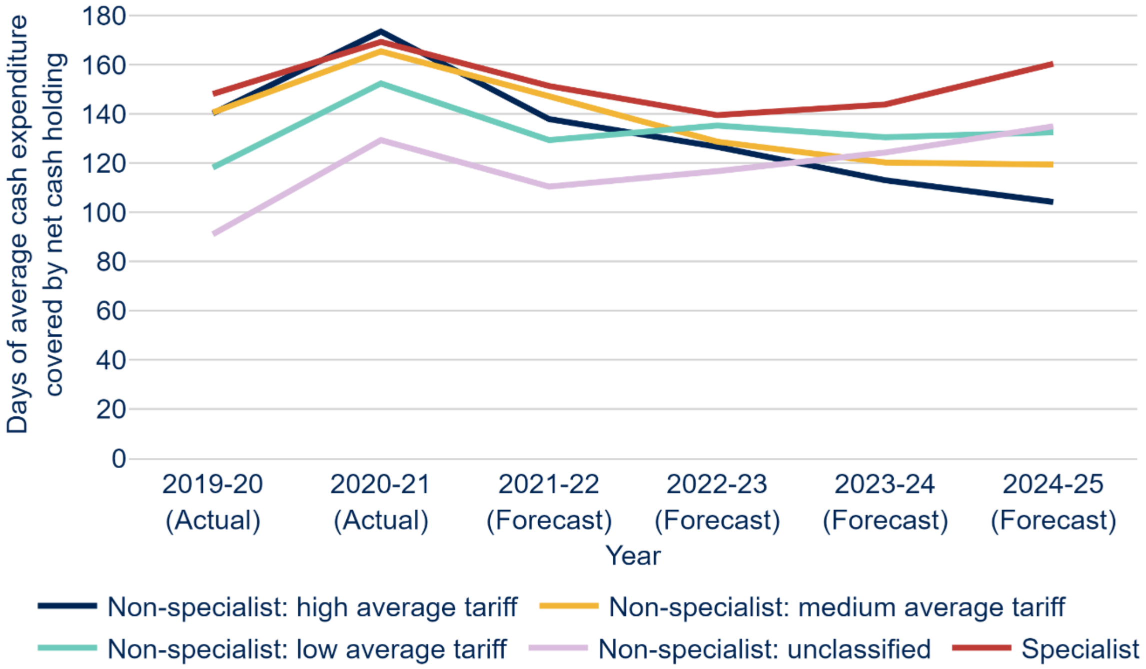
Financial position – strength and resilience

Cash holding

61. In aggregate cash holding increased from £12.4 billion at the end of 2019-20 to £15.1 billion at the end of 2020-21 (a rise of 22 per cent) as providers prudently held increased levels of cash reserves to address continued financial challenges. As a result, net liquidity days (the number of days of average cash expenditure that are covered by the cash holding) rose from 137 to 168 at the end of 2020-21. From 2021-22, liquidity days are expected to gradually decrease in line with falling cash holdings and increasing expenditure, falling to 117 days by the end of 2024-25.

62. Figure A7 shows average net liquidity days for each peer group for the period 2019-20 to 2024-25. This shows the rise in liquidity days for all peer groups in 2020-21 followed by lower levels of liquidity over the forecast period.

Figure A7: Net liquidity days by peer group, , 2019-20 to 2024-25



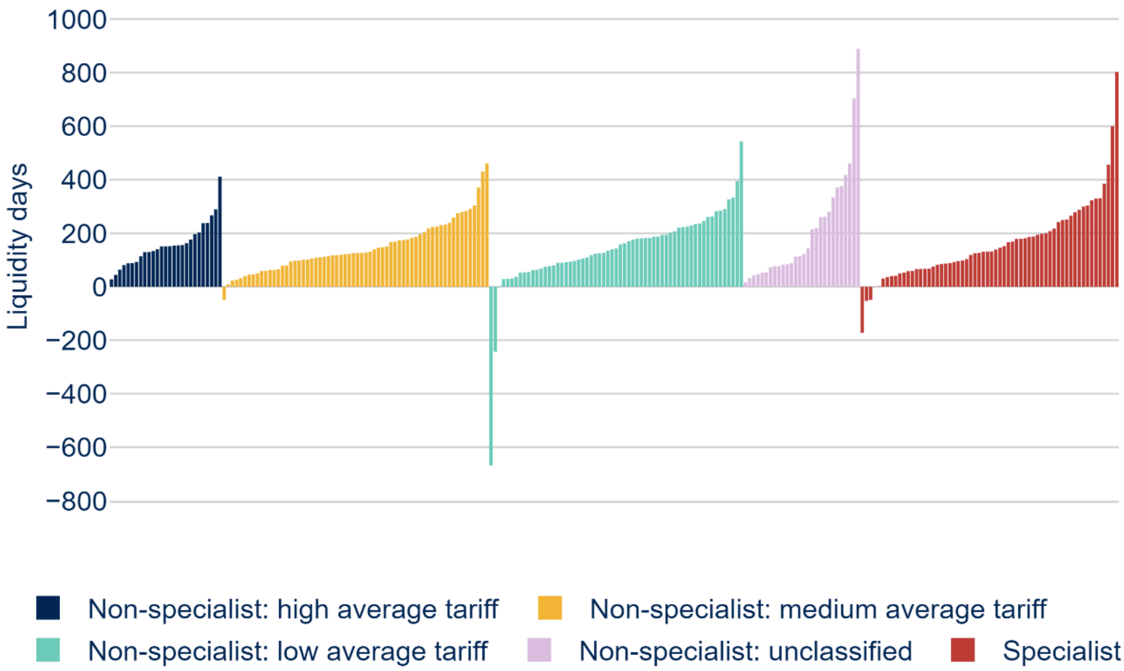
63. Table A10 shows liquidity days for 2020-21 by quartile, average and median value across all the peer groups.

Table A10: Net liquidity days, 2020-21

		Liquidity days				
2020-21	Sector	Non-specialist: high average tariff	Non-specialist: medium average tariff	Non-specialist: low average tariff	Non-specialist: unclassified	Specialist
Total £M	15,168	7,966	3,902	1,824	164	1,312
Average	168	173	165	152	129	169
Lower quartile	80	92	91	79	76	67
Median	132	151	124	142	128	126
Upper	219	198	189	225	280	204

64. Our analysis shows that cash holdings continue to vary considerably across providers. This is demonstrated by Figure A8, which shows net liquidity days at the end of 2020-21 for all providers.

Figure A8: Net liquidity days by provider and peer group, 2020-21



65. The two negative outliers within the low average tariff group have negative liquidity days due to relationships and obligations to parent companies where a provider is in a wider group structure. The few negative liquidity days for providers in the other groups reflects short-term borrowing or other borrowing due within 12 months at the financial year end 2021.

Net total assets

66. Net total assets represent the value of a provider's assets after its liabilities are deducted. In very broad terms, it is a proxy for the financial strength of a provider, and therefore its ability to absorb unexpected financial shocks and challenges. In aggregate, providers reported net total assets of £44.9 billion at the end of 2020-21, with forecasts showing a projected rise to reach £47.6 billion by the end of 2024-25.

67. Table A11 shows net total asset levels at the end of 2020-21 broken down by quartile, average and median value.

Table A11: Total net assets, 2020-21

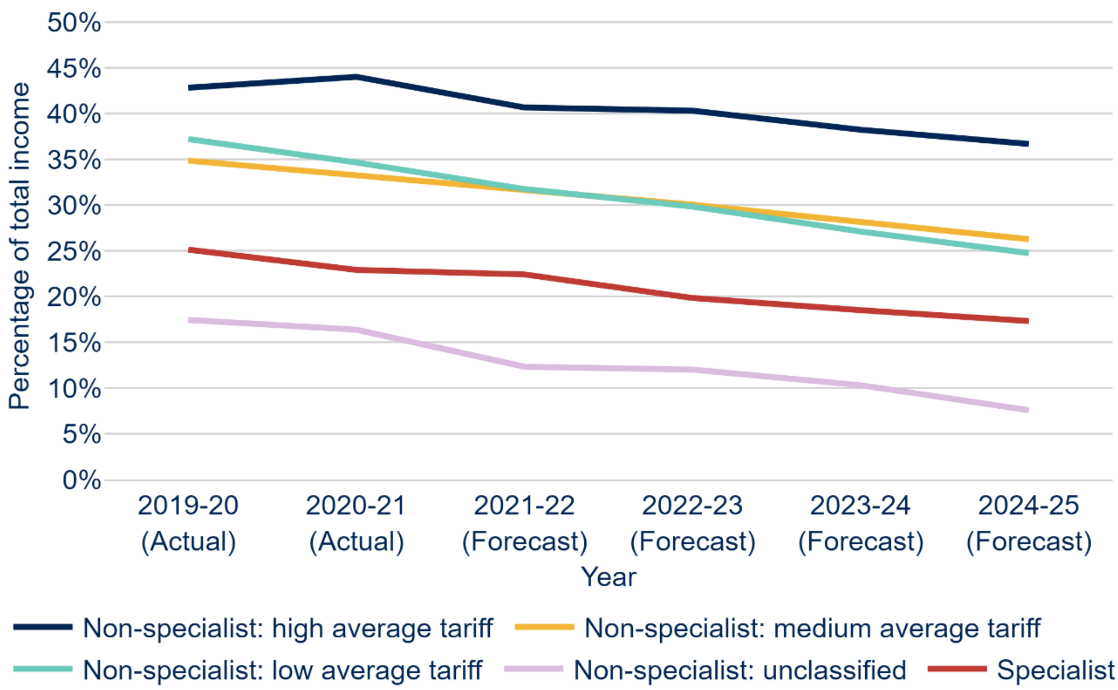
2020-21	Sector	Non-specialist: high average tariff	Non-specialist: medium average tariff	Non-specialist: low average tariff	Non-specialist: unclassified	Specialist
	Total net assets as a % of total income					
Total £M	44,849	29,164	7,930	3,546	369	3,839
Average	120.2%	154.0%	80.9%	72.5%	74.8%	120.7%
Lower quartile	30.3%	92.4%	32.3%	16.8%	12.5%	44.1%
Median	76.4%	120.8%	68.7%	47.7%	25.0%	89.7%
Upper	134.0%	167.6%	111.8%	134.2%	101.0%	141.1%

Borrowing

68. In aggregate, gearing levels (borrowing and other financial commitments relative to total income) have increased in 2020-21, although the overall rise in borrowing has been driven by the high-tariff group as borrowing in all other peer groups fell.

69. Figure A9 shows the gearing levels (borrowing and other financial commitments) as percentage of total income by peer group for the period 2019-20 to 2024-25. This shows a general trend of reducing borrowing from 2021-22 to 2024-25.

Figure A9: Borrowing as a percent of total income by peer group



70. Table A12 shows the gearing levels (borrowing and other financial commitments) as a percentage of total income at the end of 2020-21 broken down by quartile, average, and median value.

Table A12: Borrowing as a percentage of total income, 2020-21

	Borrowing as a % of total income					
2020-21	**Sector**	**Non-specialist: high average tariff**	**Non-specialist: medium average tariff**	**Non-specialist: low average tariff**	**Non-specialist: unclassified**	**Specialist**
Total £M	14,104	8,337	3,264	1,694	81	729
Average	37.8%	44.0%	33.3%	34.6%	16.4%	22.9%
Lower quartile	0.1%	23.2%	15.5%	0.0%	0.0%	0.0%
Median	17.9%	38.1%	27.1%	11.6%	0.0%	5.8%
Upper	42.4%	50.8%	49.7%	32.3%	9.2%	33.4%

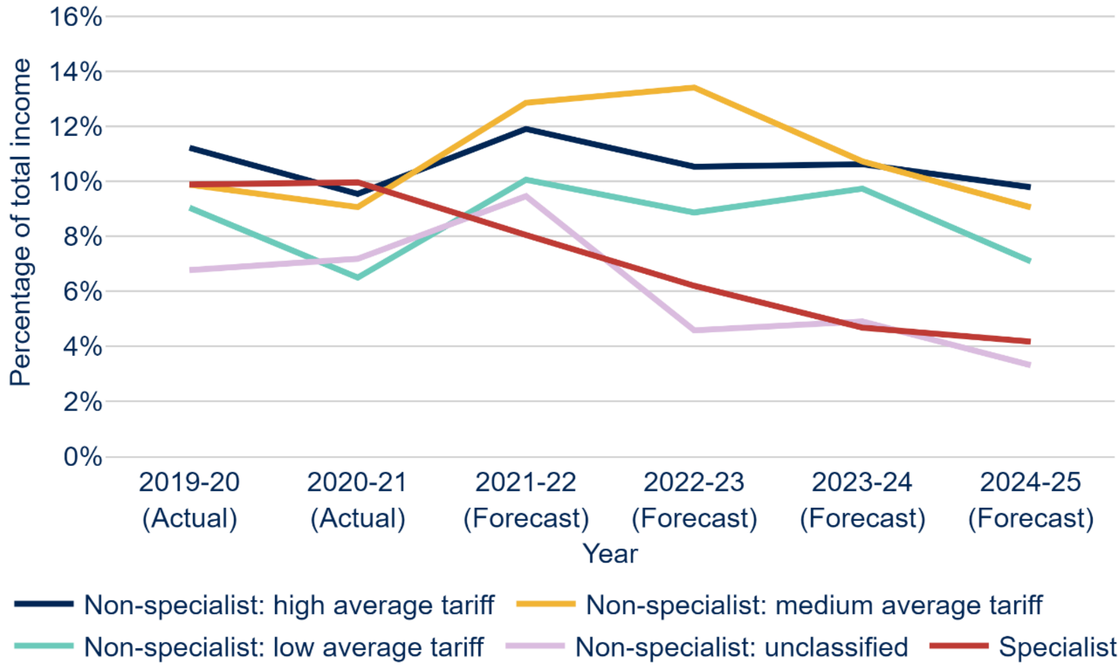
Capital expenditure

71. Total capital expenditure fell from £3.7 billion in 2019-20 to £3.3 billion in 2020-21 as many providers continued to pause their capital plans as part of a strategy to protect cash flow while managing operations through the pandemic.

72. Capital spend is expected to increase in 2021-22 (by 36 per cent to £4.6 billion) as many providers begin to implement post-coronavirus investment plans, consistent with reports from many lenders. Thereafter, forecasts show that annual capital investments are expected to reduce to lower levels than recent, pre-coronavirus years.

73. Figure A10 shows the capital expenditure as percentage of total income by peer group for the period 2019-20 to 2024-25.

Figure A10: Capital expenditure as a per cent of total income by peer group



Pensions

74. The main pension schemes affecting OfS providers are the Universities Superannuation Scheme (USS), Local Government Pension Schemes (LGPS) and Teachers Pension Scheme (TPS).

75. Total annual cash contributions to the USS by employers were £1,507 million in 2020-21 and are expected to rise by 10 per cent in 2021-22, with further increases of between 3 and 4 per cent in the remainder of the forecast period. It is not apparent from the data whether forecast contribution rates are sufficient to reflect the contributions recently agreed as part of the 2020 valuation.

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

77. Rules for pension accounting also mean that there will be an exceptional non-cash adjustment to reflect the changes in provision for future pension deficit reductions in the USS (agreed as part of the 2020 valuation). This adjustment will be reflected in a significant rise in staff costs in 2021-22. Our analysis of the data to date shows that some providers have already reflected this rise in their forecasts (equal to an increase in staff costs of £3.6 billion). Because the timing of USS announcements on the conclusion of the 2020 valuation coincided with the time providers were finalising their forecasts, a significant number of providers have either based their forecasts on the 2018 valuation or have made no allowance for a change in the provision for 2021-22. As a result, aggregate staff costs in 2021-22 are likely to be significantly higher than forecast (which will also affect the forecast surplus or deficit levels in that year).

78. The Local Government Pension Scheme (LGPS) is a funded defined benefit scheme with assets held in 88 separate trustee administered funds. There are currently 92 OfS-registered providers participating in the scheme and in 2020-21 these providers reportedly paid £415 million in employer pension contributions to the LGPS (15 per cent of total pension contributions).

79. The triennial valuation of the LGPS, based on fund valuations as at 31 March 2022, is now underway. Following the completion of this valuation, new employer contribution rates will be set for the period 1 April 2023 to 31 March 2026.

80. Across all the LGPS funds, the total average employer contribution for the three years following the 2019 valuation was equal to 22.9 per cent of payroll each year, compared with 23.6 per cent of payroll each year following the 2016 valuation. However, there is a significant variation in the contribution rates paid by individual employers across all funds.

Annex A

Aggregate financial data – see separate Excel Annex