Universities UK's written representation to HM Treasury's Budget 2018

28 September 2018

About us

Universities UK (UUK) is the representative organisation for the UK’s universities. Founded in 1918, its mission is to be the voice for universities in the UK, providing high quality leadership and support to its members to promote a successful and diverse higher education sector. With 136 members and offices in London, Cardiff (Universities Wales) and Edinburgh (Universities Scotland), it promotes the strength and success of UK universities nationally and internationally.

Introduction

Higher education plays a leading role in producing a highly skilled workforce, generating and translating world-class research and driving innovation in all regions and nations of the UK. It is well positioned to help government achieve its ambitions for raising productivity, meeting rapidly changing workforce needs and ensuring everyone can fulfil their potential. Universities play important national and global roles, attracting inward investment, but also supporting growth at the local and regional level by providing and creating jobs, and leading on local economic and social issues.

We welcome the opportunity to submit evidence ahead of the 2018 Budget. This submission covers those areas where higher education can make a significant contribution to the government’s ambitions, setting out background evidence and specific policy proposals where relevant.
Post-18 education and skills

A successful post-18 education and skills system will ensure the country is able to meet its aspirations and thrive as an internationally competitive economy. Higher education has a vital and diverse role to play, supplying a highly skilled and employable workforce across the breadth of the economy. As well as delivery of academic provision and equipping people with flexible and transferable skills valued by employers, this includes a wide range of technical, vocational and professional courses. 41% of provision at universities has a technical or professional element.

Universities will help meet increasing demand for high-level skills as demographics, workforces and the economy continue to shift.¹ In 2016, 440,000 new professional level jobs were created, yet there were only 316,690 first-degree UK-based graduates, leaving a recruitment gap of 123,310, more than double that in 2015.

The 2018 National Student Experience Survey showed that satisfaction with higher education remains high. Graduates are also more likely to be employed, much less likely to be out of the labour force and earn significantly more than non-graduates (on average £10,000 more each year). The participation rate in higher education has increased, but with the premium for graduates (defined as the lifetime economic benefit for graduates relative to non-graduates) remaining constant. In 2013, the lifetime graduate premium was estimated to be £168,000 for men and £252,000 for women. Most importantly, the experience of higher education transforms the lives of individuals and unlocks opportunity.²

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1 Universities UK (2018), Solving future skills challenges
2 Universities UK (2018), Opportunity for everyone

The voice of universities

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We have a successful world leading higher education system across the UK, but there are challenges. A number of these have been noted by government and have led to the establishment by the Prime Minister of the post-18 review of education and funding in England led by Philip Augar. Universities UK’s priorities for the post-18 review are set out in our response to their call for evidence.\(^3\) In summary:

- Greater focus and support should be given to flexible learning.
- The financial concerns of students while studying need alleviating, including the reinstatement of maintenance grants, with new money, targeted at those that need them most.
- Fears of debt after graduation need addressing.
- There needs to be clearer tailored advice on the costs and benefits of higher education for prospective students and institutions need to focus more clearly on how they explain value for money.
- Government should look to pilot a loan reimbursement scheme for those areas where there is clear evidence of prolonged skills shortages.

To support our submission to the post-18 review we will be shortly publishing work that makes the economic case for flexible learning, with recommendations on strengthening this important area of provision. We will share this with government to complement the evidence and recommendations set out in this submission.

We recognise government will want to wait until the outcomes of the post-18 review before considering any significant changes to the current system. For this Budget it will be important to anticipate and identify opportunities. We also believe there are opportunities in the following areas the government may want to consider action.

\(^3\) Universities UK (2018), *Universities UK response to the review of post-18 education and funding call for evidence*
Degree and higher-level apprenticeships

Feedback from universities and from employers demonstrates strong enthusiasm for developing degree apprenticeships. Universities and larger employers have invested considerable time and energy to develop provision, and recruit and support apprentices. Over 100 universities in England are now on the register of approved training providers for degree apprenticeships. Whilst there are some challenges in getting consistent and reliable numbers of degree apprentices, a Universities UK survey from last year suggested that in England there would be 7,600 learners expected to be on these course in 2017/18. By the end of 2017, nine of Scotland’s universities and colleges were expected to deliver Graduate Apprenticeships. There has been significant growth in higher apprenticeships in Wales, with 5,980 individuals starting in 2015-16, with degree apprenticeships being introduced in 2018-19.

Growth in this area is encouraging, but overall the numbers remain small. We believe that government action, in partnership with employers and universities, can help bring about a step change in growth of this new and innovative area of provision. This will bring significant benefits in terms of addressing skills shortages, promoting social mobility and opportunities for individuals to embark on fulfilling careers.

In early 2019 Universities UK will be setting out our ambitions and a strategy for how degree apprenticeships can grow to address skills demand over the next five years, and we would like to work with government on this. In the short term, in England, we believe the government could provide the following support:

- **Ensure that the funding bands set for degree apprentices are sustainable** and do not act as a disincentive for institutions wishing to build provision, nor undermine the ability to establish high quality provision. We are particularly concerned over pressure to reduce the funding band for the Chartered Manager Degree Apprenticeship (CMDA). The CMDA is meeting employer need, boosting productivity and growth and has also been successful in widening the talent pool and increasing opportunities.
- Review the process for non-levy paying employers (mostly SMEs) to ensure they are not excluded. The current procurement process has created risks and the potential for cold spots across the country.

- Maintain and protect the degree as an essential part of the degree apprenticeship brand. This will secure credibility and quality and help with enhancing recruitment and status of degree apprentices in the labour market.

The imminent Universities UK report on flexible learning noted above will set out more detail on how we think the apprenticeship levy could be reformed and made more flexible to further encourage degree apprenticeships and diverse provision.

*Strengthening partnerships and collaboration across the tertiary system*

Recent research, conducted for Universities UK, highlights how higher and further education are working together in innovative and diverse ways to provide integrated pathways to higher level skills for learners on vocational and technical, as well as traditional academic routes. Universities and further education will each continue to play important and distinct roles in addressing skills needs, but these partnerships provide opportunities to build on mutual strengths and address the challenges of demand for levels 4 and 5 provision, enhancing social mobility, and reskilling and upskilling of those currently in the workplace.

Government support for the development of Institutes of Technology in England has been welcome and the response by higher and further education had been strong. We believe that the potential exists for building many more partnerships across a spectrum of models, driven by regional or sectoral needs. **We would welcome further government support to catalyse these relationships and unlock opportunities across the country.**
Efficiency and effectiveness of higher education

Universities are operating in an increasingly challenging environment. This includes increasing domestic and international competition, uncertainty over Brexit and increasing pressures on the cost base. They have also managed the transition from a largely publicly funded system to one that is now underpinned by fees and loans and is more competitive. The operating position of institutions is diverse and will be influenced by their ability to address these challenges, their own strategies and longer-term investment plans.

Almost all universities that receive public funding are charities and raise income from a wide range of sources. A number of institution report a surplus, but it is important to understand that any surplus income is reinvested back in to improving teaching and research, and innovating with business to support local and national growth. Without the ability to manage their own surpluses, universities would be unable to operate strategically, deliver the scale of investment required to meet student demands, remain internationally competitive and continue to be financially sustainable. Their ability to grow new areas, such as degree apprenticeships and more flexible provision would also be further constrained, stifling innovation.

In a more competitive environment all institutions will be actively examining ways they manage costs and deliver best value and respond to regional, national and international drivers. In the 2016/17 academic year, reporting by the then HEFCE (now the Office for Students), shows savings of £912 million, including significant benefits in areas such as collaborative procurement. This builds on a track record of reported efficiency over the last six years. These savings have enabled the sector to find the necessary headroom to reinvest, support sustainability and develop the student experience.

The voice of universities
Since its introduction the real terms value of the fee has been reduced to £7,920, due to restrictions on inflationary increases. This is combined with increasing pressures on costs. Pension reform presents a particular challenge. The sector is currently seeking to ensure the University Superannuation Scheme is affordable and sustainable in the future and is consulting institutions on the recommendations of the Joint Expert Panel, which examined the 2017 USS valuation, processes and assumptions.

A large number of institutions are also part of public service pension schemes. They have no control over this element of their cost base and indicative results of the 2016 valuation of the Teachers' Pension Scheme (England and Wales) suggests that employer contributions will need to rise by 7.2% (from 16.5% to 23.7%). We are also concerned over similarly significant increases in the NHS Pension Scheme, which will impact on higher education institutions that have links and partnerships with hospitals. This comes of the back of significant increases in the Local Government Pension Scheme over several years. Managing such large cost increases will present real challenges for many institutions and has the potential to impact negatively on the student experience.

We urge the government to immediately defer the implementation of these cost increases to allow an urgent review of the cost management process. The Universities and Colleges Employers Association (UCEA) will shortly provide further briefing on the impact of these proposals.

Higher education as an export industry

In 2016-17, 442,375 international students made up 19% of all students registered at UK universities (6% from the EU and 13% from non-EU countries). The income and economic activity of these students resulted in £25.8 billion in output and 206,600 jobs for the UK economy in 2014-15 alone. International students also enhance the academic experience of domestic students and add to the UK’s soft power abroad, with 57 current world leaders having been educated in the UK.

Despite the UK’s position as a world leading higher education system, our closest competitors continue to grow their proportion of international students at a faster rate than the UK. A key factor in this is the competitiveness of their post-study work offer. To ensure the UK can maximise expert earnings and wider benefits on international students we have called for a more attractive post-study work offer that aligns us better with our competitors.5

We have welcomed the recognition in the recent Migration Advisory Committee report of the significant benefits of international students to the UK. We would urge government to go further than the MAC recommendations and set out an ambitious strategy for growing international student numbers that has a competitive post-study work offer at its heart.

Research, innovation and local growth

The government’s continued and strong focus on research and innovation has been extremely welcome and is vital to the continued success and prosperity of the country. The UK remains a global research leader and progress towards the government’s ambitious targets for growth of R&D investment as a proportion of GDP will help ensure this position is maintained.

The Industrial Strategy Challenge Fund presents an opportunity to narrow disparities in R&D performance across the UK and recognise local industrial strengths if allocated effectively, such as by taking advantage of the government’s science and innovation audits. Universities UK has called for a more multidisciplinary approach to funding research, and the creative industries sector deal, with its focus on the audience of the future and creative industries clusters is welcome.

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5 Universities UK (2018), Parliamentary briefing: An improved post-study work system
An effective research and innovation funding system is one where a wide ecology of organisations undertaking research can collaborate and co-operate. There is no expectation that all higher education institutions will follow the same path of development. The strength of the sector is in the diverse range of organizational models that exist. **Consequently, the balance of public R&D funding should be exactly that: a balance between different schemes and initiatives that incentivize different types of behaviour.**

For universities, block grant (quality related, or QR) funding is particularly important. This is allocated on the basis of performance through the Research Excellence Framework, and allows institutions the flexibility to drive new areas, develop infrastructure, build partnerships and attract and retain talent. Given the importance of such funding to the UK research base, the UK government should raise levels of investment in QR while considering the impact on devolved nations.

The government should adopt a balanced approach to allocating extra investment across research and innovation, which addresses the current underfunding of research while encouraging a step change in UK innovation. We recognise that there is more to do to enhance the UK’s performance on innovation, and that this will be achieved by increasing collaborative capacity and ensuring that research is funded sustainably.

In addition to effective research investment based on initiatives like local industrial strategies and science and innovation audits, it is vital that the government ensures that the UK Shared Prosperity Fund (UKSPF) fully replaces structural funds and is effective at building capacity in less economically developed areas of the UK, with a smooth transition between the two schemes. Working with devolved administrations, the UKSPF should be sufficiently flexible to cover a broad range of local activity beyond large infrastructure projects, including

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**Further information on the significance of QR funding in building the capacity and capability of the UK’s research base is available in a report published by the Wellcome Trust (2018), Empowering UK universities: how strategic institutional support helps research thrive**
university-business collaboration, and have funding targeted appropriately for local needs.

Supporting universities to thrive post-Brexit

An effective post-Brexit settlement would allow universities to make a vital contribution to a successful and internationally competitive UK which attracts the world’s best talent. Universities welcome the progress reached through the phase one and transition agreements on the UK’s exit from the EU, which provides much needed certainty to students, staff and researchers. We also welcome the government’s assurances that the Treasury will underwrite funding for successful Horizon 2020 bids by UK researchers until the end of 2020, including in the event of ‘no deal’, with similar underwrites for Erasmus+ and structural funds.

The government must now work with UKRI to present a clear plan for how the Horizon 2020 underwrite would be administered in a way which would minimise disruption to research projects and avoid undue bureaucratic burden on institutions, and involve universities in planning for replacing the single-beneficiary parts of the programme that would not be open to UK participation in this scenario (such as the European Research Council).

As phase two of negotiations progress, the government can ensure that universities are able to thrive post-exit. Our priorities for phase two are:

- securing a longer-term partnership based on strong academic cooperation, collaboration and exchange between the UK and its EU partners:
  - association to Horizon Europe (the next EU research and innovation programme and successor to Horizon 2020) focused on excellence
  - access to the Erasmus+ successor programme
  - the continued mutual recognition of professional qualifications, where it is desirable
o where it might be mutually-beneficial to continue arrangements between the UK and the European Investment Bank (EIB).

- seizing on the opportunities Brexit provides to enact vital domestic policy reform and strengthened support for cooperation with non-EU partners:
  o building an immigration system that supports universities’ ability to attract global talent with minimal barriers
  o enhancing support for international research collaboration
  o providing greater support to facilitate outward student mobility
  o creating a UK Shared Prosperity Fund (UKSPF) that is informed by the expertise and experience of universities, sufficiently accounting for devolved/ regional need
  o maximising international opportunities for UK higher education and research through free trade and other government-to-government agreements with key non-EU partners
  o preserve and build on regulatory standards facilitating collaborative research between the UK and other EU and non-EU countries

In March this year Universities UK published a full briefing covering each of these areas.7

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7 Universities UK (2018). How can the government ensure universities are best placed to maximise their contribution to a successful and global UK post-EU exit?