Universities UK

Universities UK parliamentary briefing

Westminster Hall Debate: The financial sustainability of higher education
Thursday 5 December, 3.00pm

Summary of the financial challenges faced by universities

Universities across the UK are experiencing serious financial challenges due to decreased funding for students from the UK. The amount of income English universities receive for teaching UK-domiciled students has declined in real terms almost every year since 2015/16 and is now approaching its lowest level since 1997. Prior to the government's recent announcement to increase tuition fees in line with RPI, fees for domestic undergraduate students in England were capped at £9,250 since 2017 and were worth only around £6,000 in 2012–13 prices. This means funding per student has been at its lowest level in over 25 years. Universities are also making a loss on their research activities - despite increased investment in research and development at the 2021 Spending Review, in 2022–23, UK universities incurred a £5.3 billion deficit on their research activities.

A slowdown in funding from teaching grants, coupled with costs going up are also adding a strain on universities' finances. This means they are increasingly relying on different income streams to cross-subsidise their teaching and research activities – especially fees from international students. While fee income from international students has grown by an average of 15% a year between 2017–18 and 2022-23, providing a short-term boost to universities' finances, the recent international recruitment environment has been very challenging.

The Office for Students' latest modelling suggests that nearly three quarters (72 per cent) of English higher education providers could be in deficit by 2025-26, and 40 per cent would have fewer than 30 days' liquidity.

Although universities have largely welcomed the government's announcement on 4 November to increase tuition fees and maintenance support for students in England, it is important to recognise that this increase is a one-year settlement ahead of the comprehensive spending review. A longer-term funding settlement is needed to stabilise universities' finances so they can continue to deliver stronger economic growth, better public services and improve individual life chances. Universities also have a role to play – although many institutions are already making very significant cuts to balance their budgets, they will need to continue to find better and more streamlined ways of working.

Financial sustainability of universities in the devolved nations

Arrangements for higher education teaching funding differ in each nation of the UK. While this briefing primarily focuses on England, challenges with financial sustainability exist throughout the UK:

- Welsh universities have had fees capped at a lower level than English institutions until 2024.
- Over the last decade, funding per student in Scotland has declined by over £2,500.
- In Northern Ireland funding per student has lagged behind England by over £1,000 each year.

Financial sustainability of university research

The UK remains a world-leading research base, but we can no longer take UK universities' R&D activities for granted. If we want to be a country of the future rather than the past, we must double down on our ambition to be genuinely world-leading in research and innovation.

It is estimated that for every £1 of public money invested in university research and innovation, the country gets back £10 a year. Yet, in in 2022–23, UK universities incurred a £5.3 billion deficit on their research activities. In short, the system is structurally unsustainable:

- Since 2010, quality-related research funding, has fallen by around 15% in real terms England, with this decline most marked in the devolved administrations.
- In 2022–23 only 69.3% of total research costs were recovered from research income, resulting in universities subsidising research from other increasingly overstretched income streams, mainly fee income from international students.

UK universities have become more effective at attracting investment and bringing ideas to market, with strong performance in terms of patents, spin-outs and income from intellectual property (IP). The UK produces significantly more direct commercial value from its universities compared with others in Europe.

Universities must fully commit to breaking down cultural and institutional barriers between academia, industry and other sectors to disseminate the knowledge they generate more effectively, so that it can contribute to growth, including through developing a diverse, agile talent base across every region of the UK.

What risks are universities facing?

Analysis from PwC shows that universities are expecting to rely more on fee income from international students in the coming years. Many universities are assuming numbers of UK undergraduates will also increase. Universities are also assuming that annual growth in their spending will fall to approximately 3–3.5%, significantly below recent trend and income growth projections. If this 'base case' scenario does not happen, PwC's sensitivity analysis of potential future scenarios shows that there are significant risks to the financial sustainability of individual universities and the sector as a whole.

Their analysis shows that a significant proportion of UUK's members are vulnerable to reductions in international student numbers, increased expenditure, and reduction in the growth rate of domestic undergraduate students.

Although PwC's analysis considers these sensitivities individually, it is possible that they could happen at once as part of a "perfect storm". For example, if international student numbers decreased and expenditure also increased, universities would face even more pressure.

All sizes and types of higher education providers – including research-intensive, teaching-intensive, and specialist and creative institutions – would be affected by the sensitivities modelled.

Could these sensitivities happen?

The risks identified in PwC's analysis, based on forecasts submitted for 2022/23, are not just hypothetical. In many cases, we are already starting to see their impact, especially in terms of international student recruitment. Some **examples** of how risks could become reality include:

International student recruitment

After almost a decade of stagnation, the UK experienced a period of significant growth in international students between 2019 and 2022, driven by a combination of government policy and the openness of the UK immediately following the pandemic. The number of international students in UK higher education reached an all-time high of 758,855 in the academic year 2022/23. This has since declined as both political and market factors changed, and the attractiveness of the UK as a study destination has fallen.

According to data released by the Home Office on 28 November, 392,969 visas were issued to international students between October 2023 and September 2024. That's 19% fewer visas than the previous year. The drop comes after rules introduced in January stopped most international students bringing family members with them.

Universities understand that growth in international student numbers must be sustainable, and that the experience for those choosing to study here is truly world-class. This includes ensuring that students have access to appropriate support, services, and accommodation. We recognise that some aspects of the rapid growth of international students in 2019 –2022 tested political and public support, however recent policy changes – such as restrictions on dependant visas, increased visa and immigration costs, as well as significant uncertainty around the UK's post-study work offer – have had a significant impact on the attractiveness of the UK as a study destination, as well as the perception of the UK as an open and welcoming country.

Study visas granted to nationals from four of the five top sending markets are declining year-on-year, suggesting recruitment challenges go beyond only impacting certain markets. In addition, data from Enroly (a third-party platform responsible for onboarding one in every three international students that come to study in the UK) suggest that the average number of deposits paid by applicants enrolling in Autumn 2024 was down 24.1% on the previous year, indicating another challenging year for international student recruitment.

Teachers' Pension Scheme

Universities that are statutorily obliged to be members of the Teachers' Pension Scheme (TPS) – primarily modern, post-1992 institutions – are now required to pay pension contributions of around 29% for 58,000 members of staff (compared to 16.4% in 2019). This is one of the highest employer contributions of any pension across the UK. This is already significantly increasing universities' expenditure, potentially even beyond the 2 percentage points captured under PwC's sensitivity analysis.

Universities are independent, autonomous institutions and government has been clear that they are responsible for setting their own pay and conditions. However, in relation to participation in the TPS, this is not the case. The level of benefits provided to employees and the cost to both employers and employees are firmly under the control of government. Since universities cannot exit the TPS or take action to reduce the employer contribution rate and have not been granted the same additional funding as schools and colleges to help meet their TPS costs, universities are seeking government approval to choose to change their participation in TPS and explore alternative pension schemes to manage costs sustainably.

Why does it matter?

Financial instability has potentially harmful repercussions for students, staff, and the UK's economy. For example, some universities are currently taking difficult decisions to close degree courses with low student demand but of national strategic importance, such as modern foreign languages and arts and humanities courses. There is a real risk that certain courses will only be available in a limited number of institutions and will become out of reach to students who cannot travel to study, or who cannot meet highly competitive entry requirements. Underfunding will also restrict student opportunity and success. Even with universities' best efforts, a shortfall in funding will inevitably impact on the quality of the student experience.

Furthermore, problems of underfunding are already affecting the ability of students to meet their living costs. The current system forces those students domiciled in England that are from lower-income backgrounds, who are typically more debt averse, into taking on higher levels of student loans. Frozen household income thresholds and a failure to adequately uprate the maintenance package with inflation means the average student's maintenance loan now falls £504 short of covering their living costs every month. While universities welcome the recent increase in maintenance support for students in England, more needs to be done to help students from the most disadvantaged backgrounds to meet their living costs while studying at university.

Underfunding will also restrict the ability of universities to drive inclusive economic growth and the UK's global competitiveness, as well as provide opportunities to students that are comparable to previous years. Sustained funding that ensures a high-quality student experience and enhances the UK's ability to deliver world-leading research and innovation will rapidly accelerate the positive contributions of universities.

The UK's performance in higher education and research is exceptional, surpassing our international counterparts. UK universities deliver the highest degree completion rates across the OECD and are recognised as world-class, generating £25.6 billion of export earnings, while broadening the UK's soft power and strengthening global relationships. The UK has the third largest share of the world's academic publications (6.3%) behind only China and the United States, with an even larger share of the world's most highly cited publications (13.4%).

The latest figures show the UK higher education sector's teaching, research and innovation activities had an economic impact of £265 billion. These impacts are felt across the UK. The same report found that the average benefit to the exchequer is £75,000, on each graduate, even after the costs of subsidising their studies are considered because of higher tax and national insurance contributions.

The UK cannot afford not to invest in its universities. Higher skills development drives productivity and it creates prosperity for individuals, while generating net benefit for the Treasury. And our institutions are central to the economies of their local areas through their direct and indirect spending and employment.

What steps are universities taking to secure their financial sustainability?

Universities in all four nations of the UK are already making changes to adjust to these pressures – including, in some cases, significant restructuring and transformation programmes. 80% of UUK's members are already undertaking transformation and efficiency programmes across multiple areas.

While government action on funding will be an essential part of the solution, universities are not passive actors. They can take steps to make themselves more resilient and efficient and adapt to meet the needs of the country. Individual universities are already undertaking significant transformation projects, reimagining their physical and digital estates, and their operating and teaching models.

UUK is committed to establishing a cross-sector Transformation and Efficiency Taskforce to seek savings through greater collaboration. This taskforce will report in Summer 2025.

The taskforce will take a three-step approach:

1) First, the taskforce will evaluate progress and lessons learned since the last major review into sector efficiency.

2) Second, it will identify opportunities for savings through greater collaboration between universities. There are already some great examples: the UCAS system is effectively a shared service and so is the university sector's IT network, run by JISC. Individual universities have found creative ways of working together or sharing resources, like the shared out-of-hours IT service set up by Northumbria University now used by a third of institutions.

3) Finally, the taskforce will bring university leaders together to look at where structural changes, creating regional groupings of universities or even mergers and acquisitions, could deliver savings longer-term.

It is important to note that that change is not just about 'doing more with less'. Universities' underlying operating models need to evolve to become as efficient and effective as possible and they must be supported by government to do this at a national level.

How can we secure universities' financial sustainability?

In September 2024, UUK published its report titled: '*Opportunity, growth and partnership: A blueprint for change from the UK's universities*.' The report's recommendations have a single aim: 'to create a UK university sector that is better in ten years' time than it is today.' In our report, we recommend that Government should support the sector to take **immediate steps** to move to a more solid financial footing through the following actions:

- In England, Increase funding for teaching to meet their real cost through a combination of index-linking fees to inflation and restoring the teaching grant. If the unit of resource had kept pace with inflation it would worth the equivalent of £12,723 per student in today's prices. UUK is not calling for tuition fees to rise to this level. In fact, more and more of the burden is falling on graduates, and the UK is increasingly an outlier within the OECD on this. Our research shows the significant benefits to the Treasury generated by graduates, and we believe it is time for a re-balancing of responsibility for funding to recognise that.

- Ensuring policy stability in relation to international students in order to achieve sustainable managed growth. Specifically, the Graduate route should remain on its current terms for the lifetime of this Parliament.

- Reverse the decline in Quality Related funding for research, which has declined in real terms by nearly 15%.

- Government should work with the universities to deliver a sustainable solution in relation to the significant increase in contributions to the Teachers' Pension Scheme.

- Government and the sector should have a clear plan should a university in England find itself in severe financial distress. Plans to manage the immediate situation and protect the reputation of the higher education sector should be in place, with the support of independent experts, to guide institutions in financial difficulty to find a viable way forward. There are different possible models for such an intervention, but it is crucial to protect students and others who depend on the university, including local public services.

Following steps to stabilise the sector, a more secure foundation will give universities the basis they need to develop more efficient long-term strategies and, in some cases, to transform their business and operating models. This might include greater specialisation, shared services, collaboration to deliver vulnerable subjects, or more agile operating models which allow universities to be more responsive to the specific needs of students, employers and local communities. It may include consolidation of provision across regions or the development of collaborative or group models, but this should be driven by institutional strategy and will not necessarily secure short term financial savings, given that these types of transformations take time and considerable upfront investment. Government could support this sector-led effort through the following actions:

1. A compact with the university sector to deliver sustainable, managed growth in international student recruitment. This should include:

    - a commitment from universities to adopt and fully implement the Agent Quality Framework and Far Admissions Code of Conduct.
    - As part of this compact, government should also adopt a more transparent approach when reporting migration trends. This should focus on separating out 'temporary' and 'permanent' migration, measuring 'steady state' net migration over a longer timeframe, such as 3-5 years. Policy should place greater emphasis on numbers granted settlement, known as 'indefinite leave to remain', rather than blunt measures of annual net migration.
    - Government and the sector should also jointly invest in efforts to promote the UK in key markets. Government should double their investment in Study UK – on condition that this increase is matched by universities.

2. Changes to the way VAT is charged so it is easier for universities to share services.

3. A Transformation Fund to enable and accelerate changes to universities' operating and business models.

Suggested questions to the Minister:

1) What assessment has the Minister made of the merits of establishing a Global Strategy for Universities?
2) Will the Minister commit to maintaining the Graduate route on its current terms for the duration of this parliament?
3) What assessment has the Minister made of the merits of establishing a new compact to deliver sustainable levels of international student recruitment and managed growth?
4) What conversations has the Minister had with the Department for Science, Innovation and Technology to provide a sustained real-terms increase to

Quality-Related research funding after it has fallen in real terms by 15% since 2010?

5) What conversations has the Minister had with the Department for Science, Innovation and Technology to set an ambitious GDP based R&D intensity target?
6) What assessment has the government made of UUK's commitment to lead a sector efficiency and transformation programme?
7) In her announcement on 4 November 2024, the Secretary of State for Education mentioned a renewed drive for efficiency in the higher education sector. What assessment has the government made of the recent report from Jisc/KPMG on the opportunities for collaboration in the sector? What efficiency work does the government want to see pursued in the sector?
8) What conversations has the Minister had with HM Treasury about incentivising efficiency saving behaviour in the sector?
9) Will the Minister commit to working with Ministers in His Majesty's Treasury to establish a sustainable solution for universities in relation to the significant increase in contributions to the Teachers' Pension Scheme.

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About Universities UK

At Universities UK, we harness the power of the UK's universities and create the conditions for them to thrive. We are the collective voice of 141 universities in England, Scotland, Wales and Northern Ireland, bringing them together to pursue a common cause: thriving universities, serving society. We aim to ensure our universities can transform the lives of more individuals, drive greater growth and create flourishing places through the knowledge and skills they generate, while being globally competitive centres of research making ground-breaking discoveries. Universities UK acts on behalf of universities, represented by their heads of institution.