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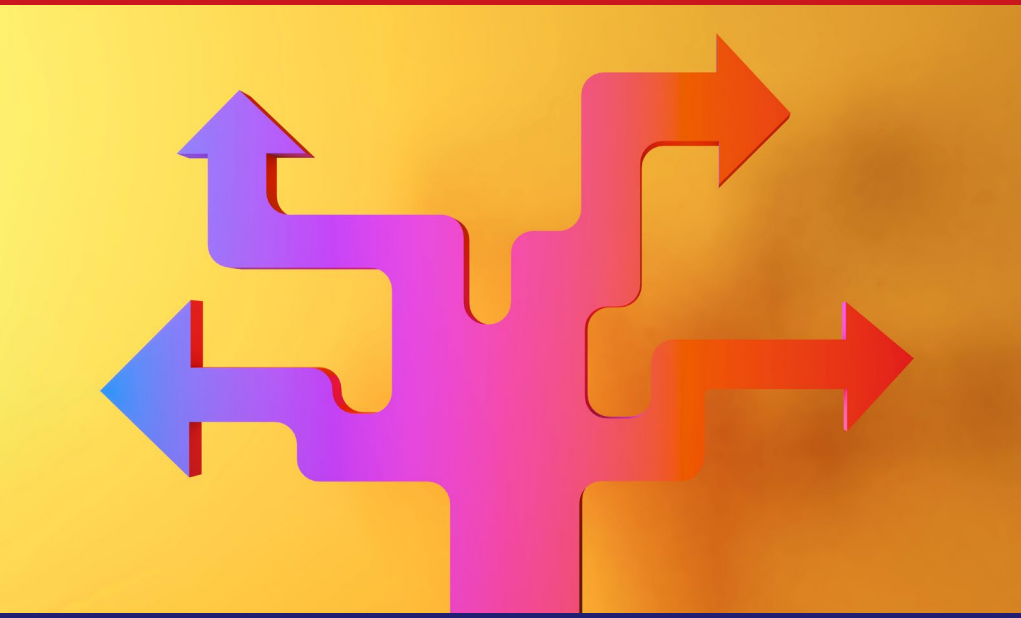
# Four futures: Shaping the future of higher education in England

Professor Sir Chris Husbands



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## About the Author

Professor Sir Chris Husbands undertook senior roles in universities for more than two decades, most recently serving as Vice-Chancellor of Sheffield Hallam University from 2016 to 2023.

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# Foreword

## By Professor Shitij Kapur, Vice-Chancellor & President of King's College London

UK universities are held in high esteem all over the world – envied for their excellence and widely emulated. But despite their stellar reputation, they are currently experiencing some of the greatest funding challenges and most strident questioning of their role that they have ever faced. Against this backdrop, and with a general election around the corner, this report could not have arrived at a more important moment.

Already, we have seen higher education feature as a key issue, with the Prime Minister, Rishi Sunak, announcing a plan to replace 'rip-off degrees' with more apprenticeships and the Leader of HM Opposition, Keir Starmer, abandoning his previous pledge to abolish tuition fees.

More holistic solutions and realistic scenario-planning are, as yet, in short supply. I have previously argued the UK's universities are trapped in a 'triangle of sadness' between aspiring students who feel burdened with debt and uncertain prospects, a stretched government and beleaguered staff. This pressure will only increase for the next government as the funding crisis bites. It needs urgent attention.

We are therefore delighted to be supporting this report, which outlines four futures for the sector in England over the next decade. It is based on Professor Sir Chris Husbands's deep understanding of the complex – and sometimes contradictory – developments and debates around these issues in recent years, as well as his clear thinking on their implications. As he says, all the scenarios involve questions which are not remotely easy – there are difficult choices in every direction. But they need to be made.

The paper is vital reading for those who want to understand how fine the balance is between a sector that will spend the next decade reacting haphazardly to recurrent crises in institutional finances and purpose, and one that is able to forge a path towards being a key part of the UK's future success. At its core, the paper highlights how different the outcomes

could look depending on how urgently and actively any new government engages with universities in reimagining the sector.

At King's College London, we have been attempting to give these issues the consideration they desperately require. Through work by our Policy Institute, including jointly with invaluable sector colleagues like HEPI, we are convening policymakers and experts from across the political spectrum – and the world – to explore the future of UK higher education. We must find ways to not just avoid the impending crisis but to build a higher education sector that delivers for the country and enhances our global standing. This paper provides an important framework for us all to assess future options and actions.

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## Introduction

For most of the past decade and a half, the UK's universities have thrived. Three principal policy and financial developments contributed to economic buoyancy, which in turn drove institutional self-confidence.

i. The financial settlement imposed by the Government in 2010, which replaced teaching and capital grants with student loans as the basis for virtually all home undergraduate funding. Despite student opposition and fears that the highest student fees in the world would deter domestic participation, after an initial dip, the £9,000 fee regime provided universities with a secure funding base and what seemed like a growing market.[1]

ii. Growth in international student recruitment at uncapped fee levels provided not only income growth but also confidence about the global engagement of UK universities. By 2022, analysis by HEPI and others suggested that benefits to the economy of international student recruitment were nearly £42 billion – more overseas earnings than the oil and gas industry.[2]

iii. The Government's aspiration to increase public and private research investment to 2.4 per cent of GDP by 2027, with a longer-term target of 3 per cent, provided a third source of long-term funding growth and placed universities at the forefront of innovation in the economy.[3]

Increasingly as the 2010s progressed, universities thrived, generating a sense of self-confidence and independence, entrenching their position as drivers of economic growth, social mobility, regional prosperity and global soft-power.

in 2024, it feels different: financial stringency and an apparently unforgiving policy environment are imposing difficult choices on universities.[4] Dozens of institutions expect to be in deficit in 2024, and the recent PwC analysis for Universities UK paints a grim picture of the sector's finances.[5] While institutions will seek their own ways of navigating challenges, there are also underlying questions about the future purpose, shape and organisation of

higher education. Here, I try to sketch what English higher education might look like in a series of different Scenarios.

The Scenarios are ideal types; the world is always messier and more complex than Scenario planning suggests. They have not been costed in detail and, of course, ideas from different Scenarios can be mixed – though many combinations of them would lean towards one of the four models.[6]

The Scenarios are not intended to be policy prescriptions but to paint, in primary colours, possible futures for English higher education. But first, and in order to introduce the Scenarios, I explore in a little more detail how we got to where we are, and what that means for the choices ahead.

## 1. What went wrong?

Looking back from 2024, where did it all go wrong? The 2024 higher education headlines do not make for enjoyable reading. 'Britain's universities' declared Gaby Hinsliff in the *Guardian*, 'are in freefall – and saving them will take more than funding'.[7] Chris Smith and Nicola Woolcock in *The Times* wrote that 'Universities plan mergers in face of bankruptcy threat and rising costs'.[8] The *Daily Telegraph* sketch-writer declared 'the great university racket is a national scandal'.[9] Financial challenge is turning into crisis in many universities, and looks likely to worsen. As the economic base of higher education weakens, so does institutional self-confidence. There is previously unexpected evidence that UK undergraduate recruitment is falling behind projections implied by the demographic growth which underpinned most universities' long-term financial plans.[10] Higher education appears less popular, or perhaps less affordable, for 18-year-olds than it did a decade ago. Although research funding has grown, the cross-subsidy from international students' fees on which research depends has become increasingly compromised. In an intensely competitive global market for international students, UK universities have found the interaction of student recruitment, global geopolitics, affordability and national migration policies to be complex and treacherous.

As they prepare strategic and budgetary plans for the second half of the 2020s, universities are asking tough questions. Budgets are under intense pressure, and painful choices are being made.

Many universities are looking for deep financial savings, reducing support services, narrowing course portfolios and revising staff models. In addition to the challenges of a flat undergraduate fee, the sustainability of research and the impact of migration policy on international students, many universities are facing sharp increases in costs for the Teachers' Pension Scheme and Local Government Pension Scheme.[11] Some universities are looking urgently for ways to increase and diversify their income, including online provision or sub-degree work, as well as finding ways to secure additional income from their estate or other operations. Others are exploring yet more constricting belt tightening. Organisational

structures are being simplified and de-layered. Non-pay and pay budgets are being reduced and savings sought across institutions which preserve, as far as possible, critical elements of the student experience and research investment. Lower recruiting courses are being excised and specialist options reduced. Questions are being asked about institutional business and operating models, about the long-term balance of income streams and about ways of working. All these measures involve leadership teams developing skills in which many of them have limited experience given the operating environment of the past decade and a half. Many institutions will look fundamentally different in five years' time.

It is arguable that the UK higher education sector became somewhat complacent about its position and prosperity through the 2010s. Its insulation from the austerity which buffeted so many publicly funded institutions led to a reluctance to address underlying inefficiencies and plan sufficiently well for the longer term. At the time, many institutions failed to understand just how strong their position was, with the result that it is more difficult to convince policymakers and the public of the scale of difficulties now. For these reasons, the correction required to many universities' plans may be more painful and precipitate than it would otherwise have been.

But there is a more fundamental set of questions about the future of higher education. There is a common theme across those three strands of UK student recruitment, international student recruitment and research and innovation: successive governments have called into being a large and diverse higher education sector but are reluctant to provide the funding and policy framework in which it can thrive. The UK has developed what Shitij Kapur has called a 'high-quality, high-touch, high-cost' university model, but it is one which government and society are now unwilling or unable to pay for.[12] Individual universities can, and must, work through their own plans. Some will prosper. The strength of their underlying institutional balance sheets will enable them to get through to a different operating model, or they will be able to operate so efficiently and effectively that they can find ways to grow sustainably at the expense of others, or they will be able to diversify and manage risk, or they will simply strike lucky

with some plans. Others will struggle, for the obverse reasons. But there are also policy questions. Universities are independent institutions, and pride themselves on their autonomy, but they operate in a funding, policy and legislative framework which shapes the way independence and autonomy are exercised. The experience of the 2010s means English universities have been fortunate in their policy environment. As things get more difficult, there are choices for government, which the sector may be able to influence if it is sufficiently future-focused about the vision for higher education in the second quarter of the twenty-first century.

## 2. A history of the present

*UK student finance and experience*

The 2010 funding reforms transformed English higher education. While previous governments facing economic retrenchment had reduced student numbers or the unit of resource for teaching or both, the Coalition took a different approach: except for residual public funding for very high-cost subjects, university fees were transferred entirely to a loan basis.[13] Student course choice was 'price blind' – there were no variations between fees for different subjects – and the loan regime meant there were no upfront costs to students. Fees would be repaid through, essentially, a tax surcharge once graduates' income rose above a threshold level, and unpaid fees would be written off after 30 years. The 'public interest' in higher education would be represented by this so-called 'RAB' charge. The Government expected a price-differentiated market would develop, and although some universities initially charged slightly less than the maximum, in practice all publicly funded universities soon charged £9,000 for all undergraduate courses irrespective of the income they had derived from these courses previously.

My youngest daughter was in the sixth form when the new fee regime was introduced. I overheard a kitchen table conversation between her and some friends. They all agreed higher costs meant they, unlike their older siblings, would not be able to go to university. They were badly wrong. Although participation took a temporary dip in the year fees were increased, full-time student numbers and school leavers' participation in higher education rose throughout the 2010s. The Coalition Government abolished student number controls in 2015, and the Conservative Government abolished remaining student maintenance grants a little later. The cost of higher education attendance – fees and living costs – shifted onto a loan basis unless parents were able and willing to fund their children's higher education. Universities prospered. While the public sector experienced the financial exigencies of austerity, universities were able to invest in the student experience, develop their estates and extend their civic and community engagement.

But there were long-term challenges in the 2010 settlement. The Coalition Government used New Labour legislation, which meant that there was no provision in law for fees to increase as university costs rose.[14] Fees were increased only once, to £9,250 in 2017. This constraint appeared to be manageable for universities in the short-term against a backdrop of low inflation, but as costs increased sharply when inflation rose in the early 2020s, the fixed fee became a serious problem. Flat fees made it almost impossible for universities to meet legitimate staff demands for salary increases – demands which intensified as inflation impacted the cost of living.

The combined impact of the loan regime for both fee and living costs meant that average student debt levels at graduation rose to around £50,000. In the years after the pandemic, demand for university education stuttered, failing to match the demographic growth in the number of 18-year-olds on which many universities had been depending. And the Government became increasingly concerned about the RAB charge, particularly after a change in accounting rules required Whitehall to recognise the scale of the charge in the official numbers for public spending. In 2022, the Minister for Higher Education, Michelle Donelan, introduced changes to the loan regime (on the back of the Augar report) which made it more regressive and more expensive for graduates.[15]

The ability to cross-subsidise other activities from teaching income evaporated. Having been apparently liberated from public spending constraints in 2010, universities now found themselves in a tightening vice of flat fees, increasing costs and rising expectations. By 2024, the real value of the undergraduate student fee had fallen by over a third. In real terms, the unit of resource for undergraduate teaching was not much higher than it had been in the late 1990s, when a Labour Government first introduced top-up fees to stave off a sector funding crisis.

The challenges of the 2010 settlement were not simply financial. Fees had tripled for students – from £3,000 to £9,000 – but, because universities lost both capital funding (effectively about £1,000 per year per student) and teaching grant (between £2,000 and £7,000 per student), the impact

on institutional finances was more modest. That gap set up a conflict of expectations: students believed higher fees should secure an enhanced experience, and more of them began to see their relationship with their universities in transactional terms. While most universities still talked of 'partnership' with their student body, there was increasing evidence that students began to see themselves as customers of their university. The shift was gradual, but it was accelerated by subsequent developments. The abolition of maintenance grants in 2015 meant students were meeting living expenses as well as tuition fees through loans. The end of bursaries for Nursing and Allied Health courses at about the same time shifted perceptions of a large body of students. The pandemic was a decisive accelerator of change. Almost overnight in 2020, universities were required to transition to remote teaching. Studying became a more isolated experience. The return to face-to-face on-campus teaching was halting, with frequent changes in government instructions. Although the sector tried to learn from the restrictions of the pandemic to drive more technologically enabled teaching, many students felt this reinforced concerns about the costs of study. Universities understandably argued their costs had not fallen during the pandemic, but students believed – equally understandably – that their experience was significantly eroded. The long-term impact of the pandemic on student mental health and attitudes cannot be under-estimated. And, for five years after 2018, universities found themselves in almost continuous disputes with staff over pay, pensions and workload, with intermittent strike action and, almost more damaging both for universities' reputation and student experience, marking and assessment boycotts in 2022 and 2023, which further undermined student confidence.

At the same time, Ministers appeared to lose faith in higher education as a tool for economic growth and social mobility. Over a generation, the UK had moved from an 'elite' higher education system, educating less than 15 per cent of 18-year-olds to a massified higher education system, educating almost 40 per cent of 18-year-olds. Growing higher education was a priority for both New Labour and the Coalition Governments. But the financial crisis of 2007 lowered UK economic growth and productivity, because

of which the economic return to graduates was impacted. Attention focused increasingly on the economic effects of higher education, whether measured by graduate employment or by salaries several years after graduation. Critics argued that higher education had overexpanded. After the 2017 General Election, Theresa May established an independent review of post-18 education. The Foreword to the Augar review, which was published in 2019, set out the stark observation that:

> *post-18 (or 'tertiary') education in England is a story of both care and neglect, depending on whether students are amongst the 50% of young people who participate in higher education or the rest.*

In August 2023, Education Secretary Gillian Keegan announced a 'crack down on rip-off university courses' while claiming she was 'boosting skills training and apprenticeships provision'.[16] Government Ministers and sympathetic commentators railed at what they saw as a 'woke' monoculture in 'left-leaning' universities, and introduced legislation designed to secure 'free speech'.[17] Critics now argued that university might be a poor investment for students as English students graduated with the highest debt levels in the world. In early 2024, the BBC broadcast a documentary asking, 'Is it worth going to university?'[18]

*International student finance and numbers*

British universities have educated international students for at least a century and a half, with impacts on the UK's global influence and soft power which have been noted frequently.[19] But the recruitment of international students became especially important to universities' financial well-being in the early 1980s. At a time of restraint on UK student funding, international student fees were de-regulated. Since the 1980s, international students have made not just a cultural contribution to UK universities, but also a financial one.

Over the decade before the 2010 undergraduate fee reforms, UK international student recruitment essentially doubled from 200,000 to 400,000 students per year. For five years after 2010 and the withdrawal

of the post-study work visa, international numbers were essentially flat, and tracked the lower predicted estimate of growth over the period.[20] But from the end of the decade and the reintroduction of the post-study work visa, numbers increased sharply. Sector dependence on China decreased as new markets, especially in South Asia and West Africa, became more important. The UK's 2019 *International Education Strategy* set a target of 600,000 international students by 2030; the target was achieved in 2021. The sharp uptick in numbers drove further ambitious recruitment targets and enthusiasm for opening new markets. Increasingly, the perception became widespread that universities saw international student growth as a way to mitigate flat home fees. More than 50 per cent of the fee income at a significant number of Russell Group universities derived from international students. A series of damaging if inaccurate press reports accused universities of replacing well-qualified UK undergraduate students with less well-qualified but financially lucrative international students.

Although the Government was keenly aware of the financial and cultural contributions made by international students, it was also increasingly exercised by high levels of legal immigration, inflated by the success of universities in recruiting international students. Even the most enthusiastic advocates of the importance of international students acknowledged that the rate of growth since 2018 has been rapid and has contributed to the anxiety about overseas student numbers. In 2023, the Government began to impose restrictions, closing off access to dependents' visas for international students, which had an immediate impact on demand for study visas.

*Research and innovation funding*

There has always been a structural curiosity in the funding of UK university research. In theory, publicly funded research is funded at 80 per cent of reported full economic costs; in practice, the data suggests a full economic cost recovery rate on research income of just 68%.[21] The balance is technically funded through Quality-Related funding (QR), allocated between universities on the basis of Research Excellence Framework (REF) outcomes, and from surpluses on other activities. In theory therefore, QR

provides not just the research infrastructure but also a potential brake on the overall level of sustainable research in higher education, since once the QR contribution to research costs is 'used up', an institution cannot undertake further research sustainably. However, research in universities is both a public good – through the generation of knowledge – and a driver of reputation and impact. For this reason, ever since the introduction of methodologies to assess the full cost of research in 2005, universities have sought to undertake research beyond the funded limits of QR. In the years after 2010, the combined buoyancy of home and international student recruitment allowed all universities to expand research. As significant as the erosion of QR was the ever-starker funding deficit on postgraduate research students as well as on charity and industry funded research, the latter totalling some £2.7 billion – or two and a half times the value of QR – by 2024.[22] But the fact that public research has been systematically underfunded and increasingly so, was obscured by the possibility of extensive cross-subsidy.

The UK punches above its weight in global research rankings. It counts three universities – Oxford, Cambridge and UCL – in the global top ten and, with just 0.84 per cent of the world's population produces 6 per cent of the world's academic papers. Throughout the decade and a half following 2010, the Government saw universities' success as a driver of long-term economic growth. This has only intensified as the Government has sought to articulate an economic model for the UK following Brexit, trying to transition from a regionally unbalanced finance-led economy to a knowledge economy. The Government has made progress on its target of 2.4 per cent of GDP invested in research and development by 2027, even if the biggest jump towards this number came not from increased investment itself but from a change in ONS methodology for measuring research spending.[23] Taking public and private investment together, 2.4 per cent may have been achieved, though political noise about the UK as a 'science superpower' is some way off the reality, and the multiple iterations of science policy and industrial strategy over the last 15 years suggest a lack of clarity in thinking.

But the strains began to show. For all the continuing strengths of UK university research, it has proved impossible to compete with the pace of development in global higher education. The rapid and enormous rise of Chinese scientific research obscures much of the detail, but where the UK used to account for 15 per cent of the world's top research papers, in 2024 it accounts for just 11 per cent. The decline partly reflects growth in research globally, but it also demonstrates weaknesses in the UK's funding model. UK research has always depended on cross-subsidy, with teaching and other income meeting the shortfall in research income. Arguably, universities over-extended their research given the underlying economic challenges, but officialdom has at least passively encouraged them. Even so, English universities have become less research intensive. In 2016, research made up 23 per cent of the income of English universities; by 2022, it was just 20 per cent.

The 2010s saw teaching, research and universities' wider role in society flourish. The experience of autonomous universities was quite different from the experience of the public sector. But the story of the 2020s has been quite different: the failure to index the undergraduate fee or maintenance loans with inflation, visa restrictions on international students and deep structural flaws in the research funding system have opened up vast vulnerabilities in higher education. The structure of administration in Whitehall only exacerbates them as no Department has oversight of the sector. Student funding and university regulation are overseen in the Department for Education, research funding was overseen by the Department of Business and Industrial Strategy and – from 2022 – by the Department of Science, Innovation and Technology, with responsibility for international students essentially divided between Home Office control of visas and immigration and the Department for Business and Trade oversight of export earnings. And the challenges have interacted. Surpluses on home and international fee income used to create a virtuous cross-subsidy for research, reflecting the deep inter-relationship of teaching and research, but surpluses on international fee income are increasingly diverted to support the teaching infrastructure. Tight income makes it more difficult to invest in the professional development on which future

teaching and research depends. As the 'slow news' website, Tortoise Media put it, 'universities are hemmed in by government policies'.[24]

## 3. Four histories of the future

In 2024, the Government appears to be unwilling to fund the university system it called into being a decade earlier. It ruled out policy measures which would have produced a sustainable sector: it declined to raise fees; it declined to increase student maintenance support; it declined to maintain widening participation funding; it declined to allow universities to continue to expand overseas student numbers at pace; and it declined to fund the full economic costs of research. The New Labour and Coalition Governments created a massified university system charged with a range of objectives: opportunities for all who were suitably qualified and wanted to go to university but also advanced, and so relatively expensive, education as well as wider immersive socialisation for adult life and career preparation. The Conservative Governments after 2015 began to worry that universities looked like a costly option with much higher costs per learner than schools or colleges, and perhaps not the most effective one given the apparent decline in earning returns to degree-level study. As a result, they incubated an existential challenge for some universities and posed serious questions about the long-term structure of the sector.

In this section, I draw on the analysis so far to outline four plausible Scenarios for the sector over the next decade. The Scenarios have been built by making some projections from recent developments and current trends in relation to UK undergraduates, international students and research and innovation. These projections generate a set of Scenarios with implications for the structure of higher education. The focus is on the structure and organisation of the sector rather than on the policy drivers themselves, and in all cases I have drawn extensively on others' thinking to build my Scenarios. None of these Scenarios is intended to be a prediction. While each has plausible elements, they are deliberately provocative, intended to tease out some tough choices for policy and for institutions. Although there are assumptions about costs in the Scenarios, detailed financial modelling has not been undertaken.

The Scenarios focus on the structure of the sector in response to shifts in major funding streams, and do not make explicit reference to exogenous policy or societal shifts: for example, there is no account of how the continued, and likely accelerating, costs of decarbonising university estates and operations intersect with either student recruitment activity or research and innovation activity. In the same way, there is no reference to the interaction of higher education with wider central or local government policy. These are important factors and, of course, the trajectory of both individual institutions and the sector more generally are as likely to be shaped by both unanticipated developments in already known trends and by unforeseen events and jolts. But the focus is on developing thinking about the organisation and development of the sector in relation to major funding streams. Each one of these Scenarios can be developed in any number of ways with additional elements factored in.

**Scenario 1: The evolution of the present**

In this Scenario, government did not seriously address the difficulties hemming in the sector: neither undergraduate tuition nor maintenance funding were ameliorated, the structural flaws in research funding persisted and universities' freedoms to increase international recruitment remained subject to national immigration policies. At a time when government was consumed by other priorities in economic and social policy, universities were on their own, plotting a strategic development course through constrained funding.

Institutional strategies evolved. The core undergraduate offer was trimmed back. Low recruiting courses were closed in almost all institutions. Student choice was reduced. Group sizes rose across the sector. The availability of bursaries and scholarships was limited to the minimum requirements of the regulator. Universities' ability to invest in digital resources became more constrained, so that access to rapidly developing Artificial Intelligence study support was differential depending on students' own resources. It became necessary to trim investment in student welfare and support services, which were thus less able to respond to individual academic and pastoral needs. Universities were forced to set higher thresholds for

students' access to specialist study, employability, welfare and mental health support. Student satisfaction with teaching declined across the sector as group sizes rose and access to individual study support became more difficult. The propensity of 18-year-olds, particularly the economically disadvantaged, to progress to higher education fell away.

The costs of sustaining research in both research-intensive and teaching-intensive universities became more challenging. Almost all universities were required to focus research investment and time on a smaller number of areas of relative institutional strength. International recruitment was differentiated across the sector, with those universities able to satisfy the increasingly onerous demands of the visa regime embedding their position, while other universities were required to recruit more selectively. Universities moved to more flexible staffing models, with every university making sharper distinctions between research- and teaching-tracks. More staff were employed through subsidiary bodies and back-office functions were contracted out or delivered on a shared service basis.

In this Scenario, some universities continued to thrive, able to manage economies of scale and diversity of provision to make a compelling offer. These were often institutions equipped with large philanthropic operations, using donations to supplement teaching and research funding. Some other universities were able to secure strong operating and delivery model efficiencies and were able to offer a compelling student experience across a narrower range of subjects, making extensive use of digital technologies to support face-to-face delivery. Yet others, and especially those with relatively undifferentiated provision, struggled. 'Soft' mergers, in which shared services and combined provision was found, became common, and gave way in a growing number of cases to 'hard' mergers in which institutions combined – sometimes on a school-inspired 'multi-academy trust' model, sometimes on an FE-group model – in order to find economies of scale. Small institutions were especially vulnerable, and only those with genuinely distinctive or niche provision were able to survive, though few really thrived.

By the early part of the 2030s, the sector was still relatively large, and attracted upwards of 30 per cent of 18-year-olds to study. However, participation had fallen sharply in some areas, and especially among the least well off: higher education participation was differentiated by income and social class. The range of courses available was narrower and the student experience less rich than it was twenty years before. Study and welfare support services were denuded. Investment in digital technology was used to substitute or replace academic and support staff. The sector painfully 'unbundled' the approach to student welfare which it had developed in the decade before 2024, when student expectations, readily available resources and societal assumptions had pushed it in a different direction.[25]

Universities employed staff on a more diverse range of contracts characterised by more flexible terms and conditions. Universities which maintained less-flexible contracts found it difficult to operate nimbly. Some previously research-intensive universities were unable to move quickly enough in response to the changes that were required in the 2020s and significantly shifted their business plans. The Russell Group of research-intensive institutions expelled some of its members as their performance declined. Some previously teaching-intensive universities capitalised on specialist applied research niches, though the demands of sustaining those niches were costly for them and required persistent cross subsidy. While the sector remained large, the number of institutions fell by comparison with the early 2020s and government and the sector became adept in managing mergers and market exits.

**Scenario 2: Delivering the 2010 vision**

In this Scenario government did what it had signally failed to do over the decade and a half before 2024: it committed to funding universities properly to do the job it had asked them to do. While this took several years to play through in government spending plans, it restored enough confidence to enable more secure long-term planning. Policy pivoted decisively away from hidden cross-subsidy and back towards the idea that the costs and benefits of higher education should be shared between the

direct beneficiaries of higher education (graduates themselves) and the indirect beneficiaries (society more generally).[26]

In this Scenario, key choices in student and research finance were confronted. Government committed to increasing undergraduate student fees. Government at first indexed the fee from its 2024 level with CPI, but later realised that the consequence of this was to index the fee at a level below the real 2012 value of fees. Government agreed to index the fee at CPI plus a premium each year until the fee reached the real value of 2012, and at CPI thereafter. The consequence of these choices was a politically challenging further increase in overall student debt levels, but – again consistent with the commitment to the 2012 vision – reforms were implemented which went some way to mitigate the impact on both students and public finances. Student maintenance loans for the worst-off students were replaced by a return of student grants, avoiding the perverse situation in which the worst-off students graduate with the largest debt.[27] Other reforms impacted directly on student repayments and the long-term affordability of higher education. The salary threshold at which graduates began to repay their loans fell to £20,000. More graduates began to repay their loans more quickly, and over time almost all graduates paid something back. Government introduced a stepped repayment system so that lower earning graduates paid a smaller proportion of their income. Options to make the loan regime more progressive, such as those explored in the 2023 London Economics report for the University of the Arts, London made further in-roads into the regressive 2022 revisions to the student loan regime.[28]

Government recognised that it was not in the national interest for research funding to depend on poorly planned cross-subsidies from teaching. Alongside changes to undergraduate finance, research funding was reformed. Instead of 80 per cent full economic cost, research was funded at 90 per cent, preserving the principle of dual support while recognising the need for research to be more sustainable for higher education; despite some pressure from universities for 100 per cent funding, it was generally recognised that such a move would simply turn universities into contract

research providers.[29] Consistent with government aims to strengthen the UK's knowledge and innovation infrastructure, research investment from public and private sources was increasing. This meant that the increase in research FEC was managed within planned budgets by funding slightly less research – but since research investment was growing, the sector absorbed this. Government also established a new approach to R&D tax credits which allowed the sector to recover a significant proportion of the deficit on charity- and industry-funded research. Government further tilted research investment towards Innovate UK, which by the later 2020s was disbursing a budget of £1.5 billion across the sector to drive successful translational research, creating jobs and prosperity.

Finally, convinced of the economic and soft-power gains from international students, government went further than the ambitions of the 2019 *International Education Strategy*. It maintained the 2019 post-student work visa and took international students out of all migration targets on the grounds, long advocated by the sector, that most international students return to their countries of origin. International student recruitment continued to grow beyond the 600,000 total towards a new goal of 850,000 international students. In order to manage the local impacts of the still growing number of international students on local services, government introduced a locally hypothecated levy of 5 per cent on international student fees for local authorities, which increasingly saw the benefits buoyant global demands beings to their communities.

The combined impact of these reforms was to transform the resources of the sector. Confidence returned and institutions were able to plan long-term investments in their communities and regions. The sector grew. Eighteen-year-old participation rose towards half of the cohort. Some universities grew beyond 50,000 students – historically unprecedented for UK institutions, excepting The Open University, but far from unusual in massified higher education systems. Universities were able to invest in digital technologies at scale which meant that the student experience was increasingly individualised and tailored, enabling more students to thrive in newly confident institutions. The combination of direct financial support

for the worst-off and sustained investment in individualised support not only drove wider university participation but improved retention and a closing of attainment and post-study salary gaps. Universities played a central part in driving a knowledge-economy through their research and an inclusive approach to student support.

Scenarios 1 and 2 are, of course, extremes. Scenario 1 paints a picture of the higher education sector in England if government does not confront policy choices for universities and sees the sector spending the next decade responding to the consequences. Scenario 2 paints a picture of a financially secure sector. If it appears politically and economically unlikely, it is not too far from the policy positions of the main sector representative bodies looking for sustainable student fees, investment in the full costs of research and flexibilities in the international student market. But if Scenarios 1 and 2 are extremes for the sector, what other Scenarios might plausibly emerge?

**Scenario 3: A place-based tertiary system**

In polities around the world, increasing attention is currently being given to tertiary structures for the management of post-18 education. Scotland has attempted to establish a tertiary framework.[30] In Wales, the Hazelkorn Review has led to the establishment of a single tertiary funding council.[31] The 2024 'Accord' report has flagged a transition to a tertiary system in Australia.[32] The common theme across all three is a sense that policy which focuses only on universities and the substantial minority of young people who progress to conventional higher education produces cliff edges between different routes through advanced learning, focuses too extensively on a single delivery model, generates skill shortages and creates inefficiencies in both supply and demand.

In Scenario 3 a unified tertiary system for England was developed. At its core was a version of the funding for the Lifelong Loan Entitlement developed by the Conservative Government and, in principle, accepted by Labour. All learners, irrespective of attainment, had a lifelong entitlement to loans for education and training up to the equivalent of four years of study at Levels 4, 5, and 6. The delivery of the tertiary system required adaptations

for both the sector and government. Government committed to funding the entitlement, accepting a potentially significant increase in the student loan RAB charge, and agreed to directly fund (obviating the need for loan funding) some elements of identified national priority provision. But this involved significant changes in the sector. The full implementation of the LLE required the full modularisation of tertiary provision and agreed frameworks for credit transfer. The frameworks were driven regionally. As a result, part-time and flexible provision mushroomed, reducing demand for maintenance loans. Parallel investment in digital technologies allowed increasing numbers of students to integrate study and work. The combination of credit-transfer arrangements and digital technology support meant the rapid development of flexible and collaborative arrangements. Price competition from LLE-funded provision at FE colleges and private providers required universities to operate efficiently and cost effectively. Resources were released through planned mergers between HE and FE providers. There was much more active involvement from employers and devolved administrations in designing, funding and shaping skills and regional knowledge-transfer arrangements. Universities which were not able to transition quickly to locally responsive and recruiting provision found that they floundered as others proved quicker.

A further significant development was the recognition that the size and scale of the English tertiary system, made up of 140 universities compared to 40 in Australia and eight in Wales, meant a single national tertiary approach was unwieldy. The English tertiary system transitioned to a regional structure. Mayoral authorities took the lead in this – Manchester moved fastest, followed by the West Midlands, Bristol, West Yorkshire and South Yorkshire. Regional Tertiary Education Councils were established to co-ordinate and plan provision, brokering agreements across universities as well as between universities and further education. Their purpose was to construct clear pathways through study by building loan entitlements, directly funded provision and credit transfer agreements into easily navigable routes. Responsibility for Access and Participation Plans passed to the Tertiary Education Councils, which were able to take a more strategic and locally fine-grained approach to access and progression.

As economic growth took root in the mid-2020s, a re-framing of the Apprenticeship Levy created resources which were allocated to Tertiary Education Councils for investment in retraining in regional growth priority provision. New institutional forms developed: in some cases, universities and further education colleges collaborated through formal agreements; in others, group structures and mergers developed; in yet more, clear pathways emerged which allowed learners to begin courses at further education colleges and progress through to degree and postgraduate provision in associated universities. Institutional mission remained important, and Tertiary Education Councils were keen to build on institutional strengths and autonomy, but the primary function of the new structures was to secure learner progression and build regional growth. As funding structures matured across the co-ordinated post-18 system, so different learner routes through the system developed without cliff edges between student choices. Overall participation in tertiary education rose, but the idea of a three-year full-time course as the norm fell into sharp decline. Quality assurance and baseline regulation remained national responsibilities, and a much sharper distinction emerged between responsibilities for funding and regulation.

The transition in the research and innovation funding system was different. Government recognised that regional structures for Research Councils risked fragmenting the UK's knowledge-generation capability. So national Research Councils remained: just as a national research infrastructure had persisted across all four nations of the UK before the development of the tertiary education system, so it remained when the tertiary system had been fully regionalised. Government accepted the UK's global position in knowledge generation required sustainable research funding, and agreed to move to funding more of the full economic costs of UKRI research and to developing a support fund for charity research. But Innovate UK was handled differently. It moved to a regional structure, so that there was a tight place-based relationship between translational research and development on the one hand and advanced education and skills provision on the other. Innovate UK research, with its strong translational focus was the primary focus for industry co-funding with a

new – very generous – tax credit scheme building strong translational research partnerships.

International students remained of high importance to universities, though there was greater focus on the cultural diversity and global perspectives they brought and less direct concern with the contribution they made to institutional cross-subsidy as the funding model shifted. But the government was keenly aware that it needed universities with the financial flexibility to play leadership roles in co-ordinating and shaping the tertiary system. For this reason alone, it needed universities with sufficient financial heft to play anchor roles in the place-based system, and recognised that international student income was an important element in universities' financial sustainability. The government re-committed to the 2019 *International Education Strategy* and encouraged universities to develop long-term plans for student recruitment in dialogue with Tertiary Education Councils. Increasingly, specialisms developed and links developed between regional authorities in England and regional administrations globally. Devolved administrations came to see international student recruitment as one of a number of tools in their thinking about economic growth and foreign investment.

**Scenario 4: A differentiated system**

In Scenarios 1 and 2, government plays little overt role in the development of the higher education system. Both Scenarios are essentially *laissez-faire*, in which government leaves the sector to develop in relation to the market either through neglect (Scenario 1) or through putting in place a benign funding and policy environment (Scenario 2). In Scenario 3, government is directive about learners and funding whilst accepting that the transition to a place-based tertiary system would mean significant differences between different devolved administrations. Scenario 4 is also a directive Scenario. Here, central government takes a far more proactive role in shaping higher education, setting institutional autonomy and student choice in a quite different context.

In Scenario 4, government funding remained constrained, which imposed difficult choices on both policymakers and institutions. Funding was insufficient for the scale of investment in students or in research and innovation which the sector wanted and which government would have liked. But government still wanted a post-financialised knowledge economy; its challenge was how to get that given tight funding. In Scenario 4 it recognised that in order to get closer to what it wanted on the basis of what it could afford, it needed to actively restructure the sector.

In Scenario 4, government began from the contribution it wanted universities to make to long-term productivity, innovation and research. It recognised that previous arrangements for research funding depended on unsustainable cross-subsidies. It accepted that constraints on public investment meant that it could not afford all the research it, or the sector wanted. It therefore needed to structure the sector differently. In looking for an objective measure to determine the reshaping, it deployed REF outcomes and set an institutional threshold below which QR income was not allocated: if institutional REF income would be less than a set figure (either per member of staff or as an institutional minimum), then the institution secured no QR funding. This produced a significant concentration of research and the concentration allowed what was, by 2024 standards, a smaller overall quantity of research to be funded sustainably in a smaller number of institutions. Government finally set the QR threshold at a level which funded a small number of research universities. The remaining universities had access to two funding sources, denied to QR institutions: either to a specialist institution funding pot, to sustain smaller specialist institutions or to Innovate UK funding for translational research. The immediate impact of this was to enforce a differentiation of the sector into four groups: fundamental research institutions; institutions focused on translational research; teaching institutions; and a number of specialist institutions.

Consistent with its determination to reshape the sector strategically, government took a more directive approach to student number planning. Reluctant to impose wholesale system-wide student number controls

because of their well-advertised negative impacts on aspiration and widening participation, it opted for a different approach. It reached triennial planning agreements with each university, agreeing unified plans for student numbers, access and subject mix. This approach was enough to secure Treasury agreement for indexing the undergraduate fee from 2024 levels and ensuring teaching funding for high cost and defined strategically important subjects across the sector. Triennial funding agreements not only set student number goals, but increasingly defined expectations of the nature of expected outcomes, which meant that student experiences in the relatively small number of research-intensive institutions were quite different from those in the larger number of generalist technology-, innovation- and regionally focused institutions or the remaining specialist institutions. Widening participation in higher education and building student success after admission were activities predominantly highlighted in the triennial agreements with non research-intensive universities, but government insisted that there were sector-wide credit transfer arrangements across the sector to allow students to move between institutions. A sharply differentiated sector emerged.

Government took a relaxed approach to international student recruitment and, in those institutions no longer eligible for QR funding, cautiously planning international student growth provided a funding stream which allowed for cross-subsidy into strategic growth of focused research, over time allowing fluidity in the sector. The government reviewed the 2019 *International Education Strategy* and affirmed a national commitment to managed growth of international students of 5 per cent per annum.

By the end of the decade, the system had been radically reshaped. A small number of universities undertook fundamental research across the country, collaborating closely with a much larger number of translational research universities and specialist institutions to drive regional and local growth, while teaching institutions – many of which had merged with larger FE Colleges – focused on high-quality professional and academic programmes. These programmes were increasingly delivered flexibly: while the three-year undergraduate degree remained the norm in the small

number of research institutions, it was less common across the sector as a whole. Some of the research-intensive institutions sought to reduce their engagement with undergraduate teaching in their triennial agreements, looking to concentrate on postgraduate work, though government resisted this further fracturing of the sector.

## 4. Higher education reshaped

So we have four contrasting Scenarios for the future shape, structure, funding and organisation of universities in England. The Scenarios can be arranged around underlying assumptions about government and about funding. In two of them, central government is largely *laissez-faire* and, in the other two, it is more assertively directive. In two of them, the funding is relatively benign and, in the other two, funding remains constrained (Table 1).

*Table 1: The Four Scenarios*

| | | **Funding environment** | |
|---|---|---|---|
| | | **Constrained** | **Benign** |
| **Government approach** | ***Laissez-faire*** | Scenario 1<br>**The evolution of the present** | Scenario 2<br>**Delivering the 2010 vision** |
| | **Interventionist** | Scenario 4<br>**A differentiated system** | Scenario 3<br>**A place-based tertiary system** |

These four Scenarios are not predictions, and they are certainly not recommendations for policy or for the sector. They set out to paint quite different pictures for the evolution of higher education in England based on decisions around three principal funding drivers: research; undergraduate teaching; and international student recruitment. The principal elements of each are set out in Table 2, which 'unbundles' the components a little more systematically.

Scenario exercises are always flawed and others could derive different Scenarios either by looking at different drivers or by combining policy tools differently. And some of the policy interventions described in the Scenarios could be deployed differently. There are, for example, different ways of constructing a tertiary system and different ways of layering the English higher education system. Others will take a different view. Some of the Scenarios, and the routes to them, will be deeply unpopular or even disturbing for different parts of the sector. All of the Scenarios are deliberately drawn in primary colours. In practice, any of them would be

subject to the messy realities of national and local politics, as lobbying and compromise did their work. As noted above, these Scenarios ignore the ways in which wider policy, societal and global developments will impact on universities.

Nonetheless, some ideas emerge from the Scenario exercise. The first is about interaction. Policy debates often focus on important details of funding streams and their relation to specific policy goals – international students and migration policy, for example, or the relationship between fundamental science and translational research. But questions like these interact and are subject to unpredictable external influences, such as the impact of geopolitics on international student flows. So the shape and structure of higher education is affected by how phenomena interact as much as by their detail.

*Table 2: The Main Elements of the Four Scenarios*

| | **UK undergraduate funding and experience** | **International student recruitment** | **Research and Innovation funding** |
|---|---|---|---|
| Scenario 1: **The evolution of the present** | - Undergraduate fee frozen at £9,250<br>- Portfolios are trimmed<br>- Student applications and retention fall<br>- Higher education participation falls, especially pronounced among the least well-off<br>- University retrenchment, institutional mergers and failures become common | - Visa restrictions remain or are tightened<br>- UK loses international market share<br>- Whilst the most elite institutions thrive, most institutions focus on their UK mission | - Costs of maintaining research investment become increasingly onerous and quantity of research falls |
| Scenario 2: **Delivering the 2010 vision** | - Undergraduate fees increased over time back to 2010 real terms<br>- Student maintenance grants re- introduced<br>- Student loan repayments began at much lower threshold with stepped repayments<br>- Sustained investment in widening participation and individualised student support creates a more inclusive system | - New international student strategy envisages growth to 30% above 2019 strategy levels<br>- New markets are opened, and UK universities enhance their global influence | - Public research funded at 90 per cent FEC, within planned budget<br>- Revised tax credit regime to support charity and industry-supported research |

| | | | |
|---|---|---|---|
| Scenario 3:<br>**A place- based tertiary system** | - Undergraduate funding modularised on the basis of the Lifelong Loan Entitlement for Levels 4 to 6, supporting part- time and flexible provision which drives wider participation amongst under-represented groups<br>- Regional Tertiary Education Councils co- ordinate provision and establish local and regional credit transfer arrangements<br>- Apprenticeship levy re- framed as a retraining fund in the hands of Tertiary Education Councils<br>- Undergraduate recruitment becomes more local across the UK<br>- Development of new FE/HE institutional forms | - Long- term growth based on agreements with Tertiary Education Councils<br>- Development of linked between UK regions and defined regions in other countries to build partnerships beyond student recruitment | - National research infrastructure maintained and full economic cost funding of UKRI research<br>- Regionalisation of Innovate UK funding supported by generous tax credits to build translational research partnerships |
| Scenario 4:<br>**A differentiated system** | - Sharp differentiation between a small number of research institutions and teaching institutions<br>- Triennial institutional agreements for student numbers & access<br>- Institutional agreements require universities to focus attention on student access and study support; focus on graduate employability strongest in technology- and vocationally focused universities<br>- Triennial agreements require transfer arrangements<br>- Undergraduate fees indexed from 2024<br>- Direct teaching grant for strategic subjects | - Planned modest growth from 2024 levels across both research and teaching institutions. | - Institutional threshold for QR<br>- Full funding of research in a small number of research universities<br>- Innovate UK funds translational research universities |

The second idea is about the architecture of the sector. Put simply, there is no realistic way through the issues facing English higher education that does not involve hard thinking about the future shape and size of the sector and of the relationships between institutions in it. The shape of higher education we have in 2024 is a consequence of interactions between policy and external developments in the last decade and a half; it is not necessarily a given and it could – and will – change.

Most readers are likely to conclude that Scenario 1 – which is the sector's current trajectory – is an unpalatable description of decline. Despite some political rhetoric, the implications of Scenario 1 would be as unacceptable to government as they are to universities. Scenario 2, in broad terms, is consonant with a good deal of the higher education sector's current policy positions.[33] It is expensive. Although the Scenarios have not been costed in detail, the overall additional public spending costs of Scenario 2, rolling together fee, maintenance and research investment are probably in the region of £8 billion a year. Even if this is phased over several years, it is a significant sum – approximately 8 per cent of the total cost of pensions to government, albeit less than 1 per cent of total government spending.

While there is a case to be made for returns on investment in higher education, little attention has focused on the marginal return to additional investment in higher education. Scenario 2 is not just expensive to a government dealing with tight public finances, it also involves difficult political choices about fee levels – and, if those choices are ducked, it becomes even more expensive. Although, given the way the loan repayment regime works, increasing fees in itself will not produce higher individual graduate repayments, increasing what are already the highest student fees in the world will be difficult for government to implement. Perhaps a deeper challenge is that Scenario 2 is a conservative Scenario. It essentially restores the 2010 university model despite profound changes in politics, economy and society since then. It offers government nothing new. It embeds a funding model which many sector leaders have concluded is broken. Despite its apparent attractiveness to hard-pressed institutions, the challenges around Scenario 2 are not only fiscal – how to make the case for higher education investment when public finances are difficult – but also political: how to make the case for a decade-and-a-half old approach to higher education despite wide-ranging changes since then.

The trajectory of Scenario 1 and the challenges of Scenario 2 make Scenarios 3 and 4 worth exploring in more detail. Universities, like other organisations, are economic, cultural and innovation anchors for their communities. Scenario 3 has an account of what we might call 'universities

for regional growth' which is compelling for civic leaders and politicians. But the UK must also remain internationally competitive in science, knowledge-creation and innovation. Although Scenario 3 is designed to account for this, because the national research infrastructure is not regionalised, it privileges the regional over the national and certainly the international. If the UK needs universities for regional growth, it also needs universities for international competitiveness. Scenario 4 secures this but at the painful cost of a huge reduction in the number of research universities. Duck one choice, and another becomes more challenging.

For all that Scenario 1 represents the current trajectory for higher education, the UK cannot afford to condemn the sector to the decline it involves. Scenario 2 would take the nation close to what a properly funded mass higher education system could look like, but appears economically expensive, politically conservative and presentationally difficult. The common features of Scenarios 1 and 2 are that they are essentially unmanaged, and are agnostic about geography and place. Scenarios 3 and 4 each cost less than Scenario 2 but if the nation does not move towards the properly funded higher education sector envisaged in Scenario 2, it will need a combination of Scenarios 3 and 4. That will be a hybrid which enables regions to build prosperity, increase talent and support local innovation, as well as keeping the UK internationally competitive with properly-funded research powerhouses at the cutting edge of discovery and research.

All the Scenarios involve questions which are not remotely easy. There are painful choices in every direction. Other people will have their own contributions to thinking about the future of the sector, and we need them if we are to work through the difficulties ahead.

As university leaders wrestle with their own strategic and budgetary planning, they need to play their part in thinking about the evolution and development of the sector.

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**Former Vice-Chancellor, Professor Sir Chris Husbands responds to the financial and policy challenges facing the English higher education by sketching out four different plausible futures:**

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**Scenario 2: Delivering the 2010 vision**

**Scenario 3: A place-based tertiary system**

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**All four Scenarios confront difficult challenges, but they are designed to help university leaders as they wrestle with strategic and budgetary planning and as they consider the future development of the whole higher education sector.**

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