

# Eighth Report of Session 2022-23

## Department for Education

### Financial sustainability of the higher education sector in England

#### Introduction from the Committee

Universities and other higher education providers are autonomous institutions with a high degree of financial as well as academic independence. They are free to conduct commercial activities in addition to teaching and research. For a provider to access government funding for research or teaching, however, or for its students to receive government tuition fee and maintenance loans, it must be registered by the Office for Students (the OfS), the sector regulator. The Department for Education (the Department) is responsible for setting higher education policy and for the overall regulatory framework for the sector and sponsors the OfS. In July 2021, there were 254 higher education providers in England registered with the OfS, excluding further education and sixth-form colleges, educating an estimated 2.3 million students. Of these, 1.8 million were from the UK, and 1.6 million were undergraduates. The total income of higher education providers in 2019/20 was £36.1 billion, 36% of which came from public sources.

Based on a report by the National Audit Office, the Committee took evidence on 21 March 2022 from the Department for Education and the Office for Students. The Committee published its report on 15 June 2022. This is the government's response to the Committee's report.

#### Relevant reports

- NAO report: [Regulating the financial sustainability of higher education providers in England](#) – Session 2021-22 (HC 1141)
- PAC report: [Financial sustainability of the higher education sector in England](#) – Session 2022-23 (HC 257)

#### Government response to the Committee

***1: PAC conclusion: We are not convinced that the OfS has made sufficient progress in getting a grip on the long-term systematic challenges facing the sector and individual providers, meaning that financial pressures risk harming students' experience of university.***

***1: PAC recommendation: The OfS should write to us by the end of 31 July 2022, in line with the academic year-end, setting out the actions it will take to increase its understanding of the sector and pressures on providers – and how it will demonstrate to universities and students that it has done so.***

1.1 The government agrees with the Committee's recommendation.

#### Recommendation implemented

1.2 The Office for Students (OfS) wrote to the Chair of the Committee on 27 July 2022 outlining its current approach to monitoring financial risks facing the HE sector and setting out the actions it is taking to better understand these issues and risks.

**2: PAC conclusion: Despite a background of deteriorating financial health of an increasing number of providers, the Department is not effectively holding the OfS to account.**

**2: PAC recommendation: Working with the OfS, the Department should establish a complete set of robust, published performance measures and targets, including structured feedback from providers, and use these to hold the OfS to account for its effectiveness.**

2.1 The government agrees with the Committee's recommendation.

**Target implementation date: September 2022**

2.2 The OfS is in the process of concluding the review of its key performance measures, with a view to these being published by September 2022.

2.3 These revised measures will ensure alignment with the OfS's strategy for 2022-2025 and the strategic priorities of the Secretary of State for Education, as well as providing strengthened performance reporting for the departmental Board.

2.4 In addition, the Department for Education (the department) is working with the OfS to agree an aligned suite of internal performance measures which will help the department to hold the OfS to account better.

2.5 The OfS already consults the sector on its activity, including regular meetings with sector bodies, organising events for the sector and participating in their events, as well as engaging them through round tables and training sessions on regulatory issues. In response to the sector, the OfS has improved its regular communications with providers through regular mailings, pulling together information and resources, an approach welcomed by sector bodies.

2.6 The OfS has commissioned qualitative research with a wide range of providers to collate and assess the impact and understanding of its communication and interactions with individual universities and colleges. In all these interactions, the OfS aims to work in the interests of students whilst taking a risk based, proportionate approach.

**3: PAC conclusion: Protection for student, in the event of providers facing financial distress, are not strong enough.**

**3: PAC recommendation: The OfS should prioritise ensuring that all providers' published student protection plans are fit for purpose and sufficiently clear for students to make confident, well-informed decisions about the protections universities are promising them.**

3.1 The government agrees with the Committee's recommendation.

**Target implementation date: March 2023**

3.2 The OfS's focus has been ensuring that protections are as robust as possible in those providers which might face financial distress. This reflects the OfS's risk-based approach by ensuring that regulatory action is proportionate and targeted where it is most needed, while also ensuring there is not unnecessary burden on providers with robust financial health. For this reason, the OfS introduced a new ongoing registration condition on 1 April 2021 ([Registration condition C4 of the regulatory framework for higher education in England](#)). This substantially strengthened its ability to ensure the rigour of a provider's plans to protect students against the risk of the provider ceasing to deliver higher education.

3.3 Registration condition C4 means that where the OfS reasonably considers that there is a material risk of such a market exit, it can put in place a Student Protection Direction, with which the provider must comply, setting out detailed and rigorous planning and measures to protect its student body. These go far beyond what would be covered in a student protection plan.

3.4 The OfS also intends to begin discussions with the sector about its regulatory approach to protecting the interests of students, with a view to updating and revising the requirements where appropriate.

**4: PAC conclusion: We are concerned that the financial sustainability of some providers is being put at risk by their heavy dependence on their ability to continue growing overseas student numbers.**

**4: PAC recommendation: The Department, drawing on OfS analysis as appropriate, should set out what it considers to be the risks to achieving the continued forecast growth in overseas student numbers universities are relying on for their future financial security, and explain how it is mitigating those risks.**

4.1 The government agrees with the Committee's recommendation.

#### **Recommendation implemented**

4.2 The department recognises that the financial sustainability of the higher education sector depends on the continuing contribution made by income from overseas students, if not necessarily on the growth trend as currently forecast. Many factors affect overseas students' decisions about where to pursue higher education, ranging from geopolitical developments, through public health issues, to students' behavioural changes. No government could mitigate the full risk of such factors, but through the [International Education Strategy](#) (IES) and the [2021 update](#), the government has established a thorough approach to promoting higher education to overseas students and mitigating risks associated with providers' dependence on overseas fee income.

4.3 The IES is committed to growing the value of education exports to £35 billion and to hosting at least 600,000 international higher education students in the UK per year by 2030. The international students ambition of 600,000 was met for the first time in 2020-21, with over 605,000 international students studying in the UK.

4.4 The IES sets out the government's ambition to enhance the entire international student experience, from application to employment. It also makes clear that the diversification and sustainable recruitment of international students remains a key strategic priority for the sector.

4.5 It is a matter for higher education providers, as autonomous bodies, to forecast sensibly when planning for their financial sustainability. The OfS monitors this, including reviewing forecasts for optimism bias amongst providers. The department and the OfS continue to work closely together in considering financial risks facing the sector. Updated analysis of those risks will continue to inform departmental strategy.

**5: PAC conclusion: Student satisfaction with the value for money of their courses is at a worryingly low level.**

**5: PAC recommendation: The Department and the OfS should set out what action the OfS is taking to improve students' satisfaction with value for money, including the OfS's assessment of the impact of hybrid teaching on students' experience and what progress has been made in addressing the causes of dissatisfaction.**

5.1 The government agrees with the Committee's recommendation.

**Target implementation date: Autumn 2022**

5.2 Both the department and the OfS are committed to improving the quality of higher education provision. Ensuring that students are satisfied with the value for money offered by their courses is a government priority.

5.3 The OfS is introducing an enhanced quality regulatory regime which will enable it, through robust investigation and enforcement action, to tackle the pockets of low-quality provision. This will include the introduction in September 2022 of detailed student outcome thresholds, by level and mode of study, covering continuation and completion rates and progression to managerial and professional employment or further study. In May 2022 the OfS also introduced new registration conditions covering students' academic experience including course design and delivery, the provision of resources and support for students, reliable and effective course assessment and degree awards, and the use of sector-recognised standards.

5.4 The OfS is also considering how it measures value for money through its key performance measures and is considering the use of student surveys and the use of student outcomes data, described earlier, as part of this measure.

5.5 The OfS review of blended learning, which is supported by a panel of expert academic reviewers, will set out where approaches represent high quality teaching and learning, as well as approaches that are likely to fall short of OfS's requirements. The review will report in September 2022. The OfS also recently announced investigations into the business and management courses of eight providers, which will include examining whether online learning has replaced face-to-face teaching to the detriment of students' academic experience.

**6: PAC conclusion: The Department failed to adequately assess the current and future financial impacts on providers of disruption to A-level assessments.**

**6.: PAC recommendation: Learning from the disruption to the higher education market during the COVID-19 pandemic, the Department and the OfS should model and review the financial impacts on providers of changes to the number and profile of domestic students over the short, medium and longer terms.**

6.1 The government agrees with the Committee's recommendation.

**Target implementation date: September 2022**

6.2 The department has undertaken careful monitoring of applications and providers' offer-making in the 2022 admissions cycle. Ahead of the 2022 cycle, the department engaged extensively with key higher education stakeholders, including undertaking scenario planning around the interaction between A-level grades and higher education capacity. Planning early in the cycle and building resilience into offer-making strategies is a vital part of contingency planning for higher education providers. The department has encouraged providers to be thoughtful when setting offer requirements and to consider any additional measures which would allow them to plan as effectively as possible, communicating openly with students in the process.

6.3 The impact of changes in student recruitment on the finances of higher education providers is a key feature of the OfS's regular monitoring of provider financial sustainability. It closely monitors the data from the University and Colleges Admissions Service (UCAS), along with other information, through the recruitment cycle. It models the potential implications on income to guide its understanding of the capacity of providers to manage such change in the short term.

6.4 The OfS, the department and other interested government departments meet regularly to discuss risk factors and trends related to the medium- and long-term financial sustainability of the higher education sector. Additional data sharing, analysis and scenario planning is undertaken as appropriate.