

## General briefing: funding for higher education

April 2018

### Background

- In recent months, increasing public and parliamentary interest has been taken in how higher education is funded, particularly in England. Within this context, the Prime Minister has announced a government review of post-18 education and funding. This wide-ranging review aims to ensure that tertiary education is accessible to all and is supported by a funding system which works for both students and taxpayers.
- Universities UK considers the current undergraduate funding system in England to have significant benefits, sharing the cost of education between taxpayers and graduates, ensuring that universities are sustainably funded, and being highly progressive. In 2017, English pupils receiving free school meals were 83% more likely to go to university than they were in 2006.
- However, there are ways in which the current system can be improved, such as through reintroducing maintenance grants and improving how the system is communicated to prospective and current students, graduates and their families. The causes of the substantial decline in part-time student numbers in recent years also need to be identified and addressed.
- This parliamentary briefing provides more information about the contribution of universities to the UK economy and society, outlines the government's review of post-18 education and funding, details how the undergraduate funding system in England works, and puts forward recommendations for how we can maintain and expand the role our world-class universities play in supporting social mobility, training skills, and boosting economic growth.
- This briefing therefore focuses on the undergraduate funding system in England, though does briefly cover how arrangements in the devolved nations vary.

## The value of UK universities

- UK universities and their students [generate](#) significant economic activity in the UK, equal to £95 billion gross output in 2014-15. Our university sector:
  - makes a substantial contribution to UK GDP, equal to £52.9 billion gross value added (GVA), or about twice that of the city of Birmingham
  - supports almost 944,000 jobs of all skill levels in the UK economy – approximately three times as many jobs than in the city of Sheffield
  - generates £14.1 billion worth of tax receipts for the government that can be reinvested into public services, which is equivalent to 2.7% of all tax receipts in 2014-15
- In addition to direct economic contributions, universities generate and translate [high-quality research](#) into new products, services, processes, and ways of working. The research taking place in our universities is world-class: 76% of research at higher education institutions was considered ‘world-leading’ or ‘internationally excellent’ for its overall quality in 2014.
- Universities are vital in ensuring that the UK has both the academic and technical skills it needs to succeed, with nearly 42% of provision at universities having a technical element. Institutions across the UK are increasingly innovative in relation to the courses they offer, including degree apprenticeships, and work closely with employers to address local skills needs.
- For instance, Siemens’s long-standing partnership with the University of Lincoln led to the establishment in 2010 of a new engineering school at the university, which offers innovative, industry-accredited degree courses in gas combustion and related technologies. Durham University offers an undergraduate degree in software development for business designed by employers including Accenture, BT, Intel and IBM.
- Universities serve as anchor institutions in cities and towns across the UK, acting as civic and local growth leaders in their communities. The University of Southampton has led the regeneration of the city, investing £140 million in redeveloping its Boldrewood campus, including a new Southampton Marine and Maritime Institute building which will be shared with global engineering firm Lloyd’s Register.
- In addition to personal economic benefits for graduates – with working-age graduates earning an average of £9,500 per year more than non-graduates – university education is also [associated](#) with numerous health, cultural and democratic benefits. The international

partnerships which our universities support and the overseas students they attract also greatly boost the UK's soft power at a global level, with 58 current world leaders having received their higher education the UK.

- Universities also utilise their international expertise and connections to benefit other local stakeholders. Yorkshire Universities (a group of 12 local higher education institutions) is currently working with the Leeds City Region LEP and the Department for International Trade on a pioneering scheme connecting local businesses with an international student, who can provide vital intelligence, language and cultural skills to help them break into target export markets.
- For more statistics and case studies about how universities support growth, social mobility, jobs creation, innovation and regeneration in every region of England, [see our regional briefings](#).

## The government's review of post-18 education and funding

- On 19 February 2018, the Prime Minister [launched](#) a government review into post-18 education and funding in England. This review featured as a commitment in the most recent Conservative Party general election manifesto, and was referred to in the Prime Minister's speech at the Conservative Party Conference in October 2017.
- As outlined in the [terms of reference](#) for the review, it will look at four key areas:
  - 1. Choice and competition across a joined-up post-18 education and training sector**
    - How to ensure that young people can make an effective choice between academic, technical and further education
    - How to support a more dynamic market in provision while maintain the world-class higher education and research sector
    - How to encourage learning that is more flexible, e.g. part-time, distance learning and commuter study
    - How to ensure the market provides choice with higher-level degree apprenticeships, and shorter and more flexible courses
    - How to ensure there is world-class provision of technical education

## **2. A system accessible to all**

- How to ensure people from disadvantaged backgrounds have equal opportunities to progress and succeed in all forms of post-18 education and training
- How disadvantaged students and learners receive maintenance support, both from government and institutions

## **3. Delivering the skills our country needs**

- How to best support education outcomes that deliver the ambitions of the government's industrial strategy

## **4. Value for money for graduates and taxpayers**

- How students and graduates contribute to the cost of their studies including the level, terms and duration of their contribution, while maintaining the link that those who benefit from post-18 education contribute to its cost
  - Ensuring that funding arrangements across post-18 education and training are transparent and do not act as barriers to choice or provision, considering how best to promote institutional efficiency and value for money for graduates and taxpayers
  - How the government and institutions communicate with students and graduates around student finance, ensuring that communication is as clear as possible about the nature and terms of student support
- The wide-ranging government review will be advised by an independent six-person panel chaired by businessman Philip Augar and featuring representatives from industry, higher education and further education. The panel will publish its report at an interim stage, before the government concludes the overall review in early 2019.

## **How the undergraduate funding system in England works**

### ***Student loans***

- The vast majority of eligible full-time undergraduate students in England take out tuition fee loans when studying (94% in 2015-16). The Student Loans Company pays the value of the loan directly to institutions to cover the cost of providing the student's course.

- In England, the maximum annual tuition fees which a higher education institution can charge is £9,250. To charge this limit, institutions must both be taking part in the Teaching Excellence Framework (TEF) and have an access agreement. Access agreements detail outreach activities and financial support open to disadvantaged students to encourage study at an institution and achievement throughout and following their degree.
- Full-time students are also eligible for maintenance loans to cover costs of living while studying for a degree, with additional finance available for those from low-income households. The maximum amount a student can receive in maintenance support in 2017-18 is £11,002. Before the 2016-17 academic year, maintenance grants, which are not paid back, were also available to poorer students.
- Recent changes to the undergraduate funding system have allowed student number controls in England to be removed, which has widened opportunities for students. In 2017, young English students from disadvantaged backgrounds were 83% more likely to enter university than they were in 2006.

### ***Loan repayment***

- Tuition fee loans do not operate like a commercial loan. Since 6 April 2018 students that have taken out loans since 2012-13 will only make payments once they are earning above £25,000. The threshold for repayment stood at “21,000 since the introduction of £9,000 fees for the academic year 2012-13. Graduates then make payments to the Student Loans Company at a rate of 9% only on income earned above this threshold.
- Any outstanding student loan which is not repaid by 30 years after graduation is written off by the government. Loans will also be cancelled if the person is declared permanently unfit to work due to a disability.
- This makes the system highly progressive, with only the highest-earning graduates repaying most or all of their loan. A [recent analysis](#) by the Institute for Fiscal Studies shows that around 83% of current students are not expected to repay the full value of their loan.
- Once students have graduated, interest is accrued on their loan at differing rates according to their income. For students earning £25,000 or less, interest is set at the rate of inflation as measured by Retail Price Index (RPI). Interest levels then rise on a sliding scale up to a maximum rate of RPI + 3% for those earning £45,000 or more. For 2017-18, this means a maximum interest rate of 6.1%. The government has suggested that only between 2% and

5% of students currently face the full interest rate of RPI+3%. Before 6 April 2018, these thresholds were set at £21,000 and £41,000 respectively.

- Students who started their course before the 2012-13 academic year have a different system of loan repayments, with a lower repayment threshold, lower levels of interest, and a shorter writing-off period.

### ***University income***

- Funding for higher education teaching in England shares the cost between taxpayers and graduates: with an estimated 47% of the long-term cost funded by government and 53% by students once the repayment threshold increases in April 2018. [Recent work](#) from the Higher Education Funding Council for England (HEFCE) has found that currently, institutions largely currently break-even on the teaching of domestic students.
- In 2017-18, universities in England received around £8,300 in fees per student on average after paying for measures to widen access and participation. The cost to institutions of teaching different courses [varies substantially](#), with some costing significantly more to teach than the £9,250 received through fees. UUK estimates that annual average core costs vary per subject from around £21,000 (e.g. medicine, dentistry, veterinary science) to around £7,600 for classroom-based subjects (e.g. humanities, social sciences), with additional costs related to provision of support for students from disadvantaged backgrounds, and for courses at specialist institutions and those in London.
- HEFCE allocates funding to higher education institutions for students in high-cost subjects, though this is generally not sufficient to cover the additional costs of such courses.
- The [overall sector surplus](#) in England was only around 5% in 2015-16, and is forecast to be 1.3% in 2017-18. When compared to long-term costs, the income that universities in England received in 2015-16 just about covered the costs of all their activities. Universities are required to maintain minimum surpluses to manage short-term risks arising from fluctuations in demand from students, and to invest capital funding in teaching and research facilities.
- Teaching funding per student for universities in England has fluctuated over the last few decades. After a period of underfunding for teaching in the 1990s and early 2000s, recent funding reforms have seen funding levels per student return to close to historical levels.

- Universities also receive funding from both UK government and non-government sources to perform research. While overall there has been a modest growth in research income in recent years, universities still make a substantial loss on their research activity (income only covers 74.7% of costs). This activity is subsidised across the sector by surpluses from international student fees and other university commercial activities.

### ***Devolved nations***

- The fundamental principles of the Welsh and Northern Irish systems are similar to those in England. In Northern Ireland, universities have their tuition fees for Northern Irish students capped at £4,160 per year. In Wales, maximum tuition fees are set at £9,000 per year, though there is a universal tuition fee grant available to students which covers around half of this amount (£4,954 for 2017-18). From 2018/19, though, tuition grants are to be abolished, in return for more generous maintenance support arrangements.
- The undergraduate funding system Scotland is more distinct, with no comparable tuition fees charged to students. The majority of teaching funding comes directly from the Scottish Funding Council (SFC), with a smaller proportion being contributed by the Student Awards Agency Scotland (SAAS). In order to finance this system, however, the Scottish government has retained a cap on the number of students that can go to university each year, a policy which was abolished in England in 2015-16.

### **Our recommendations and actions**

- Our priorities are that **universities are sustainably funded** to maintain our world-class and internationally competitive sector, and that the system reflects that who benefits pays, **meaning costs are shared between taxpayers and graduates**. Students recognise the importance of this principle: a recent [survey](#) revealed that only 22% of students in England think that the government should pay for all the teaching costs of university, with no tuition fees for students.
- Any funding system must also be **fair, accessible and progressive**, so that all those who are qualified and wish to enter higher education should be able to do so. As outlined above, continued increases in the proportion of disadvantaged students entering higher education demonstrate the strengths of the current system. The way in which the repayment system currently works is progressive, with only higher-earning graduates repaying most or all of their loans.

- However, universities are not complacent about remaining challenges on social mobility at all stages of university education – access, participation and outcomes – and are **keen to work collaboratively with the new Office for Students to address these**. While universities spend significant income on widening participation through their access agreements, there is a clear need for a stronger evidence base for interventions. Universities UK has therefore **put forward a proposal for an independent ‘Evidence and Impact Exchange’** to systematically evaluate and promote the evidence relating to the role of higher education in social mobility.
- As outlined above, universities largely break even on the costs of teaching, and rely on cross-subsidies between subjects to make running high-cost subjects viable. Reducing tuition fees for some courses without replacement central government funding will therefore **damage the financial sustainability of our universities harming courses which the government views as strategic** (i.e. science, engineering and medicine). Moreover, this policy would only benefit higher earners, having little to no impact on the amount that middle and low earning graduates repay, and it may also discourage disadvantaged students from enrolling on strategic courses due to higher fees.
- Universities UK is also calling on the government to **reintroduce maintenance grants for disadvantaged students**. We welcome that the issue of maintenance support is included in the terms of reference of the post-18 education and funding review, and that the Prime Minister has recognised widespread concerns about the most disadvantaged students graduating from university with the highest ‘debt’.
- **Significant work needs to be done to ensure that the differences between student loans and commercial loans are more readily understood**, particularly among prospective students, graduates and their families. The government needs to work with all relevant stakeholders – including universities, careers services and the Student Loans Company – to better communicate the way in which repayments work so students feel the system is fairer and are able to make informed choices about their education.
- The government **should not view post-18 education as a binary split between higher and further education**. As mentioned above, nearly 42% of provision at universities can be classified as providing technical skills, and universities work closely with further education colleges to meet local skills needs. Universities are increasingly innovative about the courses which they offer, including degree apprenticeships, with over 100 universities now on the register of apprenticeship training providers.
- Between 2011-12 and 2016-17, the number of first-year part-time undergraduates has fallen by 59% in England. The continuing fall in part-time and mature students is problematic and

needs to be addressed, and **we welcome that part-time and flexible learning will be a consideration of the review of post-18 education.**

- Universities UK is currently **undertaking a joint piece of work with the Confederation of British Industries (CBI) to examine which groups and sectors have been most affected by the fall in part-time students**, which are in greatest future need of high-level skills, and which would benefit most from increased opportunities for flexible learning. The project will identify the main issues and develop policy recommendations which will feed into the government's review.
- While this briefing has focused on funding for teaching, it is important that university research is also properly funded. **We welcome significant increases to public R&D funding announced as part of the industrial strategy**, which will be vital in unlocking further potential in the UK research base. It is, however, also vital that universities and researchers are able to continue to collaborate internationally and bid for funding from multi-lateral research programmes following Brexit.
- The government commitment to maintain access to the Horizon 2020 programme until the end of the current financial framework in 2020 is welcome. In the longer term, provided Framework Programme 9 (FP9) for research and innovation maintains a focus on excellence, **the government should make clear its desire to become an associate country in FP9** so that the foundations for association should be laid as early as possible in the negotiation process.

**For more information:**

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