



The missing link: Higher education funding and quality

Introduction

The UK higher education sector helps drive economic growth, deliver a skilled workforce and contributes to the cultural richness of the country. It is internationally recognised as world-leading and is an important national asset. But, as with anything, good quality costs money.

It is increasingly apparent that the current funding arrangements in England are unsustainable in the long term. Discussions about sector funding will continue to intensify as the upcoming Westminster election approaches. The same is true of the UK's devolved nations, where government funding availability in real terms is also declining. While the focus of this paper is on the English higher education sector, many points in this paper will also apply across the UK.

Providers in England - and across the UK - remain committed to delivering high-quality learning experiences and are generally considered to deliver remarkably effectively given the financial and regulatory pressures. But, like any public service, if funding continues to decline in real terms, risks to the quality of provision increase. The combination of rapid rises in inflation and home undergraduate fees frozen at £9,250 means that, in reality, these fees now equate to only £6,585 in 2012 terms. This means providers are now expected to deliver the same quality of provision with a declining unit of resource. In 2022-23, English universities supplemented the cost of educating each UK undergraduate student by an average of £2,500 per year.¹

In many providers, international student fee income has been used to offset the shortfall across teaching and research - a fact that has been met with apprehension among some stakeholders at home and overseas. International students bring significant educational, social and cultural benefits to the UK, but providers' reliance on international income streams has recently been highlighted as a key risk to the sector,² not least because it makes the sector particularly vulnerable to geopolitical instability and the impact of domestic policy choices on immigration.³ Providers who do not have high levels of international income find it even harder to plug the gap.

Despite clear signals from ministers that improving higher education quality is a political priority, and Office for National Statistics research suggesting that future UK economic growth links to

¹ <https://russellgroup.ac.uk/media/6145/university-business-model-explainer.pdf>

² <https://committees.parliament.uk/publications/41379/documents/203593/default/>

³ www.pwc.co.uk/government-public-sector/education/documents/higher-education-financial-sustainability-report.pdf

the number of graduates entering the workforce and the quality of their education,⁴ the Government has not yet heeded the sector's call for an increase in funding. Without guarantees of a sustainable funding model in the long term, providers will find it increasingly difficult to maintain the same high quality of provision as costs increase.

Decreases in real-terms funding, combined with nearly a decade of relative instability - politically and economically - has left providers in a 'firefighting' dynamic that risks prioritising short-term solutions over long-term thinking. But with ongoing inflation and the funding freeze, achieving further such efficiencies has become increasingly difficult. This firefighting dynamic, and financial status quo, also limits providers' bandwidth to invest in and enhance the quality of the student experience, their ability to consider and plan for future developments like artificial intelligence and the Lifelong Learning Entitlement, and their capacity to deliver on national ambitions for research, skills and growth.

A long-term, sustainable funding model would provide the predictability and capacity necessary for providers to deliver on domestic expectations and retain the UK's global competitiveness. As the UK's independent, expert quality body in higher education, QAA has a responsibility to outline the impact that a failure to secure sustainable funding might have on the quality of higher education provision in England. Sector representative bodies and mission groups are best placed to offer specific solutions to the funding model.

How do real-terms funding cuts have an impact on higher education quality?

Reduced ability to deliver high-quality provision

Expecting providers to do more when they have less to spend per student reduces their ability to deliver on academic support, purpose-built resources, embedding student engagement and engaging with external expertise (all examples of the indicators of high-quality included in QAA's [Definition of Quality](#)). Both investment and maintenance of existing provision are much harder to implement well when funding and other resources are scarce.

This has consequences for teaching delivery. As the unit of resource declines, providers will see an impact on their ability to attract, support and resource teaching staff, with consequences for student-to-staff ratios and the additional pressure this places on both staff and the student experience. As the working environment for staff worsens, their ability to deliver high-quality teaching is likely to reduce over time. Recent research⁵ suggests that 90% of jobs by 2035 will need higher level skills. If providers are unable to deliver high-quality teaching, their ability to prepare graduates sufficiently for the skills they need in the labour market also decreases.

Membership of sector-wide bodies like QAA, that save providers time and money by supporting and training staff to deliver high-quality provision with limited resource, will likely become more important as these challenges grow. Instead of each provider tackling these challenges individually, collaborative efforts to uphold educational quality become increasingly vital as the pressures on resources increase. For example, QAA supports the sector in evolving quality assurance practices to become lean, responsive and innovative to meet the needs of the current operating environment.⁶

⁴ Referenced by James Purnell, Vice-Chancellor at University of the Arts London: <https://open.spotify.com/episode/3claFh9C0nGOvdTm5BJ2Ku>

⁵ www.nfer.ac.uk/publications/the-skills-imperative-2035-an-analysis-of-the-demand-for-skills-in-the-labour-market-in-2035

⁶ www.qaa.ac.uk/en/membership/collaborative-enhancement-projects/innovative-and-evolving-quality-processes

The funding for research is in a similarly precarious position, exacerbating wider funding constraints. Financial contributions are embedded in the costing of public sector research, with universities expected to fund 20% of the total cost of a given project. But declining funding means that in 2021-22, providers could only recover 69% of the full economic cost of research, leaving 31% which must be covered by other income.⁷ This could have an impact on the student experience, particularly for those studying at research-intensive providers whose experience is centred around learning from those at the forefront of cutting-edge research. Not only could this mean the volume or intensity of research may diminish, but it means providers have less funding to invest into other areas of provision.

Opportunities to embrace developments are missed

As policymakers look to the higher education sector to deliver on closing skills gaps and supporting economic growth, providers must have the capacity to innovate and deliver on these priorities to ensure provision is relevant to students and the skills they will need in the labour market. Enhancement of teaching quality - the act of both continuous and step change improvements in the sector above the baseline - aims to ensure providers are able to meet the new challenges and opportunities presented by the wider landscape. But in order to innovate, providers need space to manoeuvre that can only be provided by long-term financial security.

In a 'firefighting' dynamic, providers are increasingly stretched in delivering their existing provision. Investment and forward-thinking requires staff time and funding in order to create and deliver. This becomes more difficult when providers are uncertain about whether their future funding will cover basic costs.

The emergence of artificial intelligence (AI) is a demonstrative example. To make the most of AI's ability to streamline administrative burdens, and to integrate it effectively into learning and teaching, providers will need to invest significant time and resource in developing and implementing tailored AI strategies. Given the pace of change, and future developments, a failure to adapt effectively could make the learning experience outdated, leaving students without the skills they need in the modern world - undermining economic growth.

Cost-saving changes are made to the learning experience

PwC's recent report on the financial sustainability of the higher education sector, highlights the difficulties in providers implementing significant cost-saving measures without having an impact on the quality of the learning experience.⁸ This makes it increasingly challenging to decide which cost-saving measures to implement. Some actions, such as retaining outdated equipment or materials rather than investing in new developments or increasing lecture sizes and the student/staff ratio, might save costs in the short-term but could directly undermine the quality of the learning experience long-term.

Other innovations, such as increased use of hybrid and digital delivery, pose significant opportunities to enhance the learning experience while using resource in a more efficient and flexible way. Despite the opportunities it offers providers to improve the experience of students (who themselves are struggling with a rising cost of living and the declining real-terms value of maintenance loans), high-quality digital delivery often requires significant upfront and ongoing investment, and digital delivery is sometimes discouraged within broader policy debates.

⁷ www.ukri.org/wp-content/uploads/2023/11/UKRI-201123-ResearchFinancialSustainabilityDataPack.pdf

⁸ www.pwc.co.uk/government-public-sector/education/documents/higher-education-financial-sustainability-report.pdf

The Russell Group's [paper on the business models of providers](#) provides a helpful analysis of the feasibility of different cost-saving measures, and their impact on learners. Without long-term guarantees around funding, providers are only able to plan for the short-term. Over time, it could emphasise actions that prevent quality from slipping below the baseline, rather than actions that focus on enhancing quality above the baseline which help retain the world-leading reputation of UK higher education and prepare students for an ever-changing labour market.

The status quo risks creating perverse incentives

Providers are making every effort to continue delivering high-quality provision and engage in ongoing enhancement of quality. But the current funding landscape could risk creating perverse incentives for providers.

The presence of a more interventionist regulatory approach in England means the stakes are much higher for providers to avoid regulatory fines. Trust between providers and the regulator is vital to achieve the transparency required to support providers with any regulatory challenges they face. As financial challenges increase, providers must be able to engage transparently with the regulatory system, fostering a 'support to improve' approach without fear of costly punitive measures.

Increasingly, providers are turning to partnership arrangements to support their financial stability. Partnership provision can be a way to widen access, diversify provision and support growth. It is essential that providers are supported to deliver strategically beneficial, equitable partnerships that prioritise a high-quality learning experience for students at partner providers.⁹ The recently announced regulatory focus on franchise partnerships in England is welcome, but it is also important to acknowledge the financial incentives partnerships offer and the broader context which could lead to some providers engaging in partnership provision for financial rather than more strategic reasons.

What are the consequences of a future decline in quality?

Expectations are not met

A key component of QAA's [Definition of Quality](#) is to '[meet] the reasonable expectations of...students, employers, government and society in general.' But the *reasonability* of those expectations is predicated on providers having the resources to deliver them. Limited financial resources impact providers' ability to deliver on these expectations and give students the high-quality learning experience they need to contribute positively to society upon graduation. This has implications for broader expectations around innovation, meeting developing skills needs and delivering on the policy priorities of future governments.

Student outcomes are put at risk

With stretched resources and limited funding, providers are likely to find it harder to respond to keep their provision relevant. Providers continue to deliver significant amounts of work under increasingly difficult conditions, but this is not sustainable. Over time, financial constraints are likely to limit agility and responsiveness to policy developments, such as modular delivery, through the Lifelong Learning Entitlement. Providers want to be able to innovate and respond to these changes but need to be resourced to do so effectively.

⁹ www.qaa.ac.uk/docs/qaa/quality-code/advice-and-guidance-partnerships.pdf

The UK's international reputation is undermined

The declining unit of resource and subsequent potential impacts on quality, risk undermining the UK higher education sector as a national, cultural, social and economic asset on the world stage at a time when international competition has never been tougher. Coupled with the lack of transparent, up-to-date information about English higher education providers in the current system, international concerns about the quality of the English - and, by proxy, the UK - higher education sector are potentially exacerbated.

Recommendations

Below are some high-level principles for policymakers that should frame any discussions and policy development about higher education, funding and quality:

- **The delivery of high-quality education requires a long-term sustainable funding model:** Policymakers should work with mission groups, sector representative bodies and others to develop a stable and sustainable funding environment that enables long-term planning for providers. This stability is crucial for maintaining quality as it allows for the sustained investment in staff, facilities and research that are necessary for high-quality education. Policymakers should work with the sector to develop a costed higher education strategy which addresses the long-term ambitions for the sector, how the sector can contribute to economic growth, and how this could be funded.
- **New initiatives and government priorities need to be fully funded:** Government policy developments or priorities, such as artificial intelligence in education or the Lifelong Learning Entitlement, should be accompanied by ring-fenced, sustainably funded support for teaching quality enhancement so that providers can adapt and enhance their provision to embrace changes and support the right graduate skills. This could be delivered through an independent, expert quality body such as QAA.
- **Diversification of income streams should be supported by the policy environment:** Policymakers should create a policy environment that supports alternative income streams, such as international student recruitment and international partnerships, while maintaining a focus on the quality of provision. This might include:
 - adopting a positive, collaborative global outlook to maintain the UK higher education sector's international reputation overseas
 - aligning the English quality system with internationally recognised and agreed good practice to increase transparency into the quality of provision; a system with risk-based, periodic touch points would allow a better understanding of how the financial environment correlates with the quality of provision over time
 - avoiding decisions during the graduate route review which would further harm the UK's ability to recruit international students.

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