

Universities are boxed in: Is there a way out?

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About the author

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Foreword

**By Professor Ian Jacobs, Chair of Council, City St George's,
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Colleagues across the higher education sector are managing an unprecedented range of pressures. They amount to a perfect storm of policy, market and economic factors.

Structural underfunding and lack of investment mean the sector is heavily reliant on international and postgraduate fees to subsidise domestic education and research. Our status as a world leading nation for research and innovation is threatened by generously-funded international competition. Our universities are grappling with financial deficits, criticism of the cost and quality of higher education and the need to respond to technology and digital transformation, all while Government is focused on other pressing domestic and international priorities.

These challenges are real and they risk boxing the sector in. But there is a positive story beyond the challenges. In the twenty-first century, higher education is more important than ever for building a successful society and strong economy. The opportunities for impactful research are enormous and the demand among young people across the globe for quality higher education keeps growing. UK universities can capitalise on the enduring importance of higher education for our nation and the global community.

The authors, Diana Beech and André Spicer, bring policy, government, behavioural, management and academic expertise to discussing the different ways that universities can get 'out of the box' to realise the full potential of the sector. They provide a timely consideration of a range of options for dealing with regulation, rising costs, decreasing revenue, competing providers and changing demographics.

Among the options they consider is merger. It is a step that City University and St George's took recently to create the benefits of scope, scale and quality, which our community at the new City St George's, University of London are busy delivering.

After describing the challenges and options for dealing with them, Diana and André conclude with a series of thoughtful recommendations for university leaders, governing bodies and policymakers.

This paper is an important contribution to the debate about how our universities can respond to challenging times.

I hope you enjoy reading it.

Introduction: Trapped in a box

British universities have been one of the great growth stories of the UK economy over the last three decades. The income in the sector has grown about 200 per cent in real terms during this period, the number of students has increased by 71 per cent and the number of academic staff has increased by 110 per cent.¹ During this time, leaders in the UK higher education sector became used to having significant scope to make strategic choices to expand their institutions. Now leaders' options are much more restricted. Universities find themselves increasingly boxed in and the box seems to be getting tighter by the day.

As space for action gets smaller, higher education institutions fight for increasingly scarce resources. Different groups within institutions also struggle over a shrinking pie. The results are progressively more destructive patterns of behaviour that risk fundamentally undermining the sector.

In this HEPI Report, we want to ask how the UK university sector has become increasingly boxed in, what we might do to respond to this ever more boxed in situation and what might universities learn from both their own history as well as how other industries have grappled with moments of profound disruption.

1. Understanding the box

For many decades, UK higher education has enjoyed remarkable strategic freedom. The sector faced few of the typical strategic constraints which many other sectors have – it was comparatively lightly regulated, it had a plentiful supply of income generated by both international and domestic students, and the costs were reasonable. Following the financial crisis of 2008/09, most other parts of the public sector – such as schools, healthcare and the justice system – went through a period of extended austerity, and they were forced to make significant savings. During the same period, the UK university sector enjoyed a great deal of freedom and was able to expand and thrive. Now all that is changing as the UK's universities find themselves boxed in on six sides.

Side one: regulation

The first side of the 'HE box' is regulation and the extent to which it is encroaching on the much-prized institutional autonomy of the sector. While autonomy is not absolute and an appropriate and proportionate level of regulation protects quality and standards (as is the case in many sectors), pressure from regulation has significantly increased in recent years. This has occurred as the number of regulators involved in the sector has expanded, the issues which they regulate have grown and the amount of regulation has multiplied. A recent study found that UK universities employ on average 17.6 full-time employees just to deal with regulatory issues.² The report found that most UK universities say they labour under heavy regulatory burdens which restrict their actions. This burden is felt acutely by smaller, specialist institutions which can lack the resource to manage increasing levels of regulatory compliance in a system predicated on assumptions of large universities with economies of scale. Yet even larger institutions are beginning to struggle to keep up with the quantity and unpredictability of regulatory demands. They require ever more specialist professional services staff to manage duties from multiple regulators. A study by Professor Alison Wolf and Dr Andrew Jenkins found that one of the main drivers of the rapid growth of higher paid central services staff in universities has been dealing with an increasingly complex regulatory landscape.³

In England, it is no secret that relations between the sector and the higher education regulator, the Office for Students (OfS), have been tense while the regulator has tried to find its feet. A report by a House of Lords Select Committee outlined these tensions and called for reforms to the regulation of the sector.⁴ As part of efforts to reset its regulatory approach, the Office for Students is refocussing to prioritise the financial stability of higher education and ensure the sector's resilience for the future. This new focus on the big issues is certainly welcome after a recent period of perceived regulatory overstretch. However, the Office for Students's temporary pause on elements of its core business, such as new registrations and applications for degree awarding powers, is arguably only bringing in the walls of the 'HE box' further. After all, some providers are relying on securing new degree awarding powers, particularly in research, to unlock additional income streams. Until these elements are restored, providers in England must seek means to push back the walls of the box which do not require the cooperation of the regulator.

Side two: increasing cost

The second side of the box is increasing cost. During recent years, the obvious costs of operating have increased for universities. Inflation has pushed up prices for non-staff and staff costs, as well as capital projects. Government interventions have also increased costs. Recent examples include the decision to raise employers' National Insurance contributions from April 2025, adding an extra £372 million to UK universities' annual wage bills, together with the increase to the Minimum Wage threshold.⁵ The Government's decision not to extend funding to post-92 universities to cover the contribution increase to the Teachers' Pension Scheme (TPS), which has seen the contribution rate for 2025/26 rise to 28.68 per cent, has also left a significant part of the sector at a financial disadvantage. Recent inflationary increases in the unit of resource universities receive per home student (discussed in detail in the next section) do not cover the increasing costs of university operations.

There has also been an increase in the hidden costs of running a university. These have come from demands and expectations on universities to provide all manner of add-on services and wrap-around support. For instance, most universities have expanded their mental health support. This service is set to remain, and grow, as universities prepare to admit a whole generation

of entrants over the next decade whose school education was affected in some way by pandemic restrictions and successive lockdowns. There was an increase in referrals for children and young people for mental health issues of over 50 per cent between 2020/21 and 2022/23.⁶ Universities have also invested heavily in enhancing students' employability and securing good graduate outcomes by expanding careers services and skills training. They have sought to enhance the student experience by offering new services, new spaces and a wide range of new events, and they have also sought to modernise universities by investing in facilities and estates. Many are seeking to drive a 'digital transformation' by investing in new technologies, upgrading core systems and employing new types of professionals like learning designers. Yet another goal is sustainability and achieving net zero, which requires investments such as retrofitting campus buildings to meet ambitious environmental targets. All the while, universities must remain conscious of the need to create societal impact and do more world-class research. Each of these new demands requires time, effort, resources and, ultimately, more staff. All of this can impose what is often a hidden cost on our institutions.

Side three: declining value of resource

The third side of the box is the declining value of the unit of resource received for educating domestic undergraduate students. Education is, of course, devolved in Scotland, Wales and Northern Ireland. So, in England, Wales and Northern Ireland, much of the revenue universities receive for teaching derives from the student fee (albeit set at different levels), while in Scotland the absence of fees for domestic students means the Scottish Government provides the bulk of universities' income for education.

In England, when domestic undergraduate fees were raised to £9,000 over a decade ago, it led to a fresh influx of cash into England's universities and protected them from the austerity experienced at the time by other sectors and industries. They used this to update infrastructure, expand course offerings, improve the range of student services and hire more and better-quality faculty. However, that fee has not gone up significantly since then, save for a £250 increase in 2017 and a further £285 increase scheduled for 2025/26, taking the annual fee paid per undergraduate to £9,535. Recent analysis by dataHE reveals that this equates to just £5,714 in 2012-money, which is well below the legal minimum established that year for providing

good quality higher education.⁷ Moreover, the Strategic Priorities Grant – formerly known as the teaching grant, distributed by the UK Government to English higher education institutions to complement student fee income – has reduced year-on year. The budget for 2025/26 is set to fall to £1,348 million, representing a £108 million cut on the previous year.⁸ Its funding formula also disadvantages providers offering courses not deemed strategically important (like Nursing, Midwifery, Allied Health and high-cost Science and Technology subjects). Plus, the recent decision to cut fees for classroom-based foundation courses to £5,760 has left further holes in the pockets of many providers offering these important access routes into higher education.

Institutions elsewhere in the UK have experienced similar patterns of funding stagnation. In Wales, a marginal increase to the student fee will see fees match those of England at £9,535 from 2025/26. A new tertiary education regulator called Medr is also in the process of being established in Wales – questions have been asked about whether it has the capacity to take on the crucial financial oversight role that is needed at a time of mounting cuts in Welsh universities.⁹ In Northern Ireland, an inflationary increase will take fees to £4,855 (up from £4,750) in 2025/26, but the maximum student number cap that is in place in the province continues to restrict higher education places, meaning many local students feel they must leave Northern Ireland to enrol in higher education. The result is that Northern Ireland's universities cannot capitalise on the income from boosting domestic student numbers, nor prevent the inevitable brain drain as those individuals who do not get funded places leave to study elsewhere in the UK, Ireland and beyond.¹⁰ Finally, in Scotland, where universities are heavily reliant on funding allocations from the Scottish Government, the 1.8 per cent increase to the main teaching grant from 2025/26 (taking it to £727.1 million) has been deemed insufficient to offset inflationary increases to the costs of delivery.¹¹ This means that across the UK, as costs have risen, the real-terms income from each domestic student has fallen.

Despite this complex tapestry of funding arrangements, the net result is the same – namely that most UK higher education institutions make a loss on the average domestic undergraduate student. This is irrespective of whether they are large, multi-faculty, research-intensive universities or small, specialist institutions offering high-cost, tailored provision. Larger

universities in England and Wales with the scope to expand have tried to solve this problem by adding more students – both from home and abroad. Yet, in Scotland and Northern Ireland, where domestic student numbers are effectively capped by their respective administrations, universities must look for these additional students solely from overseas (or, indeed, from other parts of the UK). The problem for all universities, is however, that – like in healthcare – higher education suffers from a phenomenon called Baumol's cost disease: this is the pattern that when you add in more input, you also tend to automatically add more cost – no matter how stringently you look for efficiencies.

Side four: international students

The fourth side of the 'HE box' is international students. Until fairly recently, this was the main source of income which most UK universities used to cross-subsidise growth costs, cover the falling real-terms income from home undergraduate students and meet the full costs of research and development (R&D) activities. This is because UK Research Councils and other funders provide funding at less than the full economic cost and institutions must agree to find the balance for R&D projects from other resources. In recent years, many universities have aggressively expanded their offers, targeting international students to allow them to expand and keep doing more. Many British institutions have been remarkably successful in doing this. However, it is now becoming uncertain whether they can continue rapidly increasing the number of international students in the future.

Attracting international students has become much more difficult for UK universities in recent years due in large part to a wave of changes in student visa conditions. In January 2024, the previous Conservative administration brought in considerable rises to visa application fees and NHS surcharges, as well as a ban on dependants' visas for one-year Master's students.¹² Despite repeatedly declaring it welcomes international students, the Labour Government has not reversed these changes and, in May 2025, announced its intention to cut the terms of the post-study work entitlement for international graduates to 18 months from two years.¹³ This reduces the competitiveness of the Graduate Route against more generous post-study work offers from other global study destinations, which risks impacting student choice. The new 10-year rule for UK citizenship

also raises questions for the retention of overseas staff and researchers, particularly as it applies to those in the Global Talent visa category. Plus, the accompanying proposal for a levy on international student fee income (to be detailed in the 2025 autumn budget) may further end up reducing the revenue that universities can generate from the recruitment of overseas students. There are similar risks, too, from the youth experience scheme emerging from the May 2025 reset in relations between the UK and the EU, for example, should students from EU states be (re-)granted domestic fee status.¹⁴

Another factor at play is the increasing quality of universities in students' home countries. Chinese higher education institutions are continuing to improve in global rankings and India, too, is experiencing new entries to global league tables.¹⁵ Moreover, the price of UK higher education for international students is edging ever beyond the means of many students and their families, particularly as a financial crisis looms over the world following years of COVID-19 disruptions, the ongoing war in Ukraine and growing global trade wars. While the British Council estimates international undergraduate fees in the UK vary from between £11,400 to £38,000, the cost of studying professional postgraduate degrees such as MBAs can be significantly more.¹⁶ In rare cases, course fees can reach almost £120,000.¹⁷

Meanwhile, course fees remain significantly lower – if not free – in other major global higher education destinations. EU citizens, for example, cannot be required to pay higher course fees at universities in other EU countries and they are also entitled to the same grants to cover course fees as nationals of those countries. This has made universities in EU member states a more financially attractive option for EU citizens since Brexit and this is certainly borne out in the data. Applications from EU students to universities in Ireland – the only EU country where students can live and study in English-speaking environments – have more than tripled since Brexit.¹⁸ A handful of EU countries, such as Germany and Sweden, also offer free undergraduate education at public universities, meaning international students from outside the EU can study for just a small administrative fee so long as they meet the visa requirements and can study in the local language. However, as demand has grown, more courses are being offered in English too.

Taken together, then, the result of these political, social and economic pressures on international education is that there has been a drop in international students coming to the UK. Data from the Office for National Statistics (ONS) released in May 2025 show the number of non-EU+ migrants arriving in the UK on study-related visas fell from 423,000 in 2023 to 266,000 in 2024, and that the fall in student dependants accounted for around two-thirds of the drop.¹⁹ Some institutions have witnessed a cliff-edge-like drop in international students over the past two years. The reliance of UK universities on international students was exposed in full when the Nigerian currency crisis in 2024 left many Nigerian students studying in the UK struggling to pay their course fees after the plummeting value of the local currency, the Naira, wiped out their savings.²⁰ Data from that year show this resulted in a 36 per cent fall in the number of new entrants from Nigeria. Numbers of new students from India also fell by 15 per cent and from China by four per cent, potentially signifying the start of a broader shift in international demand for UK higher education.²¹

Side five: alternatives to university

The fifth side of the box is the alternatives to university. In recent years, universities have set themselves up as one of the few games in town when it comes to transitioning into adulthood and education. Now that is changing. There are many other institutions which are not traditional universities providing higher education. For example, several further education colleges offer sub-degree (Level 4 and 5) higher education qualifications at a fraction of the price of their university counterparts. There are also many alternative sources of higher education which can help young people make the transition from school into adulthood, including apprenticeships, notwithstanding the high competition for places. There are also multiple institutions, including institutions such as Harvard University and the Open University, which provide some of the knowledge which you might get during a university education via short courses for close to free (if not entirely free).²² What is more, this content is often easy to access, high quality and potentially even personalisable.

The result of the rise of these alternative models is that the value for money of higher education is coming under increasing scrutiny, not least in the mainstream media. Stories about ‘Mickey Mouse’ degrees have become all too common, as have reports about vice-chancellors’ salaries and executive

expenses, all of which continue to undermine public trust that universities represent a good return on investment. Recent announcements by UK Government Ministers threatening to 'name and shame' the bosses of England's higher education institutions receiving high salaries but offering poor graduate outcomes continue to raise questions about the value for money of higher education and show declining trust in university management.²³ These perceptions are not helped by surveys of graduates in the post-£9,000 fee era rating their own higher education experiences as representing poor value for money.²⁴ Cumulative episodes of industrial action, including national strikes and marking and assessment boycotts balloted by the University and College Union (UCU), have also negatively impacted student experiences and public perceptions of universities. An Office for Students report from March 2025 shows students reporting strike-related stress and worsening mental health conditions, together with dissatisfaction over the lack of compensation.²⁵

A major risk of these negative headlines is that they detract from the wealth of life-changing opportunities and social mobility gains that going to university can provide. Research by the Institute for Fiscal Studies (IFS) in collaboration with the Sutton Trust found young people from low-income households are four times more likely to become socially mobile if they attend university.²⁶ Yet growing concerns about the affordability of higher education, particularly from those from the most disadvantaged parts of society who can benefit from higher education the most, may encourage individuals to seek alternative opportunities elsewhere. This risk is further heightened if these individuals lack access to appropriate information, advice and guidance about future career paths that their choices could lead to. A major hazard of the digital information age is the algorithms that are used on social media platforms to bombard those exploring their options with misinformation and articles intended to discourage people from applying to university. Responding to this trend requires continued investment from institutions and representative bodies in more content creators, more account managers to respond to 'fake news' and report malicious chatbot activity, and more outreach officers – both international and domestic – to minimise the spread of disinformation. These are yet more examples of added costs that could further bring in the walls of the 'HE box'.

Side six: demographics

The final side of the box is demographics. Typically, universities have comprised a sector that relies on young people. When there were large numbers of young people with increasing expectations, universities have generally done well. For instance, during the post-war period they expanded tremendously. However, the era of favourable demographics is coming to an end – not just in the UK, but around the world. As previous HEPI reports looking at future demand for higher education in England have shown, the number of traditional 18-year-old university entrants will begin to decline from 2030 onwards.²⁷ This pattern is replicated across all four parts of the UK. This demographic downturn is also paired with some signs that, among UK students, the pace of growth in the interest of young people in going to university may well be slackening, with cohort participation rates flattening over the last few years despite growing numbers of 18-year-olds in the general population. Data released by the Higher Education Statistics Agency (HESA) in March 2025 show there was a one per cent fall in the total number of students enrolled at UK higher education institutions in 2023/24, which represents the first annual decrease in the data since student fees were tripled in England in 2012.²⁸ Particularly striking is the fact that the number of new entrants to higher education courses in the UK fell by three per cent from 1,365,315 to 1,318,685, with entrant numbers falling for all levels of study except postgraduate research degrees.²⁹

The policy landscape is also not moving quickly enough to allow higher education institutions to capture a larger share of the mature student market. Research published by the Sutton Trust in 2018 found that the 2012 fee hikes for part-time higher education courses in England (taking fees to £6,750) resulted in more than 40,000 ‘lost’ potential part-time students, due largely to the debt-aversion of older learners.³⁰ The introduction of the Lifelong Learning Entitlement, which was announced by the previous Conservative Government, was intended to address this imbalance and create a single funding system, replacing traditional student loans and allowing for ‘step-on, step-off’ study until the age of 60. The Lifelong Learning Entitlement has, however, been subject to multiple delays – the earliest learners can now apply for Lifelong Learning Entitlement funding for courses and modules starting in January 2027. Enacting the Lifelong Learning Entitlement is nevertheless only the legal first step to make an

adult part-time learning revolution happen. Generating uptake will require a major cultural shift in a society that broadly thinks of higher education as a young person's endeavour, as funded by loans and as a full-time, largely residential, experience. The new arrangements may address the supply of new lifelong learning routes in the sector, but it will take much longer to shore up the demand for – and the confidence and belief in – this type of provision.

In addition, there is a sharp demographic cliff for young people in many nations that send large numbers of young people to study in the UK, such as China where current forecasts suggest the population will reduce by over 100 million by 2050.³¹ While India may have taken over in terms of total population size, as in other global economies, the size and shape of middle-class families in the country could change as women become more educated and forge careers, and a gradual value-shift in society puts more emphasis on quality of life rather than family size. The falling number of young people is already driving profound change in the US university sector – with one college closing each week.³² But the long-term upshot of these global demographic changes is likely to be more profound: the only regions with rising numbers of young people are likely to be Africa and Central Asia – and UK universities will not be the only ones thinking about how best to harness their potential.

2. How to respond to being boxed in

The result of all the above pressures is that UK higher education institutions are now boxed on all six sides: by increasing regulation; by growing costs (both obvious and hidden); by the falling value of the unit of resource for domestic students; by uncertain future demand from international students; by the increasing availability of alternatives, both at home and overseas; and by a shrinking population.

Being boxed in after years of relative freedom is certainly not a pleasant experience. It can leave universities and the people who lead them and work in them feeling trapped. This leads players looking around for options. With the walls seemingly closing in on institutions across the country, every option seems to be on the table. Here are at least some of the options which universities and their leadership teams are likely currently considering:

i. Expand the walls of the box

Many universities are asking if it might be possible to expand one or more of the walls which are closing in on them. For instance, they ask if the home undergraduate fee or unit of government resource could be expanded, if rules around student visas could be relaxed (allowing more international students into the country), if regulation could be reduced or if there could be stricter restrictions around who could offer degree qualifications. Almost all of these requests are focused on and require action from government – yet the answer to most of these requests is likely to be ‘no’ (at least for now). This means that, while there might be a few small shifts in the walls for universities, such as temporary inflationary fee increases, there are unlikely to be any dramatic changes for now.

ii. Reduce the numbers of players in the box

When resources become scarcer, and competitive pressures become harsher, a typical response in many industries is consolidation. This happens through weaker players being driven out of existence, some players merging to tackle the situation together and other larger players taking over smaller entities. This can leave a less crowded and less competitive landscape. Large entities can theoretically operate more efficiently by being able to spread investment in systems and central services over larger amounts of units. While the end state of such arrangements may be

attractive, the road to get there can be difficult. However, seeing universities fail is also very messy, heightening the appeal of attempting consolidation. University mergers and acquisitions (M&As) usually take time and resources to achieve and, as colleagues from Warwick Business School highlighted in a HEPI blog in 2020, they are only really worth considering if they change the business model of the new amalgamated university in some way, leading to overall improvements in performance or delivery.³³ Indeed, City St George's, University of London, is a prime example of such a strategic merger, creating a powerful multi-faculty institution with a distinctive focus on professional education and research, with all elements of the newly-merged university at the frontier of practice. This gives the enlarged institution greater capacity, greater resilience and a greater opportunity to generate external impact. However, if M&As are being considered in higher education simply because the underlying financial position of some institutions is not sound then it is unlikely that cutting back, downsizing or rescaling will be the magic bullet to transform the overall health of the sector.

iii. Learn to live in the box

Another response to an increasingly competitive landscape is to design universities so they are able to live within new constraints. This would mean making operational processes much more efficient through simplification and automation, getting rid of activities which are not core to their mission and / or those which are perennially loss-making, changing the composition of the workforce and more closely managing them against a limited set of objectives. Doing this often requires upfront investments in systems. It also typically necessitates difficult restructuring processes (which can add costs in the short term) and significant culture change. This can lead to lower costs in the long term, but it is less clear whether it necessarily leads to expanded revenue. Another risk of this option is the reimposition of some form of student number controls in England and Wales, effectively limiting universities' capacities so that they have no choice but to operate within the constraints of the box. In his 2024 report on student demand for higher education, HEPI's President, Bahram Bekhradnia, called for the imposition of a mechanism to control student numbers in view of the pending demographic dip in 18-year-olds post-2035 in order to prevent some institutions from over-recruiting.³⁴ Yet in England, this goes

against the spirit of student choice enshrined in the Higher Education and Research Act (2017) – the legislative framework under which higher education institutions now operate. Moreover, lessons from other parts of the UK where some form of student number controls are still in place show they can limit efforts to widen access and make it particularly difficult for universities to offer places in Clearing – an important process for recruiting students from disadvantaged backgrounds, who are more risk-averse and take longer to consider their options.³⁵ Recruitment limits tied to poor student outcomes (through the Office for Students's B3 condition) could, however, be the first step for providers in England toward forcibly operating under controlled conditions, should they neglect quality standards while manoeuvring.

iv. Punch air holes in the box

Another option is to try to create some fresh air through seeking out additional resources. This could be done through entrepreneurial effort on the part of universities where they explore new income streams, ranging from contract research to educational enterprise, or even hosting conferences and events which help to support their core activities. This could also be encouraged through policy interventions which could help to support additional income streams. For instance, if promoted effectively, the LLE could in theory enable universities to access a new population of adult learners – something which will become even more important as the UK's young population declines in the next decade and the need for re-skilling and upskilling intensifies in line with rapid technological change and advancements in artificial intelligence (AI) and automation. Indeed, growth in demand for lifelong learning has become a lifeline for many universities of late with the expansion of executive education and Continuing Professional Development (CPD) offerings. Similarly, the UK Labour Government's various 'missions' could provide opportunities for universities to contribute to wider societal goals through their core activities like research and teaching and earn additional income in return. While creating extra revenue can be attractive and seem exciting, there is nevertheless a danger that it often requires significant effort and additional infrastructure, itself entailing extra cost, and it may not have high payoffs. Also, the internal competencies to handle new ventures are often not in place and will require time and effort to assimilate.

v. Create new boxes

A further option might be to accept that there are too many entities sitting within the UK higher education box, they are all trying to do the same thing, and this is leading to wasteful replication in activity. For instance, does the UK really need over 100 institutions doing research? Do we need dozens of universities across the country teaching the same subjects? To stop unnecessary duplication, it may be possible to create a series of different boxes, which different kinds of universities operate within. Each would have different constraints and opportunities, which are more precisely designed around their own missions. For instance, one set of institutions might live in a 'research intensive' box and have priority access to Research Council funding at full economic cost and more lenient visa conditions for international students. Another set might live in a 'teaching intensive' box and have policies which are mainly focused on training domestic students and providing lifelong learning opportunities for particular localities, aligned with local skills needs. A third group might then live in a 'practice intensive' box and focus their activities on applied research and technically oriented education. Introducing these different types of boxes might help to partition resources more effectively and clarify missions – but it would inevitably come at the cost of further entrenching status hierarchies between institutions.

vi. Get out of the box

The final option for universities and higher education institutions is to begin to think and act outside of their boxes altogether. Doing this can be difficult for large and highly institutionalised organisations, which are staffed by professionals who can often be very resistant to change. However, there are some typical ways in which universities can try to operate outside the boxes given to them. These include expanding into other countries with different regulatory regimes via various transnational education (TNE) arrangements, starting spin-off entities which are not as encumbered by university regulations or totally reimagining their operations from the ground up (for instance, through online-only offers). Doing this can seem attractive, but often universities will find that some of these imaginative moves only end up being hemmed in by similar constraints.

3. The process of unboxing higher education

Almost all the options to respond to being ‘boxed in’ involve a degree of significant change. They also seem difficult – particularly for a sector that has had an extended period of growth. Most leaders in the sector are used to managing growing pains. They have less experience of consolidation, restructuring or even contraction. The challenges that universities face are, however, far from unique. Many other industries have been through painful moments of significant disruption which have required substantial strategic renewal. Examples include: the retail sector, which has had to respond to the rise of e-commerce; the music industry, which has accommodated the advent of online streaming services; and the automotive industry, which is adjusting to regulatory pressure on shifting to electric vehicle production. In the public sector, schools have adjusted to the rise of the academy model, hospitals are adjusting to new models of community healthcare delivery and policing has adjusted to new threats like cybercrime.

One overarching observation is the importance of innovation in securing meaningful strategic transformation. Professor Charles Baden-Fuller has studied how organisations in a range of mature sectors have rejuvenated in response to big threats.³⁶ He has found that focusing only on controlling costs and pushing efficiency can prove fatal in the medium term. Well-run organisations need a consistent focus on efficiencies but innovation is necessary for a transformation. Baden-Fuller shows successful innovations emerge from those who are closer to the coalface, such as delivery or business units. Innovations often come cross-disciplinary teams. There is unlikely to be one magic-bullet innovation – rather transformation happens through a series of innovations, which are discovered through local experimentation. Over time, these innovations are brought together into a new business model to drive the organisation into the future.

Driving this process of change can seem daunting. Researchers following these processes of strategic renewal in other sectors have noticed that there are typical patterns of how successful renewal processes are undertaken, and how unsuccessful renewal processes occur.³⁷ Successful strategic renewal processes typically follow through the three Rs of realignment, reorientation and recovery:

i. Realignment

Organisations that engage in successful strategic renewal start by revisiting expectations of stakeholders. This needs to happen at the board level, where the governors of an organisation are willing to question and realign their own expectations about the purpose and focus of an organisation, as well as who controls an organisation and how it is controlled. If this does not happen, then any subsequent transformation effect can fail.³⁸ Senior management also need to recognise collectively when an organisation has a problem. They must move beyond simply the problems to show a willingness to do something about them. Developing this understanding of the problems and being willing to act can sometimes be achieved by an existing management and governance team. In higher education settings, this means the senior leadership team together with the board of governors. But there are cases where changes in one or both teams are needed before there can be any understanding and willingness to act. It is also important that any management team does not just develop their understanding of the problem and willingness to act among themselves in a cloistered environment. Instead, they should get important external and internal stakeholders to share their broad recognition of the problem and also show some willingness to support action. For universities, this means engaging academic board or Senate, as well as professional services directorates. When it comes to large-scale changes in a higher education setting, it is unlikely that a university's leadership will be able to get everyone on the same page, particularly given traditional university governance structures that are built for consensus not speed, an overcautious attitude to risk and decentralised control.³⁹ However, it is crucial to get enough of the key players within the institution to broadly see the need for change and be willing to act. Often this means focusing not just on the supporters of change but also winning over those who are on the fence. Often leaders who are driving change either focus too much on the detractors (who will likely never be convinced) and not enough on the fence-sitters (with the potential to be converted and support the proposed change project).

ii. Reorientation

Once there is a realignment of expectations among key stakeholders and leaders have built a coalition of people within an institution who understand the need for change and are willing to act, it is vital to move

into taking action as rapidly as possible. One set of actions that need to be taken are typically strategic in nature. These focus on changing the overall shape of the organisation and what it is seeking to achieve. To do this, an organisation can seek out new markets, but it can also withdraw from markets. It can think about adding new resources, but also removing resources it no longer needs. It can also potentially reposition (or at least clarify the position of) the organisation in a market by determining who it should serve and how. This may involve retrenching from some existing activities. Alongside these strategic actions, organisations need to undertake financial actions. These typically include restructuring any debt to make it less costly and, possibly, to allow some degree of resilience. In addition, the organisation needs to recognise that any potential capital expenditure needs revision and, in some cases, even reduction. For universities, this may involve hitting pause on longer-term campus expansion or refurbishment plans likely outlined in previous strategy documents. Typically, in moments of strategic renewal, organisations need to become highly focused on their capital expenditure. In higher education settings, this heightens the role of audit and finance and development committees, or equivalents, in university governance structures and puts a renewed focus on risk. Finally, organisations undergoing periods of strategic renewal need to focus closely and carefully on improving their liquidity position. This means ensuring they have enough cash in the bank to see them through what could turn out to be a difficult time. On top of these strategic and financial changes, organisations in moments of strategic renewal need to seek out efficiencies by making ongoing operational changes. This entails looking for opportunities for process improvement, cost savings and asset retrenchment. However, doing all these things at once can be difficult.

iii. Recovery

Once organisations have taken action, they need to focus on building a new future for themselves. After changing expectations and then cutting back on unnecessary costs and activities which are either not profitable or in direct service of the institution's mission, organisations should seek out growth opportunities which will help to build a compelling future. Typically, organisations run into two problems while doing this. First, becoming trapped by the 'addition bias' that they built up during good times. This is

when organisations assume the way to solve a problem is to simply add things, while often thoughtful subtractions are what are needed. The second trap is almost the opposite – when organisations become too focused on cutting costs and fail to move onto building beachheads for future growth. This can leave organisations in a downwards spiral of cost-cutting as opposed to planning for new opportunities. To avoid these two traps of over-addition or over-subtraction, organisations should focus on a third approach – that is recombination. This entails recombining existing assets and know-how to create new activities. Often this happens through knitting together localised innovations, which have proved to be successful, into new business models. These can then be replicated across the wider organisation. For instance, engineering firms like Rolls-Royce were able to bring together a series of localised innovations into a new business model, which saw them move from selling aircraft engines as a product towards marketing them as a service that they provide to airlines.

Some of the outcomes that help to embed a turnaround in an organisation might include an upwards recovery, where an organisation is able to grow into new markets. Another potential positive outcome is a 'premium M&A', where an organisation is acquired on favourable terms by another player in the market. If the change process has not gone as hoped, however, there may be more moderate outcomes whereby an organisation simply moves forward and lives to fight another day – or it may engage in an M&A on less favourable terms or enter into another round of restructuring and reorganisation. Finally, if the turnaround process fails, there is every likelihood the organisation could simply fail. It may stumble onwards like a zombie or be acquired by another organisation as a 'distressed asset' that needs to be fundamentally changed. Ideally, organisations embarking on change would like to achieve a successful turnaround but no matter how well-executed any turnaround strategy may be, this is never a foregone conclusion. Many turnaround processes do not work out because of what is happening in the wider sector or industry. It is therefore vital for institutional leaders to be honest about the success of any turnaround process in the current 'boxed-in' climate and to look at their options after a turnaround has been attempted. Lessons from other sectors show there can be a tendency for organisations to enter into multiple waves of turnarounds, which may end up burning resource and goodwill rather than making things better. What is required instead, then, is focused and

determined action that is given time to work, but also a willingness to be honest about the successes, or failures, that have been achieved and what the most productive next steps might be.

Conclusion and recommendations

Unboxing UK higher education will require bold and uncomfortable decisions – both from universities and the governments and administrations that oversee them. University leadership and governance teams must be willing to confront hard truths, act decisively and learn from the disruption and experiences in other sectors. But they also need space to breathe, experiment and recover. It is therefore time for a new era of purposeful partnership – one that balances accountability with ambition, and realism with renewal.

The 'HE box' is real but it is not inevitable. With vision, courage and policy innovation, the sector can move not just to survive, but to thrive, and reinstate its place as a driver of growth and opportunity right across the country. To move forward, universities and higher education institutions must undergo deliberate and strategic renewal. Yet, they cannot – and should not – do this alone. They need the support and direction of their boards to drive this transformation. In addition, policymakers need to develop a new compact between government and higher education.

The following recommendations for institutional leaders, university boards of governors and government policymakers provide a basis for positive action to help UK universities break free from the box they have been put in.

University leaders

i. Build collective understanding of strategic challenges

University leaders need to ensure key stakeholders clearly understand the strategic challenges which their institution faces and the difficult trade-offs which these entail. These stakeholders can be internal to the institution (from students to staff), but also external (comprising banks, employers, local authorities and the communities around them). Creating a shared understanding of the problem is a necessary first step before anyone is willing to begin considering what the potential solutions might be.

ii. Develop a coalition for action

Before undertaking any process of change, university leaders need to build a coalition of people who will help them make this change. This coalition

cannot just be the senior leadership team. It must reach into each part of the institution. It is likely to include people in formal leadership positions as well as informal leaders across the university community. Building relationships and trust within the coalition is vital before this coalition can start to implement any changes.

iii. Embrace reductive innovation

One way to start a transformation process is by removing and stopping outdated processes and activities. Often large organisations involve cumbersome and sludgy processes which have built up over time. Some of these can be simply stopped. If it is necessary to stop entire activities, the decision about what to stop can be guided by simply asking whether an activity is core to the mission of the institution or if it generates margin. If it does neither, then an institution might consider stopping it.

iv. Take multilayered action

Strategic transformation programmes typically require taking action on strategic, operational and financial issues simultaneously. Strategic action requires looking at the whole portfolio of activity and considering which activities are core and need to be kept and bolstered, which activities are necessary enablers and which activities are not central and might be closed or reduced. Operational action requires looking for greater efficiencies and potential cost reductions. Financial action typically entails reducing unnecessary spending and conserving financial resources. A mix of all three is key.

v. Search for longer term innovations, not just short-term efficiencies

Often organisations facing largescale strategic threats focus too much on cost savings and entirely ignore innovation. If an organisation wants to build a long-term future, it needs to experiment with new ways of doing things and seek new markets. It also needs to recognise that some of these experiments will not work and will need to be stopped, while other experiments will work and will need to be scaled up.

vi. Take robust action

During periods of uncertainty, organisations are often best advised to take robust action. This entails activities which give room for transformation

and flexibility if necessary. For instance, investment in new estates during periods of significant change probably should offer flexible use so the new asset can be used in multiple ways if needs rapidly change.

vii. Learn lessons

Often when change projects come to an end, there is little or no willingness – or time – to reflect on and capture lessons learned. It is, however, important to recognise what went right and what went wrong and what you would do differently next time. This should help to improve the capacity for the next change initiative.

University governors

i. Determine clarity of mission

It is important that board members recognise that different universities serve different missions. Having a clearly defined and well-understood mission is vital for governors. This mission will provide a clear reference point which can be used when making difficult transformation decisions. It also gives a sense of why these decisions are being made.

ii. Realign expectations

During moments of transformation, governors need to be willing to revisit, and potentially realign, their expectations about fundamental issues, such as the control of the organisation as well as how it is configured. In some cases, this might mean being willing to explore alternative forms of control through M&As, as well as strategic partnerships and group structures. A lack of willingness to recognise these fundamental shifts in control can lead to problems during attempts to make changes.

iii. Seek out skills in transformation

University boards need a wide variety of skills. It is vital they include at least some people with the knowledge of the core activities of a university (such as research and teaching), but also those with skills in finance, law, policy and the local operating context. When going into a transformational process, it is also vital that they include people who have experience in transformation. These people can help to identify and plan for the traps which can come with transformation processes.

iv. Gather a diversity of views

Any group which develops too much of a shared worldview is likely to overlook potential problems or challenges. For this reason, it is important that university boards represent a diversity of perspectives and experiences. This diversity – if it is well managed – can help lead to higher quality oversight and governance.

v. Determine risk appetite

University boards need to be clear about what their level of risk appetite is on various areas. This can give the executive a sense of where they can take risks, to what extent, and where being risk-averse is advisable.

vi. Understand the underlying activities

During largescale transformation processes, boards can often lose sight of pressing ‘on the ground’ challenges. It is vital these challenges are at least acknowledged, registered and to some extent tracked. While these challenges often cannot be entirely ameliorated, they should at least be understood. It is also important that these challenges are counterbalanced with an awareness of some of the ‘on the ground’ achievements that happen during a change process. Awareness of these small wins can help people realise they are making progress in otherwise challenging circumstances.

vii. Consider alternative models

During periods of transformation, boards need to be willing to consider alternative governance models. This might include strategic partnerships, M&As or even new types of ownership structures. In a previous wave of university reform, we saw experiments with private sector ownership structures (such as private equity backed start-ups or more corporate structures). In the current wave of university transformation, we are seeing the rise of new public or collective ownership structures being discussed for universities. These include multi-university trusts and co-operative structures. It is important during moments of profound sector transformation that university boards keep an open mind about what alternatives there may be to current structures.

i. Enable flexible and mission-oriented regulation

Given the rich diversity of the UK's higher education sector, it is high time the government replace 'one-size-fits-all' regulatory frameworks with differentiated models that recognise the varied and venerable missions of institutions – whether research-intensive, teaching-focused or civic and community-oriented. Such a tailored approach to regulation would reduce unnecessary administrative burden, particularly for smaller providers and free up capacity across the sector for mission-aligned innovation and delivery.

ii. Incentivise strategic consolidation and collaboration

Although care must be taken by university leadership teams to ensure that M&As, shared services and consortia approaches to delivery are an appropriate course of action, they would be much more appealing options for action if they were supported by policy frameworks and funding incentives from the UK Government or devolved administrations. With such measures in place, universities and their governance teams are more likely to be guided by strategic intent, rather than worry and desperation.

iii. Stabilise and rebalance core funding

Wherever they are in the UK, universities and higher education institutions cannot plan for the long-term when their real-terms funding arrangements keep being eroded by inflation and increasing cost pressures – and student maintenance is insufficient to meet living costs. A mechanism is urgently needed to provide regular uplifts to domestic student fee levels (and associated loan and maintenance levels) in line with actual inflation, while also exploring demand-led models for adult education and lifelong learning, including on a place-based and skills-needs basis. Ensuring the financial stability of higher education institutions is foundational to their broader innovation and sustainability.

iv. Support diversification of income streams with strategic investment

While increasingly important for UK universities, new revenue streams take time to mature and carry risk. A more supportive policy environment could however make the difference between success and stagnation.

Governments should therefore back universities' efforts to diversify income – be it through lifelong learning, transnational education or commercial ventures – with seed funding, light-touch regulation and strategic public-private partnerships.

v. Unlock talent, capacity and resource through skilled immigration reform

International students and researchers are not just a major source of income for UK universities; they are integral to the vitality, global relevance and continued 'soft power' of the UK's higher education sector. With the global situation continually in flux, the UK Government should revisit both student and Global Talent visa policies and develop a more competitive offer than those of other major knowledge economies. It should also take the opportunity to align them with the UK's research and skills needs, as well as help institutions enter future high-growth markets to guarantee future resilience.

vi. Reunite research and higher education under a single ministerial portfolio in a business-focussed department

Despite cross-subsidies between teaching, research and international education becoming an openly acknowledged pillar of university funding, the current disjuncture in Whitehall means contradictory policies are an all-too-frequent occurrence.⁴⁰ The current focus on skills and tertiary education also risks undermining the nation's R&D ambitions by overlooking the higher-level skills needed to bolster the future talent pipeline. Reuniting the education and research briefs under one minister in one business-focussed department would reduce the risk of disjointed policymaking and help to cement the sector where it belongs – as a major driver of growth and exports.

UK universities are at a critical inflection point. Boxed in on all sides – by regulation, costs, diminishing funding, volatile international demand, rising alternatives and shifting demographics. The sector is being squeezed harder than ever before. Strategic freedom, once abundant, is now a luxury, and survival increasingly hinges on adaptability, innovation and realism from governments, institutions and leaders.

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