Higher Education developments report

2026

Contents

Foreword 3

Sector risks 4
- Impact of the Middle East conflict on UK Higher Education 5
- Home undergraduate fees, inflation, and financial sustainability 8
- Franchised provision revisited 9
- Weekend degrees and the limits of a complex system 12
- COVID-19 student claims 14

Financial reporting and audit 16
- SORP 2026 17
- Protecting universities from fraud 20

Governance 22
- The Sussex free speech case 23
- Strengthening financial governance 26

Other updates 28
- Corporation tax 29
- Employment Tax 30
- Debt in Higher Education 34
- Pensions 37
- Transformation and restructure 39
- VAT 42

Foreword

The higher education sector continues to navigate a period of profound uncertainty and structural change. Financial sustainability remains a central concern, with institutions facing a complex combination of rising costs, constrained funding, and shifting student demand. While the modest increase in tuition fees for English universities has provided some short-term relief, it is unlikely to resolve the underlying financial pressures facing the sector.

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Efforts to diversify income streams remain a strategic priority. However, external factors continue to complicate progress. Changes to immigration policy have contributed to volatility in international student recruitment, challenging a critical source of revenue for many institutions. At the same time, increased regulatory scrutiny of transnational education and franchising arrangements is prompting universities to reassess partnership models and risk exposure. Apprenticeships and alternative provision routes also face an evolving policy environment, adding further uncertainty to future growth strategies.

In this context, institutions are demonstrating increasing agility in their responses. Cost management and organisational transformation are accelerating, with universities exploring shared services, restructuring activities, and new operating models to drive efficiency. There is also a growing focus on long-term resilience, including strengthened governance, enhanced scenario planning, and more robust financial risk management.

Alongside these financial and operational challenges, the regulatory landscape continues to evolve, with the Office for Students (OfS) playing an increasingly prominent role. Its focus on financial sustainability, student outcomes, and governance is sharpening expectations across the sector. Institutions are facing greater scrutiny through enhanced monitoring, intervention powers, and data-led regulation, with a clear emphasis on accountability and transparency. The OfS's approach is influencing strategic decision-making, particularly in relation to course viability, continuation outcomes, and value for money.

At the same time, the reporting framework continues to develop. The implementation of the revised FRS 102, as embedded in the updated Statement of Recommended Practice (SORP), represents a significant milestone. As the effective date approaches, institutions must ensure readiness for key changes, particularly in areas such as revenue recognition, lease accounting, and enhanced disclosure requirements.

Our 2026 higher education sector development report explores these themes in detail, highlighting key risks, regulatory developments, and financial reporting considerations. We hope it provides valuable insight as institutions continue to adapt and plan for a sustainable future.

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

Sector risks

The Impact of the Middle East Conflict on UK Higher Education

The evolving geopolitical situation in the Middle East continues to cause disruption far beyond the immediate region, with significant implications for global sectors—including higher education. UK universities, characterised by their international outlook and financial dependence on global markets, are particularly exposed.

As institutions navigate an already challenging domestic funding environment, the added complexity of geopolitical instability introduces heightened uncertainty across student recruitment, financial planning, operations, and long-term strategy. This environment reinforces the need for resilience, diversification, and proactive risk management.

Student mobility and demand disruption

UK higher education has long benefitted from strong enrolment from Middle Eastern countries, including Saudi Arabia, the UAE, Kuwait, and Qatar. Similarly, the positive reputation of studying within the UK and scholarship programmes have often played a critical role in sustaining a flow of students from these regions.

However, conflict and heightened geopolitical tensions can disrupt this pipeline in several ways:

- Economic pressures on sponsor governments may lead to reduced scholarship funding
- Currency fluctuations can make UK education less affordable
- Travel disruptions and security concerns may deter prospective students

The impact is not limited to directly affected countries. Regional instability often has a wider spillover effect, influencing neighbouring nations and dampening overall outbound student mobility.

For UK institutions, this introduces additional volatility into recruitment forecasts and challenges efforts to maintain stable international enrolments, particularly at a time when many higher education institutions are facing a reliance on global markets.

Financial implications for universities

The financial exposure of UK universities to international students is significant. Overseas fee income plays a critical role in:

- Cross-subsidising the cost of domestic teaching
- Supporting research activities
- Maintaining financial sustainability

A reduction in student numbers as a result of the tensions and conflict in the Middle East could therefore have a material impact on institutional finances, particularly for universities with concentrated regional exposure.

At the same time, universities are facing broader macroeconomic pressures, including inflation and rising costs, which further strain operating margins and sustainability. This creates a challenging dual dynamic: potential income volatility alongside increasing expenditure.

Institutions must therefore strengthen:

- Scenario modelling and financial forecasting
- Sensitivity analysis around international recruitment
- Cost control and efficiency measures

Operational and cost pressures across university estates

Beyond student demand and income, the Middle East conflict has important implications for university operations through its influence on global economic conditions. This most notably includes energy markets and inflation.

Energy costs and estate management

The region's central role in global energy supply means that geopolitical instability can drive volatility in oil and gas prices. For UK universities, which manage extensive estates, this translates into:

- Rising heating and electricity costs
- Increased expenditure for energy-intensive research facilities
- Greater pressure on estate maintenance and sustainability budgets

Even where institutions have taken steps to hedge energy exposure or invest in greener infrastructure, sudden price increases can still create significant financial strain.

Inflationary pressures

Conflict can also contribute to wider inflation through supply chain disruptions and increased commodity prices. Universities may experience rising costs across a broad range of operational areas, including:

- Construction and refurbishment projects
- Digital infrastructure and IT investment
- Outsourced services such as catering and security
- Academic resources and specialist equipment

These pressures compound existing cost challenges and can erode financial performance if not actively managed.

Procurement and supply chains

Universities rely on global supply chains for research equipment, laboratory materials, and technology. Disruption to trade routes or supplier networks can lead to:

- Delays in procurement
- Increased input costs
- Reduced supplier reliability

For research-intensive institutions, such disruptions can delay project delivery and impact funding timelines.

Workforce and pay pressures

Sustained inflation also has implications for workforce dynamics. Universities may face:

- Increased pressure for pay uplifts amid cost-of-living concerns
- Higher pension and employment-related costs
- Recruitment and retention challenges

Given that staffing represents a substantial proportion of university expenditure, these pressures can materially affect financial outcomes.

Capital investment and financing

Macroeconomic instability can influence borrowing costs and access to capital. Universities planning major capital projects may encounter:

- Higher interest rates
- Reduced financial flexibility
- Delays or reprioritisation of investment plans

This has longer-term implications for competitiveness, particularly where infrastructure investment underpins research capability or student experience

Strengthening operational resilience

In response, institutions should increasingly focus on:

- Enhancing procurement strategies and supplier diversification
- Investing in energy efficiency and sustainability initiatives
- Strengthening financial forecasting to reflect macroeconomic volatility
- Reassessing capital allocation and investment priorities

These measures are critical to maintaining operational resilience in an increasingly uncertain environment.

Reputational and campus impacts

UK campuses are diverse, global communities. Conflicts in the Middle East can heighten sensitivities among students and staff, which may lead to:

- Increased activism and protests
- Greater demand for institutional responses
- Potential tensions within campus communities

As a result, universities must carefully balance:

- Freedom of speech and academic expression
- The need to maintain an inclusive and cohesive environment
- Their duty of care to students and staff

Institutional responses, both in tone and substance, can have lasting reputational implications.

Research and partnerships

Many UK universities maintain strong academic and research partnerships across the Middle East. These collaborations may be affected by:

- Disruptions to funding flows
- Delays in joint projects
- Changing regulatory requirements, including sanctions compliance

Ensuring robust governance and maintaining flexibility in international partnerships will be essential to navigating these challenges.

Operational risks and student support

Students from affected regions may face financial hardship, travel disruptions, or personal distress linked to the conflict. Universities must be prepared to provide enhanced support, including:

- Flexible financial arrangements
- Access to wellbeing services
- Academic accommodations where necessary

Supporting students effectively is not only a moral obligation but also critical to maintaining institutional reputation and retention.

Strategic implications

The Middle East conflict underscores a broader strategic imperative for UK higher education: reducing exposure to concentrated risks and strengthening long-term resilience.

Institutions are increasingly:

- Diversifying international recruitment markets
- Expanding transnational education models
- Investing in digital and hybrid delivery
- Strengthening global alumni networks

These strategies can help mitigate regional shocks while supporting sustainable growth.

While the immediate human and political consequences of conflict remain paramount, the implications for UK higher education are wide-ranging. The Middle East conflict highlights the interconnected nature of global mobility, financial sustainability, and operational resilience.

For universities, the challenge is not solely managing student demand but also navigating rising costs, supply chain disruption, and strategic uncertainty in the midst of a constantly changing macroeconomic environment globally. This environment adds to the mounting risks and considerations to the higher education sector, in which agile strategic planning and response will only become more important.

Home Undergraduate Fees, Inflation, and Financial Sustainability

The funding model for home undergraduate education in England has come under increasing strain over the past decade. While recent policy changes signal a return to inflation-linked increases in tuition fees, these uplifts do not fully address the structural financial challenges facing UK universities. The combination of prolonged real terms erosion in fee income and sustained cost pressures continues to raise significant concerns about the long-term sustainability of the sector.

The Real-Term Erosion of Fee Income

For much of the past decade, the undergraduate tuition fee cap in England remained static at £9,250, following a modest increase from £9,000 in 2017. It was not until the 2025/26 academic year that fees were increased by 3.1% to £9,535, in line with forecast inflation.

While this policy shift represents a clear acknowledgement by government of the pressures facing higher education providers, it primarily serves to stabilise, rather than restore, the value of funding. Prior to this uplift, fees had not kept pace with inflation for several years, leading to a substantial decline in their real-terms value. The government itself recognised that the prolonged freeze had eroded university finances and contributed to systemic funding pressures.

Sector analysis reinforces the scale of this erosion. Universities UK has highlighted that income received for teaching UK-domiciled students has declined in real terms almost every year since 2015/16 and is now approaching historically low levels. Similarly, broader sector modelling indicates that funding per student has fallen significantly over time, with cumulative shortfalls emerging as inflation has outpaced both tuition fee uplifts and teaching grants.

As a result, even with inflation-linked increases now being introduced, the funding model is effectively maintaining a diminished baseline rather than reversing the long-term decline in per-student resource.

Rising Cost Pressures

At the same time as income has weakened in real terms, universities have faced a sustained period of rising costs. Inflationary pressures, particularly since 2021 and beyond, have driven increases in staff pay expectations, energy costs, construction and maintenance expenditure, and investment in digital infrastructure.

These pressures are further compounded by policy-driven cost increases, including higher pension contributions, taxation impacts such as National Insurance changes, and the need for continued investment in regulatory compliance and student support. Analysis by Universities UK suggests that policy and cost changes will collectively add billions in additional expenditure across the sector over the coming years, significantly outweighing the benefit of modest tuition fee uplifts.

The overall effect is a widening gap between income and expenditure for institutions in the higher education sector. While inflation-linked fee increases may prevent further deterioration, they do not keep pace with the full cost base faced by universities, particularly for more resource-intensive courses.

Financial Sustainability and Sector Implications

The cumulative effect of declining real terms income and rising cost pressures is increasingly visible in institutional financial performance. The Office for Students has noted that a significant proportion of higher education providers are at risk of deficit in the coming years, reflecting the systemic nature of the challenge.

In response, many universities have already taken difficult decisions to reduce costs, including restructuring, course rationalisation, and reductions in capital investment. Sector-wide evidence indicates growing use of hiring freezes, voluntary redundancies, and collaboration initiatives aimed at achieving efficiencies.

At the same time, the traditional cross-subsidisation model, where international student income supports domestic teaching, is becoming more fragile. Policy changes affecting international recruitment, coupled with geopolitical and market volatility, mean that institutions cannot rely on continued growth in this income stream to offset domestic funding gaps.

While recent increases in home undergraduate tuition fees signal a shift towards addressing inflationary pressures, they do not fundamentally resolve the structural funding challenges facing UK higher education. The sector continues to operate within a constrained financial model where income from domestic students lags behind the true cost of provision.

In the absence of systemic reform, higher education institutions will need to continue adapting through cost control, diversification of income streams, and strategic prioritisation. However, without a recalibration of the balance between funding and cost, financial sustainability will remain a central and ongoing challenge for the sector.

Franchised Provision Revisited: From Strategic Growth Lever to Regulatory Priority

When we last examined the rise of franchised provision in UK higher education (pages 16–17 of our **2025 Sector Development Report**, the model stood at a crossroads. On the one hand, it offered institutions a powerful mechanism for growth, regional reach, and widening participation. On the other, it raised important questions about oversight, consistency of student outcomes, and long-term sustainability.

Twelve months on, that crossroads has become a turning point.

The OfS, supported by the Department for Education (DfE), has continued to decisively tighten regulatory oversight of franchised delivery. What was previously framed as a developing risk area has become a focal point for sector reform, reshaping not only how partnerships are governed, but how they are justified in the first place.

A shift in regulatory tone

Since our 2025 report, the tone from policymakers has become more resolute. Concerns that were once framed as isolated or emerging are now being treated as systemic risks requiring coordinated intervention.

The DfE has explicitly pointed to issues of poor-quality provision, financial exploitation, and even fraudulent practices in parts of the franchised landscape. At the same time, data indicating weaker student continuation and completion outcomes in some franchised settings has reinforced the case for reform.

Crucially, the OfS has articulated a consistent theme: where institutions expand through subcontractual arrangements without sufficiently robust oversight, risks to both students and taxpayers can materialise quickly.

This is not simply a question of compliance; it is a question of whether the sector's growth models remain aligned with its public obligations.

Redrawing the regulatory boundary

The most significant development since our last report is the decision to extend direct regulatory oversight to larger delivery partners. We previously discussed details of the proposal that included mandatory OfS registration for providers delivering franchised courses to greater than 300 students, reasons for exemptions, the transition period and consequences for exceeding the threshold. These proposed ideas have been formalised, and came into force on 19 May 2026.

Details can be found at The Education (Student support) (Amendment) Regulations 2026.

The government's formal response to the consultation can be found at Strengthening oversight of partnership delivery in higher education.

The government's consultation response reveals a sector broadly supportive of stronger oversight in principle, but far more divided on how it should be delivered in practice. While many respondents, including universities, accepted the need to address risks around quality, fraud, and governance in franchised provision, there was clear unease about the proportionality and unintended consequences of the proposed regime. Concerns centred on the potential for increased regulatory burden, the operational complexity of bringing large numbers of delivery partners into direct regulation, and the risk that a hard student number threshold could distort behaviour which then may result in encouraging providers to limit growth or restructure arrangements in ways that undermine transparency. At the same time, respondents highlighted capacity challenges for both providers and the OfS, alongside fears that rapid implementation could destabilise partnerships that, when well-managed, deliver genuine access and innovation benefits.

What emerges from the government's response is a careful but firm balancing act: an acknowledgement that franchising remains a legitimate and valuable model, coupled with a clear determination to address what it characterises as systemic vulnerabilities. By proceeding with the core elements of reform, particularly mandatory registration and enhanced oversight, the government signals that concerns about public funding integrity and student outcomes outweigh calls for a lighter-touch approach. Yet the tensions evident in consultation feedback suggest that the success of the reforms will ultimately hinge not on their intent, but on their execution and whether they can strengthen assurance without stifling the flexibility that made franchised provision attractive in the first place.

Under new rules, franchised providers with 300 or more students will be required to register with the OfS in order to maintain access to student finance from the 2028–29 academic year. This marks a fundamental evolution in the regulatory architecture. Previously, such providers operated largely under the umbrella of the lead institution's registration. Now, they will be subject to equivalent expectations around quality, governance, and financial sustainability.

At the same time, the OfS has strengthened conditions on universities themselves. New requirements oblige institutions to demonstrate a far higher level of control over subcontractual activity, including maintaining comprehensive information systems on partnerships and clearly articulating the rationale for engaging in franchising at all.

The combined effect is to eliminate any residual ambiguity: accountability is no longer shared in theory but enforced in practice.

From guidance to enforcement

If the regulatory direction is clear, so too is the OfS's increasing willingness to act.

Recent investigations into specific franchise partnerships, focusing on quality, governance, and compliance with registration conditions, signal a more assertive supervisory stance. These interventions do not merely address individual cases; they set precedents that may ripple across the sector.

Alongside this, the OfS has highlighted its readiness to deploy a broad range of enforcement tools, including restrictions on student recruitment, financial penalties, and suspension of access to public funding together with ongoing monitoring.

This represents a material shift from a largely reactive model of oversight to one that is increasingly proactive, risk-based, and interventionist.

Reassessing the strategic case for franchising

In our 2025 report, we encouraged institutions to examine franchising not only as a growth opportunity but as a strategic choice requiring careful alignment with institutional mission and risk appetite.

The emerging regulatory environment introduces new complexities that may fundamentally alter the economics and viability of certain partnership models. Increased compliance costs, enhanced due diligence requirements, and potential constraints on recruitment all place increased pressure on margins. At the same time, heightened reputational risk raises the stakes for governing bodies and where many higher education institutions are already facing financial sustainability concerns.

Some institutions may conclude that the balance has shifted, prompting a retrenchment or reconfiguration of franchised activity. Others will seek to adapt, investing in stronger oversight mechanisms and more selective partnerships.

There is also a risk, already noted in sector discussions, that some providers may attempt to remain just below regulatory thresholds. However, such strategies are unlikely to offer long-term stability given the direction of travel.

A recalibrated future

The tightening of OfS oversight should not be interpreted as an attempt to curtail franchised provision altogether. Rather, it represents an effort to recalibrate the model and ensure that its benefits are realised without compromising quality or accountability.

For institutions willing to adapt, there remains a viable path forward. Franchising can continue to support access, innovation, and regional engagement. However, it will do so within a more disciplined framework, where transparency is expected and governance is tested.

Looking ahead

As the sector moves towards implementation of these reforms, the key question is not whether franchised provision will persist, but in what form.

The institutions that succeed will be those that treat this moment not as a regulatory hurdle, but as an opportunity to strengthen their operating models. That will require a renewed focus on governance, a willingness to challenge existing assumptions, and a commitment to aligning strategy with a more exacting regulatory environment.

Weekend Degrees and the Limits of a Complex System

The controversy surrounding weekend-only degrees has exposed more than a technical misclassification issue; it has revealed fundamental tensions at the heart of the UK's higher education funding and regulatory system. What began as a relatively niche delivery model designed to widen participation has rapidly become a test case for how effectively the OfS, the Student Loans Company (SLC), and the DfE can work together to safeguard both students and public funds.

At its core, the issue turns on an apparently simple question: what counts as "attending" a university course? In regulatory terms, the answer is technically clearly defined. Courses that require attendance only on weekends, regardless of whether teaching takes place in person, are classified as distance learning. This distinction is not merely academic; it determines eligibility for maintenance loans, which are restricted to students engaged in full-time, weekday-based study. Furthermore, in December 2024, Vice Chancellors were reminded of this classification, albeit, in amongst many other standard reminders around due diligence and regulations by the Secretary of State, so easily overlooked. Despite the reminder and the clarity of the definition, a number of providers continued to classify weekend-only courses as "in-attendance," enabling students to access funding that should not have been available to them.

The scale of the resulting error has garnered significant media attention. Approximately 22,000 students received maintenance loans under this misclassification, with the value of those payments reaching an estimated £190 million in a single academic year. That figure alone would be cause for concern, but what has made the issue particularly acute is its intersection with the rapid expansion of franchised provision; a delivery method that has faced its own increase in scrutiny. Many of the courses in question were delivered through partner institutions operating under franchise arrangements, adding complexity to governance and oversight. This is not incidental; it reflects a broader structural shift within the sector, in which delivery models have seemingly evolved faster than the frameworks designed to regulate them.

The risks associated with this shift have been flagged for some time. The Public Accounts Committee has warned that gaps in oversight have left the student finance system vulnerable to exploitation, noting that franchised providers account for a disproportionate share of detected fraud. Similarly, the National Audit Office has identified weaknesses in monitoring mechanisms, including concerns about how providers track attendance, verify student activity, and manage recruitment practices. These findings predate the weekend course controversy, but they help explain why the issue has escalated so quickly into a matter of systemic concern.

The government's response has been both swift and uncompromising in tone. Ministers have framed the problem not simply as administrative oversight but as part of a wider pattern of behaviour in which elements of the sector have prioritised growth and revenue over compliance and quality. In doing so, they have linked the misclassification of weekend courses to broader concerns about the misuse of public funds and the integrity of franchising arrangements. The message is clear: flexibility in delivery must not come at the expense of accountability.

The role of the Student Loans Company in this episode underscores the operational challenges of enforcing that principle. Acting on guidance from the DfE, the SLC moved to suspend maintenance payments and initiate recovery of funds already disbursed. For many students, this action came as a shock. Individuals who had enrolled on courses in good faith suddenly found themselves without financial support and, in some cases, facing significant repayment demands. Many students that were previously unaware of this issue rightly turned to their University to provide guidance and support, but often this was met with vague responses and assurances as individual Universities sought to get to grips with the situation from a legal and regulatory standpoint. Fortunately for students affected, the subsequent decision to allow repayments under standard loan terms rather than immediate recovery reflects an acknowledgement of the human impact of what is, at its root, a systemic failure.

Weekend provision has often been positioned as a vehicle for inclusion, attracting mature learners, working adults, and those with caring responsibilities. For these groups, the ability to study intensively at weekends while maintaining employment or family commitments is not a convenience but a necessity. The withdrawal of maintenance support therefore risks undermining precisely the accessibility gains that such provision was designed to deliver.

Unsurprisingly, the sector's response has been mixed and, in some cases, confrontational. While there is broad acceptance that the rules around student finance must be upheld, institutions have challenged both their interpretation and their application. Several universities have initiated legal proceedings against the government, arguing that weekend-based study does involve meaningful in-person engagement and should not automatically be treated as distance learning. This dispute highlights a deeper ambiguity: the regulatory framework was built for a more traditional model of higher education, and it is now being asked to accommodate a far more diverse range of delivery formats.

This episode exposes a series of interrelated weaknesses. Oversight responsibilities are distributed across multiple bodies, each with its own mandate, creating the potential for gaps and inconsistencies. Meanwhile, the growth of franchised provision has introduced additional layers of separation between those who recruit students, those who teach them, and those who ultimately bear regulatory responsibility.

In this context, the weekend course is not an isolated incident but as a symptom of a system under strain. It reflects the challenge of regulating an increasingly complex and market-driven sector using frameworks that were not designed with such complexity in mind. The response, understandably, has been to tighten controls, strengthening oversight of franchised provision, clarifying definitions of attendance, and reinforcing expectations around data accuracy and governance.

Yet there is a risk that in seeking to close loopholes, the system may also constrain innovation. Flexible modes of delivery, including weekend teaching, play a vital role in expanding access to higher education. The challenge for policymakers is therefore not simply to enforce rules, but to ensure that those rules remain fit for purpose in a changing landscape.

If weekend degrees have become a flashpoint, it is because they sit at the intersection of all these pressures. How the sector responds will shape not only the future of flexible provision, but the credibility of the student finance system itself.

COVID-19 Student Claims: Emerging Legal Exposure and Financial Implications for Universities

The COVID-19 student claims action originated in 2023, when more than 100,000 students signed up to pursue claims on a 'no win, no fee' basis[1]. These claims are founded on the premise that students paid for a defined level of educational service, but received a materially different offering as a result of disruption caused by the COVID-19 pandemic.

Key areas of impact cited by claimants include the transition from in person to remote teaching, restricted access to university facilities (such as libraries and specialist spaces), and a reduction in broader student experience elements, including social and networking opportunities. Claims are typically advanced under English contract and consumer law, asserting that universities were unable to deliver services as described, and that certain contractual provisions permitting changes to delivery methods may be deemed unenforceable or unfair.

The Student Group Claim refers to online degrees being 25-50%[1] less than fees for in-person courses, and are looking to this as the basis for determining compensation to be paid by Universities.

A significant development in this area occurred in February 2026, when University College London (UCL) agreed a settlement of approximately £21 million[2] in respect of claims brought by former students. The settlement was reached shortly before a scheduled High Court trial and was agreed without admission of liability. UCL did comment, however, that as a result of the disruptions caused by COVID-19, those years were incredibly difficult for students.

Following this settlement, claimant participation increased, with an additional c.50,000 students[3] joining the action by April 2026, and further growth is anticipated ahead of the September 2026 limitation deadline for claims relating to early pandemic periods.

On 17 February 2026, pre-action letters were issued to 36 UK universities by legal representatives acting on behalf of more than 230,000 students[4]. These letters outlined the legal basis for the claims, set out the alleged losses, and indicated an intention to issue proceedings in the absence of resolution. This has required affected institutions to consider their strategic response, including whether to defend, negotiate or seek settlement.

At the time of writing, this remains an evolving situation. There is limited public information regarding responses from the named institutions, and no further trial dates have been publicly confirmed.

Collectively, the UCL settlement and the issuance of pre-action letters have shifted this matter from a series of individual claims to a sector wide risk. Institutions not currently named remain within a similar factual and legal context and may be exposed to future claims, particularly as claimant groups continue to expand.

In response, universities are taking steps to enhance litigation readiness. Common actions include:

01 preservation of relevant documentation, including student contracts, marketing materials, and records evidencing mitigating actions taken during the pandemic;

02 review of insurance arrangements, including professional indemnity and legal expenses cover;

03 engagement with legal advisers to assess institution specific exposure; and

04 development of internal assessments to identify affected cohorts and areas of potential risk.

1. https://news.sky.com/story/could-thousands-of-students-win-covid-compensation-from-universities-13521661
2. https://www.gbnews.com/money/tuition-fees-ucl-settlement-covid
3. https://www.timeshighereducation.com/news/covid-compensation-claims-leave-universities-very-exposed
4. https://www.brownejacobson.com/insights/next-wave-of-ucl-student-claims-litigation-guide-for-universities

Consideration is also being given to the potential financial reporting implications. The progression of these claims, including the detail provided within pre-action correspondence, may provide additional evidence regarding both the likelihood and potential magnitude of obligations. Institutions therefore need to assess whether recognition of a provision is required or whether disclosure as a contingent liability is appropriate.

Depending on the probability and ability to measure a potential obligation, additional analysis over forecasting and going concern assessments may also be required. For example, would a payout have a significant impact on forecast liquidity, or compliance with loan covenants? These are factors which management and those charged with governance should consider, outside of other operational implications.

The UCL settlement currently represents the primary reference point for institutions assessing potential outcomes. While it does not establish legal precedent, it provides an indication of how such matters may be resolved in practice. As this was settled prior to commencement of a trial, there is an implication that avoiding a High Court ruling was a motivational factor. This has validated the claimants' strategy, which could include that universities will weigh the cost of litigation, reputational risks, and diversion of staff time against the cost to settle.

The future direction of COVID-19 student claims remains uncertain, particularly in the absence of a clear legal precedent in the UK. However, recent developments suggest that activity is likely to continue building, with growing claimant numbers and the upcoming limitation deadline potentially driving further claims in the near term. Against this backdrop, universities should continue to take practical steps to prepare, including understanding their potential exposure, considering possible financial impacts, and ensuring appropriate documentation and governance processes are in place. Taking a proactive approach now will help institutions respond more effectively if they are drawn into claims, while also supporting timely consideration of any related financial reporting and operational implications.

Financial reporting and audit

SORP Changes – The Short Version

While much of the discussion around SORP 2026 has focused on the headlines—revenue and leases—the real impact lies in how these changes reshape financial reporting in practice. Both areas introduce a more structured, judgement-driven approach that will require finance teams to rethink long-standing assumptions, strengthen documentation, and engage more closely with operational colleagues.

Lease Accounting – From Simplicity to Substance

The shift in lease accounting represents one of the most visible changes in the new SORP. Under the previous framework, operating leases largely sat off balance sheet, with rental payments recognised as an expense over time. This distinction has effectively disappeared. Under SORP 2026, almost all leases are brought onto the balance sheet through the recognition of a right of use asset and a corresponding lease liability.

This change is more than presentational. It forces institutions to recognise the economic substance of their leasing arrangements, particularly property leases, which are often central to estates strategies for educational institutions. The lease liability reflects the present value of future lease payments, introducing discounting into calculations that many institutions have not historically needed to perform in this context. FRS 102 requires that leases should be discounted using the interest rate implicit in the lease (if that can be readily determined), or the incremental borrowing rate or obtainable borrowing rate, on a lease-by-lease basis. Determining the appropriate discount rate, typically the incremental borrowing rate, will require careful judgement.

Equally important is the determination of the lease term. Institutions must now assess whether they are "reasonably certain" to exercise extension or termination options. This introduces a forward looking dimension, requiring consideration of estate strategy, operational dependencies, and even political or funding uncertainties. What was previously a contractual fact becomes a judgemental estimate with tangible balance sheet consequences.

The treatment of peppercorn or concessionary leases is another area of sector specific importance. These arrangements are common in education through local authority or public sector partnerships. Where lease payments are significantly below market rents but exceed a nominal amount, due to the lessor's intention to provide benefit to the public benefit entity, these leases may be classified as non-exchange transactions. However, other situations which at face value might appear to be 'below market' may not indicate a non-exchange component where there is no benefit to the lessee. Careful analysis of the individual circumstances and consideration of the judgments applied is important.

The cumulative effect is a step change in both financial position and reporting complexity. Balance sheets will expand, key metrics such as EBITDA will shift, and disclosures will increase significantly, including detailed maturity analyses and explanations of key assumptions. More fundamentally, lease accounting becomes intertwined with broader considerations such as going concern, financial sustainability, and long term estate planning.

Revenue Recognition – A Structured Approach to Income

The new revenue model transforms how education institutions recognise income. The introduction of the five step model requires a disciplined, contract based approach that replaces many long standing sector conventions.

At its core, the model requires institutions to identify the promises made to customers, determine the value of those promises, and recognise income as those promises are fulfilled. While this may sound straightforward, its practical implications are significant. For example, tuition fees—traditionally recognised over the academic year—must now be explicitly justified as a series of performance obligations satisfied over time. Institutions will need to demonstrate that their recognition pattern reflects the actual delivery of teaching, supervision, and access to facilities. It may be appropriate to 'bundle' these performance obligations together if they are highly interdependent or highly interrelated. In other words, each of the goods or services is significantly affected by one or more of the other goods or services in the contract.

The treatment of bursaries illustrates the conceptual shift. Under the previous SORP, bursaries were typically presented as an expense. Under the new model, they reduce the transaction price and are therefore netted against income. This seemingly simple change has broader implications for how institutions conceptualise income and cost, and how they present their financial performance externally.

The model also introduces greater clarity—but also greater responsibility—in distinguishing between different types of income. Exchange transactions fall within the five step model, while government grants and other non exchange income are treated separately. The SORP makes clear that many research funding streams, despite including deliverables, remain non exchange in nature. However, there may be examples of commercial research contracts whereby the output is delivered specifically for the funder and has commercial substance. This reinforces the need for careful analysis rather than reliance on contractual form alone.

Another area requiring attention is the principal versus agent assessment. Institutions must determine whether they are acting as the primary provider of a service, recognising revenue on a gross basis, or merely facilitating provision, recognising revenue net. This will be particularly relevant in collaborative provision, partnerships, and subcontracting arrangements, where roles are not always clearly defined.

The introduction of contract assets and contract liabilities further aligns reporting with underlying economic activity. These categories formalise what has often been treated more loosely as accrued or deferred income, bringing greater consistency but also requiring tighter controls and clearer audit trails.

Overall, the new revenue model does not simply change timing—it changes mindset. Institutions must move from applying established templates to actively analysing each income stream and documenting the rationale for their approach.

Other matters

As well as the headline changes for revenue and leases, FRS 102 revised has a number of consequential matters that the sector must consider:

01 Covenant compliance

The changes to leases and revenue recognition may alter key financial indicators such as EBITDA, net debt, and interest cover—measures that are often built into loan agreements. For example, EBITDA may increase because lease costs are reallocated between depreciation and interest, while net debt rises as lease liabilities are recognised. As a result, HEIs may unintentionally breach covenants, even though their underlying performance has not actually changed.

02 US loans

For HEIs participating in the US Federal Student Aid (FSA) programs, the application of FRS 102 and the FEHE SORP requires careful reconciliation. The primary impact is GAAP divergence, as US Federal loans must be reported to the US Department of Education under US GAAP, creating differences in fixed asset valuations, revenue recognition, and lease liabilities. US GAAP continues to separate operating and finance leases, which may create added complexity to UK institutions after FRS 102 revised is adopted.

03 VAT

FRS 102 does not alter UK VAT law, but its updated reporting rules directly affect university EBITDA, balance sheet totals, and fixed asset capitalisation. These financial metric shifts can trigger recalculations of partial exemption special methods (PESM) and business vs. non-business apportionment, impacting irrecoverable VAT.

Transition – Strategic Choices with Practical Consequences

The transition to SORP 2026 is not just a technical exercise; it involves strategic decisions that will affect comparability, workload, and stakeholder communication.

For revenue, institutions have a choice between two approaches. The cumulative catch up method allows the new rules to be applied at the transition date, with any adjustment recognised in opening reserves. This approach is operationally simpler and likely to be preferred by many institutions, particularly where historical data is not readily available. However, it reduces comparability between periods, as prior year figures are not restated.

The alternative is full retrospective application, restating prior periods as if the new rules had always been in place. While this enhances comparability and may be preferred from a user perspective, it requires significantly more effort, including the reconstruction of historical contract data and assumptions. FRS 102 1.62-1.67 provides greater detail on transition application.

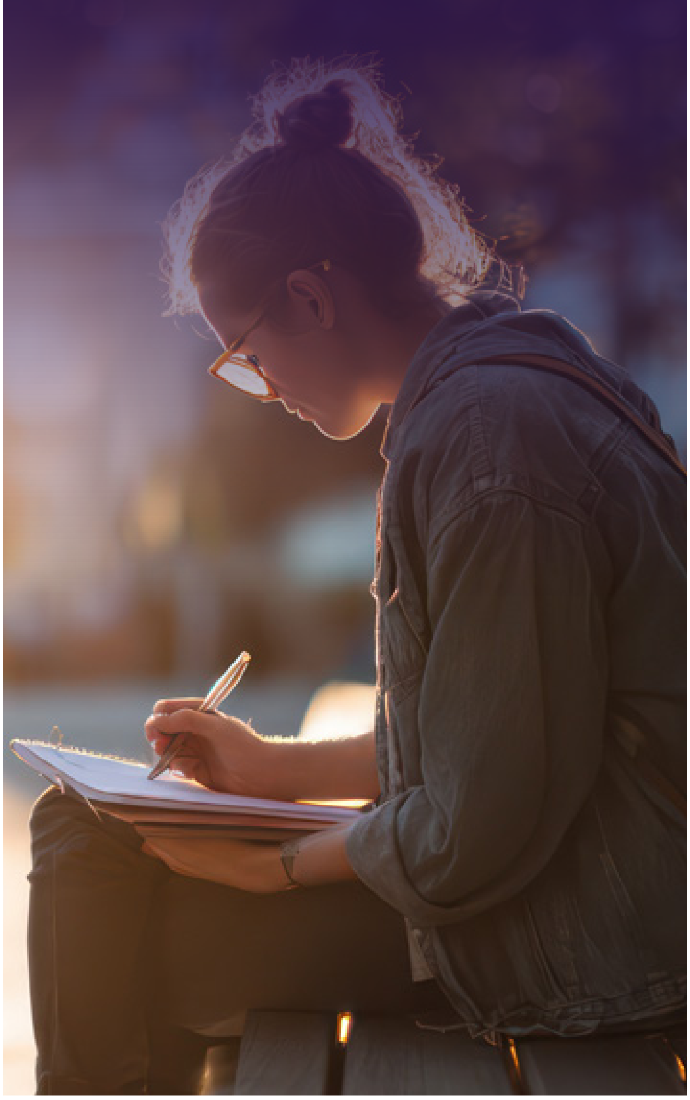
Lease transition is more standardised. Institutions will recognise lease liabilities and right of use assets at the transition date, with adjustments flowing through opening reserves. Importantly, there is no requirement to restate comparatives, which provides some relief but does not eliminate the need for a comprehensive lease inventory and robust valuation exercise.

In both areas, the practical challenges are considerable. Data gaps are common, particularly for leases managed outside finance teams or for complex research arrangements. Judgement will need to be documented clearly and consistently, as auditors are likely to focus closely on transition decisions. Systems and processes may also need to evolve, particularly where existing structures do not support the level of analysis now required.

Conclusion – A Shift Toward Explainable Accounting

Taken together, the changes to lease accounting, revenue recognition, and transition approaches reflect a broader shift in financial reporting within the education sector. The emphasis is no longer solely on applying rules correctly, but on demonstrating that financial statements faithfully represent the underlying economic reality.

For finance professionals, this means moving beyond compliance to develop narratives, judgements, and models that are both technically sound and clearly explainable. Institutions that invest early in understanding the implications, strengthening their data and documentation, and aligning internal stakeholders will be best placed to navigate the transition successfully.



Protecting Universities from Fraud

Financial fraud remains a persistent and evolving threat across the UK, including within the higher education sector. The appointment of the UK's first Fraud Minister, Lord Hanson, reflects a strengthened national focus on addressing these risks. The government's forthcoming Fraud Strategy, which forms part of its wider Plan for Change, is expected to introduce enhanced measures to protect public bodies, including universities, from a range of fraud threats.

For higher education institutions, the strategy is likely to emphasise closer collaboration between government, universities, and law enforcement, alongside improved data sharing across sectors. There will also be a continued focus on raising awareness of fraud risks among staff, students, and stakeholders, while ensuring that prevention measures remain proportionate. In addition, the growing use of artificial intelligence is expected to feature prominently, both in terms of its potential to mitigate fraud and the new cyber and financial crime risks it presents.

Fraud is now the most common crime type in England and Wales, accounting for over 40% of all offences. Universities are not immune, particularly given their scale, complexity, and often decentralised operating models. Increasingly, institutions are exposed to a range of fraud risks, including cyber-enabled attacks such as phishing, mandate fraud, and student-related scams.

The impact of fraud on universities extends well beyond financial loss. Incidents can damage institutional reputation, erode public and stakeholder trust, and disrupt core activities such as research and teaching. Given the reliance on public funding and the importance of maintaining confidence among regulators, donors, and partners, robust fraud prevention and detection frameworks are essential.

The introduction of the Failure to Prevent Fraud offence under the Economic Crime and Corporate Transparency Act 2023, effective from 1 September 2025, has important implications for the higher education sector. Many universities are likely to fall within the definition of a "large organisation", based on thresholds relating to income, balance sheet size, and number of employees, particularly when group structures and subsidiaries are taken into account.

Under this legislation, institutions in scope are required to demonstrate that they have reasonable procedures in place to prevent fraud. In parallel, Section 196 of the Act introduces corporate liability for offences committed by senior managers, regardless of the size of the organisation. This significantly increases the importance of governance, oversight, and accountability at senior levels, particularly as there is no defence based on reasonable procedures for offences under this provision.

In response, universities should ensure that fraud risk management is fully embedded within their governance and control frameworks. This includes carrying out regular and comprehensive fraud risk assessments across key areas such as procurement, payroll, research funding, and student systems. Institutions should also ensure that clear anti-fraud policies and response plans are in place, supported by ongoing training and awareness initiatives to promote a strong anti-fraud culture.

Looking ahead, sector insights suggest that fraud risk is expected to continue increasing, particularly in relation to cyber-enabled and AI-driven threats. Universities, as complex organisations handling significant volumes of data and financial transactions, are likely to remain attractive targets. While financial losses can be material, the broader consequences—including reputational harm and regulatory scrutiny—are often more significant over the long term.

Against this backdrop, it is essential that universities take a proactive and strategic approach to fraud risk management, ensuring that controls evolve in line with the changing risk landscape and that accountability is clearly defined at all levels of the institution.

Governance

The Sussex Free Speech Case – What Happened, Why It Matters, and What It Means for the OfS

The High Court decision to overturn the OfS's £585,000 fine against the University of Sussex in April 2026 is one of the most significant regulatory rulings in English higher education in recent years. It not only resolved a high profile dispute over free speech, but also exposed fundamental questions about regulatory power, process and credibility.

Why the OfS Imposed the Fine

The origin of the case lies in a long running investigation launched by the OfS in October 2021, prompted by controversy surrounding the resignation of philosophy professor Kathleen Stock following protests over her gender critical views.

The OfS examined whether University of Sussex policies and governance arrangements adequately protected freedom of speech and academic freedom.

At the centre of the case was Sussex's Trans and Non Binary Equality Policy Statement, first introduced in 2018. The regulator argued that aspects of this policy risked discouraging staff and students from expressing lawful views—particularly gender critical views—and therefore created a "chilling effect" on free speech.

On this basis, the OfS concluded in March 2025 that Sussex had breached two conditions of registration:

- Condition E1: Failure to uphold freedom of speech and academic freedom
- Condition E2: Inadequate governance and management arrangements

The regulator also treated the Trans and Non Binary Equality Policy Statement as a "governing document", meaning it considered the policy central enough to the institution's framework to fall within its regulatory remit.

The result was a record £585,000 fine, the largest the OfS had imposed to date.

Why Sussex Appealed

The University of Sussex strongly rejected both the findings and the penalty, arguing that the OfS had:

- Taken an "erroneous and absolutist" approach to free speech
- Ignored existing protections already in place
- Mischaracterised a relatively narrow policy as a core governing document

In legal terms, Sussex's challenge focused on three main issues:

1.Scope of regulatory powers

The university argued that the OfS had exceeded its statutory powers under the Higher Education and Research Act 2017 by treating an equality policy as a governing document.

2.Misinterpretation of free speech law

Sussex contended that the regulator had misunderstood what counts as a restriction on "freedom of speech within the law", effectively applying an overly rigid and unrealistic standard.

3.Procedural unfairness

Perhaps most significantly, the university alleged that the OfS had approached the case with a closed mind, seeking to make an example of Sussex rather than conducting an impartial investigation.

This culminated in a judicial review in the High Court in early 2026.

Why the Fine Was Overturned

On 29 April 2026, Mrs Justice Lieven ruled decisively in favour of the University of Sussex, quashing both the findings of breach and the fine.

The judgment identified several critical failures in the OfS's approach:

Acting beyond its powers

The court found that the OfS had misinterpreted what counts as a "governing document", and that the equality policy did not fall within that category. As a result, the regulator had gone beyond its lawful remit

Misunderstanding freedom of speech law

The judge concluded that the OfS had misdirected itself on the meaning of free speech and academic freedom, applying an incorrect legal test when deciding that Sussex had breached its obligations

Failure to consider context and remediation

The regulator was criticised for not adequately considering:

- Whether the policy actually restricted speech in practice
- Whether any issues had already been remedied before the final decision

Procedural bias and "closed mind"

The most damaging finding was that the OfS had approached the investigation with apparent bias, effectively predetermining its conclusion. The court held that the decision was "vitiated by bias because the OfS approached the decision with a closed mind" and this alone was sufficient to render the entire decision unlawful

What does this mean for the OfS?

The High Court's decision to overturn the Office for Students' record fine against the University of Sussex has implications that extend far beyond a single case. It represents a defining moment for the regulator and offers a clearer picture of how its powers are likely to be interpreted—and constrained—going forward.

At its core, the judgment draws a firm line around the limits of regulatory authority. The court made clear that the OfS must operate strictly within the powers granted to it under legislation. In particular, it rejected the regulator's attempt to treat an internal university policy as a "governing document," a classification that had allowed the OfS to bring it within its enforcement remit. This finding is significant for the sector because it restores a clearer boundary between formal institutional governance frameworks and broader policy environments. For universities, it provides greater certainty about what types of documents are subject to regulatory scrutiny, reducing the risk that relatively narrow or operational policies could be elevated into matters of statutory compliance.

However, the judgment is not simply about the limits of power; it is equally about how that power is exercised. A central theme of the ruling is that regulatory process must be as robust and impartial as the outcomes it produces. The court was highly critical of the OfS's approach to its investigation, emphasising the need for open minded decision making, proper engagement with evidence, and a genuine consideration of whether any identified issues had been addressed before enforcement action was taken. For the OfS, this is likely to require a recalibration of how investigations are conducted, documented, and concluded.

The case is especially important in the context of free speech regulation, an area where the OfS has been given an increasingly prominent role. While the judgment does not diminish the importance of protecting freedom of speech and academic freedom, it significantly narrows how the regulator can interpret and enforce those duties. It emphasises that free speech must be understood within its legal context, not as an abstract or absolute principle, and that institutional policies must be assessed holistically rather than in isolation. This signals a move away from rigid or overly expansive interpretations, towards a more nuanced approach that recognises the complexities universities face in balancing competing legal and ethical considerations.

Finally, the timing of the case amplifies its significance. The OfS is in the process of expanding its regulatory toolkit, including the introduction of new mechanisms such as free speech complaints schemes. Against this backdrop, the Sussex judgment serves as an early and influential test of how those powers may be scrutinised. The regulator's decision not to appeal, and its stated intention to reflect on the court's findings, suggests an awareness of the need to adapt. Going forward, the OfS will need to demonstrate that it has absorbed the lessons of the case—strengthening its processes, clarifying its interpretations, and rebalancing its relationship with the sector.

Conclusion

The Sussex case is not simply about one university or one policy. It represents a defining moment in the relationship between universities and their regulator.

The OfS sought to send a strong signal about free speech compliance. Instead, the courts have drawn equally firm boundaries around regulatory authority, legal interpretation, and procedural fairness. For the sector, the lesson is twofold: Free speech obligations remain real and enforceable, but regulation must be lawful, proportionate, and evidence based.

For the OfS, the challenge now is to rebuild confidence—demonstrating that it can regulate effectively without overreaching or undermining its own legitimacy.

Stronger Challenge, Sharper Governance, Smarter Decisions

The 2025 Gillies Report provides a timely reminder that strong governance is not defined by structures alone but by how effectively organisations anticipate risk, challenge assumptions, and act on financial insight. In an increasingly complex and volatile environment, finance teams and Audit & Risk Committees (ARC) play a critical role in ensuring organisations remain resilient, transparent, and accountable.

This article sets out a forward-looking view of best practice, focusing on what should be happening within high-performing higher education institutions.

Financial Oversight That Is Proactive and Continuous

Effective organisations approach financial oversight as a dynamic, forward-looking discipline rather than a purely retrospective exercise. This perspective requires embedding real-time monitoring of financial performance and liquidity, enabling leadership to respond swiftly to emerging risks. It also involves tracking leading indicators of financial stress, rather than relying solely on lagging financial results, and integrating scenario planning and stress testing into routine reporting processes. Auditors often see these routines towards the end of the year, but really, these should be performed periodically to understand performance holistically, not just when the auditors ask for it!

In practice, finance teams should present clear downside scenarios alongside base case forecasts, ensuring that decision-makers are aware of potential vulnerabilities as well as expected outcomes. ARC discussions should routinely incorporate “what if” considerations, including the identification of key risk triggers and predefined responses. Strong financial oversight is therefore characterised by early visibility of risks and proactive intervention, particularly during periods of uncertainty, allowing organisations to act decisively before issues escalate.

Spotlight on scenario planning

At its core, scenario planning involves developing multiple structured “what if” narratives—typically including a base case (expected outcome) and a downside case (adverse conditions). Each scenario is built around key variables such as income levels, costs, funding availability, or economic conditions.

Key elements of scenario planning

- **Identifying critical drivers:** Pinpointing the factors that most influence financial performance (e.g. student numbers (both home and international), funding, inflation, interest rates)
- **Exploring uncertainty:** Considering how these drivers might change under different conditions (e.g. competition from other HEIs, changes to the student offer, new loan arrangements)
- **Modelling impacts:** Quantifying how each scenario affects income, expenditure, cash flow, and reserves (e.g. if student numbers drop by 5% / 12% / 15%, what does that mean for our top line / cost reductions?)
- **Defining responses:** Establishing actions the organisation would take if a particular scenario begins to unfold

High-Quality Reporting That Drives Insight and Challenge

Effective governance relies on reporting that is clear, complete, and balanced. Information should be presented in a way that is easily understood by non-financial members, while also covering key risks, underlying assumptions, and sensitivities. At the same time, it should provide a balanced view, highlighting both positive developments and areas of concern.

Well-functioning HEIs ensure that financial reporting is explicitly linked to strategy and risk, allowing decision-makers to see how financial performance aligns with broader organisational objectives. For example, a university might use financial reports to assess whether investment in a new research centre is delivering expected returns in terms of grant income, student recruitment, and reputation, while also highlighting associated financial risks such as long-term maintenance costs or underutilisation.

Key judgements and assumptions must be clearly disclosed and subject to robust discussion, rather than being implicit or unchallenged. Information should also be structured in a way that encourages scrutiny and constructive challenge, rather than overwhelming or discouraging engagement.

Ultimately, the aim is to move beyond reporting that simply describes past performance, towards reporting that actively supports informed, forward-looking decision-making.

Audit & Risk Committees That Provide Constructive and Informed Challenge

ARC effectiveness is defined by the quality of engagement rather than the frequency of meetings. Leading committees ensure that sufficient time is allocated for meaningful discussion, rather than focusing primarily on presentations. They make use of structured questioning frameworks to rigorously probe key risks and, where appropriate, seek independent validation through internal audit functions or external assurance.

Effective ARC members demonstrate a number of important behaviours. Professional scepticism is essential, with members actively questioning assumptions, forecasts, and the robustness of management's analysis. Curiosity also plays a key role, encouraging members to explore inconsistencies or gaps in the information presented. In addition, confidence is required to challenge senior management in a constructive and balanced manner.

Crucially, ARC members must maintain a strong level of financial literacy in order to interpret complex financial information and assess risk effectively. This combination of engagement, behaviour, and capability enables committees to provide robust oversight and contribute meaningfully to organisational resilience. It is therefore important that all ARC members possess a baseline level of financial knowledge, rather than relying solely on a single 'expert' member such as a former accountant, to ensure robust, collective scrutiny and informed decision-making.

Strong Alignment Between Strategy, Risk and Financial Sustainability

Financial governance in the higher education sector is most effective when it is closely aligned with strategic decision-making, ensuring that institutional ambitions are grounded in financial sustainability. Universities and colleges must clearly articulate the financial implications of major strategic initiatives, such as capital investment, course expansion, or research growth, so that governing bodies fully understand the associated risks and resource requirements. This requires a continuous assessment of affordability and long-term sustainability, particularly in the context of fluctuating student demand, funding pressures, and rising operating costs. It also involves the explicit consideration of trade-offs and opportunity costs, recognising that choices about investment in one area may limit capacity in another.

In practice, major investment decisions—such as new campus developments or digital transformation programmes—should be supported by robust downside analysis, including scenarios where income falls short of expectations or costs exceed projections. Financial sustainability metrics, such as operating surplus, cash flow, and liquidity, should be embedded within board-level key performance indicators to ensure ongoing oversight. Risks should also be assessed not only in isolation but in aggregate, reflecting the complex and interdependent nature of financial pressures within the sector.

By adopting this approach, higher education institutions can ensure that their strategies are firmly rooted in financial reality, strengthening resilience and enabling more informed, sustainable decision-making.

Conclusion

The 2025 Gillies Report reinforces a critical message for the higher education sector: strong financial governance is not achieved through structure alone, but through behaviour, insight, and the effective use of information. In an environment defined by financial constraint, uncertainty, and increasing scrutiny, institutions must move beyond compliance-led approaches and adopt governance practices that are proactive, integrated, and forward-looking.

High-performing organisations distinguish themselves by embedding continuous financial oversight, elevating the quality of reporting, and enabling Audit and Risk Committees to provide meaningful, informed challenge. Just as importantly, they ensure that financial considerations are fully integrated into strategic decision-making, with clear visibility of risks, trade-offs, and long-term sustainability.

For finance leaders and ARC members, the implication is clear: the focus must shift from explaining performance after the fact to anticipating what lies ahead and acting decisively. Institutions that succeed in doing so will be better equipped to navigate sector pressures, maintain financial resilience, and continue delivering on their educational and societal missions with confidence.

Other updates

Corporation Tax – Legislative and proposed changes

01 Charity Tax Compliance

These changes will be applicable to any Higher Education Institutions (HEIs) with exempt charity status. The changes to charity tax compliance rules have been expected since HMRC launched a consultation in 2023. The consultation made it clear that HMRC intended to strengthen the existing rules. Legislation (which was effective from April 2026) has been produced which changes the rules for:

- tainted donations to charity;
- approved charitable investments; and
- attributable income.

We do not anticipate that these changes will have a major impact on most HEIs, as they have been primarily introduced to strengthen anti-avoidance measures, mainly targeting tax schemes created to benefit people manipulating charity tax reliefs for their own gain. However, it is useful to be aware of the changes and be mindful of them when receiving donations.

02 Tainted Donations to Charity

The changes mean that HMRC will assess not only donor intent (the purpose) but also the outcome of transactions, essentially HMRC will be allowed the look at a series of transactions in the round.

When we refer to 'donor intent' HMRC consider both the donor and any persons connected to the donor (known as a linked person).

In addition, the threshold for identifying a tainted donation will shift from "financial advantage" to the broader "financial assistance,". This tightens the criteria for tax relief eligibility and essentially lowers the bar slightly in catching and penalising people who want to give to charity but get a benefit from it themselves.

The tainted donations rules can restrict both corporation tax, capital gains tax and income tax relief.

03 Approved charitable investments

HMRC are also extending the number of investment types subject to the requirement that an investment must be made for the benefit of the charity and not for tax avoidance.

This anti-avoidance requirement, which was previously applicable to only Type 12 investments will be increased to cover all investment types.

It should be noted that, it has always been the case, that an officer of Revenue and Customs may approve a loan or other investment if satisfied, on a claim, that it is made for an allowable purpose.

If a charity is concerned that an investment it is considering does not fall into Types 1-11, or there is a concern that it could be perceived as being for tax avoidance, we would recommend that in advance of making the investment, a claim is made to HMRC to gain certainty on the position. Our team is experienced in making these claims and would be happy to support you with a claim.

04 Attributable Income

The tax treatment of legacies is being aligned with the tax treatment of other income sources. Legacies received by charities will now fall within the 'attributable income definition', which means the legacy received must be spent on the charity's charitable purpose. Failure to do so is likely to result in a tax charge.

05 Foreign Permanent Establishments (PE)

The government is taking action to prevent UK-resident companies with PEs from offsetting losses made by the PE against profits subject to UK corporation tax.

Currently, a UK-resident company operating overseas through a PE is able to elect for the profits and losses of the foreign PE to be exempt from UK corporation tax. This is often referred to as the 'foreign branch exemption'. Where an election is made, the PE's profits are not brought into account, and its losses are not relieved, for the purposes of UK corporation tax. The government recently announced that the foreign branch exemption will be made mandatory for accounting periods beginning on or after 1 January 2027.

It has been confirmed that draft legislation will be produced in due course.

Many HEIs have PEs across the globe and as such could be impacted by this legislative change. The impact will be dependent on factors, such as group structure, charitable status of the HEI, and profit / loss profile of PE activities. If you have a PE, we recommend seeking tax advice to confirm the impact of these changes.

Employment Taxes: Heightened Scrutiny and Evolving Obligations

The employment tax environment continues to become more complex for the 2026–27 tax year, with HMRC placing greater emphasis on accountability across labour models and real-time compliance. Rather than introducing wholly new regimes, recent developments largely extend existing rules but with increased enforcement and a clear shift of risk onto employers.

For higher education institutions, this translates into greater exposure where governance over payroll, benefits and labour supply chains is not sufficiently robust.

Institutions should take this opportunity to reassess internal processes, strengthen oversight of third-party arrangements, and ensure systems can support increasingly detailed reporting obligations.

Mandatory payrolling of benefits from April 2027

HMRC has confirmed that payrolling of benefits in kind will become mandatory from April 2027, removing the need for Forms P11D and fundamentally changing how benefits are reported and taxed. Income tax and, in due course, Class 1A NIC will instead be accounted for through payroll in real time.

Until the new regime is implemented, employers can continue to payroll benefits on a voluntary basis. To adopt payrolling for the 2026–27 tax year, employers must have registered with HMRC before 6 April 2026. While payrolling reduces the need for P11D reporting for most benefits, employers are still required to submit Form P11D(b) and account for Class 1A NIC separately under current rules.

Universities should begin preparing now by:

- ensuring benefit data can be captured and processed on a real-time basis
- reviewing payroll system capability and interfaces with HR systems
- developing clear employee communications around changes to net pay
- embedding robust year-end validation processes

Early preparation will be critical to avoid disruption and ensure a smooth transition ahead of the mandatory deadline.

Construction Industry Scheme (CIS) updates on administration and fraud prevention

Fraud prevention measures

From April 2026, HMRC has strengthened powers to address fraud and non-compliance within construction supply chains. Where an organisation knew, or could reasonably be expected to have known, that it was connected to tax evasion, HMRC can recover unpaid tax, impose significant penalties and remove gross payment status.

While many Universities have limited direct exposure, those undertaking estates development or refurbishment projects should reassess supply chain due diligence procedures.

Mandatory nil CIS contractor returns

From April 2026 it is now mandatory to file nil contractor returns. Historically nil returns were in effect voluntary and any failure to file a nil return did not result in penalties being charged. However, from April 2026 filing of nil returns is mandatory, and the full penalty regime is expected to apply in cases where returns are not filed on time. We are aware that several Universities hold historic CIS contractor registrations that may no longer be required.

Given that penalties will now be attached to nil returns it is important to check any registrations in place and take appropriate steps to ensure compliance and deregister where necessary.

Statutory exemption for public bodies acting as subcontractors

From April 2026 payments to certain local authorities and public bodies will be exempt from CIS where they are being paid for construction operations. This was previously a concession whereby they were treated as holding gross payment status and did not need to be included in contractor returns. However, from April 2026 this is now provided for in statute. Although Universities do not typically fall within the definition of a public body for CIS purposes this may impact its wider supply chain.

National Minimum Wage

HMRC continues to take an increasingly forensic approach to National Minimum Wage (NMW) compliance. From 1 April 2026, the National Living Wage increased to £12.71 per hour for individuals aged 21 and over.

For the higher education sector, risk often arises not from base pay rates but from the complexity of working arrangements.

This includes:

- staff with multiple roles or contracts
- irregular or unrecorded working hours
- salary sacrifice arrangements and deductions
- use of volunteers and casual workers

NMW compliance should therefore be viewed as a calculation exercise rather than a simple hourly rate check. Universities should ensure systems accurately capture working time and that periodic reviews are undertaken to identify and mitigate hidden risks.

Off-payroll working updates

Umbrella companies

HMRC has confirmed that from April 2026, new rules will apply to labour supply chains involving umbrella companies. While umbrella companies will remain responsible for operating PAYE, agencies or, in some cases, end clients, will become jointly and severally liable for PAYE and National Insurance Contributions where the umbrella company fails to meet its obligations. This effectively shifts financial risk up the labour supply chain, allowing HMRC to recover any underpaid tax directly from the agency or end client, as appropriate.

These rules will apply to both new and existing arrangements for payments made from 6 April 2026. As a result, Universities should review their use of umbrella companies, strengthen due diligence over labour supply chains, and ensure that appropriate governance and controls are in place to manage compliance risks under the new regime. Passive reliance on third parties being compliant is unlikely to provide sufficient protection.

IR35 'set-off' mechanism

The IR35 "set-off" mechanism remains in place for 2026-27, allowing HMRC to reduce liabilities where tax has already been paid by the worker or intermediary.

However, HMRC guidance clarifies that a set off will only be applied where sufficient information is available to identify the worker and intermediary and confirm that relevant tax and NIC have been paid or assessed. The amount of any offset is determined based on those payments (or reasonable estimates where appropriate), and certain liabilities, such as employer NIC, may not be fully covered.

Global working and transnational education arrangements

International activity continues to be a defining feature of the higher education sector, from globally mobile staff to expanding transnational education models.

These arrangements create complex and often overlapping tax obligations, particularly where individuals split duties across jurisdictions or Universities establish overseas operations.

Increasingly, HMRC expects employers to apply PAYE dynamically for globally mobile employees, supported by real-time data and formal reporting.

Institutions should consider implementing consistent global mobility frameworks to manage risk, ensure compliance, and support operational decision-making.

Important update on NIC apportionment

Since our last report, HMRC released an update to their National Insurance Manual setting out their view on the correct way to calculate NICs for internationally mobile employees. This explained their view that NIC should be calculated on an apportionment basis (i.e. on the proportion of remuneration earned while the individual was liable to NIC during the earnings period).

In doing so, HMRC have shifted decisively away from an historic widely-held understanding that, unlike income tax, NIC is payable on an "all or nothing" basis (based on NIC status at the date of payment). Universities should review and adjust their current processes to ensure they can comply with the new guidance.

Taxation of visa costs

A taxable employment benefit is typically understood to arise where an employee receives something of personal value or where a personal liability is met. On this basis, employers and advisors have historically treated employer incurred costs associated with obtaining a UK work visa as non-taxable, including Certificate of Sponsorship (CoS) and Immigration Skills Charge (ISC) costs. These are statutory obligations under UK immigration law and cannot legally be passed onto the employee and have therefore been viewed as outside the scope of taxable benefits. This treatment has been long established and, until recently, unchallenged by HMRC.

We are increasingly seeing HMRC assert that all costs associated with obtaining a UK work visa constitute taxable employment benefits, including employer costs such as the CoS and ISC. HMRC's position is that these costs are intrinsically linked to enabling an individual to obtain a visa and therefore represent an employment related benefit. This represents a clear departure from long-standing practice.

HMRC is now raising this issue in employer compliance enquiries, seeking grossed-up tax and NIC (where applicable) on visa costs, together with interest and potentially penalties. Given most employers meet the tax obligations on a visa on a grossed-up basis, this approach has the potential to materially increase employer visa related costs by inclusion of these associated employer charges.

HMRC has indicated that it does not regard this as a change in approach, meaning historic positions may also be challenged. We expect continued and increased scrutiny in this area.

In some cases, visa costs may fall within the scope of the special foreign travel rules, which can provide an exemption where certain conditions are met.

Given the international nature of many Universities workforce, particular attention should be paid to how visa costs are treated for tax purposes. Costs being met for individuals already living and working in the UK typically present the highest risk of being treated as taxable.

Higher education debt: capital remains available, but confidence now matters most

The UK university sector is entering a more demanding financing era. Debt remains available, but lenders are becoming more selective, more covenant-focused and less willing to rely on institutional prestige alone. For finance teams, governors and trustees, refinancing is no longer simply a treasury exercise — it is now a test of financial credibility, strategic clarity and leadership confidence.

"The debt market for higher education is still functioning, but it is far less tolerant of drift, delay or ambiguity than it once was."

For many years, universities could approach the debt market on the assumption that capital would be available, terms broadly predictable and refinancing largely manageable. That assumption can no longer be taken for granted. Debt is still available to higher education institutions, but access now depends far more on financial credibility, strategic clarity and disciplined engagement with lenders. In today's market, refinancing is no longer simply a treasury event. It is a test of institutional confidence.

A sector under sustained financial pressure

The pressures facing the sector are now well established. The Office for Students reported in May 2025 that 43% of institutions expected to be in deficit in 2024/25, and its November 2025 update suggested that, without mitigating action, 45% of providers within scope could be in deficit in 2025/26, with a smaller but significant group facing acute liquidity pressure. The House of Commons Library has similarly highlighted the combined impact of stagnant real-terms fee income, inflation, pay pressures and reliance on international student revenues.

Yet the crucial point for borrowers is not simply that debt has become more expensive. It is that lenders are assessing universities differently. Analysis prepared by Grant Thornton's higher education sector team notes that institutions are making greater use of shorter-dated and more flexible facilities — particularly revolving credit facilities and overdrafts — to manage volatility and preserve liquidity. That pattern is understandable, but it also sharpens lender scrutiny. Borrowing is now judged not only by cost, but by purpose, drawdown risk and the strength of the institution's long-term financial narrative.

A more selective market, not a closed one

It would be wrong to suggest that funding has retreated altogether. For institutions with strong governance, strategic focus and credible financial discipline, the market remains open. Our work on university financing options shows that banks, private placement investors and, in larger cases, public bond markets can still provide meaningful capital. Universities are also turning to other forms of capital to generate liquidity from their real estate portfolios including via income strip and sale and leaseback transactions.

Bank debt offers speed and flexibility; private placements can provide longer-dated and more bespoke funding; public bonds remain relevant for larger, highly rated borrowers seeking scale and duration and income strips or sale and leasebacks provide long dated institutional capital through off balance sheet structures. In some circumstances, the most effective solution may be phased — combining shorter-term bank flexibility with longer-dated institutional funding over time.

What has changed is the degree of differentiation. Relationship lenders may still support refinancing where they buy into a clear strategic plan and forecasts, retain confidence in institutional leadership and in the seriousness of management action. By contrast, lenders without an existing relationship are often far more cautious when approached with new money requests from Universities they don't already lend to, particularly where financial recovery is long-dated, performance remains weak or execution risk is high. The sector's importance is recognised; but in practice, credit appetite now turns less on sector standing and more on the quality of the individual borrower's story.

Covenant management has become central

This changing mood is most visible in covenant discussions. Current debt advisory work across the sector indicates that the covenants under greatest strain are those linked to debt service cover, surplus generation and minimum liquidity. Where pressure is emerging, early engagement with lenders is essential. Our experience of advising universities underlines the importance of opening discussions before covenant strain becomes acute, supported by realistic forecasts, credible mitigation plans and, where appropriate, structured market testing.

This matters because refinancing is no longer a narrow pricing exercise. It is now about demonstrating control: over liquidity, over assumptions, over priorities and over the institution's strategic direction. Lenders do not require certainty on every variable, but they do expect realism, transparency and evidence that management understands both the risks and the available levers. Institutions that can present that combination remain financeable. Those that cannot, may find that refinancing becomes a wider judgement on governance and resilience.

The consequences of not managing covenant negotiations proactively can be costly. Lenders may look to use a potential breech of covenant as leverage to force a refinancing of existing facilities if they are uncomfortable with their risk profile. Especially when the terms of existing facilities are particularly borrower friendly including loans written many years ago when pricing for universities was much cheaper and tenors were much longer.

Practical priorities for finance teams

For finance directors and treasury teams, there are several clear priorities.

1. **Start earlier than has historically felt necessary.** In the current market, the difference between a proactive refinancing and a reactive one is material.
2. **Focus on structure as well as price.** Facility size, tenor, amortisation, drawdown flexibility, and covenant headroom matter at least as much as headline margin.
3. **Review existing documentation carefully and early.** Consent requirements, negative pledge clauses, cross-default provisions and make-whole costs can all influence what is feasible and when.
4. **Ensure the lender narrative is robust.** Forecasts alone are insufficient; lenders want a coherent explanation of strategy, affordability, and downside resilience particularly where there is a turnaround story.
5. **Bring governors and trustees into the discussion early.** Financing choices now sit alongside wider strategic choices, and alignment on priorities and constraints is increasingly important before approaching the market in earnest.

The Role of Independent Advice

- Institutions navigating covenant waivers, facility amendments or refinancing in this environment benefit significantly from independent advisory support. Lenders respond more constructively to well-prepared borrowers who can present credible financial forecasts, realistic mitigation strategies and a clear understanding of their covenant position. For many universities, this is unfamiliar territory and the cost of mismanaging lender relationships is high.
- Grant Thornton's Debt & Capital Advisory team works with higher education institutions across the full spectrum of financing challenges, from refinancing strategy and lender engagement to covenant negotiations and financial restructuring. We offer support in reviewing university strategic plans and forecast and our CFO Solutions team can help drive operational improvement, efficiencies and cost savings.
- In a sector where the lending environment has fundamentally changed, the quality of advice matters.

The board-level conclusion

The debt market for higher education is still functioning, but it is far less tolerant of drift, delay or ambiguity than it once was. Capital is available, but it increasingly follows institutions that are prepared, disciplined and candid about their position. For universities approaching refinancing over the next few years, the lesson is straightforward: access to funding will depend less on the broad status of the sector and more on the quality of institutional preparation. In this market, confidence is not created by rhetoric. It is earned through clarity, control and credibility.

Pensions in higher education: evolving funding, regulation and risks

Pension obligations remain financially important to higher education institutions. Alongside broader sector challenges, such as income volatility, cost pressures and regulatory scrutiny, pension funding continues to affect both short-term affordability and long-term sustainability.

Recent developments have added further complexity. The introduction of the Pension Schemes Act 2026, the implementation of the Pensions Regulator's new Defined Benefit (DB) Funding Code, and changes in the funding position of major schemes such as the Universities Superannuation Scheme (USS), the Local Government Pension Scheme (LGPS) and the Teachers' Pension Scheme (TPS) are shaping how institutions approach pension risk. There is also growing expectation that pension considerations are fully integrated into governance, financial planning and risk management.

Regulatory change: a more structured funding framework

The Pensions Regulator's new Funding Code applies to pension scheme valuations with effective dates on or after 22 September 2024. It introduced a more structured and prescriptive framework for DB scheme funding and placed greater emphasis on long-term planning, requiring schemes to set a clear strategy for reaching a position of low dependency funding over time, while being supported by the employer's covenant*.

The Pension Schemes Act 2026, which received Royal Assent on 29 April 2026, represents a major development in the UK pensions landscape. It establishes a framework for a range of reforms affecting both DB and defined contribution (DC) arrangements, with implementation to follow through secondary legislation and regulatory guidance in the coming years.

For DB schemes, one of the more notable developments is the introduction of greater flexibility around the use of pension funding surplus, subject to appropriate safeguards. The Act also supports the continued development of consolidation in the pensions market and introduces measures aimed at strengthening governance and improving outcomes across schemes.

While the full practical implications will emerge over time, the overall direction is for greater scrutiny, enhanced governance expectations and a stronger focus on long-term funding discipline.

USS: improved funding, ongoing sensitivity

The USS remains central to the sector's pensions landscape. Funding the deficit in USS once represented a significant cash outflow for many HE institutions. Its funding position has improved significantly in recent years, marking a shift from the deficits present in earlier valuation cycles.

The defined benefit element of USS is currently estimated to be in surplus, with a funding level comfortably above full funding on a technical provisions basis. This has enabled a reduction in employer contribution rates and the restoration of certain benefits to members which were previously curtailed in order to keep contributions affordable for HE institutions.

While this provides welcome short-term relief, the position remains sensitive to economic conditions. Interest rates, inflation, and investment performance all drive pension scheme valuation outcomes, and the next formal valuation, at 31 March 2026, will be a key milestone in determining whether current improvements are sustained.

Notwithstanding potential changes to valuation assumptions, economic conditions at 31 March 2026 indicate that the scheme is unlikely to have returned to a significant deficit position. However, the USS remains a large, open, multi-employer scheme underpinned by the collective covenant of the higher education sector. Financial pressures affecting individual institutions may therefore still influence perceptions of covenant strength at a scheme level and, in doing so, may have a direct impact on the scheme's assessed funding position.

During a previous valuation the USS Trustee strengthened its approach to ongoing covenant monitoring through its Debt Monitoring Framework. This involves regular collection of financial information from participating employers, alongside expectations that institutions notify the Trustee of material developments, such as increased borrowing or changes in financial position, subject to certain minimum thresholds. This allows the Trustee to engage proactively where indicators of potential covenant weakening emerge, reflecting a more structured and ongoing approach to covenant oversight. Given current sector pressures, active covenant monitoring is likely to remain a feature despite the improved funding position.

*The employer covenant refers to the employer's legal obligation and financial ability to support a scheme, with a particular focus on cash flow generation and the extent to which this can be relied upon over time.

LGPS: improved funding with varied outcomes

Many universities also participate in the LGPS, which presents different dynamics. The most recent valuation cycle has generally resulted in improved funding positions across LGPS funds, reflecting a combination of market conditions and investment performance. As a result, some employers have seen reductions in contribution rates.

However, outcomes within LGPS are not uniform. Contribution rates are set at an individual employer level, reflecting employer-specific funding positions, membership profiles and (often) recognition of the employer covenant provided by sponsors. This means that, while some universities have benefited from reduced contributions, others have experienced little change.

TPS: rising costs and structural pressure points

The TPS represents a significant area of focus for parts of the sector, particularly for institutions required to offer TPS membership to certain categories of academic staff.

Recent changes to contribution rates have materially increased employer costs. Following the most recent scheme valuation, the employer contribution rate increased from 23.68% to 28.68% of pensionable pay from 1 April 2024. This followed an earlier increase in 2019 from approximately 16.4%, meaning that employer costs have risen significantly over a relatively short period.

As a result, TPS now represents one of the highest cost pension arrangements in the sector. The divergence in contribution rates compared with other schemes has become increasingly pronounced, particularly following recent reductions in USS contributions.

For affected institutions, this increase is contributing to wider financial pressures. Universities generally do not receive direct government support to offset TPS cost increases in the same way as schools and further education providers, meaning that these costs must be absorbed within institutional budgets.

The impact is particularly acute for post-92 institutions, many of which are required to offer TPS membership. These institutions have highlighted that higher contribution rates can affect financial performance and competitiveness relative to peers operating under lower cost pension arrangements.

Emerging responses across the sector

In response to rising overall staff costs, institutions are increasingly reviewing their approach to pension provision.

Some universities are exploring alternative pension arrangements where possible, including offering defined contribution schemes or alternative DB arrangements such as LGPS for certain staff groups. More broadly, there is growing focus on how pension provision forms part of the overall employment offer, balancing cost considerations with recruitment and retention objectives.

There is also evidence of structural approaches to managing pension exposure. In some cases, institutions are considering or implementing subsidiary employment models, under which certain staff are employed outside the university entity and may therefore not be eligible for TPS membership. This can enable employers to offer alternative pension provision with lower contribution requirements, although it introduces additional legal, operational and industrial relations considerations.

More targeted approaches are also being explored, including differentiating pension provision across staff groups based on role or contract type. In some reported cases, institutions have considered limiting TPS access to specific categories of staff while transitioning others to lower-cost arrangements.

These developments illustrate the extent to which pension costs, particularly within TPS, are influencing institutional decision making and organisational structure.

Looking ahead: integration and planning

Across the sector, pensions are becoming increasingly intertwined with the wider financial strategy of sponsors. Regulatory developments and funding requirements are placing greater emphasis on forward planning, transparency and alignment between pension obligations and institutional resources.

This is likely to require enhanced financial modelling, scenario planning and governance oversight, particularly where pension costs have a material impact on cash flow and long-term sustainability. At the same time, institutions must balance affordability with the importance of pensions as part of the overall staff reward framework.

Summary

Pensions remain a significant and evolving area of focus for the higher education sector. Improved funding positions in many schemes provide stability and much-needed cost savings, but regulatory change and rising costs for some schemes, particularly in TPS, continue to shape financial strategy and decision-making. Diverging outcomes within LGPS, USS and rising costs within TPS highlight the varied nature of pension pressures across the sector.

Navigating Financial Pressures in UK Higher Education: From Course Closures to Consolidation

Introduction

In recent years, higher education institutions across the UK have faced mounting financial and operating pressures, prompting Boards and Executive teams to pull the levers available to them to preserve liquidity, in order to maintain financial sustainability, whilst at the same time striving to improve student outcomes. With latest figures published by the OfS suggesting that **43% of higher education institutions are forecasting a deficit in FY26,** and with limited prospects of further government support, the scale of the challenge for leaders remains significant.

This pressure is compounded by a range of structural challenges affecting the sector, which more recently has been characterised by adverse media scrutinising the value of a university degree, the trade-offs associated with drawing on student debt and an ongoing institutional reliance on international student fee income to generate financial surpluses.

Drawing on our experience supporting university management teams and CFOs, this article explores the strategic responses being adopted across the sector alongside the structural enablers required to deliver sustainable transformation.

Mergers and acquisitions

Arguably the most radical of operating model overhauls, some universities have taken the plunge and entered into merger agreements, to create and realise synergies, attract more students and reduce duplication of administrative functions.

Following the University of Kent and Greenwich merger publicised in September 2025, it was recently announced that King's College London and Cranfield University are to become one by August 2027. A recent **Universities UK survey** of over 140 institutions also found that two in five universities say they are considering, or are open to mergers, potentially signalling further activity of this kind to come. Several key factors are driving a growing willingness to explore M&A across the sector:

Scale and resilience

Mergers offer an opportunity to build scale, diversify income streams and thus improve overall financial resilience. Dependent on the synergies generated, combined institutions could be better positioned to withstand fluctuations in student demand, benefit from stronger balance sheets and improved access to capital. For example, the Kings and Cranfield merger creates a more powerful institution through combining the specialisms of a smaller university with the comprehensive offering delivered by Kings, as well as expanding King's student reach away from the London area.

Cost efficiencies

It could be argued that many central university departments, including senior management, marketing, admissions and procurement could be centralised to work on a larger scale, enabling institutions to realise cost synergies while maintaining or enhancing service quality.

Strengthening academic offering

Mergers can enable institutions to strategically acquire another institution's areas of research and academic expertise and in so doing strengthen their own academic offering. Strategic M&A activity could in turn bolster an institution's academic rankings, research excellence framework scores or improve access to research and/or development funding.

While M&A presents clear opportunities, it also introduces execution risk into extremely complex organisations. Cultural alignment, governance integration, regulatory approval, and stakeholder engagement are critical to successful delivery. Mergers can also require a significant level of funding in the short to medium term as synergies are created and surpluses are generated. Grant Thornton's holistic service offering is therefore ideally placed to support institutions considering consolidation.

Course closures

Alongside operating model transformations, many institutions are undertaking more immediate interventions at the course level. Over the past year, Grant Thornton has supported several institutions navigate an increasingly constrained operating environment. This has provided us with direct insight into the key sectoral challenges and financial concerns prevalent to management teams across the UK.

A consistent theme across a range of CFOs we have met is the heightened concern from Boards and Executive teams around falling student numbers, often concentrated around certain courses. This reflects both declining domestic demand in certain subject areas and continued challenges in international recruitment following the well-documented changes to UK visa policy. Additionally, it appears that public confidence in the value of university is declining. A **British Social Attitudes survey** found that 34% of the British public sampled believe a university education 'just isn't worth the time and money it usually takes', up from 14% in 2005.

These recruitment pressures are particularly evident in certain subjects such as modern foreign languages, where recent evidence highlights a **sustained decline in undergraduate enrolments by around 20% over the last five years.** This has led to a growing number of universities withdrawing provision of these courses altogether. This trend is underpinned by a broader perception among prospective students that such courses offer less clear or immediate employability outcomes, contributing to a shift toward disciplines more explicitly aligned with career pathways.

From an international student perspective, the tightening of student visa rules, particularly changes to post-study work rights and dependent eligibility, has significantly contributed to falling international enrolments across the HE sector. This is placing sustained pressure on a funding model historically reliant on overseas fee income to cross-subsidise loss-making courses and research activities.

In response, CFOs are applying increased scrutiny and rigour into cost bases, with many undertaking systematic reviews of course-level contribution and viability. These factors have culminated in increased course closures, suspensions and consolidation in delivery where disciplines or modules are characterised by lower demand, higher delivery costs or limited international student appeal (or a combination of the three). In September 2025, **Times Higher Education** reported that almost 4,000 courses had closed between 2024/25 and 2025/26. While this trend spans multiple disciplines, the arts, humanities and modern language programmes have been disproportionately affected. The **University of Hertfordshire's** decision to suspend five humanities undergraduate courses in May 2026 is a very recent and real example of the difficult decisions that institutions are having to make. These subjects often rely more heavily on domestic recruitment and have historically operated with smaller cohort sizes, limiting their financial resilience in the current climate.

The University of Leicester also recently announced the closure of Modern Languages and Film Studies programmes to new entrants from 2026 following a strategic review of financial sustainability and student demand, citing declining enrolment and rising delivery costs as key drivers. This action is reflective of the growing need for CFOs to align academic portfolios with financial sustainability.

These decisions are not taken lightly by boards, but what we are increasingly seeing is a recognition that such difficult decisions need to be made, and if properly managed, the implications are not as great as originally feared. We expect this trend to continue into FY27.

Data quality

Underpinning many of these strategic decisions is the quality of data generated by, and available to, institutions. A recurring theme emerging from our conversations with VCs and CFOs is the lack of data quality and system integration across all areas of the institution. Many HE providers are managing legacy systems installed decades ago, decentralised structures and historically siloed faculties, which can limit the consistency, granularity and reliability of data available for informing decision-making.

In the current environment, where decisions regarding course provision, staffing and investment carry significant financial consequences, these constraints are being brought into sharper focus. CFOs are placing greater emphasis on the need to transform and digitalise systems to support more robust forecasting and scenario planning.

There is a growing recognition that investment in data capabilities is no longer optional. Institutions that are able to produce timely, accurate and course-level financial and operational insights are better positioned to respond to volatility in student demand, particularly in the context of international recruitment uncertainty. Some universities ahead of the curve have also appointed Data Transformation Officers to drive efforts to enable the production of higher-quality analysis to better inform financial forecasts. Some are investing significant sums into integrated systems such as Oracle or SAP.

The quality of data is particularly critical when determining the optimal range of courses institutions should be offering to support financial sustainability. The ability to track course-level profitability and contribution (factoring in teaching costs, overhead allocation and student mix) is critical to informing decisions around continuation or closure. However, many universities continue to face challenges in accessing this level of insight due to fragmented data structures and limited integration across academic and finance systems.

However, many institutions simply do not have sufficient liquidity to invest in large digital transformation projects. These programmes often require substantial upfront investment and take years to implement. To illustrate, Manchester Metropolitan University has recently implemented a new Oracle finance and HR system across the institution at a cost of **£24 million** for the first phase alone. For many universities facing deficits and liquidity pressures, investment of this scale may not be feasible.

Breaking down organisational silos and embedding a more unified, institution-wide approach to data management will therefore be key. Those institutions that successfully enhance data insights are likely to gain a significant advantage, enabling more proactive, evidence-based decision-making and ultimately supporting long-term financial sustainability.

Digitisation is happening across the global economy. Whilst we have seen some very good examples, some institutions are lagging behind market trends which will only serve to weaken their competitive position. It is important that investment in digital is prioritised to ensure that they remain viable in the longer term. Some radical change in their operating models may be needed to free up the investment to do so.

VAT Developments: Key Updates and Emerging Issues

Recent VAT updates continue to evolve, with important implications for businesses across sectors. Below is a summary of key developments and recent news to be aware of.

Single vs multiple supplies

There has been an Upper Tribunal ('UT') decision which considered whether KFC 'dip pots' are a single supply of a KFC meal (standard rated) or a separate zero-rated supply of food.

The main point of contention was that HMRC accepted certain elements of the meal deal were to be considered in their own right (zero rated coleslaw, cookies and yogurts) but HMRC (and the First Tier Tribunal) asserted the dip pots of sauces should be separately classified as ancillary to the hot food items (and therefore standard rated). The Upper Tribunal has said this approach is flawed. Once it is agreed there is a multiple supply, each element of the deal must be looked at on its own merits, the next step is to determine each element's VAT liability. In this case the dip pots of sauces would be zero rated.

As such, the taxpayer was ultimately successful in its argument just because the pots were in a meal deal did not change the fact that they are a separate supply and zero rated as opposed to the rest of the food.

Universities should consider the application of VAT to any 'meal deals' they offer and consider the VAT liability of supplies of catering generally, which can be complex in the higher education sector due to the number of VAT liabilities potentially available.

Temporary reduced rate

The Chancellor recently announced the temporary VAT reduction from 20% to 5% on children's meals, children's admissions to theatres, concerts etc, and certain attractions, effective 25 June to 1 September 2026. A number of universities have museums or galleries and whilst admission to these is generally free of charge, to the extent there are any specific exhibitions/shows where tickets are sold or associated cafes where children's food is sold, they should be able to benefit from the reduced rate.

Universities will need to consider a number of points, including:

Pricing

Decision required on pass-through vs margin retention, noting government expectation to pass on savings

Till / booking systems

System updates required to apply dual VAT rates, including correct treatment of bundles, swaps, and promotions

Risk

Clear product classification (e.g. kids meals vs customised variants) will be key to support VAT treatment

Time of supply

How to treat ticket sales before the period which will apply during the summer, and during the summer for later periods

College of a University

HMRC have continued to challenge the application of the VAT exemption to entities as a 'college of a university' including in the 2025 First Tier Tribunal ('FTT') decision of Solent Pathway Campus Ltd [2025] UKFTT 596 (TC).

Solent Pathway Campus Ltd ('SPCL') was set up as a joint venture partnership between Solent University and QAHE Solent Ltd ('QAHE') to provide pathway courses to prepare students for entry into higher education courses at the University. QAHE operates the pathway courses and recharges the cost to SPCL, which charges the course fees to the students. Solent University provides academic oversight of these pathway courses.

These pathway courses include International Foundation Programmes ('IFPs'), which aim to develop international students' ability to use English in an academic context while studying for their chosen pathway subject.

Having initially charged VAT on its supplies of education to students, SPCL formed the opinion in 2021 that it was an eligible body for the education exemption (in VATA94 Sch 9 Grp 6), either as a college of a university (under Note 1b) or as a provider of teaching English as a foreign language ('TEFL') (under Note 1f). SPCL submitted an error correction notice to HMRC claiming a refund of output tax of £350,000 for periods 01/20 – 10/21.

HMRC refused the claim and SPCL appealed. However, the FTT has allowed the appeal, finding in favour of SPCL that it is both a college of Solent University and a TEFL provider.

The FTT's reasoning would appear to be as follows:

Is SPCL a college of Solent University?

The FTT applied five tests identified in the 2019 Supreme Court decision in SAE Education. (HMRC accepted that SPCL met tests 1, 3 and 4):

01

Is there a common understanding between the entity and the university that the entity is a college of the university? YES: the service agreement and the standard offer letters to students both state that SPCL is a college of the university.

02

Can the entity enrol or matriculate students as students of the university? YES – SPCL handles the majority of the enrolment process, including making offers to students, collecting required documents and deposits, and entering student data into the University's system. The final act of enrolment (formally registering the student in the University's system) is done by the University, but this is procedural, not substantive. The entire process is integrated and it was artificial to focus solely on the final administrative step of enrolment.

03

Are those students generally treated as students of the university during their period of study? YES – the FTT noted that SPCL students were:

- entitled to all usual rights, benefits and access to facilities available to other students of the University,
- bound by the university's academic policies and disciplinary procedures
- its courses included some lectures by Solent University academics
- It found that the true purpose of treating SPCL students as students of the university was to create a seamless path to the full degree course and ensure students were more likely to progress to the degree course and stay on it.

04

Does the entity provide courses of study which are approved by the university? YES - The IFPs were validated by the University and result in the award of a Foundation Certificate by the University. The service agreement requires SPCL to deliver programmes in accordance with the University's specifications and the University moderates the assessments to ensure academic integrity and alignment with university standards.

05

Can the entity present its students for examination for a degree from the university? YES - although the IFP itself does not culminate in a degree, the FTT has found that it is an integral part of the university's academic pathway that is designed to lead directly to a degree.

- Students who successfully complete the IFP are guaranteed progression to a pre-selected undergraduate degree at Solent University.
- The foundation certificate (a level 3 qualification) is awarded to students who complete the IFP is a university awarded qualification which serves as a gateway to degree level study. The FTT rejected HMRC's argument that only qualifications at NQF Level 4 or above should count as university-level education.
- The FTT rejected HMRC's contentions that IFP is a standalone course that is not integrated into a degree – the fact that SPCL's students were not presented for degree examinations did not mean that the students were not presented for a degree from the university.
- The FTT also rejected an argument that SPCL's objectives to provide preparatory education and recruit international students means that it doesn't share the same education purpose as the university.

These findings were sufficient to decide the appeal in favour of SPCL, but the FTT went on to hypothetically consider whether SPCL provides TEFL.

HMRC argued that the IFP courses were not TEFL because they did not cover general English but instead taught English for a specific academic purpose. The FTT rejected this argument, accepting evidence presented by SPCL from official bodies that the IFP was the same as English for Academic purposes which is a form of TEFL. There was no requirement for TEFL to be restricted to general English or taught at a basic level.

The FTT also ruled that the IFP course was a single supply of TEFL and it would be artificial to split its elements into separate supplies of English and subject specific modules.

VAT treatment of electric vehicle ('EV') charging

The FTT published a decision on 26 February 2026 in Charge My Street Limited, where it has ruled that charging an EV in a public place can be treated as reduced rated (5%) rather than standard rated (20%) for VAT, in certain circumstances. HMRC have since confirmed they will be appealing the decision.

The FTT stated that the reduced rate of VAT can be applied if the supplier can demonstrate that the EV charging being supplied to individual customers does not exceed 1,000 kWh per month.

The relevant legislation discussed in this decision is Schedule 7A, Group 1, Item 1 and Note 5g of the VAT Act 1994 which applies the reduced VAT rate to "a supply of electricity to a person at any premises where the electricity (together with any other electricity provided to him at the premises by the same supplier) was not provided at a rate exceeding 1000 kilowatt hours a month."

The key observations of the FTT were as follows:

- The clear implication of the legislation is that a person can be identified as receiving supplies of electricity at that location, which together with other supplies made to that person at the same location by the same supplier, does not exceed the specified rate. This means that the supplier must be able to monitor and measure the rate at which electricity is supplied at those premises.
- There is no requirement that the premises must belong to the customer or must be under the control of the customer for the reduced rating to apply.
- The legislation allows specified, limited categories of supplies to benefit from the reduced rate of VAT where they may not otherwise qualify as made for domestic use. Where the conditions are met (e.g. that the supply must be below a certain quantity), the supplies are deemed to be for domestic use regardless of their actual use.
- Where charging is paid for via third party commercial apps, the person receiving the supplier's supply of electricity is the app and not the driver. Under the contractual arrangements with those apps, the apps act either as principals or undisclosed agents. Therefore, supplies are made to the app operator would not qualify for VAT at reduced rate in such a scenario, as they are likely to go over the de minimis threshold, and only the apps will be entitled to apply VAT at reduced rate to its supplies.

HMRC have since published Revenue and Customs Brief 4 (2026): VAT liability of supplies of electricity from public electric vehicle charge points. In a short statement, HMRC confirm that they will be appealing against the FTT decision. The brief focuses on the FTT's interpretation of the 'fuel and power deemed to be for domestic use' rule and HMRC maintain the view that charging EVs at public charge points is standard rated for VAT.

This is an interesting development for universities who offer EV charging to staff and students, or the public in general.

VAT treatment of further education ('FE') funding

HMRC has published a Revenue & Customs brief (Revenue and Customs Brief 3 (2026): VAT treatment of certain public funds received by further education institutions) setting out its response to the recent Court of Appeal decision in Colchester Institute Corporation (CIC) [2026] EWCA Civ 363, where it was held that government funding of Further Education colleges was third party consideration for a supply of education rather than non-business grant funding.

At first glance, the salient points of the brief would appear to be as follows:

- HMRC has decided not to appeal the Colchester Institute decision any further.
- It will consult with stakeholders and confirm any policy change in another brief, which will be accompanied by updated guidance.
- Since the position of this funding was first thrown into question by the Colchester decision (in 2020), HMRC has given FE colleges the option of treating the income as consideration for a supply or continuing to treat their education as a non-business activity. For those currently treating the funding as non-business, HMRC says that any change to the VAT treatment of this funding will only be applied from a prospective date, yet to be announced. Those institutions can continue to use any appropriate reliefs (this presumably refers to the zero-rate relief for buildings put to a relevant charitable purpose and the reduced rate of fuel and power) until the date of any change, and HMRC will not revisit these after the date of any change.
- HMRC say that those who have already opted to treat this funding as business income should continue to do so. These FE institutions should not have continued to apply the above reliefs and HMRC will take 'any appropriate action' in respect of this. They should also consider whether are within scope of the new standard rate for private education.

It seems very likely that HMRC will change its policy from a future date to treat government funding of FE colleges as a supply of education, although we don't yet have any indication of when this will take effect. HMRC has however made it clear that this will be a prospective change of VAT treatment for those who are currently using the non-business approach and has indicated that it won't assess retrospectively for charitable reliefs claimed before the date this takes effect. This decision could impact universities which have FE colleges within their corporate group or otherwise receive FE funding.

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