

Advancing Institutional Maturity in Growth, Economies of Scale, Productivity and Efficiency

An Operating Model Diagnostic Framework
for Vice-Chancellors and their Boards

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Foreword

by Sir Nigel Carrington

The work of the Universities UK Transformation and Efficiency Taskforce began with a simple but urgent question: how can our universities continue to deliver excellence in teaching, research and civic leadership in a period of sustained financial pressure and growing expectations? Our first report, *Towards a New Era of Collaboration*, set out the case for change and identified practical opportunities for universities to work together more effectively across services, infrastructure and capability.

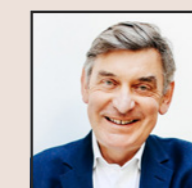
Alongside that report, KPMG and Mills and Reeve produced a 'playbook' for radical collaboration, exploring the structural possibilities available to institutions that wish to pursue deeper partnerships. It examined the range of models that might support collaboration at scale, and the leadership choices that would be required to make them work in practice.

This report builds directly on these foundations. Where the earlier work established the case for collaboration and explored the mechanisms through which it might occur, this report focuses on the conditions that allow collaboration to mature into sustained institutional capability. It makes a frank assessment of where we are as a sector on a number of important measures and introduces an operating model diagnostic framework for advancing institutional maturity in growth, productivity, economies of scale and efficiency. In doing so, it aims to support Vice-Chancellors and governing boards as they move from episodic efficiency measures towards more durable forms of structural effectiveness.

The framework also makes a new contribution to the conversation that is unfolding across

the sector. It offers a common language through which universities might discuss operating model performance, capability, and partnership. It supports dialogue within and between institutions, as well as with other vital stakeholders such as employers and government, about how the sector can align its efforts more strategically with national priorities for growth, skills, and innovation.

Taken together, the work of the taskforce has sought to shift the focus from short term responses to financial pressure towards longer term collective action. This report continues that journey. Its purpose is to help universities strengthen their own institutional maturity while enabling a new era of sector wide strategic alignment, grounded in collaboration, shared purpose, and confidence in the future of UK higher education.



Sir Nigel Carrington
Chair, Universities UK Transformation and Efficiency Taskforce



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Introduction

Universities across the UK are operating in one of the most complex and demanding environments in modern higher education history.

Financial sustainability has become a persistent and defining strategic risk. Real-terms regulated funding per student has declined significantly over the past decade and is projected to fall further in the coming years. At the same time, the proportion of providers expected to operate in deficit is rising. These pressures are not temporary fluctuations; they are the visible symptoms of a structural shift in the economics of higher education.

The shift is being driven by a convergence of forces that challenge long-standing assumptions about growth, efficiency, and resilience: the long-standing freeze in tuition fees, volatility in international student markets, rising costs across staffing, estates, digital infrastructure and student support, demographic changes, and an increasingly demanding and costly regulatory environment.

Alongside these pressures, expectations of universities have never been higher. The UK looks to its higher education institutions to equip learners with future-focused skills, generate research and innovation that drive economic growth, support social mobility, and contribute to civic life and regional prosperity in a way that delivers high quality and efficiency.

In this context, the question facing universities is not simply how to remain financially sustainable. It is how to continue to create and extend value – for students, for communities, for the economy and for society – within a materially different operating environment.

Periods such as this are often characterised by narratives of crisis and constraint. Those narratives are understandable, yet they can also obscure an essential truth: universities are not passive recipients of external conditions. They



are institutions with deep capability, intellectual capital, civic purpose and the capacity to adapt. The issue facing the sector is how to deploy its capabilities in more deliberate, disciplined and strategically aligned ways.

Universities have never flourished by waiting for external conditions to improve, and there are valuable initiatives and examples of leadership in this area currently unfolding. In the UK, the recent work of the Universities UK Transformation and Efficiency Taskforce reflects a growing recognition across the sector that institutions must actively rethink how they operate, collaborate and allocate resources. This report was stimulated by the work of the Taskforce, the focus and outputs of which not only helped to frame the questions explored here, but provided a timely catalyst for deeper, broader discussion between universities on how they can adapt their operating models to meet emerging challenges. At the heart of this report is a simple but powerful proposition, that institutional resilience and long-term sustainability are determined by the degree of managerial maturity with which four interdependent performance dimensions are governed:

- **Efficiency** – the discipline of eliminating structural waste and controlling the cost base, while maintaining quality and excellence;
- **Productivity** – the ability to maximise outputs and outcomes per unit of academic and professional input;
- **Economies of scale** – the capacity to ensure that growth reduces average costs rather than increases them; and,
- **Sustainable growth and diversification** – the expansion of income streams and reach in ways that are financially and strategically sustainable (either organically using an institution's own internal resources and activities, or non-organic growth through merger, acquisition or other structural collaboration).

Written by



Professor Amanda Broderick
Vice-Chancellor & President,
University of East London



Smita Jamdar
Head of Education,
Shakespeare Martineau



Dassos Alexandrou
Head of Education Sector
Coverage, *Barclays*

These are distinct levers that must be aligned deliberately. Institutions can be efficient without being productive. They can be productive without achieving economies of scale. And they can grow without strengthening their financial position. The task for leadership is to integrate these dimensions so that they reinforce rather than undermine one another. Whilst terms such as efficiency, productivity and scale can appear at odds with academic mission and public purpose, this reflects a false divide. Rather than undermining what universities are for, they are necessary for those purposes to be sustained and extended.

Indeed, where universities prioritise financial health and are able to generate a surplus, they gain greater flexibility in determining which activities to pursue, even if some are loss-making. Surpluses can enable institutions to subsidise strategically important activities – such as certain academic programmes, research initiatives, or community engagement – that may not be financially profitable in isolation but deliver broader institutional value. In this context, it can be helpful for institutions to establish clear financial indicators or thresholds to determine the level of cross-subsidy they can sustain. Transparency is also critical: loss-making activities can be appropriate when the subsidy is understood and intentional, but problems arise when such cross-subsidies occur without clear visibility or oversight.

It is from this vantage point that this report and management toolkit have been developed with leading partners. They are designed to support institutions in strengthening organisational self-reflection and maturity, stimulating board level strategic debate, enhancing strategic alignment, and building the confidence required to evolve and collaborate more systematically so that institutions can deliver their charitable objectives over the long-term. We offer analysis of practical levers, with examples of approaches to implementation, recognising that transformation must be both ambitious and executable. Our

overarching message is clear: by reframing transformation and efficiency as instruments of value creation rather than symptoms of scarcity, universities can move beyond short term survival and towards marginal sustainability and long-term renewal.

The findings we present here demonstrate that resilience is less a function of size or reputation than of organisational maturity – the capacity to understand cost behaviour, govern marginal economics, optimise portfolios, and embed continuous transformation. The financial future of UK universities will be determined less by institutional size and more by operating model design. Understanding where an institution sits within the organisational maturity framework allows leadership teams and governing bodies to shift the discussion from annual financial performance to operating model health, and to support the deployment of financial strength into long-term strategic advantage.

Ultimately, this report is grounded in a belief that higher education remains one of the UK's greatest strategic assets. The challenge before the sector is not merely to protect that asset, but to evolve it. Optimism in this context is not complacency. It is the conviction that through deliberate action, disciplined leadership and collective resolve, the sector can shape its future and continue to serve society with distinction.



Executive Summary

Higher education institutions across the UK are confronting a structural rather than cyclical disruption.

Financial sustainability has become the dominant strategic risk for many providers, shaped by the prolonged erosion of real-terms regulated fee income, rising operating costs, demographic shifts, pension liabilities, technological transformation and volatility in international student markets.

Whilst there are a range of contributions to a higher cost base, and the productivity gap

remains stark, sector analysis reveals a critical and often under-recognised pattern. Growth has frequently failed to deliver the economies of scale that institutions expect. Marginal cost analysis indicates that in many cases incremental revenue has been accompanied by disproportionately higher expenditure, creating negative or fragile unit economics. Under these conditions, expansion can compound financial pressure rather than alleviate it.

While external conditions affect all institutions, outcomes across the sector vary significantly. Analysis of financial and operational data between 2020 and 2025 reveals several recurring patterns:

- Many institutions are experiencing margin compression as real-terms income erosion outpaces efficiency gains. In a significant number of cases, growth has been accompanied by rising marginal costs rather than improvements in efficiency, signalling a widening productivity gap across parts of the sector. Expansion in activity – whether through increased recruitment or portfolio growth – has not translated into proportional gains in output per unit of resource, meaning scale is failing to deliver expected economies. As a result, institutional growth strategies risk intensifying financial pressure where underlying productivity improvements are absent.

- A rigid cost base, as staff costs remain structurally high, limiting flexibility under conditions of income volatility.
- Wide dispersion in productivity and efficiency indicators, suggesting that managerial and organisational choices, rather than structural constraints alone, are driving performance differences.
- Institutions reliant on episodic restructuring programmes are experiencing diminishing returns and increasing efficiency fatigue.

Alongside these challenges, we observe a growing divergence between institutions that are building resilience, and those that remain exposed. Higher-resilience institutions are characterised by continuous optimisation. They tell a narrative of value creation, not simply cost reduction:



To support lower resilience institutions to transition into higher resilience institutions, this report outlines an institutional maturity model that describes how organisations move from reactive responses to embedded strategic capability.

At earlier stages, institutions tend to rely on episodic restructuring and fragmented performance metrics. As maturity increases, organisations develop the analytical capability and governance discipline required to manage performance through integrated dashboards, contribution-led portfolio decisions and continuous operational optimisation.

An operating model diagnostics framework is introduced here to help executive teams and governing bodies interpret institutional performance more effectively. The framework distinguishes between financial resilience, cost base efficiency, productivity, economies of scale and strategic growth, emphasising the importance of analysing trends and marginal dynamics to determine institutional resilience rather than relying solely on short-term financial performance.

Ultimately, the analysis suggests that the sustainability of universities will depend less on size or reputation than on the degree of managerial maturity with which institutions align mission, market position, operating model and economic discipline. Institutional resilience depends not on isolated efficiency programmes or growth ambitions alone, but on managerial maturity in aligning four interdependent performance dimensions: efficiency, productivity, economies of scale, and growth and diversification. Institutions that integrate these dimensions systematically are better able to control cost behaviour, govern expansion through marginal economics, and sustain stronger financial and academic outcomes in an increasingly demanding environment.

Lower Resilience Institutions	Higher Resilience Institutions
Episodic efficiency cycles	Continuous optimisation culture
Growth pursued without marginal analysis	Growth governed by cost curves and marginal contribution
Portfolio legacy protection	Contribution-led portfolio design
Fragmented KPIs and siloed reporting	Integrated performance dashboards
Cost-cutting delivery & narrative	Value-creation delivery & narrative
Undifferentiated academic offer	Clear product differentiation and market positioning
Price-takers in recruitment markets	Pricing power anchored in perceived value
Fee levels constrained by recruitment pressure	Ability to sustain premium pricing
Volume used to offset structural deficits	Margin discipline embedded in growth decisions

01.

Context, Clarity, and Complexity



Sector Context: From Cyclical Pressure to Structural Reset

The strategic concepts of transformation, efficiency and collaboration in UK higher education have evolved significantly in recent years, shaped by shifting regulatory conditions, policy pressures, competitive educational markets, demographic change and sustained economic constraint. Policy frameworks that once appeared robust have proved insufficient in the face of current financial headwinds. What might once have been interpreted as cyclical pressure now increasingly appears structural.

The sector's current widespread financial fragility has prompted a further shift in how transformation and efficiency are understood and prioritised. Transformation can no longer be viewed as an aspirational strand of strategy pursued when circumstances allow but has rather become an operational necessity. In parallel, collaboration has moved from being an optional enhancement to a central mechanism for achieving structural efficiency and protecting institutional sustainability.

The operating environment for UK higher education has therefore shifted fundamentally. Historic assumptions which determined that demand growth would offset inflationary pressures, that scale inherently generated efficiency, and that episodic restructuring could restore equilibrium, are no longer reliable.

¹ Office for Students, Annual TRAC 2023-24. [<https://www.officeforstudents.org.uk/media/zntnyj2n/annual-trac-2023-24.pdf>]

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Transformation can no longer be viewed as an aspirational strand of strategy pursued when circumstances allow. It has become an operational necessity.”

Several structural dynamics now define the sector:

- Revenue constraint from frozen regulated fees
- Cost escalation in staffing, estates, digital, and compliance
- Market volatility, particularly internationally
- Increased cost of regulatory scrutiny focused on sustainability and student protection
- Rising expectations regarding student experience and outcomes
- Research funding covering significantly less than the full cost of research (c66% compared to the 80% of full economic cost intended to be provided by public research funding) with a reduced ability to cross-subsidise research (with universities running more than a £5billion research deficit).¹

This convergence has created a persistent imbalance between income trajectories and cost structures.

A longer historical perspective helps to explain how the sector reached this point. The Dearing Report placed widening participation at the centre of national policy, encouraging institutional compacts and collaborative approaches to expand access. Later phases of marketisation reframed efficiency largely through student choice and new provider entry, with collaboration often treated as secondary or complicated by competition requirements. The regulatory architecture introduced by the Higher Education and Research Act 2017 and the creation of the Office for Students embedded many of these competition-era assumptions within the modern framework governing the sector.

Recent sector analysis has begun to reassess these assumptions. The first phase report of the Universities UK Transformation and Efficiency Taskforce highlighted the extent to which collaborative potential remains constrained by regulatory architecture, including competition law and restrictive VAT arrangements that were designed for a more explicitly competitive era of higher education. In the current financial climate, institutional collaboration has therefore re-emerged as a primary route to structural efficiency.



Conceptual Clarity: Distinguishing Critical Performance Levers

Within universities, the language of managerialism and marketisation continues to sit uneasily with aspects of academic culture. Terms such as efficiency, productivity and scale can appear at odds with academic mission and public purpose. However, this tension reflects a false divide. These concepts do not undermine what universities are for; they determine whether those purposes can be sustained and extended. Indeed, avoiding them risks leaving institutional futures to circumstance rather than deliberate choice.

Regardless of the specific mechanism employed, there are ultimately only three primary routes through which financial health can be achieved in any organisation, particularly where financial resilience is pursued not as an end, but as the means to extend institutional reach, advance charitable objectives, and uphold the sector's social licence:

1. Efficiency, productivity and economies of scale
2. Organic sustainable growth and diversification
3. Non-organic sustainable growth and diversification (mergers, acquisitions and other structural collaborations)

To examine these levers properly, it is necessary to define the terms used in point 1 above, representing three related but distinct concepts: efficiency, productivity, and economies of scale.

In higher education, efficiency refers to how effectively a university uses its resources to deliver agreed outputs and outcomes while minimising waste and maintaining required standards of quality, compliance, and experience. **Efficiency demonstrates control of the cost base; it is about *doing things right* with the resources available.**

Productivity, by contrast, concerns the volume of educational or research output generated per unit of input, typically labour or cost.

Productivity signals sustainable delivery capacity; it is about *how much is produced with those resources*.

Economies of scale arise when average costs decline as the size of the institution or activity increases, because fixed or semi-fixed costs are spread across a larger number of students, courses, or transactions. **Economies of scale therefore determine whether growth enhances or undermines financial viability; they address *whether becoming larger reduces the cost per unit of delivery*.**

Distinguishing these concepts is essential for understanding institutional performance and for designing credible transformation strategies. Cost reduction does not necessarily equate to productivity improvements: an institution may reduce staffing and see outputs fall at the same rate, achieving savings without enhancing productive capacity.

Similarly, growth (organic or non-organic) does not automatically generate economies of scale. If marginal costs increase at the same pace as income, expansion can in fact weaken financial performance. Nor does efficiency imply erosion of quality; well-designed efficiency initiatives often streamline processes, remove duplication, and improve the student experience.

An institution can therefore be efficient but not productive, productive yet not benefiting from scale, or growing without improving its financial position.



Efficiency pursued solely as cost reduction is inherently finite. There is only so much expenditure that can be removed before educational quality and organisational capability are compromised. Across-the-board percentage reductions in staffing can absorb management attention and divert focus from market engagement and strategic development without delivering lasting improvements in performance.

There are of course occasions when fundamental changes to institutional size and shape are required. Yet these must sit alongside sustained efforts to improve operational effectiveness, including digital transformation and intelligent automation, stronger performance management to enhance productivity, and continuous adjustment to ensure that the workforce remains aligned with future priorities.

When understood more broadly, efficiency becomes a mechanism for strengthening institutional capability rather than merely reducing cost.

Structural Economics of Higher Education

The distinctive economics of higher education further complicate the pursuit of efficiency. Unlike conventional industries, universities typically exhibit:

- High fixed and semi-fixed costs
- Labour-intensive delivery models
- Regulatory price constraints
- Cross-subsidised portfolios
- Complex multi-mission outputs

These characteristics produce non-linear cost curves, where scale efficiencies plateau and may even reverse if organisational complexity rises faster than throughput.

This structural complexity helps explain why the sector's sustainability challenge cannot be resolved through isolated cost measures alone. At its simplest, the financial health of any organisation depends upon only a small number of fundamental economic levers. While the underlying logic is straightforward, putting this into practice within the distinctive environment of higher education is far from simple, particularly given the breadth of institutional activity involved in obtaining a complete picture of efficiency.

Alongside structural collaboration models, institutions must therefore address more fundamental internal drivers that shape how resources are deployed and how value is created.

In this sense, efficiency should be understood as part of a broader transformation grounded in clarity of purpose, sustainable development and demonstrable value. When efficiency improves the effectiveness with which universities achieve their core mission, it strengthens quality and creates capacity for growth rather than constraining it.

In the next sections, we examine some of the practical levers available to universities for measuring and improving financial sustainability and institutional performance. Drawing on best practice from across the sector, we outline an applied framework that supports evidence-based decision-making and begins to establish the foundations for a more strategically aligned phase of higher education development.

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02.

Metrics, Maturity, and Model



Institutional Maturity

In the current financial and regulatory climate, there is growing recognition that traditional approaches to measuring efficiency may no longer be fully fit for purpose. Standard metrics can struggle to capture the complexity of contemporary university operations or the underlying tension between institutional mission, market pressures, and regulatory expectations. A reassessment of existing efficiency measures is therefore warranted to ensure that evaluation frameworks remain strategically aligned and capable of supporting long-term organisational sustainability.

Institutional capability in this area typically develops along a spectrum of managerial maturity. We observe four broad stages:

1

Reactive Survival

- Institutions rely on episodic restructures and short-term savings measures.
- Forecasting variance is high, and performance management relies primarily on lagging indicators.
- Financial stability is maintained through periodic corrective interventions rather than systematic performance management.

2

Managed Efficiency

- Efficiency programmes become formalised and budgetary control improves.
- While cost management strengthens, productivity drivers and the economics of scale are not yet consistently governed across the institution.

3

Integrated Performance

- Institutions differentiate clearly between efficiency, productivity, and scale metrics.
- Contribution margins increasingly inform academic portfolio decisions, and marginal cost ratios inform growth governance and programme expansion.

4

Strategic Value Creation

- Operating models are intentionally designed for scalable economics.
- Growth strengthens rather than weakens unit costs, digital leverage expands productivity, and transformation becomes embedded within institutional culture rather than delivered through discrete change initiatives.

Universities seeking to progress along this maturity spectrum must critically examine how their operating model, governance, and financial management practices align with strategic objectives.

You can also use the Institutional Maturity Self-Assessment Tool presented in Appendix 3 of this report.



Key questions:

- Is the current size and shape of the institution aligned with strategic goals and balanced scorecard priorities, or primarily with institutional legacy and historical structures?
- Is organisational change enterprise-wide, integrated, and continuous, or characterised by periodic restructures that absorb management capacity and create internal disruption?
- Are cost reduction and growth strategies pursued in a coordinated way, or treated as separate and sequential processes?
- How does the institution manage continuous change while maintaining a focus on external value creation, including productivity and growth?
- Are budgeting processes robust, and how closely does annual out-turn meet/exceed the medium-term financial strategy (MTFS)?
- What leadership and management accountabilities exist for persistent forecasting variance?
- Are operational budgets clearly separated from strategic ambition targets?
- How accurate are forecasting models in practice, and how is future uncertainty incorporated where models rely heavily on historical assumptions?
- Does the institution track explicit efficiency and productivity KPIs?
- Do these indicators improve year-on-year in real terms, or is financial progress largely dependent on one-off transformation programmes?

Marginal Cost Ratio

Central to this discussion is the need to ensure that institutions measure the right things. Here, one example proves particularly useful. The Marginal Cost Ratio (Expenditure / Income) provides a powerful diagnostic of institutional scale health:

- Ratios above 1.0 and below 0 indicate growth which does not enhance value
- Ratios near 0.8 indicate fragile scalability
- Ratios between 0 and 0.5 indicate healthy scale dynamics

Sector analysis suggests an average ratio exceeding 1.0 in recent years, implying that growth across parts of the sector has often been accompanied by rising marginal cost rather than increasing efficiency. This pattern points to a widening productivity gap, where increases in activity – whether in student numbers, research volume, or institutional scale – have not translated into proportional gains in output per unit of resource.

Instead, additional expansion appears to require disproportionately greater expenditure, reflecting structural cost pressures and limited productivity improvements in core academic functions. This finding reframes growth strategy: expansion without marginal discipline or productivity gains risks compounding the sector's underlying efficiency shortfall and can accelerate deficit formation rather than resolve it.

Please note that in the analysis which follows, eight universities have a MCR value of below 0 – five of these have seen income decrease and expenditure increase between 2020 and 2025, two have grown income and reduced expenditure, and the other has grown income with expenditure remaining static. For the purposes of the operating model diagnostic framework, ratios below 0 will register in the 3rd or bottom quartile.

SUMS Consulting Tool

Recognising the operational complexity involved in diagnosing and addressing these dynamics, the sector is increasingly seeking practical tools to support more systematic assessment. One such response is the Organisational Efficiency Maturity Assessment developed by SUMS Consulting in partnership with the Association of Heads of University Administration, following a recommendation from the Universities UK Transformation and Efficiency Taskforce.

The assessment is designed to help institutions move beyond short-term cost reduction towards a more strategic and balanced understanding of efficiency. Developed with input from a cross-section of universities, the online self-evaluation framework enables senior leaders to assess their institution across key dimensions including leadership and governance, finance and resources, people and culture, data, and service design.

Tools such as this can help close the gap between conceptual clarity and operational difficulty, supporting the disciplined, strategic transformation that the sector now requires.

Access the tool at: <https://sums.ac.uk/organisational-efficiency-maturity-assessment-oema/>

Operating Model Metrics

Ultimately, universities require operating models that deliver genuine economies of scale, sustained productivity improvements, and long-term institutional resilience, rather than merely extending operational viability for another planning cycle. Achieving this requires robust operating model analytics capable of measuring institutional performance accurately and consistently.

A mature institutional model must have the foundation of a structured framework of performance analytics which enables leadership teams to assess financial resilience, operational efficiency, and strategic productivity, explained briefly here:

Financial Resilience

Liquidity days and *operating cash-flow ratios* provide insight into an institution's ability to absorb short-term shocks while sustaining structural operating margins. Together, these indicators help distinguish temporary financial pressure from deeper structural imbalance.

Cost Base Efficiency

Staff cost ratios are a key indicator of structural flexibility within the cost base. Persistent elevation may signal a mismatch between institutional scale and activity levels, inefficiencies within the academic portfolio, or administrative expansion that has outpaced revenue growth.

Teaching Productivity

Teaching productivity is influenced by a range of operational drivers, including::

- Module scale
- Academic portfolio mix
- Timetabling efficiency
- Student continuation and completion rates
- Opportunities for digital reuse and scalable learning design

In many cases, improvements in retention generate greater financial returns than recruitment expansion, as they increase the lifetime value of existing cohorts while avoiding the marginal cost of additional student acquisition.

Research Productivity

Research productivity can be assessed through indicators such as *research income per academic FTE*, *overhead recovery rates*, and *bid conversion effectiveness*. These measures help differentiate between genuine research capacity and structural inefficiencies within research management and funding pipelines.



Economies of Scale

Sustainable scale advantages depend on disciplined operational design. Healthy scale effects typically require:

- Standardised processes
- Platform consolidation
- Module consolidation
- Academic portfolio rationalisation
- Strong marginal cost discipline

Without these structural enablers, institutional growth risks increasing complexity and cost without delivering corresponding gains in productivity or financial resilience.

While this report focuses on a sector-level view, it is important to recognise that individual institutions typically have access to a far richer range of internal data with which to inform their strategic decision-making. A sector analysis therefore cannot capture the full complexity of institutional circumstances.

Nevertheless, benchmarking across the UK higher education sector – using measures that are consistently reported in financial statements and annual accounts – provides a valuable lens through which to assess relative performance and emerging risks.

The next section will present a strategic overview of financial sustainability across UK higher education, revealing a sector undergoing structural divergence rather than uniform stress. The metrics highlighted in the following section have been identified as key indicators of institutional financial health, offering a vital opportunity to identify patterns, establish meaningful benchmarks, and support more informed strategic conversations about the financial sustainability of UK higher education.

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Together, these indicators help distinguish temporary financial pressure from deeper structural imbalance.”

03.

UK HEI Benchmarking



Operating Model Diagnostic Framework

To support the development of an operating model diagnostic framework, publicly available data has been accessed consistently, combining 2024/2025 UK HEI annual accounts with HESA Finance data, and annual accounts from the 2019/2020 financial year¹. The results show a sector experiencing structural divergence rather than uniform stress. Whilst the underlying structural funding model of higher education may be challenged, it is important to recognise that although average sector income has grown modestly, operational effectiveness varies widely between institutions. The data indicates that institutional resilience depends less on size or headline growth and more on the structural characteristics of the operating model.

This report applies an operating model diagnostic framework built around four strategic performance domains:

1

Sustainable Growth

The institution's ability to expand income in ways that reinforce long-term viability. Is the institution growing sustainably?

2

Economies of Scale

Whether expansion reduces marginal cost and improves operating leverage. Is the institution scaling efficiently?

3

Workforce Productivity

The effectiveness with which staff inputs translate into institutional output. Is the institution converting resources into value?

4

Financial and Liquidity Efficiency

The ability to translate activity into surplus and cash. Is the institution generating liquidity and resilience?

¹ HESA, Consolidated statement of comprehensive income and expenditure by HE provider and academic year. [<https://www.hesa.ac.uk/data-and-analysis/finances/table-1>]

These four metrics capture operating performance, but we should also be aware that temporary improvements in cost ratios and liquidity could be achieved by deferring investment or degrading the asset base (digital platforms, estates, labs, IT infrastructure). Without this, an institution can appear healthy while eroding long-term capability. Operating performance must be aligned with a fifth dimension – Infrastructure Sustainability – to test whether growth and operations are supported by adequate investment in digital and physical infrastructure, i.e. *is the institution maintaining the capability required for future delivery?*



Table 1 - Financial Health Benchmarking
(HEIs grouped by turnover)

See pages 30 to 35 for further explanation of metrics included in this table.			HEIs			
			Sector mean (n=160)	>£1b turnover (n=10)	£999m-£101m turnover (n=103)	<£100m turnover (n=47)
Sustainable Growth	YAGO growth %		2%	5%	0%	5%
	Simple Compound growth		4% (n=155)	5%	4% (n=102)	4% (n=43)
	Revenue Concentration Index 2025		0.28	0.31	0.29	0.35
Economies of Scale		Marginal cost ratio (2020-2025)	1.24 (n=155)	1.19	1.29 (n=102)	1.08 (n=43)
Productivity	Workforce productivity	Staff costs % income 2025	54%	51%	56%	55%
Efficiency	Cost efficiency	Income per staff FTE 2025	£121k (n=158)	£137k	£115k (n=102)	£111k (n=46)
	Economic efficiency	Net operating cash flow ratio 2025	£15.9m	£92.7m	£14.3m	£3.1m
		Operating days cost cover	121	128	123	117
	Operational efficiency: liquidity	Surplus % income	3%	8%	0%	2%
	Financial efficiency: liquidity	Gearing ratio 2025	0.19	0.17	0.21	0.08
Income	2020 Income		£255m (n=155)	£1,248m	£249m (n=102)	£36m (n=43)
	2025 Income		£322m	£1,700m	£314m	£47m

Table 2 - Financial Health Benchmarking (Sector Quartiles)

	Range top	Top quartile (75th+)	Second quartile: 50th+	Median	Third quartile (25th +)	Bottom Quartile (25th -)	Range bottom
YAGO Income Growth	63%	>6%	>1%	1%	<1%	<-4%	-30%
Compound Income Growth (n=155)	22%	>6%	>4%	4%	<4%	<2%	-12%
Revenue Concentration Index	0.26	<0.31	<0.37	0.37	>0.37	>0.45	0.96
Marginal Cost Ratio (n=155)*	0.09	<0.83	<1.07	1.07	>1.07	>1.48	109.43
Staff costs % of income	12%	<50%	<56%	56%	>56%	>60%	76%
Income per staff FTE (n=158)	£526k	>£127k	>£112k	£112k	<£112k	<£101k	£77k
Operating cashflow as % of income	28% (£250.8m)	>9% (£23.9m)	>5% (£7m)	5% (£7m)	<5% (£1.3m)	<2% (£1.3m)	-25% (-£33.5m)
Operating days cost cover	421	>172	>116	116	<116	<74	5
Surplus as % of income	37%	>5%	>1%	1%	<1%	<-3%	-28%
Income 2020 (n=155)	£2,536m	>£296m	>£165m	£165m	<£165m	<£70m	£8m
Income 2025	£3,021m	>£357m	>£204m	£204m	<£204m	<£83m	£6m

*Please see note on page 21 for further information on this range.

At a Glance

Table 1 outlines presents financial health benchmarking with UK HEIs grouped by turnover, between 2020 and 2025. **Table 2** shows the same benchmarking split by quartile, demonstrating that sector-wide commentary about 'university finances' as a general, uniform category, obscures substantial divergence in operating model quality.

Between 2020 and 2025:



Quartile Analysis: Sustainable Growth

Table 2 presents a breakdown of sector performance by quartile, with the first three measures (YAGO income growth, compound income growth, and revenue concentration index) representing proxies for sustainable growth. Starting with Sustainable Growth as the first analytical lens is a deliberate strategic choice – it is the primary signal of market relevance and determines the strategic trajectory of the institution. Growth indicates whether an institution’s academic offer and market position remain attractive. Financial metrics like surplus or cost ratios can be misleading without context. If analysis begins with efficiency metrics alone, a declining institution may appear healthy simply because it has cut costs.

Having sustainable growth as a performance metric might not initially seem to be a priority for some institutions, particularly those which are small and specialist, or institutions with estate constraints. Indeed, it must be noted that it would be possible for a small institution to benefit from internal economies of scale without growing student numbers, for example through shared services or other business operation improvements. Yet with annual sector operating cost rises of circa 5%, sustainable income growth is a necessity for every type of HEI irrespective of size, with volume, price and diversification options becoming key strategic decisions.

In operating model diagnostics, the first key question must be whether the institution is creating demand, expanding its relevance and strategic footprint – *before* assessing whether it is doing so efficiently and effectively. If an institution cannot grow or maintain stable income in its core markets, improvements in cost efficiency alone will not secure long-term viability.

Likewise, growth is not simply revenue expansion. Sustainable growth distinguishes structural increases in demand from temporary financial uplift – for example, a lasting rise in enrolments across a diversified portfolio versus a short-term revenue spike driven by a single recruitment cycle, favourable currency movements, or one-off funding.

Relatedly, growth is the primary driver of scale effects. Economies of scale only emerge where institutions are able to expand activity and income; without growth, universities cannot capture the scale advantages that underpin financial resilience. Growth also determines the capacity to absorb the structural cost pressures facing UK universities, including pension liabilities, energy costs, wage inflation and the ongoing need for digital and physical infrastructure investment. Institutions with stronger and more reliable income growth are better positioned to absorb these pressures without restructuring, while those experiencing stagnation or contraction must rely on cost reduction measures such as programme closures, staff reductions, or deferred investment.

Historically, growth has functioned as a leading indicator of long-term viability, with financial distress often emerging several years after underlying demand begins to weaken. However, the recent period has seen a marked widening in performance across the sector and a faster transmission of market shocks into institutional finances. Indeed, it is worth noting that declines in income often occur more suddenly than reductions in expenditure. While revenues may fall quickly, for example due to changes in student recruitment or funding streams, cost structures are usually slower to adjust. This lag means that institutions may experience periods where income declines faster than costs can be reduced. Revenue volatility means that stress is now manifesting more quickly than in previous cycles. As a result, analysing growth dynamics remains critical, but must now account for greater variability and the accelerated pace at which demand shifts translate into financial pressure.

This framework assesses whether growth is sustained over time (measured through compound income growth rather than single-year fluctuations), structurally scalable (whether expansion improves operating leverage), and diversified (assessed using the revenue concentration index (RCI), identifying dependence on a single income stream). RCI is sub-optimal for drawing substantive conclusions about revenue diversification as it is dependent on only four generic revenue streams easily identifiable from HEI reports and accounts. Nevertheless, it is a useful benchmarking tool – and, more importantly, its inclusion in the framework encourages important oversight by ensuring institution-specific revenue diversification is interrogated at Board-level.

Sustainable growth performance indicators

In each category of HEI (sorted according to revenue size), there is significant variability across the three sustainable growth performance indicators:

YAGO Income Growth

In income growth (24/25 compared to 23/24 – i.e. one year ago, hence YAGO), a measure of execution momentum and tactical income acceleration, top quartile institutions are achieving YAGO income growth of over 6%, with the bottom quartile at -4% on this measure.

(Total income in 2024/25 – total income in 2023/24) divided by Total income in 2023/24

2025 total revenue category - top quartile

- <£100m: 40% (19/47)
- £101m - £999m: 15% (15/103)
- >£1bn: 60% (6/10)

2025 total revenue category - bottom quartile

- <£100m: 23% (11/47)
- £101m - £999m: 28% (29/103)
- >£1bn: 0% (0/10)

Compound Income Growth

For compound income growth (measuring sustained structural expansion and long-term viability), HEIs in the top quartile reach >6%, with those in the bottom quartile achieving <2%.

Total income in 2024/25 divided by Total income in 2019/20 ^ (1/6)-1

2025 total revenue category - top quartile

- <£100m: 30% (13/43)
- £101m - £999m: 21% (21/102)
- >£1bn: 50% (5/10)

2025 total revenue category - bottom quartile

- <£100m: 26% (11/43)
- £101m - £999m: 27% (28/102)
- >£1bn: 0% (0/10)

Revenue Concentration Index

Revenue Concentration Index (RCI) is a measure of how diversified an institution's revenue sources are. This analyses the principal income sources, i.e. home tuition fees, international tuition fees, research income and all other income. This enables identification of whether an institution is exposed to high level of dependency on particular revenue sources or whether it has a more mixed income base. It is measured as:

$(RCI = (R1^2 / RT^2) + (R2^2 / RT^2) + \dots + (Rn^2 / RT^2)$. Where $R1, R2, \dots, Rn$: Revenue from each stream; RT : Total revenue; n : Number of revenue streams.

For RCI, top quartile institutions have an RCI of <0.31, with bottom quartile universities at >0.45.

2025 total revenue category - top quartile

- <£100m: 0% (0/47)
- £101m - £999m: 32% (33/103)
- >£1bn: 70% (7/10)

2025 total revenue category - bottom quartile

- <£100m: 60% (28/47)
- £101m - £999m: 11% (11/103)
- >£1bn: 10% (1/10)



Quartile Analysis: Economies of Scale, Productivity and Efficiency

Despite its advantages, using growth as the starting point for analysis also has limitations, as growth can mask inefficiency. An institution may grow rapidly while becoming structurally inefficient, with rising administrative overheads, declining productivity and increasing marginal costs. Growth may also reflect temporary market conditions and can increase financial volatility if it is not supported by strong operating structures.

For this reason, measuring growth must be accompanied by analysis of scale, productivity and efficiency.

The remaining dimensions of the operating model diagnostic framework test whether growth is producing:

- **Economies of scale** – whether growth is reducing unit costs.
- **Workforce productivity** – whether activity is translating into output of value.
- **Cost and economic efficiency, together with operational and financial liquidity** – whether the institution is converting its resources into sustainable financial performance while maintaining enough cash and financial flexibility to operate safely.

This approach evaluates strategic strength before operational efficiency, providing a clearer understanding of institutional sustainability.

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“An institution may grow rapidly while becoming structurally inefficient, with rising administrative overheads, declining productivity and increasing marginal costs.”



The analysis uses the following measures:

Marginal cost ratio (2020–2025)

A measure comparing the change in expenditure and income over a fixed period (since the 2019/20 reporting year) to identify where expenditure is increasing faster than income. Providers without data for 2019/20 are excluded from the calculation.

Marginal cost ratio = (Change in expenditure between 2024/25 and 2019/20) divided by (Change in income between 2024/25 and 2019/20).

Income per staff FTE (2025)

A measure of productivity identifying the average level of income generated by each staff full-time equivalent (FTE). This measure includes all staff FTEs disclosed in the financial statements.

Income per staff FTE = Total consolidated income divided by total staff FTEs

Staff costs as a percentage of income

A measure showing the relationship between income and staffing costs, as disclosed in the financial statements. This may include staff restructuring costs and pension charges.

Staff costs as a percentage of income = Total staff costs divided by total income.

Surplus as a percentage of income

A measure of financial performance showing the proportion of total income retained as surplus.

Surplus as a percentage of income = Reported surplus divided by total consolidated income.

Operating cashflow as a percentage of income

A measure of cash generation showing the level of net cash generated (or used) by operating activities relative to income. The cashflow figure is taken from the cashflow statement.

Operating cashflow as a percentage of income = Reported net cash inflow or outflow from operating activities divided by total consolidated income

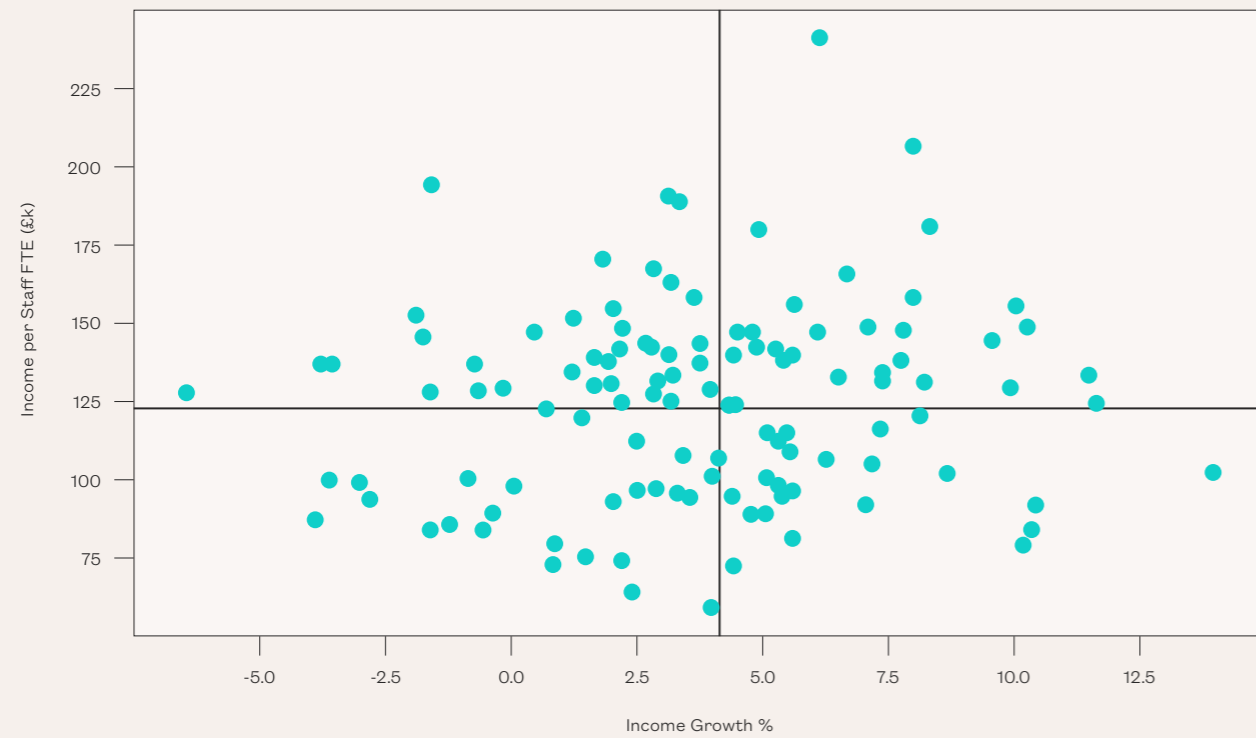
Operating days cost cover

A measure of liquidity indicating the number of days of expenditure an institution could cover using available cash at the reporting date. There are several different ways of measuring operating days cost cover, combined with presentational differences in institutional annual reports. Some methodologies focus solely on cash, whereas others include both cash and current asset investments. Some institutions present cash held on deposit separately within their financial statements. This can result in major differences in the calculated number of operating days' cash on hand depending on the methodology used. This report includes the HESA Key Financial Indicator method.

(Cash + Current Asset Investments) divided by (Operating Expenditure – Depreciation) multiplied by 365

Bringing together the diverse measures of our operating model diagnostic framework, we can plot a positioning matrix, illustrating the significant structural divergence across the sector. Institutions in the upper-right quadrant combine strong growth and high productivity. Income per staff member is one of the most significant differentiators between financially resilient and structurally fragile institutions. Universities with high staff cost structures frequently experience weaker operating cashflow, limiting their ability to invest in infrastructure or absorb economic shocks.

Sector Positioning Matrix: Growth vs Productivity



Further analysis and case studies will be published in an ancillary report by the University of East London. For more, go to uel.ac.uk/advancing-institutional-maturity or email publicaffairs@uel.ac.uk.



04.

From Analysis to Implementation



Institutional Archetypes

Across the UK sector, growth has not consistently translated into structural advantage. Institutions that expanded revenue without improving scale or productivity have often experienced declining financial resilience.

Three broad structural archetypes emerge:

Archetype	Description	Strategic Outlook
Structural Leaders	Growth combined with productivity and liquidity strength	Strong strategic optionality
Scaling Institutions	Growth but mixed operational efficiency	At risk of margin pressure
Structurally Fragile Institutions	Weak growth and structural inefficiencies	High risk without intervention

Common patterns for institutions demonstrating structural weakness across multiple dimensions include declining income, high staff cost ratios (>60%), negative operating margins, and weak

cashflow. These institutions are exposed to operating model stress rather than cyclical volatility. Key breakpoints include:

Key breakpoints:

Breakpoint	Symptom	Strategic Risk
Growth without scale	Marginal cost ratio stagnant	Margin erosion
Scale without productivity	Low income per staff FTE	Structural inefficiency
Surplus without cash	Weak operating cashflow	Liquidity pressure
Revenue concentration	High concentration index	Funding volatility
Growth with low reserves	Weak cost cover	Fragility in downturn

Governing bodies can use these indicators to test strategic resilience, including the sustainability of strategic plans, evaluation of cost structures, assessment of revenue risk exposure and to determine investment capacity. Understanding where an institution sits within this framework allows leadership teams and governing bodies to shift the discussion from annual financial performance to operating model health, and to support the deployment of financial strength into long-term strategic advantage.

The diversity of the sector demonstrated across this analysis means that there is of course no prescriptive pathway to suit all circumstances. To take one example: universities with higher reserves or a stronger balance sheet typically experience less immediate pressure to take rapid financial action even when facing difficulties. Substantial reserves can cushion short-term shocks and provide institutions with greater resilience against fluctuations in income, meaning the urgency to implement corrective measures may be lower on a year-to-year basis compared with institutions that have limited financial buffers. In many cases, however, such financial strength is not accidental; it may reflect sustained attention to financial sustainability metrics and careful strategic choices about growth, investment, and risk over time.

Institutions that combine diversified revenue, scalable cost structures, productive workforces and strong cash generation will possess strategic flexibility and resilience. Those that expand income without addressing structural inefficiencies risk entering a cycle of growth without financial strength. The variance in the sector suggests that whilst there are overall pressures on the underlying funding model of higher education, it is clear where effective governance and leadership is being realised and where we need to address challenges in response to government provocations.

The operating model diagnostic presented here provides university leaders and governing bodies with a practical framework to evaluate structural health, identify strategic risks, and prioritise transformation initiatives.



Strategic Levers for Performance Enhancement – *Organic growth and diversification*

A central strategic lever for institutional performance is the pursuit of sustainable organic growth alongside diversification of income. This involves expanding overall income while broadening the range of income streams from which that income is derived. Achieving this requires deliberate efforts to strengthen market attractiveness and deepen stakeholder engagement, both of which can serve as proxies for institutional relevance and reach.

As discussed, growth should not be pursued for its own sake. Rather, it is instrumental in several important respects. First, it increases the scale and impact of an institution's charitable objects. Secondly, it builds critical mass and enhances influence with priority external stakeholders, while also creating the conditions in which economies of scale may emerge. Thirdly, growth is typically required simply to offset inflationary pressures, unless an institution is capable of delivering an annual strategic efficiency programme capable of achieving cost reductions in excess of five per cent within a single year. In this sense, growth plays a central role in maintaining both financial sustainability and strategic momentum.

Value creation must remain at the centre of this agenda. Growth in higher education should not be interpreted simply as an increase in student numbers or as dependence on a single dominant source of income. Nor can it be reduced to generic expansion strategies such as extending franchise networks or establishing international campuses in the expectation that demand will automatically materialise. Approaches of this kind, when pursued without a clearly articulated value proposition and supporting strategy, rarely deliver sustained impact. Durable growth instead

requires institutions to strengthen a distinctive institutional proposition, diversify and extend revenue streams, and increase the reach and significance of their charitable purpose.

Sustainable growth also depends on a rigorous understanding of financial performance across the institutional portfolio. Universities should systematically track how each revenue stream has evolved over time, analyse the associated acquisition and delivery costs, and evaluate the level of surplus generated by different activities. This analysis should inform decisions about whether resources are being managed through a single institutional operating model or through differentiated approaches aligned to the characteristics of each income stream. Active management and continuous monitoring are essential if growth is to remain financially viable and strategically coherent.

Growth must be intentional, strategic, and future-focused. Responsibility for enabling growth must extend beyond the marketing function. It sits with the Vice-Chancellor, the senior leadership team, and the wider institutional community. When growth becomes embedded in organisational culture and day-to-day decision making, rather than treated as a peripheral initiative, institutions are far more likely to sustain momentum over time.

Re-engineering Efficiency

Efficiency must move beyond periodic cycles of cost reduction and instead focus on structural elimination of waste within the operating model. This involves simplifying processes, introducing automation where appropriate, and managing demand in ways that reduce unnecessary complexity across the organisation. The aim is not short-term cost cutting but the creation of a leaner and more resilient operating structure capable of supporting sustainable growth.

Designing Productivity Gains

Productivity improvements rarely arise from simply intensifying effort. Instead, they are achieved through the redesign of workflows, portfolios, and delivery models. This may involve reconsidering the structure of academic provision, streamlining administrative processes, and aligning resources more closely with activities that generate the greatest educational and societal value.

Governing Growth Economics

Growth strategies must also be governed through a disciplined understanding of underlying economics. This includes modelling marginal costs, establishing clear thresholds for contribution margins, and maintaining transparency around the costs associated with acquiring new income streams. Institutions must also consider the composition of their portfolio, ensuring that the mix of activities supports both strategic objectives and long-term financial sustainability.



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The aim is not short-term cost cutting but the creation of a leaner and more resilient operating structure capable of supporting sustainable growth.”

The useful questions for leaders considering this lever for financial health include:

- Do you have clarity on what extending your charitable objects means for you, for your region, in an evolving economy?
- Is your Board clear on its ambition, risk appetite, and pace – or are you guessing? What thought experiments have you undertaken to test this?
- Is your product (in the widest sense) genuinely fit for the future? What future? For whom?
- Are you tracking changing learner needs at the pace they're changing?
- Are you relying on reputational legacy, or actively building relevance for today and the future? Do you design your strategy for journalist-created league tables?
- Does your CMO, or your equivalent, sit at UEB level?
- How do we know that our curriculum (product) delivers when GOS lags and response rates are low? How do we internally know we have delivered impact?

In this context, sustainable growth is not about incremental expansion. It is about understanding how learner needs are evolving, how markets are changing, and how an institution's charitable purpose can be extended in ways that are both meaningful and measurable. Achieving this requires clarity about costs, about which activities generate surplus, and which consume it, and about whether institutional strategy is being shaped by contemporary relevance or by legacy reputation.



Strategic Levers for Performance Enhancement – *Non-organic growth and diversification*

A further strategic lever for institutional performance is non-organic growth, achieved through collaboration, structural partnerships, shared platforms, and selective mergers or acquisitions. This is an area in which the sector's untapped agency may be greatest. Universities collaborate instinctively in teaching and research, yet they have often remained cautious when it comes to shared platforms, joint delivery models, or deeper forms of structural partnership.

Undertaking new forms of activity and realising opportunity inevitably involve risk. The critical capability of leadership lies in converting that risk into managed opportunity through disciplined governance, clear strategic intent, and effective execution. Structural financial pressures, accelerating technological change, shifting labour market expectations, and growing public scepticism about the value of higher education are combining to create sustained strategic risk. Traditional institutional models characterised by operating independently, duplicating infrastructure, and competing for shrinking

domestic and volatile international markets are increasingly insufficient to secure long-term sustainability or maintain public legitimacy.

In this context, the case for collaboration becomes more compelling – with several key possibilities for the sector outlined in the UUK Transformation and Efficiency Taskforce's first two reports.

Shared investment can reduce duplication, extend reach, and generate both immediate efficiencies and longer-term value creation. Co-ordinated action can accelerate innovation and productivity improvements, while collaborative intelligence can support more informed resource allocation and stronger sector foresight. Collaboration can therefore create shared capacity at pace, particularly where the capabilities required would be prohibitively expensive or operationally inefficient for a single institution to develop independently. It can also generate the critical mass necessary to enhance competitiveness in reputation, stakeholder confidence, and market positioning.

The drivers of mergers, acquisitions, and structured collaboration span both strategic and financial considerations. Strategically, institutions may pursue market expansion, increased market share, diversification of provision and services, technological advancement, competitive advantage, and enhanced access to talent and resources. Financially, the incentives include economies of scale and scope, strengthened balance sheets, and the acquisition of valuable assets, each contributing to improved resilience and stronger sector leadership. It may involve mergers or acquisitions, but it may equally involve the targeted acquisition of capabilities, disciplines, or markets that improve institutional effectiveness rather than simply increasing scale.

At its core, collaboration is fundamentally concerned with long-term value creation. Governing bodies can sometimes assume that their primary responsibility is to preserve the institution or its brand. In reality, their fiduciary duty is to ensure that the charitable objects are advanced. The central question must therefore be what value the institution is creating for its communities, and how that value can be demonstrated. Rather than focusing primarily on legal structures or regulatory considerations, the emphasis should be on how collaboration can support strategic transformation and deliver clear public benefit

Leveraging Collaboration

Strategic partnerships, shared services, and selective mergers can provide opportunities to achieve structural scale that would otherwise be difficult for individual institutions to realise independently. The benefits, however, depend on the depth of integration achieved. Superficial collaboration rarely delivers significant impact, whereas deeper partnerships can unlock efficiencies, enhance capability, and support long-term strategic transformation.

Key reflection points for leaders here are:

- How well-developed are your collaboration explorations?
- Are these live, regular Board-level conversations, or 'nice to have' ideas that never move?
- Are you focusing simply on process (the legal model or the tax structure), or on quantified strategic benefits?
- Have you examined regional versus regionally dislocated models?
- Are you only chasing efficiencies, or are you seeking value creation?

Implementation Pathway

Transformation at scale requires clarity of strategic intent and a clear distinction between institutional ambition and financial affordability. It also requires board level visibility of marginal economics, together with strong accountability for forecasting and delivery. Sustainable change is supported by a continuous cadence of improvement rather than periodic restructuring exercises. Organisational performance is often undermined by leadership drift, prolonged consensus building that delays decision making, and cycles of episodic restructuring that fail to address underlying operational issues.

Implementation of transformation which embeds the lessons of this report's analysis can follow a **staged implementation pathway**:

1

Stabilisation

Focus on protecting liquidity, restoring confidence in financial forecasting, and identifying immediate opportunities to improve efficiency.

2

Optimisation

Focus on portfolio redesign, improvements in workforce productivity, and the integration of marginal economic analysis into routine decision-making.

3

Strategic scaling

Focus on aligning growth with scale efficiencies, supported by digital capability and structural collaboration across organisational boundaries.

Transformation at this scale also carries several risks. These include cultural resistance to change, the possibility that service quality deteriorates during periods of adjustment, disputes over the credibility of underlying data, and the cumulative effects of change fatigue within the organisation. Effective mitigation depends on careful sequencing of reforms, transparency in decision making, and consistency of leadership throughout the process.

Appendix 3 summarises a self-assessment framework designed to support a rapid executive diagnostic of managerial maturity across the principal strategic levers for performance enhancement.

Appendix 4 presents an Executive Dashboard Framework intended to support executive decision making through the clear separation of metrics relating to financial resilience, efficiency, productivity, economies of scale, and strategic growth.



05.

Conclusion: A Call to Collaborate



The higher education sector is transitioning from an era defined by expansion and incremental optimisation to one that demands structural performance maturity. Institutional success will increasingly depend on the ability to align mission, market, operating model, and marginal economics. Efficiency alone is finite; sustainable value creation arises from the integration of productivity improvements and disciplined management of scale.

This report and others have touched on the various ways in which long-term value creation can be achieved. We will conclude with a reflection on one particular avenue, however. Regionally dislocated structural collaboration – formal, cross-geography partnerships that extend beyond loose alliances into shared delivery models, joint ventures, co-owned assets, and integrated governance – is expected to become a defining capability for UK higher education over the coming decade.

While efficiency gains from structural changes such as mergers can be transitory, sustained operational partnerships offer a key pathway to mitigate unprecedented financial risk and manage acute liquidity challenges across the sector. Collaboration has therefore emerged as a critical mechanism for achieving structural efficiency and long-term resilience. This is not simply a defensive response to financial pressure. It represents a fundamental shift in operating model, driven by a system in which scale, specialisation, and networked delivery are increasingly the determinants of institutional resilience and long-term relevance.

The economic context is unambiguous. The sector is experiencing a structural squeeze, characterised by capped domestic tuition fees, volatility in international student demand, rising cost bases, and intensifying competition from both domestic and global alternative providers. Under these conditions, the traditional model of the comprehensive, self-sufficient institution is becoming progressively more difficult to deliver..

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Collaboration has therefore emerged as a critical mechanism for achieving structural efficiency and long-term resilience.”



It is no longer efficient – or in many cases possible – for individual universities to sustain both breadth and depth across teaching, research, and infrastructure.

Regionally dislocated collaboration could offer a route to what might be termed distributed scale: the ability to aggregate demand, share fixed costs, and co-invest in critical capabilities, while simultaneously differentiating academic strengths across a network of partners. This aims to enable institutions to capture the benefits of scale without incurring the inefficiencies associated with duplication.

At the same time, the prevailing policy emphasis on place is increasingly misaligned with the reality of how economic activity, research ecosystems, and student markets now operate. These are inherently networked and multi-local, rather than confined to single geographies. Structural collaboration across regions allows institutions to connect complementary strengths in a more deliberate and strategic way – for example, linking research-intensive capacity with teaching-led provision embedded in local skills ecosystems,

or aligning different regional economic priorities into coherent, cross-cutting programmes. In doing so, universities are better positioned to respond to complex labour market demands, strengthen the credibility of funding bids, and contribute meaningfully to national priorities such as productivity and regional growth, which themselves transcend administrative boundaries.

The implications for academic portfolio design are equally significant. Maintaining a full-spectrum subject offering within each institution is increasingly untenable, particularly in areas characterised by low enrolment and high delivery costs. Structural collaboration enables a more rational allocation of provision across a group of institutions, consolidating niche or capital-intensive disciplines into shared centres of excellence while expanding high-demand areas through coordinated delivery. This approach not only improves efficiency but also enables more deliberate risk-sharing. Investments in new programmes, transnational education, or advanced research infrastructure can be undertaken jointly, reducing exposure at the level of any single institution and enabling a more

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Collaborative models enable co-investment in shared digital infrastructure, as well as common standards and systems, reducing fragmentation and accelerating implementation.”

ambitious strategic posture.

From a student perspective, expectations are evolving rapidly towards flexibility, modularity, and demonstrable outcomes. Cross-institutional structures are uniquely well placed to respond to this shift. They enable the creation of more flexible learning pathways, including shared modules, stackable credentials, and opportunities for mobility across multiple campuses or delivery modes. In parallel, they allow for the development of more integrated employer engagement models, combining networks, placements, and enterprise support across partner institutions. The result is a stronger and more differentiated student value proposition, particularly in parts of the sector that are most exposed to competitive pressures.

The same logic applies in research and innovation. Global competition increasingly rewards critical mass, interdisciplinarity, and access to high-quality infrastructure. For many institutions, these thresholds are difficult to reach independently. Regionally dislocated collaboration provides a mechanism to assemble sufficient scale through virtual institutes, shared facilities, and coordinated research strategies. This not only enhances competitiveness for major funding opportunities but also strengthens the ability to engage with industry partners seeking integrated, multi-disciplinary solutions at scale.

Digital transformation further reinforces the case for structural collaboration. The next phase of development – encompassing AI-enabled services, advanced learning technologies, and secure data environments – requires significant and sustained investment, as well as specialist capability that is unevenly distributed across the sector. Collaborative models enable co-investment in shared digital infrastructure, as well as common standards and systems, reducing fragmentation and accelerating implementation. In a resource-constrained environment, this is likely to become one of the most immediate and



tangible areas of value creation.

Despite this compelling strategic rationale, progress across the sector has been limited. The constraints are well understood – governance cultures tend to prioritise institutional autonomy and risk mitigation, leading to a cautious approach to structural change. At the same time, many institutions lack the commercial and transactional capability required to design and execute complex partnerships. This is compounded by a policy and regulatory environment that does not consistently incentivise deep, structural forms of collaboration, instead favouring lighter-touch, short-term arrangements.

However, these constraints, while real, are not determinative. They explain the current level of inertia but do not alter the underlying trajectory of the system.

The critical issue is not whether collaboration will become more important, but which institutions will move early enough – and decisively enough – to capture its benefits.

Moving from rhetoric to execution requires a shift in how collaboration is positioned within institutional strategy. It must be treated as a core strategic lever rather than an adjunct activity. This begins at Board level, where there is a need for structured, evidence-based consideration of the full range of structural collaboration options, including their financial, operational, and strategic implications. It also requires a more disciplined approach to implementation, focusing initially on high-impact, clearly bounded opportunities where value can be demonstrated within a relatively short timeframe. Equally important is the creation of appropriate delivery vehicles – formal entities with clear governance, delegated authority, and professional management – capable of executing joint activity at pace and scale.

Underlying all of this is the need to strengthen commercial capability within the sector. Effective

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Those that fail to adapt will face increasing pressure from duplicated cost structures, fragile academic portfolios, and declining competitiveness in both student and research markets.”



collaboration at this level depends on the ability to structure deals, manage partnerships, and integrate operations in a way that is still relatively underdeveloped in many institutions. Internal incentives must also be aligned so that collaboration is rewarded rather than resisted, particularly at faculty and service level where much of the practical implementation occurs.

Finally, there is a need for more proactive engagement with regulators, politicians, and funders to shape an environment that better supports structural innovation, including the potential for greater flexibility where collaboration demonstrably delivers public value. This involves accepting that, despite our autonomy, the sector’s strategic outlook is also shaped by political will. Wholesale transformation cannot be delivered by individual universities acting in isolation; systemic intervention by government is required to clarify legal frameworks for collaboration and to support it through targeted funding.

The cost of inaction is likely to be both material and accelerating. As some institutions begin to build networked scale, optimise their portfolios, and co-invest in critical capabilities, performance differentials across the sector will widen. Those that fail to adapt will face increasing pressure from duplicated cost structures, fragile academic portfolios, and declining competitiveness in both student and research markets.

Regionally dislocated structural collaboration should therefore be understood not as an optional innovation, but as a relevant evolution of the higher education operating model. While governance conservatism and limited external levers may slow its adoption, they do not change its significance. Institutions that do not fully explore all available options risk not only missing a strategic opportunity, but falling behind in a system that may progressively reconfigure around new, coordinated models of provision.

The adoption of a ‘new era of collaboration’ will

determine whether institutional diversity and quality can be preserved, or whether widespread failure will compromise these outcomes.

The environment in which universities operate remains volatile and constantly evolving. Strategy must therefore be a living, embedded practice rather than the responsibility of a siloed change management team. It should guide decision making in every activity and communication across the institution.

Significant transformation requires clear direction. Leadership must articulate the destination, deploy the right levers to achieve it, prioritise necessary actions over comfortable ones, and confront the most difficult challenges first. Only with such deliberate and disciplined leadership can institutions secure sustainable growth, operational resilience, and long-term strategic impact.

Appendix 1 – Institutional Maturity Self-Assessment Tool

Rate each statement:

- 1 Not in place 2 Emerging 3 Established
 4 Embedded 5 Systematically Optimised

A. Efficiency Discipline

- Multi-year efficiency strategy exists beyond short-term cuts
- Process redesign precedes headcount reduction
- Cost per transaction measured in key services
- Staff cost ratio actively governed
- Administrative growth formally challenged

B. Productivity Management

- Teaching productivity metrics tracked by faculty
- Contribution margin informs portfolio decisions
- Module scale thresholds defined
- Timetabling efficiency measured
- Research productivity measured per academic FTE

C. Economies of Scale Governance

- Marginal Cost Ratio regularly reported
- Growth proposals require marginal analysis
- Central services cost vs enrolment tracked
- Scale diseconomies explicitly modelled
- Growth evaluated for surplus creation, not volume alone

D. Growth and Diversification Strategy

- Revenue streams analysed separately
- Acquisition costs measured by channel
- Growth aligned to margin thresholds
- Portfolio mix actively optimised
- Diversification risk modelled

E. Leadership and Governance

- Board reviews efficiency/productivity/scale separately
- Forecasting accuracy measured and owned
- Budgets separated from ambition targets
- Continuous transformation cadence exists
- Strategic narrative consistently communicated

Maturity Interpretation

Average Score:

1-2: Reactive Survival

- Institutions rely on episodic restructures and short-term savings measures.
- Forecasting variance is high, and performance management relies primarily on lagging indicators.
- Financial stability is maintained through periodic corrective interventions rather than systematic performance management.

2.1 – 3: Managed Efficiency

- Efficiency programmes become formalised and budgetary control improves.
- While cost management strengthens, productivity drivers and the economics of scale are not yet consistently governed across the institution.

3.1 – 4: Integrated Performance

- Institutions differentiate clearly between efficiency, productivity, and scale metrics.
- Contribution margins increasingly inform academic portfolio decisions, and marginal cost ratios inform growth governance and programme expansion.

4.1 – 5: Strategic Value Creation

- Operating models are intentionally designed for scalable economics.
- Growth strengthens rather than weakens unit costs, digital leverage expands productivity, and transformation becomes embedded within institutional culture rather than delivered through discrete change initiatives.

Appendix 2 – Executive Dashboard Framework

This framework is designed to support executive decision-making through clear separation of financial resilience, efficiency, productivity, economies of scale, and strategic growth metrics. Reflection should include a concise narrative explaining observed trends, emerging risks, and recommended management actions. Interpretation should prioritise trajectory and marginal dynamics rather than static point-in-time comparisons.

RAG (Red–Amber–Green) indicators provide rapid visual signals of performance, risk, and management priority. Thresholds should be calibrated to institutional context, peer group, and strategic risk appetite. The ranges below are illustrative sector-informed guidelines.



Financial Resilience

Metric	Current	Trend	Benchmark	RAG Status
Net Liquidity Days				
Operating Cash-Flow Ratio				
Staff Costs % of Income				
Year-on-Year Income Growth				

Net Liquidity Days: Indicates short-term financial resilience and capacity to absorb shocks. Values below ~60 days may signal elevated liquidity risk.

- **Green:** ≥90 days – Strong resilience
- **Amber:** 60–89 days – Monitor closely
- **Red:** <60 days – Elevated liquidity risk

Staff Costs % of Income: Proxy for structural flexibility. Ratios above ~55–60% may constrain ability to respond to income volatility.

- **Green:** ≤52% – Sustainable flexibility
- **Amber:** 52.1–58% – Watch cost drift
- **Red:** >58% – Structural rigidity risk

Operating Cash-Flow Ratio: Measures the institution’s ability to generate cash internally. Persistent values below ~5% suggest structural margin pressure.

- **Green:** ≥8% – Healthy cash generation
- **Amber:** 5–7.9% – Margin pressure emerging
- **Red:** <5% – Structural sustainability concern

Year-on-Year Income Growth: Signals demand strength and portfolio momentum. Negative trends require examination of recruitment, retention, and pricing dynamics.

- **Green:** ≥3% real-terms growth
- **Amber:** 0–2.9% – Flat/stagnating
- **Red:** <0% – Demand or portfolio risk

Efficiency

Metric	Current	Trend	Benchmark	RAG Status
Staff Cost per Student FTE				
Administrative Cost Ratio				
Cost per Transaction				
Estates Cost per m ²				

Staff Cost per Student FTE: Indicates teaching cost efficiency relative to scale. Rising trends without quality gains may signal delivery inefficiency.

- **Green:** Below peer median and declining
- **Amber:** At peer median or flat
- **Red:** Above peer median and rising

Administrative Cost Ratio: Measures overhead burden. Upward drift may reflect service creep, compliance expansion, or duplication.

- **Green:** ≤ peer median and stable/declining
- **Amber:** Slight upward drift
- **Red:** Sustained increase vs peers

Cost per Transaction: Direct efficiency measure. Improvements typically require automation, simplification, or demand reduction.

- **Green:** ≥10% YoY efficiency improvement
- **Amber:** Minor improvement (<10%)
- **Red:** No improvement or rising cost

Estates Cost per m²: Signals asset efficiency. Elevated costs may indicate underutilisation, maintenance burden, or estate complexity.

- **Green:** Declining trend without outcome deterioration
- **Amber:** Stable trend
- **Red:** Rising cost without quality gains

Productivity

Metric	Current	Trend	Benchmark	RAG Status
Teaching Cost per Student				
Students per Module Run				
Continuation Rate				
Space Utilisation				
Research Income per Academic FTE				
Grant success rate				

Teaching Cost per Student: Core instructional efficiency metric. Should be interpreted alongside subject mix and continuation outcomes.

- **Green:** Declining trend without outcome deterioration
- **Amber:** Stable trend
- **Red:** Rising cost without quality gains

Students per Module Run: Scale efficiency indicator. Persistently low values may reveal fragmentation or niche provision risks.

- **Green:** Above minimum viable cohort and improving
- **Amber:** At threshold
- **Red:** Below threshold / persistent fragmentation

Continuation Rate: Leading indicator of both student success and financial leakage. Retention gains often outperform recruitment growth in ROI terms.

- **Green:** Above peer median and improving
- **Amber:** At peer median
- **Red:** Below peer median / declining

Space Utilisation: Productivity measure of estate usage. Low utilisation reflects hidden capacity and cost inefficiency.

- **Green:** ≥40% (typical sector target range)
- **Amber:** 30–39%
- **Red:** <30% – Underutilisation risk

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Research Income per Academic FTE: Research productivity proxy. Must be benchmarked by discipline and mission group.

- **Green:** Above peer median and rising
- **Amber:** Near peer median
- **Red:** Below peer median / declining

Grant Success Rate: Pipeline effectiveness indicator. Low rates suggest bid quality, targeting, or support process issues.

- **Green:** \geq peer median and improving
- **Amber:** Slightly below median
- **Red:** Persistently weak conversion

Economies of Scale

Metric	Current	Trend	Benchmark	RAG Status
Marginal Cost Ratio				
Central Services Cost per Student				
Average Cost per Student vs Enrolment				

Marginal Cost Ratio: Critical scale metric. Ratios above 1.0 indicate growth destroying value; ratios below -0.5 indicate healthy scalability.

- **Green:** ≤ 0.5 – Healthy scale economics
- **Amber:** 0.51–0.9 – Fragile scalability
- **Red:** > 0.9 – Non-value enhancing growth risk

Central Services Cost per Student: Tests whether overhead scales efficiently with enrolment growth.

- **Green:** Declining with enrolment growth
- **Amber:** Flat trend
- **Red:** Rising cost despite scale

Average Cost per Student vs Enrolment: Reveals economies or diseconomies of scale. Look for downward slope until congestion effects emerge.

- **Green:** Average cost per student declining as enrolment rises; downward-sloping cost curve over two or more years; below peer median; no deterioration in continuation, satisfaction, or outcomes.
- **Amber:** Average cost per student broadly flat despite enrolment growth; mixed movement over time; near peer median; scale benefits not yet fully realised or offset by investment/complexity.
- **Red:** Average cost per student rising alongside enrolment growth; upward-sloping cost curve; above peer median; indicates potential diseconomies of scale or cost structure inefficiency.

Efficiency

Metric	Current	Trend	Benchmark	RAG Status
Recruitment Power vs Sector				
Contribution Margin by Programme				
Income Diversification Index				
Acquisition Cost per Channel				

Recruitment power versus sector: Measures competitive market position by comparing institutional first-year entrant growth against sector-average growth. Functions as a leading indicator of demand strength, brand attractiveness, and income trajectory risk. Persistent underperformance signals market relevance risks.

Green: Entrant growth consistently above sector average; positive momentum over two or more cycles; indicates strengthening market share and demand resilience

Amber: Entrant growth broadly in line with sector average; stable but not gaining share; requires monitoring for early signs of competitive weakening.

Red: Entrant growth persistently below sector average or declining while sector grows; signals market relevance risk, potential income pressure, or portfolio/pricing challenges.

Contribution Margin by Programme: Portfolio sustainability metric. Negative margins require strategic justification or redesign.

Green: Positive and improving

Amber: Marginal / volatile

Red: Negative without strategic justification

Income Diversification Index: Risk distribution measure. Concentration increases vulnerability to market shocks.

Green: Balanced distribution

Amber: Moderate concentration

Red: High concentration / exposure risk

Acquisition Cost per Channel: Growth efficiency metric. Rising costs may signal declining conversion or channel saturation.

Green: Stable/declining CAC

Amber: Rising CAC (<10%)

Red: Rapid CAC inflation / falling conversion

Docklands Campus

University Way London
E16 2RD


University Square Stratford

1 Salway Road London
E15 1NF


Stratford Campus

Water Lane London
E15 4LZ

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publicaffairs@uel.ac.uk

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