

Disruption and distress in U.K. Higher Education



The magnitude and frequency of disruption continues to increase – buffeting every sector, every organisation.

In U.K. Higher Education (HE), this has come as a result of growing market competition since policy changes in 2015, real terms falls in tuition fee income, declining international and domestic student numbers, and cost pressures that are hard to address.



The disrupted Higher Education landscape

£8.15bn ↑

Increase in borrowing between 2010/11 and 2022/23, to enhance the student experience in a competitive HE market¹.

£5,867

The equivalent value of the current domestic tuition fee level (£9,535) in 2012 terms. HE providers have limited inflationary adjustment.

4% ↓

Decline in domestic undergraduate applications (2022-2024), despite an increasing population of 18-year-olds.

15.5% ↓

Decline in international applications compared to forecasts for 23/24 following immigration policy changes.

6% ↑

Providers are facing operational costs rising due to inflation – expenditure has increased from 22/23 to 23/24 by 6%, with a further increase of 3.3% expected into 24/25.

These factors have converged, challenging all HE institutions, with growing financial issues impacting operating performance.

More than 100 institutions reported a deficit in 2023-2024 and net liquidity has fallen by 10%, as cash reserves are used to support operations.

£16.5m to £14.5m

Change in net liquidity 2022/23 to 2023/24

Our analysis of data collected by the Higher Education Statistics Agency (HESA), shows that lack of student enrolment growth is pushing providers into a financially at-risk position, where they face the challenge of negative student growth alongside the need to manage a fiscal deficit.

In this respect, few providers are in stable territory, with only large, research-focused providers appearing to be better placed and more resilient to these headwinds.

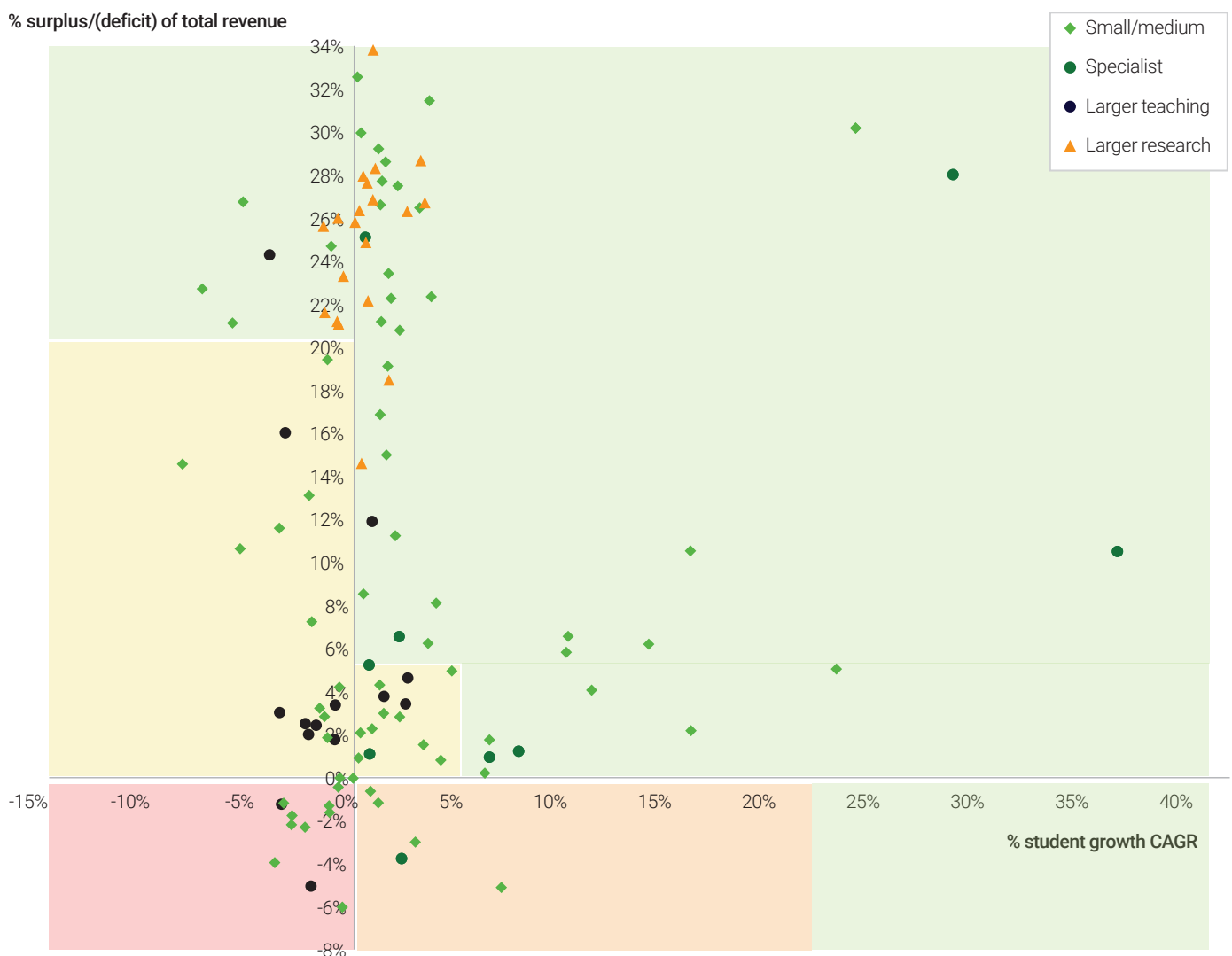
¹. Sheffield University briefing note: an update on Higher Education finances



Financial health and student growth outcomes



Overview of financial performance



Plotting 2023/24 financial outcome against the three-year student growth CAGR to assess financial resilience at a provider level

At risk	In deficit and negative student growth or 23-24 financial accounts not filed
Financially weak	In deficit
Limited or negative growth	Negative student growth and surplus of less than 20% or student growth and surplus of less than 5%
Stable	All other providers

Student numbers are the leading indicator of future financial performance, due to the lack of flexibility that providers have to reduce their cost base.

Just 14% of providers have recorded student growth above 5% in the past three years, underscoring the size of the challenge, at a time of growing financial distress.

That seven providers hadn't submitted their 2023/24 accounts at the time of our analysis reflects the difficulties there may be with timely accounts sign-off and going concern assessments.

Distress dynamics

A closer look at the providers where risk and disruption pressures are highest reveals year-on-year declines in cash balances and the road that many at-risk institutions find themselves on – attempting to manage sustained pressure.

More than half of the group in limited or negative growth categories have also experienced declining cash balances. This suggests a large part of the sector is using surpluses to fund capital expenditure to remain competitive – or on outflows – to manage costs.

The data also highlights the low levels of operating cashflow in the sector. Providers that we have classed as at-risk, financially weak, or with limited or negative growth have a maximum of 10 months' liquidity at year-end, after we have adjusted inflows for seasonal peaks. On average, institutions hold just 3.5 months of liquidity.

Debt is a looming risk

A small number of institutions in at-risk, limited, or negative growth groups also carry debt burdens of more than £100m and have a leverage ratio exceeding 1.5x.

The majority of this debt matures beyond 2030, but there are a number of material considerations that could affect any possible turnaround, restructuring or merger activity:

71% of loans are unsecured; debt that banks may seek to secure in a restructuring

62% of borrowing is in the form of bonds and Private Placement Notes (PPNs) – where there may be an assumption of implicit government backing

Fragile forecasts

The Office for Students (OfS) – the government regulator tasked with overseeing the sector – has scrutinised the financial sustainability of HE and questioned the providers' student number and tuition fee income forecasts.

The baseline forecasts predict significant student number growth and year-on-year increases in international student fees – reversing recent trends.

This baseline, which forecasts a 23.7% increase in students in 2027/28, predicts that 17% of providers will be in deficit by that year.

This envisages the sector earning £55.1bn in 2027/28, but the OfS has expressed concern over how ambitious the underlying targets are. It has modelled alternative

scenarios, which assert that reductions in students in 2025/26 – and no growth beyond that – would leave the sector £4.4bn worse off and 80% of providers in deficit.

That modelling assumed student numbers will grow 7% in 2025/25. Should the prove not to be the case, the fall in income would be greater, leaving more providers to answer serious questions about their financial health.

The lack of confidence in forecasts reflects a growing list of emerging pressures:



International students

Immigration policy change, changes to EU students' fee status, and growing competition from Indian and Chinese universities are all downward pressures on international student income. HE providers in the South East tend to have the highest dependency on international students.



Capital spending needed

Liquidity pressures have delayed capital projects at many institutions, but this lack of capital spending could start to impact student experience, and create vulnerabilities, such as to cyber-attacks. Achieving environmental Net Zero targets is also creating further need for investment.



COVID-19 claims

A student legal claim to be compensated for the adverse effects to their education during the pandemic will be heard by the High Court in early 2026 – potentially creating additional liabilities.

What's the best policy?

A disorderly exit for a higher education provider would have profound consequences and be politically unacceptable. But there is no established playbook for the restructuring of a distressed higher education institution and furthermore significant uncertainty surrounding the insolvency framework.

While there are options available to providers when plotting a financially secure future, any insolvency route will require government support.

In many ways it operates like a competitive market but there are no structures for market exit.

HE sits at the heart of a number of government priority areas, but its part-market, part-public nature creates questions and challenges – without the tools available to address them.



Political consequence

Government spending is constrained by fiscal rules and strategy that leaves little room in the Department for Education budget for any flexibility to support HE. Any intervention will be closely scrutinised and will need to show clear value for money.

Given the economic role HE plays, demonstrating value to taxpayers is clearly possible: HE providers are anchor institutions in regional economies, provide and support tens of thousands of jobs, and represent ~11% of GDP.

At the same time, policies designed to bring down immigration levels make increasing revenue through international student enrolment difficult.



Lack of exit mechanism

Currently there is little in place and no previous market exit 'experience' for HE providers to call upon.

The government's mission to improve student access, affordability and outcomes means student protection will be prioritised, foregrounding the importance of having a credible 'teach-out' plan in any exit scenario – where students can complete their studies in that academic year.

While the HE sector is independent of government, it is perceived as government-backed, which creates a moral hazard: in many ways it operates like a competitive market but there are no structures for market exit.

Creating structured processes for orderly exits is essential for reputation, credibility, and to protect public interests.

That isn't straightforward. OfS operates as a HE market regulator but it is focused on student-facing risks, so a financial rescue would fall to the DfE that is itself constrained by the political context mentioned above and legal limitations.



Cost of intervention

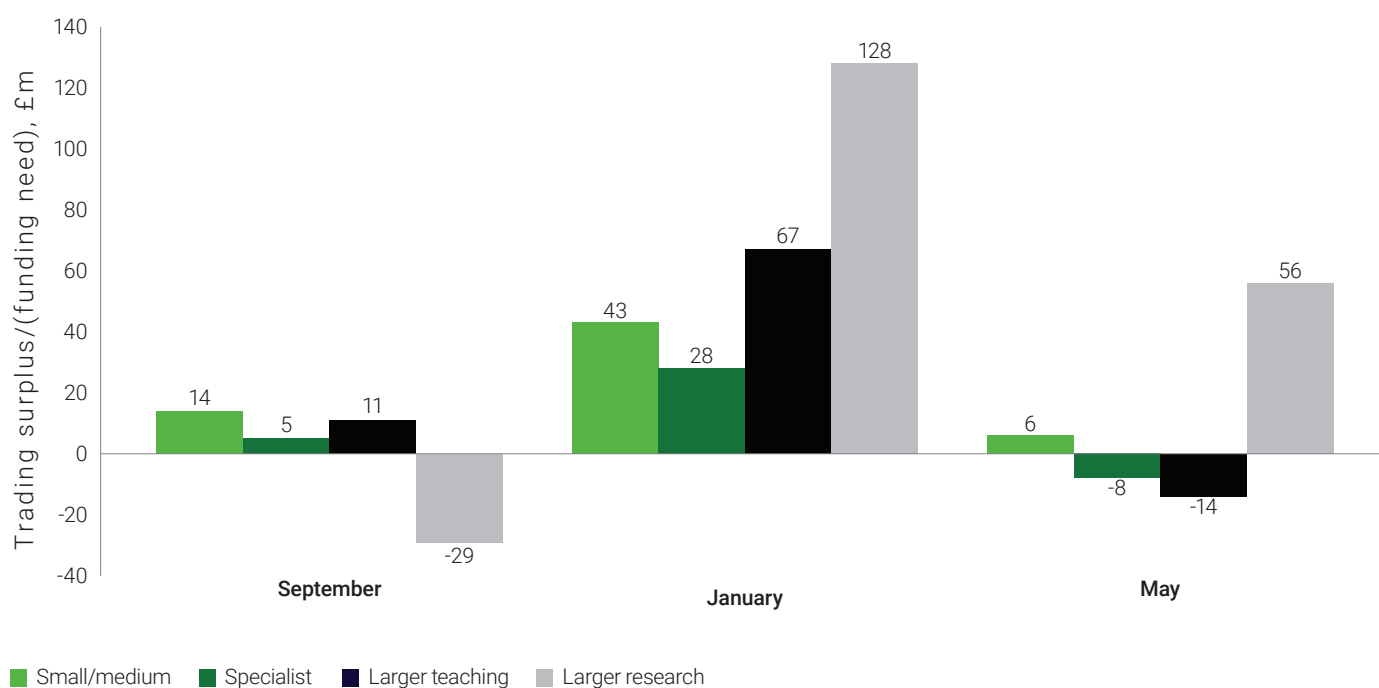
A key policy consideration is the cost of this disruption and distress in HE.

The chart on the following page illustrates a range of possible funding needs across an academic year to continue trading and allow students to finish their academic year. This is based on average monthly expenditure at different institution types (assuming no cost savings during insolvency), insolvency costs and factoring in tuition fee income and realisation of intangible assets.

Cost of HE insolvency

Overview of financial performance and options for managing distress

ILLUSTRATIVE COSTS OF HE INSOLVENCY



A wide range of financial profiles makes averages in small/medium providers and large research centres less indicative but, overall, the total cost of HE insolvency will be limited compared to previous government interventions. The process could even be cost-neutral if tuition fee receivables are fully collected.

Another factor for large research providers is the careful handling needed to manage the realisation of significant real estate assets.

Policy options – and consequences



Do nothing

- The sector could independently address solvency issues, alongside other stakeholders.
- A disorderly exit carries short- and long-term risks, and the potential for a reactive response if problems arise; and
- Immediate fiscal impacts from loss of future tax revenue from graduates and the cost from writing-off student loan balances.



Encourage collaboration

- Institutional mergers present a strong opportunity for a successful outcome, and government can play an instrumental facilitating role through regulatory guidance and frameworks.
- Government support here could include establishing a confidential environment for inter-institutional dialogue that respects legal constraints (e.g., competition law); and
- Extend to a template for a statutory merger process, clarification on approval requirements and responsibility – as well as outlining the role the OfS can play.
- Strategic collaboration is an alternative route, bringing HE providers closer to local authorities or NHS organisations to share services and infrastructure, while retaining institutional identity.



Special Administration Regime

- A Special Administration Regime could provide legal clarity for HE provider insolvency.
- Currently there is limited precedent and case law points to a Compulsory Liquidation route.
- A regime would protect students and critical research, create a mechanism for teach-out scenarios and reduce the risk to sector credibility. Viable parts of a university could also be transferred to another institution.
- As outlined earlier, costs would be time-limited and hugely preferable to unmanaged collapse.



How HE can respond?



Institutions are responding to the liquidity challenges they face through a number of transformation actions.

Shorter- and medium-term levers are being used to grow revenue, reduce expenditure, and tighten financial management – from renting accommodation space and changing the overarching student offer to delaying non-core Capex or selling assets.

Strategic measures include exiting unprofitable courses, adapting course offerings, and sharing outsourcing or resources with other organisations.

Despite these actions, providers have voiced concern over their ability to further cut costs and still maintain a good student service, while reviews of course portfolios have been completed and revealed limited scope for extensive overhauls.

This means the prospect of solvent restructuring is growing. This could take the form of debt refinancing or restructuring either in agreement with lenders or through a court process to propose a Restructuring Plan.

Merger prospects

Proactivity in identifying merger potential perhaps provides the strongest opportunities for success amongst distressed providers.

While there have been 82 mergers in Further Education, there have been far fewer in HE.

Historically, mergers haven't been a strategic priority in the sector, with student growth providing the basis for institutional growth. There is also reluctance to pursue mergers, in part because of charitable status and public interest objectives. These factors combine with the lack of precedent or established framework. The recently announced combination of Kent and Greenwich Universities may provide a model for other providers to follow.

Pairing distressed and financially stable providers will be complex – with major challenges to overcome around up-front funding, reputation management, stakeholder pressure, and the difficulty initiating discussions without a government-backed merger framework.

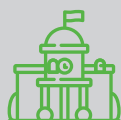
Research by the online higher education platform Wonkhe and Mills & Reeve doubted whether

“...many universities around the country would want to do any kind of a merger on a voluntary basis if they felt financially secure.”



Major transformation or restructuring needs effective stakeholder engagement

Every stakeholder group will have key concerns and objectives from the disruption and actions unfolding within HE providers, making engagement on key issues and topics critical.



Governing Bodies
(Council, Senate, Committees)



Government
(DfE, HMT, DSIT)



Regulator
(Office for Students)



Lenders



Pension Schemes
(USS, LGPS, TPS and others)



Auditors



Staff and Trade Unions



Students
(Current and prospective)

Insolvency outcomes

1 Merger via insolvency

- A merger prior to insolvency is critical – to avoid undermining institution value.
- Allows for a targeted transfer of selected assets and exclusion of certain liabilities.
- Feasibility relies on a viable merger partner, and provision of funding for a teach-out period, for turnaround activity and bridging.

2 Insolvency and teach-out

- Teaching continues for the academic year, final-year students graduate, and all other students transfer to another course at another university via UCAS (the sector admissions service).
- Feasibility relies on government funding for the teach-out period and more legal certainty as to applicability of legal precedent from cases such as 'Baglan Bay' and how trading in a compulsory liquidation might be able to continue to serve the non-financial interests of stakeholders.

3 Insolvency and orderly closure

- Teaching ceases and students restart their academic study for that year at a new provider, with basic welfare support maintained to facilitate the student transfer.
- Feasibility also relies on government funding support and legal certainty over the basis to continue trading in the event of Compulsory Liquidation, as with the teach-out scenario. The high level of student disruption could also lead to significant compensation claims and complaints.

4 Insolvency and immediate closure

- This scenario is where no funding or Re Baglan-precedent is applied to allow trading to continue. In this outcome, students would need to restart their study at a new provider without any support from their current university.
- This is unlikely to be a feasible option, given the unacceptability of this outcome within government and the many stakeholders that institutions work with. The impact on students is likely to lead to a high level of compensation claims.

How AlixPartners can help



We partner with Boards/Management, acting in an advisory role and regularly take director and interim appointments to bring our relevant situational expertise to the board. This hands-on leadership support during restructuring processes allows management to focus on operations:

Acting as a buffer and driving the turnaround process for the provider

The pressures on management teams and boards increase during a financial restructuring

Increase in workload

- Additional reporting and analysis
- Stakeholder negotiations

Lack of situational expertise

- Creditor focus areas and behaviours
- Negotiating parameters
- Directors' duties



Restructuring experience

- Guiding the board through the restructuring process
- Understanding legal duties and stakeholder perspectives
- Building confidence that the company is taking appropriate actions



Leadership

- Reporting to the board and working with management
- Accountability for delivering the restructuring process
- Managing day-to-day workstreams and processes allowing management to focus on the business



Stakeholder engagement

- Engaging with all stakeholders, seeking a consensual solution
- Working with advisers in a coordinated manner
- Ensuring internal and external communications are clear, consistent and effective

We have successfully executed high-profile and complex restructurings, and understand the sensitivity of turnaround and restructuring in regulated industries



Our services build provider resilience and support through financial challenge



Operational Turnaround



Liquidity management and cash forecasting



Common platform information and business planning



Financial restructuring and alternate options

In addition, our global education practice have worked with providers and stakeholders across the education spectrum from early years through to higher education

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ABOUT US

For more than forty years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges—circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring and risk mitigation.

These are the moments when everything is on the line—a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA—so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.

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