

Opportunity, growth and partnership

A blueprint for change from the UK's universities

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Foreword

by Professor Dame Sally Mapstone DBE FRSE,
Principal and Vice-Chancellor of the University of St
Andrews and President of Universities UK

We stand at a fork in the road in the history of the UK's universities. There is now a clear choice. We can allow our distinguished, globally competitive higher education system to slide into decline. Or we can act together, as institutions and with government, to ensure that higher education is able to deliver for the nation into the 2030s.

Our universities are among the key agents of change the UK needs in order to transform and thrive over the next 10 years. They are critical to economic growth. Properly supported, they have the track record and potential to create and share knowledge, stimulate creativity and offer lifelong opportunities for future generations. But the UK faces significant challenges, and so does our university system. This is the right moment to consider what needs to change so that both can thrive.

The most effective forms of change involve retaining what is good and having the courage to reinvent and refresh where necessary. At their best, universities function in a culture of enquiry and debate that pursues the common good while championing innovative forms of delivery alongside tested models. The pace of change in the past decade brings both tremendous challenges and manifest opportunities. Universities have a responsibility to prioritise engagement with the key drivers of our era, of which climate change, artificial intelligence and bioscience are at the forefront.

Universities are also fundamentally about people. They create transformative opportunities: they are diverse communities of all ages and backgrounds, from freshers to world-leading professors. And education is increasingly a lifelong experience, available to a wider range of individuals than ever before, with the potential to be sustained across one person's lifetime by many different sources, including institutions, workplaces and online delivery. The skills and knowledge that learners require are also changing, and our universities must change too.

Universities UK's members are the temporary custodians of a precious and vital national asset, but we can also see where our system has weaknesses and needs to improve. We have a duty to champion and defend our

universities, but also a responsibility to be honest and unafraid to deal with those things that can be better, where we have the means to achieve that.

As a new government takes office in the UK, the time is ripe for both a stock-take and the creation of a blueprint for the future. To produce this report, Universities UK worked with a group of 10 commissioners, largely drawn from outside the higher education sector, and consulted closely with its members and stakeholders in related sectors, to make the case for a reset in the way in which universities serve our society and country over the next decade and beyond. The eight chapters of this blueprint together characterise what we already do in respect of education, research, knowledge exchange and innovation, and examine what works, what should change and what we need from government to achieve still more.

The UK's universities are one of the country's immediately identifiable strengths. They have global recognition and reach, while acting as key anchor institutions in their localities. But we cannot rest on our laurels and we must not be afraid of change. The worst thing we as institutions and our partners in government could do is to become complacent. In a world where current success is no guarantee for the future, and where other higher education and research systems are leaping ahead, we need to show that we can revitalise ourselves for the remainder of the current century. This blueprint is offered in a spirit of both ambition and humility. It combines realism with excitement, as we stretch towards what our universities could be in the future, and what we could achieve together. Our students and staff, present and future, and the wider communities that we are here to serve, deserve no less.

Professor Dame Sally Mapstone DBE FRSE

Principal and Vice-Chancellor of the University of St Andrews and President of Universities UK

Executive summary

The UK's universities are a source of unique advantage to the country. They contribute over a quarter of a trillion pounds per annum to its economy and open doors to opportunity for an increasingly wide range of people and places. They are, in short, crucial to the UK's future prosperity.

This report, *Opportunity, growth, and partnership: a blueprint for change from the UK's universities*, sets out a bold package of reform to stabilise, mobilise and then maximise the contribution of UK universities to economic growth and widening opportunity for all. It has a single aim: to create a UK university sector that is better in ten years' time than it is today.

This blueprint is evidence-based, action-oriented and consciously reform-driven. It aims to consider what our country needs from its universities and undertakes a thorough assessment of where we are performing well, and where we could improve. It reaffirms the mission of our university sector, delivering education and research for the public good. It considers what universities can do themselves, individually and collectively, as much as it articulates the actions needed from government.

We prioritise a future focused on: narrowing gaps in opportunity and increasing the pool of highly skilled and capable talent available for the labour market; encouraging more collaboration and coordination across regions and the tertiary sector; delivering the knowledge and skills needed to support sustainable local and national growth and fostering a bigger role for innovation in addressing societal challenges; and a coherent international strategy.

These outcomes can only be secured if universities are suitably funded by government. We posit a two-phase approach to funding and business models for universities. In the first phase we seek to secure a more reliable financial foundation for teaching, student maintenance and research. In the second phase, we put forward an agenda for transformation, led by universities themselves, and supported by government, that will enable universities to better meet the needs of students, the economy and society. We outline a complementary, proportionate and quality-based approach to the regulation and governance of higher education. Finally, we argue for the development of a stronger and more consistent evidence base to understand universities' contribution to public as well as private benefits, as a basis for better public policy.

While the focus of this blueprint is primarily on England, we have been careful to set out its relevance and extension to the devolved administrations where it makes best sense to do so, including where the government has UK-wide responsibilities.

Similarly, although the higher education sector in the UK consists of many types of provider, we focus on universities and those institutions which make up the membership of Universities UK, which accounts for 94% of all students undertaking higher education.

Each chapter offers recommendations for universities and for government. Through the actions set out here, we aim to achieve five big shifts:

- **expand opportunity**
- **improve collaboration across the tertiary sector**
- **generate stronger local growth**
- **secure our future research strength**
- **establish a new global strategy for our universities.**

To enable these shifts, we need to:

- **put universities on a firm financial footing**
- **streamline regulation**
- **improve how the impact of the universities is assessed.**

Summary of chapters

Chapter 1: Expanding opportunity

Commissioner: Professor Nick Pearce, FAcSS HFRIBA

This chapter sets out the evidence of inequalities in access to higher education, which varies significantly according to personal characteristics and geography. It also examines differences in outcomes for students from different backgrounds, and inequalities in progression beyond university. These challenges cannot be addressed by universities acting alone. We must work with schools and colleges too. We argue for a concerted, system-wide effort to increase access, and to improve student success and progression into the labour market.

KEY RECOMMENDATIONS

- A whole-of-tertiary sector participation target of 70% of the population aged 25

studying at level 4 or above by 2040, with a particular focus on increasing access in low participation neighbourhoods.

- A Tertiary Education Opportunity Fund to support collaborative programmes to respond to the needs of learners in low participation areas.
- Action by universities and government to increase teacher supply and extend the National Tutoring Programme.
- Reinstate maintenance grants for students from the most disadvantaged backgrounds, and increase maintenance loans in line with inflation.
- A more consistent approach by universities to contextual admissions, and a more consistent offer of support to students and graduates across the sector, including five years' access to careers services, post-graduation.

Chapter 2: More responsive and collaborative tertiary education

Commissioners: Professor David Phoenix, OBE, DL, FREng FAcSS and Dame Ann Limb, DBE DL FRSA

This chapter extends the argument for a whole-system approach to education to address wasted talent across society. It argues that labour market changes, evolving skills needs and demographic pressures mean that it is necessary for universities, colleges and other parts of the tertiary system to work more closely together to provide opportunities which allow learners to: make choices to meet their ambitions; progress through tertiary education easily with no 'dead ends'; study flexibly, and develop skills throughout their lives.

KEY RECOMMENDATIONS

- Encourage more collaborative approaches including by improving regulation to remove requirements for duplicate reporting to different regulators.
- Reconsider the policy design of the Lifelong Learning Entitlement to ensure that it is a success, including minimum credit requirements and whether it can be used by employers to support the cost of employee study on a modular basis.

Chapter 3: Generating local growth

Commissioner: Rain Newton-Smith

The UK needs to address low productivity, local inequalities, and increase private investment across regions. Universities underpin growth. They are often one of the largest local employers and are powerful economic actors as one of the UK's largest

export sectors, as large-scale purchasers and attractors of inward investment. This chapter considers how universities can play a greater role through responding to the current and future skills needs of local employers, and supporting local economic actors to adopt new knowledge and technology to drive innovation and growth.

KEY RECOMMENDATIONS

- Universities should be critical partners in Local Growth Plans, and should ensure that they have a dedicated 'local growth' function to act as a single point of contact for key partners. Where Mayoral Combined Authorities do not exist, government should establish Local Growth Partnerships to support the development of Local Growth Plans.
- Government should create stable and effective incentives for universities to work with each other and with business and the public sector to meet skills needs.
- Skills England should look to capitalise on the central role that universities have in tackling skills shortages at higher levels.
- Government should make a long-term commitment to the Higher Education Innovation Fund, and the consolidation and expansion of the Regional Innovation Fund, with counterpart funds of sufficient scale in the Devolved Administrations.
- Universities should work with the NHS to strengthen their partnerships with Integrated Care Boards and help deliver the capacity expansion the NHS needs.

Chapter 4: A world-leading research and innovation system

Commissioner: The Rt. Hon. the Lord Mandelson, PC

This chapter argues that the UK is at an inflection point in our ambition to be genuinely world-leading in research and innovation. We can no longer take UK universities' research and development (R&D) activities for granted. Universities face intensifying financial pressure and rapidly increasing global competition. The current system relies on a disproportionate and growing cross-subsidy from universities to make research viable. The 'stop-start' nature of government funding creates abrupt breaks in projects. This prevents the development of a critical mass of infrastructure and expertise, and disincentivises research across disciplines and collaboration with industry. For the UK to retain its international competitiveness and deliver on the government's economic growth ambitions, it requires a stable and sustainable approach to R&D.

KEY RECOMMENDATIONS

- Funders should review incentives and requirements that demand in-kind or matched contributions to research grants and other mechanisms, so that universities are not expected to contribute more than 20% of the costs of research.

- Government should provide a sustained real-terms increase in quality related funding and an additional uplift in the Charitable Research Support Fund in line with charitable investment.
- Universities should aim for closer to 100% cost recovery for industry-sponsored research, unless engaging with small or emerging businesses.
- Government should set an ambitious GDP-based R&D intensity target, covering both public and private investment, to match that of the most competitive and innovative countries in the world.
- Government should create a Missions Innovation Fund, in addition to the existing research budget, to stimulate research and innovation orientated towards addressing the priorities set out in the government's missions and its industrial strategy.
- Universities should build in strategies to mobilise their own and/or venture capital to support the commercialisation of research, IP and scaling up of university spin-outs.
- The British Business Bank has the potential to scale up funding and further mobilise capital through a dedicated spin-out venture capital fund.

Chapter 5: Our universities' global reach, reputation, and impact

Commissioner: The Rt Hon. the Lord Willetts, FRS

International collaboration is a cornerstone of UK universities' success, fostering the capability, capacity and influence that gives the sector a truly global reputation. Internationalisation in universities encompasses a wide range of activities and benefits, including collaboration in research; hosting international students; and delivering programmes overseas through transnational education. This chapter argues for a more holistic approach, through the creation of a new global strategy for universities, underpinned by a new Compact between the sector and government to ensure stable and sustainable growth in international student numbers.

KEY RECOMMENDATIONS

- Government should develop a Global Strategy for Universities. The objective should be to harness the global reach, reputation and impact of universities to create opportunity, foster prosperity and develop knowledge – both for the UK and our international partners.
- Universities and government should develop a new Compact whereby each takes action to secure sustainable levels of international student recruitment and well managed growth.

- Government should review and benchmark immigration costs for academics, entrepreneurs and technical staff to ensure that the UK attracts talented people.
- Government should commit to the Turing Scheme for the lifetime of this Parliament and introduce two or three year funding allocations; alongside this it should consider the case for association to the next Erasmus scheme.
- Government should engage positively with the development of the next European Framework Programme for Research and seek early agreement on the UK's association.
- Government should create a substantial research security fund and further invest in the Research Collaboration Advisory Team to support universities' capacity and capability to manage international risk.

Chapter 6: Putting universities on a firm financial footing

Commissioners: Professor Shitij Kapur and John Rushforth

The funding of universities is structurally unsustainable across all four nations in the UK. Universities are already making very significant cuts to balance their budgets and will need to continue to find better and more streamlined ways of working, but we need further action from both universities themselves, and from government. For England, we propose a two phased approach to this. In the first phase government and the sector should work to stabilise the sector's finances. In the second phase government could support university led transformation.

KEY RECOMMENDATIONS

As a first phase, government should support the sector to take immediate steps to move to a more solid foundation by:

- Increasing funding for teaching to meet the real costs through a combination of linking fees to inflation and restoring the teaching grant.
- Ensure policy stability in relation to international students in order to achieve sustainable, managed growth.
- Reverse the decline in quality related funding for research.
- Working with the sector establish a sustainable solution for universities in relation to the significant increase in contributions to the Teachers Pension Scheme.
- Develop, with the sector, a clear plan to implement should an English university find itself in severe financial distress.

In phase two:

- Universities UK commits to leading a transformative programme of work which will bring our members together to share learning and good practice in relation to efficiency, transformation and income generation; and explore options for additional regional or national shared services.
- Universities should look to boost philanthropic giving building on substantial growth in recent years. Government could support the sector in growing a culture of giving to universities, including by exploring the potential to repeat previously successful matched funding schemes and introduce tax efficient vehicles for legacy giving.
- Government can support universities to work in more efficient and effective ways by removing VAT on shared services; introducing a transformation fund to enable and accelerate university led-change, and by supporting sustainable and well managed growth in international recruitment.

Chapter 7: Better regulation

Commissioner: Professor Julia Black, PBA CBE

This chapter argues that an effective regulatory framework and regulator in England is essential to support a thriving higher education and research sector and uphold public and political trust and confidence in our universities. To retain its earned autonomy, the sector must demonstrate the quality of its offer as it adapts to the needs and wants of a changing society. This also means being open to the scrutiny of regulation and acting on concerns.

KEY RECOMMENDATIONS

- Streamline the priorities of the Office for Students (OfS) to focus on quality, access, international competitiveness and financial sustainability; and only introduce new regulatory requirements where the public benefits are clear and the costs justified.
- Consider changes to legislation to allow the OfS to evolve into an enabler of innovation and to bolster its independence.
- The OfS should establish a transparent risk-monitoring and assessment process to guide its engagement with providers.
- The quality assurance system should be realigned with the European Standards and Guidelines, as a priority.
- Strengthen the student panel and introduce a provider panel with representation which reflects the diversity of the sector and embed this within the OfS' governance structures.

- Work with providers, regulators and funders to develop a coordinated strategy and approach to financial sustainability.
- The Committee of University Chairs should review the HE Code of Governance to ensure it remains fit for purpose.

Chapter 8: Improving how the impact of universities is assessed

Commissioner: Andy Haldane, CBE FAcSS FRS FRSA

Universities deliver both private and public benefits. The latter are poorly understood and often overlooked by policy makers. This chapter argues that universities and government should do a better and more consistent job of measuring the benefits which flow from higher education, research and innovation. Human, intellectual, physical, natural, social and cultural capital needs to be captured. We are not currently able to do this in a systematic way. Public policy decisions, including spending, should be based on a comprehensive understanding of the impact of higher education and research, including non-economic benefits.

KEY RECOMMENDATIONS

- Government should more rigorously and consistently measure the private and public benefits of universities - both economic and social.
- Universities can support this effort by producing more consistent and comprehensive assessments of their own impact, assisted by Universities UK's development of a robust and effective methodology to do so.

Acknowledgements

Each of the eight chapters in the blueprint were led by commissioners, supported by a set of advisory groups. They defined the challenges and shaped the solutions you will read in here. The recommendations they make are set out in bold. Universities UK would like to publicly thank our commissioners for giving freely of their expertise, insight and time.

1. Expanding opportunity

49%

of school leavers in England
access higher education at
level 4 and above by age 25

68%

of young people say they
plan to attend university

1 in 3

students eligible for free
school meals progress to
higher education



The shift

Expand opportunity by increasing participation in tertiary education by those from the least advantaged backgrounds and neighbourhoods, with a target for England of 70% of the population aged 25 having studied at level 4 or above by 2040.

'The expansion of higher education in recent decades has enabled access to universities to be widened significantly. However, part-time and mature participation has fallen, maintenance support has been eroded, and social class and other inequalities persist in access, achievement and graduate employment. In the future, expansion should focus on tertiary education, with opportunities opened up across the country, maintenance grants should be restored, and better support made available to students with mental health and other needs. In a democracy, it is important for social integration and equality to educate people from diverse backgrounds together in our institutions of higher learning.'

Professor Nick Pearce, Director of The Institute for Policy Research, University of Bath

Summary

If the UK is to thrive and its economy to grow, we need to deploy all available talent. Tertiary education should be a realistic option for all those with the potential to succeed, regardless of background and geography. While university may not be the right choice for everyone, the overwhelming majority of graduates benefit, both through higher earnings and in a range of non-financial ways.

More young people from disadvantaged backgrounds now go to university, but entry rates for more affluent students have also increased, leaving a stubborn gap in progression between the two groups. Different geographical areas also see significant differences in participation rates. Students from disadvantaged and under-represented backgrounds – with associated lower social capital – often need greater academic and personal support to enable them to succeed, leaving significant variations in outcomes depending on background.

Real-terms cuts in maintenance support have meant students increasingly undertake long hours of paid work to cover their living costs, intensifying the burden on their mental health and well-being. Although demographic trends predict rising numbers of 18-year-olds up to 2030, which coupled with continued progress to widen access should

lead to strong growth in demand for university places, falling demand from mature and part-time students and reduced interest in public-sector roles such as nursing and teaching could work against this.

Our primary focus is to increase participation in higher education by under-represented students. We know higher education can be a transformational experience for individuals. However, access to higher education is contingent upon the prior attainment of students and achieving our ambitions will require a whole-system approach to raise attainment at earlier education levels. Close and effective partnerships between universities, schools, colleges and government is required to support opportunities for all by improving access, success and progression.

Our focus cannot be on university education alone however, as the country needs a highly skilled workforce developed through both colleges and universities: this belief underpins our tertiary participation target of 70% by 2040 in England. This chapter focuses on England.

The challenges

Access to higher education

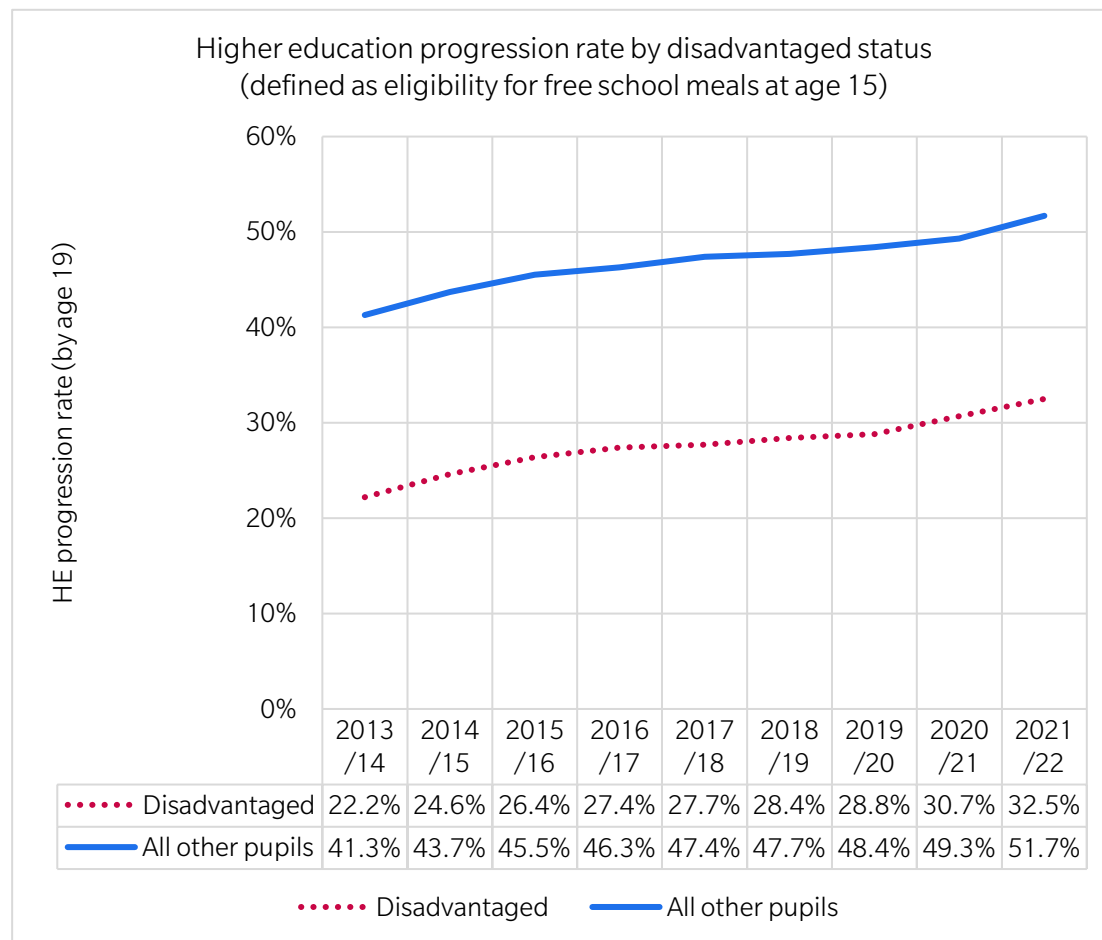
The UK's higher education system, Level 4 and above, has expanded significantly in the last two decades, in common with those of other advanced economies. In 2001–02, there were 2 million students in higher education, which had increased to 2.9 million by 2022–23. The proportion of people accessing higher education in England by age 25 was 38.8% for the 2001–02 cohort, increasing to 41.8% for the 2006–07 cohort, and at 48.6% for the 2011–12.¹

There has been considerable progress in widening participation in England. In 2009–10, only 18.0% of students from the bottom quintile of areas least likely to progress to higher education did so. This had increased to 31.7% by 2021–22.

Using free school meals (FSM) as a measure, Figure 1 shows that while only around one in five FSM-eligible students progressed to higher education in 2013–14 in England, by 2021–22 this had improved to around one in three. However, while all groups have seen increased progression, the gap between the most and least advantaged has not closed: a stubborn participation gap remains.

¹ This data reflects the percentage of the population by age 25 participating in higher education. The measure covers level 4 and above higher education courses at UK higher education institutions, alternative providers and English further education colleges.

FIGURE 1

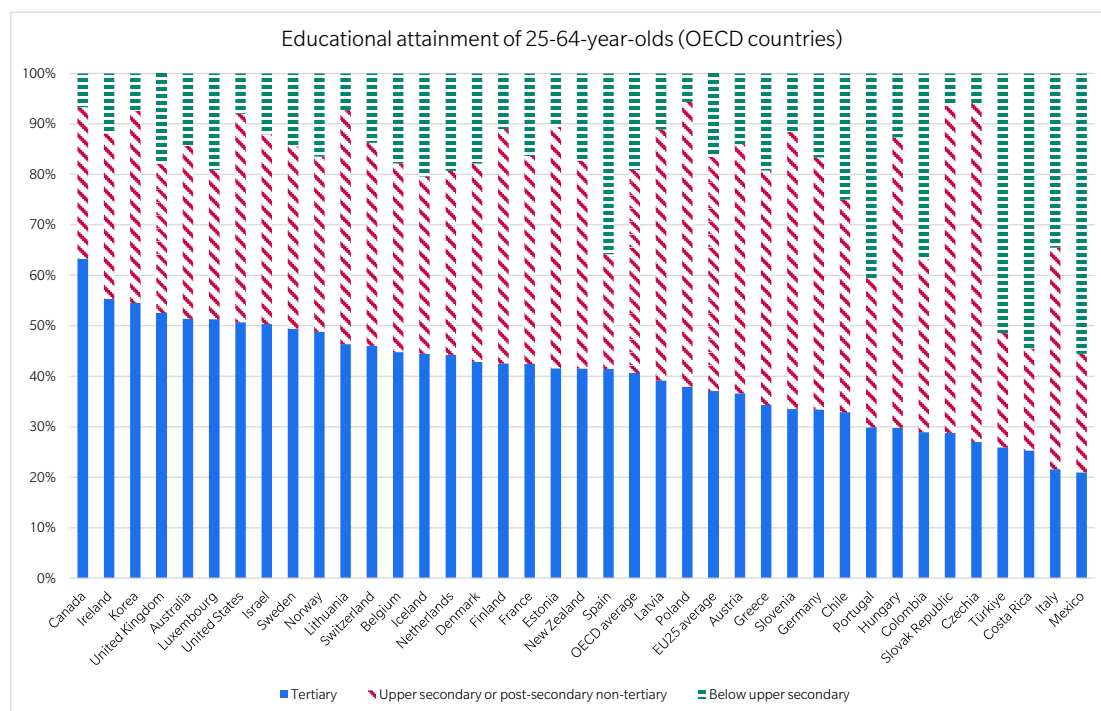


Source: GOV.UK, [Widening participation in higher education](#)

For wider context, the UK is in a group of high-skilled economies, and we need to keep pace with them. At 52.7%² the UK currently ranks above average in the OECD behind countries such as Canada, Ireland and Korea for the proportion of the population educated to tertiary level. Looking to the future, we need to develop higher levels of tertiary skills in our economy, and ensure that these are more equally spread across regions and demographic groups. See figure 2 (overleaf).

2 This OECD data reflects the proportion of the working population between 25-64 with tertiary level education attainment. This is different to the DfE data, of 48.6%, which relates to the current likelihood of cohorts accessing higher education at level 4 and above by age 25.

FIGURE 2



[View full-size version](#)

Source: [OECD, Education at a glance 2024](#)

GEOGRAPHY

In 2023, 49.7% of 18-year-olds entered higher education from London, compared with 29.7% in the North East and 30.2% in the South West. In Wales, participation rates are falling. This cannot just be explained by disadvantage: while over half of FSM-eligible pupils from Inner London progressed to higher education in 2021–22, fewer than a fifth did so from the South West.

Cold spots in higher education provision are particularly prevalent in rural and coastal areas, where a lack of transport links and high levels of attachment to local areas mean young people are less likely to travel long distances to attend higher education. Where a child lives and goes to school therefore greatly affects their opportunities.

ATTAINMENT GAPS AND ASPIRATION

Prior attainment is a key determinant of whether a pupil goes on to higher education and where they choose to go. The attainment gap in pre-16 education has widened between pupils at different school types since the pandemic. The percentage of students achieving A grades and above at A level in independent schools increased between 2019

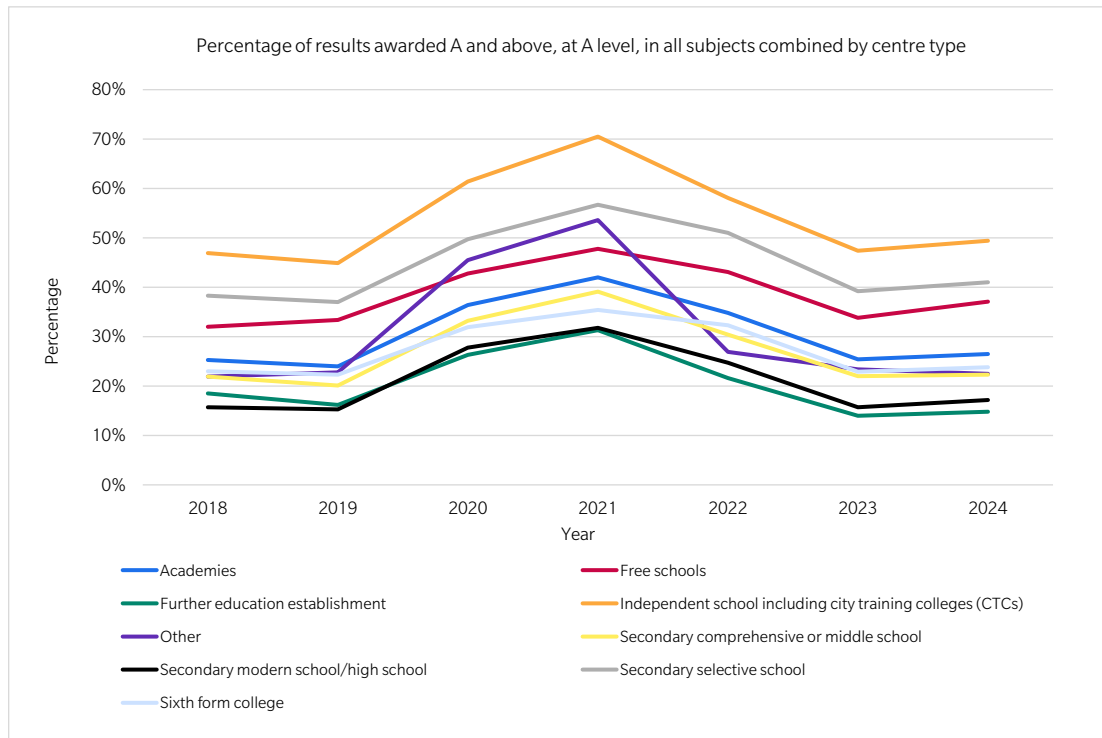
and 2024 by 4.5 percentage points to reach 49.4%, while for academies, the increase was only 2.5 percentage points to reach 26.5%. In state-funded further education, the rate fell by 1.4 percentage points to 14.8% (See Figure 3 overleaf). Worryingly, there has been a decline, driven in part by older pupils and resits, in the proportion of grades 4 or above awarded in GCSE maths and English and an 85 score-point difference in maths performance between the most and least advantaged students in England.

Showcasing the voices of first-generation students and graduates

Our 100 faces campaign in early 2024 showcased 100 stories of how going to university changed the lives of first-generation students.

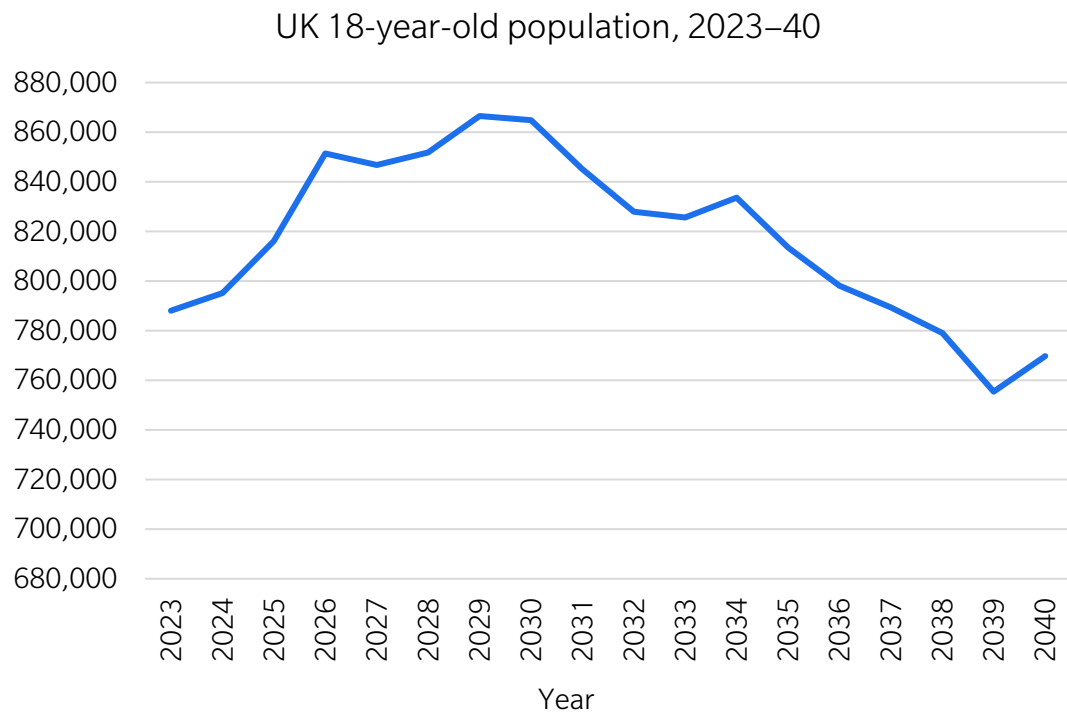
Throughout this report, we've included quotes from some of the students and graduates we featured.

FIND OUT MORE ABOUT OUR 100 FACES CAMPAIGN

FIGURE 3

[View full-size version](#)

[Source: Ofqual, A level outcomes by centre type](#)

FIGURE 4

[Source: ONS 2021 based interim national population projections](#)

DEMOGRAPHIC CHANGES AND DEMAND

By 2030, there will be around 9.7% more 18-year-olds than in 2023 (Figure 4). This demographic bulge is likely to create increased demand for university places and accommodation supply, which could put pressure on opportunities for students from less advantaged backgrounds. After 2030, the number of 18-year-olds is set to decline, and a falling birth rate may contribute to a shortage of highly skilled employees in the labour market in the mid- to late 2030s. This decline could be partially offset by increased participation among students from backgrounds currently under-represented in higher education.

DEMAND FOR HIGHER EDUCATION

Interest in traditional degrees remains high, with 68% of young people saying they plan to attend university, and around half of parents of children aged 11–17 saying it is important their child goes to university. For the 2023 entry, UCAS processed 554,465 acceptances, an increase on 541,240 in 2019.

However, recent years have seen a decline in part-time and mature applicants, with UK mature candidate acceptances at their lowest level since 2019. These declines disproportionately impact nursing and teaching subjects, since approximately a third of applicants to these subjects are aged 30 or over. This fall may be driven by greater debt aversion from mature students, cost-of-living pressures, the pro-cyclical nature of demand for part-time study, and a diminished appeal of careers in nursing and education. We are also seeing a decline in acceptances from White males, with 128,415 applicants in 2023, the lowest since 2014. These trends must be reversed if we are to widen access to tertiary education.

LIVING COSTS AND MAINTENANCE

Inadequate student maintenance funding stops many students fully benefiting from higher education. The current system forces low-income students domiciled in England, who are typically more debt averse, into taking on higher levels of student loans. Frozen household-income thresholds and a failure to adequately uprate the maintenance package with inflation mean the average student's maintenance loan now falls £582 short of covering their living costs every month.

Accommodation costs are a key pressure on students: average rents rose by over 8% in 2023. There is a risk that students increasingly make application choices based on the affordability of available accommodation, including choosing to commute, over course suitability. For providers, accommodation supply also dictates and constrains student places, and there are examples of institutions developing analysis models to monitor the availability of accommodation.

MENTAL HEALTH AND WELLBEING

Under these financial pressures, a greater proportion of students are working during term time, rising from 35% of students in 2015 to 56% in 2024. This amounts to an average of 14.5 paid hours a week, up from 11.9 hours in 2020. This reduces the time available for study, as well as for socialising, presenting a greater risk of declining mental health.

The number of young people with poor mental health is rising: in 2020, one in six (16.0%) of children aged 5–16 years were identified as having a probable mental disorder, an increase from one in nine in 2017, and the likelihood of a mental health disorder increases as young people reach the age range of 17–22 years. The number of accepted English applicants declaring a mental health condition increased by 126.4% between 2019 and 2023, though this figure partially reflects changes to data collection.

It is increasingly difficult for universities to support students with mental health conditions at this scale, especially given the complexity of cases. This has critical implications for academic success, with mental and emotional health being the number one reason given by students considering leaving their course. Disabled students, including those with mental health conditions, report lower levels of satisfaction with their course and are less likely to achieve good degree outcomes compared with their non-disabled peers.

As the size and diversity of the student body continue to change, universities have found that they need to invest a growing proportion of their income in supporting students, including in their mental health and well-being. Given funding pressures, this is increasingly unsustainable.

Inequalities in outcomes and progression

Successful degree outcomes can be bolstered by addressing student maintenance and mental health needs, but there is more to be done to equalise the opportunity for all students. For example, the ethnicity degree-awarding gap between UK-domiciled White students and their Black, Asian and minority ethnic (BAME) counterparts stood at 8.8% for 2020–21.

GRADUATE PREMIUM

Earnings are not the only measure of the value of a degree: there are non-financial, social and civic benefits to a university education, and educating people from a variety of backgrounds together in higher education institutions is important for democratic equality and social cohesion. That said, achieving a university degree significantly improves lifetime earnings for the vast majority of graduates.

Estimating the net lifetime benefits of higher education is challenging and subject to several sources of uncertainty as it requires making assumptions about earnings trajectories, retirement patterns and economic fluctuations up to 40 years in the future. In its 2020 report, the Institute for Fiscal Studies (IFS) estimated that a university education could be worth up to £100,000 for women and £130,000 for men, based on economic measures at the time. A more conservative appraisal by London Economics estimates that the average net graduate premium achieved by a UK-domiciled student in the 2021–22 cohort completing a full-time first degree was £77,000 but at £94,000 when using similar assumptions to the IFS analysis for inflation, earnings and repayments based on the different economic conditions when the IFS analysis was conducted. This is all after the direct and indirect costs of obtaining a degree compared – such as loan repayments, lost earnings during study and higher tax contributions resulting from higher earnings – are taken into account.

It remains clear that, on average, there is a substantial premium for those who choose to go to university, and that this has remained broadly stable despite a substantial increase in participation over the last three decades.

Government data on actual earnings (as opposed to projected lifetime earnings) shows that, taking into account local labour market conditions, graduate earnings are 32–37% higher by age 31 than earnings for those who did not attend university: this holds true across all regions of England. Equally significant, the gap in income between graduates and non-graduates continues to widen in the years after graduation across all regions of England (See Figure 5, overleaf).

Outcomes for individual graduates also vary for a range of characteristics, including ethnicity, subject of study, gender, prior attainment and institution attended, socioeconomic background and region. For example, by age 31, on average, British Pakistani graduates are earning 46% more than their non-graduate counterparts. Similar premiums exist for British Bangladeshi students (+32%), British Indian students (+37%) and British Black African students (+32%).

NATIONAL INCOME INEQUALITIES

Income inequality remains a pervasive problem in the UK. Following an increase in income inequality during the 1980s, which saw a greater proportion of income held by the top 10% of earners, there was a marginal improvement between 1991 and 2010, aligned with increased participation in higher education. However, income inequality in the UK remains high compared with other countries, with the UK ranked seventh highest in terms of inequality among OECD member states.

Higher education can help with equalising opportunity. FSM-eligible graduates are more likely to enter the top 20% of earnings at age 30 than FSM-eligible students who did

not attend university. However, according to Longitudinal Education Outcome (LEO) data, the gap in earnings between graduates who were eligible for FSM and those who were not increases from £1,800 more for non-FSM-eligible graduates after three years, to £2,900 after five years. Data produced by the Office for Students (OfS) for 2021-22 shows a gap in the percentage of graduates who progressed to professional employment or further study by level of advantage. Using the Index of Multiple Deprivation as an indicator, 77.2% of the most advantaged achieved a 'positive outcome', but only 67.2% of the least advantaged did the same. Disadvantaged graduates face barriers in entering the labour market, such as a lack of social capital or unequal recruitment practices.

"[My] scholarship paid my fees and helped with living costs. Knowing someone believed in and wanted to invest in me meant so much."

Kenny Murray | 100 faces campaign

"Going to university made it possible to build a valuable skilled network and opened the door to future opportunities."

James Dornor | 100 faces campaign

FIGURE 5: GRADUATE PREMIUM COMPARED TO NON-GRADUATES ACHIEVING LEVEL 3 OR ABOVE, BY REGION AND YEARS SINCE FINISHING GCSES BETWEEN 2001–02 AND 2006–07

Note: line shows typical age of graduation and entry into labour market for university graduates on three-year degree

[View full-size version](#)

[Source: UUK Graduate employment outcomes, based on DfE Longitudinal Education Outcomes \(LEO\): post-16 education and labour market activities and outcomes](#)

Solutions

The inequalities described above affect not only who goes to university, but what happens to them while they are there and the outcomes that follow. These challenges have deep roots. Universities can contribute to narrowing opportunity gaps in society, but they cannot do so in isolation. The major barrier to widening access in higher education is prior attainment in schools. A whole-society approach is needed, underpinned by a whole-system approach in the education sector.

Expand participation

History has shown that to widen participation in higher education, we must expand participation proportionally. The removal of number caps in England has facilitated diversification of the student population, enabling more under-represented students to benefit from higher education than ever before. The shift we want to achieve is to expand opportunity further by increasing the proportion of students from the least advantaged backgrounds and neighbourhoods who participate in higher education. To achieve this, **government and universities and colleges in England should work together to ensure that by 2040, 70% of the population achieve tertiary attainment at level 4 or above by the age of 25, up from 48.6% currently**. This is not a ‘university’

participation target: it is one that would expand participation in all forms of education at level 4 and above, for example on sub-degree courses, such as Higher National Diplomas (HNDs) at level 4 or Higher Technical Qualifications at levels 4 and 5. To meet this target, **we recommend that by 2035, we aim to increase the rate of participation of 18- and 19-year-olds from low-participation neighbourhoods (TUNDRA Q1&2) from 30.5% to 50%, taking them level with their peers from high-participation neighbourhoods.**

We acknowledge, however, that you cannot raise participation at level 4 and above without addressing the barriers to achieving earlier qualifications.

Collaborate across the tertiary sector

We also have to meet the needs of potential learners who are already in the workforce and need more flexible routes into and through higher education. This will become more pressing as the population of the UK ages, and the labour market changes with the advent of technological disruption. As we discuss in chapter 2, collaboration and partnership across all parts of the tertiary system could help learners by presenting clear choices and pathways at every stage in their education. Fresh attention should be paid to the barriers to part-time and mature candidate participation in higher education in particular. Stronger partnerships between tertiary education providers could open up opportunities for such learners by finding ways to provide greater flexibility, driven in part by Lifelong Learning Entitlement (LLE) reforms. The LLE is potentially a powerful tool in addressing the decline in part-time and mature students.

A new Tertiary Education Opportunity Fund (TEOF) should be established and awarded to HE–FE partnerships that create collaborative programmes that respond to local needs and target learners in low-participation areas or groups through outreach activity.

The TEOF will:

- incentivise strong, place-based networks to promote access to tertiary education, whether higher or further education or apprenticeships
- reduce duplication and unproductive local competition between providers, thus encouraging efficiency savings when delivering on access and local skills needs
- encourage collaborative provision among tertiary providers to create a more diverse offer for learners.
- improve signposting to this diverse range of learning opportunities for learners and employers.

Increase the supply of qualified teachers

Ensuring sufficient, high-quality teacher supply is one long-term and systemic solution to addressing pre-16 inequalities at scale. However, the workforce challenge is stark: the Institute for Government reports that only 61.7% of the initial teacher training (ITT) recruitment target has been reached, and this at a time of growing need, particularly at secondary level.

Government and universities should work together to increase interest in careers in teaching, promoting the profession and leveraging universities' marketing capacity. Government should also expand the supply of teacher-training providers by revisiting ITT commissioning decisions made by the previous government.

Support attainment in schools

Beyond contributing to the teaching workforce, there are undoubtedly ways that universities can do more of their current sustained work to expand opportunity by working with schools, colleges and communities, and with local and national government. Universities in England who want to charge undergraduate tuition fees at the highest level (approved 'fee cap' providers) must have access and participation plans, agreed with the OfS, that set out how the university will work to expand opportunity. Universities routinely work with schools and colleges on considerable scale to raise aspiration and support attainment. There is already a strong 'what works' culture in this area, which provides a firm foundation for progress.

Universities can also have a positive impact by collaborating with schools to raise performance in maths and English. As Ofsted has found, tutoring can be particularly helpful for children and young people from disadvantaged backgrounds, a fact also evidenced in the NAO report into the National Tutoring Programme.

Building on existing access and participation plans, universities should look to expand on the most successful interventions to support attainment in schools, drawing on the evidence produced by the Centre for Transforming Access and Student Outcomes in Higher Education (TASO). **One solution would be for government to extend the National Tutoring Programme to enlist (and fund) university students to provide targeted tutoring support for disadvantaged pupils in the school system** (see box below).

Raising academic attainment in schools

The University of Exeter Tutoring model is a successful, university-led tutoring programme that offers value to school pupils and to their undergraduate tutors. Undergraduate tutors are trained in a credit-bearing module to deliver tutoring in literacy skills to Year 8 pupils in partner schools. In return, attainment is raised to improve pupil progress, while the undergraduate tutors gain experience in their community that can support them to consider a career in teaching.

Work to raise attainment requires significant investment by universities from their own resources. This means using tuition-fee income from current students to fund outreach work to raise aspiration and attainment in potential future students – effectively a cross-subsidy from current to future students. If government wants universities to go further, the funding model for this work should be revisited. Without this, universities may have to prioritise using stretched fee income on the teaching and support they provide to current students, and scale back their work to support aspiration and attainment in other parts of the education sector.

Adopt a consistent contextual admissions approach

While the biggest differences will be made by narrowing prior attainment gaps, universities can partly mitigate the impact of pre-higher education inequalities through contextual admission processes. The practice is currently inconsistent across the sector and not well understood by applicants. A more transparent approach, led by universities in Scotland, achieved a significant increase in participation by students from Scotland's 20% most deprived data zones. **Together, Universities UK, UCAS and universities can support a more consistent approach to contextual admissions, building on the principles of our well-established Fair Admissions Code of Practice.**

Facilitate informed choices

While the overwhelming majority of graduates benefit through higher earnings, these are an incomplete measure of graduate success. A better and more rounded understanding of the benefits of higher education should go beyond earnings to account for benefits such as personal growth and improved well-being in order to help prospective students make well-informed choices.

Outcomes also vary by student characteristic, location and subject studied and change over an individual's lifetime. The current metrics used by the OfS to assess course success only go up to 15 months after graduation and do not take future progression

into account. The OfS should use longer term data to consider the lifelong impact and value of university degrees for individuals, and develop regulatory metrics that account for the growing diversity of the student population. **The government should provide equally detailed information on other post-18 educational routes, so students can evaluate different pathways on a comparable basis.**

Support student success

There is an urgent need to address the shortfall in maintenance funding available to support students while they are studying. **Government should increase maintenance loans in line with inflation and reinstate grants for students from the most disadvantaged backgrounds.** This would help reduce the pressure on students to work while they are studying, and address the current inequity that sees students from the lowest income backgrounds graduating with the largest debts.

As mental health services are expanded, the government should ensure the NHS can respond to increased student mental health needs. In particular, as current pressures on services are alleviated, the NHS should consider establishing a dedicated student pathway and ensuring that Child and Adolescent Mental Health Services (CAMHS) are available for students up to the age of 25. Universities should continue to engage with the University Mental Health Charter and Disabled Student Commitment. Effective partnerships with the NHS can help close gaps in services and support for students and staff.

Universities should also continue to work to address the UK's stark degree-awarding gaps by implementing guidance from the UUK Closing the Gap report.

Make clear the expectations for quality and value

Recent years have seen a decline in reported levels of confidence in the value of a degree; fewer people believe that getting a degree is 'worth it'. Left unchecked, this could erode demand for higher education, which would have damaging effects both for the individuals who would stand to benefit from gaining a degree, and for the nation, which needs a growing pool of highly skilled people in order to secure necessary economic growth. It is fundamentally the responsibility of universities to address the causes of this ebbing confidence and to act where necessary to uphold public trust and confidence in the quality and value of higher education. This is an issue we return to in chapter 7, where we examine the balance between the sector's responsibilities and those of its regulators.

We also believe that a clear, consistent offer from universities is important, so that students have a good understanding of what they can expect during and after their studies.

To this end, the commission **has set out the features that we believe all students should be able to expect from their university:**

- an environment where every student can be inquisitive, intellectually challenged and benefit from the diversity of different perspectives
- high-quality courses to provide students with the necessary skills and knowledge for further study or professional careers, both in the UK or internationally
- transparent information on the typical hours of in-person instruction, online instruction and independent study expected on a course, including the factors that may affect this
- student services covering academic skills support and advice on navigating the wider student experience
- employability and careers support, including work-experience opportunities accessible to all students, and dedicated careers support for students while they are at university and for a total of five years post-graduation
- clear processes and points of contact for students to use within universities for addressing issues and providing feedback
- accommodation availability that is informed by the size and shape of the student population, and engagement with local partners to meet demand – this can include working with other local universities, local authorities, and the private rented sector

Address labour market inequalities

Increased social capital is a substantial benefit of attending higher education, providing social networks and connections that significantly improve social mobility. Research in the US shows this can lead to a 20% increase in the likelihood of individuals moving from the bottom to the top of income distribution. Educating people from diverse backgrounds together in higher education institutions also helps to ensure social integration and promotes democratic equality. **In order to go further in bridging gaps in social capital, universities could offer careers support to graduates for a longer period of time, positing a five-year, sector-wide offer.** Universities should also build partnerships with employers to integrate the work-experience offer part of their courses, responsiveness to skills needs is a factor that is considered in more depth in chapter 3.

2.

More responsive and collaborative tertiary education

11 million+

graduates are needed to fill
graduate jobs by 2035

1 in 5

reported having no
qualifications in the 2021
census

36%

of job vacancies were hard
to fill due to skills shortages
in 2022



The shift

Improve collaboration between schools, colleges, and universities to develop the flexibility and responsiveness of tertiary education.

'Creating an effective tertiary skills system is not only crucial in ensuring that the UK's education model is sustainable, it is also central to improving regional economic growth and upward social mobility. The new government's key economic, social, and education policy drivers all point to placing greater value on collaboration and connectedness - across nations and regions, education and training providers, regulators and employers. A strong and engaged tertiary system lies at the heart of delivering this ambition.'

Professor David Phoenix, OBE, DL, FREng FAcSS, Chief Executive, London South Bank University and Dame Ann Limb, DBE DL FRSA, Pro Chancellor, University of Surrey and Chair, City & Guilds

Summary

Education and skills needs are rapidly changing with technological advances. As set out in chapter 1, there are large disparities in participation rates in higher education across England, based on barriers related to geography and social background. This represents a waste of talent. Talent is wasted across other parts of the education system too: we need a whole-system approach to tackling these challenges, underpinned by a whole-of-tertiary participation target.

If our aim is to get more people into better jobs, to fuel sustainable economic growth and remain internationally competitive, we will require strong, place-based networks that reduce local competition, duplication and complexity.

All parts of the tertiary system – universities, other higher education providers and further education colleges – need to work closely together to provide opportunities that allow learners to make informed choices that meet their ambitions so they can progress in tertiary education successfully. This means making it easy for learners to study flexibly in the best learning environment for them, and to develop skills throughout their lives.

In this chapter, which focuses on England, we propose actions to remove barriers to collaboration, innovation and integration between further and higher education, and

action to increase the likelihood that the lifelong learning entitlement (LLE) will succeed in increasing the availability of modular and flexible study options. We argue against wholesale, top-down restructuring and in favour of re-setting the incentives to support collaboration rather than encouraging competition.

Challenges

Policy debates often present the country's skills needs in binary terms, suggesting that we need more people to be qualified with lower and intermediate skills and that 'too many people go to university'. The reality is that the labour market is likely to need both: a greater number of people progressing beyond level 2 and an increase in the proportion of the population with qualifications at level 4 and above. Over 11 million graduates are needed to fill graduate jobs by 2035, in areas including STEM, healthcare and education. For example, to deliver on the Labour Party's manifesto commitment to building 1.5 million new homes, skills at every level are needed, from bricklayers to planners and architects. The same is true of many other growing industries, from life sciences to clean energy. The language of 'skills' tends to disguise this reality.

Gaps in participation and attainment

Tertiary education covers a diverse range of opportunities post-16: it includes education delivered by sixth forms academies, colleges and alternative providers, such as those offering foundation and gateway courses that can lead to qualifications at level 4. These are not only for 16–19-year-olds, but also for adults re-engaging with education. To increase the proportion of learners qualified to level 4 and above, developing the pipeline between further and higher education providers will be crucial. This chapter focuses on tertiary education that is generally understood as higher education, learning at level 4 and above that provides a regulated qualification, but we must always be mindful of how this interacts with prior education opportunities.

QUALIFICATIONS FRAMEWORK, ENGLAND

Source: Types of level 4 qualification, [ukstudyonline.com](https://www.ukstudyonline.com)

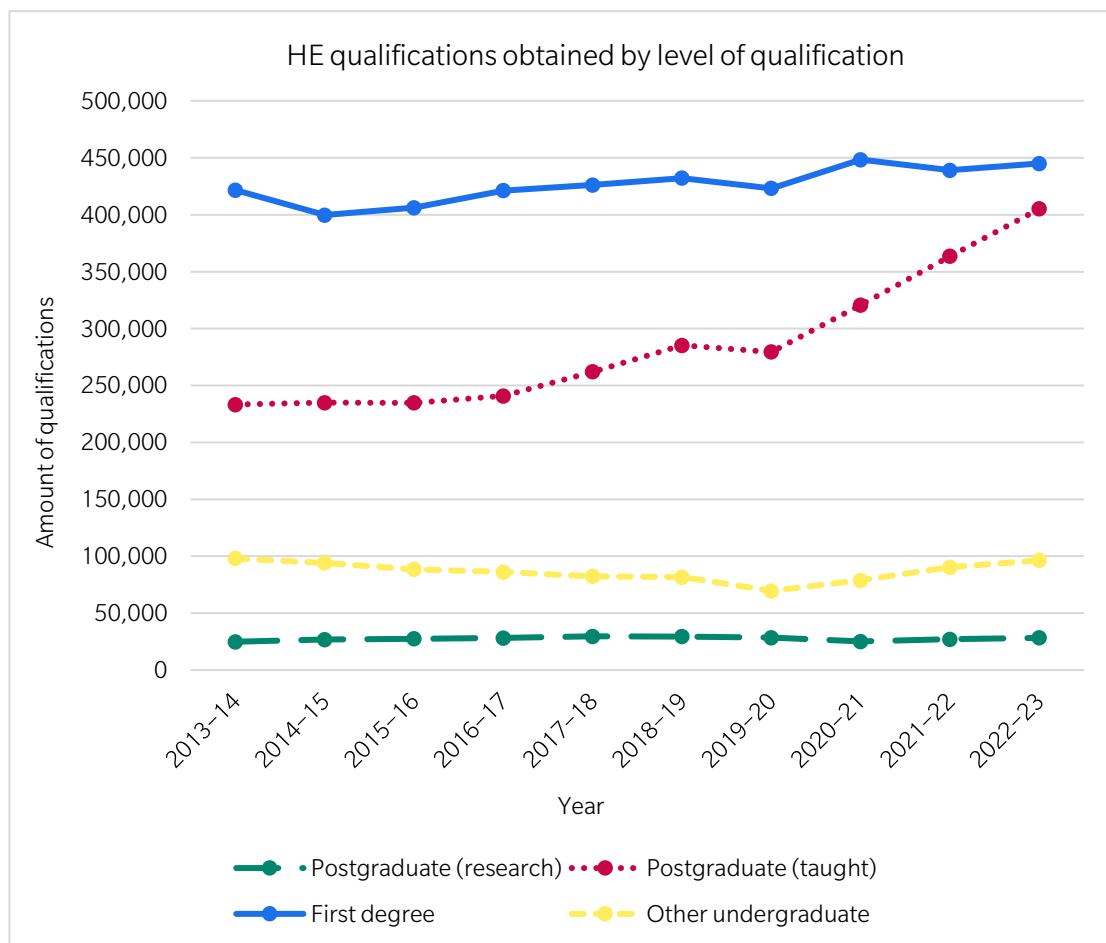
As noted in chapter 1, the UK is not alone among advanced economies in having widened and increased participation in higher education over the last two decades. Indeed, OECD data shows that high innovation and productivity economies, such as South Korea, Japan and Canada, have increased higher education participation rates to 60–70% per cent, while the Australian Government has recently set a target of 80% participation in tertiary education.

Participation in tertiary education presents a complex and evolving picture. According to Census 2021 data, three in 10 people in England and Wales aged 16 and over are

qualified to level 4 and above. However, almost one in five (18.2%) reported having no qualifications at all. There are widespread regional variations in educational attainment across England.

While participation in higher education at level 6 across the UK has increased, there has been a decline in the *proportion* of students studying for 'other undergraduate qualifications at levels 4 and 5' (such as HNDs, HNCs, DipHE, CertHE etc) over the longer term, although this trend has recently been reversed. (Figure 6).

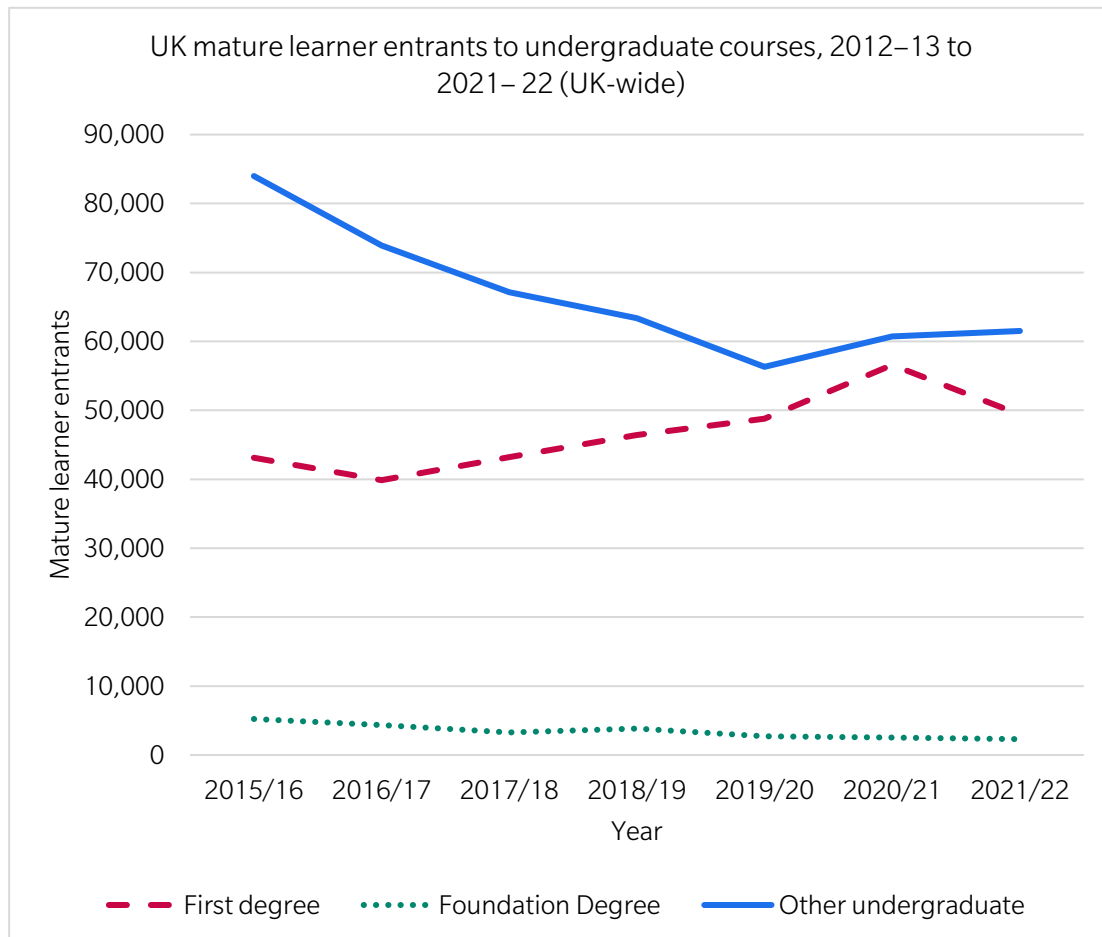
FIGURE 6



Source: Higher Education Statistics Agency (HESA)

We have also seen a decline in mature participation in higher education over the last decade, which has been strongly associated with falling enrolments in education and healthcare courses in recent years.

FIGURE 7



Source: Higher Education Statistics Agency (HESA), [Who's studying in HE?](#)

Although demand for traditional degrees remains high, there has also been a growth in interest in alternative forms of learning. For example, apprenticeships starts at levels 6 and 7 increased by 6.6% to 44,060 in 2023–24 compared with the previous year.

Structural barriers to learner choice and progression

Outside the traditional academic route, a student's path beyond school is neither linear nor straightforward. It can be more difficult for learners who choose a vocational path or who are returning to learning to make the right choices to meet their aspirations. This is partly because of the multitude of options available as part of the technical education

landscape, much of which is incongruent with other parts of the system.

A learner wishing to study a technical qualification at level 3 might be offered a choice between T levels, Advanced Apprenticeships and BTECs, for example, but not have adequate information on which to base their decision. They may not be able to access easily comparable information about the outcomes of previous students on each route (especially since T levels are a new qualification), or guidance on what progression routes might be open to them, depending on their qualification choice.

For instance, progression pathways are sometimes poor for standalone apprenticeships at levels 4 and 5, and some students may not realise that not all universities accept T-level qualifications for entry to undergraduate courses, or that progression opportunities may be more limited. Likewise, many employers do not understand T levels, deterring participation in the technical route. Meanwhile, the previous government's decision to defund BTECs risks removing a qualification that has historically provided a strong pathway into higher education for many learners, especially in healthcare professions, and one often taken in combination with A levels.

Greater collaboration between schools, colleges and universities can start to address some of these structural issues that create barriers for progression to and from level 4 education. This might include supporting colleges to focus on level 3 gateway activity to engage adult learners or those who take a less linear path to level 4 and above.

Constraints on progression

Many of our universities, colleges and other higher education providers work closely together to coordinate their provision locally. However, this is not always the case. For example, a learner may complete a level 4 HNC at their local college only to find that their local university does not offer suitable follow-on qualifications at levels 5 and 6, leading to qualification 'dead-ends'.

Meanwhile, some universities have tailored their provision to specifically lead to an award at level 4 or level 5, as well as 'gateway' provision leading to entry to higher qualifications. This includes foundation years, often provided as a means of widening participation.

There has been corresponding growth in the provision of higher education (at level 4 and above) in further education colleges, up to and including level 7 (postgraduate), generally in partnership with higher education institutions or universities. The use of franchise and validation agreements is widespread in England: currently, 131 colleges deliver validated provision on behalf of a university partner.

These initiatives have had positive impacts, such as in addressing higher education cold spots. They can also enable new higher education providers to enter the landscape,

which was actively encouraged by the previous government. However, while delivering 'HE in FE' can be beneficial, especially in opening opportunities for certain regions and learners, it can result in colleges and universities in the same area offering similar courses. Moreover, these partnerships are not always stable, and further education providers may be disadvantaged by the sudden withdrawal of a validating or franchising higher education partner. There is also concern that competition around level 4 provision is creating increased homogenisation in this part of tertiary education in three main respects:

- duplication of courses in local areas, with threats to viability
- loss of choice for students between distinct further and higher education environments
- reduced focus on underfunded gateway courses – vital to tackling the 27.8% of the population not qualified to level 2 – and on courses that address particular local needs

While we do not call for prescriptive distinctions between university and college provision based on the level of study, there is a clear need for greater coherence across the sector to minimise the negative consequences of competition and to develop clear pathways for different students and regions.

Lack of cohesion in response to local, regional and national skills gaps

The paucity of frameworks or incentives to encourage collaboration between local tertiary education providers also contributes to the homogenisation of provision described above. Local skills improvement plans (LSIPs) go some way towards identifying and addressing local skills priorities, but are generally limited in their focus and variable, and higher education is often an afterthought.

The mayoral combined authorities (MCAs) have a devolved adult skills budget that is used to assess regional needs and to identify how best to fill local skills gaps up to level 3. Although the government has committed to further devolution, there are currently only 11 MCAs (plus Greater London Authority), meaning that significant parts of England that do not currently have (and are perhaps unlikely to have) a viable MCA.

The changing labour market, with growing demand for higher level skills, combined with rapid changes to many industries as a result of transformative technologies such as AI, together with the falling birth rate and ageing population, means that lifelong learning is now an essential component of any strategy to fulfil the UK's future skills needs. In 2022, 35.5% of job vacancies in the UK were reported as being hard to fill due to skills shortages. This was an increase on 22.4% in 2017, a factor exacerbated by declining employer investment in employee development since 2011.

The decline in part-time and mature participation in higher education seems to be taking us in the wrong direction. To address this, the LLE needs to be designed so both learners and universities can engage with and benefit from it as much as possible, although drawbacks in the current policy risk it not reaching its full potential.

Regulatory complexity

The current regulatory system includes several oversight bodies that interact and overlap with each other in the tertiary space. Depending on the qualification type offered and the regulatory body responsible for quality assurance, a provider may be subject to one or more regulatory requirements. A good example is the quality regime for higher (levels 4 and 5) apprenticeships, where universities will be subject to regulation by both Ofsted and the OfS, as well as the Institute for Apprenticeships and Technical Education (IfATE) with the intention being this will transfer to Skills England in the future.

Lack of alignment creates overlapping and duplicative demands and regulatory burdens for providers. This can be off-putting for institutions wanting to enter partnerships as it requires additional resources to meet the increase in regulatory requirements. The complexity of the regulatory landscape is covered further in chapter 7.

Solutions

Adopt a principle-based approach

With nearly one in five people over 16 having no qualifications at all and participation at levels 4 and 5 falling behind our competitors, it is clear we need to look at tertiary education in the round rather than to continue to develop models of provision in isolation. This means addressing the partial market environment and moving towards greater cooperation and collaboration. In thinking about these challenges, we established seven policy principles for the tertiary system to be:

- **learner focused:** There needs to be a strong focus on coherence and flexibility throughout a learner's lifetime. This requires clear, navigable routes through different qualification levels, straightforward access to funding, and greater flexibility and choice for learners. Widening participation will continue to be fundamental.
- **future facing:** The tertiary system should recognise student choice, and lifelong learning must evolve quickly to respond to the workforce needs of a growth economy. Qualifications must remain relevant, and providers receptive to recognising prior achievement so students can progress coherently from their previous qualifications to new learning.

- **regionally engaged, within a national framework:** To help close skills gaps, tertiary providers should be incentivised to work together to meet local needs. This will need support from a national framework that provides direction for the development of tertiary partnerships and innovations regionally.
- **collaborative:** Policy should focus on incentivising and facilitating closer working and collaboration between the parts of the tertiary system, rather than encouraging competition.
- **diverse and distinct:** The tertiary sector's valuable diversity should be protected and encouraged. It will be important to avoid a universal approach and instead to encourage specialisation, allowing all parts of the sector to flourish, including education, research and innovation.
- **value for money:** Policies must improve efficiency and extract maximum value from public funds without creating unnecessarily regulatory complexity.

Learn from existing models of collaboration

There is already a rich landscape of collaboration between providers in the tertiary system, and much can be learned from these approaches. A key feature of the models is that local institutions have agreed areas of focus to enable effective collaboration.

INSTITUTES OF TECHNOLOGY

There are currently 12 institutes of technology (IoTs) in operation. Funded by the government, IoTs are designed to support collaboration and partnership between further and higher education providers and employers to deliver STEM skills at levels 4 and 5 in a local area. IoTs have the advantage of facilitating pathway development and help to define the respective roles of providers but are limited in scale and can only be a minor priority for larger partners.

HIGHER EDUCATION CENTRES

A higher education centre (HEC) is situated in an existing further education college and supplements the college's offer with a selection of higher education courses. An example of this is Nottingham Trent's University's (NTU) partnership with Vision West Nottingham College where NTU's University Centre is based. This model provides a practical solution to providing integrated pathways for local students and tackling higher education cold spots in rural areas. If the higher education institution can provide the staff resourcing and the college provides the space, HECs have the potential to be developed at speed.

GROUP STRUCTURES

A group structure provides the most comprehensive model for tertiary collaboration with a principal organisation – such as a university or college – owning a further education or higher education subsidiary. London South Bank University is an example of this approach. This model ensures that there is no competition for resources and thus enables the development of aligned education pathways across separate specialist bodies, each with its own distinct further or higher education environment. It is designed to be sustainable in the long term and can support innovation through joint leadership across the group structure.

However, current regulation means that such structures are complex and expensive to set up. Depending on the approach, they may require ministerial approval and secondary legislation. They are also complex to manage from an assurance point of view, with oversight by OfS, the Education and Skills Funding Agency (ESFA) and Ofsted, among others. If this model were to gain in popularity, it would require greater recognition from the Department for Education in terms of how it sits within the regulatory landscape.

Regulators should not require duplicate reporting for aspects such as financial health when there is a single accounting officer.

The movement of colleges into the public sector when they are subsidiaries of private-sector bodies can also generate additional, unwarranted burdens. There would be a particular concern if these structures increased the likelihood of some universities being classed as public authorities as this could act as a further disincentive to the creation of collaborative group structures.

Make a success of the lifelong learning entitlement

LIFELONG LEARNING ENTITLEMENT

The LLE opens up a potential solution to the twin challenges of meeting skills needs and expanding opportunity to a broader range of learners. More specifically, the LLE could address the issue of falling participation among part-time and mature students in higher education by providing opportunities for more flexible study options, particularly through modular funding. It will also create a single student funding system for levels 4–6, so that learners can move between providers more easily.

What is the LLE?

The lifelong learning entitlement (LLE) will create a single post-18 student finance system to help people in England pay for their college and university courses. It will fund the delivery of higher education at a modular level, offering learners an alternative to the traditional full-time undergraduate model of study. LLE will allow people to develop new skills and gain new qualifications at a time that is right for them, and to train, retrain and refresh their skills flexibly throughout their lives.

The LLE presents a real opportunity to open up tertiary education to people who currently cannot participate. If successful, it could encourage universities to think differently about education delivery and opportunities for collaboration with further education providers. It could provide a new mechanism for employers to support the development of their employees on a flexible basis, and perhaps even to support them financially to do so. It could enable learners to move between different providers of tertiary education, taking credits with them and building a portfolio that matches their individual needs and aspirations.

However, the OfS [HE short course trial](#) suggests that there is uncertain demand from learners and doubts about whether they would be willing to take out tuition-fee loans for modular study. There are also a number of barriers to offering standalone modules, including the current minimum 30-credit structure. Students and employers still consider this a significant investment in time and resources. Finally, intended flexibility for students to move between different education providers could lead to increased competition between those institutions, exacerbating some of the existing downsides of a highly competitive system.

Given the current disparities in participation, the decline in part-time and mature applicants, the UK's ageing population and the rapidly evolving needs of a labour market undergoing a technological and sustainability revolution, increasing the flexibility of the tertiary system must be the right direction of travel. We see the opportunities associated with the LLE, described above, as fundamental to achieving the flexibility needed to meet the needs of a diverse range of learners at different life stages. The new government has a chance to adjust the policy design of the LLE to ensure its success by considering:

- how the LLE can be used to facilitate greater collaboration between tertiary providers
- the issues of supply and demand for more modular courses
- how we might encourage employer involvement and funding contributions
- the lessons from the current delivery of microcredentials in many universities and

colleges, which are small enough for students to commit time to and for employers to quickly see the benefits of investment in the workforce

To make the LLE a success, **government should amend policy in the light of the learning from the short-course pilot, reconsider the minimum credit requirements, and explore whether the LLE can be used to encourage employers to support the cost of employee study on a modular basis.**

Learning from other nations of the uk

Higher education policy is devolved to the four nations of the UK. In each system, consideration is increasingly being given to how to achieve better coordination between different education providers in the tertiary sector. In Wales, [the 2016 Hazelkorn Review](#) laid the path for the Tertiary Education and Research (Wales) Act 2022, which established the Commission for Tertiary Education and Research (previously CTER, now Medr). Medr will deliver funding, regulation and oversight of all post-16 education, including sixth forms, apprenticeship and further and higher education providers, and research and innovation bodies. The Scottish Government is considering a similar approach.

While this may be appropriate in the context of the smaller higher education systems in Scotland and Wales, this approach is not without its disadvantages. In particular, universities do much more than provide higher education. Integrating actors in the tertiary landscape should not be achieved at the expense of further disconnects with universities' role in research and innovation. This is arguably already a drawback of the current policy structure in England, and while Medr has a prominent role in funding research and innovation, the scale of the tertiary sector in England could make a similar arrangement more challenging and would take many years to implement. Given that the English sector has very recently undergone a significant change in the way it is funded and regulated, and that it is just reaching a stage at which a mature relationship between itself and its principal regulator is emerging, it would be inadvisable to embark upon further wholesale reform.

Taking a 'bottom up approach'

In sum, England's university system has developed organically, shaped largely by the demands of students in a marketised and competitive environment. While this has some disadvantages, such as incentivising universities to do similar things, the institutional autonomy that accompanies this model is a source of the sector's greatest strengths. Government and the sector should work together to develop a framework in which the right enablers and incentives are in place to encourage and allow universities to build on their existing strengths and evolve in ways that would be beneficial to the country as a whole.

3.

Generating local growth

100+

university incubation
spaces, innovation centres
and science parks in the UK

1 in 6

students in England needed
to train as NHS clinical
professionals in 2031–32

600k+

interactions between
universities, businesses and
partners since 2019



The shift

Generate stronger local growth by forming an ambitious, evidence-based partnership between universities, business and local, regional, and national governments.

'Universities are a key growth sector, enabling wider economic growth across other sectors, local communities and helping to drive exports. We need to supercharge and maximise the university contribution to growth. Through stimulating greater partnership with business, embedding the potential of universities across government policy and investing in local partnerships and collaboration we can drive inclusive, sustainable growth.'

Rain Newton-Smith, Chief Executive of the CBI and Louise Hellem, Chief Economist of the CBI

Summary

Growth isn't just a government mission. It's a shared mission, in which universities can and must play an active role. There is consensus that the UK needs to address low productivity and local inequalities and create the conditions for increased private investment across regions. This is critical not only to sustaining public services, but also to addressing societal inequalities effectively. We all need growth to flourish.

Universities underpin growth in many ways. They are often one of the largest local employers and powerful economic actors in their own right. They constitute one of the UK's largest export sectors, purchase extensive goods and services, and attract inward investment.

In this chapter, we focus on England and consider the role universities can play through responding to the current and future skills needs of local employers and how universities might play a stronger role in supporting the ability of local economic actors to adopt new knowledge and technology to drive innovation and growth. We consider how we might strengthen business engagement and universities' wider civic role in England.

We also consider what contribution national and local government can make in unlocking universities' capacity to work with local business, Mayoral Combined Authorities and local government.

Challenges

Stalled productivity and private investment

The UK economy has experienced a sustained period of low levels of productivity and private investment. Between 2007 and 2019, productivity in the UK averaged a 0.2% annual growth rate, compared with a 2.1% average annual increase in the previous three decades, although the cumulative annual growth rate increased to 0.5% between 2019 and 2024. This is well below what is needed to achieve sufficient economic growth. Private investment has stalled since 2016, lagging behind other G7 economies, and the average spending by employers on training has decreased by 27% per trainee since 2011. This combination holds back growth and innovation and limits the capacity of business to assimilate and apply new knowledge for commercial ends.

Regional and local disparities are particularly strong in England and represent a major structural hurdle to achieving inclusive growth. The UK remains the world's most spatially unbalanced advanced economy, being the most unequal country among OECD member states in terms of productivity (Gross Value Added (GVA) per worker) and regional disposable household income per capita. As just one example, the productivity gap between London and Manchester is nearly 60% larger than the gap between Paris and Lyon. Chapter 1 demonstrated that these disparities are mirrored by striking differences in the participation of students in higher education and in the proportion of graduates in the workforce in different regions of England.

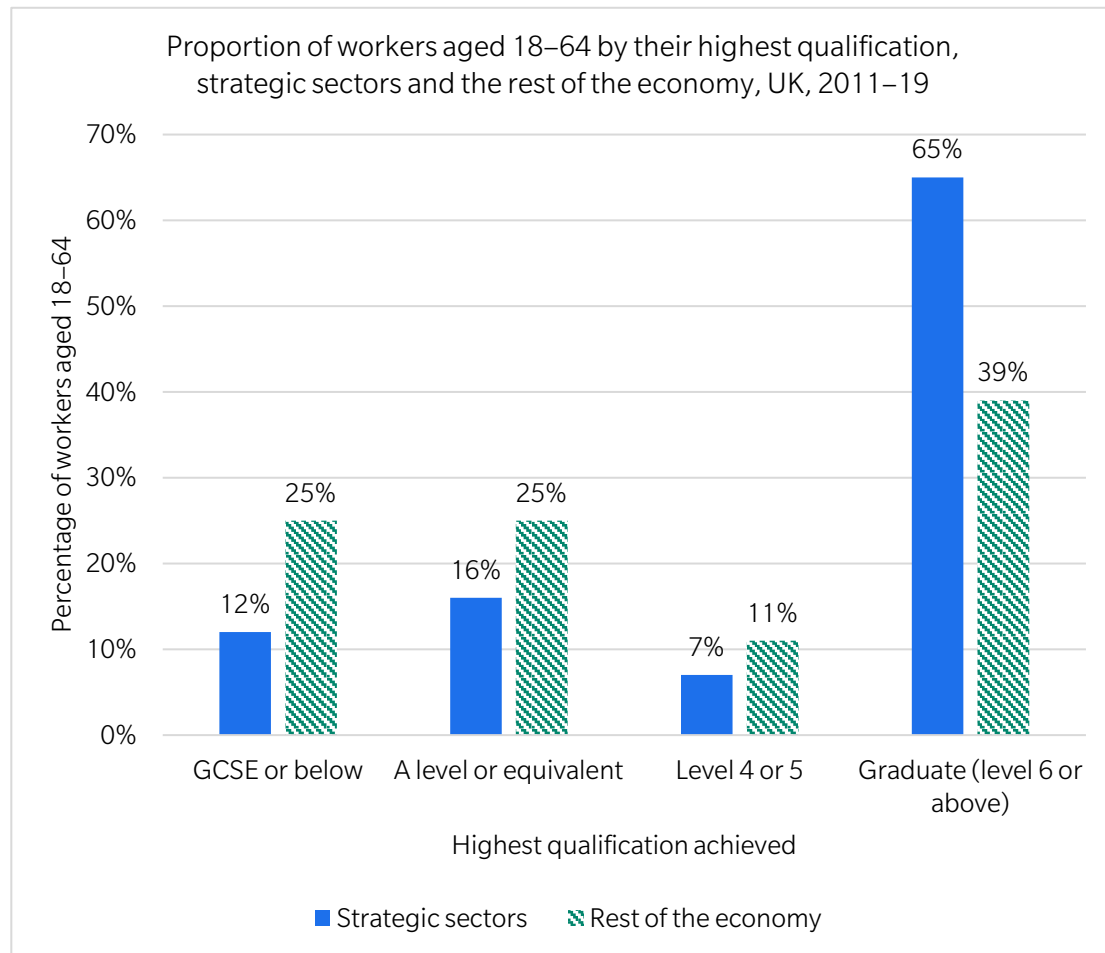
Skills gaps and a changing technological environment

A capable and agile local workforce is key to boosting the competitiveness of local businesses, attracting foreign direct investment and providing high-quality public services. According to government research, increased student numbers have played a pivotal role in preventing a steeper decline in productivity. Better alignment of skills supply and demand is also a crucial ingredient in reducing the nation's reliance on immigration to fill skills gaps. However, anticipating and meeting employers' skills needs is becoming more challenging as rapid technological change reshapes various industries in ways that are difficult to predict.

The Unit for Future Skills (UFS) predicts that 11 million new graduates will be required by 2035. In the North West, for example, the requirement for managers and directors through to associate professionals will be 251,000 higher in 2035 than in 2020. In Tees Valley MCA alone, the figure is 140,000.

As Figure 8 shows, graduates represent a significantly higher share of the workforce in high-performing and fast-growing sectors compared with the rest of the economy.

FIGURE 8



Source: Resolution Foundation, [Learning to grow](#)

It will be important to ensure our approach is future facing. Recently there has been an over-emphasis on STEM subjects over others, while, paradoxically, employers recognise that arts and humanities subjects equip graduates with a valuable and versatile set of skills – skills that are expected to become even more essential as technology, automation and AI continue to transform traditional professions. A report from [SKOPE Oxford](#) [highlighted](#) the crucial narrative skills that arts and humanities disciplines bring to the business world.

The research, based on interviews with business leaders, found that narrative and storytelling skills are ‘fundamental and indispensable’ to modern business, with arts and

humanities graduates particularly noted for their expertise in these areas.

More recently, the [World Economic Forum's Future of Jobs Report 2023](#) stated:

'Analytical thinking is considered a core skill by more companies than any other and makes up, on average, 9% of the core skills companies report. Creative thinking ranks second, followed by self-efficacy skills such as resilience, flexibility and agility; motivation and self-awareness; and curiosity and lifelong learning — all reflecting the growing need for workers to adapt to changing workplaces.'

It is therefore critical that we look to ensure that arts and humanities provision continues to be accessible to prospective students. Worryingly, we are already seeing [declines in humanities subjects](#): between 2019 and 2023, accepted applicants declined for English studies (-17.2%), history (-11.4%) and French studies (-33.0%), rendering some courses vulnerable to cuts and closures, reducing the options available to students.

Low employer investment in workplace skills

Employer voices routinely shape degrees and contribute to regular processes such as curriculum reviews and the work of industry advisory boards. Employers are also involved in providing placement opportunities to students or offering real-life case studies as a basis for student project work. Universities also provide training for students to enter specific careers by working closely with professional, statutory and regulatory bodies (PSRBs). Indeed, estimates suggest that about half of university students are studying on programmes that could be described as 'vocational', from architects to nurses.

Despite this, we hear from employers that universities need to act faster to respond and fulfill immediate and future workforce requirements. However, university course provision is fundamentally driven by student demand, since the majority of funding for higher education follows students through the fees they pay. We also know that university engagement with local and national skills planning is inconsistent: data may be contested, and skills initiatives are rarely backed by long-term funding.

Degree apprenticeships allow employers the freedom to shape higher education to their needs. Numbers on this route have expanded from [75,060 students in 2018–19 to 112,930 in 2022–23](#). However, demand for degree apprenticeships currently outstrips supply for several reasons, including the costs to universities of delivering degree apprenticeships, where provision is bespoke and student numbers low, and the costly and burdensome regulatory barriers that smaller employers face when engaging with apprenticeships at higher levels. The new government's planned changes to the skills levy will also have a significant impact on universities which have moved to offer

apprenticeships at Level 7, which the government has announced the intention to defund.

For our skills system to be responsive, the government will need to exercise caution when setting controls on how employers spend their training budgets. Putting degree apprenticeships at risk could also affect public sector recruitment pipelines, such as the nursing degree apprenticeship, and improvement of management and leadership capacity which is crucial to productivity.

An overstretched public sector workforce

Local communities rely on effective public services, which are currently stretched in all regions. Access to local, high-quality healthcare and school education is a prerequisite both to [boosting productivity](#) and to ensuring that every individual has the opportunity to fulfil their potential.

However, as we saw in chapter 1, applications for public sector courses such as in nursing, midwifery and teacher education have fallen since 2021. In healthcare, a step change is needed to deliver the NHS long-term workforce plan (LTWP). [The Health Foundation](#) estimates that the proportion of first-year higher education students in England training to be NHS clinical professionals would need to increase by 50 per cent, from one in nine of the total first-year student intake in 2022–23 (76,300 students) to one in six (125,700 students) in 2031–32. Strong university and integrated care board (ICB) engagement will be necessary to ensure that the education and training costing structure and placement capacity can support growth in the healthcare workforce pipeline. But concerted action by government, the health service and the university sector will also be needed to boost demand for courses leading to these careers.

University support for business

The relationship between universities and businesses is more complex than a linear model, where universities simply respond to the needs of companies. In cities across the UK, the agglomeration of talented people produces a gravitational pull, attracting high-growth companies to co-locate with universities, producing a largely unplanned but symbiotic relationship in which academics draw on industry insights and challenges, and process and apply these in their research. Meanwhile, companies draw on talent and collaborate with research teams in deep partnerships. Some advances are made by planned, strategic investments to stimulate existing clusters and pockets of expertise, while others occur through these agglomeration effects.

University of Cambridge and local economic impacts

The University of Cambridge has a significant local and national economic impact, supporting 52,000 jobs in the East of England (out of 86,000 across the UK) and £13.6 billion in economic impact (out of £29.8 billion). Much of this is driven by the university's position as the most successful cluster and local ecosystem in the UK and the most innovative Science and Technology cluster, by intensity, in the world, with 178 spin-outs and 213 start-up companies, combined with research and commercial activities generating £23 billion of economic impact.

This has been built on a long-term commitment to embedding and encouraging innovation, enterprise and business engagement, including establishing the UK's first science park. Recently, Innovate Cambridge has been established joint work with more than 100 partners to develop an ambitious and broad-ranging vision of innovation for the Greater Cambridge area.

Rolls-Royce and university partnerships

Strategic university–business partnerships are found in universities of all shapes, sizes and levels of research intensity, although they vary in nature. For example, Rolls-Royce has developed university technology centres (UTCs) with 14 universities in the UK and partnered with many others in initiatives ranging from blue-skies and applied research to addressing immediate business challenges and developing critical skills.

Cranfield UTC is hosted by the Centre for Propulsion and Thermal Power Engineering and supports Rolls-Royce System Design, including through work on aerodynamics, engine installation and more sustainable and 'cleaner' aviation.

At the University of Derby Nuclear Skills Academy, Rolls-Royce is again a key partner, working to create a dedicated pipeline of talent for the nuclear industry through apprenticeships in engineering, manufacturing and business, all supported by bespoke training equipment and IT facilities. Meanwhile, the Rolls-Royce Technology Hub allows experts from the Rolls-Royce Central Technology Group to co-locate with staff and students to identify applications for technologies in robotics, metrology and sensor technology.

Since 2019, there have been nearly 600,000 interactions between universities, businesses and non-commercial partners, with more than 20,000 active spin-outs, start-ups and social enterprises emerging from UK universities, often supported initially through university incubation spaces, innovation centres and science parks, of which there are more than 100 located in universities across the UK. Universities often support

business growth through their students' skills, one example being through knowledge transfer partnerships (KTPs), which connect pioneering businesses with universities and other research institutions organisations. Every KTP is managed by a talented graduate or postgraduate acting as KTP associate, and there are currently 800 KTP associates connected with over 100 universities and research institutions. Every £1 of public and private money invested in the scheme generates a return of between £4.20 and £5.50 in net economic benefits.

Case studies: collaboration between universities and businesses

University of Coventry institute for Advanced Manufacturing and Engineering

was born out of a collaboration between the university and Unipart. This 'faculty on the factory floor' boasts state-of-the-art equipment and new teaching and research facilities. It allows students to work and learn on real projects that are being run by businesses in the city.

Birmingham City University's STEAMHouse is a centre for technology, innovation, creative thinking, prototyping and business development. It provides new teaching and learning spaces for computing and digital technology students alongside facilities and space for businesses and the opportunity to collaborate on projects.

Launchpad Ventures Studio at Falmouth University is a new research and knowledge exchange hub sited at the heart of Cornwall's growing creativity and technology cluster. Its initiatives include an award-winning business incubation and acceleration programme, a micro-internships scheme and an immersive business lab that recently supported Cornwall's Spaceport project.

In many parts of the country, the business landscape is dominated by small- and medium-sized enterprises (SMEs), for which access to expensive equipment and facilities are a real barrier to improving processes, reducing waste and increasing productivity.

Many universities have facilities dedicated to supporting SMEs to explore what new technologies could do for them or to provide extensive skills development opportunities, for example through schemes such as Help to Grow. However, the National Centre for Universities and Business (NCUB) found no consistent regional pattern of university-business interactions. For example, the percentage of companies with at least one interaction related to commercialisation with a university ranged from 29% in the North East to 45% in the West Midlands.

Despite huge growth in the capacity of the university system to support business, business organisations still report that companies sometimes find it hard to know whom to talk to in their local universities. Although universities do often have dedicated teams focused on business engagement, and Higher Education Innovation Funding (HEIF) funding in England has underpinned business engagement, this may not be obvious from the outside, or accessible to time-poor entrepreneurs. There may be ideas, technologies, techniques and facilities available to companies that would enable them to be more productive, but companies may be unaware of or unable to adopt these because of obstacles to accessing the right expertise.

Policy instability and loss of European funding

These are not new challenges. However, policy and funding designed to remove these barriers has been subject to instability over the last 15 years. Innovation funding has often been short term and stop-start, creating cliff-edges to projects and impacting the extent to which universities can act strategically to develop and retain capacity, work with businesses over long periods, share expertise and secure investment. The ability to work well with local business fundamentally comes down to relationships. Staff in university innovation teams need to build networks with local businesses, and the leaders of those businesses need to get to know what universities can offer. These relationships take time to build and are easily lost.

The loss of European Structural and Investment Funds (ESIF), including European Regional Development Funding (ERDF), without a suitably funded replacement led to a cliff-edge for over 100 university local innovation, skills and business support projects across the UK. The £60 million Regional Innovation Fund (RIF) pilot in England was a welcome attempt to replace some of that lost funding, but the quantum was less than half of what was available to universities via the ERDF, which amounted to an average of £135 million a year between 2014 and 2020. This led to many people with industry-facing roles in universities being made redundant. Furthermore, the RIF was a one-year pilot fund, and there is no current commitment to providing follow-on funding, presenting another cliff-edge.

There is a particular challenge in the devolved nations, where replacement funding has been either non-existent or inadequate, in part due to the distribution methods chosen by the previous UK government.

ESIF supported skills and innovation interventions across local enterprise partnerships (LEPs) in the regions of greatest need. ERDF funding had a strong focus on research and innovation, as well as supporting SMEs to innovate and grow in key sectors such as digital, tech and net zero. Universities used these funds to support SMEs with business advice, skills development and recruitment and to provide access to their facilities. These projects played a crucial role in supporting inclusive growth and, according to NCUB,

ERDF income catalysed further university–business collaboration, with up to £7.53 of additional knowledge-exchange income being generated for every additional £1 received by universities in ERDF income.

Case studies: the impact of funding

The University of Lancaster had an extensive collaborative programme of support for SMEs across the North West, funded by ERDF, that focused on the digital/data economy, net zero, healthcare and advanced manufacturing. The programme assisted over 3,000 SMEs, creating over 500 jobs and supporting almost 200 SMEs to bring new products to market. An independent economic evaluation showed that every £1 of ERDF returned £28.55 of additional economic benefit.

The Growth Hub in Gloucestershire is a business support service that since 2014 has helped local businesses create 1,100 jobs, added £155 million Gross Value Added to the economy and boosted turnover by £400 million. It historically received half of its funding from European funds.

Cliff-edge funding of this nature undermines the efforts of universities and their local partners in business and erodes the value of the critical knowledge exchange infrastructure. Short-term projects and general uncertainty also affect the confidence of private co-investors, confidence that is hard to win back, particularly in parts of the country with a high number of SMEs.

Solutions

None of the issues outlined in this chapter are new. In the last two decades, there has been a huge shift in the degree to which universities respond to local and regional skills and business needs. Almost every university in the country interacts with local companies and with providers of public services, usually in multiple ways, from providing training and seeking input for curriculum design, to incubating businesses and providing deep strategic collaboration in research. However, if universities are engines of growth, and growth has been lacklustre, we must ask ourselves: what can we do differently or better to make an even stronger contribution in the future?

Achieve greater stability and consistency

A major issue has been the constant rewiring and reinvention of interventions designed to bridge the gaps between the education and research sector and business and public services providers. Policymakers will need to reduce complexity and duplication of the structures intended to foster universities' interaction and collaboration with businesses, the public sector and the skills landscape in the pursuit of local growth. Above all, we need a stable approach that does not change every few years. Stability and consistency in policy will play a crucial role in enabling universities to plan for the medium term and so stimulate greater private-sector investment.

Build engagement through devolution and local growth structures

English devolution and local growth initiatives provide an opportunity to create greater stability, consistency and coordination where there has been a short-termist outlook, an absence of effective, joined-up government and poor understanding of what works well through a lack of evaluation.

The establishment of MCAs has, in some parts of the country, created an effective mechanism for many universities to engage with other education providers, business and the public sector to meet local needs. However, national and local government will need to address the gaps in geographic coverage of MCAs and put in place equivalent structures where these do not exist. **Strong links between the Industrial Strategy Council and Skills England and effective partnerships with local structures will be essential to achieving stability. Where MCAs do not exist, we propose government establish local growth partnerships** to enable universities to support local authorities to develop their local growth plans by overcoming local coordination failures and learning from initiatives such as LEPs and LSIPs. **Universities are well positioned to put themselves forward as critical partners in local growth plans and should ensure they have a dedicated 'local growth' function to act as a single point of contact for partners.**

To maximise their contribution, universities need to be embedded as key partners with MCAs and local authorities, but MCAs and local government also need to invest to get to know, understand and engage with universities.

Increase collaboration between universities

Increased collaboration between universities can multiply their strengths. There are several good examples of universities organising themselves into effective regional partnerships, like the work of universities in the North East, Yorkshire, London and Greater Manchester. These and similar regional partnerships capitalise on institutions'

complementary strengths to create opportunities that would otherwise not be possible, building capacity in key areas of their local economies (eg, digital, nursing and construction), sharing intelligence and raising both business engagement and private investment. We should be ambitious and expect these strong university partnerships to reach out to MCAs and local authorities across England. The tailored local and regional agreements, such as the [Keele Deals](#) and the work on [Civic University Agreements](#), provide a good model for extending these partnerships to public sector partners.

Yorkshire Universities

[Yorkshire Universities](#) brings together 12 universities across the Yorkshire region to collaborate with each other and with local partners such as MCAs, city councils, local authorities and business. Key areas of collaboration include local and regional skills development, health and climate. For example, its Research and Evidence Panel supports the Yorkshire and Humber Climate Commission's regional climate action plan, and collaboration with employers is increasing regional graduate retention. [The Yorkshire and Humber Policy Engagement and Research Network \(Y-PERN\)](#) was recently established to improve the effectiveness of inclusive regional development and policy.

As well as the focus on local partnerships to support local growth, **it is essential that these partnerships and universities themselves are connected to and integrated with national and sectoral growth initiatives, such as the planned industrial strategy. There is a role for local and national government in creating stable and effective incentives for universities to collaborate with each other and with business and the public sector to meet the defined skills needs for industry and business.**

Meet skills needs

[Between 2017 and 2022, skills shortages in this country doubled](#) to more than half a million and now account for 35.5% of job vacancies. The launch of Skills England in July 2024 should anchor long-term strategic thinking and articulate the common goals to meet skills needs for the next decade across every region. **Adopting an inclusive approach to addressing every level of skills gaps, Skills England should look to capitalise on the central role universities have in tackling skills shortages at the higher levels.** Its functions should include:

- providing national foresight and insights to foster a shared understanding of skills needs: universities can contribute significant analytical capabilities to enhance the

evidence on which Skills England draws

- mapping funding gaps and pathway opportunities across regional and local skills infrastructure to correct cold spots
- acting as a docking point to engage with local skills infrastructure, providing consistency while also empowering local players to adapt to local needs and so avoiding trapping localities or sectors in a low-skills equilibrium
- strengthening information, advice and guidance services in schools, colleges, universities and community organisations to help stimulate student demand aligned with employer demand

Government should also ensure there is sustainable funding for degree apprenticeships and that any reforms to the apprenticeship levy are driven by what employers need and capitalise on strong student demand.

While universities should play a strong role in supplying local skills needs, they must also remain responsive to student demand and preserve a broad range of opportunities and diversity of qualifications and education and training routes.

This is especially important given the growing number of students who choose or need to study locally, due to cost pressures or personal ties. Universities need to balance the specific needs of the local labour market with the need to preserve broad and sometimes national opportunities for the student populations they serve.

To incentivise universities to provide more courses aligned to local employer requirements, we need better ways of informing student demand using intelligence about labour market opportunities, and employers who are willing to direct funding towards the training they need. This could include the shaping of employer-led modular higher education provision, and stimulating increased employer investment in training, including through the LLE.

"Uni has taught me new skills and developed my abilities in a subject which was once just a passion."

McKenna Marsden | 100 faces campaign

Deliver the NHS workforce

The government can support universities to deliver its commitment to **the NHS long-term workforce plan (LTWP) by laying out the funding milestones necessary for expanding training capacity**. NHS England should **enhance the guidance clarifying the responsibilities for workforce planning across ICBs and higher education providers**. Universities will also work with the NHS to strengthen their partnerships with ICBs to build a shared roadmap for delivering the capacity expansion the NHS needs. To help this, universities should have a dedicated contact to coordinate LTWP-related engagement.

Invest to expand growth and maximise collaboration with business

Judicious investment of public funds can support stronger collaboration, stimulate private investment and secure significant value for money. For example, the Higher Education Innovation Fund (HEIF) represents excellent value for public money. We know that:

- every £1 invested in HEIF in England generates an additional £8.30
- every £1 invested in KTPs generates an additional £4.20–£5.50
- accelerators and incubators connected to universities are also associated with faster sales and job growth in participating businesses.

Notably, HEIF is critical to developing and retaining the agile capacity needed for universities to engage with technology transfer, support local economic development, partner with SMEs and secure investment. The flexibility of HEIF provides a foundation for investing in collaborative projects, supporting enterprise and in developing local innovation networks across England. However, not all universities currently receive it: **a long-term commitment from government is needed to ensure we maximise HEIF's impact on local growth, investment and productivity.**

It is imperative that the UK government considers, with the devolved administrations, how to adequately replace the funds previously derived from the ERDF, as set out in the previous section, using metrics that more accurately reflect its objective of targeting those parts of the country that are currently low in R&D intensity and have the potential to support higher productivity. For any future sub-national devolved funding that aims to support research and innovation to be effective, it would need to be ringfenced for this purpose and aligned to local growth needs. In the first instance, **Government should consolidate and expand the RIF pilot to replace ERDF funding. We need a long-term, stable commitment to RIF at scale. Separate consideration will need to be given as to how to adequately replace the lost ESIF in the devolved nations**, in line with manifesto commitments, including ensuring sufficient scale of funds and that

decision-making is at a devolved level.

There is also an opportunity to do more to leverage the excellence and global profile of UK universities to attract foreign direct investment to the UK and into local economies, as recognised by [the Harrington Review](#). With their research strengths and skills offer, UK universities are at a distinct competitive advantage when seeking to secure [globally mobile investment](#). **Universities and government could work together to promote more effectively what the UK can offer in partnership with the Department of Business and Trade.** The GREAT communications campaign could be a vehicle for this.

The cumulative impact of greater aggregation of local skills and innovation needs, improved coordination of policy and funding levers in support of those needs (as identified in local growth plans), and focused attempts to attract high-value inward investment should have the effect of reducing the economic imbalances in our country and lead to the growth of knowledge-intensive clusters.

4.

A world-leading research and innovation system

£10

For every £1 invested in uni research and innovation, the UK gets £10 back a year

2.9%

of the UK's GDP was invested in research and development in 2021

200k+

active spin-outs, start-ups and social enterprises from UK universities in 2022–23



The shift

Secure our future research strength by addressing the financial sustainability of the system, its international competitiveness, and its ability to diffuse the knowledge it creates so that it can be best put to use in our economy and public services.

'There is a crisis in university research funding and we risk seeing the UK's world-class capabilities and competitive advantages being eroded. We cannot afford this. A high innovation economy in the UK must match the research intensity and successful commercialisation of our strongest competitors. Universities must meet the government halfway. We need universities to engage in research and innovation in line with their strengths and build critical mass in major areas of scientific discovery, while ensuring cross-pollination between disciplines.'

The Rt. Hon the Lord Mandelson, PC

Summary

The UK's research and innovation system is at an inflection point. If we want to be a country of the future rather than the past, we must double down on our ambition to be genuinely world leading in research and innovation.

However, universities face intensifying financial pressure and rapidly increasing global competition. Despite recent increases in investment, the current system relies on a disproportionate and growing cross-subsidy from universities to make research viable. Given the financial deterioration of universities, this has produced a huge gap in funding. Moreover, the stop-start nature of government funding has creating cliff edge breaks in projects, to the detriment of the talented people who are essential to our nation's research strength. All of this is preventing the development of a critical mass of infrastructure and expertise and disincentivises both research across disciplines and collaboration with industry.

We need an ambitious and long-term approach from the government to funding university research. The UK remains a world-leading research base, but we can no longer take UK universities' R&D activities for granted. For the UK to retain its international competitiveness and deliver on the government's ambitions for economic growth, it requires a stable and sustainable approach to R&D.

There is also much that universities themselves can do: working with funders to increase the sustainability of research; activating behavioural change to remove current perverse incentives in the system; focusing on institutional strengths; and developing a critical mass of research excellence, rather than spreading resources too thinly. As we have emphasised throughout this report, universities must fully commit to breaking down cultural and institutional barriers between academia, industry and other sectors in order to disseminate the knowledge they generate more effectively, so that it can contribute to growth, including through developing a diverse, agile talent base across every region of the UK.

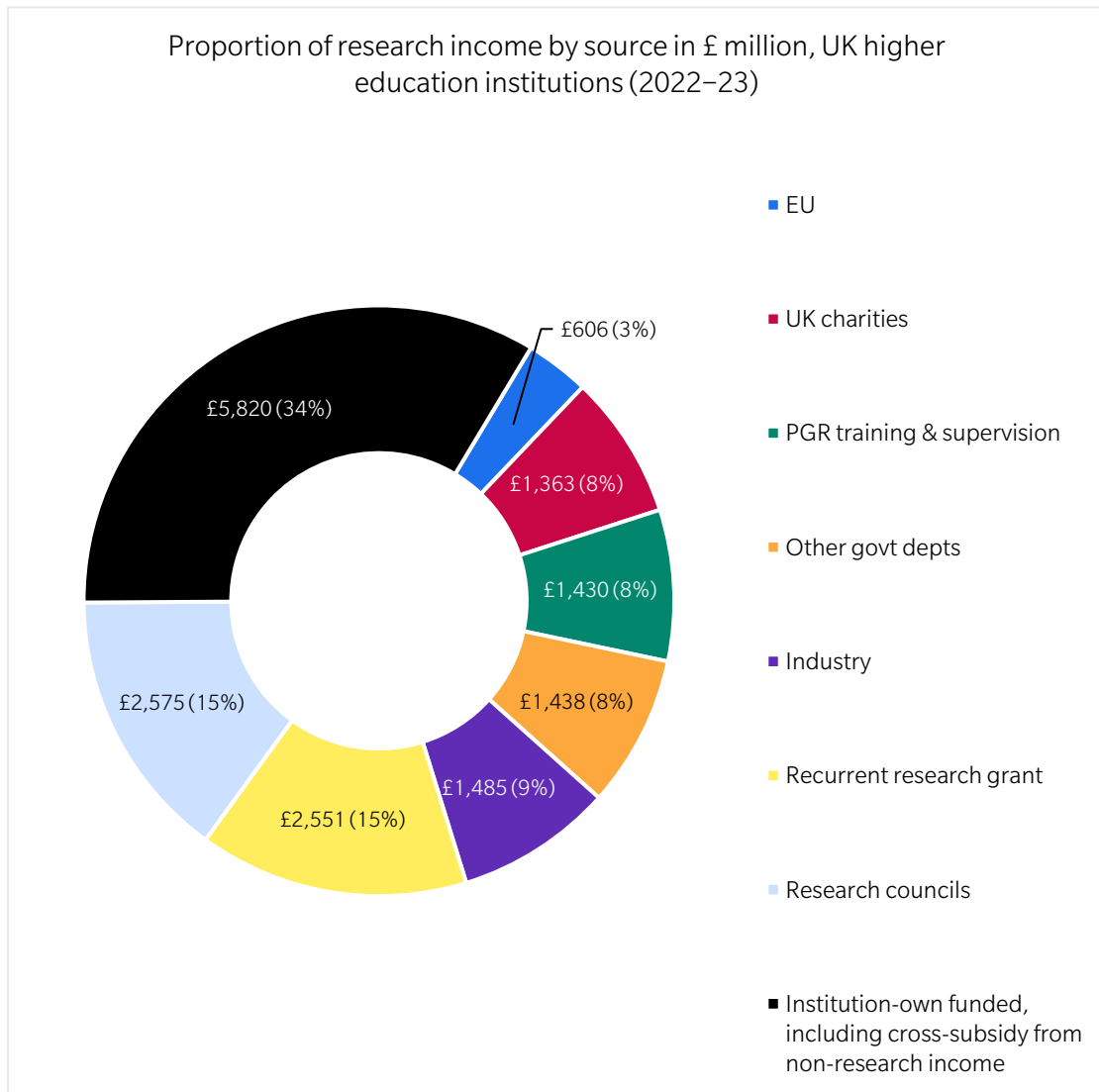
Unlike most other chapters in this report, this chapter looks at the UK-wide research system, since policy is set at the UK level.

Challenges

Deficits in the financial sustainability of R&D

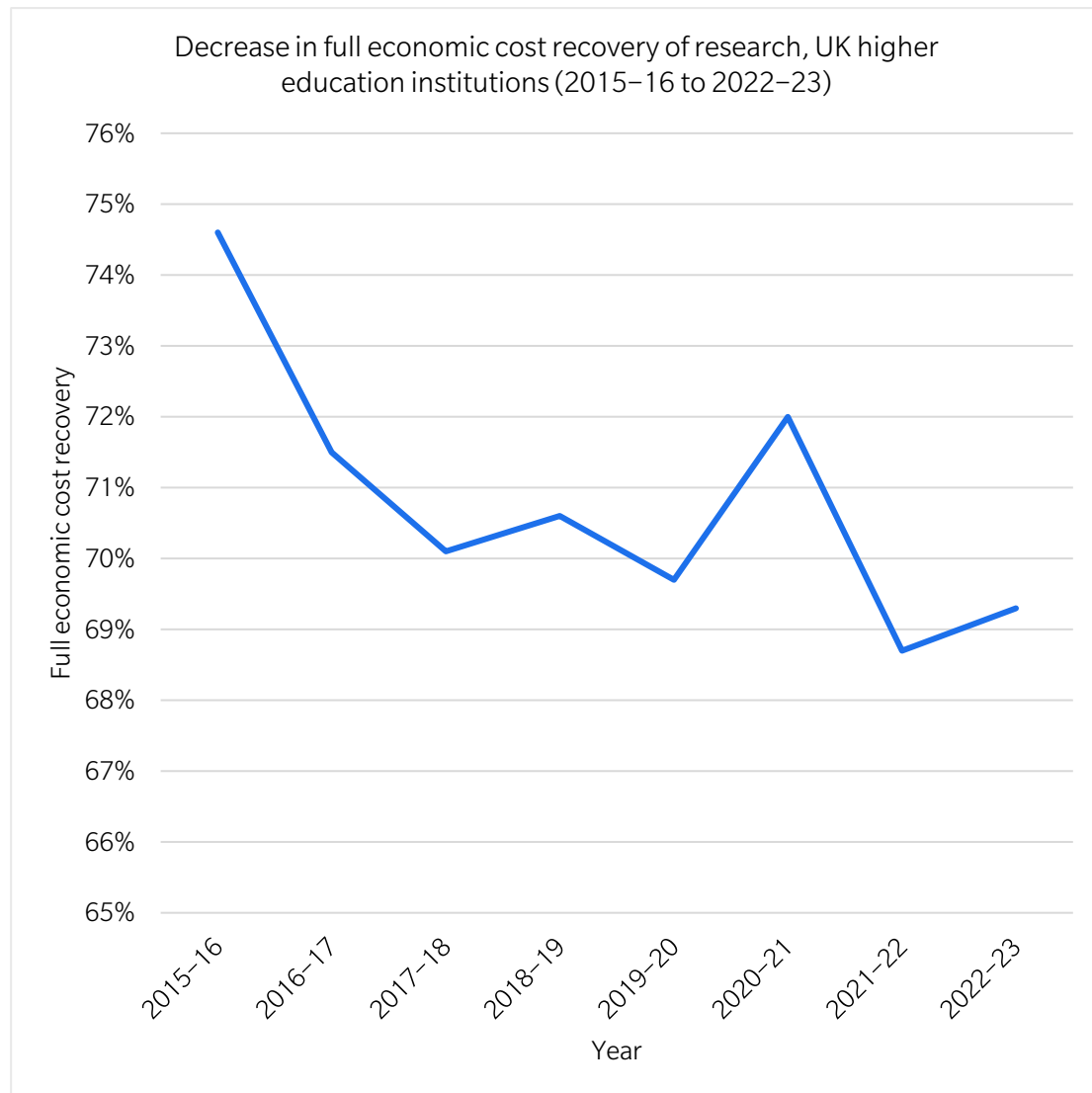
The UK's research funding system is structurally unsustainable. It is estimated that for every £1 of public money invested in university research and innovation, the country gets back £10 a year. In addition, Every £1 of public R&D spending stimulates £1.96 to £2.34 of private spending. Yet despite increased investment in R&D at the 2021 Spending Review, in 2022–23, UK universities incurred a £5.3 billion deficit on their research activities. The university research funding system is designed so that quality-related (QR) research funding (and devolved administration equivalents) allows universities to make strategic research and innovation investments. It also enables strategic choices on what project-specific grant funding to bid for. This project-specific grant funding is intended to cover up to 80% of the full economic cost (fEC) of research, with the remainder intended to be covered by other funding. However, rates of recovery are below this and are worsening.

Figure 9 sets out the value and sources of universities' research income in 2022–23, and Figure 10 shows the deterioration in fEC recovery, with only 69.3% of total research costs recovered in 2022–23. This has resulted in universities subsidising research from other, increasingly overstretched income streams, mainly fee income from international students. This model is not fit for purpose and is unsustainable.

FIGURE 9

Note: legend is in order from lowest proportion of income to highest proportion of income.

Source: [Office for Students, TRAC data](#)

FIGURE 10

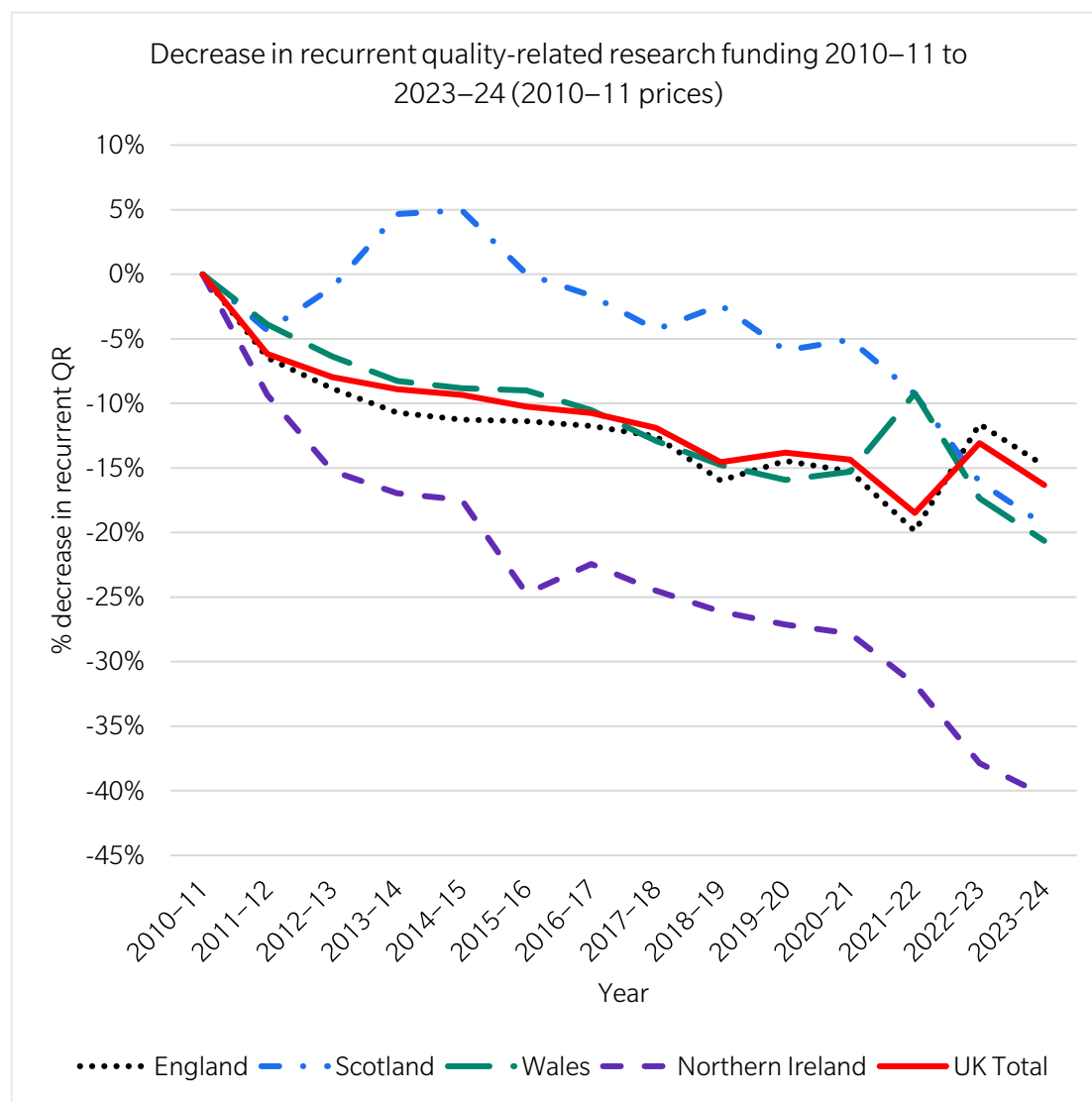
Source: Office for Students, TRAC data

Quality Research (QR) funding is a fundamental component of the university research funding system. Universities use QR funding to, among other things:

- open new avenues to interdisciplinary research
- invest in research talent
- pilot experimental research before it is ready for grants or markets
- develop partnerships with innovative SMEs or giants of industry
- provide seed funding in order to forge global research and business collaborations (see chapter 5).

However, since 2010, block grant research funding has fallen by around 15% in real terms across the UK and even more so in the devolved administrations (Figure 11). On a proportional basis, QR funding levels vary substantially between the UK nations. While this funding is allocated to each nation based on each institution's size and performance, the total funding available to a nation's universities is set locally, based on each government's overall budget process.

FIGURE 11



Note: Figure 11 reflects changes in QR funding since 2010. The balance of funding differs across the UK, and nations are starting from different baselines. Real terms analysis based on Consumer Prices Index adjusted for academic year 2010–11.

Source: UUK analysis of Research England, Scottish Funding Council, HEFCW and Department for the Economy (NI) data

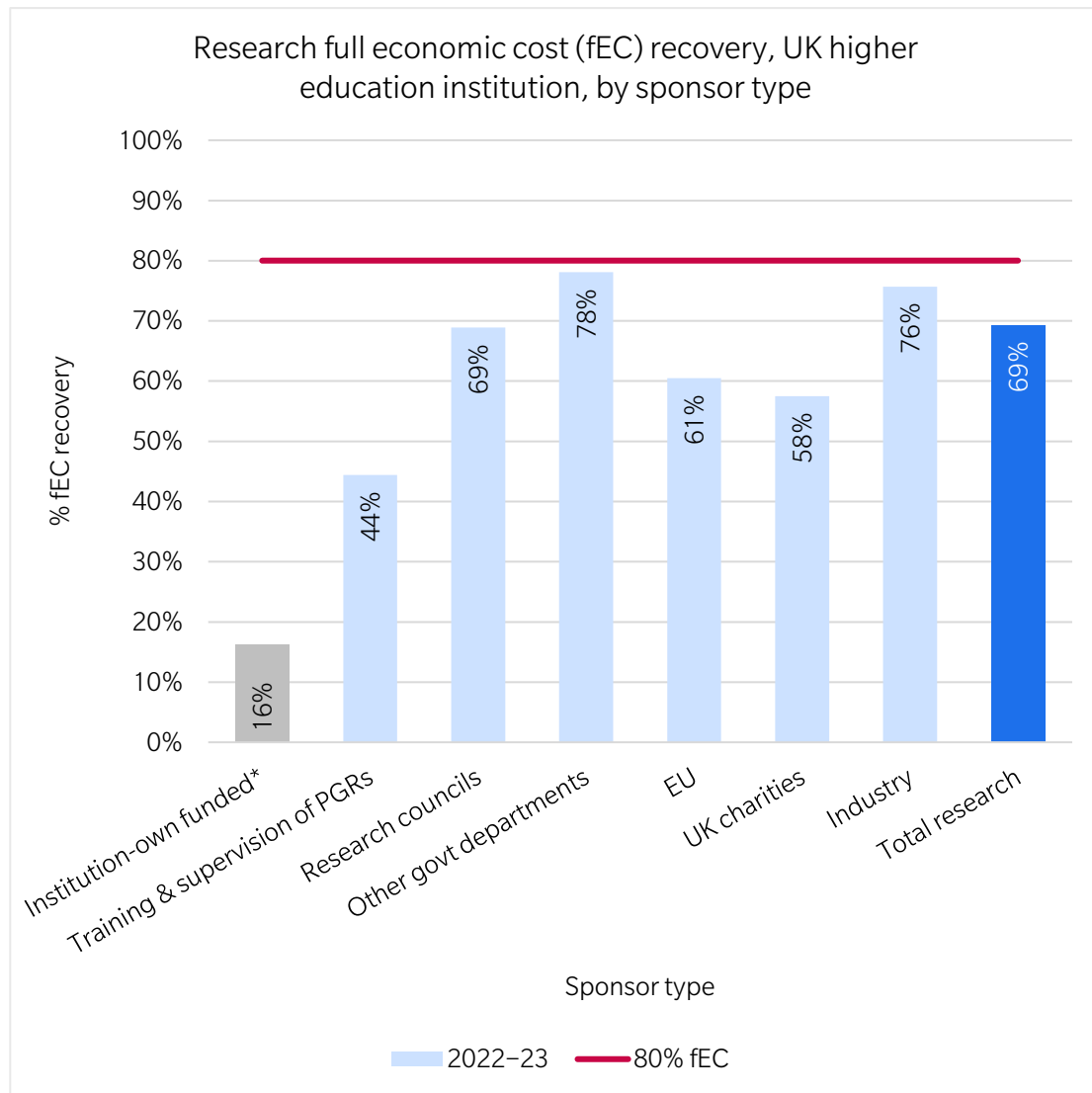
QR funding is a key means of funding research flexibly. As it has declined, universities have compensated, largely by increasing international student fee income. Now that this too is under pressure, as described in chapter 5, it has become more challenging for universities to consider choices around co-investment.

What is QR funding and why does it matter?

The four higher education funding bodies of the UK provide strategic institutional funding to universities to support research and knowledge-exchange activities. Most of this research funding is delivered in block grants, with the main block grant funding called 'quality-related' (QR) funding (equivalent to the 'Research Excellence Grant' in Scotland). The Research Excellence Framework (REF) informs funding allocations, as do elements such as universities' postgraduate research numbers and charity-sponsored and business-funded research. QR funding is vital because it allows universities to make strategic decisions on research activities according to their missions and objectives. Importantly, it is used to train the future R&D talent pipeline, with this money balancing the significant mismatch between PhD student costs and income. UCL notes that QR funding 'plays a key role as the only funding stream available to support the supervision of all postgraduate research students'.

Challenges in research cost recovery exist across each sponsor and institution type, (Figure 12 and Figure 13) using the Transparent Approach to Costing (TRAC) methodology.

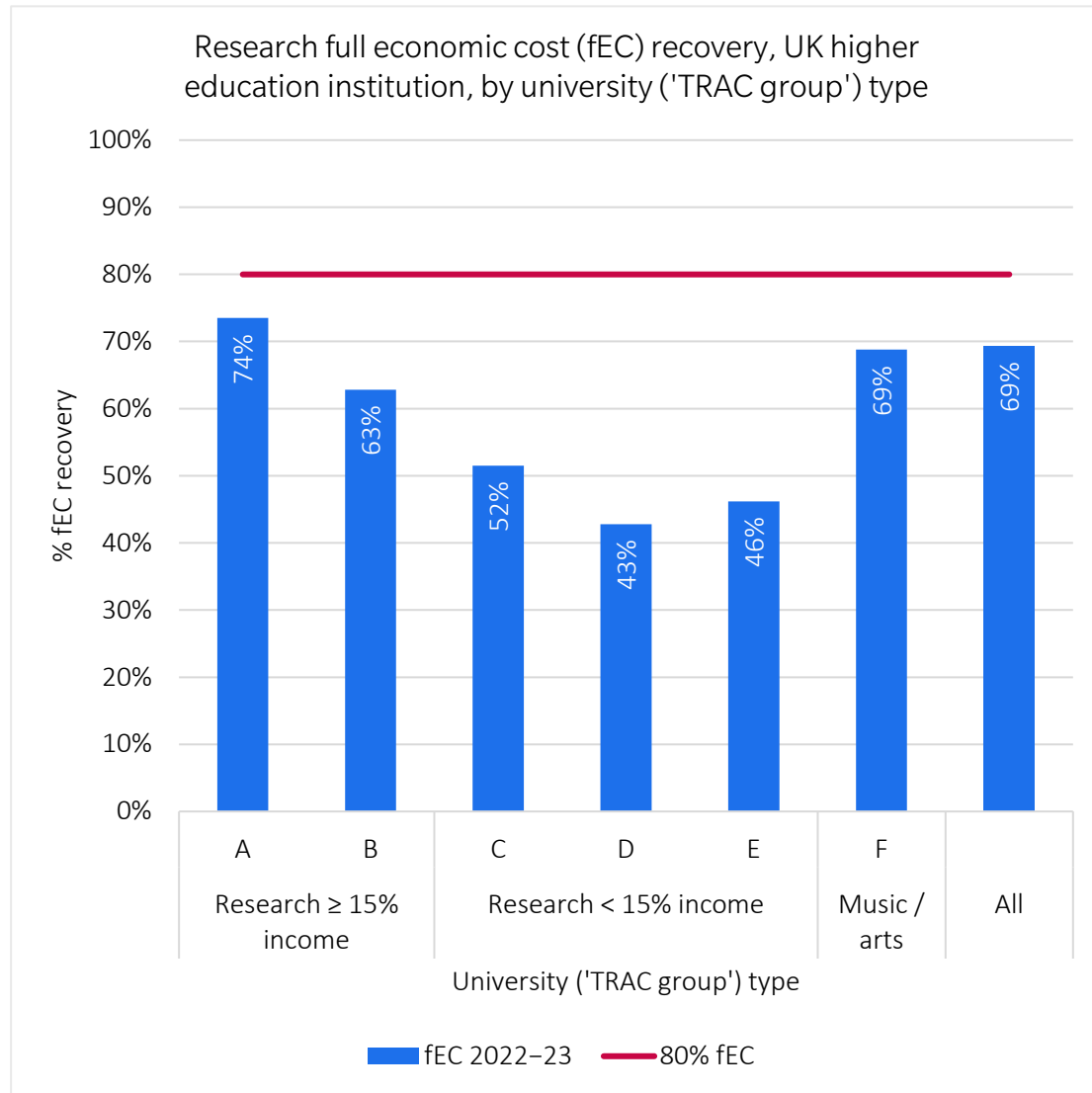
FIGURE 12



*Institution-own funded research is primarily funded from non-ringfenced income, so low nominal cost recovery is expected.

Source: [Office for Students, TRAC data](#)

FIGURE 13



Source: Office for Students, TRAC data

CHARITY-SPONSORED RESEARCH

In 2022–23, the full economic cost recovery for charity-sponsored research was 57.5%. The Charity Research Support Fund (CRSF) and the equivalent funds in the devolved administrations have helped to increase cost recovery by addressing some of the indirect costs that charities typically don't cover. The value of CRSF, however, has not kept track with increasing levels of charity investment or inflation, which is threatening medical research partnerships between government, charities and universities.

TRAINING AND SUPERVISION OF POSTGRADUATE RESEARCH STUDENTS

Postgraduate research students are a critical part of the research landscape, and one that is under real strain. Investment in postgraduate research training is essential to our future research success and we must not neglect it. The reported cost recovery rate on this activity was just 44.4% in 2022–23. Inadequate cost recovery undermines the UK's capacity to attract, support, develop, retain and use research talent as part of a healthy research culture. Investment in university research is unique in producing not only valuable discoveries but also the co-production of a supply of the trained people needed to contribute to the work of innovative R&D programmes in industry. There are differences in the ways in which institutions calculate postgraduate research training and supervision costs in TRAC data, but even so, is an area that demands sustained and collective attention.

INDUSTRY-FUNDED RESEARCH

In 2022–23, only 75.7% of research costs were recovered in projects funded by industry. While there is a business research element of QR funding, some universities advise staff that pricing negotiations for industry-funded research should start from at least 100% of costs, but this is not happening sector-wide. What it is possible to negotiate will depend on regional innovation systems: for example, in Scotland, there is high engagement with SMEs, which may require greater flexibility on the part of the university partner.

Effects of poor cost recovery rates

First, the current system creates a perverse paradox in which the more successful a university is in bidding for grants, the more money it loses by having to pay costs not covered by research contracts. This gives the advantage to institutions that can sustain loss-leading activity, and so an increase in research contracts requires an increase in self-funding to cover overheads. This puts universities at risk of an unhealthy reliance on sources of income that may fall outside their control (primarily fee income from international students) to subsidise significant and sustained underfunding of research. This is compounded if researchers feel incentivised to understate the estimated costs in order to 'win' funding, despite this not being the funder's intent.

Second, the route from discovery research to commercial application is a long one and is not necessarily linear. The current funding cycle leads to short-term grants, creating uncertainties for research teams. This stop–start system means universities must sometimes rehire and retrain teams every few years. This is bad for the individual researchers themselves, contributing to precarity in employment, and potentially risks the loss of talent as academics and postgraduates seek better job security elsewhere, including abroad. This is compounded by inevitable disruption to research activities, losses in institutional capacity, and the generation of administrative and financial burdens that would be unnecessary with a more long-term, sustainable model.

Universities are not complacent about the current financial environment but cannot address this challenge alone: even with further efficiencies, there will be a substantial funding gap. Until R&D becomes more financially sustainable, they will have to make difficult choices that have regional and national ramifications. This matters because R&D should happen in places that have the best ideas, not only in places that can afford the losses and impacts described above.

It is also likely that these pressures will lead to a collective underinvestment in future research discoveries and in the R&D talent our country needs. A 2024 UUK survey on efficiencies showed widespread cost-saving measures were already in train or undertaken: 81% of respondents had undertaken cost-cutting activity in the last three years, and 34% would consider retrenching from academic research activity as part of cost-cutting efforts.

While the UK research base continues to punch above its weight, international comparisons suggest the UK is losing ground to competitors (Figure 14, see overleaf).

"Without university I wouldn't have been given an opportunity to give back through teaching, caring for others and contributing to research that will hopefully improve the lives of countless more."

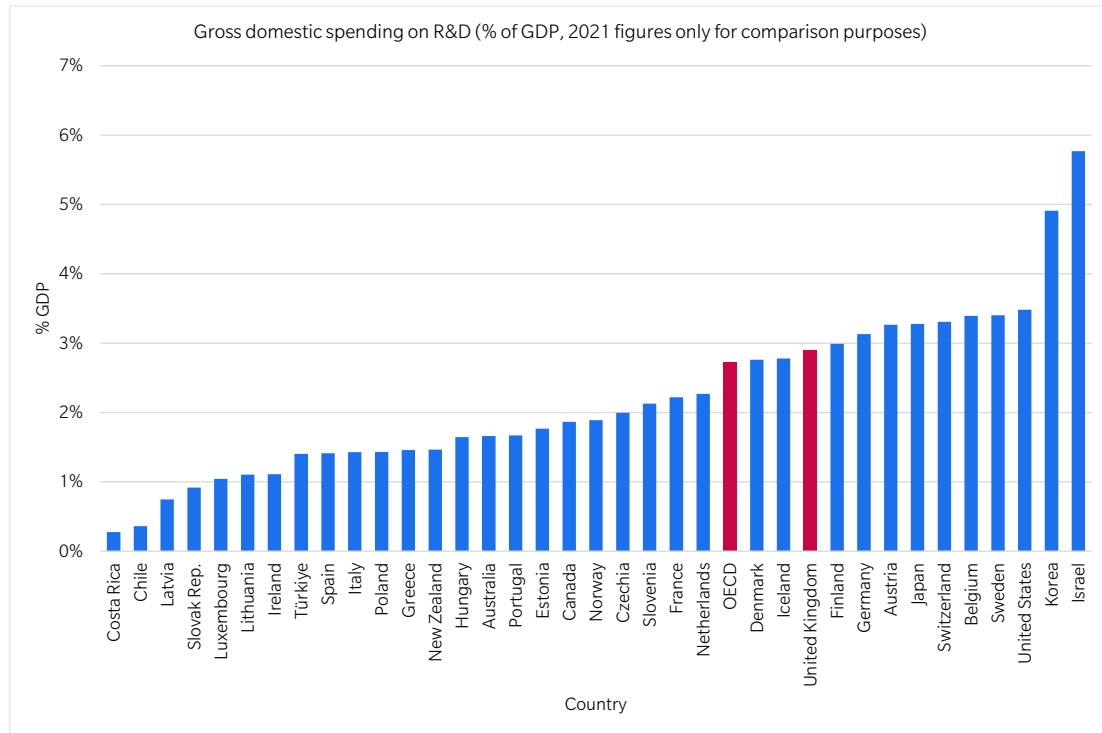
Chris Jones | 100 faces campaign

FIGURE 14: INTERNATIONAL COMPARISON OF THE UK RESEARCH BASE, 2016–2020

Indicator	2016	2017	2018	2019	2020	% change since 2016
Share, total world publications	7.0%	7.1%	6.8%	6.4%	6.3%	-10.0%
Share, world's most highly-cited publications	16.1%	15.8%	14.8%	14.3%	13.4%	-16.8%
Share, total world citations	11.1%	10.9%	10.5%	10.0%	10.5%	-5.4%
International collaboration	49.3%	50.7%	53.5%	56.4%	59.2%	20.1%

Source: [Department for Science, Innovation and Technology](#)

Certainly the UK's competitors are investing more in R&D. At an estimated 2.9% of GDP in 2021, the UK's overall investment in R&D lags behind that of knowledge-intensive economies such as the USA, Germany, Japan and South Korea (Figure 16, see overleaf).

FIGURE 15

[View full-size version](#)

Source: OECD

We cannot afford to be complacent about the UK's position as a world-leading research power. To secure this and invest in the discoveries that will drive economic growth, the government must be ambitious about the level of investment in R&D in the UK's universities and also balance investment in fundamental research, which seeds the discoveries of the future, with investment in today's competitive advantage. If we fail to do this, we risk losing ground against competitor nations.

KNOWLEDGE DIFFUSION: R&D INTENSIVE SECTORS AND CRITICAL TECHNOLOGIES

Fundamental, blue-skies research is key to strengthening the foundation of expertise and talent that drives the success of the UK's R&D intensive-sectors, such as in life sciences, aerospace and automotive.

The foundations of the industries of the future and these high-growth sectors are laid down by research teams and the technical workforce, a high proportion of which are in universities. Today's frontier technologies have their roots in curiosity-driven, fundamental research, often with no immediately envisaged application, and often relying on social sciences to be fully applied. The discovery-based research that happens at universities pushes the limits of knowledge: bold and experimental, it takes risks that

applied or industrial research cannot. Critical technologies we use daily have emerged from it: abstract research into electromagnetism led to the creation of hard drives and the computing revolution we live with today. GPS has its origins in university physicists' theoretical models on how to pinpoint locations on earth using satellite signals. Basic research on magnetic resonance ultimately led to the development of the MRI used in hospitals across the world to diagnose disease.

We see this same process of discovery-led research leading to tangible, everyday innovation today: in the neural networks that power today's AI revolution and in the large language models (LLMs) such as ChatGPT, which have their origins in 1950s' psychologists, linguists and computer scientists attempting to model how the human brain processes information. Perhaps most famously, the Oxford–AstraZeneca Covid-19 vaccine was built on the University of Oxford's previous research into developing vaccines – supported by more than a decade's worth of funding. Much research and innovation conducted in businesses, especially in rapidly growing technology sectors, are built on university-based original blue-skies research.

It is clear that the world is entering an era of technological and strategic realignment. Technologies such as AI, engineering biology, quantum computing and net-zero innovations are poised to bring challenges and opportunities to the global economy and society. In addition to the necessary STEM research, social sciences and humanities research ascertain the social effects, facilitate innovation uptake and underpin sound policy decisions.

Leadership in securing the key general-purpose technologies of the future will ensure the UK retains and enhances its economic advantage in an increasingly competitive global space. For example, the US is investing heavily in net-zero technology, and China is investing huge sums in building its capacity to manufacture high-end semiconductors and microchips. Yet the UK is a top-five nation in innovation, AI and cyber and a major international power in science and technology and life sciences capability. The UK's technology sector is worth over \$1 trillion.

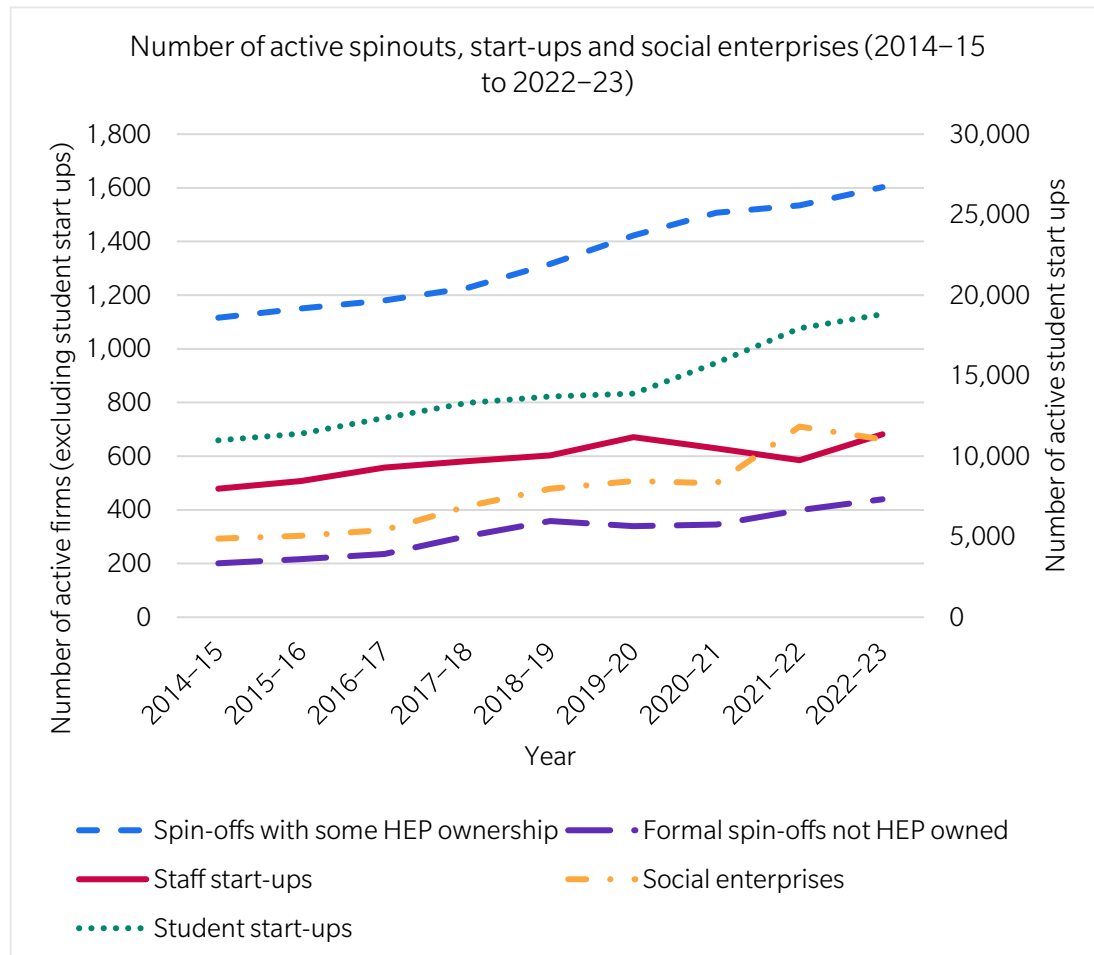
UNIVERSITIES' RESEARCH COMMERCIALISATION ACTIVITIES

UK universities have become more effective at attracting investment and bringing ideas to market, with strong performance in terms of patents, spin-outs and income from intellectual property (IP). The UK produces significantly more direct commercial value from its universities compared with others in Europe,

This is a clear strength of the UK university system. In 2022–23, more than 20,000 active spin-outs, start-ups and social enterprises had emerged from UK universities (see Figure 17). These companies generated 122,000 jobs, many of which were in emerging sectors, with start-ups in industries such as net-zero technology, AI and genomics. In 2024, 1,317

active, academic spin-out companies account for 2.5% of the UK's high-growth company population.

FIGURE 16



Source: Higher Education Statistics Agency - Higher Education Business and Community Interaction Survey record (2014–15 to 2022–23)

Universities have also developed collaborative initiatives such as Midlands Mindforge and Northern Gritstone to boost regional commercialisation, enabled by Research England's Connecting Capability Fund. It is important that the UK's universities continue to commit to long-term, regional and sectoral collaborations, for example through shared technology transfer offices (TTOs) or equivalent functions.

Case studies

Midlands Mindforge is a patient capital investment company, co-founded by the universities of Aston, Birmingham, Cranfield, Keele, Leicester, Loughborough, Nottingham and Warwick. Its mission is to ‘accelerate and enhance the commercialisation of ground-breaking science and technology innovations from the eight universities and the Midlands region.’ By providing capital and company-building skills to university spin-outs and early-stage, IP-rich businesses in the Midlands, it aims to ‘build the foundations of a new technology eco-system in the region and create companies that can drive economic growth while delivering real-world impact.’

Northern Gritstone was established with the support of the universities of Manchester, Leeds and Sheffield. It aims to support the commercialisation of science and IP-rich businesses originating from these institutions, while also funding the development of similar businesses across the North of England. Its activities have secured £312 million, supported by investments from local authority pension funds.

However, while UK university spin-outs have been successful in raising finance – with the value of funding rounds secured rising from £520 million in 2014 to £2.72 billion in 2021 – in 2022 and 2023, there was a decline in the value and number of deals involving spin-outs. This reflects more challenging macro-economic conditions and a general cooling of investor interest, particularly for opportunities with a long-term exit horizon.

Proof-of-concept fund

UKRI has committed to a new £20 million proof-of-concept fund in 2024 to support researchers to spin out scientific discoveries. The POC fund will provide crucial support to help bridge the funding gap between early-stage university research commercialisation and the ability to attract venture capital funding. There is considerable unmet demand for this funding across all universities.

Universities have also highlighted the smaller scale of funding on offer for the UK’s R&D-intensive companies relative to their US counterparts, with UK companies receiving substantially smaller rounds of funding than the US. For initial funding rounds, the average US company deal size is 1.3 times larger than the UK’s and widens in later rounds. Following a broader trend of UK companies seeking to list on the New York Stock Exchange, many technology-based university spin-outs and start-ups seek to relocate

to the US in search of larger capital markets. Within the UK, university start-ups often relocate to London after reaching a certain point of growth. Successful start-ups should not need to move from their region.

Solutions

Secure financial sustainability

Action is needed, by universities and funders, to make sure that more of the end-to-end costs of research are met, as set out in the [Nurse review](#), if we are to have sustainable research base. This should take the following form:

- **Funders should review incentives and requirements that demand in-kind or matched contributions to research grants and other mechanisms, so that university staff do not feel an expectation to contribute more than 20% of the costs of research.**
- **Government should provide a sustained, real-terms increase in QR funding and an additional uplift in CRSF in line with charitable investment.**
- **Universities should aim closer to 100% cost recovery when it comes to industry-sponsored research, unless engaging with small or emerging businesses.**

Continuity over extended periods and the pursuit of political consensus on funding will help realise the positive impact of research investment. The announcement of long-term R&D funding cycles is a positive step, but it will be important to involve universities in discussions on its implementation to avoid any unintended consequences.

Universities should focus on areas of existing or likely research strength in order to respond to financial challenges. Critical mass in research can provide better value for money. It is important, however, that this is not to the detriment of interdisciplinary practice, which is vital to addressing societal challenges or the dynamism of the system as a whole, which allows new research leaders to emerge.

The net effect of greater cost recovery of research will likely lead to a reduction of volume in publicly funded research as a consequence of seeking a sustainable research base. However, government can contribute by increasing the scale, reliability and focus of public and private research funding in order to deliver a knowledge-intensive economy. **An ambitious, GDP-based R&D intensity target, covering both public and private investment, should match that of the most competitive and innovative countries in the world. Furthermore, a healthy balance between fundamental and more applied research must be maintained.**

Improve knowledge-sharing and dissemination

To unlock the economic and social benefits of new and emerging technologies and support the government's mission for growth, the UK needs an industrial strategy that brings together university, business and government. This will give companies the confidence to invest for the long term in areas of potential growth. **Universities should be engaged in the development of the forthcoming industrial strategy and be core partners in its delivery.** As set out in chapter 3, there should be a strong connection between the Industrial Strategy Council and Skills England, as well as the equivalent bodies in the devolved nations. **We also argue for the creation of a Missions Innovation Fund, in addition to the existing research budget, to stimulate research and innovation orientated towards addressing the priorities set out in the government's missions and its industrial strategy.**

Missions Innovation Fund

The government should support its industrial strategy for the UK with a Missions Innovation Fund (MIF). As with the earlier Industrial Strategy Challenge Fund (ISCF), the MIF should be a joint venture between UKRI, businesses and universities and have three parts: cutting-edge R&D; knowledge-sharing; and the adoption and diffusion of existing technologies. New funds for each mission should support the whole research cycle, from discovery research to commercialisation and societal impact. This fund should operate as follows:

- Within UKRI, UK government should establish dedicated teams to fund and manage ambitious and trailblazing R&D projects in each identified innovation mission.
- Approaches for each mission should be informed by leading academics and researchers, industry experts and cross-Whitehall teams.
- Include dedicated funding streams with a strategic mix of:
 - a. university-led and discovery-focused basic research;
 - b. university and business-focused applied research;
 - c. interdisciplinary research and projects including social sciences, design, and humanities
 - d. funding for critical research infrastructure, such as supercomputers and open-source databases.

- e. funding for critical research infrastructure, such as supercomputers and open-source databases.

Mission funds should have dedicated PhD/scholarship and technical support and strong coordination with key growth industries. The funding model needs to embed career development and pathways for researchers and technicians, supporting knowledge exchange with industry by investing in research talent. There are lessons to be learned from the ISCF, including in the agility in the design and implementation of funding.

Support the commercialisation of research

To fully capitalise on the opportunities for growth, **universities should build in strategies to mobilise their own and/or venture capital** to support the commercialisation of research, IP and scaling up of university spin-outs. While university spin-outs have been successful in raising finance in the past, with the value of funding rounds secured by spin-outs rising from £402 million in 2013 to £2.1 billion in 2022, in 2023, equity investment in UK spin-outs followed a wider 2021–2022 trend in falling by 30.7% to £1.7 billion.

Part of the challenge in raising finance is the correct pricing of equity in university spin-outs, as covered extensively in the Independent Review of University Spin Out Companies. The overall mean stake from universities has decreased over the last 10 years, while data presented to the Review showed that ‘many of the top UK universities are doing most deals at 5–15% equity, which is comparable to the US once different approaches on equity dilution and royalties are taken into account’. However, this could go further, with universities adopting more of what the Review identifies as examples of ‘founder-focused’ approaches to equity negotiations, while acknowledging it is entirely reasonable for universities to retain a stake. Universities can also work with Innovate UK to better understand ways to leverage their Investor Partnerships.

The Review also recommended establishing a POC fund. A successful POC stage provides the insights necessary for technical and commercial stakeholders to decide on forming a company and investing further resources. However, POC funding in the UK is scarce. The government should ensure that UKRI’s £20 million POC fund is rolled out and evaluated, ahead of a larger fund being established.

There are initiatives that the UK government can implement to help leverage private investment into university spin-outs. For example, the Tibi Initiative in France is designed to support partnerships between institutional investors and venture capital in a similar way to the long-term investment for technology and science (LIFTS) initiative in the UK. There are also opportunities to encourage the development of venture capital funds

across the UK's regions, directed at university spin-outs. The British Business Bank, which has been supporting the spin-outs system, also has the potential to scale up funding and further mobilise capital for spin-outs, particularly outside the South East, through a dedicated spin-out venture capital fund.

5.

Global reach, reputation and impact

60%

of our research output
involves international
collaboration

£24bn

contributed to exports
through international HE
and transnational education

16.4%

decrease in the number
of study visa applications
made in July and August
2024



The shift

Establish a new global strategy for our universities that goes beyond student recruitment to harness their reach, reputation and impact in the interests of the UK. As part of this, the sector and government should establish a new compact that delivers stable and sustainable levels of international student recruitment and well-managed growth.

'Our universities have a global reputation for excellence, and their international activities bring huge benefits to the UK. They are engines of soft power and make a huge economic contribution through the substantial revenues they bring into the UK. Overseas students boost the resources available to universities and broaden the educational experience of British students and are a great national and global asset. However, we can do more to maximise the contribution that the global reach, reputation, and influence of our universities can make to the UK.'

'Now is the time to build on our success – and place universities at the heart of a new strategy that delivers global impact and drives national prosperity.'

The Rt Hon. the Lord Willetts, FRS

Summary

International collaboration and engagement are cornerstones of the success of UK universities. They help foster the capability, capacity and influence that give our sector a truly global reputation for excellence. Internationalisation in universities encompasses a wide range of activities and benefits, including collaborating in research, hosting international students, delivering programmes overseas through transnational education, and providing international experiences for UK students, helping them to develop the knowledge and cultural competencies required to prosper in a globalised world. Our universities are pivotal players in attracting global talent and foreign direct investment to the UK and play a critical role in supporting global development.

Collectively, the global profile and impact of the UK's universities are immense and a unique advantage. However, in recent years, the benefits of global engagement have increasingly been questioned. This has coincided with a period of policy uncertainty and instability, including concerns over funding and debates around immigration that have created a very challenging operating environment, an issue to which we return in chapter 7.

In this chapter, we set out proposals to ensure the global engagement and profile of our universities continue to create opportunity, drive prosperity and generate knowledge, both for the UK and for our partners worldwide. Crucially, we advance a proposal for a new Compact with government to create a stable and sustainable basis for managed growth in the number of international students we host.

As with chapter 4, our focus here is UK wide.

Challenges

The UK hosted over 750,000 international students in 2022 –23 while a further 550,000 were registered on UK programmes in more than 200 countries and territories overseas. With less than 1% of the world's population the UK produces 6% of global research outputs and more than 13% of the world's most highly cited articles – with more than 60% of our output involving international collaboration. Through international higher education and transnational education, our universities contribute £24.1 billion to national exports – income that is distributed across the whole of the UK.

The UK's global reputation for quality and excellence in research and higher education and the significant contribution our universities make to the UK's economy are a true national success story, and widely recognised as such – but this is, in large part, grounded in the openness of our sector and our attractiveness to international partners, students, talent and investment. This reach and influence leverage delivers huge benefits for the UK, but are predicated on our being trusted, dependable partners at the centre of global knowledge networks. The most recent data suggests that the UK's pre-eminent position is increasingly under threat from other systems, and in both international student recruitment and share of the most highly cited research outputs, the UK's performance has fallen in recent years. The attractiveness of the UK as a partner and destination, and our competitiveness as a system, cannot be taken for granted.

More recently, the global role of universities has been viewed through an increasingly narrow lens of international student recruitment and financial sustainability. Much of the public and political focus has been on challenges posed by internationalisation, in particular the ongoing and acute focus on the contribution of international students to net migration. This has made for a deeply uncertain operating environment, negatively impacting on long-term decision-making and partnerships, as well as long-term investment from students and businesses.

Lack of coordinated policy and strategy

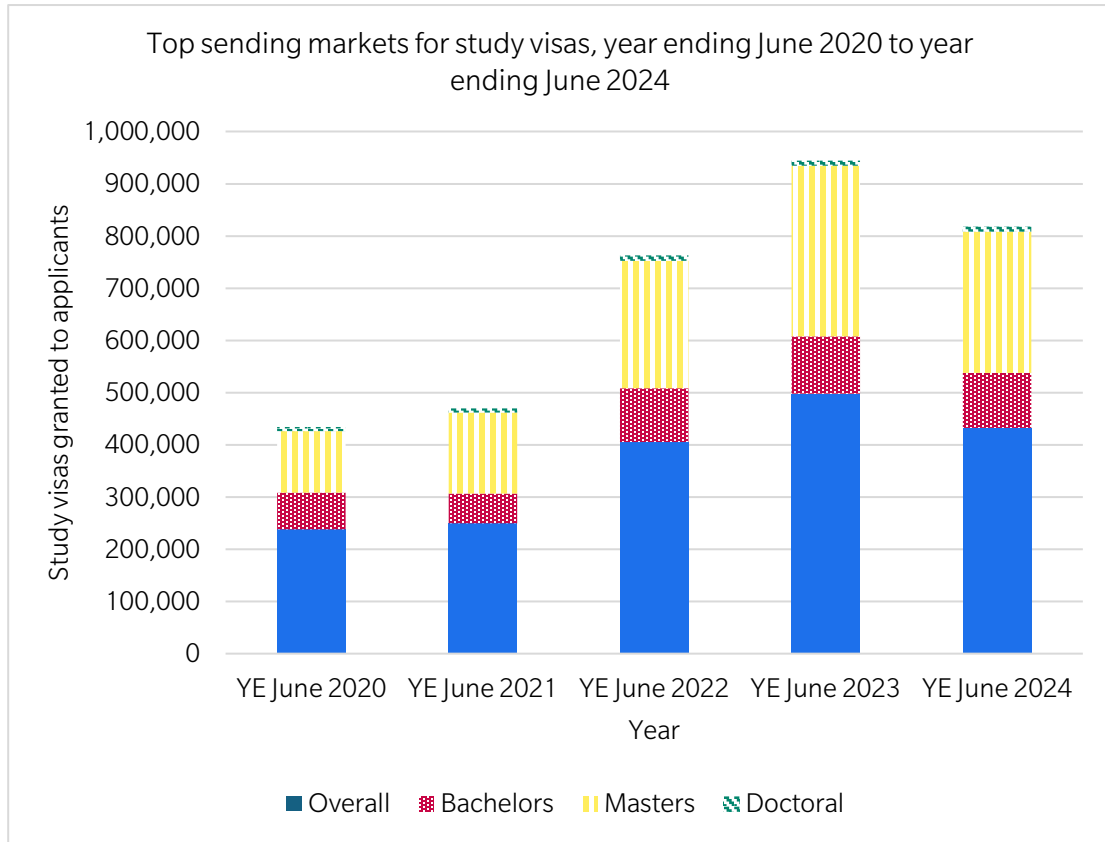
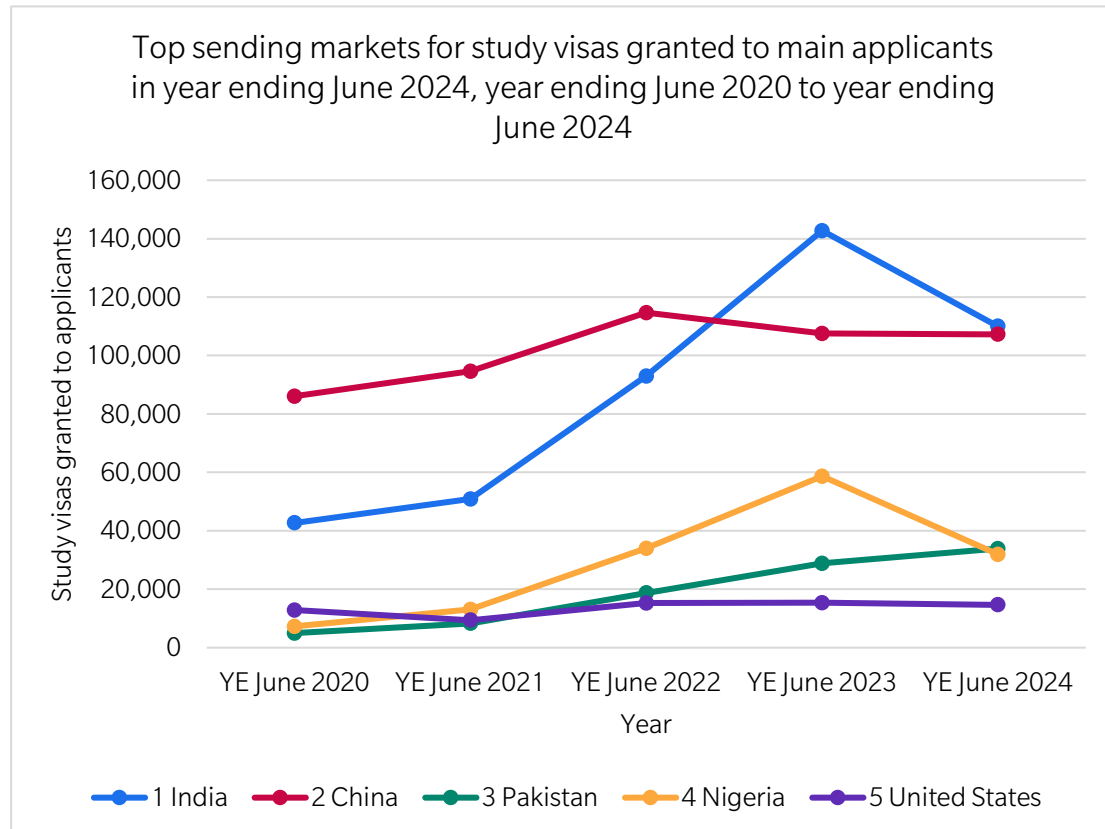
At government level, there has been a lack of coordination and coherence in policy and strategy concerning the global role of universities. The previous government simultaneously pursued a strategy to grow international recruitment and to cut net migration (which includes students) and committed the UK to becoming a globally competitive destination for talent while also introducing prohibitive barriers to, and increasing the costs of, international mobility.

Alongside this, a broader problem has been the separation of the different international activities undertaken by universities into discrete functions within separate government strategies that did not support and reinforce each other. The 2023 Science and Technology Framework, for example, includes just a single reference to universities. The UK's International Education Strategy, while helping to address the longstanding issue of political support for international education (or lack thereof), was an export strategy that made few links to research, global development, or the UK's wider foreign policy objectives, or indeed to other national strategic priorities, beyond driving exports.

The separation of universities and their international activities in public policy has lost or significantly underplayed valuable latent synergies, meaning that the full potential of internationalisation to support the UK's national and foreign policy priorities are not being realised. There is a need to properly consider the ways in which universities as institutions act on the global stage, and the varied roles that they can and do play in both projecting a positive understanding of the UK and supporting the UK's national and foreign policy objectives.

Unstable international student recruitment

After almost a decade of stagnation, the UK experienced a period of significant growth in international student numbers, driven by a combination of government strategy, a shift in political messaging and the openness of the UK immediately following the pandemic. However, as both political and market factors changed, the attractiveness of the UK as a study destination has fallen. There has been a significant market correction, driven primarily by a decrease in postgraduate taught (PGT) numbers as well as applications from key markets such as India and Nigeria. Home Office data shows that the number of study visas issued in 2023 was down 5%, meanwhile data on visa entry clearance shows the number of study visa applications made in July and August 2024 was down 16.4% compared to the same period in the previous year, with universities braced for further declines ahead of autumn 2024.

FIGURE 17**FIGURE 18**

Source: UUKi analysis based on Home Office, Immigration system statistics, year ending June 2024

While uncertainty and volatility in international recruitment are presently the primary concern of universities and policymakers, it is important to acknowledge that some aspects of the rapid growth in student numbers between 2019 and 2022 tested political and public support for international recruitment and led to some local challenges, for example in relation to accommodation and in questioning whether study visas and post-study work opportunities were distorting the incentives for migration.

A notable concern was the significant increase in the number of visas issued to dependants accompanying international students, which rose from 16,047 in 2019 to 135,788 in 2022. Coming at a time of acute political focus on levels of immigration, this led to restrictions on visas for dependants, increases in visa and immigration costs and significant uncertainty around the UK's commitment to a competitive post-study work offer. Collectively, these measures have had a significant impact on the attractiveness of the UK as a study destination and the perception of the UK as an open and welcoming country. The restrictions on dependants are particularly challenging for post-experience master's courses and have impacted efforts to diversify international recruitment, placing the UK at a competitive disadvantage relative to other major study destinations.

The increasing reliance on fee income from international students has led to the public narrative around universities and internationalisation being dominated by concerns over international student recruitment. While income from international student fees has long been an important part of the funding mix for UK universities, it has become fundamental to the financial sustainability of many universities.

This dependence is not sustainable and, given the volatility of international student flows, represents a systemic challenge for the UK. Importantly, this is not solely a challenge for universities. It is fundamentally unwise, at a national level, to base the sustainability of the education of UK students, and our research, on an inherently unstable and contested source of income. Competition for international students is global, and demand is, for some notable markets, extremely sensitive to price, currency fluctuations and policy change.

In the first six months of 2024, proposed changes to the visa and immigration system – notably to the Graduate Route, the UK's post-study work visa – led to serious and well-founded fears that some universities across the UK were at risk of insolvency, highlighting the scale of this dependency. Two conclusions should be drawn from this: first, universities need sustainable funding for domestic teaching and research; and second, there needs to be a shared vision and strategy for sustainable levels of international student recruitment.

Declines in attracting global talent

As immigration has become increasingly politicised, the UK's attractiveness to global talent has been undermined. The evidence shows that the UK offer has become increasingly uncompetitive.

Royal Society analysis showed that upfront immigration costs have increased by up to 126% since 2019, and the average upfront cost is now six to eight times higher than across comparable competitor economies. For a family of four coming to the UK on a five-year Global Talent visa, upfront costs would be £20,974 – an increase of 57% from £13,372 between 2021 and 2024. These increased costs have been introduced at a time when wider changes to the Skilled Worker visa have made the UK increasingly uncompetitive for early career researchers and for technical and support staff.

The increasingly uncompetitive costs of the UK also risk undermining our attractiveness to researchers considering relocating to a UK university under the Horizon Europe programme, which allows researchers to take their grants with them and move to a university in another country. Historically, the UK has benefited from being able to attract award-holders to pursue their research here in the UK. While it is vital that the UK invests in the domestic talent pipeline, access to global talent and international mobility are necessary preconditions for a world-leading university sector. Without mitigations, the UK risks pricing itself out of the market for global research talent.

Falling overseas opportunities for UK students

There is a tendency in the UK to think about internationalisation in relation to attracting talent or exporting higher education. Policymakers have paid less attention to opportunities for UK students themselves to develop an international outlook. For example, the study of modern foreign languages has been in steep decline, and the proportion of UK students who undertake an international placement as part of their degree is low by global standards.

Evidence produced over many years by Universities UK demonstrates that international experience, whether through overseas study, work or volunteering, leads to stronger academic and employment outcomes. These effects are particularly significant for students from disadvantaged and under-represented backgrounds – graduates from more disadvantaged backgrounds who had a period abroad during their degree earned 4.2% more and were 6.1% more likely to be in a graduate level job compared to their non-mobile peers.

Following the UK's departure from the EU and the decision not to associate to the Erasmus+ programme, the previous government created the UK-wide Turing Scheme, which has provided vital funding to support outward student mobility from the UK to all

corners of the globe. The Turing Scheme has made good progress in widening access for disadvantaged students but has failed to replicate important components that are key to the success of Erasmus+, such as support for inbound mobility or funding for staff training. Partly in response to these shortcomings, the Welsh government created an additional programme, Taith, which has a greater focus on reciprocal exchange and partnership development.

It is important that the UK develops the global awareness, understanding and competencies that allow it to play a full and proper role globally. This is not just ‘nice to have’. In an increasingly polarised and unstable world, the UK should be investing in its capacity to engage with other countries at every level. International experience might also be deployed strategically to create the conditions for stronger future export potential among UK companies.

Funding uncertainty and perceptions of the UK as a trusted partner

The previous government should be congratulated on securing association with Horizon Europe programme, the world’s largest collaborative research fund. However, the UK’s access to Horizon Europe was not finalised until 1 January 2024, and while the early signs are positive, there is significant work to do to rebuild its level of participation. The new government now needs to engage with and shape the Horizon Europe’s next framework programme, so that the UK can restore its position as an active contributor and partner.

In other areas, sudden cuts to funding for development-orientated research have damaged the UK’s global reputation. For example, despite the Global Challenges Research Fund (GCRF) being evaluated as a successful, high-impact programme, it received very significant cuts in 2021, which affected projects that were already under way. This proved extremely damaging to the UK’s reputation as a trusted partner and to UK universities as holders of relationships. It particularly affected projects with partners in low- to middle-income countries, which this very funding was intended to support. The net effect of this episode was to undermine trust in the UK government as a reliable partner and a responsible global actor.

Risks of hostile action and ‘bad actors’

The open and collaborative nature of universities is an important principle, but brings with it the risk of being a target for hostile action. It is important that the public, media and political communities have confidence that our activities are trusted, responsible and secure. No single university or government agency can eliminate all risk. However, in recent years, there has been a growing appreciation in the university sector of the nature and scale of this risk, and a concerted effort, in partnership with government, to minimise it.

The risk takes a number of forms, from Intellectual Property (IP) theft to threats to national security because of bad actors (including state actors) who seek access to research that potentially has dual uses or presents a significant economic and strategic advantage. The university sector and government have both invested significantly in expert capacity to identify these risks.

Universities UK's guidance, 'Managing risk in internationalisation' has provided a framework for universities to evaluate their preparedness across a full range of international risks, from managing transnational education partnerships to securing the university estate. Universities UK has also developed a suite of case studies to assist universities in learning from each other. As a sector, we have learned from our counterparts in other countries, engaging in regular dialogues to share experience and expertise with partners from a wide range of countries.

Meanwhile, government has taken a number of helpful steps, including through the establishment of the Research Collaboration Advisory Team, based in the Department for Science, Innovation and Technology. However, the increasingly crowded regulatory and legislative landscape risks making it more difficult for universities to fully understand and manage their responsibilities and imposes significant costs on the sector.

Regulatory divergence

Regulatory divergence across the nations of the UK has also had an impact on the international domain. In 2018, England moved to a risk-based approach for the regulation of higher education through the OfS. This approach deviated significantly from international standards that the UK had itself played an important role in establishing. As we note in chapter 7, England (but not the other nations of the UK) is now an outlier in its approach to quality assurance and is no longer fully aligned to with the European Standards and Guidelines (ESG) of the European Higher Education Area (EHEA), a requirement of the Bologna Process, of which the UK was a founder signatory. This has created challenges for transnational education partnerships and has unintended consequences on universities in Scotland, Wales and Northern Ireland. It can often be assumed by global partners that the UK has a single regulatory and quality assurance system.

Consequences of volatile and unpredictable funding flows

Sustainably funded universities are a prerequisite for strategic and impactful internationalisation that serves both the UK's and global interests. If domestic funding for teaching and research is not sufficient and sustainable, then the primary drivers for universities' international strategies will be financial. This stands to undermine the valuable contribution that a properly strategic approach can bring. The dependence of

UK universities on historically volatile and unpredictable funding flows, predominantly from international student fee income, creates both a strategic and systemic risk for the UK and may introduce incentives for universities to engage in higher risk and less collaborative behaviours. The solutions to this issue are discussed further in chapter 7.

Solutions

Establish a global strategy for the UK's universities

This report argues that we should leverage the potential that universities offer by bringing together education, training, research and global development. **This means government establishing a Global Strategy for Universities with the objective of harnessing the global reach, reputation and impact of our universities** to create opportunity, foster prosperity and develop knowledge, both for the UK and our international partners.

The strategy should be based on consultation with the sector, but owned and coordinated by the Cabinet Office, setting a national framework that recognises and supports the needs and priorities of regions and devolved administrations. It is critical that the Home Office be a partner in this strategy, alongside the Department of Education, Department for Science, Innovation and Technology, Department for Business and Trade and the Foreign, Commonwealth and Development Office.

To make this a success, government should establish an advisory group for the Global Strategy for Universities that brings together departments, devolved administrations and sector representation. The aim should be to make strategic use of UK universities' global reputation to facilitate bilateral cooperation, for example in potential trade deals and the role that transnational education can play in supporting a transformational approach to global development. Alongside this, government should invest in the infrastructure that supports universities and businesses to operate globally, including the British Council, Science and Innovation Network and the UK's embassy network.

Government and the sector should also work together to ensure greater mutual understanding of universities' role as diplomacy assets for the UK, and the relationship between the sector and foreign policy. This should be actively facilitated by the UK diplomatic corps in collaboration with the university sector.

Agree a new Compact between universities and government

The boom-and-bust approach to international student recruitment does not work for students, or for universities, local communities or government. We need a collaborative approach that acknowledges responsibilities and expectations for universities and government and sets a stable policy framework. **We propose a new Compact between the sector and government whereby each takes action to secure sustainable levels of international student recruitment and well-managed growth through:**

- **robust compliance and a commitment to fairness:** recognising the pressure that public concern about immigration puts on government, universities should minimise abuse of the system by fully implementing the Agent Quality Framework and Fair Admissions Code of Practice and commit to sustainable levels of international student recruitment, informed by active consideration of local capacity.
- **appropriate investment in the international student experience:** universities should supply careers information, advice and guidance to properly support any growth in student numbers.
- **the development of clear plans:** universities' strategic plans should include actions to diversify international recruitment and reduce strategic single-market dependencies.
- **ambition and stability:** we call for the government to demonstrate a long-term commitment to stable, sustainable levels of international student recruitment and well-managed growth including, within the current Parliament, a commitment to retaining the Graduate Route in its current form.
- **transparency:** government should adopt a more transparent approach when reporting migration trends by distinguishing 'temporary' and 'permanent' migration, measuring 'steady-state' net migration over a longer timeframe of three to five years, and placing greater policy emphasis on the numbers granted indefinite leave to remain, rather than blunt and volatile measures of annual net migration that have led to unhelpful, short-term interventions based on retrospective trends.
- **a review of the removal of visas:** the removal of visas for dependants should be reviewed for its impact on equity, diversity and diversification and on the UK's wider strategic objectives, in particular its effect on programmes designed for students with significant professional experience.
- **a new partnership to promote the UK:** finally, building on the Study UK campaign, government and the sector should jointly invest in efforts to promote the UK in key markets, including by government doubling its investment in Study UK and providing mechanisms for universities to co-invest in destination marketing activities.

Attract global talent

To improve the UK's attractiveness, the government should look to make the UK a more competitive destination. **It should review and benchmark immigration costs for academics, entrepreneurs and technical staff with comparable countries to ensure that the UK attracts talented people.** The UK should aim to have a 'best-in-class' offer. In particular, the government should consider waiving the Immigration Health Surcharge for both main applicants and dependants where the main applicant is in receipt of a recognised research grant or award, for example through Horizon Europe, or in certain high-demand areas. This would represent a relatively targeted but valuable incentive. Government could go further by annualising the Immigration Health Surcharge rather than charging upfront for all the years of expected stay.

Boost international experiences for UK students

The UK should take seriously the need to ensure its own population has the skills to engage in a globalised and increasingly polarised world. **We would like to see the government commit to the Turing Scheme for the life of the current Parliament, and introduce long-term, two- to three-year funding allocations** to allow universities to maximise the benefits for all students. **Alongside this, as part of the reset in the relationship with the EU, the government should strongly consider the case for association to the next Erasmus scheme,** subject to negotiating an acceptable financial contribution.

Government, the devolved administrations and the sector should work together to address the collapse in modern foreign language education in schools. There should be a national strategy to foster language provision in schools and to retain sufficient higher education capability in languages and interdisciplinary area studies to meet the long-term needs of the UK.

Provide stable, long-term funding for international research collaboration

Universities need long-term, stable funding for internationally collaborative research and innovation. The government should ensure that UKRI and the national academies have sufficient resources to offer a plurality of funding mechanisms that support international collaboration. This should include relatively small-scale grants to support mobility for early career researchers and sufficient resources to ensure that the innovative co-investigator policy is implemented fully, in addition to strategic programmes, such as the International Science Partnerships Fund.

As a priority, we encourage government to engage positively with the development of the next European framework programme (FP10), as successor

to Horizon Europe, and to seek early agreement on the UK's full association, should FP10 be deemed to meet the UK's strategic needs. To support this, we would like government to invest collaboratively in a permanent Brussels presence to foster research collaboration and to maximise the UK's potential to influence the development of FP10

Strengthen resilience to security risks

A good partnership has been established by universities and the government with the aim of mitigating the risks from influence, interference and other threats from hostile actors. Both universities and government have important roles to play. **For universities, the goal should be to continue to develop shared resources and infrastructure that identify, understand and mitigate risk**, for example, through expanding support for the Higher Education Export Controls Association. They should also take steps to reduce single-partner dependencies at institutional and system levels. Governing bodies need to understand the engagement and exposure of the university to any single-country dependency across the full range of their international activities. We also recommend that universities adopt and embed use of the NPSA Trusted Research Evaluation Framework as a mechanism to help build resilience and maturity.

Government also has an important role. **It should create a substantial research security fund** to provide funding for universities to invest in the training, development and human resources to meet the evolving demands of research security. This fund should also enable the creation of shared infrastructure that can support due diligence through better use of open-source intelligence. **Government should also further invest in the Research Collaboration Advice Team**, so it has the capacity and capability to support universities. Above all, government should continue to work closely and collaboratively with universities, including university leadership, to share insights and threat assessments as appropriate. Finally, by working together, government and the sector should develop a long-term plan for the higher education workforce in order to respond effectively to the evolving risk and security landscape.

6.

Putting universities on firm financial footing

40%

of higher education providers are expected to be in deficit in 2023–24

£5.3bn

Universities make a £5.3 billion loss on research activity

33%

decline in funding per student in English higher education since 2015–16



The shift

Put universities on a firm financial footing, through action by both government and the university sector.

'UK universities have been remarkably entrepreneurial and successful in the last decade. Despite a fixed and shrinking domestic resource, they have managed to engage internationally and generate the revenues to support research and domestic education of the highest quality. However, that innings has run its course. If universities are forced to play the same game for longer, we jeopardise the sector and its international reputation and success. It is time for universities and government to sit down together and agree a new financial model for the system that works for students, serves all our regions and ensures the future growth and prosperity of the UK.'

Professor Shitij Kapur, Vice-Chancellor & President of King's College London and John Rushforth, Executive Secretary, Committee of University Chairs

Summary

The funding of universities across the UK is structurally unsustainable. However, we cannot, and should not, lay the entirety of the university sector's funding pressures at government's door. Universities are already making very significant cuts to balance their budgets and will need to continue to find better and more streamlined ways of working.

University operating models may also need to evolve to become more effective and efficient. This cannot just be about 'doing more with less'. Reform may open opportunities to do things differently and to focus on areas of real strength. This may create the impetus to try things that would otherwise have appeared impossible, or to collaborate where previously there was no reason to do so, resulting in a stronger sector. But it also means hard choices about what universities should stop doing.

We also need action from government. We propose this should be in two phases: the first where action is taken to stop the further deterioration of the financial stability of the sector, and the second in which the incentives that drive university behaviour are re-examined to see how they might be adjusted in order to support universities to deliver the nation's needs. In the face of competing priorities, government will need the courage to invest in the future prosperity of the UK, despite the pressing demands of today.

The financial sustainability of the university system is not a challenge that can be ducked, either by government or by universities themselves. We have a responsibility to hand our universities on to the next generation in a stronger condition than we inherited them. We must not oversee an era of slow decline, either relative or absolute.

This chapter is relevant to the whole of the UK, since similar funding challenges exist in all four nations. However, when we address the funding of teaching, we confine our observations and recommendations to England.

Challenges

Recent analysis by [PwC](#) (commissioned by UUK) demonstrated that the ongoing financial sustainability of the sector in all four nations of the UK is vulnerable to several risks, including above-expected increases in expenditure by universities partially driven by staff costs, and decreases in international student numbers. In England, the most recent [OfS report on the financial sustainability](#) of the sector indicates that the situation has become even more challenging, with 40% of providers expected to be in deficit in 2023–24, and a rising number of universities reporting low net liquidity days. The data shows that all parts of the sector, from small specialist to large research-intensive institutions, are experiencing the strain.

As we have shown in chapters 1 and 2, our national interest is best served by having more graduates, increasing participation by those who are currently under-represented in higher education, delivering more responsive provision locally and regionally, and keeping up with leading-edge nations in research. We need to consider the extent to which this is possible in the current funding environment for universities, and what needs to change to accelerate this.

Disadvantages of a partial market

In England, changes to funding policy in 2012, with the increase to £9,000 in undergraduate fees, combined with the enormous reduction of government grant from a significant majority to small minority of teaching funding, have led to English universities receiving most of their income from tuition fees rather than government grant. Fees from domestic and international students now account for over half of the sector's income.

These funding reforms in 2012, combined with the removal of student number controls, introduced a partial market in higher education. Institutions became more dependent on student recruitment for income. However, the slow erosion of the value of the home undergraduate fee has increased the need to compete for international students. Institutions depend on income from teaching international students to a greater extent

than ever before, with this revenue stream increasingly subsidising deficits generated by teaching domestic students.

To succeed in this highly competitive arena that rewards student recruitment, universities market their reputation, resulting in a strong focus on areas rewarded by league tables and assessment exercises, such as the Research Excellence Framework (REF) and the Teaching Excellence Framework (TEF).

There is also, rightly, a significant focus on the quality of the student experience, student satisfaction, and continuation, completion and postgraduate outcomes. This is driven both by universities' own commitment to high quality and the focus of successive governments on quality through regulation, and the public availability of transparent and comparable information for students.

Meanwhile, expectations of both politicians and students of the support that universities will provide in relation to mental health and wellbeing, to fill gaps left by inadequate coverage of public services, coupled with the need to support students affected by the shrinking value of maintenance support and increasing costs of living, all increase the cost pressures on universities.

The intensity of competition has resulted in universities pursuing very similar and expensive business and operating models, and less, rather than more, differentiation across the higher education sector. The term 'business model' is used here to capture the activities that universities offer as services for which they may receive income, and how these are delivered most efficiently. In some cases, this can come at the cost of enhancing an institution's own unique strengths while inhibiting creative approaches to teaching, research and operations. It can also create tension with wider national interests, including activity that could benefit economic objectives and wider society but may not translate into student demand, such as provision of highly specialised, niche skills to meet the needs of certain industries.

The cost of high-quality

This competition for quality and reputation, and public and political expectations, require high levels of investment by universities in high levels of support for students. Low staff–student ratios, a focus on building research performance and significant investment in student services and support are all costly, and all are rewarded in competition and rankings.

This investment yields high value: we have world-leading degree completion rates of nearly 89% compared with an OECD average of 68%. The UK's universities have a student–staff ratio of around 14:1, compared with 18:1 in the wider OECD, and the ratio is as high as 34:1 in the Australian system.

Relatively higher teaching costs also disguise an unusual feature of the UK system, in the concentration of research activity in universities. This has been increasingly subsidised by income transfers from (predominantly international) teaching income to make up for low cost recovery rates on research. OECD data suggests that UK universities receive a high level of income per student by international standards. However, this is misleading. The OECD figure includes research income and reveals an unusual feature of the UK university system – that a relatively high proportion of research is conducted in universities. This has positive effects. UK students are more often taught in a research-active environment, often by people who are at the global forefront in their fields. It has also enabled universities to cross-subsidise research, drawing on the income from international student fees, which is why universities are themselves the second largest funder of research in the UK. The OECD figure also reflects international fee income and disguises the true level of income received for teaching UK students.

In seeking to deal with the financial sustainability pressures in the system, we should not throw the baby out with the bathwater. We should fiercely protect the quality of our universities, but there is no doubt that the current system is not sustainable without change.

Declining investment

A highly unusual feature of the English funding system is that higher education is predominantly funded through private (graduate) contributions due to the student loan system, unlike the system in comparator countries where there is a greater public contribution to the provision of higher education teaching. The post-2012 shift in the balance from government grants to fee income (and the subsequent changes) now means that English higher education receives the lowest public investment among OECD members. This has occurred alongside a real-terms decline in fee income per student, with the frozen fee cap meaning that government funding per student is now lower than before the introduction of the 2012 increase to £9,000. 2015–16 was when funding for domestic teaching (a combination of fees and government grants - also known as the teaching unit of resource) last met the cost of providing it. Taking 2015–16 as a baseline, *if the unit of resource had kept pace with inflation, it would be worth £12,723 per student in today's prices.*

As we have seen, this has led to many institutions actively pursuing the recruitment of international students because they are not subject to similar fee caps. However, international education is competitive and demand is volatile, particularly as most recruitment relies on a small number of countries.

A more secure foundation is needed. Our nation's universities remain diverse and will have the greatest positive impact if they can pursue their unique strengths. One size does not fit all, and universities should be supported to maximise their individual potential in

line with their individual missions. However, the current landscape reflects the incentives and pressures that all universities face. Without addressing those incentives and pressures, we are unlikely to see system-level change.

If the current situation is allowed to continue, universities will continue to make cuts that may be in the interests of the institution, but not in the national interest. Diminished financial stability for universities has potentially harmful repercussions for students, staff and the economy. For example, in the last year we have seen several universities make decisions to close degree courses that have low student demand but are of national strategic importance, such as courses in modern foreign languages and arts and humanities. There is a real risk that certain courses will only be available in a limited number of institutions and so become out of reach to students who cannot travel to study or who cannot meet highly competitive entry requirements. The OfS has identified that the steps universities are taking to respond to individual financial pressures pose an aggregate risk to the size, shape and reputation of the higher education sector.

Universities and government both have a role in the change needed to create a more secure, sustainable higher education sector that serves national as well as individual interests.

Inflexible pension schemes

There are two large pension schemes for academic staff: the Universities Superannuation Scheme (USS) and the Teachers' Pension Scheme (TPS). Academic staff in the TPS are mainly those in post-92 universities and some specialist institutions, while professional services staff in those institutions are typically enrolled in the Local Government Pension Scheme (LGPS). There are approximately 58,000 active TPS members working in the English higher education sector. Participating universities are obliged to offer academic staff TPS by statute due to the legacy of their origins under local government control, putting them at a disadvantage compared with other higher education providers. These institutions have little flexibility to offer alternative pension arrangements that might be more financially sustainable and better suit their increasingly diverse workforce.

With effect from April 2024, a further five percentage-point increase in employer contributions was implemented, taking the employer rate from nearly 23.7% to 28.7%. This is one of the highest employer contributions of any pension scheme across the UK. In addition, scheme members pay between 7.4% and 11.7% of their salary, with little flexibility if they cannot afford to pay into the scheme.

Solutions

We recommend a two-phase approach for universities and government. The first phase should focus on a more solid financial foundation for the sector, and the second phase will build on this to increase the diversity of business and operating models, ensuring that higher education can adapt and deliver the needs of the future.

Phase 1: securing a more solid financial foundation

In phase 1, government should support the sector to take immediate steps to move to a more solid foundation by:

- **increasing funding for teaching to meet the real costs through a combination of index-linking fees to inflation and restoring the teaching grant**
- **ensuring policy stability in relation to international students in order to achieve sustainable, managed growth**
- **reverse the decline in QR funding for research**
- **working with the sector to establish a sustainable solution for universities in relation to the significant increase in contributions to the TPS**
- **developing, with the sector, a clear plan to implement should an English university find itself in severe financial distress.**

RESTORING TEACHING FUNDING

Teaching funding per student has declined almost every year since 2015–16, and the most recent data shows that per-student funding is at its lowest point since 2004, with the £9,250 fee currently worth £5,924 in 2012–13 prices.

This report has highlighted how higher education serves the public and national interest, as well as the interests of individual students and graduates. Funding for teaching must reflect this. Tuition fees should be index-linked to inflation, not to address the funding shortfall, but to allow fee income to maintain its real-terms value over time. This is an essential step that must be taken as soon as possible, alongside increasing maintenance loans in line with inflation and reintroducing grants for the poorest students.

This will not be enough on its own. Universities have already implemented significant transformation and efficiency programmes, with 80% of Universities UK members already undertaking efficiency programmes across many areas. We will continue to

support our members to ensure they are fit for the future. We can and will go further, by working with our members to help them adapt to different ways of working and sharing insights and experiences in relation to successful approaches to business transformation.

Government should also step back in and provide more upfront funding towards the cost of teaching through the Strategic Priorities Grant. This could be targeted to support high-cost, strategically important and vulnerable subjects and create incentives for universities to respond to national and local priorities. This might include funding to support the additional costs of attracting students from low-participation and disadvantaged backgrounds to narrow the gaps in opportunity, as discussed in chapter 1. It might be used to incentivise universities to deliver on local priorities in support of growth, to fill cold spots and to address national skills shortages, as outlined in chapter 2 and chapter 3. This would support the alignment of university and government missions and rebalance the contribution to the cost of teaching, which is currently heavily skewed towards individual graduates. Such a policy would acknowledge that there is a public as well as a private benefit flowing from students choosing degree-level study.

COMMITMENT TO INTERNATIONAL STUDENT RECRUITMENT

In the short term, it is imperative that the government does not damage universities' ability to attract international students. Specifically, we need a commitment that the Graduate Route will be maintained for the lifetime of this Parliament, as noted in chapter 5.

However, we recognise that public support for international student recruitment is eroded and believe that the sector should work with government to ensure that growth is clearly well managed and sustainable, with no room for abuse of the system. In chapter 5, we propose the development of a Compact between the university sector and government.

RESEARCH AND QUALITY-RELATED (QR) FUNDING

Chapter 4 sets out measures the government and the sector should take to ensure that the UK remains a world-leading producer of research and innovation to address the annual UK-wide £5.3 billion loss in research activity (a loss of 31 pence for each £1 of research costs).

In the short term, government should reverse the decline in QR funding for research, which has seen a 15% fall in England, with steeper decreases in the devolved administrations. QR funding is essential for the development of the pipeline of research talent and the UK's overall research infrastructure. Investment choices in research are constrained in this environment, and course and department closures are harming the diversity of the research base, causing talent to be lost.

TEACHERS' PENSION SCHEME (TPS)

Government should review universities' obligation to offer the Teachers Pension Scheme and explore options for allowing TPS (and LGPS) member universities the flexibility to offer alternative pension schemes to their employees. Such universities currently still have a statutory obligation to participate in public-sector pension schemes, despite no longer being categorised as public-sector organisations by the ONS.

Alternatively, targeted support for higher education employers in the TPS could allow them to offset this significant and unforeseen increase in expenditure and prevent any detrimental impact on their services.

CONTINGENCY PLANNING

Government and the sector need a clear plan for a case where an English university find itself in severe financial distress. A failure would not only affect the institution involved and its students, staff and local economies, but would have broader consequences for the UK's international reputation and for other universities. Lenders and investors could reassess their financial risk profile and potentially increase lending costs to the wider sector. This could lead to a domino effect of more institutions failing. Plans to manage the immediate situation and to protect the reputation of the higher education sector should be in place, with the support of independent experts, to guide the institution in finding a viable way forward. There are different possible models for such an intervention, but it is crucial to protect students and others who depend on the university, including local public services.

Phase 2: From surviving to thriving

Financial stability will give universities the foundation they need in order to develop more efficient, long-term strategies and, in some cases, to transform their business and operating models. This might include greater specialisation, shared services, collaboration to deliver vulnerable subjects, or more agile operating models that allow universities to be more responsive to the specific needs of students, employers and local communities. It may include consolidation of provision across regions or the development of collaborative or group models, but this should be driven by institutional strategy. This will not necessarily secure short-term financial savings, given that these types of transformation require time and considerable upfront investment.

Over the last year, Universities UK has convened a series of discussions about how universities might transform themselves to thrive in the future. Some of the early insights from these discussions are reflected in the suggestions in this chapter, and we commit to continuing to lead this work. **Universities UK commits to leading a transformative programme of work that will:**

- **expand our work in bringing members together to share learning and good practice in efficiency, transformation and income generation**
- **build on the sector's rich tradition of finding efficiencies through collaboration by exploring the appetite for additional regional or national shared services.**

EVOLVE, INNOVATE AND REFORM

During the course of the last year, Universities UK has led a series of conversations with its members about the ways in which they can adapt and thrive in the face of financial pressures. While government action on funding will be an essential part of the solution, universities are not passive actors. They can take steps to make themselves more resilient and efficient and adapt to meet the needs of the country, as described in this report. Below we set out some of the ways in which universities might evolve and innovate. Universities UK will continue this work.

REACH NEW STUDENT POPULATIONS

If universities are to support future skills needs and to increase opportunity, it will be important to find new ways of reaching different student populations, including those in work who can only study part time or flexibly. This may involve:

- moving some focus away from three-year, full-time undergraduate provision
- considering the needs of mature learners and those aiming to retrain
- embracing more modular learning, supported by the LLE
- supporting a more diverse range of students into full-time degree provision
- working with employers to develop provision in new areas.

Mechanisms to support national flexibility and mobility, such as an effective credit transfer scheme, should also be considered.

COLLABORATE WITH REGIONAL PARTNERS

Regional and local partnerships were discussed in chapter 2, where we note that such partnerships can help avoid duplication in the educational offer across a region. This may include the development of learning pathways, including for articulation (recognised routes for students to build on prior qualifications), and greater strategic alignment and joint working, where relevant.

REVIEW SPECIALISATION IN RESEARCH

As set out in chapter 4, universities may need to review where they focus their research effort in order to ensure that their activities are sustainable. An example is the model undertaken by the Manchester Metropolitan University (MMU) centres of research and knowledge exchange (COREs). The centres are the primary means through which MMU increases the quality, scope and volume of research and knowledge exchange. They must meet certain criteria in focused areas of research to be established. A recent Universities UK survey of its members indicated that university leaders are open to specialising their provision, particularly building on research in their areas of greatest strength.

MAKE OPERATIONAL EFFICIENCIES AND REDUCE COSTS

The most appropriate areas for efficiencies will differ by institution, but could include digitisation, estates strategy and a review of teaching models.

Digitisation and AI can support universities be more responsive to skills needs and create a better student experience:

- AI can support improved student management systems, delivering a more cohesive student experience while saving staff time.
- Updating old systems will reduce maintenance costs and reduce the threat of costly cybersecurity incidents.
- Streamlining the use of technology yields significant savings across teaching and research as well as professional services. Reducing the number of tools and software can lower staff costs as well as the cost of maintenance and licences.

Estates strategies can enable universities to reduce costs and enhance income streams to support their wider goals while maximising efficiency:

- Developing new commercial opportunities, such as leasing space or bringing commercial partners onto campus, can bring in new income streams.
- Maximising the use of space and combining digital and in-person provision can optimise the allocation of resources.

A review of teaching models to institute a more streamlined approach, while maintaining the high quality of provision, could include approaches to staffing. For example, high staff–student ratios are rewarded in international rankings and can support student success, but there may be ways of maintaining the current high completion rates with lower ratios. In some cases, reviewing the requirements of Professional, Statutory and Regulatory Bodies (PSRBs) that impose high staff–student ratios may also be appropriate where these are unduly restrictive or where pedagogical advances mean quality can be maintained with lower staff student ratios. Universities might also consider a greater

demarcation between staff who undertake teaching and research, in subject areas where this can be supported. Additionally, some institutions are exploring subsidiary employment models to increase flexibility in the pensions they offer, and this may be appropriate for some contexts.

Above the institutional level, regional collaboration may be a means of preventing the emergence of subject-related cold spots as well as supporting smaller areas of research, as individual institutions review their own portfolios. This may also help to support crucial work in rare disciplines, ensuring that expertise is not lost due to strategic change in individual institutions.

IMPLEMENT NEW STRUCTURES AND OPERATING MODELS

Universities could explore new structures and operating models that enhance quality while increasing efficiency:

- **Group structures** can create operational efficiencies while also offering students the opportunity to choose an institution that best meets their specific needs. Group structures are common in primary and secondary education and can support shared costs while focusing on the most important parts of delivery. This may include unitary models, such as multi-academy trusts in secondary education, which allow for centralised strategic decision-making efficiencies at a group-structure level. Federated models allow for greater institutional autonomy and responsiveness to regional needs, while also creating operational efficiencies. There are several longstanding examples of this in the UK university system, notably the University of London. As outlined in chapter 7, this must be supported with an appropriate regulatory framework.
- **Regional consortia for sharing services** can create more strategic alignment regionally and create efficiencies without compromising provision. Opportunities for sharing could include minimum levels of service being consistent across all universities, for example some aspects of student services, such as mental health support. They may also include estates, such as the shared campus between the University of Exeter and Falmouth University.
- **Shared services are underused.** A recent survey of our members showed that 39% are interested in undertaking more shared services but just 7% reported current activity. Government can help to unlock efficiencies by removing VAT on shared services (as is the case for some cost-sharing groups outside higher education).

Philanthropy

Universities should look to philanthropic giving for support, building on substantial growth in recent years. This growth was catalysed by the previous Labour Government's successful introduction in 2008 of a Matched Funding Scheme for voluntary giving to higher education. The 2023 CASE-More UK Philanthropy Report highlighted that since 2012, giving to UK universities has increased by 93%, reaching a record in 2022 of £1.5bn from 171,000 donors. Building a culture of philanthropy requires continuous commitment and focus. 'Universities are charities, making a significant charitable impact. They have therefore not only the right but the obligation actively to seek and responsibly to handle philanthropic gifts'. **A new matched funding scheme, based on the successful 2008-2011 programme, would be a proven method of bringing additional philanthropic investment to higher education. Additionally, policies to streamline the Gift Aid system and introduce tax efficient vehicles for legacy giving would also increase philanthropic support.**

Government action

The government can support this sector-led effort by:

- **developing a Compact with the university sector to deliver sustainable, managed growth in international student recruitment**
- **removing VAT on higher education shared services**
- **introducing a transformation fund to enable and accelerate changes to universities' operating and business models in order to achieve greater efficiency.**

VAT ON SHARED SERVICES

Typically, higher education activities are VAT exempt. However, when universities share services, such as by creating a cost-sharing group, VAT is charged, meaning that shared services must make savings of more than 20% to see any reduction in costs. As few universities operate shared services, in part for this reason, this policy change would cost the government little, but unlock new collaboration among institutions and also make institutional savings in the long term.

TRANSFORMATION FUND

Undertaking changes to business and operating models often requires upfront investment. A recent survey of our members asked institutions about specific areas where an inability to commit upfront investment was preventing them from developing plans for business transformation. Both digital and estates were identified as major areas

where a lack of upfront capital was hindering transformation, with a particular focus on universities' desire to increase automation and to introduce AI.

To address this issue, a transformation fund, subject to a competitive bidding process, should be targeted at situations in which universities cannot otherwise source funds to support the change. The benefits would outweigh the costs by driving savings through at an accelerated pace or by stimulating changes that would not otherwise be possible due to steep upfront costs. Such a strategy would likely play a part in offsetting the additional investment from index-linking tuition fees.

Changes supported could include:

- developing new business models to better meet the needs of students, the economy and society
- generating operational efficiencies to further reduce high costs
- implementing new structures and operating models that produce significant savings.

Government should use the transformation fund to promote closer collaboration and partnership between more than one institution.

Consult and engage with staff

Universities would not be able to deliver anything for the country without the great staff who work in them. However, savings programmes instituted by universities have already led to significant job losses across the sector. As the sector embarks on transformational changes to become more efficient and future-proofed, it will be crucial that universities make engaging staff in decision-making a priority, bringing their staff with them and ensuring that they continue to offer employees a strong value proposition with a commitment to principles of equity, diversity and inclusion; environmental, social and governance principles; and fair and sustainable total reward. This will require universities to take a whole-workforce approach to employee voice, enabling meaningful consultation and understanding of how change may affect staff, and a willingness to adapt plans to protect and enhance the employee experience where needed. In the longer term, a stable and sustainably funded sector will protect the interests of both staff and their institutions.

Address implications of transformation in England on the devolved administrations

Higher education funding is devolved, and discussion of the funding model here has focused on England. However, institutions in all four nations face similar challenges caused by long-term reductions in funding. This may present opportunities for universities across the UK to consider changes to business and operating models and to share good practice across borders. Decisions by the Westminster Government on TPS would have cross-border implications that must be fully understood and accounted for.

7.

Better regulation

18

universities employ
an average of 18 staff
dedicated to regulatory
compliance

27

pieces of advice issued to
the OfS by the government
between 2018–23

45%

of unis say regulation
takes up a significant or
major proportion of their
governing bodies' time



The shift

Streamline regulation and reduce bureaucracy.

'The ambitions of this report can only be achieved with a fundamental rethink of the purpose of the regulation of higher education in England and a re-set of relationships between regulators, government and the sector. This requires a reframing of the current focus on consumer protection to recognising the public benefits of higher education and its close links with research; a shift from adopting a purely domestic focus to recognising the national and international context in which English universities operate; and the complementing of an assessment of individual providers by siloed regulators to a system-wide view taken by a coordinated group of independent regulators, government departments and sector bodies that adopts a strategic approach to questions of the size, shape, strength and funding of the UK higher education and research system as a whole.'

Professor Julia Black, Warden of Nuffield College, University of Oxford and President of the British Academy

Summary

We need a thriving higher education and research sector to enable people to reach their potential, enrich our society and meet the challenges of the future. An effective regulatory framework and regulator are essential to this, if we are to uphold public and political trust and confidence in our universities.

The regulatory framework for England should be designed and operated in such a way that it supports – and where necessary requires – the higher education sector to meet society's needs and ambitions. At a time of scarce resources, the sector and government must work together to achieve a more coordinated regulatory system in which the benefits of regulation exceed its costs.

The autonomy of universities is central to their success and should be maintained. However, this must be earned through effective governance and strong sector stewardship. The sector must demonstrate the quality of its offer as it adapts to the needs and wants of a changing society. This means being open to the scrutiny of regulation and acting on concerns.

Challenges

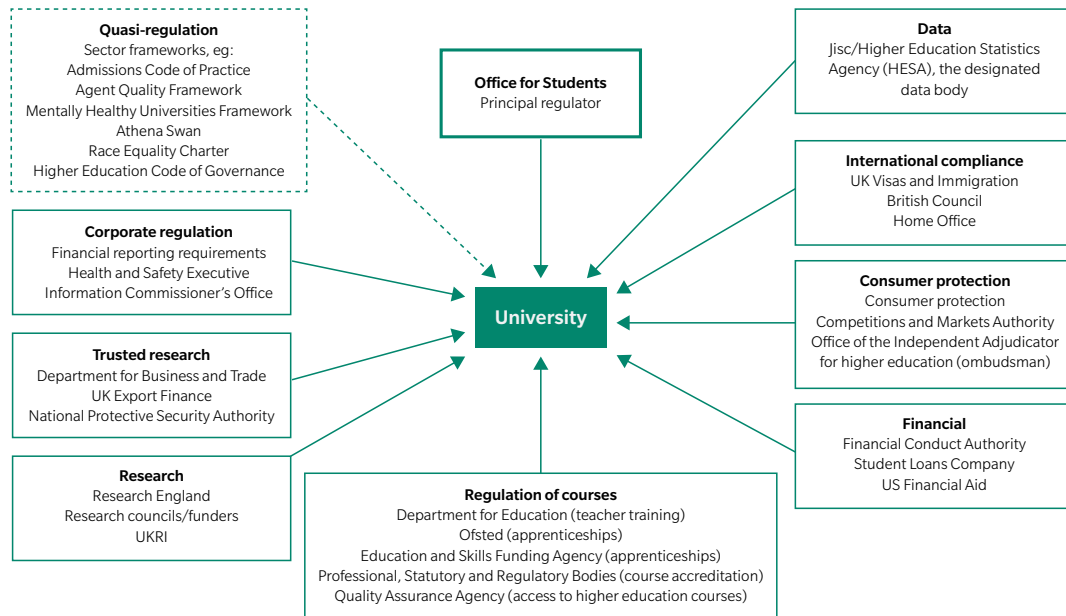
Higher education has a critical role in addressing the issues set out in this report. The sector must evolve in the face of the new risks and opportunities emerging from climate change, technological advancement and geopolitical conflicts and realignments if it is to meet the needs of the country. This can only be achieved if the regulatory frameworks within which universities operate are suitably forward looking and responsive. In an era of constrained finance, it is also essential that the regulatory architecture is robust enough to inspire confidence, but proportionate and implemented in a way that is mindful of burden. Every pound spent on responding to regulatory requirements must be a pound well spent, in the interests of students, graduates and the public.

While the UK has devolved higher education policy, some other significant areas, such as foreign policy, immigration and many aspects of research, are reserved matters, with policy set at the UK-wide level. This includes some aspects of regulation. The international reputation of the university system depends, to some extent, on a coherent identity at the UK level. We therefore need regulation that respects the nature of devolved government but also recognises the value of the sector's global outlook and a coherent, UK-wide sector that supports student choice.

Despite the challenges facing the sector, the recent [Independent Review of the OfS](#) noted a lack of strategic approach from government which, as chief architect of the higher education system, is responsible for communicating what it wants that system to achieve. To be fit for the future, the policy and regulatory approach must change.

A highly regulated sector

As recipients of public funding, universities must be subject to regulation to ensure the public interest is protected. The sector's regulators differ between the four nations of the UK. In England, in addition to the OfS, universities are answerable to many regulatory bodies (Figure 19). They are also accountable to bodies that distribute funding, including UKRI.

FIGURE 20: A TYPICAL ENGLISH UNIVERSITY AND ITS REGULATION
[View full-size version](#)

Although we focus below on the role of the OfS, the additional and/or competing requirements of some of the sector's regulators and a lack of coordination between them act as barriers to universities being able to offer provision in innovative and low-cost ways. While there are legitimate requirements, such as compliance with health and safety regulation and meeting international standards, the conditions imposed by some PSRBs limit universities' room for manoeuvre, for example through requirements on staff–student ratios and placement hours. Adjustments are possible, as was seen during the Covid-19 pandemic, and some requirements may not need to be as rigid as previously thought. This is a topic to which the sector should collectively return.

Decline of trust between the Office for Students and the sector

With over 420 registered providers, the OfS has established a well-regarded approach to access and participation and managed successfully funded pilots of new forms of provision. It has enhanced its engagement with the sector in the past year following concerted and welcome efforts to improve the relationship between the sector and its regulators. The OfS now faces two main challenges that prevent it from delivering to its fullest extent.

The first is the narrow interpretation of its role, a legacy of its creation primarily to protect students' interests as consumers of education in a competitive market. However, higher education is not a pure market, for many reasons, meaning that the OfS's regulatory

power must go beyond its role in consumer protection and consider the wider public benefits of higher education.

The second challenge is the lack of its actual or perceived independence from government. Between 2018 and October 2023, the OfS was subject to [27 separate pieces of published government advice and guidance](#) stating how the government's priorities should be addressed. Many legitimately related to funding, where some prescription around government priorities is justified and appropriate, but others went further and spelled out the specific approaches the OfS should take to its regulatory functions. The then-government's prescriptive approach, combined with the Secretary of State's extensive powers of appointment over the OfS board and senior executive team, led to a widespread view across the sector that the OfS is not an independent regulator but a vehicle for policy delivery.

One consequence has been a loss of trust between the OfS and providers. Universities have expressed concerns about institutions' confidence in the current systems of quality assessment, a lack of regulatory coordination, disproportionate regulatory burdens and an inability on the part of the OfS to anticipate and respond to emerging issues. [Students report](#) that the OfS does not sufficiently understand the issues affecting them and say there is a lack of student voice informing regulatory activities. The Behan Review and the government's initial response to it are a helpful correction, but we need to see action taken in these areas, as described in our recommended solutions below.

In the last year, the OfS has made efforts to improve communications and relationships with the sector. There have been notable examples of its leadership in resisting political direction, and it has taken steps to reflect sector feedback in some of its actions. The OfS is still a young regulator, and the sector shares responsibility for working with it as it matures. Universities are themselves adapting to a new regulatory framework, and it is reasonable to expect that some of the friction experienced in the last few years will dissipate as the system beds in.

The findings of the [House of Lords inquiry](#) and the [Behan Review](#) align with much of the analysis and recommendations set out here, providing a solid foundation for exploring the evolution of regulation. If we are to achieve the public, societal and economic benefits of higher education, our understanding of the role of regulation needs to be more ambitious.

Growing concerns about quality and assessment

Quality and standards are fundamentally the responsibility of universities, and there are established structures and processes to which the UK's university sector adheres. These sector-owned standards (see box below) are designed to ensure consistency across and within universities so that people can have confidence in the value and authenticity of a

UK degree. Standards are supported by each university's rigorous internal processes, as set out by UUK, GuildHE and the QAA in 2023, which include institution-wide oversight and ongoing programme evaluation.

This work is further supported by the Quality Council for UK Higher Education, a sector-owned forum that, importantly, brings all four nations together to discuss matters relating to quality and standards and to provide a site of consultation, enquiry, evidence and learning.

Sector-owned standards

UK Quality Code: sector-agreed principles that underpin high-quality provision and secure academic standards. It enables providers to see what is expected of them and what they can expect of each other, irrespective of the regulatory framework in which they operate. It is part of the national quality arrangements in Scotland, Wales and Northern Ireland. Use of the Quality Code is voluntary for providers in England.

Frameworks for Higher Education Qualifications of UK Degree Awarding Bodies (FHEQ): the hierarchy of qualification levels, generic descriptors for qualifications to be awarded from foundation degree to doctorate and descriptors of classifications for bachelor's degrees. There is a separate framework for Scotland contained within the same publication.

Credit Framework for England: guidance for the design of higher education qualifications which enable the design of transferable and internationally-recognised qualifications of an agreed size and level of difficulty. There are separate frameworks for Wales and Scotland but the unit of credit is the same across all three.

Subject benchmark statements: what students are expected to know and do to achieve an award in the subject area.

Characteristics statements: the nature of particular types of award, e.g. micro-credentials, postgraduate awards or awards delivered through partnerships.

However, there are currently public and political concerns about the quality of higher education provision that we cannot ignore. The sector's reputation for high quality is essential to its standing in the world and to its ability to inspire trust and confidence in students, employers and the public.

Regulation has an important role in providing this external assurance. The OfS approach principally assesses compliance against baseline minimum expectations, using intelligence and data and investigating cases of concern. These expectations are reflected in the ‘B’ conditions of registration: academic experience (B1), resources and support (B2), positive outcomes (B3), effective assessment (B4) and application of sector-recognised standards (B5). An additional condition (B6) requires registered providers with over 500 undergraduate students to participate in the ‘above baseline’ Teaching Excellence Framework (TEF) exercise.

This interconnected approach to quality assessment, combining OfS regulation and providers’ self-regulation, works well to provide consistently high-quality courses for students while ensuring that pockets of poor quality are identified and addressed. However, there are concerns about whether the current approach to assessing quality adequately reflects the diversity of the student population. The more prescriptive B3 (outcomes) conditions that require universities to meet non-benchmarked absolute numerical baselines downplays the reality that some students face much greater barriers to academic success and progression than others, and that these factors are outwith a university’s control. While context will be considered within a quality assessment, as set out in recent reports from the OfS, the potential to face a lengthy and costly investigation for not initially meeting a baseline risks disincentivising universities from recruiting students from less advantaged backgrounds and may impact negatively on students’ ability to access the path that works best for them. We agree with the Behan Report that there would be merit in considering access and participation and quality and standards in a more connected way.

The current approach is also likely to favour those traditional subjects for which career progression is more linear, and ‘success’ is experienced rapidly, rather than accommodating the new models of provision, where the preferences and needs of lifelong learners and employers are centre stage. It is not yet clear, for example, how the OfS will adapt its approach to accommodate the roll-out of the LLE or the increased use of digital and AI tools in such provision.

Universities have concerns about how the OfS conducts its regulation, including the frequency of data requests and a failure to observe the principle of ‘ask once, use many times’. There is a perceived disproportionality for many of its requirements, such as the costly and indiscriminate expectation for all providers on all courses retain student assessment for up to five years in order to look to address concerns over grade inflation. While we have welcomed OfS working with the sector to adjust the expectation, including introducing an option for sampling, there remain concerns of its proportionality. There are issues with the conduct of investigative quality assessment reviews and their value in supporting the sector to learn and improve. In both areas, there have been welcome indications that the OfS is willing to consider feedback and to adapt its approach.

The approach in England under the OfS has diverged from the rest of the UK, one result of this being a widely held concern that England has been judged to be inconsistent with European Standards and Guidelines (ESG) of the European Higher Education Area (EHEA). As a founding signatory of the EHEA, England is expected to conform with the ESG, as monitored by the Bologna Process. We are confident that quality remains high across the sector in England, supported by the range of OfS, sector-led, and provider-level quality assurance processes, and we continue to see students succeeding in their studies. However, the European Quality Assurance Register for Higher Education (EQAR) judges England as only ‘partially aligned’, lacking in the required format:

- independent cyclical review
- published quality reports covering all providers
- student involvement on review panels
- oversight by an EQAR-registered body.

This non-alignment led the Quality Assurance Agency for Higher Education (QAA) to step away from its role as the designated quality body (DQB) in July 2022. The OfS has taken the function in-house, which was not envisaged at the time the Higher Education and Research Act (HERA) was debated and passed. It is within OfS powers to be an assurance regulator, but without international alignment, the OfS risks undermining national and international confidence in quality. The House of Lords Industry and Regulators Committee flagged this as a concern: the situation threatens mutual recognition of the UK’s graduate qualifications, including courses unique to it, such as the one-year master’s degree. This risks undermining international student recruitment and TNE partnerships; already there are anecdotal reports of governments in Middle Eastern countries voicing concerns about a lack of published reports providing quality assurance of English degrees and about the TEF’s failure to undergo an independent review. Some countries in Europe and the Middle East are not allowing sponsored students to study at certain English universities or to access student grants because of a lack of verifiable information about compliance with ESG guidelines. As the UK looks to reset its relationship with its European partners, this issue deserves fresh attention.

Poor regulatory coordination

Regulation by the OfS is part of a very complex regulatory environment in England (Figure 19) – some providers have reported working with as many as 140 PSRBs to assess course quality. Yet despite the volume of regulation and a plethora of policy initiatives that impact higher education and research, there is no single public body responsible for taking a strategic, system-wide view of the overall health of the sector in England, and there is a lack of coordination by government across different regulatory requirements and levers. While there is a collaboration agreement between the OfS and UKRI, it is not always evident that there is strong coordination between the two bodies or between OfS

and other departments in key areas. This could be improved.

This heavy regulatory burden restricts universities' ability to innovate and put a strain on scarce resources. [Research commissioned by UUK in 2023 found that:](#)

- on average, a university has a full-time equivalent (FTE) of 17.6 staff dedicated to regulatory compliance
- across all 116 UUK members in England, the total could be as much as 128 FTE at executive level, 638 FTE at manager/director and 1,289 FTE at officer/coordinator level
- 45% of universities say that regulation takes up a significant or major proportion of their governing bodies' time.

The costs of compliance are most severely felt by smaller providers. While some universities have invested in regulatory capacity and developed strategies for managing requirements efficiently and effectively, others have been slower to update their approach or have been more constrained by financial limitations.

Solutions

Review and reform the remit of the Office for Students

Under HERA, the OfS has no statutory objectives, but instead a list of functions and [general duties](#). These include having regard to 'value for money', but without any specification of whose money or value to whom. **We wish to see this specification finessed to consider both the benefits to individuals in obtaining a degree and the wider public benefits of higher education.** The OfS is already subject to the [Regulator's Code](#), which expects all regulators to consider how they support economic growth, meaning there is already a precedent for thinking more broadly about how regulation can be an enabler of wider public benefits.

We argue that the OfS remit should be streamlined to:

- promote the quality of higher education in England
- promote fair and equal opportunity of access to higher education
- promote the sector's international competitiveness
- enable higher education to meet the needs of society now and in the future.

These points mirror themes in the Behan Review. However, while we agree on bringing more focus to OfS's regulation and reducing regulatory creep, we wish to see the

regulator broaden its outlook to give more conscious consideration to the public interest in the benefits of higher education and international competitiveness. This means having regard to:

- promoting the financial health and sustainability of the sector
- supporting innovation in the delivery and contribution of higher education
- coordinating activities with other relevant regulators in the UK and the devolved nations, including other standard-setting bodies
- ensuring proportionality of regulation
- supporting diverse and geographically spread providers to address learner needs and the needs of local, regional and national economies.

Evolve legislation

Changes made within current legislation could see a more principles-based, risk-led and outcomes-focused OfS. The scope of current legislation would also permit greater collaboration between the regulator and the sector and reinforcement the OfS's independence. Where the objectives set out in this blueprint cannot be achieved through legislative interpretation, changes to its legal mandate may be required. As the Behan Review states, **changes should be considered where the OfS requires additional tools to pursue our shared priorities, as well as to bolster the OfS's independence through changes to the Secretary of State's powers of appointment.**

Building on recent progress and the recommendations of the Behan Review, we should consider any changes to the OfS' regulatory approach within the framework of HERA. **Regulation needs to evolve into an enabler of innovation to meet the country's societal and economic ambitions needs in an internationally competitive environment.**

"Obtaining a high quality education as well as the access to resources, travel opportunities and networks has been indispensable."

Sara Berkai | 100 faces campaign

Justify the regulatory burden

Regulation should only be introduced where the public benefits are clear and costs justified. The OfS should focus its activities on the quality of education to avoid becoming stretched too thinly. By adopting a consultative cost–benefit methodology to review current and proposed regulation, based on the existing Higher Education Statistics Agency (HESA) ‘burden assessment methodology’, the OfS would be following the [NAO’s principles of effective regulation](#). We wish to see published assessments placing a strong emphasis on providers’ own systems of governance and on the outcomes achieved, rather than compliance with prescriptive rules.

Establish transparent risk-monitoring and management

The OfS should establish a transparent risk-monitoring and assessment process to guide its engagement with providers. This could draw on [Australia’s TEQSA risk assessment framework](#), for which the regulator produces annual high-level risk-profile reports for each provider. These reports, drawing on all the regulatory intelligence held by OfS and including the insights from other regulators, would be shared with each provider to support accountable officers and senior leadership in the early and transparent identification of issues and mitigations. The resulting shared understanding between regulator and regulated on risks could do much to circumvent disputes if there is a need to take more formal regulatory action. For providers judged low risk, for which risk-profile reports could be less frequent, the approach reduces regulatory burden and gives them the confidence to embark on innovative approaches to delivering the courses that will better meet learner preferences and the needs of society and the economy. The regulator is then freed up to target its activities on high-risk providers and on sector-wide issues that the reports, when taken as a whole, are recording.

Given the sensitivity of the assessments, the reports would be treated in confidence. Nevertheless, there will be points at which risks materialise in such a way that reports should be made public, just as we currently see the publication of quality assessment reports. Equally, to be ESG compliant on quality assurance, some reports and intelligence contributing to the OfS’s risk assessment will need to be published. However, as with the OfS’s current approach to financial sustainability, there will be cases for which a proportionate and sensitive approach is needed to avoid unnecessary destabilisation.

Realign with international standards

The quality assurance system in England should be realigned with the ESG, as a priority. This would ensure we are meeting our commitment to the EHEA and demonstrating the UK Government’s support for international collaboration and protecting the reputation of our world-leading sector. Compliance with the ESG will

restore confidence in the UK's quality assurance internationally, which will facilitate more partnership opportunities and student mobility between universities in the UK and many other parts of the world. Alongside this, English regulation should be more formally realigned to the [UK Quality Code for Higher Education](#) to facilitate cross-UK collaboration and minimise the burden for providers delivering through partnerships across the UK's internal borders.

Realignment with the ESG does not require a return to the past nor a move away from risk-based regulation but rather a clear commitment from government and the OfS to review the current system against the ESG and engage in a constructive dialogue on how areas of non-compliance can be corrected. One of the current obstacles is that the ESG requires quality assurance to be externally overseen by an EQAR-registered agency. There may be a number of ways to achieve this that do not require a return to the DQB model; these should be explored.

Realignment could also be achieved by updating the current quality architecture to meet ESG requirements such as the need for external verification of quality reports through on-site visits and the need to consider inputs and processes, not just outcomes. TEF satisfies some aspects of the ESG, with elements of cyclical and publication of reports, and so would be a useful starting point from which to develop our approach, but it does not address them all.

Current ESG rules would require an additional, external verification stage conducted by an EQAR-registered agency. Government should seek to influence the development of these rules to allow for less burdensome approaches while meeting ESG requirements, such as adapting the TEF process to include an element of external verification. We welcome the OfS's decision to commission an evaluation into the latest TEF exercise, which can also inform this process.

Demonstrate greater engagement with students and the sector

The OfS should work to protect students by promoting high-quality educational provision with empirical evidence of students' needs and interests. The student panel should focus on identifying emerging issues, defining students' interests and exploring good practice across the sector. The panel could be further empowered through a dedicated secretariat function underpinned by annual ringfenced funding. The OfS should explain how the student panel's views have been considered in decision-making to support a genuinely collaborative and reciprocal relationship between the OfS and the panel and through it, the sector.

To complement the student panel, an independent provider panel, with representation that reflects the diversity of the sector, should be created as part of the OfS's governance structures. This, alongside closer working with sector groups

and networks, such as the Quality Council for UK Higher Education, will strengthen the OfS's ability to anticipate issues, mitigate risks and increase its agility in considering the evolution of the sector.

Coordinate government departments and regulatory bodies

To address the problems of the regulatory burden on providers, duplication of effort and threats to the financial stability of the sector, the UK needs much closer coordination across government and its statutory and regulatory bodies. The institutional structure for coordination could be akin to the [Digital Regulation Cooperation Forum](#), a voluntary forum that supports coordination between its members, namely the CMA, ICO, Ofcom and FCA. In higher education, a similar approach would bring together the DfE, DSIT, DBT, FCDO, the Home Office, HM Treasury, the OfS and UKRI, plus relevant bodies from the devolved nations. Such a body would consider the cross-cutting implications of each member's sector-oriented expectations for other policy objectives and the overall regulatory environment. A coordinated approach across regulators and relevant government departments has the potential to create a leaner, smarter system overall.

In addition, the OfS, UKRI and PSRBs should work with Jisc to create shared systems of data collection and reporting and develop a policy of 'informed reliance' with respect to quality assurance in order to reduce regulatory burdens and avoid duplication of effort on the part of providers.

More fundamentally, **government needs to work with providers, regulators and funders across the UK to develop a coordinated strategy and approach to financial sustainability.** This would recognise the financial oversight and funding levers of the OfS and UKRI and the impact of wider government policy, such as its immigration policy, on the sector's financial health.

As also noted in the Behan Review, we observe significant gaps in policy and regulation with respect to how the failure of a provider could and should be managed. Government needs to establish systems by which wider, system-level failures are emerging are identified, including those that extend to risks to cultural capital, innovation and soft power over the long term.

Ensure the evolution and stability of university governance

The role of university governance has always been important; in the current circumstances it is even more significant. For their part, universities need to be constructive and proactive regulatory partners and **should ensure their governing bodies set the strategy and remain aware of changes to regulation. Universities and their governing bodies also need to take appropriate steps to assure external**

stakeholders that their institution is both sustainable and well governed. The good practice set out in the work led by Advance HE, UUK, GuildHE and the CUC to strengthen governing bodies' role in academic assurance and the recent governance framework for franchised arrangements are both examples of the sector taking steps to self-regulate.

Governance has always been about more than responding to regulation, however. Its core purpose is to ensure the institution's long-term sustainability by focusing on reputation, quality assurance, and its financial, human and other resources. Leadership teams should continue to work closely with governing bodies to identify and address risks at an early stage. If the sector can demonstrate that this is happening, it will justify further development of the principles of good governance and allow the OfS to take a more risk-based approach. **The Committee of University Chairs should review the HE Code of Governance to ensure that it remains fit for purpose in the future, draws on lessons from other sectors and supports governing bodies in meeting the financial challenges, regulatory changes and the evolving needs of students in the future.**

8.

Improving how the impact of universities is assessed

£265 billion

total economic impact of UK universities in 2021–22

70%–80%

Graduates are 70–80% more likely to report 'excellent' health than non-graduates

£14

Every £1 of public investment in universities generates over £14 in economic output



The shift

Improve how the impact of the university system is assessed, taking public as well as private benefit into account.

'The evidence clearly suggests that the HE sector generates large and lasting benefits across a wide range of dimensions - economic and social, health and happiness, individual and civic, public and private. A comprehensive assessment of these benefits is the cornerstone of public policy choices around the HE sector.'

Andy Haldane, Chief Executive of the RSA, and former Chief Economist at the Bank of England

Summary

In earlier chapters, we set out what the sector can contribute to opportunity and growth and what might need to change in order to achieve that. This final chapter focuses on how we measure the wider impact of our university system across the UK.

Understanding and acknowledging what universities contribute, both to individuals and society, matters. It shapes what we think is important, what we support, and the design of policy, funding and regulation.

We believe that both universities and government can do a better and more consistent job of measuring the benefits that flow from higher education, research and innovation, and that we should look beyond the obvious to capture both the contribution that universities make and the savings they generate. This includes how higher education and research contribute to the key 'capitals' that policymakers consider essential to achieving sustainable growth and development of the UK's economy and society: human, intellectual, physical, natural, social and cultural capital. We are not currently able to do this in a holistic way.

To contribute to the development of the evidence base, Universities UK has commissioned independent research, undertaken by London Economics, which has found that the total economic impact of the higher education and university research sector on the UK was approximately £265 billion in 2021–22, with every £1 of public investment generating over £14 in economic output. However, there are many things that this research cannot capture. Public policy decisions, including on spending, should

be based on a more comprehensive understanding of the impact of higher education and research, including its non-economic benefits. These benefits are not restricted to individual graduates but are experienced widely by the public. As we argue in chapter 6, the balance of public and private returns on higher education should be better reflected in the funding model.

Challenges

Failure to understand wider economic and societal benefits of higher education

There is good evidence to show that skills and labour were the only factors making a positive and consistent contribution to increases in productivity (Gross Value Added per hour) between 2007 and 2019. However, we have a limited understanding of how much higher education and research have mitigated the damage of multiple events affecting economic stability and disparities, and how else they might contribute to economic growth and productivity. There is also little collated evidence of the crucial, though less quantifiable, role universities play in supporting national health and well-being.

Policy has been heavily based on assessments of the individual return on higher education through graduate earnings and the costs of subsidising student loans. While there have been attempts to capture the wider benefits of higher education and research, a more comprehensive assessment, going beyond REF and KEF impact evaluations, is needed to weigh up the costs and benefits to ensure public policy decisions are based on the best possible evidence.

There are wider societal benefits that flow from reducing inequality and maintaining the UK's international competitiveness, but these are not currently captured effectively or consistently. The contribution and significance of higher education, research, knowledge exchange and the sector's international reputation are being overlooked, and this needs to change.

Regional productivity disparities

The UK's productivity challenges have a strong regional character, with areas of high participation in higher education, such as London and the South East, reporting the highest levels of productivity, while other regions are lagging behind. Across all regions, there is a strong association between productivity and the share of workers with a higher education qualification, a metric that has been increasing over time.

Reduced internal labour mobility between regions, exacerbated by the housing crisis, is

leading to a growing mismatch between jobs and skills, which impacts on productivity growth. The margin of return for public investment in higher education will depend on how well the needs of employers and learners are matched with university provision, and will vary by learner and university.

Challenges of a greener economy

Jobs in the green economy are more skills intensive than comparable jobs without a green focus, and a highly skilled workforce will increasingly be required to remain globally competitive. Analysis shows that demand is already outstripping supply, with most vacancies for green jobs in the UK being outside London and the South East.

Universities are already changing their curricula and educational experiences to equip students and graduates with the skills needed for the transition to a greener economy. This also provides new prospects for mid-career workers choosing to reskill or upskill to take advantage of new opportunities. Research and innovation undertaken by universities generate the knowledge needed by businesses and society to move to a green economy, for example by developing more efficient ways of flying, producing food and generating energy. Assessments of the impact of higher education and research need to recognise where changes in activity are not yet evident in data, and where future impacts are anticipated.

Income inequalities

Income inequality has a persistent influence on the structure of the UK economy and society. It has consequences at community, local, regional and national political levels. FSM-eligible graduates are more likely to enter the top 20% of earnings at age 30 than their equivalent counterparts who did not attend university. Estimates show that 80% of graduates experience a lifetime earnings premium as a result of having been to university, albeit with gender disparities (85% for women and 75% for men). While individual earnings are not the only benefit of higher education, they are significant in the aggregate.

Yet outcomes for individual graduates vary across a range of characteristics, including subject of study, location and chosen profession. Returns also vary by ethnicity and by region, as we saw in chapter 1. There are powerful intergenerational effects of participation in higher education too. Research on this area is limited, but suggest that graduates are half as likely to see educational difficulties in their own children, compared with parents educated to below level 3.

It is more difficult to quantify the non-financial benefits to individuals, such as the development of social capital through the formation of networks, self-confidence,

resilience, the ability to learn and adapt to changing labour market conditions, and a broader worldview. However, the impact of such benefits should not be disregarded.

Solutions

The benefits that flow to individual students are an inadequate measure of the total value of higher education and research to the UK. Policy should be informed by the full range of impacts described in this chapter and throughout this report.

Recognise the sector's contribution to economic growth

University-based research contributes to economic growth in multiple ways (see box below). By international standards, an unusually high proportion of research activity takes place in universities in the UK. This is a distinct strength of our system, because universities are designed to pass on new knowledge and the diversity between our universities leads to greater resilience. They actively transfer knowledge to society, businesses and public services, principally through the graduates they educate.

The returns on investment in the UK's university-based research and innovation are extensive, with the total economic impact associated with the UK sector's research and knowledge-exchange activities in 2021–22 estimated at £63 billion, comprising:

- **£14 billion** associated with the impact of university research income and spending in the wider economy
- **£40 billion** associated with the impact of university research on UK productivity (with lower and upper bounds of £34 billion and £42 billion respectively)
- **£9 billion** associated with knowledge-exchange activities, such as developing new IP with emerging businesses.

These figures suggest that *for every £1 of public money invested in university research and innovation, the country gets back £10 a year.*

While the economic impact of research and innovation is impressive, there remains a need to better understand the spillovers of public-sector research and innovation into improved productivity in the private sector, and the wider economic impact of university spin-outs and start-ups.

Participation in higher education directly improves the public finances. After accounting for public spending on maintenance, teaching grants and loan write-offs, higher tax receipts and national insurance contributions mean that the public purse effectively makes a profit on each graduate we educate. According to London Economics, the

net benefit to the Exchequer is £75,000 for each first-degree graduate, compared to someone with A level of equivalent as their highest qualification. The benefit is £68,000 for postgraduate taught graduates and £121,000 for postgraduate research graduates, compared to someone with a first degree (and £163,000 or £215,000 respectively when compared to someone with A level of equivalent as their highest qualification) Higher education teaching achieves a total public cost–government benefit ratio of 13:1.

While the benefits are high, and apparent across groups, the evidence shows that there are distributional effects, and that outcomes vary by a range of characteristics, including subject of study, type of institution and student characteristics. This suggests that the marginal return for public investment could increase if we can better align provision with the needs of the labour market, such as through Local Growth Plans, and if universities' overall contribution feeds through into stronger growth.

Total economic impact of the UK higher education sector

New research commissioned by UUK shows that the total economic impact on the UK associated with higher education and university research in 2021-22 was **estimated at approximately £265 billion**. Within this total:

- Research and knowledge exchange activities account for approximately **£63 billion** (24%)
- Teaching and learning activities, and their impact on the UK's human capital, stand at **£95 billion** (36%)
- Educational exports through the spending and fees of international students contributed **£37 billion** (14%)
- University spending and its impact on supply chains and wider ripple effects on other businesses accounted for **£70 billion** (26%)

This corresponds to a **£14 return to the economy for each £1 of public investment** in higher education and university research, and a £6.3 return on all higher education spending from public and private sources. This is above the average return of £1.8 reported across government impact assessments for projects from a range of government departments, over the period 2010 to 2022.

Source: London Economics (2024)

FIGURE 21: BENEFIT TO BENEFIT COST RATIO (BCR) FOR HIGHER EDUCATION SECTOR (SQUARE) AND AVERAGE FOR ALL GOVERNMENT IMPACT ASSESSMENTS

Note: Total benefits and BCRs are depicted on a logarithmic scale. Quadrants are marked using dotted lines at the median, such that half of the points sit to the left and right of the line $BCR = 1.8$ and half the points sit above and below the line Total benefits = £64.9m. Source: London Economics analysis of UK government impact assessments between 2010 and 2022

Source: London Economics analysis for Universities UK

Measure and record societal benefits more effectively

Graduates have better mental health than the general population, with depression less common for those with a degree and graduates better able to cope with distress, even when controlled for factors such as social background. Graduates are 70–80% more likely to report ‘excellent’ health compared to non-graduates, leading to a reduced burden on public finances.

Graduates are also statistically less likely to commit crime. An estimated 16 percentage point increase in those educated to degree level could save more than £1 billion annually in reduced crime costs in the UK.

Participation in higher education contributes to greater social cohesion, trust and tolerance. Graduates are also more likely to vote and to volunteer. The smaller the gap

between high and low levels of educational achievement, the greater the benefits for social cohesion: further work is needed to understand the mechanisms behind this. The association between higher education and voting has strengthened as participation in higher education has increased, and evidence shows that post-18 education increases volunteering.

There are also extensive public benefits of higher education and research. The Civic University Commission has described seven domains for the civic impact of universities, including the environment, health and well-being, arts and culture, placemaking and institutional leadership.

Universities have a substantial impact on society through their critical role in supporting well-being and contributing to public services, with more than 191,000 nurses, 84,000 medical specialists and 188,000 teachers expected to graduate from UK universities between 2021 and 2026.

They also contribute significantly to the creative and cultural life of our towns and cities, hosting public facilities such as arts centres, museums, concert halls, galleries and theatres on their campuses. In 2021–22, around 2.5 million people attended free arts performances hosted by universities. Universities provide expertise and resources that benefit local government, non-profits and small businesses and operate outreach programmes to support local schools. Many universities have sports centres that are open to the public at relatively low cost. They also offer services such as community healthcare facilities and student-led law clinics, providing free legal advice for those who might not otherwise be able to afford it.

In 2022–23 alone, UK universities invested £334 million in regeneration and development projects. This significantly boosts local infrastructure, creates job opportunities and stimulates economic activity, fosters innovation and supports local businesses through funding schemes and collaborative projects.

Capitalise on the sector's contribution to export earnings, foreign direct investment and soft power

As chapter 5 set out, our universities have a global footprint. In 2021–22, 558,215 students were studying for awards from 162 UK providers in 230 countries and territories through TNE – UK degrees offered outside the UK – a 9.3% increase from the previous year.

Universities are responsible for a significant proportion of the UK's service sector exports. In 2021–22 international students contributed £41.9 billion to the UK economy through tuition fees and spending in local areas. International students make an average £58 million net economic contribution to each UK parliamentary constituency, equivalent to

approximately £560 per UK citizen.

Foreign direct investment is also a significant source of private-sector funding for universities' R&D activities. It represented an average of 37% of all industry income across 15 universities in the Midlands in 2019–20, for example.

There is also the value that universities help generate through their soft power. While it is difficult to quantify its impact, the fact that, of the 195 countries in the world, over a quarter (27%) have at least one serving senior leader (monarch, president or prime minister) who was educated in the UK is an indication of the country's national and diplomatic strengths.

Equip the UK to face the future

Looking ahead, perhaps the most important contribution universities will make is helping the UK economy and society to adapt and thrive in the face of significant change. These include the changing political and geopolitical landscape; demographic change; technological change and potentially large-scale labour market disruptions; and climate change.

From research in security and defence, to retraining an older workforce for the jobs of tomorrow, our universities do not only deliver quantifiable benefits now, they help the UK avoid harms and capitalise on opportunities in the future.

MEASURING THE PUBLIC AND PRIVATE BENEFITS OF UNIVERSITIES

Successive governments have previously attempted to quantify the many benefits described here. **The new government should now redouble efforts to more rigorously and consistently measure the private and public benefits of universities,** so that its decisions are based on the full range of advantages, both economic and social, that our university sector brings to the nation, building on previous work in this area.

For their part, whilst most universities produce periodic assessments of their economic impact, these are not made available on a consistent basis, nor routinely taken into account by policymakers. **Universities UK commits to developing a methodology that universities can use to capture their impact, in consultation with national and local government, in order to contribute to a better and more robust understanding of the contribution that the higher education sector makes to public value.** We will encourage our members to use this methodology regularly and consistently.

Conclusion

This blueprint envisages what could be achieved through a broad and deep partnership between our universities and our government, in the service of the nation.

If we get it right, our universities can make a major contribution to the missions which the government has set out; to individual opportunity, and to securing a prosperous future for the next generation. But a blueprint is really just a document. It comes to life when hundreds, or perhaps thousands of people join together to turn an intention into a reality. The ideas in the blueprint will evolve and develop as they are turned into action.

We set about developing this blueprint by enlisting many people who care about our universities, and their future. Its ambitions will only be achieved by enlisting many more. That is what we intend to do.

Summary of recommendations

Chapter 1: Expanding opportunity

The shift

Expand opportunity by increasing participation in tertiary education by those from the least advantaged backgrounds and neighbourhoods, with a target for England of the population aged 25 having studied at Level 4 or above by 2040.

Recommendations

- Government and universities and colleges in England should work together to ensure that by 2040, 70% of the population achieve tertiary attainment at Level 4 or above by the age of 25. By 2035, aim to increase the rate of participation of 18- and 19-year-olds from low-participation neighbourhoods (TUNDRA Q1&2) from 30.5% to 50%.
- Government and universities should work together to increase interest in careers in teaching, promoting the profession and leveraging universities' marketing capacity.

We recommend that universities should:

- working with Universities UK and UCAS, support a more consistent approach to contextual admissions, building on principles within our well-established Fair Admissions Code of Practice
- bridge gaps in social capital and offer careers support to their graduates for a longer period of time, positing a 5 year sector-wide offer
- have a clear and consistent offer to current and future students, so that students have a clear understanding of what they can expect during and after their studies. To this end, the commission has set out the features that we believe all students should be able to expect from their university
- continue to engage with the University Mental Health Charter and Disabled Student Commitment

We recommend that the government should:

- establish a new Tertiary Education Opportunity Fund (TEOF) which is awarded to HE–FE partnerships that create collaborative programmes that respond to local needs and target learners in low-participation areas or groups through outreach activity
- expand the supply of teacher training providers by revisiting ITT commissioning decisions made by the previous government
- extend the National Tutoring Programme to enlist (and fund) university students to provide targeted tutoring support for disadvantaged pupils in the school system
- provide detailed information on other post-18 educational routes, so students can evaluate different pathways on a comparable basis
- increase maintenance loans in line with inflation and reinstate grants for students from the most disadvantaged backgrounds
- ensure the NHS can respond to increased student mental health needs. The NHS should consider establishing a dedicated student pathway for all and ensuring Child and Adolescent Mental Health Services (CAMHS) are available for students up to the age of 25

Chapter 2: More responsive and collaborative tertiary education

The shift

Improve collaboration between schools, colleges, and universities to develop the flexibility and responsiveness of tertiary education.

Recommendations

We recommend that the government should:

- ensure that regulators do not require duplicate reporting for aspects such as financial health when there is a single accounting officer.
- amend LLE policy in the light of the learning from the short-course pilot, reconsider the minimum credit requirements, and explore whether the LLE can be used to encourage employers to support the cost of employee study on a modular basis

Chapter 3: Generating local growth

The shift

Generate stronger local growth by forming an ambitious, evidence-based partnership between universities, business and local, regional, and national governments.

Recommendations

- Universities and government could work together to more effectively promote what the UK can offer in partnership with the Department of Business and Trade.

We recommend that universities should:

- put themselves forward as critical partners in local growth plans, and ensure that there is a dedicated 'local growth' function within the university to act as a single point of contact for key partners

We recommend that the government should:

- where MCAs do not exist, establish local growth partnerships to enable universities to support local authorities to achieve their local growth plans through overcoming that local coordination failures and learning from initiatives such as LEPs and LSIPs
- create stable and effective incentives for universities to collaborate with each other and with business and the public sector to meet the defined skills needs for industry and business
- adopt an inclusive approach to addressing every level of skills gaps. Skills England should look to capitalise on the central role universities have in tackling skills shortages at the higher levels
- ensure there is sustainable funding for degree apprenticeships and ensure any reform to the apprenticeship levy is driven by what employers need and capitalises on strong student demand
- support universities to deliver its commitment to the NHS Long Term Workforce Plan by laying out the funding milestones necessary for expanding training capacity. NHS England should enhance guidance clarifying the responsibilities for workforce planning across ICBs and higher education providers
- commit long term to ensure HEIF's impact is maximised on local growth, investment

and productivity

- consolidate and expand the Regional Innovation Fund (RIF) pilot to replace ERDF funding. We need a long-term, stable commitment to RIF at scale. Separate consideration will need to be given as to how to adequately replace the lost ESIF in the devolved nations.

Chapter 4: A world-leading research and innovation system

The shift

Secure our future research strength by addressing the financial sustainability of the system, its international competitiveness, and its ability to diffuse the knowledge it creates so that it can be best put to use in our economy and public services.

Recommendations

We recommend that universities should:

- aim closer to 100% cost recovery when it comes to industry-sponsored research, unless engaging with small or emerging businesses.
- be engaged in the development of the Industrial Strategy and be core partners in its delivery
- build in strategies to mobilise their own and/or venture capital to support the commercialisation of research, IP and scaling up of university spinouts

We recommend that the government should:

- ask funders to review incentives and requirements that demand in kind or matched contributions to research grants and other mechanisms, so that university staff do not feel an expectation to contribute more than 20% of the costs of research.
- provide a sustained real-terms increase in QR funding and an additional uplift in CRSF in line with charitable investment.
- set an ambitious GDP based R&D intensity target, covering both public and private

investment, to match that of the most competitive and innovative countries in the world. A healthy balance between fundamental and more applied research must be maintained.

- create a Missions Innovation Fund, in addition to the existing research budget, to stimulate research and innovation orientated towards addressing the priorities set out in the government's Missions and its industrial strategy.
- ensure the British Business Bank, which has been supporting the spin-outs system, also has the potential to scale up funding and further mobilise capital for spin-outs, particularly outside the South East, through a dedicated spin-out venture capital fund

Chapter 5: Global reach, reputation, and impact

The shift

Establish a new global strategy for our universities that goes beyond student recruitment to harness their reach, reputation and impact in the interests of the UK.

Recommendations

We recommend that universities should continue to develop shared resources and infrastructure that identify, understand and mitigate security risks.

We recommend that government should:

- establish a Global Strategy for Universities. The objective should be to harness the global reach, reputation and impact of our universities to create opportunity, foster prosperity and develop knowledge – both for the UK and our international partners.
- work with the sector to develop a new compact whereby each takes action to secure sustainable levels of international student recruitment and well managed growth
- review and benchmark immigration costs for academics, entrepreneurs and technical staff with comparable countries to ensure that the UK attracts talented people.
- commit to the Turing scheme for the life of the current parliament, and introduce longer-term two-to-three-year funding allocations
- strongly consider the case for association to the next Erasmus scheme

- work with the devolved administrations and sector to address the collapse in modern foreign language education in schools
- positively engage with the development of the next European framework programme (FP10), as successor to Horizon Europe, and to seek early agreement on the UK's full association
- create a substantial research security fund to provide funding for universities to invest in the training, development and human resource to meet the evolving demands of research security, and further invest in the Research Collaboration Advice Team, so it has the capacity and capability to support universities

Chapter 6: Putting universities on a firm financial footing

The shift

Put universities on a firm financial footing, through action by both government and the university sector.

Recommendations

Universities UK will lead a transformative programme of work covering:

- expanding our work in bringing members together to share learning and good practice in efficiency, transformation and income generation
- building on the sector's rich tradition of finding efficiencies through collaboration by exploring the appetite for additional regional or national shared services

We recommend that the government should:

Take immediate steps to move the sector to a more solid foundation by:

- increasing funding for teaching to meet the real costs through a combination of index-linking fees to inflation and restoring the teaching grant
- ensuring policy stability in relation to international students in order to achieve sustainable managed growth
- reversing the decline in Quality Related funding for research
- working with the sector to establish a sustainable solution for universities in relation

to the significant increase in contributions to the Teachers' Pension Scheme

- developing, with the sector, a clear plan to implement should an English university find itself in severe financial distress

Support sector-led efforts by:

- considering a new matched funding scheme, streamlining the Gift Aid system and introducing tax efficient vehicles for legacy giving to bring additional philanthropic investment to higher education
- developing a Compact with the university sector to deliver sustainable, managed growth in international student recruitment
- removing VAT on higher education shared services
- introducing a transformation fund to enable and accelerate changes to universities' operating and business models in order to achieve greater efficiency

Chapter 7: Better regulation

The shift

Streamline regulation and reduce bureaucracy.

Recommendations

We recommend that universities should:

- ensure their governing bodies set the strategy and remain aware of changes to regulation
- take appropriate steps to assure external stakeholders that their institution is both sustainable and well governed

The Committee of University Chairs should review the HE Code of Governance to ensure that it remains fit for purpose in the future, draws on lessons from other sectors and supports governing bodies in meeting the financial challenges, regulatory changes and the evolving needs of students in the future.

We recommend that the government should:

- ensure regulation evolves into an enabler of innovation to meet the country's societal and economic ambitions needs in an internationally competitive environment

- consider changes where the OfS requires additional tools to pursue our shared priorities, as well as to bolster the OfS's independence through changes to the Secretary of State's powers of appointment
- realign the quality system in England with the ESG, as a priority
- work with providers, regulators and funders across the UK to develop a coordinated strategy and approach to financial sustainability

We recommend that the OfS should:

- finesse how value for money is assessed to consider both the benefits to individuals in obtaining a degree and the wider public benefits of higher education
- only introduce regulation where the public benefits are clear and costs justified. The OfS should focus its activities on the quality of education to avoid becoming stretched too thinly
- establish a transparent risk-monitoring and assessment process to guide its engagement with providers
- work to protect students by promoting high-quality educational provision with empirical evidence of students' needs and interests. The student panel should focus on identifying emerging issues, defining students' interests and exploring good practice across the sector. To complement the student panel, an independent provider panel, with representation that reflects the diversity of the sector, should be created as part of the OfS's governance structures.
- The OfS, UKRI and PSRBs should also work with Jisc to create shared systems of data collection and reporting and develop a policy of 'informed reliance' with respect to quality assurance in order to reduce regulatory burdens and avoid duplication of effort on the part of providers.

Chapter 8: Improving how the impact of universities is assessed

The shift

Improve how the impact of the university system is assessed, taking public as well as private benefit into account.

Recommendations

- Universities UK commits to developing a methodology that universities can use to capture their impact, in consultation with national and local government, in order to contribute to a better and more robust understanding of the contribution that the higher education sector makes to public value.
- We recommend that the government should redouble efforts to more rigorously and consistently measure the private and public benefits of universities.

Acknowledgements

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- City-REDI
- Committee of University Chairs
- Core Cities UK
- Council for Advancement and Support of Education
- Department for Education
- Department for Science, Innovation and Technology

Organisations

- Academic Registrars Council
- Academy of Medical Sciences
- Advance HE
- Association of Graduate Careers Advisory Services
- Association of Heads of University Administration
- AMOSSHE
- Association of Colleges
- Association of Medical Research Charities
- Association of Research Managers and Administrators
- Blackbullion
- British Chambers of Commerce
- British Universities Finance Directors Group
- Campaign for Science and Engineering
- CBI
- Disabled Student Commitment
- Federation of Small Businesses
- Form Ventures
- Gatsby Foundation
- GuildHE
- HEPI
- Higher Education Funding Council Wales
- Higher Education Strategic Planners Association
- Higher Education Procurement Association
- HM Treasury
- Independent Higher Education
- Innovate UK
- Institute for Small Business and Entrepreneurship
- Institute of Regulation
- Jisc
- KPMG
- Localis

Organisations continued

- London & South East Colleges
- London Higher
- Medicines Discovery Catapult
- MillionPlus
- Mixed Economy Group (MEG)
- National Civic Impact Accelerator
- NCEE
- NCUB
- NEON
- NHS England
- NUS Charity
- Office for Students
- Office of the Independent Adjudicator
- Publishers Association
- PwC
- QAA
- Quality Council for UK Higher Education
- Research England
- Royal Society of Chemistry
- RSA
- Russell Group
- Six Ravens Consulting
- Social Mobility Foundation
- Student Loans Company
- TenU
- The Brilliant Club
- The British Academy
- The Policy Institute at King's College London
- The Royal Society
- The Young Foundation
- UCAS
- UCEA
- UK Institute for Technical Skills and Strategy
- UK Research and Innovation
- Unite Students
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- Universities Scotland
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- Wellcome
- What Works Centre for Local Economic Growth
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Universities UK is the collective voice of 141 universities in England, Scotland, Wales and Northern Ireland.

Our mission is to create the conditions for UK universities to be the best in the world; maximising their positive impact locally, nationally and globally.

Universities UK acts on behalf of universities, represented by their heads of institution.



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