

Removal of student number controls:

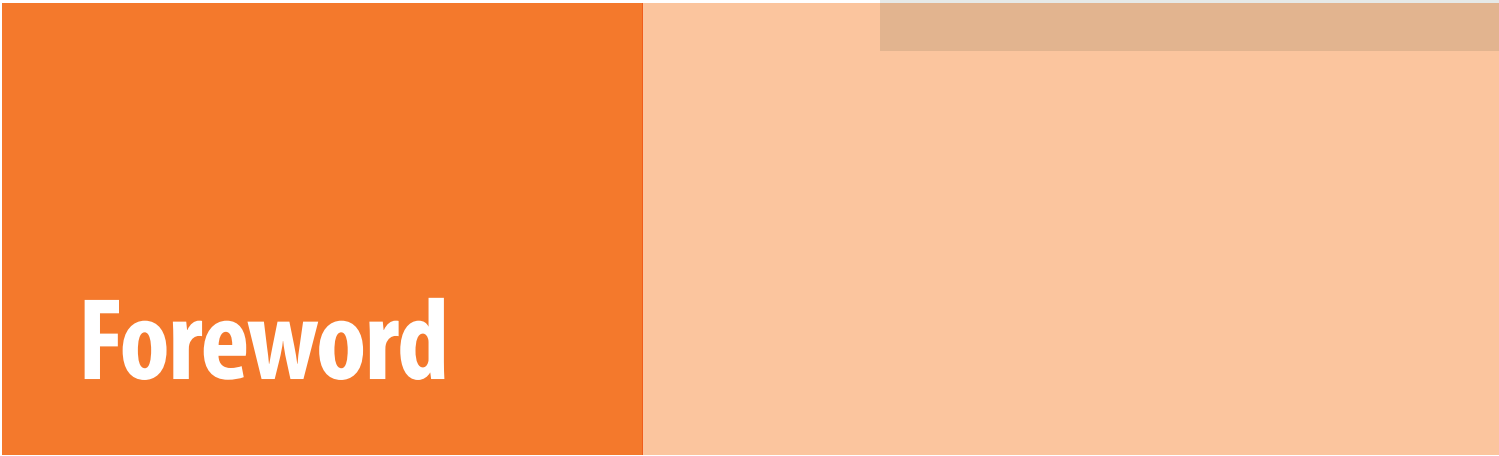
Are we ready?

**Helen Baird, HE Consultant,
Capita Transformation**

July 2015



	Foreword	01
1	Introduction	02
2	Background and context	02-03
	2.1 Policy context	
	2.2 Parallels with the Australian system	
	2.3 Patterns of demand since 2012	
3	Perceptions of student numbers policy	03-04
	3.1 Positive perceptions	
	3.2 Key issues and concerns	
4	Effects of liberalisation since 2012/13	04-07
	4.1 Overview	
	4.2 Increased competition among pre-1992 institutions	
	4.3 Changes in recruitment strategies and practices	
	4.4 Enhanced marketing and communications	
	4.5 Innovative approaches	
	4.6 Benefits and challenges	
5	Abolition Of Student Number Controls	08
	5.1 Preparations For 2015/16	
	5.2 Capacity and capability for change	
6	Conclusion - potential consequences for institutions	09-10
	6.1 Sustainability of current policy	
	6.2 Consequences for institutions and Further Discussion Points	
7	Wonkhe & capita roundtable discussion	10



The higher education sector (HE) is preparing to take up a big challenge as student number controls (SNCs) are removed from September this year. The policy took the sector by surprise when announced by the Chancellor of the Exchequer in his 2013 Autumn Statement, and higher education institutions (HEIs) have been working ever since to prepare for an un-capped market.

We undertook this study to test the preparations that the sector was taking, and so we spoke to experts inside universities and across policymaking about their informed predictions for what it all might mean and how it might change the landscape.

Opinions differ on the finer points, but on one thing absolutely everyone agrees: this is a huge change that will have wide and deep consequences for everyone in the sector. The shape of the market will change as recruitment practices are altered to meet the new reality – league tables could see their biggest changes in years and governing bodies will be placed in an increasingly important position.

For institutions that want to expand, the prizes are clear – boosting their student intake will help them in lots of different ways – some financial and some positional. But the game is also about to get riskier – as recruitment practices sharpen up, the fight for student numbers will intensify.

Preparing for a lift of the SNC cap, the decisions that executive teams and governing bodies are taking right now have consequences that are increasingly difficult to predict. Planners and policy wonks have never been more important, as it is they who will provide the evidence for these decisions and will share in the responsibility for the critical task of preparing their institutions to respond to a more dynamic landscape.

We sincerely hope this study will prove useful for decision-making, and for those that work in policy and want to understand the consequences of removing student number controls – one of the biggest and most high-profile changes in higher education policy for many years.

We look forward to expanding further on this work in collaboration with the sector – and of course will be watching closely to see how the landscape changes without number controls.

Mark Leach Director, Wonkhe
Andy Shenstone, Education Market Director, Capita

Introduction

A Capita and Wonkhe joint research study conducted between February and May 2015 investigated the ways in which the liberalisation of student number controls (SNCs) since 2012/13 have affected higher education institutions (HEIs) to date. The study also focussed on institutions' preparedness for and perceptions about the consequences of the removal of the cap from 2015/16.

This study involved a review of publicly available documentary sources and qualitative research, via in-depth interviews and an online survey, with a small sample of strategic planners from higher education institutions (HEIs) and of policymakers and opinion-formers from the higher education (HE) sector.

Results of the study presented in this report provide insights into how strategic planners and others in the HE sector perceive the changes to SNCs, what institutions have already done or are doing currently to prepare for their removal, and their expectations of the potential consequences for the sector. This report should be of interest to policymakers and institutional leaders and planners as they work to implement this policy.

The remainder of this report is structured as follows:

- Section 2 outlines the background and policy context to student numbers controls in England, briefly compares this with the Australian experience and considers changes in the pattern of demand for English HE since 2012.
- Section 3 discusses the perceptions of study participants about student numbers policy generally, including their positive views on it, as well as issues and challenges as they see them.
- Section 4 presents participants' observations on the effects of liberalisation of SNCs since 2012/13, including the benefits and challenges this had brought for their own institution or more generally in the sector from their experience to date.
- Section 5 considers what preparations institutions are making for the abolition of student number controls from 2015/16, and views on the capacity and capability of the sector to absorb any extra numbers from this year onwards.
- Section 6 covers the study participants' views about the sustainability of the current policy and the consequences which they foresee for institutions.

2 Background and context

2.1 Policy context

In December 2013 the Chancellor surprised the HE sector when he announced plans to relax the cap on student number controls for UK and EU domiciled undergraduates at English HEIs from 2014/15, and to abolish it completely from 2015/16. This represented a significant change in policy direction as numbers have previously been controlled and allocated by HEFCE and institutions have been penalised for over-recruitment since 2009. It was also a departure from the Coalition Government's focus and rhetoric on controlling public expenditure, and seemed contrary to other policies. The decision was considered to have been taken rapidly and the impact it will have remains unknown.

The intention behind the removal of the cap on places is to create more of a demand-led system in England. It is also to provide more opportunities for young people who may be unable to secure a place in HE, despite having the grades to do so. This is on the basis that the number of applicants exceeds the number of those who accept a place each year. Initially the Government suggested this could comprise up to 60,000 additional entrants each year, an increase of around 20 per cent in the number of UK/EU full-time undergraduates. Subsequently this estimate was revised downwards to 45,000 additional entrants each year.

Consequently, HEIs will be free from this coming academic year to recruit as many full-time undergraduate students as they can attract. Individual institutions are likely to be preparing in a variety of ways for the removal of the SNCs, and they will be affected differently depending on their demand and supply factors. A student numbers cap will remain in place for the majority of alternative providers of HE, apart from the seven with Degree Awarding Powers which will have more flexibility. Additionally, the performance of HE providers in this part of the sector will be more closely monitored.

This change in student numbers policy is part of the broader drive to create a more marketised HE sector in England, indicated by the 2011 White Paper Students at the Heart of the System and by the rise in the tuition fee cap to £9,000 from 2012. It also followed (and will end) the 'core and margin' policy and the removal from the numbers cap from 2012/13 of higher grade students with AAB grades or equivalent at A Level, and for those with ABB grades from the following year. This had introduced some competition in the allocation of student numbers between institutions able to recruit students with these grades from 2012.

2.2 Parallels with the Australian system

The removal of student number controls in England has parallels with developments in the Australian HE system. From 2012 the cap on student numbers was lifted for undergraduate students at public universities in Australia, along with higher targets being set for participation and access to HE. The Australian experience resulted in rapid and underestimated growth in student numbers, leading to a significant increase in government expenditure. Since much of the growth in student numbers came from lower qualified applicants this also led to a debate about standards in Australian HE.

HEPI's report on Australian student numbers policy, together with many contributors to this study, pointed out the similarities in the English policy direction towards a more demand driven system, but also a number of differences between the English and Australian contexts. A key difference being that the Australian intervention took place during a period when the number of school leavers was increasing. While in England the number of 18-20 year olds is set to decline until the early 2020s due to a falling birth rate around the turn of the century. Additionally there was a far higher participation rate in English HE to begin with than that in Australia.

2.3 Patterns of demand since 2012

Most of the contributors to this study questioned the extent of any latent demand for HE in the English population, particularly among young applicants due to the 'demographic dip' in the number of 18-20 year olds. This age group has been the focus of changes since 2012.

In England the number of applicants to HE fell in 2012, with accepted applicants down by 5.5% following the introduction of higher fees, before recovering in 2013 with an increase of 6.6% in accepted applications on the previous year, and rising again in 2014. There were well-documented variations in patterns in demand evident over the period, in terms of age of applicant and mode of study, notably a substantial reduction in the number of part-time entrants and of mature students.

The number of applicants by the UCAS mid-January deadline for 2015 entry to UK HE showed continued growth in comparison with the previous year, although this was smaller among English applicants than in previous years. The application rate for English 18-year olds rose by 0.6% in 2015 compared with the previous year, continuing an albeit small but upward trend.

Variations are also evident from the January data, which shows a decrease in applications among older age groups (though since some do apply later in the cycle so this could change to some extent). There are also differences across English regions and parliamentary constituencies and between men and women – the application rate of young women in England grew by five times the rate of young men.

Overall applications to English institutions rose in the 2015 January cycle by 2% on the previous year. This compared with 2% for the UK as a whole, 6% in Scotland, 3% in Northern Ireland and -1% in Wales. In addition, there has been a marked increase in the number of EU (excluding UK) applicants for 2015, which increased by 8% across all UK institutions and by 10% for English institutions alone.

3 Perceptions of student numbers policy

3.1 Positive perceptions

In response to the question 'What are your views on the policy to relax student number controls (SNCs) since 2012/13 and end them from 2015/16?' the majority of participants in this study expressed fairly broad but qualified support for the policy. Several contributors noted that the removal of the cap is simply a logical consequence of the wider changes to the funding system since 2012. They see it as part of the Government's aim of maximising competition in the sector with the intention (yet to be tested) of improving quality, while at the same time allowing any unmet demand for HE to be met.

A clear outcome to date of the relaxation of SNCs according to contributors is HE applicants 'trading up' to higher ranked institutions in the sector. There is consensus that this is likely to continue with the removal of the cap from this year. Many highly ranked institutions have either already expanded or are in the position and have the capacity to do so, thereby enabling the creation of more places. Relaxation and removal of SNCs therefore is considered to be a good thing in principle for students by giving them more choice.

Examples of comments made by participants who expressed support for the policy include:

"Removal of number controls is in principle a good thing – allowing everyone with the ability and desire to attend higher education to do so."

– Policy Specialist

"The relaxing of the policy is welcomed in the new context of a demographic decline and the shift to a quasi market as it allows greater responsiveness to student demand..."

– Strategic Planning Officer

However the outcome for institutions is considered to be more variable and highly dependent on their individual strategic direction and position in the market, and also how they have been or will be affected by various other environmental factors. These include particularly their capacity and potential for investing in infrastructure to support growth, and how well they did in the recent REF and the effect that this will have on their share of future research funding or their rising staff and pensions costs.

Positive responses point to benefits for institutions in giving them more autonomy and that the gradual approach to the removal of controls has helped ensure stability in the sector, for instance:

“SNCs meant universities were prisoners of their own histories, which is not good for them or students. Innovation and creative change is needed in universities to meet changing needs of society and caps were stifling of change since little or no headroom could be created.”

– HE Policy Specialist

“[Removal of number controls] requires careful planning and monitoring in practice - partly because... universities need to be kept stable and adequately-funded in order to keep contributing to the wider public good. Arguably the staged relaxation followed by complete removal of the SNC helps to manage that stability.”

– Senior Management Team Member

“In itself an appropriate action but it would be better if some planned process to enable the inevitable growth (access to capital for infrastructure; planning more than one year ahead; a sense of priority areas for growth and appropriate incentives) accompanied the removal of caps.”

– Strategic Planning Officer

Contributors to this study cited the differential impact of SNC policy on the HE sector. This was due to a lack of recognition of the diversity of the sector and of the pathways which students take into HE. The specific policy focus on young higher grade applicants has led to a re-focussing of growth in certain areas, specifically among the highest ranked institutions, which is the part of the sector to have been most affected by the policy change so far. Moreover, this policy was conceived in a time of high demand for HE, but has been implemented during a time of low demand, and it remains unclear to the majority of contributors where the projected additional student numbers will come from. Many question whether there is substantial latent demand for HE, particularly among young 18-20 year olds, given the 12% decline in this age group from between 2012 until the early 2020s.

As already noted there was a small increase of just 0.6% in demand among UK young people applying to English institutions for 2015, but a 10% increase in demand among EU students. This could be an indication of English institutions recruiting far more aggressively for EU applicants. Many contributors highlighted the consequent risk of this for escalating costs of HE, given the challenges in collecting loan repayments among EU students.

Likewise, should there prove to be additional unmet demand from UK applicants but from those with lower grades, which many contributors suggest may be the case, there is a risk that these students could be more likely to leave HE with lower outputs, resulting in lower paid jobs. Again this risks increasing the overall costs of HE due to a likely corresponding increase in the RAB (Resource Accounting and Budgeting) charge.

4 Effects of liberalisation since 2012/13

4.1 Overview

Participants in the study were asked what (if any) changes they have observed for their own institution or more broadly in the HE sector, following the liberalisation of SNCs since 2012/13. They were also asked about any benefits or challenges this had brought for their own institution or more generally from their experience to date.

4.2 Increased competition among pre-1992 institutions

A key change arising from the liberalisation of SNCs since 2012, and more generally from other funding reforms introduced at the same time, is the increasingly competitive and more volatile recruitment environment for institutions. Rather than just being a constraint on growth, the consequence of the student numbers cap had also been to protect institutions from competitors higher up the pecking order and prevent their market share being eroded.

Most contributors to this study pointed to the opening up of the market and changes in positioning among the highest ranked pre-1992 institutions as the main impact of the changes in SNCs so far. This has led to the changes in recruitment strategies and use of a range of tactics by institutions as they sought to optimise their position.

The result was that institutions which were able to grow increased their number of entrants from among the unregulated population. As one contributor summarised it:

“The SNC policy had two impacts: it was a brake on overall recruitment which limited investment in higher education to a set number of students ... and it changed recruitment practices to informally re-create the binary system by allowing greater flexibility at ‘elite’ institutions with the demand to expand recruitment at high tariff.”

– Strategic Planning Officer

Large highly ranked institutions have recruited strongly in support of their growth strategies over the past few years. They did this by capitalising on their strong brands and selecting competitively by taking students from mid-ranking pre-1992 institutions. Meanwhile others in this segment have struggled to recruit. This was particularly the case in 2012/13 because of the lower demand in the first year of higher fees, and the inability of these institutions to compensate by taking students with lower grades remaining within the cap. This latter group of institutions either had to move from a selecting to a recruiting model in an attempt to keep their market share and / or they have had to flex their entry requirements by reducing tariffs.

As contributors to the study describe:

“SNC forced us to market much more aggressively in order to keep our numbers up while staying within our SNC quotas. Overall, this has been positive, as we have increased our exposure, leading to increased market share and raised grade profile – we are now competing with providers at the top of the market, rather than in the middle as was previously the case.”

– Senior Management Team Member

“Growth in areas which previously had not experienced it (often a good opportunity but once people were alert to it); some reactive, rather than strategic, changes to published grades with unpredicted knock-on effects on numbers; a need to respond quickly to large increases in numbers in some areas.”

– Strategic Planner

“It is impossible to plan. The market is too volatile with each year changes to policy and the behaviour of our competitors making it impossible.”

– Senior Management Team Member

3.2 Key issues and concerns

Various issues and concerns about changes in student numbers policy were highlighted by participants in the study, chiefly that any expansion arising from the abolition of the cap from this year will need to be carefully monitored for any adverse effect on the quality and overall reputation of UK HE.

In addition, contributors perceive issues with how the policy was implemented from 2012, particularly the way that the controls were operated and changed in every year, affecting stability and inhibiting effective planning. One institutional contributor’s view:

Once the overall cap is removed from this year the changes are likely to start affecting other parts of the sector in similar ways. Pre-1992 institutions which had a higher proportion of students removed from controls earlier have simply had to face competitive pressures sooner. The suggestion among participants in this study is that the majority of post-1992 institutions have been far less affected to date, with the exception of those able to recruit students with ABB grades. Therefore there is likely to be a similar adaptation process for post-1992 institutions from this year, and it is unclear how well prepared they are for this.

In contrast, small and specialist institutions in the creative arts were able to opt out of the high grades policy on academic grounds, for instance if they recruited primarily on the basis of audition or portfolio. The trade-off from this was for the slightly larger institutions in this group as they were unable to grow as they might have done. Since specialist institutions will no longer have this constraint, in theory they could now begin to grow and also see competition intensify.

4.3 Changes in recruitment strategies and practices

Another difference observed following the liberalisation of SNCs since 2012/13 is that many institutions have reviewed and adapted their recruitment strategies, and are now adopting far more sophisticated and holistic approaches to recruitment and admissions. Institutions are increasingly focussed on their market position, are taking a much more sophisticated look at who their competitors and a scientific data driven approach. As some of the institutional contributors to the study indicated:

“Under the SNC, the wider institutional recruitment strategy sought to balance opportunities for growth at high tariff with maintaining a broad subject base. The policy required greater consideration of a holistic recruitment strategy and setting of clear principles and priorities for Confirmation, Adjustment and Clearing. This has set a foundation for a clearer recruitment strategy which we continue to develop and apply so the key policy change was the development of a more holistic and policy informed recruitment strategy which worked across the institution.”

– Senior Management Team Member

Additionally, there is now more senior level focus than in the past on student numbers within institutions. With a focus on market intelligence and management reporting systems becoming linked in real time to applications data, this is enhancing understanding at executive level and enabling more responsive decision making.

In particular, there are now more sophisticated approaches being taken to offer making in the sector than in the past, with institutions realising that if they make more offers and earlier in the cycle they can grow substantially. Beyond the top five or so institutions, many pre-1992 institutions have had to make more discounted confirmations over the past couple of years. There have also been increases in the number of applicants getting five offers from their five applications so applicants have been able to take advantage of high tariff institutions with lower entrance requirements. Getting the offer making strategy right is therefore critical for institutions. Further to this there are increasing numbers of institutions now taking part in the clearing process, with a record number of applicants accepted through clearing in 2014.

4.4 Enhanced marketing and communications

Correspondingly, institutions have been supporting their recruitment strategies with revised marketing strategies and enhanced marketing and communications activities. These include more targeted marketing to very specific groups of students, often using social media, and the use of commercial firms and approaches from the private sector, upgrading institutional websites, and offering incentives to prospective students, such as bursaries or guaranteed work placements, and enhanced communications at all steps of the cycle and customer service levels.

As some of the contributors suggested:

“Institutions have been forced to get to know their markets better and to target recruitment more precisely, spending a lot more on marketing. It is astonishing to see the growth in marketing departments and related functions on the job pages in recent times. I am not convinced that this ultimately contributes to the improvement of university offerings.”

– HE Policy Specialist

4.5 Innovative approaches

Some of the participants in the study highlighted actions taken by institutions in response to changes in the size and also the composition of the student body.

These have included the need for larger class sizes and to meet the needs of the increased number of students entering HE with BTEC qualifications. UCAS data shows the number of students studying BTEC courses has almost doubled since 2008. Both these changes have necessitated a review of teaching and learning practices among some institutions to better meet students’ needs.

Institutions have also reacted to other changes in the funding environment in other ways. For instance they have been incentivised to offer longer courses, such as enhanced undergraduate masters courses, as the student number controls only applied to new rather than continuing students. Institutions may begin to innovate in other ways if students become more concerned with costs of courses, and begin to offer more intensive degrees, fast tracking of students in two rather than three years.

4.6 Benefits and challenges

Participants in the study pointed to a range of benefits from the liberalisation of student numbers to date. These included the facilitated the expansion of institutions, led to more enrolments, more graduates in the population, more students entering HE from non-traditional backgrounds, increased undergraduate recruitment from the EU, and ultimately to a higher skilled workforce more economic growth. Examples of comments on benefits of the changes made by participants included:

“Removal of SNCs has allowed some institutions, including my own, to grow in response to market demand market for home u/g but this is linked to prospects/market for graduates”

– Policy Advisor

“Better student experience and better alignment with the labour market may follow - but will depend on overall funding levels and other policy decisions e.g. industrial strategy.”

– Senior Management Team Member

“I don’t believe that relaxing SNCs will ultimately increase entries to HE either from home students or from abroad (cost remains the deciding factor there), but it may help disciplines in difficulty to survive by allowing them to recruit more freely.”

– Strategic Planning Officer

Challenges highlighted by contributors to the study include that it is more difficult for institutions to plan, excessive competition and unknowns in the future policy and funding landscape for HE post the General Election. Examples of particular challenges include the following:

“Policy changed each year with relatively short notice so planning has been particularly uncertain; difficult to plan effectively for major growth trajectory which has unfolded.”

– Strategic Planner

“New competitive waters which HE providers are not that used to. There’s a lot of data about HE out there but not necessarily a lot of good quality market intelligence to guide institutions’ decisions. We don’t really know an awful lot about motivations behind student choice either - some providers could make poor recruitment decisions.”

– Policy Advisor

“Given that the SNC policy has now finished, the challenge of the post-SNC world will depend on the impact of demographic decline and the new policy world which will emerge following the election in May 2015. While the continuation of the £9k fee, the possible changes to BIS and the outcomes of the planned comprehensive spending review are unknown it is not possible to suggest what the new challenges will be. However, it’s worth noting that institutions are continuing to plan using the best information and assumptions available and prepare to respond to unanticipated and significant changes in the policy landscape.”

– Policy Advisor

“Lack of quotas will probably lead to more excessive competition between mid- and low-ranking institutions for a pool of students that it was not previously possible for them to engage with fully. The higher ranked institutions will continue to divide up the majority of ABB+ students among themselves.”

– Senior Management Team Member

5 Abolition Of Student Number Controls

5.1 Preparations For 2015/16

Participants in the study were asked about what preparations have been made or are in flight at their own institution, or institutions generally for the abolition of SNCs from 2015/16. The fundamental question for many has been whether they should seek to expand or not in the current environment. There is a high level trade-off in this decision between quantity and increased income from growth and maintaining quality and therefore reputation and ranking.

Some institutions indicated they have no plans to increase student numbers and are more focussed on maintaining their reputation and current ranking and therefore do not consider the removal of the cap significant for them. There is no evidence (from this review) of any institutions which are actively seeking to reduce in size. Consequently, if all institutions are expecting to either grow or stay the same as in previous years, there could be a significant mismatch between expectations and actual numbers recruited. This would suggest the need for active contingency planning.

A number of contributors highlighted the central issue of how well-prepared or otherwise individual institutions are for the impact of increased competition should they lose out to peers in this first year without the cap. In the event of a similar proportion of all institutions mis-judging their numbers for 2015/16, as those pre-1992 institutions which did so in 2012, there could be perhaps 20 or 30 of the large teaching institutions affected. Some HEIs will be less equipped to deal with an error of this kind, with potentially serious consequences for institutional resilience.

This is of particular concern because a range of other factors may be impacting, albeit variably, on institutions at the same time. For instance HEIs which scored less well in the REF than they anticipated could be facing real funding challenges. Across the sector staff and pension costs are rising, there is very little funding for capital investment, and there may be cuts in prospect to what remains of public funding for specialist subjects and support for widening access initiatives.

Preparations currently being made for 2015/16 by institutions have required have required decisions on whether to adopt a growth strategy, and if so how best to differentiate in the increasingly competitive market. Marketing departments are focussed on targeted marketing than in the past and using private and social media to help them. Portfolio reviews and revisions to the curriculum are taking place and competitor analysis is now commonplace at subject level.

Progressively more scientific and holistic approaches are being taken to recruitment by institutions, with more sophisticated data mining and analysis to enable more responsive decision making on offers throughout the recruitment cycle. Moreover, as a recent UCU survey indicated, there seems to be a growing trend in institutions making unconditional offers to students over the phone on the basis of their predicted grades alone, resurfacing the debate about a post-qualification application system.

All HEIs should be mining their data to try to understand and act on this. However, there are a significant number of institutions which are not yet doing so. These institutions will be less prepared for the removal of the cap than their peers and consequently more susceptible to the increasingly competitive environment the sector is likely to see in the next few years.

5.2 Capacity and capability for change

When asked their views on the capacity and capability of the HE sector to absorb any extra numbers from 2015/16 onwards, most contributors focussed on the issue of whether there is any substantial unmet demand for HE from the UK population. This is because of the reduction in the pool of 18-20 year olds until the early 2020s, and this creates a huge amount of uncertainty. Application rates are increasing each year from young people at same rate of demand, but this is being soaked up by the decrease in the population.

However, this year in particular has seen a significant increase in non-UK EU applicants. Should this continue year-on-year it could make the system unsustainable since EU students are poorer re-payers of student loans.

Views on the sector's capacity and capability to absorb extra student numbers expressed by contributors to the study included the following:

“The sector has considerable capacity to absorb numbers, but the Conan must be that local decisions will not always be backed by increased capacity to deliver. More generally, there is a risk of institutions failing and it is important that some blueprints exist to respond to failure.”

– Senior Management Team Member

“Given the wider demographic and economic context, whether there continues to be unmet demand is a moot point. Institutions are as likely to be dealing with declining demand as much as extra numbers which presents a different but significant challenge. Also, the balance between teaching and research means that although there will be capacity for additional recruitment, a view will be taken on the strategic imperatives of individual institutions.”

– HE Policy Specialist

“There is already capacity in courses that students don't want to do, but there may be demand for expansion in areas offering high employability (or perceptions of such) particularly in the mid-ranking institutions which have previously had their capacity to recruit ABB- students restricted. Shifts towards such successful institutions may, however, starve others of applicants, ultimately leading some departments / HEIs to closure.”

– Policy Adviser

6 Conclusion - potential consequences for institutions

6.1 Sustainability of current policy

The majority of contributors to the study are fairly confident that the new unregulated market in student numbers will continue. The long-term direction of travel appears to be towards further de-regulation and more autonomy, over issues like quality assurance. Moreover, sustainability of the policy may be bolstered by the demographic dip, in that the removal of the cap on student numbers will not cost the Government as much as first assumed given the initial limited pool of available students. However noting the points on the potential for a higher proportion of loan defaulters and / or of graduates not achieving the threshold salary to re-pay the loans, contributors believe a line will have to be drawn should demand continue to grow.

There are questions about how free a market it is really likely to be, particularly given that the Government is unlikely to allow the market to fully regulate itself or set its own fees.

The impact of any institutional failures would be felt not just on students, but also across the sector as HEIs are currently able to borrow at low levels of interest because they are considered to be such low risk. In such a scenario, inward investment could become more expensive and the robustness and reputation of the sector around the world would also be put at risk. Therefore the Government is unlikely to allow for institutional failure, further limiting the true freedom of the HE market-place.

Sustainability of institutions will depend on future Government HE policy, such as whether parts of the remaining HE budget is cut for high cost subjects or to support widening access for under-represented groups. Also crucial will be whether the current fee cap is lifted for institutions generally or for certain types or subjects. For many institutions, which are already struggling with pensions and other high costs, increased competition may also impact on the quality and scale of their offer.

6.2 Consequences for institutions and Further Discussion Points

Potential consequences for institutions generally and of different types suggested by contributors to the study are summarised below. The consensus is that the sector is set to become more volatile and difficult to predict than in the past. Key issues are likely to include:

- Greater uncertainty and broadening out of competition – between institutions which would have competed in quite different markets in the past. Russell Group and other pre-1992 institutions have been quite polarised in the past, particularly with the high-grade entry process, but this could change in future especially for those institutions seeking substantial growth.

- Further investment in infrastructure – growth strategies will continue to require new buildings, new staff and courses. For some institutions this will require increased borrowing to sustain any expansion. Institutions will have to look at alternative ways of bringing in income, including selling of assets and leveraging more investment from industry. The result is expected to be far wider variations in the financial performance of institutions.
- Improvements in performance monitoring – there may be a drive to putting more comprehensive and rigorous performance management processes in place. This will be less assurance based around safeguarding reputation and academic quality as in the past. Instead, increasingly the focus may be on business health indicators and data driven approaches, which will have at least equal emphasis with traditional quality concerns.
- Changes in rankings – some pre-1992 institutions are already accepting students with lower grades than in the past. The consequences of this will be seen in coming years perhaps in more movement in the league table rankings due to lower overall entry tariffs.
- Regional variations – there may be a different outcome in the South East of England than elsewhere, particularly within Greater London due to the density of institutions competing for students.
- Focus on core markets – there may be a new core market for many institutions, for instance with those in 'cold spots' geographically focussing their efforts on retaining local students. However, in areas like the West Midlands where there are multiple institutions for students to consider, some are likely to be vulnerable to competition.
- More opportunities for innovation – there may be an impetus to develop different types of courses and qualifications as institutions focus on retaining their market share and possibly on seeking to attract different groups of students (such as older age groups and those already in work). This could include for instance more accelerated provision and practice oriented or placement based courses.
- EU partnerships – a return to more articulation agreements with European academic institutions may be in prospect. Less financially viable under the SNCs, these sorts of arrangements could become more widespread once the cap is lifted. This is in addition to more direct recruitment of EU students.
- Post-1992 institutions – lifting of the fee cap from this year is likely to benefit a sub-set of the post-1992 institutions. This is principally so for those teaching institutions which are able to recruit nationally for particular subjects. Indeed some post-1992 institutions will have been able to generate large surpluses in recent years, and therefore are in a position to invest in growth. Those which have been able to recruit high numbers of students with lower than ABB grades in recent years, and without high costs associated with teaching STEM subjects and undertaking research may be in a strong position.

- However, the likelihood is that generally pre-1992 institutions will begin to take market share from the post-1992s as students seek to ‘trade up’ to those with better reputations and rankings.
- Alternative providers – are a small but growing group, particularly in London where there could be greater competition with traditional HEIs for certain types of students and in particular, in lower cost areas of provision. They are also able to adapt their offer quickly to meet changing market needs. Alternative providers do remain a tiny minority in comparison to the traditional part of the sector and the Government will continue to control the majority’s student numbers for the foreseeable future. However regulatory challenges still exist, and the register of providers with degree awarding powers, and thus uncapped in numbers, could grow more than is desired through merger or acquisition between providers with and without DAPs.
 - Greater importance of governing bodies – in the more volatile market, setting good institutional strategies and highly effective governance will become increasingly important issues. Governing bodies will have to be well briefed to be able to make major decisions such as whether to expand, and understand properly the implications of such decisions on business planning, resource allocation and strategic initiatives.
 - Sustainability of institutions – as well as particular courses, non-viable cohorts and high cost subjects. These sustainability issues may become increasingly important, with concern for the impact on current students and alumni being at the forefront of institutions’ minds. A more open market increases the potential for institutional failures and therefore raises the prospect for re-alignment of some institutions through increasing collaboration or merger.

7 Wonkhe & capita roundtable discussion

Wonkhe and Capita will be holding a roundtable to discuss this report and its implications on the HE sector further. From our conversations with industry experts, policy specialists and institution representatives, this report will be updated with the key discussion points to help institutions prepare for the policy change.

Contact

Wonkhe

✉ info@wonkhe.com

🐦 [@wonkhe](https://twitter.com/wonkhe)

🖱 wonkhe.com

Capita

☎ 020 7901 0068

✉ transformation@capita.co.uk

🖱 capita.co.uk/transformation

CAPITA

