Running a tight ship: can universities plot a course through rough seas?

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About this report

We are delighted to present this research on behalf of The Guardian, supported by HSBC and in partnership with UUK.

This research looked at strategic decision-making in the sector and how the current financial climate for UK universities is affecting this. Current challenges are certainly putting pressure on higher education to change and adapt. Our report reveals that change is manifesting itself in many different ways, as institutions think strategically about how best to respond.

This report is based on qualitative and quantitative research conducted by Shift Learning with vice-chancellors and those with direct responsibility for financial or operational strategy within their institution. Fifty-one in-depth telephone interviews were conducted alongside a closed-question survey, which received 59 responses.

We would like to express our sincere thanks to those who took the time to talk with us and complete this survey, and to HSBC and UUK for their support. Additional thanks to MillionPlus, GuildHE, HESA, and University Alliance for promoting this survey to their membership.

Please note that these interviews were conducted at the end of 2017. During this time vc pay was very much in the spotlight.

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Executive Summary

Universities continue to live in uncertain times.

- 63% stated that they felt less optimistic about the level of uncertainty than they did 12 months ago.
- 63% stated that they felt less optimistic about the financial prospects for their institution.
- This is resulting in a more cautious approach. 37% indicated that they did not feel confident about undertaking riskier strategic initiatives compared to the previous 12 month period.

Many were however seeking to maximise the opportunities available to them.

A more strategic approach was seen as key to success in the sector and many spoke of moving towards a more data-driven, evidence-based approach with strategic planners taking an increasingly active role.

A number of teaching-intensive institutions also involve students in their strategic decision making, and in a small number of cases local community and local government were also involved in strategic development.

Recruitment and increased competition is a key concern.

- Student recruitment was the number 1 unprompted concern and 73% indicated that they were concerned about increased competition within the sector.
- Domestic recruitment in particular is problematic and many are reporting increased exposure to clearing.
- The removal of the student numbers cap seems to have brought increasing levels of aggressive competition, with many Post-92 institutions (though not exclusively) feeling the effects of higher tariff competitors lowering tariffs and the increasing use of unconditional offers.
- Increasing domestic student numbers was stated as a strong priority for 37% and increasing international student numbers for 53%.

Brexit and immigration policy are challenging in part by their uncertainty

- 75% indicated that Brexit is a concern for them. The uncertainty around this issue made strategic planning difficult and the impact was potentially multifaceted, affecting research, staffing and student recruitment.
- When combined with a restriction on, and coverage of, student immigration into the UK, this was felt to have damaged the brand of the UK HE sector internationally.

Institutions are trapped between rising staff costs and the fees freeze

- Many are highly dependent on income from undergraduate fees. In a climate on rising inflation the present freeze was strongly problematic and viewed as a cut in real terms.
- While many universities' revenue streams are further squeezed by undergraduate recruitment issues, their staff costs are dramatically increasing, not least due to their increasing obligations around pensions, rising staff costs and the apprenticeship levy.
- Pension and staff costs were an area of particular concern indicated by 86% of respondents.
• Institutions were already in preparation for more financial shocks with 53% indicating that reducing operating costs was a strong priority and some suggesting that restructuring and staff cuts were already in motion.

• Respondents in our interviews also expected pensions issues to have an impact on the potential for future salary increases, which in turn was felt likely to impact on morale in the sector.

Media coverage and changing public attitudes
• 92% of respondents felt that university and HEI funding and finance was unfairly portrayed in the media and there were real concerns that HE is increasingly bruised as a sector by sustained negative press.

• There were concerns that the narrative on the value and in particular the ‘monetary value’ of degrees would ultimately lead to lower numbers of UK students choosing higher education, and increased difficulties to attract international students in the long term.

Research, TEF and NSS are key priorities
• Universities continue to prioritise their ‘core business’ of teaching and research with 64% indicating that increasing research and innovation output was a strong priority.

• Improving NSS and TEF performance was also identified as a strong priority for 63% and preparing for the KEF was identified as a strong priority for 41%.

Increasing international student numbers is considered vital
• Many were looking to diversify across international territories to spread risk.

• Satellite campuses are seen by most as risky, and 79% indicated that they were not a priority for the next 18 months.

• Instead institutions were seeking to increase overseas partnerships and increase international student intake.

Estates spending dominated areas of large financial investment
• Large financial investments were mainly in estates.

• 63% anticipated substantial increases to investments in upgraded teaching spaces and campuses, and 37% for the development of new teaching spaces.

• In many cases these investments represented institutions’ commitment to creating a better student experience.

The funding of these investments was mainly through loans and surpluses
• Many of these projects were funded from a combination of bank loans and the university’s own surpluses.

• Credit didn’t seem to be hard to acquire at this point for most, but some felt that this might be based on a false premise of government support.

• There was some caution and uncertainty around the use of bonds. They appeared to be viewed as a complex route for funding.
Size of current surplus was highly varied

- Levels of surplus were highly varied, with a small number of institutions currently in deficit, others with up to 16%.
- Those universities holding higher levels of surplus sometimes used these in substantial estates investment projects.

A reduction in student fees would be very serious

- A reduction in fees without government support would be very serious for most as undergraduate fees still make up a large part of the income of almost all HEIs.
- Further changes to government funding were a concern for 86% of respondents and changes to tuition fees were a concern for 76%. For some it would take a very small change here to have a significant impact on the future of their institution.
- Few agreed (8%) that course fees should be linked to undergraduate salaries, and for many this was felt to send out a dangerous message about the value of higher education.
Living in uncertain times

"I don’t think I’ve ever experienced such a pace of change and upheaval [and uncertainty] as has been the case in the past year or so here."

"I think it may be the first time in British society that such a huge historic error [current legislation] has been made towards higher education."

The HE sector has undoubtedly experienced considerable change in the last 10 years and the pace does not seem to be abating. Whilst 2016 produced a number of shock waves with the announcement of a new Higher Education Bill and the UK’s vote to leave the EU, 2017 provided institutions with a real view of what these changes mean and what their impact will be.

Respondents in our interviews often spoke of a volatile climate, with increasing competition for students, increasing staff costs, government policy and changes in regulation, Brexit, and the media’s narrative around the sector all being major contributing factors.

In many of these areas, the lack of clarity on future movement from government and the instability currently present in the UK political landscape made cogent planning extremely difficult and sometimes strategic plans quickly became obsolete.

For a small number of interview respondents, it had led (perhaps for the first time) to real concerns for the future.

63% of our eSurvey respondents stated that they felt less optimistic about the level of uncertainty than they did 12 months ago.

Strategic planning is adapting to meet these challenges

Some institutions are withstanding and maximising opportunities in this environment better than others. There was some frustration that government initiatives and legislation effectively treats the sector as a homogeneous group, rather than understanding the complexity and diversity within it.
While government legislation was considered to be universally applied, many felt that the true effects were generally felt by those institutions outside of the top hierarchies.

Brand authority, reputation and specialist skills gave some universities a stronger position from which to build strength and grow, but this was often seen to be at the cost of other institutions. Often large Post-92 institutions, recruiting high numbers of students whilst being situated in close geographic proximity to a higher tariff institution, reported feeling the squeeze in terms of student recruitment.

While acknowledging that this had been a sustained period of volatility, respondents felt that that they had been largely successful at navigating these difficult waters. A more strategic approach was seen as key to success in the sector.

For many, their confidence about the future was a result of responding quickly and strongly to the changing environment. There is also evidence to suggest that respondents feel more confident in their institution’s ability to navigate these difficult waters than they do about the uncertainty within the sector, as shown in the chart below.
Significant changes and challenges
Respondents identified a number of significant changes and challenges that they are contending with.

These concerns appear to be broadly universal, with no significant differences between institution types or role.

Top of mind concerns appear to be linked to changes in government policy, rising staff and pension costs, student recruitment, changes to tuition fees and funding models. Small percentile changes in each of these areas often led to significant differences being felt within the institution and their balance sheets for the year.

While there are multiple changes and challenges facing UK universities, interviewees were keen to articulate that they were aware of these challenges and proactive in responding to them.

Taken individually, many of these challenges were considered to be surmountable and indeed some even provided new opportunities for growth and development, but the concurrent nature of these challenges at times contributed to anxiety within the sector.

Many of our interviewees felt that their institutions were well prepared for future shocks (in part as a result of early intervention in regards to seeking operational efficiencies), but there were a small proportion with critical concerns for the future. For these institutions there was a sense that they could be a single policy change away from collapse.

"I foresee a very difficult period for the universities until new legislation is put forward by a parliament which realises that university institutions are a great strength of British society and they are extremely well-supported in fact by their students and their graduates."
While there were numerous changes and challenges present in the sector, threats were usually identified as those areas where respondents felt as though they had less control, or that impact would be so significant as to create lasting damage within the sector.

Many described the current policy environment as febrile, stating that it was this that contributed the greatest threat both to individual institutions and the sector as a whole. Key individual threats within this environment included:

- Reduction to fees (not plugged by additional government funding).
- Changing in funding mechanics.
- Changing cultural attitudes towards the sector.
- Increased competition for UG students coupled with a continuing decline in potential student population.

While a reduction in income from fees could be catastrophic for some institutions, the greatest concern was the feeling that the value of higher education was being continually denigrated both by government and the media and that this would effectively lead to more negative attitudes about university study from the public in the future.

“The row back from government on where tuition fees will go, and kind of fixing them again rather than allowing them to increase with inflation, that has been a big deal for us. It might be perceived as a minor change but all of our modelling and our numbers give it a big impact, and we then need to look at how we are managing our cost base in order to be able to live with that reduction in income.”

Most institutions described how the majority of their income came from undergraduate fees, in some cases this is accounting for up to 80% of total income.

“Student recruitment for us is the lifeblood of the institution.”

In a climate of rising inflation, the present freeze on fees for UK students was also problematic as a result. This was important for almost all our respondents aside from a small number who had successfully managed to form significant commercial research partnerships.
A few factors are at play here:

- The demographic dip in domestic 18-21 year olds.
- Lifting of the student numbers cap (creating increased competition further down the sector).
- Concerns around Brexit and the UK’s continued international appeal.
- Concerns around long term attitudes towards the value of Higher Education.

**Fees are a critical source of income**

Any change around student fees was noted as a potential threat for respondents. Many indicated that the current freeze on student fees represented a cut in real terms as they were forced to manage rising inflationary costs against a flatlined income stream.

“The other thing that has really been difficult for us has been the freezing of the tuition fee at £9250 when we were expecting that would continue to rise by inflation. That’s going to have an impact of £4.5m on our income for next year alone.”

Having previously experienced 4 years in which incomes remained fixed against increasing costs, universities have already become adept at seeking efficiencies within their operations to allow for this shortfall. But many are still feeling the pinch due to costs rising outside of their control (through increasing staff costs, the devaluation of sterling and requirements to fill holes with pensions).

Managing operational efficiencies and strategic investments concurrently also often created internal difficulties. Many anticipated, particularly with the TEF not being linked to fees, that any increase in fees (even in line with inflation) would be unlikely in the current climate.

**Reduction of fees**

Most considered a situation where government would reduce in fees without offering alternative funding unlikely. Such a move was considered to be disastrous for the sector and would lead to a number of institutions being unable to operate. The result of downward pressure was largely expected to lead to cuts in the quality of the student experience. There were concerns that this would ultimately lead to the international competitiveness of the sector being undermined.

“So we are in a kind of cost price squeeze. There was a lot of political attention given to higher student fees, but that didn’t come with commitment to increase resources for universities… If there was to be real downward pressure it would just take money out of the enterprise really. Universities don’t make profits for a private shareholder, any surplus that is delivered at the end of the year gets reinvested into the buildings and the quality of the student experience and the facilities on the campus, so there isn’t a lot of surplus being generated. So if the student fees were reduced without a matched increase in government grant to compensate, then that is just going to undermine the quality of higher education in the UK.”

A reduction in fees without government support would be very serious for most, as undergraduate fees still make up a large part of the income of almost all HEIs. Respondents often believed that current fee levels barely covered (or even did not fully cover) course delivery costs. This is not felt to be widely understood by the public or policy makers.
For those with current low surpluses and without other income streams, a reduction in fees might lead to mergers of institutions. Many stated a significant restructure would be needed, with some courses or institutions becoming unviable as a result.

“It would be disastrous. We have already modelled it in various scenarios and so if it was reduced by even £1000 with no infill from the centre, then you would see universities really struggling almost immediately. Cash flows and liquidity would really become tricky. You could still get by but you would be limping, some universities it might even push to insolvency.”

Those who imagined that they would be most strongly impacted include:

- Institutions who are not strongly research active and therefore without alternative revenue streams.
- Those who already have issues around surpluses and recruitment.
- Those specialising in high-cost courses e.g. creative arts, which don’t attract additional government funding in the same way as STEM.

Even those who saw themselves as relatively secure now voiced strong concerns over the impact of a sector level shock such as an unsupported decrease in student fees, often describing this as ‘disastrous’ or ‘catastrophic’ for the sector and for learners.

“You’re going to see that even the universities that have healthy surpluses right now, ... you’re looking at insolvency on quite a large scale, and then what would kick in is the issue of how do you protect students who are on courses at these various universities, and where does it leave them? Are they going to be able to complete their course and who’s going to pick them up? You can’t contemplate that kind of scenario, but that’s what it would be. It would be catastrophic.”

Responses to alternative fee levels

While respondents did reveal frustrations about the sector being treated homogeneously, there was generally little appetite for differentiated fee models to be used across the sector.

66% disagreed that some universities should be made to charge lower fees. Those in Russell group institutions appear more likely to agree with this statement but this is not statistically significant. There was a little more support for some courses to charge lower fees: 19% agreed with this statement. Interview respondents noted that it would drastically change the system of cross-subsidisation which helped resource many of their programmes.

Those from post-92 institutions indicated concerns that the government might be seeking to put pressure on these universities to charge less. Respondents in these institutions believed that this would be unfair due to their positive impact in increasing widening participation across the sector and often high performances within the TEF.

There was strong disagreement around the idea that undergraduate fees should reflect the salaries that graduates can command on graduation. This for some would be a further exacerbation of the idea that graduate salary was the primary outcome to measure the success of a university education.
While 92% did agree that Universities and HEIs have a significant role to play in helping students get well-paid jobs, there were some concerns around the use of the term ‘well-paid’, which was considered potentially dangerous due to the message that it might send out about social impact career paths (such as teaching and nursing) which may not be well paid.

**Recruitment and increased competition**

*“We’re really seeing a ramping up in the behaviour and aggression in the market.”*

A number of respondents spoke of the university sector being highly competitive, with potential students carefully shopping around and universities using increasingly aggressive strategies to attract them. Domestic recruitment in particular is problematic and many from right across the sector reported increased exposure to clearing.

The domestic student pool effectively shrinking coinciding with deregulation in the market has created increasing levels of competition within the sector. Medium to low tariff institutions were more exposed to the effects of this increased competition.

*“We are certainly seeing competition heat up.”*

Aggressive competition in the market demonstrates itself in a number of different ways:

- Lowering of tariffs.
- Increase in unconditional offers.
- Increased exposure to clearing
- Increased focus on partnerships with local FE colleges (see p.16)
- Increased investment in student experience, both educational and extra-curricular (see p.34).
• Strong focus on marketing and brand (see p.38 increasing focus on marketing, brand and differentiation).

For all this aggressive, competitive activity however there has been no price cutting, due in part to the cost of provision but also the specific role that price plays on perceived quality within student decision making.

The significant ‘demographic dip’ in the number of 18 -21 years olds is potentially causing an impact on domestic student recruitment. This is prevalent in some regional areas more than others, and looks set to ease by 2021, but not fully recover until 2026. For many respondents, while the difficulties caused were clearly temporary, there were concerns that institutions’ responses in reaction to this challenge would not be so easily undone. There were also concerns that the wider damage to the HE brand might mean that the numbers of domestic students seeking traditional Higher Education provision will continue to drop proportionally after universities have come through the demographic dip.

“Our number of 18 year olds don’t get up to 2016 levels until 2026... Come 2026 will the same proportion of students want to come into HE? My anticipation is not. I think there are significant chances that will not come back, will not bounce back.”

Recruitment figures are further exacerbated by the current unfriendly climate on immigration (see page IMM) and difficulties with visas, which meant that, despite their higher fees, international students were not a safe bet for many, particularly for large Post-92 institutions located less close to international airports.

Lowering of tariff & unconditional offers
Unconditional offers and tariff-lowering appear across the sector, and respondents reported places being offered at points that would not have been accepted in the recent past. The impact of the lifting of the cap on student numbers seems to have been that higher tariff universities (mainly, but not exclusively, Russell Group) are reaching out to new student audiences in more scalable subject areas and placing increased pressure on institutions that they take them from.

For many this was where the real impact of increased competition was being felt within the sector:

“Even the top Russell Group universities are lowering tariffs, opening their doors, and mopping up numbers, and I’d be doing the same if I was working in one of those institutions, and the knock on effect then onto the mid-ranking universities and the lower universities goes without saying. I think the squeeze is on and everybody is reacting accordingly.”

Lowering of tariff and increased use of unconditional offers was cited as putting additional strain on institutions as they sought to ensure students were able to meet the demands of their course. This sometimes meant providing additional tuition and support in foundation subject skills (maths being a commonly cited example).

Increasing local partnerships
At the same time as numbers of domestic students were decreasing, some respondents reported trends that student cohorts were becoming more localised. This again increases competition, particularly in locations where there are multiple providers. A number of lower tariff institutions sharing the same city or local area with a higher tariff institutions reported a struggle to compete for the same students, local government subsidies and commercial opportunities.
"We are looking at much stronger links with those institutions where we already are in partnership to try and secure those and help the transition between school, college and university as much as we can."

Forming strong partnerships with FE colleges was seen as critical for some to help increase awareness and consideration from local home students, as some institutions report a far more localised student intake. International partnerships were also frequently mentioned.

“We make a big play out of partnerships with businesses and also with other education providers, so lots of FE colleges we do validation franchise arrangements with, but we also do partnerships on various projects with as well. So we will be keeping those links going as good progression routes through to the university as well.”

There is a definite focus on increasing local connections and partnerships with local communities. With Local Enterprise Partnerships and employers offering additional opportunities for funding, many institutions suggested that they would be increasingly looking at opportunities for growth from their local area.

**Increased exposure to clearing**

Exposure to clearing is increasingly normalised for all but the highest regarded institutions (although some respondents said that they understood even top institutions to be exposed to clearing in specific subject areas this year). This is leading to increased competition between closely matched competitors.

“We probably spend a lot more time nowadays doing analysis on what we would now call competition than we used to, so looking at what marketing strategies other competing organisations are adopting.”

Interestingly some respondents also reported that they had noticed more students coming in through clearing that had not previously been part of the UCAS admissions process in the first instance, suggesting that young people are taking longer to make up their minds. This was attributed to a range of different reasons:

- Cuts to careers services in schools and colleges
- Apprenticeship pathways appearing more financially advantageous
- Perception of a ‘buyers market’ where tariff is maximised by waiting

“So, I think that has really changed, we have seen marked shifts in student behavior, making decisions later in the process, using clearing not as an act of “oh my goodness I have got to find a place” but actually post-qualification admissions, they’ve got I guess academic money in the bank with their points, their results, and they can look around far more than was ever possible. Universities are clearly responding to that.”

**Brexit**

The current and potential impact of Brexit seems highly varied, but top concerns appear to be:

- Student recruitment
- Funding and research
- Staff recruitment and retention post-Brexit
- Impact on the reputation of UK higher education
The high level of uncertainty surrounding this area made it extremely difficult for university leaders to put in place contingency plans, with 75% of eSurvey respondents concerned about the impact of Brexit.

A number reported holding a fairly conservative line on spending until some of the outcomes of the Brexit process become more clear.

**Student Recruitment and Brexit**

The lack of clarity around the impact of Brexit on international and EU student numbers, and the fees related to these, was highly problematic for respondents. Barriers to financial and strategic planning are:

- The lack of understanding on the fee status for EU students in 2019
- When and how this will be settled

While Brexit policy regarding EU students has yet to take force, some institutions have already indicated experiencing a decline in EU student numbers.

**A gradual decline in EU student numbers could become more acute**

This decline was something respondents expected to increase rapidly, as applicants from the EU saw increasing fees and lost access to the UK student loan book, making the UK a less attractive location for them. At present, many may never pay back their loans but post-Brexit there would be no option but for learners to pay considerable international student fees themselves.

Our research suggests that post-92 institutions who have become heavily reliant upon EU students, particularly those from less wealthy nations, will initially be hit badly, though concern was also evident from established and Russell Group institutions:

“We have about 890 EU undergraduates, I would imagine the majority of those, 80 to 90 percent would no longer be coming.”

Nevertheless, lower ranked universities in particular look set to suffer from an increasingly competitive environment, with a feeling that Brexit may cause universities that currently have higher numbers of EU students to target home students more aggressively in order to make up the shortfall, which would further increase competition and reduce their potential domestic student intake.

“Obviously, we have given it a lot of thought, the only thing we can do is to increase in volume.”

This would likely compound existing issues derived from the lowering of tariffs by traditionally high ranking institutions, detailed elsewhere in this report. This increase in competition may be likely to affect smaller and post-92 institutions without large numbers of EU students.

“One of the unexpected consequences for us, because we don’t have many EU students, [is that] there is an assumption that it is not going to affect us but actually the institutions that do have a lot of EU students will try and get ahead of the game by replacing those in advance if you see what I mean. We are working really hard on our marketing approach and our marketing strategy and also on our portfolio and readdressing some of the portfolio issues to try and make it a more competitive portfolio in the current market.”
Other universities are looking at areas of their portfolio which are currently heavily reliant on large numbers of EU students, and considering whether or not these will be viable in future.

**Funding & Research**

Respondents were broadly certain that their access to EU research and Regional Development funding would be, at best, curtailed post-Brexit.

“I suppose what I am most aware of is the operating environment for research and external funding and certainly European funding is going to become increasingly challenging, and I think that is a threat to some of the activities that one tries to do in terms of research and knowledge transfer.”

Of widespread concern was the withdrawal of European Research Funding and an exit from Horizon 2020. Smaller, non-specialist institutions expressed worry about accessing funding from both the EU and UK for their research activities, and were unaware of the level to which this would be limited in future years.

Several Post-92 institutions described how they would struggle to continue their research without the level of funding they currently receive from the EU. This sat alongside concerns that subsequent UK funding would be channelled to the Russell Group and other research intensive institutions. Smaller providers also feared that economies of scale may mean that work in smaller areas run the risk of becoming increasingly less viable.

Research intensive institutions were also apprehensive, describing how (perhaps more importantly than the funding) Horizon 2020 provided a framework for UK universities to generate academic and industry partnerships. These partnerships were critical to the ongoing success of their work and the advancement of knowledge more generally. For some, links with EU academic institutions looked more difficult to maintain post-Brexit, with evidence of non-UK EU academics already being less willing to collaborate with UK universities because of the numerous elements of uncertainty.

“My real worry is that if we don’t maintain our position as part of that framework, those collaborative opportunities with the top universities in Europe outside the UK would begin to fade into the distance because the other countries would say ‘Oh well, it’s too hard to do with the UK now. It’s not worth the effort.’”

Should these frameworks be continued, respondents were anxious that they would no longer be seen as equal partners, or be able to lead on major projects, leading to an overall lessening of UK HE’s importance within the global academic world. Respondents involved in these kinds of partnerships tended to be from institutions with a STEM focus, meaning that the knock on effect on links with business and industry would run counter to the Government’s Industrial Strategy, and lead to UK HEIs losing contacts, benefits and the chance to work closely with large multinationals located outside of the UK.

“We’ve had the global CEO of a major car manufacturer visit us in the last twelve months, such is the significance of the work we’re doing with them. Until we know what Brexit finally looks like, how do we know how those companies are going to view the UK and the context within which higher education sits?”

For a number of university leaders, there was little faith held in government to prioritise HE in negotiations, or to recognise the scale of the issue facing research funding and its ongoing impact, specifically:
“We have to challenge some of the biggest challenges of humanity over the next twenty, twenty-five years. You can only do that in a truly collaborative sense, and we are losing some of the attractiveness of being a collaborative partner for some of the universities in the way that the UK is positioning now, but this is truly important stuff and I think there is a fundamental lack of understanding in government of the potential impact that this can have over the next generations for these institutions.”

As with other EU funding streams, significant internal resource has been spent putting together bids and establishing relationships, which had long reaped worthwhile rewards for the sector. Respondents described how for years the UK has got back more from European research funds - more than it had put in. This had naturally led many to proactively look for alternative sources of funding and partnerships outside the EU.

**Regional Development Funding**

The Regional Development Fund is accessed by institutions in order for them to support their activities in their wider region, aiming to put money into underdeveloped regions in order for them to start attracting private sector investment, in turn leading to job creation and increased prosperity. Many universities we spoke to were keen to describe their deep commitment to these goals, both in their immediate area and their place within the UK more widely, based on EU funding.

Post-92 institutions and those in rural areas especially were often deeply embedded in local growth strategies, and heavily reliant on EU RDF cash to achieve this. Indeed, universities have made significant internal investment in developing their infrastructure to bid for those sort of funds. It is likely that the business engagement activities of universities will be forced to adapt to a new landscape consisting solely of UK national and regional government funding, which may not match current levels, with a knock on effect for ongoing and new projects and agendas such as widening participation.

**Staff recruitment and retention post-Brexit**

With 81% of eSurvey respondents concerned about the need to recruit and retain staff, attracting and conserving top European academic talent was another key concern and some institutions reported that European institutions were aggressively seeking to poach their top talent.

This potentially impacts performance on teaching and research frameworks, as well as increasing costs for universities. This issue was sector wide, though research intensive institutions were particularly at risk, struggling with both recruitment and retention of their large number of EU staff:

“There is no doubt that Brexit is impacting the attractiveness of the UK for leading European academics. They are choosing not to come to this country and those that are here are looking at opportunities outside.”

Some drew a direct link between the uncertainty facing research funding and EU academics’ lack of interest in taking up roles in UK institutions.

“We’re already seeing international academics of the first calibre refusing jobs in the UK because they aren’t seeing the long term security for their research they would wish to have.”

Immigration policy was felt to be exacerbating the situation, with the lack of clarity on areas such as rights and access to the NHS and the circumstances for partners and children or other dependents...
unsettling existing EU staff and also making recruitment from the EU into UK Higher Education more difficult.

Up to now, this has been felt as a slow ‘brain drain’ – with respondents suggesting that there had not been a mass exodus simply because there were not sufficient vacant posts within European universities outside of the UK. However, as these vacancies open up, they predict that EU-national academics and university staff working in the UK will slowly migrate away. Recruitment and training up of new, quality staff represented yet another increasing cost pressure against a challenging background of real terms fee income.

As far as was possible, institutions were aiming to support and inform their current staff in order to provide job security and the confidence to stay in the country.

“We have invested quite a lot in trying to reassure staff that we value them and that they have a place here. Brexit has been a big issue.”

Impact on the reputation of UK higher education

Time and time again, interviewees expressed a real worry that Brexit and elements of the Leave lobby’s rhetoric, coupled with the present visa regime, had caused long lasting reputational damage to UK HE. This was a cultural shift with an effect on both learners, academics and the wider world.

“Brexit makes us... a less welcoming country, a less welcoming partner”

For them, there had been a degradation of the way the UK is perceived by EU and international students as a destination of choice, further complicating international recruitment post-Brexit. Certainly, universities had noticed a particular impact in the immediate aftermath of the vote:

“I suppose the first thing to say is that immediately after the referendum took place a large number of students holding offers with us, and these are EU students rather than international, actually put that decision on hold, once things had settled down those number went up again, but almost overnight students who had places at this institution and other UK universities actually hit the pause button.”

Arts specialists were especially concerned about their ability to lead academic debate and stay at the forefront of practice – Brexit represented a split with a cultural identity which they had long been cultivating:

“For us the partnership with European students and researchers is one of the sort of cultural and artistic commitment, that is what we have been working on ever since the collapse of the Communist states and so forth, we have been part and parcel of a growing sense of European culture, that is really important to us, and how we sustain that will be difficult because obviously the students will be seriously disadvantaged henceforth.”

A further challenge comes from the increasingly high quality of HE provision globally. Significant levels of investment in territories such as China, India and parts of Africa, have created a range of what one respondent described as ‘first rate’ institutions. Circumstantially, there was a feeling from some that EU students are now looking East rather than West for higher education.

The future could become extremely bleak for those institutions heavily reliant on income from EU student fees.

Uncertainty had already affected both the procurement landscape, raising building costs for some projects, and made credit more difficult to acquire as the sector moves to a new, more precarious
position. Please see the section in this report on financial investment for further details of these difficulties.

Immigration policy

UK immigration policy has stood in the way of growth

Universities have become increasingly strategic, and a major tenet of many institutions’ medium and long term plans is an increase in international student numbers. This is increasingly being seen as a key source of income in order to power planned growth, especially during the so called ‘demographic dip’ of home 18-21 year olds to 2021, with institutions reporting that up to 80% of their student body came from overseas.

“For us the biggest challenge of all is financial sustainability, because our financial position is more precarious and almost entirely dependent on our ability to recruit fee paying students from overseas, when saying entirely dependent what I mean is that we cannot break even or make a surplus on any other area of our business, if you want to call it that, than overseas student fees.”

“If we are completely reliant on domestic students and funding for domestic students then the whole sector would be in the red in terms of not generating sufficient funds for its activities.”

UK immigration policy stands as a significant challenge to these plans, with an onerous and expensive visa system adding to a sense of ‘governmental hostility’ to international students, precisely at a time when their fee income is sorely required. These students’ continued inclusion in overall immigration statistics remains highly contentious within the sector.

“Even Enoch Powell in his ‘rivers of blood speech’ in Wolverhampton in the early seventies took great pains to explain that when he was talking about immigration he didn’t mean students, so we are currently somewhere slightly beyond where Enoch Powell was in terms of international student recruitment.”

“The desirability of the UK as a place to study is being affected by all the stories coming out about how open we are to international students, and that is starting to have an impact. We’re in the middle of developing our approach at a time when it couldn’t be worse.”

With mixed messages from government as to how long this situation will continue, and whether policy will otherwise get tighter and harder, institutions are struggling to plot effectively the potential impact of policy on future recruitment of international students, and the changes to revenue this might incur in the future. Nevertheless, there was optimism in the sector that the fact that international students are a positive source of income and talent to the UK was becoming more generally accepted, and were sure that if they provided a solid student experience they could still attract sufficient numbers of students willing to go through the visa system to achieve a British education.

Changes in government policy

Government policy change represented the number one concern for eSurvey respondents, with 88% registering this as a key area of anxiety. Recent years have seen real changes, both in legislation with a direct bearing on HE and in a number of other areas with significant indirect effects:
Increasing metrics and changing regulation following the Higher Education and Research Act.

Public sector and educational policy.

The most significant cumulative challenge has been the number of initiatives, the frequency at which they have been coming in to the sector and their long term impact, completely changing the operating landscape:

“I think we have probably seen the most fast moving period of time for university policy in pretty much working history... many of the plans we made over the previous period are increasingly outmoded because the landscape of been changed, I mean TEF and the implications of the OFS all really provide a rather different operating landscape. I can’t imagine a colleague who wouldn’t be saying the same thing.”

**Increasing metrics and changing regulation**

Strong performance on NSS and TEF frameworks were considered key priorities.

The range of KPIs to which the sector has to respond is increasing. Each measure has unique challenges, which vary with institution characteristics. Nevertheless, eSurvey findings corroborate interview respondents’ emphasis on improved TEF and NSS performance in their strategizing, with 63% describing the area a priority. This is in contrast with the 39% who agreed that their position in domestic and international rankings was a priority.

“It certainly is changing behaviour because we are focusing much more on how we can maximize that output.”

While links between TEF grading and fee increases appear to be, at least temporarily, broken, an institutions’ KPIs, via the TEF, REF, KEF and NSS ultimately impact upon recruitment, reputation and income. Interviewees did not necessarily have an issue with having measures of performance – indeed, they were collecting data internally in order to build a strong brand and drive their reputation.

“We’ve got KPIs on financial performance. We’ve got KPIs on student recruitment. We’ve got KPIs on value for money for students, student satisfaction, staff satisfaction, whether we’re developing the right culture as an institution. They’re all tied to the institutional strategic risk register.”

There was little faith in the robustness of current systems

However, they did detail a number of challenges with regard to the veracity of the present system(s) and the shortcomings of the metrics employed, especially with regard to TEF ratings. For
some, this was a heavy handed approach which doesn’t capture the totality of the learning process in contemporary universities.

“I think the direction of travel is the right one, but I am not convinced about the metrics that are being used.”

The TEF’s emphasis on student employability causes challenges in the sector, particularly for those institutions specialising in sectors with traditionally low employment levels. There are also issues of scale - measures such as the NSS fluctuate more on smaller courses and for smaller institutions.

The recent first round of the TEF was described by some as having ‘been a lottery’ this year. Failure in this system has potentially serious implications – some respondents from bronze rated institutions were very unhappy with the TEF process and outcome, and described a significant impact on their university’s strategic planning. For them, this was policy driven by ideology rather than evidence in teaching and learning, which risked inflicting damage to a critical sector of the economy with very short sighted ministerial interference. Subject level TEF raised new challenges for specialist universities, where the institution and the subject is effectively one and the same. They saw potential for duplication and increased administrative burden with no significant difference between the two processes.

Following tuition fee freeze, running behind inflation, the free-market rationale behind the original introduction looked increasingly disjointed from reality for some, even amongst those who had received a gold or silver rating.

“I’m happy to be measured and have my university measured as long as it’s in a sensible way, and properly contextualised.”

A number of respondents warned against becoming ‘obsessed with measurement’ of performance initiative applicable metrics, as this narrow focus ran the risk of undermining quality standards in the long term, for them a case of ‘throwing the baby out with the bath water’.

Performance metrics are important in strategic planning
Efforts to score well in these initiatives went to the heart of university strategic planning, with work around teaching and learning not just being embedded but evaluated, in order to show impact for subsequent TEF/REF/KEF rounds.

“We got a Gold in the TEF, we felt that we probably deserved a Gold, and therefore the TEF spoke to a number of things that we had prioritised in our strategic plan and therefore we weren’t surprised that was the outcome, we were pleased, but not surprised given that we had been pursuing it actively for the last two or three years.”

The level of this sector wide strategic planning can be seen amongst the 66% of eSurvey respondents who agreed that their institution was well prepared to meet the potential requirements of the KEF, though, as with current systems, there was concern that the measures used would not give a fully representative picture.

“The TEF measures have been a bit perverse, [in the KEF] there needs to be a balance of what is truly the scale of interaction with industry and use some measure of proportionality.”
It is a strong challenge to score highly on all metrics for many
However, universities, especially those working in difficult financial circumstances, specialists and smaller institutions found it impossible to prioritise providing sufficient resource to all of these frameworks, despite being measured on all of them, e.g. through league table rankings. This had been problematic internally:

“Inevitably as a small institution, with a small academic community, it is difficult to succeed against all of these metrics, across the board, and is therefore quite challenging. The culture change required is enormous, working with colleagues to understand how the HE sector has moved on, and rapidly. This is a big strategic challenge for us.”

Student expectations may be being artificially raised
Even those with Gold status worried that this might artificially increase student expectations resulting in later disillusionment. While they did heavily invest in the student experience, their budgets were limited, leaving them with the challenging task of managing the varying priorities and expectations of different groups, in addition to driving their research agenda as well. Finding this balance was extremely difficult, and a task they faced at every juncture.

Many seemed to feel that students were unlikely to fully grasp the rationale behind an institution being rated as Gold, Silver or Bronze.

“We speak to people in China, India and elsewhere, they do not understand the context of the scoring, therefore if you are a bronze institute you are worse than a silver and a silver is worse than a gold and so on and so forth, that cannot be and is not a conclusion from the TEF process, and yet it is having a very very significant impact on how an institution is seen.”

For those institutions attracting high numbers of international students, the labelling of institutions Gold, Silver and Bronze within the TEF could be particularly damaging as these students (and their parents) were more likely to view this as a broad indicator of quality. For high tariff institutions with less recognised brand identities this was felt to be especially acute.

Competition was not conducive to collaboration and research, for smaller institutions
This combative, competitive environment was felt to be having a negative effect on academic collaboration between UK institutions by one respondent:

“There’s more competition in our system than collaboration, and I believe these league tables are partly to blame. The future has to be partnership. It’s impossible. We do partner in our research initiatives, but universities coming together to partner to solve some of these really pressing problems, that doesn’t happen as easily in the UK as it does for us in Africa.”

There were also concerns here about the detrimental effect on widening access and participation to university study.

Non-research intensives were anxious about REF 2021, and doing their best to understand the rules and how they would impact upon them. For these types of institutions, not traditionally known for our research, the threat of reduced funding post-Brexit looked likely to have a potentially severe impact on their ability to score highly in the exercise.
Higher Education and Research Act

The passage of the Higher Education and Research Bill through Parliament, and subsequent change the Act has brought about, marked a period of significant turbulence for the sector. This period had seen a great deal of debate, particularly with regards to the funding of higher education and the role of HE within the UK economy.

Many held a personal sense that whatever certainty the Bill created has to a large extent now dissipated, describing significant uncertainty. The creation of UKRI and changes to the allocation of funding as a result was particularly troublesome for many.

A split between research and teaching was not welcome for some. A related concern involves the split between research and teaching following the separation of HEFCE into the OfS and UKRI. For one respondent this served to lose a holistic view of the sector and of universities, creating a divide between teaching and research. For them, this had the potential to become damaging to the sector and to the way in which universities are run. Nevertheless, others thought that this separation would allow them to double down in their research efforts and impact upon society, in tandem with the Industrial Strategy.

The Office for Students (OFS)

The role of the OFS was a future area of uncertainty also with many unsure of its purpose and remit. Sector leaders described attempting to understand what work, if any, they may have to do in future in order to stay compliant and competitive.

Key concerns arose around understanding how regulatory and funding arms of UK HE will work together. Small specialist institutions were especially worried about enhancement funding, and felt that the dissolution of HEFCE, which provided a fair and level playing field, left the door open to problems:

"Just as soon as we have got there the whole thing will change again, because of the Office for Students not really being a funding agency, being much more a regulatory body and quite where, how those sorts of extra funding issues are going to channel through is still unclear."

Public sector & education

Public sector education is a large area, and threatened by austerity measures. Funding cuts and policy change elsewhere have been felt in the sector, with a decline in numbers at some institutions linked to alternate teacher training routes and the removal of bursaries for nursing students. Non-Russell Group institutions were often particularly dependent on these sorts of learners and policy changes here have been particularly impactful. Many of these universities had a long history of educational and/or healthcare training.

Austerity policies around the NHS and education have led to a proportion of the higher education sector largely given over to training public sector professionals. A handful of respondents described how these cohorts were significant in their institution, with accompanying financial pressure felt whenever further cuts or changes to public finance are enacted.
Fewer nurses are being trained as a result of policy change

Cuts to funding received by universities from central government to help cover the costs of training healthcare works have been decimated in recent years:

“In 2011 67p in every £1 of university income was got from government grants from one form or another – HEFCE, the Department for Health or whatever it was, the Regional Health Authority would give it – now it's 6p in the £1.”

Aside from a small amount of yearly funding, in most cases NHS workers are funding their own way through university. Most significant has been the removal of the nursing bursary, leading trainee nurses to draw on the student loan book for support, leading to a fall in the number of learners engaging with these courses at some institutions. This runs counter to service demands, where respondents described how nurses are required to fill positions left vacant by EU nationals returning to their home country, a situation some respondents expected to worsen in years to come.

Teacher training numbers are down

Teacher training too has been affected by recruitment challenges driven in the main by government policy change. Institutions, many of whom were historically teacher training colleges, have experienced a reduction in applications to study teaching over the past year.

A focus on academisation and MATs outside of local authority control has led to an increased number of schools aspiring to provide their own teacher training, fragmenting the market. The abolition of Teaching HNCs in 2012, which pushed learners towards the apprenticeship route, has also had a significant effect.

Some suggested the government had not done enough to encourage young people into the profession, this had led to a sharp drop in applicants. Again, repercussions were felt to be likely, one respondent suggested that the UK has seen a 25% drop in the number of applicants.

But institutions are attempting to respond quickly

Institutions exposed here have been attempting to respond quickly with new provision to help minimise the impact of policies like the removal of the nursing bursaries, including the launch of degree apprenticeships in these areas. But there were still concerns that the impact of these policies were disproportionately affecting mature and less advantaged learners, meaning that institutions needed to access the impact of these changes on their widening participation performance as well as their recruitment targets.

Mental health and welfare

Student wellbeing and mental health is a real priority, but under threat from any decrease in income

The rush to invest in the student experience is not solely driven by the desire to attract more learners to institutions. As numbers have increased, student welfare has become increasingly important, and mental health provision in particular has attracted significant investment.

“One of the big issues that we have is a lot more students are arriving at the university with mental health and other problems, and we are having to invest a lot of money in supporting those needs.”

Interviews describe a wider well-being agenda driven by students, and their approach to seeking assistance for academic and personal issues on their arrival. Several identified a trend towards
students needing more and more consistent support in terms of their health and well-being, particular to the last three years.

Learners from less well-off backgrounds are most at risk and drop outs are not uncommon

Particular issues were reported from institutions with large cohorts from lower income families, perhaps where the learner was the first in their family to enter HE. Following the removal of the cap on student numbers, these predominantly Post-92s had sought to heavily recruit from their local area, leaving them with cohorts of in need of pastoral support infrastructure which was not always in place.

A number of respondents spoke candidly about their work to minimise the number of learners dropping out and leaving after a term or year. In their experience, personal issues were often the basis for these decisions:

“They come and then they realise the actual realities of spending £9,000 a year, working away from home and so on, most are away from home. There definitely has been an increase in numbers, fairly significant.”

Others made the link between cuts to health services, with GPs without the resources or time to look after the mental health and wellbeing of the student population in the way they were able to in the past.

Changes specific to institutions in devolved Nations

Capping of fees in Wales has had financial implications for Welsh institutions, considerably limiting the amount of money available to them. Scotland’s lack of fees for home students had also led institutions there to look to alternate sources of income for growth, such as TNE.

With fees capped at £9,000, Welsh respondents felt that their institutions were under more financial pressure than those in England. The cancelling of a planned increase in fees in line with inflation and changes to Welsh healthcare funding had left a number having to re-budget in order to stay afloat in a climate of rising cost pressures. The implications of a new FE/HE integrated funding council for Wales also remain to be seen.

In Scotland, the challenges were centred around a reduction in government budgets and caps on students - limiting the amount of revenue. This was felt to be precipitating a fall in quality:

“Scotland at the moment has five universities in the top 200 universities in the world, will it be in the position in ten-years’ time if universities continue to be underfunded? I think that is probably unlikely”

A reduction in UK student fees represented a threat here, potentially significantly lowering returns.

There were common challenges shared by institutions across the devolved nations we spoke to:

- It was becoming increasingly difficult to compete with universities in England.
  - English institutions are able to charge a higher fee. For a number of these, especially Welsh, universities major competitors were located in relatively close proximity.

- Compliance with regional skills and employment strategies and a commitment to their civic mission was also challenging for many, given the resources available.
A lack of cohesion between policy and funding in the UK nations had a negative effect on collaboration.

One means of raising income discussed was to bring in more international students. In Scotland, these would have to be from outside the EU; at present EU students in Scotland are badged as home students and pay no fees. If the cap on numbers is retained, this may have a negative impact on work being done to widen access to home students. Welsh institutions were also considering expansion, in order to secure some economies of scale.

Media coverage of the sector and public attitudes

Attitudes towards current media coverage

Interviews were largely conducted at the end of 2017 when VC pay was very much in the spotlight. Many regarded furore over vice-chancellor pay as a distraction, which obscured much of the good work being done in terms of regional development, economic advancement, widening participation/social mobility and transparent, efficient management of their organisation.

92% of respondents felt that university and HEI funding and finance was unfairly portrayed in the media and there were real concerns that HE is increasingly bruised as a sector by sustained negative press.

"HE has become the NHS, it’s ‘let’s have a go at HE’ all the time, I think the VC pay stuff is an easy target and why would you not take an easy target, but some of the other stuff about value for money and so on has been a bit unnecessary, and I think it will damage the sector in the long-term, I think if you keep questioning the value of higher education and if it is worth it."

It was emphatically felt that the media and government was damaging the reputation of the sector both internationally and at home. Just as legislation was felt to be treating the sector as a homogenous group, there was also a feeling that media coverage was also treating it this way to its detriment.

"It is very easy for institutions in a sector, whatever the sector is, to be tarred by the same brush, so all such and such companies are the same, or all such and such organizations are the same, and there is a danger in that some of the public relations concerned at the moment, and the simple failures of governance in some universities would adversely affect the way in which many universities are run, and that I think, it would be a terrible shame, mistake if sacrificing of principles in some place leads to over control in others."

There were also some suggestions that the work taking place in smaller specialist institutions was often ignored by the media.
Discussions around the value of higher education
Others mentioned that the continued focus on the 'monetary value' of degrees and speculation about what universities do was an unhelpful narrative that did not take into account the complex role universities play, not just in students' lives, but wider society. Many had concerns that this continuing debate about the value of the degree would ultimately lead to lower numbers of UK students choosing higher education and increased difficulties to attract international students in the long term.

This focus on the monetary outcomes for degrees was problematic for respondents for a number of reasons:

- Not appropriate for those degrees that lead respondents directly into public sector roles (such as teaching and nursing).
- Salaries are highly varied depending on subject area and sector.
- Propagates the myth that students 'buy a degree'.

"No student can buy a degree which is worth anything, you can only earn a degree."

Recognising the positive impact of the sector
There was often a cited sense of bewilderment from respondents that a sector that they saw as so well recognised and regarded throughout the world was being undermined and placed under increasing pressure from the government and media.

"I think the sector are feeling bruises, the sector are struggling to understand that arguably, certainly not arguably, one of the three or four things that the UK is world recognized at being good at, i.e. higher education, where on pretty much every metric we fall behind only the US, it is difficult to see how a sector that continues to do so much good for society and be so recognized across the world, seems to be coming under pressure from government, media, I am not so sure about the public, I'm not sure whether the public are as negative about universities as some of the media are and some of the statements coming out of various parts of government, but just this perception that universities are not broadly considered to be a good thing, are giving value for money, and I think that was sort of taken for granted until quite recently. I think the effect that it is having on the sector and its leaders are sort of bewilderment to some extent, about how we ended up in this position."

Institutions felt that this focus on degree value and salaries often negated the positive contributions of the sector for the UK. These included;

- Cultural values.
- Regional development.
- Economic contributions (regionally and nationwide).
- Research and development.
- Widening participation and improving social mobility.

"In the whole history of human development higher education has quite rightly been regarded as something which is done for the public good, it’s done on a ... it has individual benefits, both for the individual in society as well as more narrowly to the economy and to business."

Many also discussed the potential value of the sector to act as an international tool of soft power post-Brexit, helping to build global links and potentially supporting a wider agenda to promote the UK and contribute to its economic stability. These aspirations would be potentially difficult to
achieve if this perceived sustained attack on the sector continues.

Public attitudes to the sector
While fees threatened the financial stability of the sector in the short to medium term, the greatest threat voiced by many was the damage to the credibility and reputation of the sector in the longer term which would have real impact on domestic and international recruitment in the longer term.

Some respondents were uncertain whether some of the more negative views around higher education in the press were held by the general public. But there was significant concern that the sector needed to be more proactive and transparent to take some control of this narrative and continue to lobby government against legislation that many saw as potentially damaging.

New entrants to the sector increase competition further
A significant concern (and one linked to the wider public narratives around university value) was manifested in the promotion of new alternative providers and new qualifications such as higher level apprenticeships as a lower cost means to achieve this level of qualification.

This opening of the market to private providers combined with the narrative around degree value (and other governmental initiatives such as two-year degrees) made this a particular concern.

While scale is perceived to be modest, the introduction of these lower cost providers was thought to be of particular concern for those low and mid tariff organisations (those already perceived to be battling the effects of increased competition as a result of the lifting of the recruitment cap).

Higher level apprenticeships
New initiatives around degree and higher level apprenticeships were generally viewed to be the support of additional competitor in the market. Attitudes and responses to HLA were mixed with some institutions perceiving them to be a direct competitor to existing provision and others looking at them as an opportunity for new provision and providing new routes of access of established programmes.

Greatest concerns around HLAs were cited as:

- Lack of clarity around available opportunities for provision.
- New commercial entrants focusing on cheaper to-scale course areas.
- PR around apprenticeships regularly denigrated the value of HE.

Those from Post-92 institutions were mostly likely to talk about apprenticeships, both as a threat and opportunity. KPMG’s apprenticeship offer however was regularly cited by respondents as an example of how commercial entrants are likely to target specific sectors with those course areas that can be run efficiently at scale most vulnerable for additional competition within area. Business education was often highlighted as particularly exposed.

Some opportunities with larger employers are attractive
These were however being explored by some, primarily those offering degree programmes in applied subject areas. They were felt to offer students more attractive employability opportunities, while strengthening institutional links with business. Local industry and commercial partnerships
were seen as a key component for success. Those seeking to maximise the new opportunities within this area nearly all had strong relationships with key employers (some public sector) in their area prior to development.

“We have many part-time students who are industry sponsored, so we are already naturally in that space and our view was that we simply couldn’t afford NOT to move into the apprenticeship area.”

There was some criticism of the government handling of apprenticeships, believing it to be rushed and the implementation ill considered. There was also a feeling that the investment required to manage and deliver HLAs would mean that institutions would need to be running this at scale to make them worthwhile, generally leading to very targeted and partnership led provision within this area.

**Institutions are trapped between rising staff costs, including pensions and the fees freeze**

While many universities revenue streams are further squeezed by undergraduate recruitment issues, their staff costs are dramatically increasing, not least due to their increasing obligations around pensions, rising staff costs and the apprenticeship levy.

Indications from the eSurvey are that this is a major concern for a very high proportion of institutions, not just those in the USS scheme but across the sector. Pension and staff costs were the number one area of concern in closed questions, though mentioned less in open questions.

There was an assumption that the results of the upcoming USS negotiation might involve higher contributions, when institutions already feel that they are at a maximum contributions level.

“The whole thing is that the governance of USS is a disaster, it is locked in to a confrontational situation between UUK and the UCU, and I don’t actually think that deficit problem can be solved until the governance problem has been resolved, that is a controversial statement but I would be quite surprised if I was the only person to make it. I also think that is almost inevitable that we will have to move towards a defined contribution scheme, I think that is probably the only way of resolving the situation, but we should not underestimate how unpopular that is going to be, particularly with early career academics.”

Even those not in the USS scheme were impacted, firstly because they also had pension schemes with high levels of contribution required, but also because they often had at least some staff within the scheme who had come from other institutions and might have additional financial obligations were they to leave the scheme.

Respondents in our interviews also expected pensions issues to have an impact on the potential for future salary increases, which in turn was felt likely to impact on morale in the sector.

“[Changes to USS] will be perceived as a pay cut to people who are working in universities and that will have significant implications because universities say they can’t afford what is needed to keep the scheme as it is, academic staff will perceive the change as a pay cut and they will object in a way that they would object to any other pay cut.”

Institutions were already in preparation for this financial shock with efficiency of operation more of a priority than before and staff cuts already in motion.
Key responses to challenges and future opportunities

Focus and efficiency
While the current environment might feel hostile to the sector, many felt that there were still opportunities and that the sector had the skills and ability to neutralise threats by focusing and strongly communicating their strengths.

“I do think we like to talk about the language of opportunity, and I think genuinely lots of people will say that, but genuinely we feel that if we get our offer right, we should be able to prosper in the period ahead. We feel confident that most of the answer to what happens over the next three to five years lies in our hands rather than in the external environment.”

Many indicated wanting to take greater control over the value of HE narrative. Some suggested a need for greater transparency over issues such as VC pay would be helpful to take back some ownership of some of the less positive portrayals of the sector in the media. (Indeed 68% agreed that VC pay needed to be more transparent within the results of our eSurvey).

88% of respondents agreed that Universities and HEIs have a range of opportunities for growth and innovation.

Key opportunities for the future were identified as follows:

- Operational efficiencies.
- Deeper links with business and the public sector.
- Continued focus on the local environment.
- Government industrial strategy and increased research and innovation output.
- International student recruitment.
- Continued exertion of soft power.

Interestingly, alternative delivery methods were not seen as a big opportunity by many, although continuing to investigate the ways in which parts of the learning experience can be delivered or enhanced online was considered to be important for the future. Satellite campuses (both in the UK and internationally) and expansion through acquisition were cited by few.
Accelerated degree programmes were generally poorly regarded, although a small number welcomed any reduction in regulation that would allow them to explore new opportunities available to them. Few were also looking at changes to delivery methods as an opportunity for future sustainability.

“This is a cliché but the challenges are in a way the opportunities. We are a university that has a strong focus on applied learning and the industrial strategy certainly heralds a stronger orientation to graduate employability and graduates hitting the ground quickly and starting to pay taxes quickly. So, I think there are opportunities for us there and yes, I think more generally, there are lots of opportunities if a university can be nimble and entrepreneurial, manage risk well and take all its staff with it. So, there are opportunities.”

Increasing focus on marketing, brand and differentiation
There appears to be greater investment in recruitment, including marketing, brand work, market analysis data, recruitment management systems, CRMs and pipeline activity. Many respondents also talked of the importance of strategic and having an offer which was strongly differentiated. New courses were in some cases being developed in what were seen as key areas of strength and investment decisions guided by attempts to strengthen positioning as well as improve student experience.

Research, TEF and NSS are key priorities alongside operating cost reduction
“The greatest priority is to get us to a sustainable position, so we operate on a very low surplus, everyone is going to face the pressure of pension valuations, part of my everyday thoughts, so it is getting to financial sustainability in a market where new providers are going to come in, our key demographic is going to continue to reduce in to 2021, and we need to make sure that we have a clear and compelling offer, and part of that is absolutely that we have to lift our quality.”

Universities continue to prioritise their ‘core business’ of teaching and research with 64% indicating that increasing research and innovation output was a strong priority, and 63% saying the same of improving TEF and NSS performance.

There was a sense alongside this that universities were aiming to reduce their operating costs in preparation for potentially leaner times ahead. This included programmes looking for operational efficiencies, redundancies and restructuring, and closing inefficient sites or campuses.

Competition on price was an ‘inevitable’ consequence of the OfS for one respondent, who felt that eventually this would be linked with quality measures already in place, i.e. the TEF, REF and KEF. For them, this was a logical next step in a marketised sector. eSurvey respondents did not display any appetite for such a change, with 58% strongly disagreeing that some universities should be made to charge lower fees, and 42% that some courses should charge lower fees.

Giving attention to student experience and welfare
The student experience, encompassing both the academic, extracurricular and welfare needs, was an area of much concern for respondents from all university groups. Institutions had responded in a number of ways here; improvements to academic quality ran alongside investment in welfare, with a view to both safeguarding students and raising NSS scores. These measures were considered a vital component of marketing:
“You have to assume applicants are going to look at measures around student satisfaction and outcomes in making their decisions.”

Good results here held a direct link to the sustainability of the institution:

“The biggest priority for us is driving up the quality of the student experience. I think if there is one thing that we have to absolutely get right it is driving up the quality of student experience, ensuring that that students who come here feel that, if you want to put it in the language of value for money, feel that they have had really good value from their time at here, we want students who are thinking about coming here that this is a good investment of their time and money to come here. So, that student experience is the biggest thing if we look at the next three years.”

**Investment in staff, support networks and buildings pairs with a shift towards a more nurturing environment**

University leaders were in widespread agreement that supporting student welfare needs required significant and continued investment. Many had employed new counselling staff, and foresaw the requirement to expand student services departments in order to keep up with demand. Providing these safeguards functioned to ensure learners stayed with the university:

“There will be a direct relationship between our ability to provide high quality support at that end and our ability to retain that student to successful completion.”

Some institutions had taken great lengths to provide a more nurturing and safe environment. This could be seen at both micro and macro level:

“We were doing lots of stuff, but we are quite small, the students talk about this thing about being a name and not number, and most of our response was at the level of the individual students, so we appointed some student liaison officers who were very recent graduates who we thought might be able to talk to students in a language that was better than we could. We did a lot of contacting students to try and engage them and so on and so forth.”

“We are also thinking much more carefully now about how we approach the structure of our first year and the way we assess students in the first year, and also introducing a foundation year for those students who really need a bit longer to get ready for university. We recruit very heavily from those disadvantaged groups that are not well represented in universities but quite a few of them need a bit more time to go to university.”

**Estates development has also been influenced by the welfare agenda. Typical examples include universities:**

- Building their own student accommodation, in order for it to be of a higher quality than that which a third party proposed, including enhanced wheelchair access and social spaces.
- Campus redevelopment to bring students closer together.
- Planning a large centre for student life, ‘a ten-thousand square meter building right in the heart of the campus, really focused on students and their needs and working really closely with the student union’
- Building extra-curricular sports facilities, free for student use 24/7.
This work is at risk from funding cuts
This student-centric model was felt to be expensive, but ultimately worth it. However, respondents were quick to point out there was 'no cheap way of doing it' – and that any reduction in revenue, for example from changes to student fees, would put this work at risk. Likely scenarios in such an event might include:

- Larger class sizes, without an increase in support services.
- Less money to spend outside the operational core on welfare and extra-curricular development.

“We would have to look at every bit of extra-curricular student support that we offer, and things like sporting opportunities, co-curricular developments, some of the add-ons around guidance support, counselling, all of those things would have to go, and you couldn’t do it any other way.”

Decisions around internationalisation
When considering how they are looking to operate internationally, future strategies focused primarily increasing international student recruitment.

With uncertainty over EU learner recruitment following Brexit, alongside a decline in Home student recruitment amid the demographic decline many were seeking to plug student recruitment shortfalls by looking at international opportunities. Although China has traditionally been a focus of international recruitment, HEIs suggested that they were increasingly looking to target new territories such as the Middle East and South America to diversify markets.

While some institutions have found success in this area, the majority of our sample felt that satellite campuses were too risky a venture, with other TNE opportunities sought such as study abroad options, validation programmes and partnerships.

TNE is still prevalent but satellite campuses are a risky approach
Opportunities within transnational education still appear to be a fruitful area and a priority for many in developing international opportunities and strengthening global brand. A lot of activity is occurring in this field, with the route each institution goes down highly dependent on institutional strategic priority areas and resource base. Growing areas of interest included:

- Study abroad options offered to home students
- Distance learning to offer flexible delivery to international students
- International programme validation
“Overseas partnerships we will push hard on, and expanding some of the partnerships we’ve already got, so increasing the number but probably more so trying to work with the overseas partners to expand what we’ve got already.”

Many felt that there were great growth opportunities available with transnational education, but that this needed continual evaluation and review to ensure activities remain both cost and resource efficient and are able to compete in a global marketplace.

“It is also finding different ways to deliver overseas higher education in territories that involve things like franchising, licensing deals, generally under the banner of transnational education, there are big growth opportunities there, but again that is a crowded market because again we are competing against other universities from around the world.”

For the majority of respondents, satellite campuses were seen as a high risk, high cost approach, demanding a lot from staff resources, detracting resource from other strategic efforts, and being potentially damaging to reputation as they are not in full control of provision. Some institutions had seen closures of overseas campuses due to disappointing levels of recruitment, or watched on as other institutions struggled. Exceptions to this do exist with some institutions holding strong partnerships, namely in STEM areas where there is a strong resource base for this. Nonetheless, most felt satellite campuses were too risky a strategy to get into, if not currently strong in this area.

“[Satellite campuses are] high investment for low return and we’ve watched a number of institutions and some have come unstuck, the Australian ones in Singapore.”

“I worry that having a campus of our own overseas is a big drain on resource, I don’t mean building because usually they are built by them, big drain on senior staff resource, I know vice-chancellors who have campuses overseas and they are over there five or six times a year, which means that you can’t be doing other things.”

Commercialisation of research was a priority for a few in STEM

Commercialisation of research was seen as a potential income stream with some seeing this as an increasing priority, having previously only been exploited opportunistically, looking to increase income in this area and impact on the commercial sectors. 64% of our sample felt that increasing research and innovation output was a strong priority for their future. For many this is influenced by the increasing commercial opportunities for research and development services in industry. However, this was often viewed as only really possible for more research intensive institutions or those with STEM specialisms. Institutions without a STEM focus to their research often reported difficulties in the commercial potential of this. Smaller institutions also felt they were not in as strong a position as the Russell Groups and research intensive institutions. Although research efforts were continued, the relative pipeline of research remained small due to level of resource behind this. Perhaps a result, commercialisation only appeared as a strategic priority among a few interviewees, particularly those in institutions with a focus on STEM.

“The research that we do tends to be very academic, in industry it is probably linked more to creative arts and social industries, and that doesn’t tend to have a lot of commercial potential. It is not really a major factor for us in terms of the future.”

“The difficulty in an institution like mine is that far from commercial type work, the pipeline there isn’t so great, so the number of things that you have to commercialize is less, there are many fewer opportunities than perhaps in a place where you have ten ideas of which one is perhaps commercialize.”
Decisions around links with business

Further engagement with business and the public sector was seen as increasingly important across all institution types. For many there was increased focus on their involvement within their locality, becoming centres of knowledge, innovation and employment. Forming strong partnerships with FE colleges was also seen as critical to help increase awareness and consideration from local home students as some institutions report a far more localised student intake.

Deeper links with business are increasingly important

Further engagement with business and the public sector was increasingly becoming more of a focus across all institution types and seen as an area of long-term economic growth. Links with business were increasingly becoming a strategic focus for those where efforts had previously been more opportunistic. A number of HE leaders spoke of recently implementing dedicated teams to look into the commercialisation of business links and capitalise on opportunities.

"Recently we have set up a specific group that I chair to look at commercialization around the university and ensure that we take all opportunities that might exist, and I think that is a key challenge for universities, we are not quite getting a handle on what our opportunities are, and then trying to commercialize it."

While large flagship partnerships were valued, there was driving interest in creating strong links with SMEs in the local area. Many respondents spoke of a vision of their institution being a cornerstone of the locality, providing the hub of innovation, knowledge and employment. Building strong partnerships with local SMEs was therefore essential in their strategy. There was desire to be more aligned to the economic needs of the local workforce, supplying the graduate talent pool to fill pressing skills gaps and offering real-world learning to students. This was particularly the case in rural areas where the university may be a big employer. Links with business were therefore not only felt to benefit research efforts of HEIs, but to offer students strong links with industry, in terms of internships/placements and employability.

"We talk of this concept of real-world learning, we use that a lot, and one of the elements of that is being employer informed, and having close working relationships with employers."

"One of our main attractors for the undergraduate market is employability, so we have significant links with the local enterprise partnership, and through them into many businesses in the community"

Many were also seeing a change in the nature of links with business and HEIs, moving to a much more collaborative approach of industry and universities working together in partnership.

"Historically in academia the way that academics might have looked at businesses in the past as the cheque writing machine and I think we are trying to shift that attitude to see how we can work in partnership to deliver genuine impact."

"I use the word interaction deliberately, because this is not about scientists in white coats inventing something, throwing it over the wall and waiting for someone in industry to catch it and commercialize, much of the initial work with industry is contract research, very simple stuff but it gets the conversations going, which leads to bigger and better things, and so I have to say we see that whole area as incredibly important."

Smaller institutions, without clear specialisms, were felt to struggle more with commercialising business links due to the lack of resource available to put behind developing strong links with business.
Industrial strategy
The government Industrial Strategy was felt a driver for many in their research and links with business. In order to gain funding from this, some felt their future areas of research were likely to focus on prominent areas of interest within the industrial strategy – namely STEM areas. However, some respondents felt that institutions outside the Russell Group would find it more difficult to find opportunities here.

“I think that one of the real opportunities that sits in the industrial strategy space is that big pot of R&D funding, where there are expectations that the commercial development of research and development, by companies, working in harmony with universities.”

“We will be becoming much more prominent in STEM subjects, aligning with the government’s industrial strategy”

Opportunities for commercialisation of research for those in other subject specialism were felt to be more limited. Although research efforts would still be continued, commercialisation of this was not a focus, or felt as easy to commercialise as for STEM areas.

Although felt by many to be an area for economic growth outside of student fees, there was a view among respondents that even those most successful in their research links with business, this accounted for a very small percentage of total income. While some institutions felt that it would be difficult for those institutions outside the Russell Group to find opportunities here, there were a number of Post-92 institutions that felt their strong connections to their local area offered them unique advantages within these initiatives.

“I think it’s worth looking at the amount of income the big boys, like MIT, get from the commercial research. My personal view is that governments see this as a... there are those in the country, maybe I shouldn’t be so specific, who see this as a solution to universities’ funding but for the big boys it’s a relatively small part of their income.”
Strategic Planning in UK HEIs

Strategy and data are increasingly at the heart of decision making

The climate of change and lack of certainty of the future of the sector has led to a more strategic approach taken by institutions in their planning cycles with increased use of data and market intelligence to inform decision making.

Many indicated that they were carrying out horizon scanning and preparatory exercises in order to build up surplus and weather their organisations against difficult times. One respondent described how this forward thinking was critical – an institution simply responding to change would not be enough:

“We are in a decent position financially which buys us the time to manage our way through rather than getting to the edge of the cliff and falling off and thinking 'good God how the hell do we unify the organisation?!' So, there is a message from me; if people are starting to look at this now they are probably three years too late.”

Institutions appear to be now working to short medium term planning cycles which are continually reviewed to ensure HEIs are adaptive to the continued change experienced. Simultaneously, HEIs are looking to long term visionary plans, taking them 10-20 years out into the future of HE and carefully considering what learning and learners look like in the future.

Respondents also spoke of moving towards a much more data-driven, evidence-based approach within decision making, looking not only to a wealth of internal KPIs, but beginning to look to external market data to be able to survive in an increasingly competitive market.

For a number of teaching-intensive institutions, students are also involved in the strategic development of the university, and in a number of cases, local councils and businesses were involved in strategic decisions, as local footprint and business partnerships become more of a focus. This was a further demonstration of institutions becoming more collaborative and open to partnership working.

The strategic planning horizon is changing

Previously, universities’ medium term strategic planning horizons were typically running on a 5 year cycle, as defined by HEFCE. Now, in the current turbulent HE climate, HEIs are increasingly moving towards shorter rolling plans in order to be able to adapt to the ever changing sector, along with long term visionary plans.

Whereas medium term plans used to run on a 5 year cycle, many respondents reported moving to a 3 year horizon, viewing the raft of political change making it hard to reasonably speculate beyond this timeframe. The current climate of continual change and uncertainty makes it particularly difficult for institutions’ planning with a sense among many university leaders that the rate of political change means they have little time to digest changes, let alone react and plan to them. Rolling annual planning processes are therefore often in place in order for HEIs to respond to these immediate environmental changes, with medium term plans becoming much more fluid and constantly revised.

“One thing that universities need to pay more attention to is having proper strategies which are flexible and dynamic as opposed to what they have had traditionally which are long-term plans.”

10+ year plans are reserved for longer term visions along with large scale investment plans, namely in estates for which robust, long term financial plans are required. There was a view among many
HE leaders that strategic planning does not work beyond the 5 year in the current climate of change.

**How strategic decisions are made**

Strategic decision making is largely being undertaken the same way across institutions with business cases put forward to the executive board for review. HEIs continue to consult a host of data and metrics in this process, reviewing myriad KPIs (NSS, league table standings, TEF, REF, application numbers etc.). The importance of student facing KPIs appear to be of increased focus due to the increased competition in domestic recruitment and uncertainty over research funding meaning that student recruitment, and the ability to differentiate and show quality within this, are ever more important. For some more teaching intensive institutions, students were increasingly becoming involved in the strategic decision making, indicative of this more student centred approach.

"It is about putting students at the heart of what we do, so prioritizing developments that are going to enhance the students experience, both for those students that are here, but also to be attractive to students contemplating coming to us"

Competition has driven more institutions to start consulting external data, alongside internal KPIs, looking to evaluate competitor actions and benchmark against this. A number of institutions spoke of having strategic planning teams that continually produce reports and analysis of the institutions current standing.

“We probably spend a lot more time nowadays doing analysis on what we would now call competition than we used to, so looking at what marketing strategies other competing organisations are adopting”

In a number of cases, local business and councils are also being consulted in this process of strategic decision making and course design. Creating strong links with local business is seen as an increasing focus/opportunity for HEIs and so ensuring that universities are well-aligned to the local needs within strategy is pivotal in creating these strong links.

“We have just designed a new computer science degree that was written by us, but by the employers as well as a joint venture, because we take the view that people keep talking about a skills gap and when you ask the regional LEP what they mean by that they say “digital” and that goes around in circles, so we got the employers in and said what do you miss? What haven't you got? What do you want students to know. “
Investment, funding and borrowing

Areas of significant financial investment
Future areas of investment indicate continued spending on upgraded campuses, along with substantial investment in digital technologies. Strong investment in Operational Technologies is indicative of an increased emphasis on both student experience and operational efficiency.

It was notable that investment in acquisitions and mergers were a consideration for very few respondents currently.

Estates spending dominated areas of large financial investment
Large financial investments were mainly in estates. Some of these investments were substantial.

“Yes, we have spent about 250 million. But we are not alone in that, you will find that is a huge proportion of the sector that are investing heavily in their estates. The quasi marketization of higher education since 2012, student expectations have shifted significantly and they are now paying increased fees, they have expectations of greater provision of buildings and facilities than ever before, and universities are having to compete with each other to keep up, but we also have had developments within our provision, which has driven some of our building, for instance we have significantly increased the number of engineering undergraduates that we attract, so we have had to invest in a new engineering facility, and we are doing the same at the moment with investing in medical facilities.”

A range of work was being conducted: to upgrade existing estates and improve learning spaces, but also to consolidate estates onto single campuses and provide new and expanded accommodation (often in partnership with a private provider).

These investments were made for a number of reasons:

- To upgrade failing stock.
To emphasise and support key subjects of strength e.g. sports facilities, dummy law courts.
To support brand positioning.
To facilitate strategic initiatives e.g. the creation of an innovation hub to bring enterprise and research together, a building for international students on pathway courses.
To create a better student experience – many new buildings were designed to be impactful, the physical manifestations of quality and value, extracurricular activities were also supported.
To reduce long-term running costs, particularly through modernisation and consolidation on a single site.

Improved learning spaces
Although investment in estates was about more than just improving learning spaces, this did form an important part of such investment. In some cases, this went hand in hand with developments and innovation in pedagogy, particularly the inclusion of more learning technology but also creating spaces which could be used more flexibly, rather than in a standard lecture format.

“[We are] looking at how do we use our estate to modernise the way we teach, and moving away from the traditional lecture theatre type approach to having more interactive space, more effective use of technology, and really trying to plan there for how students want to learn now and hopefully over the next 20 years.”

IT and Learning Technology
Married to this and to understandings of student expectations was a investment in learning technology and the infrastructure to support it. In most cases this was to support on-campus use of digital technology, for example in the library, via student analytics, a virtual learning environment or more blended learning in general. However, a small number of institutions were investing more heavily in digital capabilities to support more off site, distance learning provision, as part of a strategy to diversify more fully from home undergraduate learners in their locality.

In particular subjects, access to industry-standard technologies was also a key focus, particularly in STEM subjects, but also in the creative industries.

It should be noted however that spending here was minimal compared to large-scale estates spending.

Improved extra-curricular provision and accommodation
It was notable that institutions often were concerned with the whole student experience, including the learners’ accommodation and access to extracurricular facilities. There was evidence that increasingly universities have not only to be concerned with learning experiences but with the other ‘lifestyle’ elements of choosing one institution over another.

“We are trying to create a campus that is a very, very attractive place to be, for the week, so rather than teaching buildings being functional and have classrooms in, we are trying to reinvent the landscape entirely so that is a really nice place to spend your time, with parks and squares, and lounges, we are investing in the environment that our students live in for their time here.”
Investing in people
Many respondents pointed out that one of their most important areas of investment was in people. This included investment in high level research staff with unique capabilities (particularly post-Brexit), in international offices or networks or in additional learner support staff.

In addition, in a small number of cases, new systems of reward were being put in place for academic staff which were seen to allow more scope for rewarding success.

The funding of investment

The funding of these investments was mainly through loans, surpluses and reserves. Many of these projects were funded from the university’s own surpluses, dipping into reserves and bank loans for bigger projects. Low interest rates over recent years had made this feasible.

“We took out loans to build the halls of residence, which we will largely service from within the recurrent budget, we will probably keep some of that loan money turned out just as a cushion because interest rates are so low at the moment, so it’s relatively easy for a university in our financial state, which is fairly healthy, to borrow money, we could get more if we wanted, so like many other places we did take the opportunity whilst interest rates were low to borrow.”

Some were using other sources, in particular the European Regional Development Fund and loans from the European Investment Bank. There were concerns about this continued funding for some.

University accommodation was in some cases an exception, funded through what were described as ‘risk-sharing’ deals with private organisations such as INTO. Some also mentioned working with property developers or commercial partners.

Credit didn’t seem to be hard to acquire at this point for all but some smaller Post-92 institutions. However, as a number of respondents noted, this might be based on a false premise of government support:

“I think the sector still is perceived as being a reasonable bet for those who wish to lend money largely because there is a perception that institutions remain underwritten by government, I think it would only take one institution to be allowed to go to the wall by government and that perception would change quite rapidly.”

Although most institutions appeared to be raising funds primarily via banks, one respondent mentioned a number of other options including overseas investors. It remains to be seen if this is a longer-term trend in the sector.

“I think there is a variety, obviously, there are other banks, there are private investors, so when I say private there are international investors, like Chinese investors, and Middle Eastern investors, who has got cash and are looking to invest it in long-term good yield projects, and then you have got other institutions at home, pension funds and those sort of things that are also looking for longer term investments over twenty, thirty years.”

A small number of respondents also mentioned disposal of assets as a source of funding, particularly properties and land.

Respondents were cautious about use of bonds
There was some caution and uncertainty around the use of bonds and they appeared to be viewed as a complex route for funding, with some admitting that they did not fully understand them. In
addition, for some, bonds were seen as an option only for large institutions and appropriate only for large amounts of borrowing:

“No, we are not large enough and bonds you are starting at fifty, a hundred million pounds.”

Some respondents expressed the view that bonds were less available now as a result of the diminished reputation of the UK higher education sector as a safe investment and when credit was relatively easily obtained, bonds appeared complex and unattractive as well as having the potential to saddle an institution with longer term repayment obligations.

However, the small number in our sample that had used them appeared happy with their decision, particularly while the cost of credit was at an ‘unprecedented low’. Bond sizes ranged from £250m to £300m. Some remarked that this decision seemed even better in the light of the uncertainty around European Investment Bank funding post-Brexit. These respondents felt that bonds were the right choice for large investments with a sound business plan from universities with solid reputations.

**Financial decision making processes are consistent**

Financial decision-making processes were very consistent. The CFO would produce a business case, making recommendations, then the VC and Executive Board, or similar body, would later approve these as a group. For big investments these recommendations would include detailed long term financial evaluations. These decisions would later be presented to the Board of Governors.

**Size of current surplus was highly varied**

Levels of surplus were highly varied, with a 5 institutions in our sample reporting that they were currently in deficit, while others had surpluses of up to 16%. The average appeared to be around 5%, similar to that reported recently by HEFCE.

In addition to the small number in deficit were a similar sized group with surpluses of around 1%. These institutions often reported having been recently hit hard by recent shocks, including redundancies, pensions increases and necessary investment in infrastructure. Surpluses look lower outside the Russell Group (though not exclusively) also in Wales and Scotland where lower fees have previously had an impact. Some of these institutions also had concerns around the removal of EU regional funding and felt themselves to be facing a more challenging environment.

Those institutions with small surpluses reported working hard to get into a stronger financial position, often with an ambition to do so over the next 3 years. However, they were strongly concerned about the impact of any further shocks on the sector, particularly around fees (see section ?).

**Optimal levels of surplus were felt to be higher due to uncertainty**

Respondents had varied accounts HEFCE’s recommendations around optimal surpluses, quoting these at many values between 3% and 10%. Too much surplus was seen by some as mismanagement, as surpluses should be reinvested in the institution and into students. Other universities were holding higher levels of surplus to be used shortly in substantial estates investment projects and had agreed levels of surplus on which access to areas of borrowing such as bonds were dependent.
6% was probably considered the mode in terms of optimal surplus. This was felt to enable institutions to fund new developments from surplus and have some financial security. A small number of respondents also indicated that cash flow was a more important measure for them than surplus, enabling them to meet their commitments and continue to invest.

The optimal amount of surplus was felt by some to be higher than previously due to high levels of change and unpredictability. Some felt that those universities with low levels of surplus may go into deficit in the next few years given issues around recruitment.

“5% was the level recommended by the committee of university chairs. What I think one is going to see, and if one looks at this year’s funding council projections, is that a lot of universities are going to go into an annual loss over the next three years. They’re staggeringly overestimating the recruitment they’re going to manage domestically, from Europe, and from international students.”
Conclusions

Universities are operating in uncertain times and it seems unlikely that the waters will be calm anytime soon. While respondents recognised the challenging external environment, many were optimistic about their ability to navigate the rough seas, even if they weren’t necessarily optimistic that the seas were about to get calmer.

Some institutions feel better prepared than others. All respondents talked of the landscape becoming increasingly competitive. With the race on to maximise student recruitment efforts against the diminishing numbers of domestic students and uncertainty over international student populations caused by Brexit and less than welcoming immigration policies, institutions are paying attention to the competitive landscape and student behaviours more than ever before.

The freeze on fees was widely cited to be an impactful cut in real terms, particularly against a background of rising staff costs and increasing pension contributions. Many institutions reported that they were highly reliant on undergraduate fees and that even small changes here would have significant implications for their financial stability. With a proliferation of metrics to prepare for, a more demanding and competitive marketplace and additional legislation impacting in areas such as public sector education, it was felt that there were some institutions just a policy change away from disaster.

Brexit remains a concern in terms of research funding, attracting and retaining top EU talent and student recruitment and the high level of uncertainty it brings makes this a particularly worrying and difficult development for many. There were also concerns regarding the implications of the leave vote in terms of damaging the brand of UK Higher Education internationally, even outside the EU, with many concerned that prospective international students would perceive the UK to be less open and welcoming to them.

The sector does appear to remain proactive, looking carefully at operational efficiencies that can be made alongside strategic investment in the student experience. But this takes time and perhaps more importantly resource. For smaller institutions the sheer amount of strategic work required to respond to policy shocks was placing them under considerable pressure.

Two words often cited to navigate these waters effectively were: Focus and Efficiency. The current landscape was thought by some to favour those institutions with strong brands and high reputations, allowing them to grow student numbers occasionally at the direct cost of those middle tariff institutions.

Respondents revealed real concerns about the future perceptions of Higher Education and were concerned about the continued focus on the monetary value of a degree. For many this continued narrative was frustrating, undermining and obscuring the positive role of universities as cultural and educational establishments, contributors to local and national economies, leaders of innovation and crucial to society and community.
About Shift Learning
Shift Learning is a boutique research consultancy working exclusively for the education sector. The company was started in 2001 and is based in London. We run many large and small projects each year and are experienced in creating the best research design, always taking into account the individuality of each client, project and respondent group.

We work across a number of areas of the education sector, giving us insights into the relationship between these subsectors.

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