

Office for
Students



Financial sustainability in focus: a regulatory view

22 October 2026

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Context

Key themes:

1. The prevalence of sustained optimism bias in the face of market dynamics that do not support that
2. 'Hamster wheel' responses not sufficient for the long term
3. Insolvency risk – while remote – is real

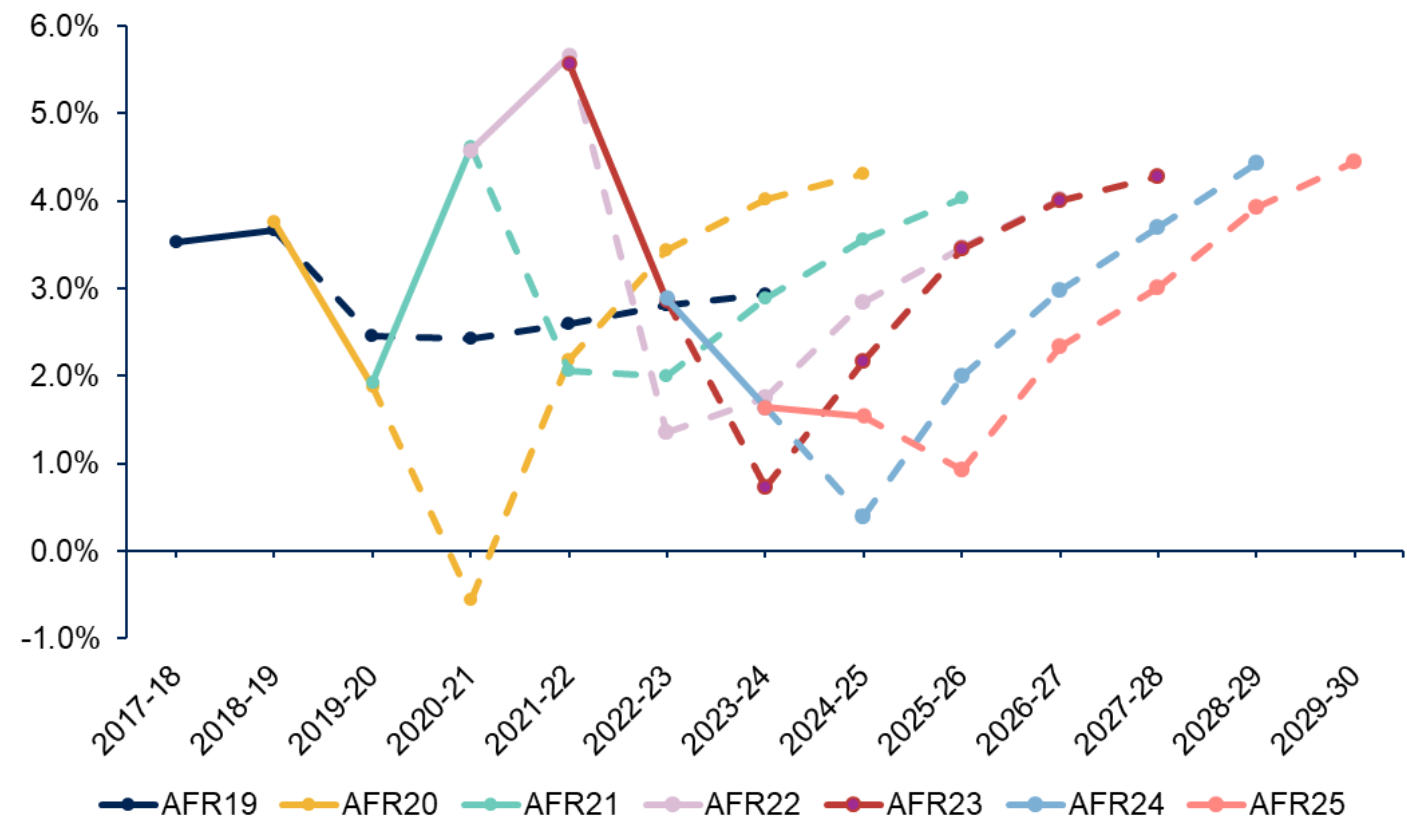
1. The optimism bias problem

- As regulator, the OfS has now been saying for some time that a continued reliance on recruitment growth as a route to income growth and sustainability is an increasingly vulnerable strategy
- As at time of **May 2026** financial sustainability report, we noted a modest **improvement** in financial performance at the aggregate level, but **despite UK and non-UK student recruitment remaining significantly below previous forecasts**:
 - In 2024-25, overall student recruitment declined: UK student recruitment increased by 3.5 per cent, but that was 8.6 per cent below the sector's previous forecast
 - Non-UK entrants decreased by 7.7 per cent, which was 9.0 per cent below the sector's previous forecast.
- At this same point, the **sector was also continuing to predict strong student growth in future years**:
 - forecasting a **19 per cent increase** in UK students and a **22.5 per cent increase** in international students between 2024-25 and 2028-29.

- This then feeds into a **wider projected financial recovery from the sector**:
 - Operating cash flow as a percentage of total income is forecast to reduce by 0.3 percentage points to 5.1 per cent in 2025-26, before then being expected to recover to 6.8 per cent in 2026-27.
 - This paints a picture of a sector expecting a slight dip in performance – almost as aberration – and then growth, growth, growth
- If we zoom out, we can see this has now been persistent over time, and persistently shown to need correction, year-on-year

Exhibit A: adjusted surplus / (deficit) as a percentage of total income over successive AFR collections -- aka ‘the hockey stick’ graph: this clearly shows the contrast between short-term prudence and expectations of stronger growth in later years

The pattern has shifted further to the right with each AFR cycle, which is neither realistic nor sustainable as a form of financial management.



- Our view remains that overall uncertainty facing the sector remains elevated and should be expected to persist over the medium term.
- Our latest 'Cassandra' modelling expressed that in the starkest terms to date:
 - In May 26, we modelled range of scenarios to assess the potential impact of sustained under-recruitment on providers over the forecast period – all scenarios concerning:
 - 'No growth' scenario assumed recruitment remains flat from 2025-26 onwards
 - This would result in cumulative net income losses, relative to forecast, of c. £2.7 billion by 2028-29.
 - Under this scenario, 58.4 per cent of the sector would then report a deficit.
 - Most severe scenario = cumulative income losses could rise to £4.2 billion.
 - Under this scenario, 70.3 per cent of the sector would then report a deficit.
- We will be able to see how 26/27 recruitment has tracked relative to forecast from 16th Nov onwards (once all interim financial returns are in)

2. At a macro level, we see a very large amount of ‘hamster wheel’ responses

- Some evidence of transformative financial management starting to happen, but most financial risk management remains largely short-term in nature
- There has been a recent increase in restructuring expenditure as percentage of total costs, with just under a quarter of the sector now reporting organisational restructuring costs and primarily through voluntary redundancy schemes.
- But these costs are then forecast to fall from 2025-26 onwards – another sign of ‘hockey stick’ thinking, with many in the sector seeing cost base management as a one-off need
- In reality, we’re seeing that then happen continuously in providers facing the greatest financial challenges: continued year-on-year cost saving, leading to a ‘hamster wheel’ form of financial existence that is also fundamentally unsustainable

3. Against all this, insolvency risk – while remote – is real

- To date, the UK has not yet seen a provider with university title exit the market:
 - Such market exit that has occurred has been limited to smaller providers (mostly with external validation) and the impact has been contained
 - We have not yet seen an example of a large-scale, disorderly market exit
- Not all market exit inherently 'bad:' – also possible to plan a managed exit, but that is rarely a provider's choice
- Were a disorderly exit to occur, there could be very significant immediate impacts (to students; to regional economies) and wider impacts (so-called 'contagion' risks)
- Much of our resourcing focus on financial sustainability within the OfS now directed towards understanding the population of providers potentially facing insolvency risks in short- to medium-term and supporting to avoid that
- The size of the financial risk now facing the sector has grown very significantly since 2022 (time of last in-depth National Audit Office review):
 - At that time, 10 providers were considered at short- to medium-term risk of potential insolvency;
 - As at Nov 25, that number had grown to c. 50

Office for Students role in relation to financial sustainability

Now a 'stewardship' role, comprising:

1. Monitoring and assessment of financial risk
2. Targeted engagement
3. Increasing support for collaboration

1. Monitoring and assessment of financial risk

- The OfS has a **regulatory duty to monitor and report** on financial sustainability for the HE sector – that is set out in s. 68 of the Higher Education and Research Act; financial viability and sustainability expectations are also embedded as a condition of (both initial and ongoing) registration for individual providers
- We further emphasise the centrality of financial sustainability through the **OfS Strategy for 2025-2030**, which positions **sector resilience as one of three organisational goals**. We aim to ensure:
 - A **financially resilient sector**, delivering high-quality higher education and student choice in the context of constrained finances
- That is closely aligned with the aim to also ensure:
 - **Effectively governed institutions**, successfully navigating an environment of increased financial and strategic risk
- The dual emphasis on financial resilience and effective governance underscores our belief that financial leadership should be a core component of effective overall management and governance within providers

- To help bring more clarity to how we identify and assess financial risk across the whole of the sector, we published in July our ‘behind the scenes’ workings in form of our **financial viability and sustainability risk framework and guidance**
- We see this as a significant way of giving effect to our ‘no surprises’ regulatory commitment: we show what we do, how we do it, and what the regulatory consequences are
- While not mechanistic, our approach to financial assessment is consistent, setting out key metrics we typically consider when identifying risk, ranging from ‘no concerns’ through to ‘acute concerns,’ reflecting severity and proximity of risk across a spectrum
- We do not make public our assessments: that is information that is confidential between regulator and provider
- But we do share assessment information – where financial risks are material – with cross-government partners
- Our assessments also remain dynamic – we want to see in-out movement between the categories and ensure we change assessments when and as financial performance changes

2. Targeted engagement

- We see our ‘stewardship’ role as a funnel, moving from universal to targeted activity:
 - At the **universal** level, that’s limited to annual and two in-year points of financial analysis
 - That analysis then allows us to triage through to the more **targeted** population where there are financial concerns and this is where we prioritise our engagement (typically across ‘category 3 and 4’ providers)
- Targeted engagement then managed through specialist ‘team of three,’ with single point of regulatory oversight for whole of this population: we do this to both ensure consistency and manage overall regulatory demands on providers, ensuring single ‘gateway’ in/ out of OfS
- Targeted engagement supported by more regular financial reporting, stress testing and modelling; can also include external financial reviews focused on assessing recovery and transformation plans
- Where risks are highest, the targeted focus will tilt more towards student protection and include active market exit contingency planning

3. Increasing support for collaboration

- Post-16 Education and Skills White Paper (Nov 25) made clear the government's ambition for greater collaboration across the HE sector
- We recognise that collaboration exists on a continuum from shared services (of type common across the NHS) through to mergers and there can be many drivers for collaboration
- We also recognise that it can be a prudent response to financial sustainability pressures and wider volatility in the market, enabling economies of scale through greater use of shared services, consolidated provision and estates and improved overall choice for students
- Our role in the OfS is not to direct this activity, but we can – and are – increasingly seeking to support this in practice through our sector convening role
- We work actively with other government partners in helping to facilitate collaboration – increasingly, through 'one team' engagement with providers and OfS, as regulator, plus colleagues from Departments for Education and Business, Innovation, Science and Trade and UKRI
- We are also committed to exploring what more we can do to create a single, enabling regulatory framework to encourage collaboration (in partnership with the Competition and Markets Authority, for example)

What should provider leadership teams focus on – what does ‘good’ financial management look like?

Financial leadership is a core task of leadership generally:

1. Effective financial management requires effective relationships within leadership teams
2. Stress test, stress test again ... then stress test again
3. Think big (but not just in terms of traditional growth)

1. Effective financial management requires effective relationships within leadership teams

- The best examples we see of financial grip and vision are where there is a culture of transparency of financial information and of constructive, robust challenge from governing bodies to Accountable Officers (in regulatory terms) and their wider leadership teams
- Governing bodies have a direct role in ensuring the financial viability and sustainability of the institutions they oversee; this is the corollary of the fiduciary duty they also hold where that viability and sustainability is in doubt and, to give proper effect to that, requires active, close involvement in financial planning and management
- This requires financial as well as sector literacy: it is key that roles on governing bodies target the right commercial skills to deliver effective challenge where needed
- And this is particularly true where seeking to deliver ambitious reform visions through financial reform

2. Stress test, stress test again ... then stress test again

- We recognise that **forecasting** cannot be an exact science and will not penalise providers for getting this wrong where we can see that there is prudent, dynamic correction
- That is simply a reasonable response to market volatility
- But we do expect providers to actively **benchmark** their position in the market against their peers – within regions, within comparable specialisms and provider typology groups – these aggregate trends are critical sources of market intelligence and need to be (more) routinely factored into forecasting and **scenario modelling**
- Once you have your plan, and you consider it robust, plan again: consider the unexpected student recruitment reduction and increase that; consider the impact of a lending compliance risk breach and account for how any called-in lending would be repaid; consider the impact of a sudden economic shock – a UKVI compliance breach: could that be financially withstood?
- Do not wait for the exogenous event: plan it in and make sure you have the liquidity to withstand that
- Core cost base management happens alongside, but should never been in isolation from this fundamental resilience focus

3. Think big (but not just in terms of traditional growth)

- Providers can and do ‘buck the trends,’ but where that happens it’s never accidental; it is the result of a clear vision, underpinned by careful financial planning
- That is also typically not short-term in its focus; it is the result of planning for the long term and not in anticipation of ‘one bad year’
- There is no ‘one size fits all’ model for financial resilience in the market as it is, but it is clear that long-term financial plans based solely on growth through student recruitment-generated income growth are among the most vulnerable currently
- Where providers do grow their student base, it’s increasingly in targeted ways – in some markets, and through some models – but deliberately not others, and often alongside contractions in provision in other areas and a decreasing size overall
- In general, our strong view is that providers may now need to consider adopting **fundamentally different approaches to financial planning**
- For some providers, structural changes may also need to be considered, including new business models such as mergers and other forms of consolidation

Thank you for listening

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