Universities UK

Spending Review representation from Universities UK: February 2025

Introduction

Universities UK (UUK) is the collective voice of 141 universities in England, Scotland, Wales, and Northern Ireland. Our mission is to create the conditions for UK universities to be the best in the world, maximising their positive impact locally, nationally, and globally. Universities UK acts on behalf of universities represented by their heads of institution.

The following submission sets out how our universities are integral to the delivery of key government missions, while setting out ways that further investment at the Comprehensive Spending Review would enable them to go further for the benefit of all. Critically, it outlines the sector's financial fragility and the risk that a continuation of the status quo erodes capacity in a sector so critical to the government's ambitions. Our evidence-based proposals set out below are outlined at greater length in our 'Blueprint for change.'

We would welcome the opportunity to discuss our proposals in further detail; please contact Tom Lewis, Policy Adviser (Funding) at Universities UK (tom.lewis@universitiesuk.ac.uk).

While the focus of this submission is primarily on England, it does set out its relevance and extension to the devolved administrations where it makes best sense to do so, including where the government has UK-wide responsibilities.

Universities supporting government missions and a decade of national renewal

Universities are a critical partner to government in delivering its missions and decade of national renewal. They are a source of unique advantage to the UK, with their economic, educational, and cultural impacts felt across the country and beyond. The total economic impact of the higher education and research sector stands at approximately £265 billion for 2021-22, with every £1 of public investment into universities generating over £14 in economic output.

The long-term competitiveness of the UK economy is contingent on universities. They develop new technologies, stimulate innovative activities, and equip students with the skills of the future, while transforming the life chances of learners from a wide range of backgrounds. However, given critical funding pressures arising from declining investment over many years, universities' ability to continue delivering for the country is at risk. For universities' role to be continued and strengthened, they require investment from the government.

The sector recognises that there will be no investment without reform. Universities are actively and boldly responding to the reform package set out by the Secretary of State, including the drive to enhance efficiency, with UUK spearheading these efforts through its Transformation and Efficiency Taskforce. However, the future of the sector requires both universities and government to play their part.

In preparations for the Comprehensive Spending Review, we call on the government to recognise the full extent of public benefits generated by universities, and to fund universities at sustainable levels so that they can continue making a strong social and economic contribution. Greater public investment will also begin to re-balance the costs of higher education away from individual graduates, who currently bear the significant majority of these - a feature in which the UK is an international outlier. Additional, and much-needed, funding for universities should be recognised for what it is: an investment and not a cost, that can also leverage investment from other sources.

Summary of proposals:

Growth Mission:

- Uplift the growth-focused elements of the Strategic Priorities Grant
- Provide a sustained real terms increase to Quality Related funding
- Provide an additional uplift to Charity Research Support Fund in line with charitable investment
- Provide additional innovation funding
- Investment in internationally collaborative research and mobility
- Promotion of the UK as a first-choice study destination and partner

Opportunity Mission:

- Reinstate maintenance grants and uplift maintenance loans
- Uplift the opportunity-focused elements of the Strategic Priorities Grant
- Establish a Tertiary Education Opportunity Fund
- Committed funding for Turing Scheme

Ensuring a sustainable higher education sector:

- Index link tuition fees on an ongoing basis
- Create a sustainable pensions settlement
- Provide greater flexibility for VAT on shared services
- Establish transformation funding

Proposals – Growth Mission

Universities are engines of growth in communities across the UK. They generate investment through their R&D activities, equip students with the skills of the future, and constitute one of the UK's largest export sectors. We need universities, and their growth-enabling activities, to be firing on all cylinders. This requires action from universities and investment from government.

R&D activity at universities is world leading; it spurs incredible discoveries and innovations that boost growth and improve everyday lives. For every £1 invested in university research and innovation, the UK gets £10. This activity directly supports the government's missions, as we outlined in our response to the Industrial Strategy Green Paper.

Universities also play a vital role in the high-level skills ecosystem; they equip people with necessary skills to maximise their contribution to the workforce, create competitive local businesses, attract investment, and deliver the excellent public services that communities need. The establishment of Skills England should harness universities' role in addressing graduate skills gaps and shortages.

There is strong evidence to show that skills and labour were the only factors making a positive and consistent contribution to increases in productivity (Gross Value Added per hour) between 2007 and 2019. All eight growth-driving sectors in the industrial strategy report a higher proportion of graduates than the UK workforce as a whole (50%), and for five of the eight sectors, more than 60% of the workforce are graduates, suggesting higher-level skills are needed for those sectors to further enhance their productivity. To further increase productivity, we propose a target of 70% of the population in England achieving tertiary attainment at level 4 or above by the age of 25 by 2040.

Internationally, UK universities have a global reputation for excellence with this activity generating a large economic contribution to growth through substantial revenue returns. Internationalisation in universities encompasses a wide range of activities and benefits, including collaborating in research, hosting international students, and providing international experiences for UK students. Universities are pivotal players in attracting global talent and foreign direct investment to the UK and have an important role in supporting global development.

Universities are strategically positioned, and poised, to seize the growth agenda, but they are unable to deliver this mission alone and require investment.

Uplift the growth-focused elements of the Strategic Priorities Grant (SPG):

- Universities' teaching and learning activities bring value to the country as a whole, not just individual students and graduates. For every £1 of public funding for teaching activities, the UK higher education sector generates approximately £13 in economic impact across the UK. In recognition of this, the SPG is designed to support the costs of university provision that could not reasonably be expected to be covered through tuition fees. This includes delivering the most expensive subjects such as medicine, allied health, STEM, and world-leading specialist provision through world-leading specialist provider funding. As such, SPG is crucial to enabling a diverse higher education sector that is well-equipped to deliver the nation's skills pipeline, in support of the industrial strategy.
- However, universities' ability to offer this range of provision is under threat due to the real-terms decline in the SPG. UUK analysis indicates that the rate of funding per student for high-cost subject funding fell by 15.3% in real-terms between 2018-19 and 2024-25. Universities are having to make difficult choices given the substantial deficit they incur on teaching domestic students: for example, UUK analysis suggests that, despite student demand, there has been a reduction in university provision of engineering degrees since 2019, with difficulties in covering the costs one likely factor. As well as restricting student choice and creating 'coldspots', this also threatens the UK's skills pipeline, and ultimately, ability to deliver on the industrial strategy.
- A well-funded SPG can also be an important mechanism in enabling universities to sustain vulnerable provision, such as in modern foreign languages, where relatively current low demand is leading to a permanent loss of capacity. It can also support universities to respond to emerging skills needs where student demand is not yet sufficient, by incentivising the growth of new provision.

Domestic research, development, and innovation activity:

University research is a driver of growth, with the impact of UK higher education providers' research and knowledge exchange activities, in 2021-22, estimated at £62 billion. Research activity brings investment into the UK and the support that universities offer businesses helps drive regional economic growth.

However, in 2022–23, UK universities incurred a £5.3 billion deficit on their research activities. While the university research system is designed so that project-specific grants awarded by the Research Councils cover up to 80% of the full economic cost of research, this rate of recovery is no longer being met and is worsening over time.[1] This puts pressure on universities to cross-subsidise research from other income streams, which may not be dependable, such as international tuition fees. There are early signs that research activity is being squeezed; a recent UUK survey indicated that 14% of respondents had already cut back on academic research and 34% would consider it in the future. A continuation of the status quo therefore threatens the potential of university R&D activity to contribute to the government's growth mission and improve people's everyday lives.

We are calling on the government to:

Provide a sustained real terms increase to Quality Related (QR) funding:

- QR funding is vital to the pipeline of future research success. It allows universities to invest in areas of research potential for the future, to seed the development of new areas of research and new collaborations, and to fund the training of the future R&D workforce. However, it has fallen by approximately 15% in real terms since 2010, with larger real-term declines in funding across the devolved nations.

Provide an additional uplift to Charity Research Support Fund in line with charitable investment:

- In 2022–23, the full economic cost recovery for charity-sponsored research was 57.5%, making this type of research particularly unsustainable for universities to continue. Charity-sponsored research is critical for growth and sustaining public services, with medical research for the NHS falling under this category.
- The Charity Research Support Fund (CRSF) and the equivalent funds in the devolved administrations have helped to increase the effective cost recovery by addressing some of the indirect costs that charities typically don't cover. The value of CRSF, however, has not kept track with increasing levels of charity investment or inflation. By 2030, the CRSF is expected to provide 12p per £1 of charitable investment, less than half of what it represented in 2012. The risk is that this research could become less dynamic, experience slower progress at crucial stages of the research pipeline, while the overall volume of research decreases to the detriment of all.

[1] In 2022–23, only 69.3% of total research costs were recovered.

Innovation funding:

- Knowledge exchange activities from UK universities have an economic impact of approximately £9 billion a year. The loss of European Structural and Investment Funds (ESIF) without a suitably funded replacement led to a cliff-edge for over 100 university local innovation, skills and business support projects across the UK. The £60 million Regional Innovation Fund (RIF) pilot in England was a welcome attempt to replace some of that lost funding, but it should be funded at the same level as the previous ESIF and needs commitment beyond the pilot.
- Higher Education Innovation Funding (HEIF) in England is critical to developing and retaining the agile and flexible capacity needed for universities to engage with technology transfer, support local economic development, partner with SMEs and secure investment. The funding also represents excellent value for public money with every £1 in investment generating an additional £8.30. HEIF needs to be extended to generate further impact on local growth, investment and productivity.

International competitiveness and global reach:

The UK's competitiveness and reach on the global stage has come under threat from other higher education systems, and the UK's performance has fallen in recent years in both international student recruitment and share of the most highly cited research outputs[2]. The government must take a long-term and strategic approach, working with the sector to protect and build on the UK's position in the face of ever-increasing international competition.

Investment in internationally collaborative research and mobility:

- The sector warmly welcomed the UK's re-association to Horizon Europe. While the early signs are positive, there is significant work to do to rebuild levels of participation. The government now needs to engage with and shape Horizon Europe's next framework programme (FP10), so that the UK can restore its position as an active contributor and partner.
- The cost of UK's contribution to EU programmes, including Horizon Europe (and successor FP10) and Copernicus should be covered to provide certainty to the research community.

[2] The UK's share of the world's most highly cited publications has fallen from 16.1% in 2016 to 13.4% in 2020

- The UK's international competitiveness will also be strengthened by providing additional resources for UKRI and national academies to foster international collaboration, waiving the costs of the Immigration Health Surcharge for global talent visa applications, and establishing a new Research Security Fund to provide funding for universities to invest in training, development, and human resource to meet the evolving demands of research security.

Promotion of the UK as a first-choice study destination and partner:

- The educational exports generated by UK higher education providers have an economic contribution of over £41 billion, benefiting towns and cities across the UK. International students contribute to the UK's soft power and influence around the world. Stable international student recruitment is also a key component in the sector's financial sustainability, with analysis showing that a majority of institutions would be vulnerable to below-expected international recruitment.
- The UK should build on the success of the Study UK pillar of the GREAT campaign to increase investment in promoting the UK as a study destination of choice, recognising that this is one of the core planks of the growth that the campaign seeks to achieve. The estimated return on investment of Study UK was £631 million in 2023-24 and this could be further developed to leverage additional investment by the sector itself, and extended to promote the UK's transnational education offer around the world.

Proposals - Opportunity Mission

Universities are creators of opportunity: they enable learners to obtain vital skills, knowledge, and social capital that will support them throughout their lives. It is therefore critical that all those with the desire and ability to attend university can do so and flourish, regardless of age, background or geography. The higher education sector has a strong track record of breaking down barriers to access, promoting opportunities while at university, and supporting strong graduate outcomes. With support from government, universities can go even further.

A university education provides strong returns for graduates, transforming their future life prospects. Government data on actual earnings indicates that, when considering local labour market conditions, graduate earnings are 32 -37% higher by age 31 than earnings from those that did not attend university. This is the case across all regions of England, with a strong correlation between the proportion of the workforce which is educated to graduate level and regional economic performance.

The expansion of higher education in recent decades has also widened opportunities for traditionally underrepresented groups. For example, in 2013-14 in England only around 22% free school meal-eligible students progressed to higher education, but by 2022–23 this had improved to around 29%. Our 100 Faces campaign showcased the stories from those who were first in their family to attend university and whose lives have been transformed by higher education. However, the gap between progression rates for advantaged and disadvantaged backgrounds and across regions remains stubborn and needs to be addressed.

To ensure that every student can access higher education, succeed during their studies, and benefit from strong outcomes, certain barriers to opportunity need to be tackled by government:

Reinstate maintenance grants and uplift maintenance loan:

- Despite an inflationary uplift to the maintenance loan for 2025/26, the overall maintenance package remains insufficient for all students to thrive during their studies. Emerging intelligence from providers points to this starting to affect the application and participation rate, particularly among mature learners and those from lower-participation backgrounds. The abolition of maintenance grants in 2016-17 means the most disadvantaged students now graduate university with the largest loans and the freezing of the household income thresholds for maintenance loans has also hurt the most disadvantaged.

- The inflationary uplift to the maintenance loan for 2025-26 should be continued every year for the period of this Spending Review, and the salary thresholds for calculating the loan should be uprated. The government should consider the targeted reintroduction of maintenance grants for the most disadvantaged.

Uplift the opportunity-focused elements of the Strategic Priorities Grant (SPG):

- The SPG is designed to support the costs of university provision that could not reasonably be expected to be covered through tuition fees, including supporting students with additional needs via funding premiums for student access and success. This enables universities to support students who are most at risk of withdrawing from their studies, including those from under-represented backgrounds, via initiatives such as hardship funding, student advisory services, and tailored disability support. This funding stream also supports universities to develop effective mental health and suicide prevention strategies.
- However, the real-terms decline of SPG funding in recent years means such activities are at risk. A survey of UUK members in spring 2024 found that while universities had sought to manage costs in areas that less directly impacted student experience, 23% had already reduced student bursaries, and 17% had cut back on student support services. Given the ongoing financial challenges facing the sector, we anticipate this is likely to have worsened, and will continue to deteriorate further – with the associated risks to individual opportunity- without investment in SPG.
- This threatens universities' ambition to close the gap in participation between the most and least disadvantaged. Universities are also struggling to respond to the increased prevalence of mental health conditions in young people.

Establish a Tertiary Education Opportunity Fund:

- Stronger partnerships between tertiary education providers will expand opportunities by providing educational pathways that meet the needs of different learners.
- Building on the proven success of Uni Connect, a new Tertiary Education Opportunity Fund (TEOF) should be established. This fund would be awarded to higher education and further education partnerships that create collaborative programmes that respond to local skills needs and target learners in low-participation areas or groups through outreach activity. This would align to the Office for Students' (OfS) vision for the future of a national

collaborative outreach programme, building the pathway infrastructure to address cold spots and provide learners with guidance to make the right choice for them.

Committed funding for the Turing Scheme:

- The Turing Scheme has made good progress in widening access for disadvantaged students but has failed to replicate important components that are key to the success of Erasmus+, such as support for inbound mobility or funding for staff training.
- Given the benefits that outward mobility confers on disadvantaged students, funding for the Turing Scheme should be committed for the life of the current parliament, and longer-term two-to-three-year funding allocations should be introduced. Evidence shows that a significantly lower proportion of graduates from disadvantaged backgrounds who were globally mobile during their studies were unemployed some years later (5% compared to 7.6%).

Ensuring a sustainable higher education sector

Thriving universities are essential to a thriving UK, delivering stronger growth, better public services, and improving individual life chances and to help deliver on the government's missions. However, this is under threat, as the funding of university teaching and research is currently unsustainable. In the last year, approximately three quarters of universities have implemented significant savings programmes, including redundancies, course closures, reduction in module options, and consolidation of professional services and student support. The higher education sector and government both have a role to ensure universities are on a sustainable and secure footing.

The sector welcomed the government's decision to uplift undergraduate tuition fees in England to £9,535 for 2025-26 and has mobilised to respond to the reform package set out by the Secretary of State. However, this uplift must be seen as a first corrective step. Recent OfS modelling highlights the pressing need to deliver a longer-term sustainable settlement. Their modelling forecast that by 2025-26, based on current trends and without significant mitigating action, up to 72% of providers would be in deficit, and 40% would have dangerously low liquidity. As a result, universities in all four nations of the UK are pursuing further large-scale restructuring programmes with active consideration to redundancies, the reduction of academic research activity, and departmental closure.

While government action on funding will be an essential part of the solution, universities are not passive actors. Universities are taking bold steps to become more resilient and efficient and adapt to meet the needs of the country. Universities UK has commissioned a Transformation and Efficiency Taskforce chaired by Sir Nigel Carrington. This Taskforce is building on the existing good practice within the sector to consider ways that universities can partner, collaborate, and deliver transformation and cost savings through new models and ways of working, and will report in Summer 2025.

To ensure universities are on a stable footing, we ask the government to:

Index link tuition fees:

- The inflation-linked uplift to the undergraduate tuition fee cap for 2025/26 should be continued each year for the period of this spending review to ensure the unit of resource available to universities does not continue to diminish. Beyond that, the government should normalise annual inflationary uplifts. While this will not fully address the financial challenges universities currently face, it is an essential step to prevent the situation continuing to deteriorate year on year.

Create a sustainable pensions settlement:

- There are approximately 58,000 active members of the Teachers' Pension Scheme (TPS) currently working in the English higher education sector. Academic staff in the TPS scheme are mainly those in post-92 universities and some specialist institutions, which are required to offer academic staff the TPS by law due to their history of former local authority control. As a result, these institutions are restricted from offering alternative pension offers and are at a competitive disadvantage compared to other similar universities which do not have the same legal obligations. This is an anomaly which should be fixed.
- With the employer contribution having increased by a further 5% in April 2024 to 29% - one of the highest employer contributions of any UK pension scheme - it is vital that the government gives universities flexibility to offer alternative pension schemes, as they have for the independent schools sector. The disparity between TPS and the Universities Superannuation Scheme (USS) makes it significantly more expensive for certain institutions to recruit and employ academics as they will be paying almost double the pension contribution into TPS that others pay into USS. This places a serious burden on affected institutions, diverting resource from teaching, learning and research. There is some urgency to this, given indications that the next valuation of the TPS scheme could lead to further employer contribution increases.
- There are similar funding issues across the devolved nations, as the three separate TPS schemes (England and Wales, Scotland, and Northern Ireland) have all seen significant employer contribution increases following the 2020 valuations. No additional funding for HE employers in TPS has been included in the calculation of the Barnett formula grant.

Provide greater flexibility for VAT on shared services:

- Typically, higher education activities are VAT exempt. However, inflexibility in VAT legislation means that universities looking to share services are unable to benefit from an existing VAT exemption for cost-sharing groups and VAT is charged on staff costs. This means that shared services must make large savings to see any significant reduction in costs.
- Greater flexibility in the rules surrounding cost-sharing groups in higher education, which would effectively remove the barrier of VAT on shared services, would be of minimal cost to the Treasury but would incentivise new

collaboration among institutions and deliver efficiency savings. From a recent survey, we know there is appetite for this cost-saving activity across universities, with 39% indicating interest in shared services.

Establish transformation funding:

- Universities have already undertaken significant work to become more efficient. However further efficiencies are likely to require greater upfront investment, including in capital, especially if this requires the adoption of digital technology and AI. To support this, we propose a competitive transformation fund, that should be targeted to scenarios where universities cannot otherwise source funds to support the change. This could support reform – such as business model changes, operational efficiencies, and implementing new structures – both at individual institutions and between a group of collaborating institutions, encouraging system-wide change.
- The benefits would outweigh the costs by driving savings through accelerated pace of change, or by stimulating changes which would not otherwise occur due to steep upfront costs.