Higher Education developments report

2025

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Foreword

The higher education sector is facing serious challenges. Universities are being encouraged to diversify their income streams, but changes to immigration law are impeding international student numbers, franchising arrangements are under scrutiny, and apprenticeships are under threat. A small increase to tuition fees for English universities has been a welcome reprieve, but this is likely to be insufficient to overcome the sector's financial worries.

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Our 2025 higher education sector development report considers key risks, financial reporting, and legal and regulatory updates.

International students remain an important source of income, and the UK may be set to benefit from an increase in US students in the coming years. However, the government restrictions on immigration may deter students from choosing the UK as a place to study. Financial sustainability remains a hot topic for higher education institutions (HEIs) and cost-saving exercises are increasingly inventive, including some HEIs considering merging services.

The new draft Statement of Recommended Practice (SORP) cements the revised FRS 102 into the education sector. While most organisations will have been preparing for revised standards for some time, the clock is ticking for implementation of the key changes, particularly revenue recognition and lease categorisation.

Environmental reporting remains an important discussion as universities press ahead with novel and exciting ways to reduce their carbon footprints. Sustainable campuses, green investments and environmental assurance are all emerging areas of significance in the sector.

To discuss any of these issues, get in touch with our team.

Mounting pressures
The growing challenges facing UK universities

Financial pressures and government policy shifts

One of the most significant developments being considered is the Government's proposal to introduce a levy on income from international students. Suggested at a rate of 6%, this levy would be reinvested into the broader higher education and skills system. While details are expected in the upcoming Autumn Statement, the proposal has already sparked concern among institutions that rely heavily on international tuition fees to balance their budgets.

Several universities are exploring franchise partnerships for the delivery of teaching materials as a strategy to mitigate employee and overhead costs. This approach has sparked considerable debate and is currently under intense scrutiny by the Office for Students (OfS), which has raised concerns regarding the quality of education, the calibre of students, and the overall value of the courses offered. Some franchise partners have faced investigations by the OfS and have incurred fines and penalties based on the findings. Ongoing discussions are considering whether all franchise partners should fall under the regulatory oversight of the OfS.

Declining enrolment, and operational impact

For the first time in nearly a decade, student numbers fell in the 2023/24 academic year, declining by 1.1%, according to the OfS. This drop, though modest, signals a potential shift in demand and adds further pressure to already strained university finances.

The financial instability is having a tangible impact on university operations. Many institutions are experiencing high-pressure environments, with leadership turnover becoming increasingly common. Senior leaders are resigning or being replaced as part of restructuring efforts, often supported by interim managers or project-specific consultants. The long-term implications of this remain uncertain.

A reassessment of priorities

In response to revenue unpredictability, universities are prioritising cash flow preservation. This has led to delays in capital expenditure, with major infrastructure and development projects being deferred in favour of maintaining core operations. While this means that students aren't seeing substantial investment into campuses, this move reflects universities' focus on delivering immediate benefits to students.

Looking for other areas to cut costs, senior leadership teams face the challenge of maintaining teaching quality while exploring the option of redundancies of non-core staff. Several universities are either implementing or considering redundancies with the view to reallocating resources toward activities which enhance student welfare. However, these actions have already triggered union action and strikes, with more likely to follow as institutions continue to grapple with financial constraints.

A future of consolidation?

As the sector navigates these turbulent waters, mergers are increasingly being viewed as a viable path forward. While common in the further education sector, they're expected to become more frequent in higher education. Recently, City, University of London, merged with St George's, University of London to become City St George's, University of London, and AECC University College merged with the University College of Osteopathy to create Health Sciences University. The financial and social implications of the mergers are uncertain, however this activity shows that it's a viable option for HEIs. In many cases, mergers may initially focus on shared services or back-office functions, without full academic integration. This would allow institutions to benefit from operational efficiencies and reduced costs.

The tuition fee challenge

On 4 November 2024, the Labour Government announced that the cap on tuition fees would rise by £285 to £9,535 for the 2025/26 academic year. This is the first time the tuition fee cap has increased since 2017 when the fee was frozen at £9,250.[1] The end of the freeze brings some much-needed welcome news to the higher education sector. This increase comes after the Labour party, under Sir Kier Starmer, stated in 2023 that it was abandoning its long-standing pledge to abolish university tuition fees.

With 72% of university education providers expected to be in deficit by 2025/26, the fee increase is intended to give universities some breathing space to "address systemic problems" and make suitable reforms to enhance their financial sustainability.

Tuition fees have long been an area of debate. From the 2010 Browne report, which called for the abolition of fees altogether (but a levy collection from institutions charging more than £6,000), to the more recent 2019 Augar review which recommended tuition fees be capped at £7,500 per year, with the Government making up the shortfall.

With universities finding themselves in a challenging financial predicament, tuition fees continue to be an area of contention. Universities UK reported that the current fee level of £9,250 is only worth £5,924, once inflation has been taken into consideration.

After recent economic shocks (COVID-19 and the cost-of-living crisis), it's no wonder that institutions are struggling to make ends meet with fees that haven't increased for eight years. From a student perspective, service delivery is decreasing – fewer contact hours, reduced academic choice, stretched support services, and a larger debt burden after graduation. This, compounded by rising rent, higher day to day costs (groceries and household bills) and the need for many to hold at least one part-time job, means that some students are turning away from traditional university degrees and looking to vocational and hands-on experience to gain qualifications.

Government guidance

The current Government's attention to higher education is somewhat of a mixed bag. At the start of its term, it appeared to be indifferent to the struggles of universities, as the OfS announced a contract of up to £4 million for professional services firms to manage sector insolvencies, suggesting that it was preparing for the failure of some organisations. Shortly after the election, Education Secretary Bridget Phillipson suggested that struggling universities should manage their own budgets before hoping for a taxpayer bailout. The higher education minister, Baroness Jacqui Smith, was unable to rule out the closure of some of them.

While the boost to tuition fees does indicate that the Government has recognised the struggles of the sector, a 3.1% increase isn't expected to resolve all of the funding issues overnight.

International costs?

The UK has a fluctuating relationship with international students. On one hand, international student fees are double or triple that of home students, and many non-domestic students are often high-quality candidates. On the other hand, immigration policies, overreliance on international students and improvements in university education in their own countries are factors that disincline students to come to the UK.

In May 2025, the Daily Telegraph reported that "Chinese students are still propping up UK universities," with almost a third of all higher education institution income coming from them in 2023/4.[2] Further data analysis showed that 21 universities are reliant on tuition fees from Chinese students for at least a tenth of their income. With more than £5.5 billion of income from these students, it's no wonder that UK universities look to secure international talent for their courses.

But international students aren't without financial risk: Teesside University faced difficulties in 2024 when a crash in the Nigerian naira meant some students were unable to pay their fees. As a result, the university terminated a number of visa sponsorships and withdrew students from courses. During this time, many Nigerian students were forced to turn to local food banks for support.[3]

UK universities currently have a unique opportunity to capitalise on American policies on higher education. The US administration has launched stringent policies on research grants and academics, with some international students facing uncertainty about their future in the USA.[4] Both US and overseas students are reconsidering decisions to study with American institutions as a result of these policies. Interest in UK degrees was 25% higher among US students in March 2025, compared to March 2024.[5] Despite some uncertainty on UK immigration processes, visa caps in Canada and Australia mean that the UK is an attractive option for students wishing to study abroad.[6]

1. UK universities are in crisis – and Labour has taken the first step towards saving them | Philip Augar | The Guardian
2. The British universities reliant on Chinese students
3. Nigerian students 'make up 75%' of Thornaby charity's clients - BBC News
4. Anxiety at US colleges as foreign students are detained and visas revoked
5. American students turn to UK as Donald Trump takes aim at US universities
6. US, UK, Canada & Australia lose sheen as international students look elsewhere

However, the UK's own immigration policy may be a barrier to international students, and therefore the extent to which universities can benefit from their higher fees may be limited. Under the previous government, students weren't allowed to bring family members and dependents with them to the UK. Now, the Home Office aims to reduce immigration but as students make up 40% of the total, the impact on international undergraduate numbers could be significant.[7] In May 2025, the Government released an immigration white paper, which proposes, among other suggestions, a levy on higher education provider's income generated by international students[8]. While universities are being asked to "be financially sustainable," a key source of income is slowly being reduced by political motivations. And, let's not forget the impact of Brexit – while many universities benefit from the increased fees from EU students, restrictions on free movement have made UK study less attractive, resulting is far fewer EU students than in previous years.[9]

What's next?

As with any organisation, reliance on one income stream can be a precarious position. The increase in domestic tuition fees, although small, is a positive step for the sector and shows some sympathy from the Government on the issues. Universities would do well to continue taking financial advantage of international students, but the proposed levy may significantly disrupt the flow of overseas students. Diversity of income streams for universities must become a high priority for Councils in the coming period.

7. Everything in the immigration white paper for higher education | Wonkhe
8. Written questions and answers - Written questions, answers and statements - UK Parliament
9. EU fees a £1.2 billion 'bargaining chip' in youth mobility talks

Brace for impact: redefining international student recruitment

The 2025 Immigration white paper[10] has unveiled a series of transformative proposals that promise to significantly alter the dynamics of international student recruitment and sponsorship in the UK. These pivotal changes are set to redefine the landscape of higher education, presenting both challenges and opportunities for educational institutions and prospective students alike. Below, we explain the key points that could shape the future of studying in the UK:

Enhanced compliance standards for student sponsors: Basic Compliance Assessment (BCA) metrics

Currently, the BCA requires that sponsors of international students must have a visa refusal rate of less than 10%; an enrolment rate of at least 90% and a course completion rate of at least 85%. These thresholds are proposed to be increased and sponsors would now need to achieve at least 95% enrolment rates, 90% completion rates, and maintain visa refusal rates below 5%. This could require additional resources to monitor and support international students more closely.

Public rating system

A red-amber-green rating system will be introduced to publicly track sponsors' performance against the above metrics. Sponsors close to the thresholds would face action plans and limits on new international student recruitment, which could have an adverse impact on a university's already strained revenue. This increased pressure on universities could also potentially lead to increased administrative efforts and costs to avoid falling into the amber or red categories.

Mandatory agent quality framework (AQF)

Agent field on Confirmation of Acceptance for Studies (CAS)

The UK Agent Quality Framework establishes best practice standards for managing international student recruitment agents. Currently, student sponsors are required to routinely provide the Home Office with information about the recruitment agents they engage. The introduction of the AQF is designed to ensure that institutions maintain the highest standards of agent management and prevent them from simply outsourcing their responsibility to ensure students are genuine.

As the focus intensifies on the relationship between recruitment agents and compliance with sponsorship regulations, the Home Office had previously announced that an optional new 'agent field' would be available on the Confirmation of Acceptance for Studies (CAS) starting 22 May 2025. Including the details of the agents involved in recruiting international students on a CAS emphasises the critical need for student sponsors to thoroughly assess and monitor the agents they collaborate with for recruiting their international students. Given the white paper's acknowledgment of recruitment agents' role in mitigating student visa misuse, it's anticipated that the agent field on CAS will become a mandatory requirement in the near future.

Consideration of local impact

As part of the existing sponsorship framework, student sponsors are obligated to submit an annual CAS request, outlining the number of students they intend to sponsor and providing a rationale for the figures presented. When sponsors aim to increase the number of international students they wish to accept, they must provide additional information to prove that their institution possesses the necessary capacity, teaching facilities, and infrastructure to accommodate this growth.

Financial implications

The Government is considering the introduction of a 6% levy on HEIs' income generated from international students. The revenue from this levy would be reinvested into the higher education and skills sector, with further specifics expected to be detailed in the forthcoming Autumn Budget. Should this levy be enacted, it's likely that HEIs may pass this cost on to international students in the form of higher tuition fees. This potential increase could negatively impact the UK's appeal as a destination for international study. A decline in the number of international students choosing to study in the UK would further exacerbate the financial pressures they face.

Review of short-term student visa

The Government plans to review the accreditation bodies for the short-term student route to ensure their processes are robust. This review would include implementing additional checks both before an organisation is accredited and during the renewal of accreditation.

10. Restoring control over the immigration system (accessible)

Additional impacts on international students

Graduate visa duration reduced

The proposed reduction of the graduate route from two years to 18 months aims to facilitate the transition of international students into graduate-level employment. However, this shortened duration may hinder their chances of securing the very employment opportunities the graduate visa was designed to support. Such alterations to the graduate visa programme could potentially diminish the appeal of the UK as a destination for study, as international students may opt for countries offering more favourable post-study work visa arrangements.

New English requirement for dependants

For the first time, adult dependants of students would be required to demonstrate basic English skills to meet a language proficiency requirement. This change is intended to enhance migrants' ability to integrate into UK society, pursue job opportunities, and contribute to the community. This new requirement may disproportionately impact dependants from non-English speaking countries, complicating their ability to join their family members studying in the UK.

Next steps for education providers

If the proposals outlined in the white paper are implemented, it will be crucial for licensed student sponsors to take proactive measures to enhance their international student policies and procedures. This enhancement will be essential to not only meet the elevated BCA metrics but also to successfully navigate the increased scrutiny from UK Visas and Immigration (UKVI).

Education providers must critically evaluate and strengthen their recruitment strategies, compliance frameworks, and support systems for international students to ensure they're well-prepared for the forthcoming regulatory changes. By doing so, institutions can safeguard their reputations, maintain their sponsorship licenses, and continue to attract and support a diverse student body in an evolving landscape.

HEIs should start considering the impact of these changes on their international student intake and finance as these would be critical in their going concern assessments.

The US administration
Are UK Institutions poised for a boost?

The higher education sector has experienced its fair share of sector risks and impacts of macroeconomic events over the past few years. All higher education institutions have felt the effect of either redundancy, course closures, limitations on tuition fees and changes to the number of international students attending their institutions. However, a new factor set to impact the UK higher education sector in 2025 is the change in approach by the new US administration. In the period from President Trump's 20 January inauguration to the time of writing (June 2025), the new government has made a number of notable changes, ranging from foreign policy to the implementation of tariffs, which are all expected to have a trickle-down impact on UK universities. It remains to be seen whether UK universities may be the beneficiary of these changes, or whether this could add to the turmoil already faced by the sector. Several of these potential impacts are explained here.

Students

The policies affecting US universities are changing rapidly. It was reported most recently that new interviews for foreign students have been stopped for the time being because the United States Government will be expanding its social media vetting of all applications to conclude on whether these international students are admissible for study in the United States. At this point, government officials of the United States have indicated the suspension is temporary, and that it won't impact those prospective students who already have scheduled interviews. As a result, appointments for student visas have been put on hold. On a similar note, earlier in the year, the United States Government revoked the legal status of thousands of international students who were already studying there. Many students have therefore already left the country, while others are filing legal challenges in order to restore their status to study within the country. Prospective and current international students to the United States may look elsewhere to complete their studies, given the sudden changes to the immigration system for international students within the US. This level of uncertainty may cause prospective students to change their plans and consider other options for their study, particularly the UK.

On 31 March 2025, the US administration notified Harvard University that USD 9 billion in federal contracts and grants would go under review. Harvard responded in April with a lawsuit against the administration.[11] Subsequently the government officially froze USD 2.2 billion in multi-year research grants and contracts. At the end of May 2025, student visas were put on hold, and on 4 June 2025 the Government suspended exchange visitor visas for Harvard-hosted students. This means that foreign students seeking to study or participate in exchange programmes at Harvard have to look elsewhere. The suspension was announced for six months with the potential for extension. On 6 June, a US judge issued a temporary restraining order, which blocked the enforcement of the ban. However, announcements between the US administration and its universities are changing on a frequent basis, which only adds to the element of uncertainty faced by many current and prospective students.

Not only may universities within the UK see a benefit of foreign students choosing the UK as the place to further their education rather than the United States, but UK home students may choose to stay within the UK rather than studying in the US. The British Council noted that, "a similar phenomenon occurred during Trump's first term in office when the number of international enrolments in the country declined on an annual basis every year".[12] In total, across the United States they fell by 7%[13]. Not only this, but many universities outside of the United States experienced an increased interest from American students. The policies of this US administration could result in more American students seeking the UK as an alternative destination to study. Interest in UK universities from American students has risen 25% in March 2025 compared to March 2024, accordingly to Studyportals, a global platform which tracks page views of student searches in order to identify course preferences of prospective students, as reported by the Financial Times[14]. Therefore, there's the opportunity for UK universities to see an increase interest from American students, from other international students who may have originally looked to study in the United States, and for the retention of UK students.

Diversity, equity, and inclusion

In his first week in office the president issued an executive order to, "restore merit-based hiring and promotions across the federal government" and to end "radical and wasteful diversity, equity and inclusion programs and preferencing". This executive order stopped virtually all DEI-related activities within the federal workforce and rescinded DEI-related executive orders that were issued by the previous administration. It's thought that these executive orders may result in more students choosing to study at universities outside of the United States, of which the United Kingdom could become a beneficiary, given similar policies have not been enacted by the UK Government. Additionally, there are researchers who are performing postgraduate research at American universities who may have no choice but to continue their research outside of the country due to these changes to government policy.

At the time of writing, the United States has frozen hundreds of millions of dollars in funding for its universities. Additionally,

11. Harvard University sues Trump administration over funding freeze - BBC News
12. Trump presidency could prove beneficial for UK higher education | British Council
13. Donald Trump vs the universities: how far will it go?
14. American students turn to UK as Donald Trump takes aim at US universities

decisions have been made revoking certain institutions' abilities to enrol international students or fund international researchers, which is adding to the overall theme of uncertainty within the higher education sector in the United States. Certain research grants and contracts occurring at American universities relating to diversity, equity and inclusion are at risk of being terminated. Some researchers at US universities may find their research disrupted due to it falling under the executive order. Postgraduate students who were performing the research and previously awarded these research grants will have no choice but to look to continue their research elsewhere. With researchers facing constraints in the United States, many will look to redirect their work elsewhere where funding is obtained and the research welcome, which creates an opportunity for the sector within the UK.

We may also see changes to the way in which universities in the United States and the UK collaborate. Collaboration between universities in the UK and the United States could change going forward due to the executive orders being implemented and further changes to the United States legislation.[15] Existing projects may be impacted as the US shifts their policies to remove diversity, equity and inclusion from service tenure and promotion criteria.[16] Overall, higher education institutions in the UK will need to evaluate their current funders for research grants and contracts to identify any risks to their funding as a result of these policies. While this could pose a risk to income earned from research grants and contracts, there's also the opportunity for UK universities to promote education for undergraduate and postgraduate students that fosters a space for inclusivity and critical thinking. Institutions within the higher education sector have the opportunity to ensure that their students, whether home or international, can continue their important research to continue social progress.

Tariffs

Alongside the optimism on additional international student numbers, higher education institutions should be considering any cost impact associated with tariffs on UK goods and services. The policies on tariffs are seemingly changing day to day, but at the time of writing, there's a 10% blanket tariff on all United States imports with up to 54% tariffs on goods from China and the EU. These tariffs contribute to costs throughout the economy, such as increasing prices, making trade move more slowly, requiring individuals to limit their spending, and even making prospective students less likely to move abroad for university.

Many universities rely on partnerships within the United States, which also include suppliers who are based there. Tariffs may impact these purchases, resulting in additional costs to any of the universities in the sector who rely on goods coming from the United States. Universities are known for their research, which generally requires specialist equipment and materials. Research expenses could increase due to the type of research being performed and limited opportunity to purchase from other sources, given the bespoke nature of the research and its required materials. Additional costs for labs and technology may result in less research being performed in the United Kingdom, or postgraduates directing their research to other areas. It may be too soon to identify whether there has been a tangible impact to research within the sector as a direct result of tariffs, but there's a risk that research scope is limited, and the sector experiences a decline in output.

Tariffs don't only affect global trade, but they can also create political tensions between governments, which trickle down into students feeling uncertain about where they study. Foreign students may become hesitant to continue their plans to study in the United States and instead choose to attend universities in another country. These can also impact universities themselves as global partnerships change. This creates another opportunity for UK universities to demonstrate that they are open for students and globally connected. Overall, UK universities have an opportunity to position themselves as an alternative to its counterparts within the United States. This may be the time for higher education institutions within the UK to fill the gap and align their recruitment and messaging to the key markets that are no longer the focus of the United States. In short, there are a range of outcomes that the UK higher education sector may experience as a direct or indirect result of the US administration's actions and only time will tell the outcome.

15. The implications for UK universities of Trump's attacks on EDI | Wonkhe
16. Trump's executive order ends diversity initiative at State Dept

Do or diversify?

Universities are facing an increasingly challenging financial landscape. 45% of providers are forecasting a deficit in 2024-25, with 48% forecasting low net operating cashflow levels, as highlighted by the OfS in the 2025 Financial Sustainability Report.[17] With the continuing decline in the real value of UK-based tuition fee income, increasing costs due to inflation and the need for capital investment, such as estate maintenance and meeting environmental targets, institutions are exploring ways to diversify income streams to improve their financial viability and resilience.

International income

One method of diversification is through the expansion of international student numbers, where institutions aren't constrained by government caps. International student numbers increased 10 years in a row between 2013/14 and 2022/23[18], then remained relatively consistent in 2023/24,[19] making up approximately 26.7% of the entire student number population, but 45.6% of total higher education fee income due to the increased fees charged. This is expected to increase to 48.9% by 2027/28.

Franchising income

An increasingly popular method of diversification within higher education institutions is through sub-contractual partnership or franchise arrangements. This is where institutions act as lead provider: partially or fully designing course content, awarding the degree and retaining overall ownership, but the courses are delivered by another provider, typically a further education institution. These arrangements are underwritten by formal contracts with the view to providing higher education to areas which may otherwise be underserved, with a much higher proportion of students being from economically deprived areas.[20 21]

The number of students under franchise arrangements has increased significantly, doubling to 138,000 in a four-year period between 2019/20 and 2022/23, which represents 5% of the total students in the higher education sector.[22] Franchise arrangements offer lead providers a set percentage of the total tuition fees for students under the agreements, typically ranging between 10-30%, which forms a guaranteed margin for the institution. In a sector restricted by the fall of the real value of tuition fees, this has been seen as a rare opportunity for financial growth within the sector.

The increase in franchise arrangements isn't without risk. Of the 341 franchised institutions currently in place, more than half aren't registered with the OfS, meaning no direct regulatory oversight. This has led to concerns around the quality of the education received within these arrangements, including low and unmonitored attendance as well as poor graduate outcomes, particularly where the quality is lower than what would be received if enrolled directly with the lead provider. This poses a risk to the lead provider's reputation within the sector.

There have also been allegations of fraud in the sector – the National Audit Office (NAO) reported that 53% of the total £4.1 million fraud identified in 2022/23 was at franchise providers, despite franchise students only making up 6.5% of the total Student Loan Company (SLC) funding across the sector.[23] On top of this, a widely reported investigation by the Sunday Times reported that SLC identified 3,563 suspicious loan applications with potential fraud of £60 million, however the investigation suggested that fraud could be many multiples of that.[24] Fraudulent behaviour includes fake documentation, acceptance of students without proficiency in English and potential links to organised crime. Again, this poses a significant risk to the lead provider's reputation, but also to the public purse, as student loans are underwritten by the taxpayer. This has led to the de-designation of one franchise provider, Oxford Business College, from 31 August 2025 ultimately meaning that existing students on these courses can no longer access student loans if continuing study at this provider.[25 26]

This provides a stark reminder for lead universities of the importance of thorough due diligence for new providers and continued governance and oversight for existing partnerships, including the role of internal audit. So how do universities obtain assurance over these arrangements? It's vital to have the right people, with the right skills in the right place to provide the detailed level of scrutiny that's required to ensure effective governance of these arrangements. This can include, but is not limited to, setting up specific committees, working groups and engaging with sector experts and commissioning regular independent inspections / audits of the provider. Another key element of this is disaster planning, often in the form of Student Protection Plans – ensuring that the university has a robust and detailed plan in place should the franchise provider encounter financial difficulties or otherwise, to protect the students in place.

17. Financial sustainability of higher education providers in England 2025
18. International students in UK higher education - House of Commons Library
19. Where do HE students come from? | HESA
20. Franchise governance framework
21. Investigation into student finance for study at franchised higher education providers - NAO press release
22. Insight brief 22. Subcontractual arrangements in higher education
23. Investigation into student finance for study at franchised higher education providers (Summary)
24. Walk-in degrees, sham students and a giant university fraud scandal
25. Information for students at Oxford Business College - Office for Students
26. Franchise governance framework

Universities UK has developed a Franchise Governance Framework for Higher Education institutions outlining key elements of the risk assessment and management process over the entire franchise lifecycle.[26] With the right governance, oversight and scrutiny, franchise arrangements can be an effective way for universities to increase student numbers and revenue, offering opportunities to individuals who may otherwise be unable to access higher education.

Philanthropy and fundraising

A report produced by CASE Insights on Philanthropy in the higher education sector noted a total of £1.43 billion new funds committed* from philanthropic sources to higher education institutions (92 participating institutions) in 2022/23[27], which represents an increase of 119% since 2012, or 89% when adjusting for inflation. Surprisingly, 74% of new funds in 2022/23 came from organisations such as trusts, companies or lotteries, with the remaining 26% from individuals, the large majority of which contributed between £1-£4,999 (93%). Unsurprisingly, older and more established institutions dominate these figures, with Oxbridge making up 49% of total new funds committed since 2012 and pre-1960 institutions making up a further 38%. The report also shows a significant increase in funds committed to specialist institutions, a total of 255% increase since 2012.

How can universities maximise the philanthropic income they receive? Research from Nik Miller, partner at the international fundraising consultancy More Partnership, highlighted the correlation between the number of fundraising staff in the institution and the philanthropic income received[28] and stressed the importance of broadcasting the positive impact that donations can provide for universities, arguing that the current public awareness is low. The CASE report highlights the importance of leadership buy-in and the development of a long-term strategy, including investment in fundraising infrastructure and staffing.

'Other' income

What other ways are universities finding to diversify revenue? Per HESA data, other income' has consistently been the second largest income stream for universities since 2015/16, representing approximately 18% of total revenue received in 2023/24 across the sector[29]. 'Other income' is the term used for income which doesn't fit into the following categories: tuition fees and education contracts, funding body grants, research grants, investment income and donations and endowments. Generally, it includes revenue from accommodation, catering and other commercial income streams such as conferencing income or the hire of sports and other facilities. Opportunities for growth within accommodation and

27. CASE Insights on Philanthropy (United Kingdom and Ireland) | CASE
28. Oxford and Cambridge extend UK university fundraising lead
29. HESA What is the income of HE providers?
30. CUBO Annual Benchmarking Survey 2025

*New funds committed are new monies and property committed in the reporting year from any individual or qualified organisation. This includes new outright gifts, new documented pledges for up to five years, new irrevocable planned gifts received or committed, and new qualified and documented bequests / legacy intentions.

catering are limited, as institutions must be conscious of student affordability, generally absorbing some increases in cost rather than passing directly to the student base. However, other areas, such as conferencing income, have more potential for growth. The annual benchmarking report 2025, produced by CUBO, highlighted a 9% increase in conferencing income in 2023/24.[30] With the conferencing and events market in the UK worth approximately £34 billion in 2023, nearing pre-pandemic levels[31], universities with large, often under-utilised, asset portfolios and on-site accommodation (depending on the time of year), may be uniquely positioned to take advantage of this opportunity.

With any new or increased commercial income which may fall outside the charitable purpose of the institution, universities must consider the tax implications of any non-exempt income sources. Some universities opt to incorporate trading subsidiaries for tax and VAT purposes for commercial activities or major projects. It's important that institutions seek professional tax or VAT advice early in the process to ensure compliance with the relevant regulations.

Research commercialisation

Universities UK note in their report, 'Opportunity, growth and partnership: a blueprint for change', that universities have become more effective at attracting investment in relation to patents, spin-outs and income from intellectual property (IP)[32]. Spin-out companies are created from academic research developed within a university or other HEI[33]. These occur when the parent institution transfers some of its assets, typically intellectual property, into the newly established company, which operates as an independent entity and is often founded by employees or students of the university or HEI, with the parent institution sometimes holding some sort of shareholding in the company. In 2023/24, 65% of new spin-out companies in 2023/24 included a shareholding with the relevant HEI , with the mean stake held by HEIs in spin-out companies being 21.8% between 2015-2024 but noting that this decreased to 16.1% in 2023/24[34]. The most successful spin-out in the UK to date is Oxford Nanopore Technologies, a DNA/RNA sequencing company. In 2021, Nanopore held its IPO, raising £350 million and valuing it over £4.5 billion[35], with the university holding a non-controlling stake in non-current investments per the latest financial university statements[36].

HESA have recently released a spin-out register, the first of its kind, detailing all spin-out companies formed by HEIs.17As of June 2025, there are 2,269 spin-out companies, with the top nine institutions holding more than 50% of the total and alongside this, research commercialisation is heavily skewed towards the University of Oxford (making up 30% of IP and 15% of contract research income in 23/24). So while this is currently not a major source of income more broadly across the sector (97 HEIs recorded no IP Income and 60 recorded no contract research income in 2023/24[38 39]), the commercialisation of IP or contract research may offer a revenue growth opportunity to some institutions.

It's clear from the current economic outlook of the sector that institutions need to adapt and diversify in order to improve their financial resilience and viability. How this is done is highly individual to the institution itself. Leadership must be prepared to have difficult conversations and make decisions about the future of their institution… even if those decision are hard or unpopular. On the other hand, this can be viewed as an exciting opportunity to unlock new areas of diverse and stable income. Organisations could consider:

- could we expand our reach to areas which we can't currently reach through carefully managed franchise partnerships?
- is our asset portfolio utilised all year round or is there space for additional commercial revenue through conferencing or private accommodation income?
- do we have the infrastructure in place to maximise income from philanthropy, including alumni?
- have we maximised our potential income from contract research and potential IP assets?

31. UK Conferencing and Events Market Report 2024 | Analysis
32. Opportunity, growth and partnership: a blueprint for change from the UK's universities
33. Spin-out register | HESA
34. Spotlight on Spinouts 2025 24/03/25
35. 10 Oxford companies changing the world - Oxford University Innovation
36. University of Oxford Annual Report and Accounts 2023/24/24
37. Spin-out register | HESA
38. 38 Table 4d - Total intellectual property income (including patents, copyright, design, registration and trade marks) by HE provider 2014/15 to 2023/24 | HESA
39. 39 Table 5 - Research grants and contracts - breakdown by source of income and HESA cost centre 2015/16 to 2023/24 | HESA
40. Franchising in higher education - GOV.UK

Consultation launched: strengthening oversight of franchising?

On 30 January 2025, the Department for Education (DfE) launched its 'strengthening oversight of partnership delivering in higher education' public consultation.[40] Supported by Baroness Smith, the aim is to bring franchised courses under greater scrutiny, to protect the use of public funds (ie, student loans), and ensure that students receive quality of education.

Within the consultation, the DfE have defined a 'franchise student' as one that's registered with a lead provider, but where more than 50% of their provision is taught by a delivery partner.[41] Typically, the lead provider is a HEI that has subcontracted the teaching of specific courses to external providers. The model has expanded in the sector in recent years as HEIs seek to broaden their course offerings both to strengthen financial sustainability and to further other strategic aims, such as to increase the accessibility of their courses to a more diverse range of students. Within the background details of the consultation, the DfE states that the number of franchise students grew from 50,430 to 135,850 from 2018/19 to 2022/23 of which 80,045 were students receiving tuition from unregistered providers.

This consultation forms part of a larger piece of work being carried out by the OfS that intends to consult on changes to requirements for providers that wish to register with the regulator.

The consultation outlines its proposals in the following key areas:[42]

1 Threshold for mandatory OfS registration

Providers delivering franchised courses with greater than 300 students will be required to register with the OfS. This figure was selected as it would capture the majority of franchise students (c. 83% based on 2022/23 data from the OfS).

2 Exemptions from registration

Those providers with fewer than 300 students aren't required to register with the OfS, as these entities should be small enough that lead providers are able to deliver strong and effective oversight. Providers which are already regulated by a suitable government body such as state-funded schools, further education providers, NHS trusts, Police and Crime Commissioners, local authorities or those entities whose provision is already regulated by other regulatory bodies such as those on the 'UK regulated professions and their regulators' list will be exempt from the requirement.

3 Transition period

The proposed date of amendment to the regulations is April 2026, with the first decisions about designation in relation to student finance to be made in September 2027 affecting courses taught in the 2028/29 academic year.

4 Consequences for exceeding the threshold

It's expected that providers will be able to estimate when they will breach the 300 student threshold in advance and they should have sufficient time to register prior to that academic year. It's proposed that should the threshold be breached without registration, the provider would lose a year of student finance eligibility for new students.

Following its implementation, the DfE intends to publish a list of all registered franchise providers whose courses are designated for student finance in November of each year. It's anticipated that this will give prospective students clarity over whether they will be able to apply for student loans for their course.

The general response to the consultation in the media suggests that proposals are well received and are considered a welcome step in the right direction. The requirement to be registered with the OfS would ensure that providers must meet specified criteria to be accepted, and brings in a framework of quality assurance including expectations around student outcomes, financial sustainability and access to complaints mechanisms.

However, there are some concerns over whether these measures will be sufficient to significantly improve the quality of education provision desired by the DfE. The process of registering involves providers being able to demonstrate, via documentation submitted to the OfS, appropriate governance structures and quality assurance processes. Ongoing compliance with the conditions of registration is required, this is new ground and whether newly registered providers will be able to stand up to the detailed scrutiny of the OfS is yet to be proven; high-quality provision may not be achieved. Some critics have also expressed apprehension at the onerous cost and administrative burden these changes put upon providers. Registration is a lengthy process that comes with additional costs including internal labour costs to prepare documentation and evidence for submission. Ensuring ongoing compliance via submission of financial statements and participating in data collection, are considered burdensome and may reduce the capacity for providers to be innovative and agile.

It's also worth noting that the OfS has (at the time of writing) paused its registration application processing and hasn't provided a definitive timeline for when it will reopen. The closure is part of temporary measures to allow the OfS to focus on working more closely with institutions under significant financial pressure in order to protect the interests of students.

The consultation period ended 4 April 2025 with the DfE stating that it's currently analysing feedback received via its consultation portal. The outcome is due to be issued in summer 2025.

41. Strengthening oversight of partnership delivery in higher education - GOV.UK
42. Press release - Government aims to crack down on rogue higher education operators - GOV.UK
43. Financial sustainability of higher education providers in England 2025

Navigating financial headwinds: the evolving debt landscape in higher education

The higher education sector in the UK is facing a period of unprecedented financial and operational strain, driven by a combination of policy shifts, funding constraints, and declining student numbers. A substantial volume of refinancing is also anticipated from 2027 onwards, as private placement debt arrangements entered into 10–15 years ago begin to mature. The lending landscape in 2027 is expected to differ markedly from when these facilities were originally secured, potentially prompting interesting conversations between borrowers and lenders. We explore this topic in greater detail below.

A shift in borrowing patterns

Universities aren't only seeing declining revenues and rising costs but are also facing a rapidly shifting debt environment. While borrowing remains an important tool for managing cash flow (with c£15 billion of external debt in the industry), the structure and availability of debt are undergoing significant changes.

Although total sector borrowing has seen a slight decline—from 29.9% to 28.4%[43] of income between 2022–23 and 2023–24—this reduction masks a deeper transformation in how institutions are managing their finances. Rather than relying on traditional long-term bank loans, universities are increasingly turning to more flexible, short-term instruments such as overdrafts and revolving credit facilities (RCFs). These facilities offer the agility in managing day-to-day cash flow, but they also signal a shift in the purpose of borrowing.

This change in debt use has raised concerns among lenders, who are seeing a lack of transparency around the use of borrowed funds. There's reduced clarity over whether borrowed funds are being used to drive long-term development or simply to meet minimum liquidity thresholds.

Tighter lending conditions

Access to debt is becoming more challenging. Lenders are increasingly risk-averse, driven by a growing perception of financial instability within the sector. As a result, borrowing isn't only more expensive but also subject to stricter covenants (ie, minimum liquidity thresholds). Loan approvals are taking longer, and institutions are being asked to meet more rigorous financial covenants.

Despite these challenges, it's important to note that many universities continue to perform well. The UK remains a global leader in higher education, and for institutions with strong fundamentals, debt remains accessible—albeit under more cautious terms.

As sustainability and ESG considerations gain traction, universities are increasingly exploring ESG-linked debt as a means to finance green infrastructure and socially responsible initiatives. We explore this topic in more detail on page 19.

Affordability concerns amid renewals of private placement debt

A looming issue for many institutions is the renewal of long-term private placement loans that were secured around a decade ago at much lower interest rates (when the Bank of England base rate sat at 0.25%). As these loans mature, universities are finding that refinancing at comparable rates is no longer possible due to the consecutive interest rate increases in 2022/23 (with the current base rate at 4.25%). The c.4% increase in debt servicing costs is placing additional strain on already tight budgets (for example, on a £25 million loan, the increases to the base rate alone add a further £1 million to an institutions debt servicing costs). However, lenders will want to work collaboratively with institutions in order to reach an agreement where debt is affordable despite reflecting an increase in interest rates.

The way forward is transparency

In this evolving landscape, proactive financial management is more critical than ever. HEIs are advised to engage with lenders early, maintaining clear and transparent communication about the intended use of funds. This approach not only builds trust but also supports more accurate long-term forecasting.

Borrowers should consider any make-whole or similar provisions on private placements which could impact the timing and cost of a wider refinancing process. This area can often be overlooked and a careful review of all financing documents is important.

44. Apprenticeship Levy - GOV.UK

ESG and sustainability in HE

Looking ahead

As the world continues to increasingly prioritise sustainability and ESG factors, the higher education sector stands at a pivotal crossroads. Institutions are being called upon to not only educate future leaders but also to lead by example in sustainability practices. Here are some critical aspects to consider as we look ahead to the next few years.

Hot topics to think about include

Climate action

Institutions will need to develop comprehensive strategies to reduce carbon footprints and enhance climate resilience.

Social equity

Addressing diversity, equity, and inclusion will be crucial, especially in how institutions engage with underserved communities.

Circular economy

Integrating principles of the circular economy into campus operations and curricula will become increasingly important. A circular economy is a system based on the reuse and regeneration of materials or products, where businesses look to operate in a sustainable or environmentally friendly way that minimises waste.

Sustainable investment

Institutions will face pressure to ensure that their investments align with sustainable practices and ethical considerations.

Changes in the reporting landscape

The reporting landscape for ESG and sustainability is evolving rapidly, both in the UK and globally. As more stakeholders demand transparency, institutions will need to adapt to new frameworks and regulations:

- **Standardisation of reporting:** the emergence of standardised reporting frameworks (such as the Global Reporting Initiative and International Sustainability Standard Board) will likely require institutions to align their reporting practices.
- **Increased accountability:** regulatory changes will mandate more rigorous disclosures on sustainability performance and impact, creating a need for institutions to have robust data collection and reporting mechanisms.

The vast majority of universities in the UK aren't companies under the Companies Act 2006 and therefore aren't required to report in their financial statements about these topics. But just because universities 'don't have to' report on many of these sustainability and ESG matters, does it mean that they shouldn't? Is there actually a moral, or ethical responsibility for universities to 'say something' in their annual report and actually stand up for their contributions to protect the environment?

Setting targets and integrating sustainability strategy into day-to-day operations

Effective ESG and sustainability strategies require clear and measurable targets:

- Short-term v long-term goals
- Institutions should establish both immediate short-term and long-term sustainability targets, focusing on areas such as energy efficiency, waste reduction, and community engagement.

To make sustainability a core aspect of institutional culture, it must be integrated into everyday operations

Curriculum development

Incorporating sustainability principles into curricula will equip students with the knowledge and skills to tackle future challenges.

Campus operations

Sustainability should be reflected in procurement practices, energy management, and facility planning, promoting a green campus ethos.

Employee engagement

Training staff and faculty on sustainability initiatives fosters a sense of ownership and responsibility.

Managing risk

We're seeing the impact of ESG and sustainability matters being included more and more on risk registers. The risks manifest themselves as very specific issues, such as the changing climate and how it will directly affect the university, through weather events or the need for better heating/cooling systems. But these risks can also be wide ranging and incorporate all areas of the organisation, including the estate, travel arrangements and students.

Engaging with your wide stakeholder base

Engaging and satisfying stakeholders is essential for the success of sustainability initiatives:

Communication

Regular updates on sustainability efforts and achievements help build trust with students, faculty, alumni, and the wider community.

Feedback mechanisms

Establishing channels for stakeholder feedback ensures that institutions remain responsive to the concerns and expectations of their communities.

The value of assurance

Assurance plays a critical role in validating and enhancing the credibility of sustainability reporting, claims and target setting:

- **Enhanced credibility:** third-party assurance can provide an independent view on sustainability reports, inc reasing stakeholder confidence in your overall strategy, commitments and targets.
- **Continuous improvement:** the assurance process can identify areas for improvement, helping institutions refine their sustainability strategies and operations.

Managing the risks and exploiting the opportunities that come with the sustainability agenda require organisations to understand and measure their impacts and dependencies on the world around them. It also requires them to manage, use, and report accurately on this information. Sustainability data is different to financial data – it's inherently more challenging to measure and interpret, or even know what to measure.

As stakeholders become more interested in this data, boards and exec committees are focusing more attention on it too – and that's where assurance comes in. This data is intrinsically riskier – and often less well controlled – than financial data, and yet the financial statements come under scrutiny of an external audit every year. Despite this, there's no mandatory requirement for assurance over the non-financial sustainability data. In our experience, many institutions across the sector are starting to think about assurance and the value it brings around credibility and trust in this data.

Conclusion

The higher education sector must embrace its role as a leader in sustainability and ESG practices. By focusing on key topics, adapting to changes in reporting, setting meaningful targets, integrating sustainability into daily operations, engaging stakeholders, and leveraging the power of external assurance, institutions can not only enhance their reputations but also contribute positively to society and the planet.

The journey toward sustainability is ongoing, but with commitment and innovation, the higher education sector can pave the way for a brighter, more sustainable future.

SORP 2026

The long-awaited draft of the education SORP was released in January 2025 for a 12-week consultation, ending in April. At the time of writing, the consultation responses are being considered and while we don't anticipate any significant changes to the draft document, we expect to see some additional guidance and/or examples to feature in the final publication.

The SORP making body has also produced two guidance documents which provides some additional insight and examples for the application of the new leases and revenue standards.

This section explains key changes in the draft version of the SORP.

Leases

As we know, the revised FRS 102 brings almost all leases onto the balance sheet as finance leases (for lessees). The removal of the distinction between operating leases (which sees lease costs recognised as an expense), and finance leases (which sees leased assets recognised on the balance sheet with a corresponding liability and a release of depreciation and finance expenses over the term of the lease), means that financial statements may look very different for organisations who have long held operating leases.

The revised section 14 of the draft education SORP addresses the new leases standard, making appropriate reference to FRS 102 section 20, throughout. The SORP largely reflects the new standard, updated to bring in the requirements set out within IFRS 16. In preparing for the transition, HEIs will need to consider their leasing arrangements and to calculate the value of both the liability (being the leasing commitment) and the value of the right of access to the asset that's being leased. In preparing these calculations, consideration will need to be given to factors such as incremental borrowing rates, total lease payments, potential break clauses, rental holidays and the expected life of the asset being leased in comparison to the lease term. This will create additional assets and liabilities on the balance sheet as well as increased levels of depreciation and finance costs. These may have wider implications in respect of KPIs, leverage, and similar ratios and covenant compliance.

The standard includes exemptions for a) instances where the lease term is no longer than twelve months (short term leases); and b) leases of assets of low value. The standard doesn't define 'low value' by providing a monetary amount. However, this may include items such as laptop computers, mobile phones and small items of furniture and equipment. Leases that meet these criteria will qualify for exemptions, which means costs can be expensed as incurred.

The draft SORP explains that once a lease and the lease term is identified, initial measurement comprises both a right-of-use asset measured at cost, and a lease liability measured at the present value of lease payments.

The leases guide, which sits alongside the SORP as a complimentary document, outlines a number of FAQs and practical examples to show how education providers can interpret the SORP and FRS 102. While some of this guidance may be brought into the main body of the SORP at the final iteration, the document does provide some additional helpful guidance, more specific to the sort of lease arrangements seen in the higher education sector.

Revenue

Similarly to the leases section, the updated revenue section of FRS 102 brings in some key elements of IFRS 15 with regard to the five-step model for recognising income from exchange transactions.

The five steps are as follows:

1. Identify the contract(s) with a customer
2. Identify the performance obligation in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when (or as) the performance obligation is satisfied

The revised section 16 of the SORP applies to revenue from transactions which have commercial substance. The SORP identifies the following examples of transaction which have commercial substance: tuition fees paid by students; consultancy; and other commercial revenue, including from accommodation, catering, publications and conferences. The SORP follows the five steps in some detail, and sector specific guidance is given in the accompanying supplementary document on revenue. Illustrative examples include guidance on identifying individual or multiple performance obligations in a contract, and whether or not an institution is acting as an agent or principal. Again, we anticipate that this guidance may be brought into the main body of the SORP at the final iteration.

Non-exchange transactions

Section 18 of the draft SORP addresses non-exchange transactions. This is when an entity receives value from another entity, without an equal value in exchange, such as a donation or research grant. The SORP gives application guidance for transactions with and without restrictions, performance-related conditions and endowments.

US loans

US loan reporting can be an area of complexity. With a possible increase of American students in the coming months, it's important for universities to understand their responsibilities.

American students can apply for US government support, in the form of a loan, to help towards funding their studies. The US Department of Education (US DoE) pays the relevant university, who in turn disburses the loan to the individual students.

Applicable universities must include a supplemental schedule to their financial statements which details the US GAAP conversion. The schedule is in a format prescribed by the US DoE and shows a number of key metrics including equity, net income and primary reserves ratios.

The 2020 Foreign Schools Audit Guide remains applicable for students receiving US funding and outlines the requirements in detail.

The US DoE 'Dear Colleague' letter requires that the Supplemental Schedule must be evaluated and reported on in relation to the financial statements as a whole in accordance with AU-C Section 725 Supplementary Information in Relation to the Financial Statements as a Whole. However, footnote 2 of the letter states 'auditors of foreign school financial statements allowed to be prepared in accordance with home country generally accepted accounting principles must follow applicable 'in relation to' financial statements auditing requirements of the home country,' which allows UK universities to prepare the Supplemental Schedule in accordance with UK GAAP and the education SORP.

As there's no direct equivalent of AU-C Section 725, we're of the view that paragraph 53 of ISA (UK) 700 is the nearest UK equivalent and is applicable in this scenario. Paragraph 53 of ISA (UK) 700 states 'when it is an integral part of the financial statements, the supplementary information shall be covered by the auditor's opinion.'

Reporting thresholds

Given the possible increase in US students studying in the UK, we have included the below limits table (as stated in the 2020 Foreign Schools Audit Guide). UK HEIs are reminded that while they're mandated to prepare annual financial statements, the additional supplementary schedule which shows the US GAAP presentation is required in the following thresholds:

Total US loan funds received	Reporting requirement
Less than USD 3 million	Annually, in line with UK GAAP
Between USD 3 million and USD 10 million	Annually, in line with UK GAAP. In the first year, US GAAP and GAGAS audit to be submitted (then next two years can be omitted)
More than USD 10 million	Annually, in line with UK GAAP and US GAAP

Institutions should be aware of their reporting responsibilities as outlined above and ensure that they meet the corresponding requirements year on year.

Compliance thresholds

Further, foreign institutions that receive USD 500,000 or more in loan funds during the most recently completed financial year, must submit annual compliance audits using the standard audit procedures for foreign institutions set out in the audit guide issued by the USD DoE Office of Inspector General. The standard compliance audit is required annually.

Institutions that receive less than USD 500,000 in loan funds during the year can submit an annual alternative compliance audit. This may cover up to three years, providing that the institution is fully certified; they have submitted the previous two years of compliance audits on time and complete; and have notified the department.

Further detail on the compliance and audit arrangements can be found at the FSA website.

Level 7 apprenticeship funding revamp: big changes ahead

Employers with a wage bill of more than £3 million per annum have been required to pay 0.5% of their payroll each month to the Apprenticeship Levy as initiated by the UK Government in April 2017.[44] Funds were then available for use by the employer to train their workforce via apprenticeships including Level 7 (equivalent to master's degree). If funds aren't utilised within two years, they're returned to the Treasury.

Since its initiation, the demand for apprenticeship training has increased as employers try to make the best use of the funding available. For Level 7 apprenticeships, private businesses such as Kaplan, Corndel and BPP make up a large proportion of the provision via its accountancy and taxation offerings, but many universities have also invested significant resources to create and develop appropriate courses to meet the needs of various other sectors, ranging from leadership in business and finance programmes to postgraduate engineering qualifications. Furthermore, time and energy has been invested by HEIs to foster relationships with local businesses and public sector bodies to develop bespoke Level 7 courses. This diversification of offering was used by some universities to broaden their income streams to support their financial sustainability.

On 27 May 2025, the UK Government announced a shift in focus to prioritise apprenticeships and training for those people aged 21 and under in England.[45] This comes as yet another blow to the higher education sector at a time where student recruitment from home and abroad is already a key financial sustainability risk. From January 2026 onwards, only those aged 16-21 will qualify for funding for Level 7 apprenticeships. Consequently, any employers currently using the apprenticeship funding to upskill their workforce over 22 years old via Level 7 routes will now need to locate another source of funding. This is likely to have to come directly out of the business' own pocket at a time where private enterprise is already struggling with increasing tax burdens from the recent NI increase and rising supplier prices, and therefore, likely to reduce demand considerably as they look to cut costs in other places. This may leave Level 7 apprenticeships offered by HEIs a thing of the past unless alternative funding can be located to support those aged 22+ wishing to study these types of courses. In a climate of financial difficult in the HE sector, this isn't welcome news for those universities that have invested time and energy into developing this offering.

"We are disappointed at the removal of funding for Level 7 apprenticeships, which are effective at upskilling and retraining people to meet workforce needs – particularly in the public sector and most notably in the NHS. As well as the direct impact, universities across the sector will be concerned about the effect on wider apprenticeship provision. Without Level 7 it may not make economic sense for some to continue with any apprenticeship provision. This could be a significant loss at a time when apprenticeship demand is rising. Universities can make a real impact on filling skills gaps, but only with sustainable funding and a clear long-term strategy."[46]

Responding to the announcement, Jamie Roberts, Policy Manager for the Russell Group

These comments are reflective of the wider sentiments of those involved with developing Level 7 offerings at HEIs. Universities will now need to gauge whether this change to funding will lead to a significant reduction in recruitment of Level 7 apprenticeships from January 2026 onwards, leaving them little time to mitigate and adapt. These changes may make it completely unviable for HEIs to offer Level 7 apprenticeships altogether. Institutions will need to carefully consider whether apprenticeships at other levels may also be at risk in the future and plan appropriately, whether to continue to develop these or to exit the market apprenticeship market entirely.

45. Next generation of builders and carers - GOV.UK
46. Russell Group - Response to changes to Level 7 apprenticeship funding

Employment tax impact for HE

The employment tax landscape continues to evolve, with several important updates that are particularly relevant to the higher education sector. From changes to the payrolling of benefits to increased scrutiny of off-payroll working arrangements, universities and related institutions should take note of the following developments.

Payrolling of benefits in kind delayed

HMRC has announced a one-year delay to the introduction of mandatory payrolling of benefits in kind, now scheduled to take effect from April 2027. This postponement provides employers with additional time to prepare for the transition.

In the interim, employers may choose to adopt payrolling voluntarily. To do so for the 2026–27 tax year, registration must be completed before the end of the 2025–26 tax year. It's important to note that even where benefits are payrolled, employers must still submit Form P11D(b) and pay Class 1A National Insurance Contributions (NICs). These requirements may be revised once the mandatory regime is implemented.

For universities, this delay offers an opportunity to review current benefit reporting processes and consider whether early adoption could streamline compliance and reduce administrative burdens.

Increase in employer NICs

From 6 April 2025, the rate of employer NICs rose from 13.8% to 15% for Class 1, Class 1A, and Class 1B. This will increase the cost of employing staff and providing taxable benefits, which is particularly significant for universities with large workforces and extensive benefits packages.

Additionally, the secondary threshold—the earnings level at which employer NICs become payable—has been reduced from £9,100 to £5,000 per annum, further increasing NIC liabilities for many employers.

The increase in NICs has made cost saving measures such as pension scheme salary sacrifice arrangements more attractive for employers in the sector.

Construction Industry Scheme(CIS) is a focus area for HMRC

HMRC has recently engaged with several universities to better understand how the CIS applies within the sector. While many institutions benefit from charitable status, which can exempt them from certain CIS obligations, HMRC has identified instances of historic CIS registrations that may no longer be necessary.

Universities should review their records to determine whether a CIS registration is in place and whether it remains appropriate. CIS may still apply in certain scenarios, such as:

- construction activities undertaken by non-charitable subsidiaries
- capital contributions received from landlords for construction projects

Given the complexity and potential financial exposure associated with CIS non-compliance, seeking professional advice is strongly recommended.

National minimum wage (NMW)

HMRC continues to strictly enforce the national minimum wage rules which can be complex to comply with. The headline national living wage rate increased from £11.44 to £12.21 per hour from 1 April 2025 for those aged 21 and over. National minimum wage compliance should be considered as a calculation rather than merely the payment of a rate, therefore employers should take particular care that sufficient measures are in place to ensure they don't inadvertently breach the relevant threshold. This includes making sure all working time, including overtime, is documented and paid correctly as well as any salary sacrifice arrangements. Employers should ensure that they have a robust system within their payroll, which is followed and regularly reviewed.

There can be challenges in the higher education sector in calculating whether NMW requirements are being complied with, for example accurately recording working time. Universities should ensure that payroll systems are robust, regularly reviewed, and capable of capturing the full scope of working time. This is particularly important in environments where staff may work irregular hours or hold multiple roles.

Off-payroll working and updates to CEST

In April 2025, HMRC updated its Check Employment Status for Tax (CEST) tool and associated guidance in the Employment Status Manual. While the core logic of the tool remains unchanged, the updates aim to simplify the language and improve user experience. HMRC has also published the decision-making routes used by the tool, showing that a significant number of cases result in an 'unable to determine' outcome.

Given the complexity of off-payroll working arrangements in universities — ranging from guest lecturers to research collaborators — having access to reliable tools and advice is essential. Where CEST doesn't provide a definitive answer, institutions should consider seeking professional input or using third-party solutions such as our Employment Status Intelligence Platform (ESIP).

Umbrella companies

HMRC announced that from April 2026, it will make agencies or those directly engaging with umbrella companies responsible for accounting for PAYE on payments made to workers. This follows the same theme as the changes made to the IR35 rules, shifting responsibility away from the umbrella companies themselves.

Although full details are pending, universities should begin reviewing their use of umbrella companies and prepare to update internal policies and procedures to ensure compliance when the new rules come into force.

IR35 'set-off' mechanism

Legislation was introduced in April 2024 to give HMRC the power to set-off tax and NICs already paid by a worker and their intermediary on income from arrangements within the scope of the IR35 legislation. This is aimed at preventing the over-collection of tax in cases where the end- user hasn't been compliant with the IR35 rules and deducted PAYE / NICs on the payments made.

Global working and transnational education arrangements

As highlighted in our 2024 report, global working remains an important issue for the higher education sector. Access to international students remains key, and establishing transnational education arrangements is high on many universities' agendas. These arrangements can take different forms (eg, partnering with a local university to deliver courses or establishing a separate overseas presence and campus) and the tax implications vary on set-up and location. Early engagement with local advisers and tax professionals is essential to ensure feasibility and compliance.

With global mobility becoming more common among academic and professional staff, universities should consider developing structured policies to manage international working arrangements consistently and effectively.

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