Universities UK

SEPTEMBER 2023

Sustainable university funding

Why it is important and what is needed

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Introduction

The UK economy is facing a long-standing problem with economic growth. Since 2008, economic growth in the UK has averaged at a rate of around 1% per annum, substantially lower than the preceding period.

Over the same period, we have seen sluggish productivity growth. As a result, governments in all four nations of the UK are finding it increasingly difficult to fund necessary investments in national infrastructure and public services without increasing the tax burden.

The only solution to this trap is stronger growth. Universities can play a central role in this national mission. Universities are almost unique in the publicly funded sphere in that they have the potential to generate prosperity. By doing so universities can play a stronger role in improving the living standards of everyone in the UK – not just those who have gone to university. They can also help governments across the UK break free of the trap of below-trend growth constraining investment in vital public services, like healthcare and schools.

Human and intellectual capital are a fundamental strength of the UK economy and key to attracting foreign investment, and universities are critical in developing this. In 2023, research from the Department for Education found that 'the increase in employment share accounted for by graduate and postgraduate qualifications' – was a key factor in driving productivity growth.

And when it comes to research, every £1 invested to help businesses and academic partners collaborate on research and development reaps a benefit of £7 to £8 of net Gross Value Added.

Our universities contribute £130 billion to the UK's economy through their role as employers and purchasers of goods and services, and from the spending of international students, in addition to supporting 768,000 jobs. These impacts are felt right across all nations of the UK. Graduates also contribute through the higher taxes they pay as a result of earning more than non-graduates. The Institute for Fiscal Studies estimates even taking into account the cost of grants and fee loans, the average gain to the taxpayer from each student is £110,000 for men and £30,000 for women.

In short, universities are engines of growth and should be seen as an investment rather than a cost to the public purse.

However, the university sector faces an increasingly serious problem with financial sustainability, with domestic teaching and research both producing large and growing deficits in financial terms. Given the contribution that universities make to economic success, this cannot be allowed to continue. And that is why Universities UK embarked upon a National Conversation in December 2022, to ensure that universities – as critical national and local infrastructure – are sustainably funded, to deliver prosperity.

Our work covered the funding of tuition in England, with implications for devolved jurisdictions, and UK-wide support for research and innovation. A funding task and finish group, by Professor Jenny Higham (Vice-Chancellor of St George's, University of London), consulted a wide range of stakeholders on the problems with the current models of funding, and what might the potential solutions be.

What's the problem with university funding?

Across the Organisation for Economic Co-Operation and Development (OECD), the UK has one of the lowest percentages of public investment in tertiary education. We have found a strong consensus that the current funding systems create significant risks for:

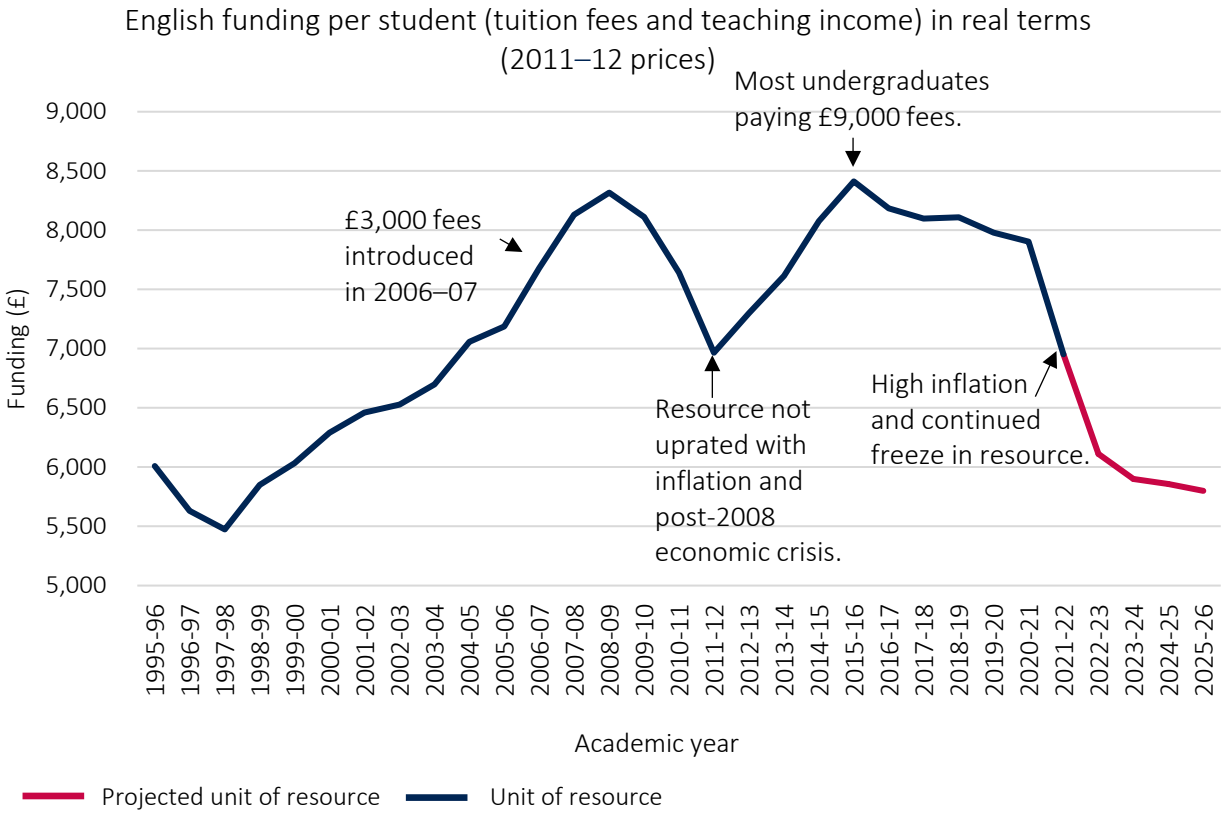
1. **The quality of the student journey,** and the opportunity for future students to access learning compared with those over the last decade,

2. **The UK's ability to deliver world-leading research and innovation** to drive our knowledge-intensive and globally competitive economy.

Underfunding will restrict student opportunity and success

Funding per student in England, from tuition fees and teaching grants, has fallen back to levels last experienced prior to the 2012 increase in fees, with inflation and government cuts wiping out increases in funding (Figure 1). By 2025–26, funding per student will be the lowest in over 25 years, and only worth £5,800 (2011–12 prices).

FIGURE 1



Sources: UUK analysis of HESA Finance Record and ONS inflation data.

Similar declines will be seen in Wales and Northern Ireland, where universities have been underfunded relative to England for many years due to lower government grants and lower fees. On average, Northern Irish universities have received over £1,000 less per student than English universities for the last decade. Welsh universities also have less to educate each student, with a fee of £9,000 compared to £9,250 in England, and funding per student in Wales is projected to fall in value by a further 15% by 2025–26. In Scotland, funding per student will be nearly £2,600 lower in 2023–24 compared to 2014–15.

UK universities currently incur an annual £1 billion loss in teaching domestic students, with an average shortfall of £2,500 per home undergraduate student. This could grow to a loss of £5,000 per student by 2029–30. This means that the current cohort of UK students has significantly less public resource devoted to their higher education compared to earlier cohorts.

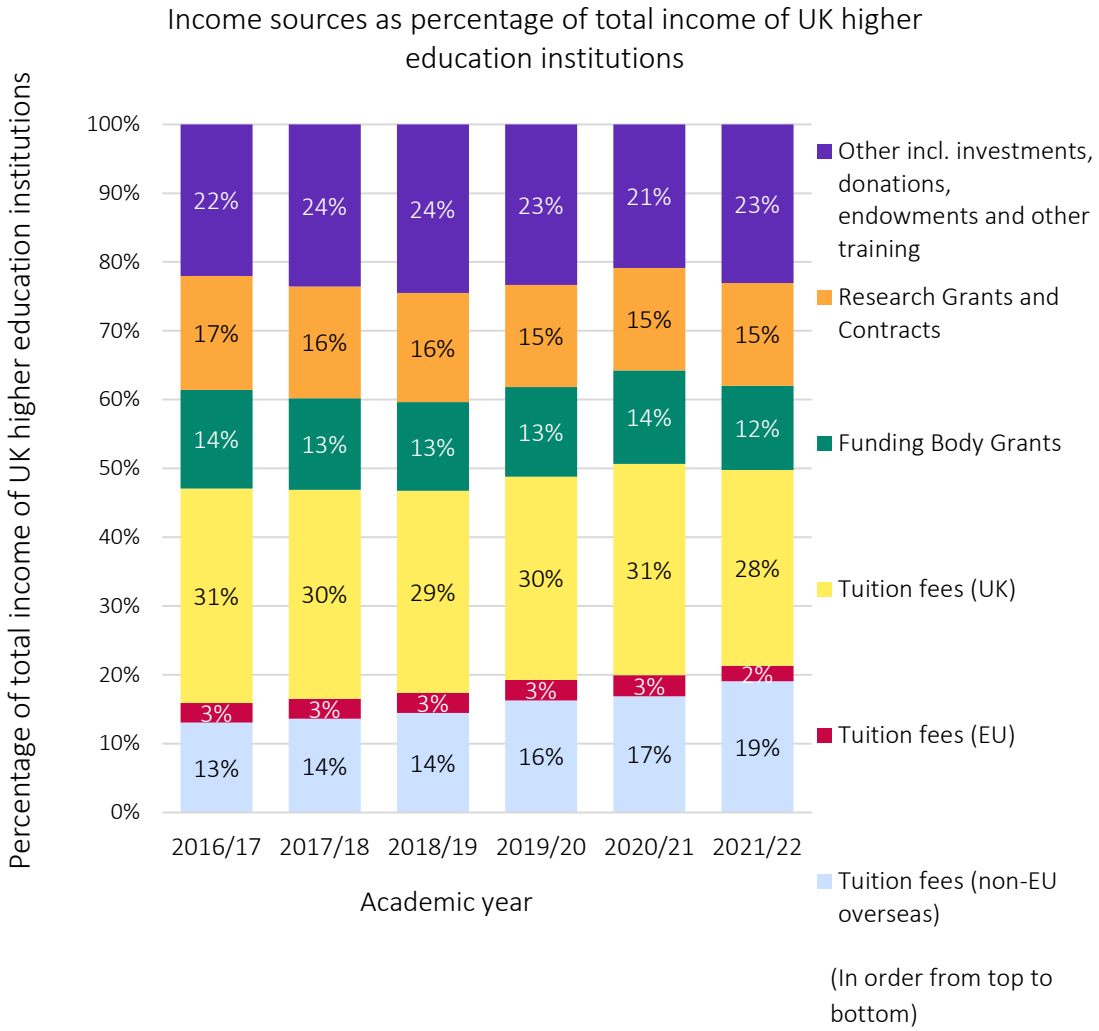
Universities face ongoing pressures from inflation, with rising costs in materials, labour and energy as well as the costs of borrowing increasing due to rising interest rates. There is a need for significant investment to upgrade IT and infrastructure, with some universities reporting that their IT platforms are no longer supported and

infrastructure is poor. The cost of achieving net zero carbon emissions is a significant challenge to the sector, with an estimated £37 billion needed.

The task and finish group found evidence of the work that universities across the UK are doing to increase efficiency and manage rising cost pressures. Restructuring of academic and professional service functions is widespread across the sector, many are looking to innovate their business models, and most have sought to diversify income including from international student fees. However, even with universities' best efforts, a shortfall in funding will inevitably impact on the quality of the student experience. Student to staff ratios have increased from a sector average of 15.5 in 2014–15 to 16.9 in 2021–22. There will be opportunities to improve efficiency, including through the adoption of best practice, in the right regulatory and policy environment, and with the right incentives.

The diversification of income streams has had implications for the recruitment of international students (Figure 2) which has seen a six-percentage point increase in income over the past five years. The change is even more pronounced when looking at tuition fee income alone, with non-EU overseas students now accounting for 36%, a rise from 26% in five years. Increased income has been driven by growth in international postgraduate students, where non-UK students have seen a rise from 35% to 45% in the past four years. For undergraduate study non-UK students have only risen by 1 percentage point from 14% to 15% during the same period.

FIGURE 2

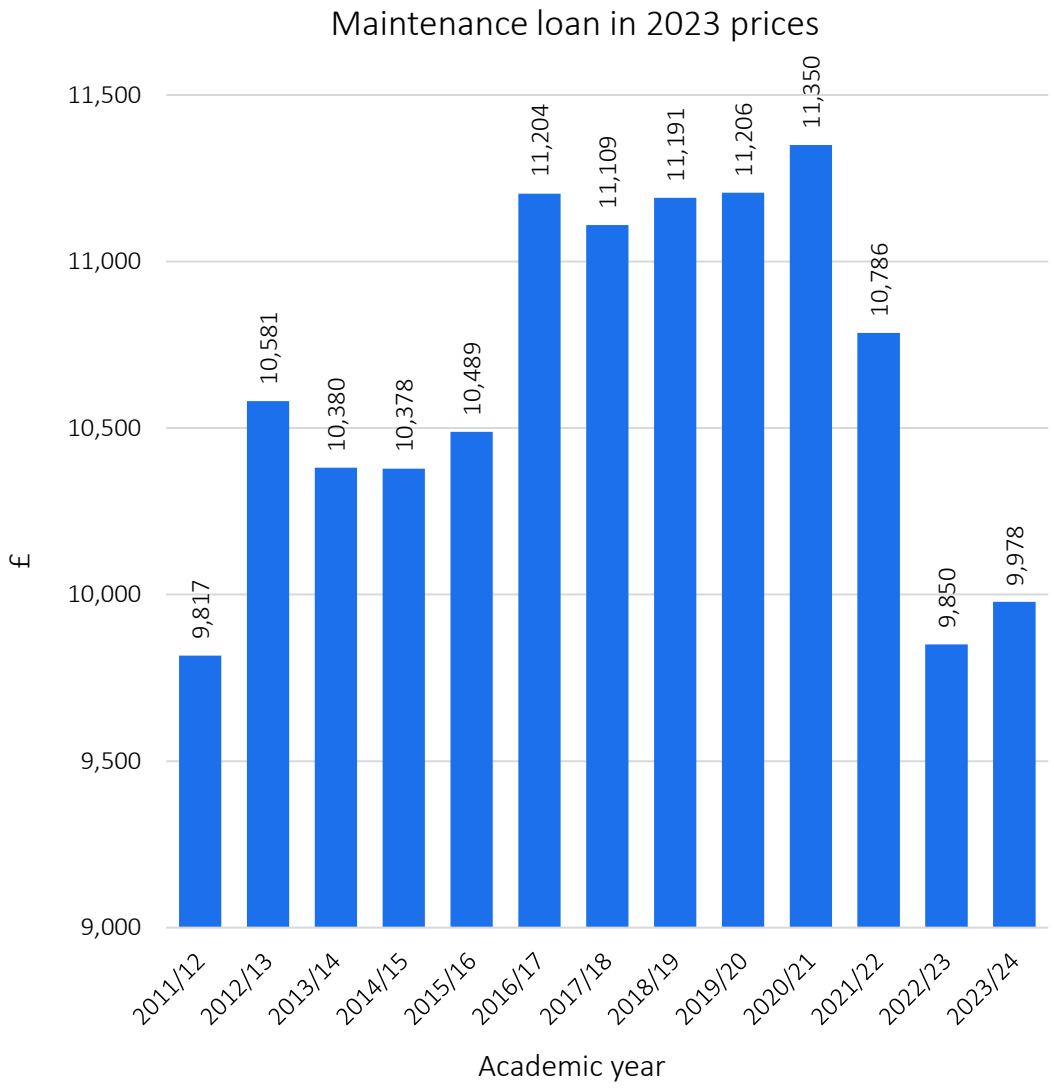


Source: UUK analysis of HESA Finance Record

While it is not true that international students are displacing home students, it is the case that income from international students mitigates losses in teaching domestic students, and in turn helps grow, and make viable, domestic student capacity. Compared with a £1 billion loss in teaching domestic students, teaching international students brings in a £3 billion surplus. Given losses incurred in teaching domestic students, growth in international student income is needed to help grow domestic student capacity, which is needed as there is an increasing number of 18-year-olds projected in the UK population. It is debatable whether further growth in international student income is feasible, given increased competition from other countries, potential geopolitical risks to this income stream and recent government actions. Without this growth, and no further funding for teaching, it is likely that the chance of entering university for future cohorts will be more restricted than for previous cohorts.

Problems of underfunding also affect the ability of students to meet their living costs. The student maintenance package in England is at its lowest value in seven years (in real terms), and students are eligible for much lower loans given the parental earnings threshold has been frozen since 2008 (Figure 3). Concerns about covering living costs will impact on a student's ability to benefit from and succeed in higher education, affecting students from disadvantaged backgrounds in particular. This was an issue widely cited by many stakeholders to the funding task and finish group.

FIGURE 3

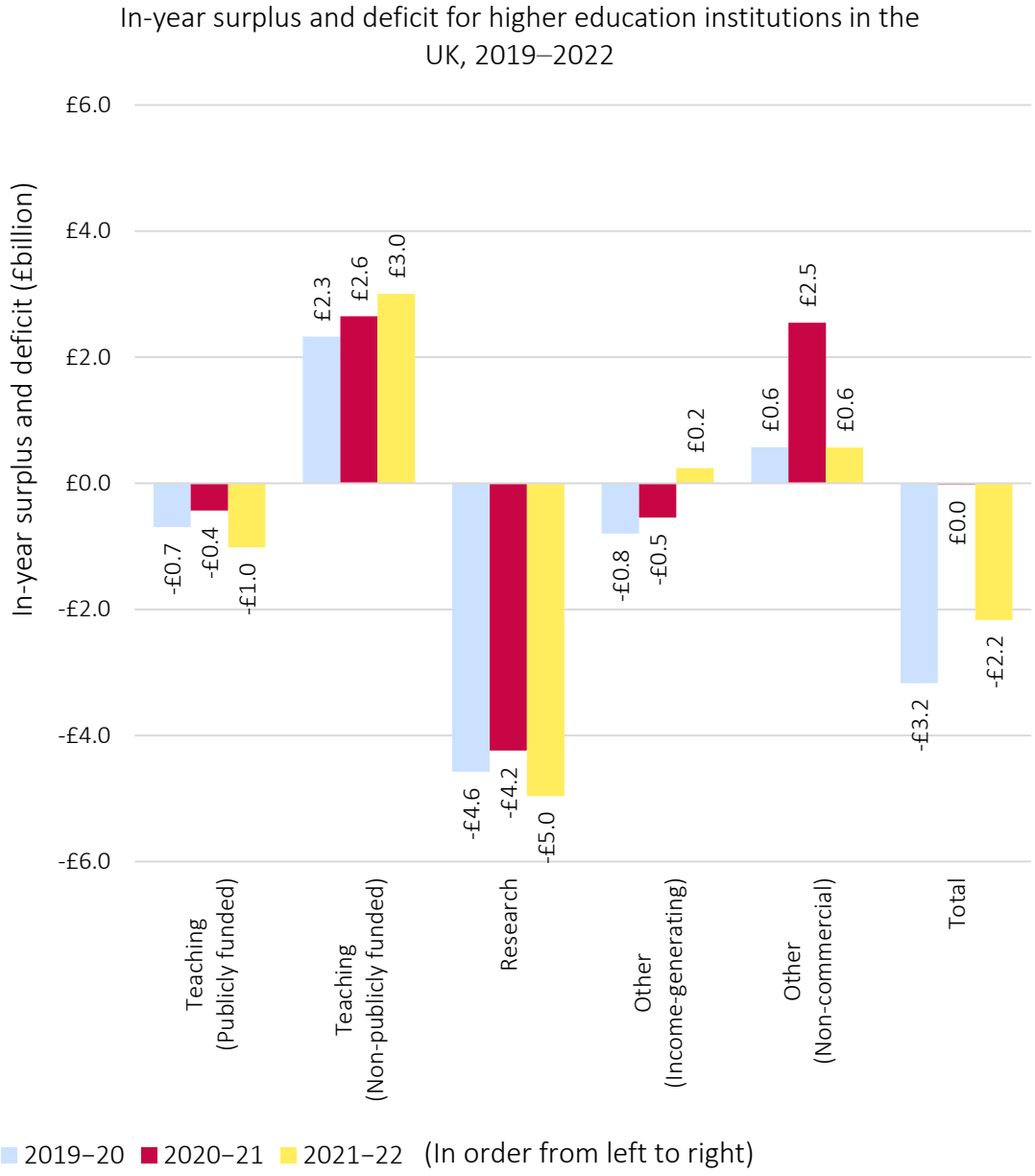


Source: GOV.UK & OBR

Underfunding will restrict the UK's ability to deliver world-leading research and innovation

The UK leads the world in its impact of research, ranking first among its G7 counterparts and well above OECD and EU averages. This performance is remarkable given that UK investment in research and development as a percentage of GDP lags behind the G7 countries Germany, Japan and the United States. UK universities incur an annual £5 billion loss in their delivery of research (Figure 4), covering less than 70% of their costs from government grants and other income sources.

FIGURE 4

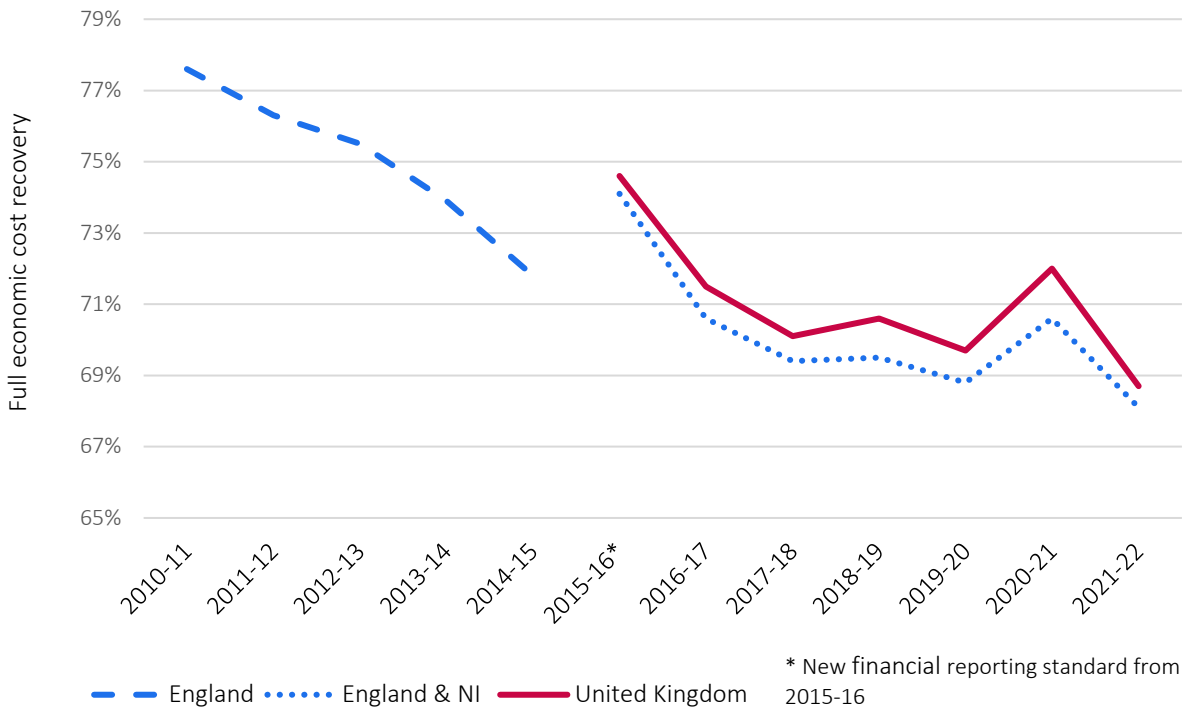


Source: OfS TRAC

Losses are getting worse over time (Figure 5) with cost recovery in England and Northern Ireland falling by 9 percentage points over the past eleven years. Despite the Government's ambitions for total R&D investment to grow to 2.4% of GDP by 2027, action will need to be taken to address the structural features which lead to the deficit, and additional government investment will need to be allocated to alleviate, and not exacerbate, losses made by universities in conducting research.

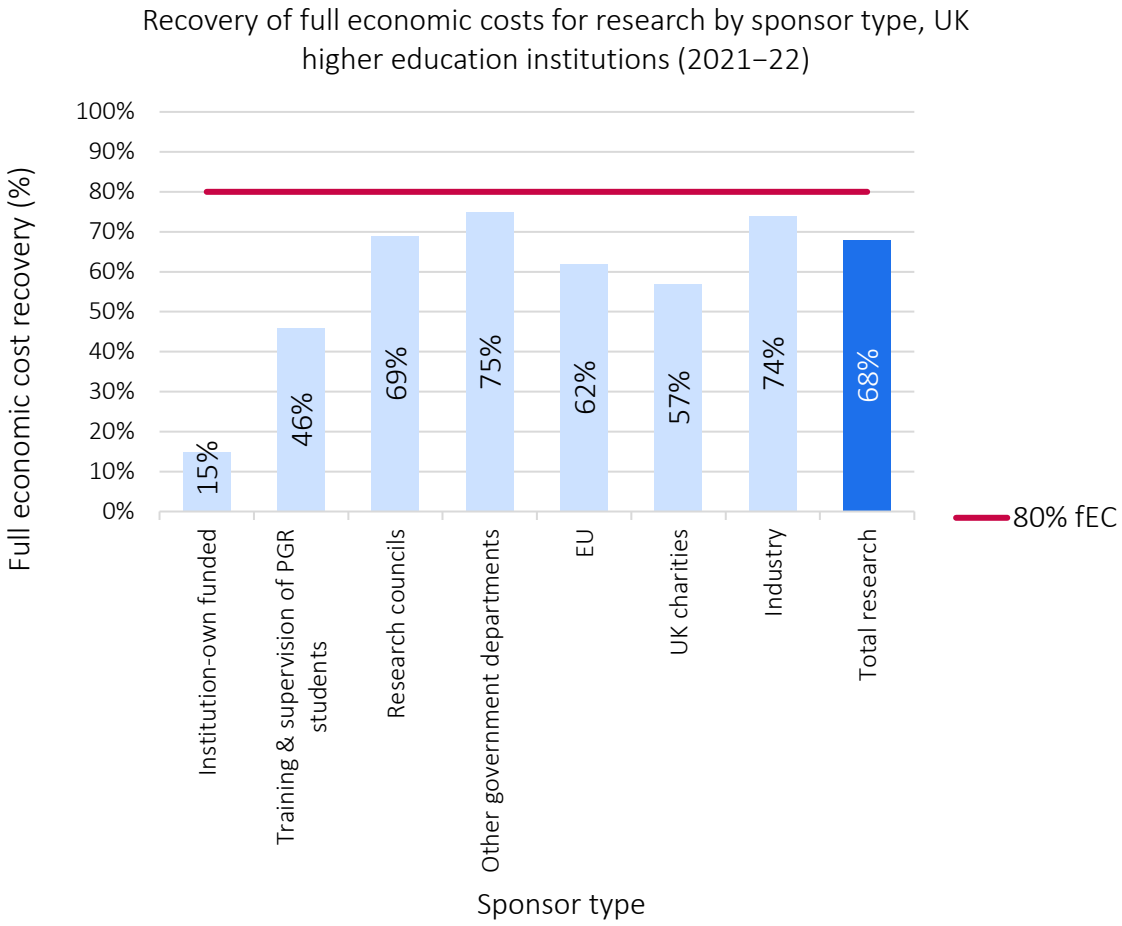
FIGURE 5

Research full economic cost recovery, 2010–11 to 2021–22



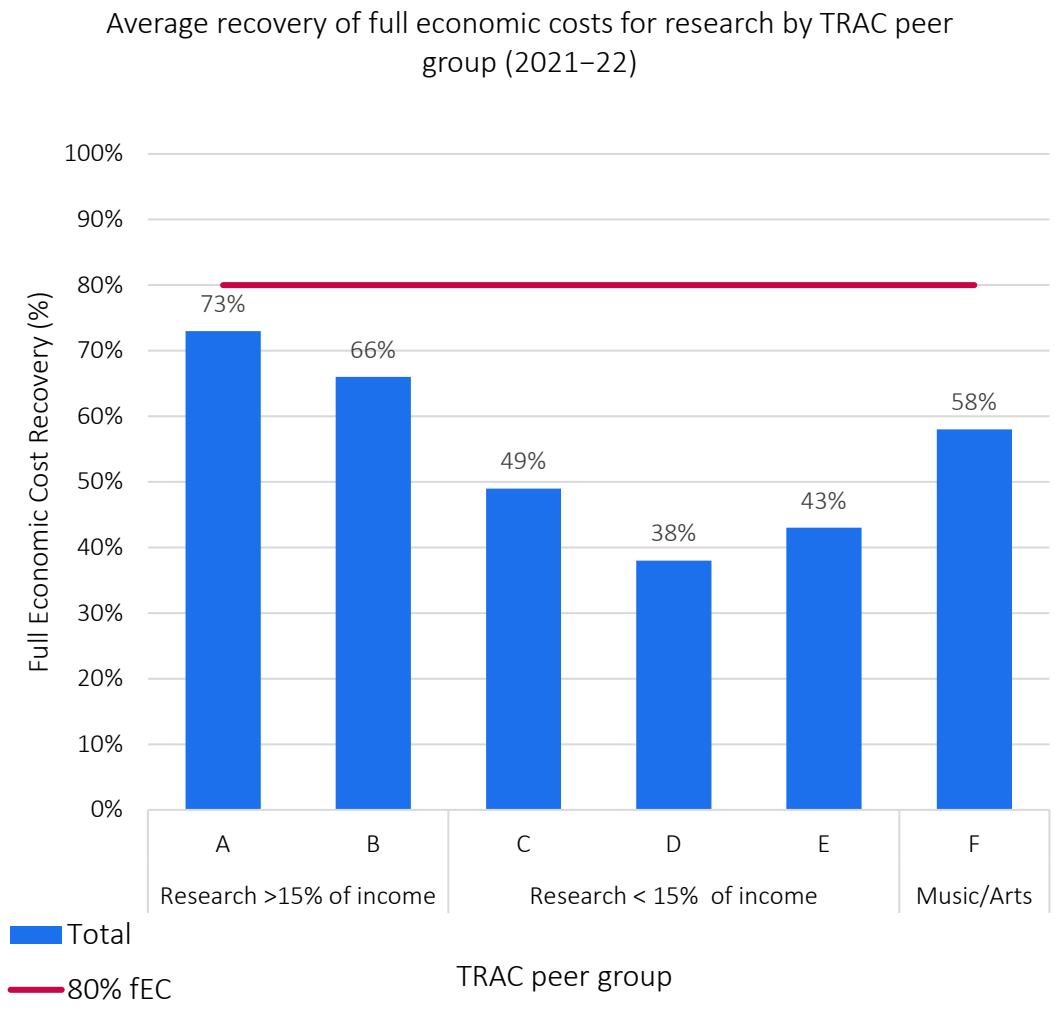
Losses in research activity are being experienced across all types of institutions (Figure 6 and 7).

FIGURE 6



Source: OfS TRAC

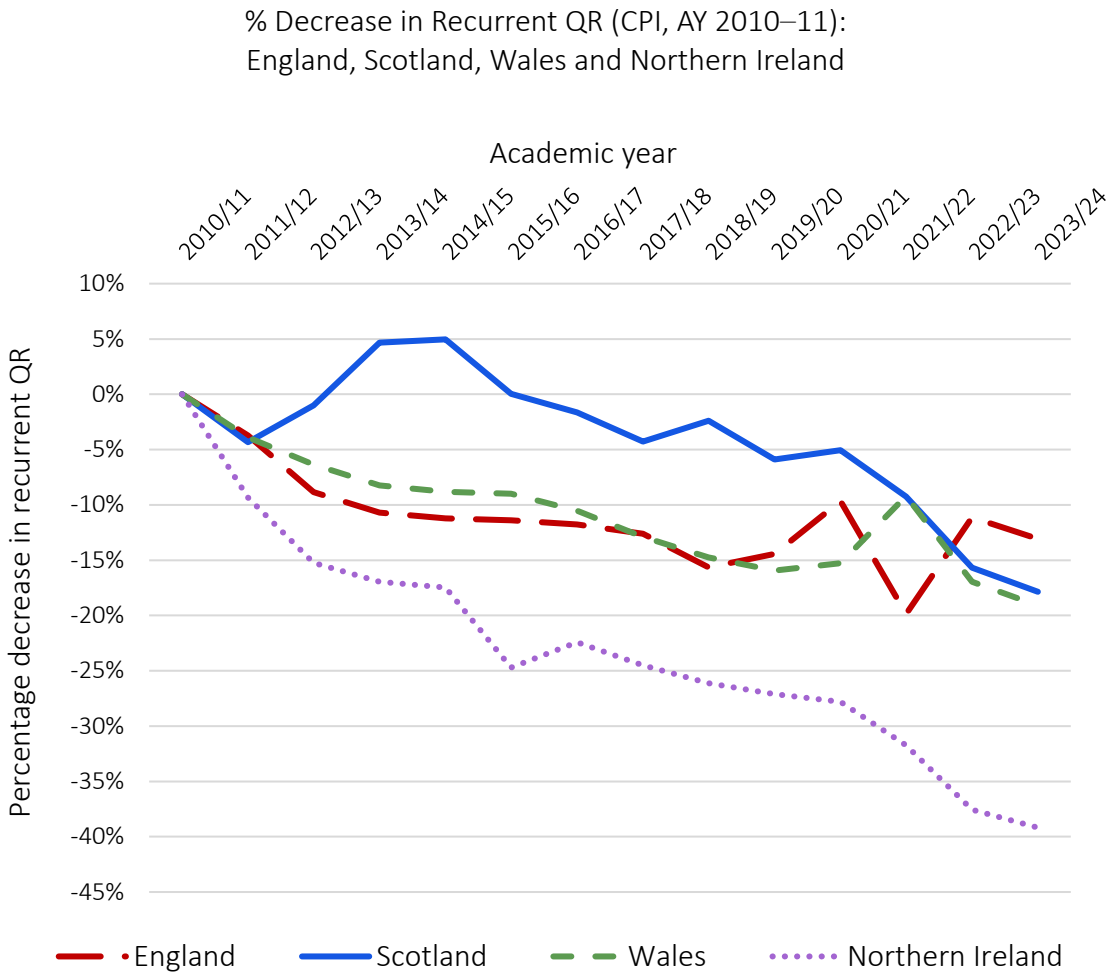
FIGURE 7



Source: OfS TRAC

Falls in block grant funding for research are being particularly felt by universities in Scotland, Wales and Northern Ireland (Figure 8). Income from international students has been used to cover the losses, so bigger losses make universities increasingly reliant on this stream of income.

FIGURE 8



Source: UUK analysis of Research England, Scottish Funding Council, HEFCW, and Northern Ireland Department for the Economy data

UK universities are facing some of the most significant shortfalls in funding for the training and supervision of postgraduate research students, recouping less than 50% of costs (Figure 6). This has implications for the stability of the UK's future research pipeline. It also raises real questions over the UK's ability to compete in an increasingly competitive global environment, and the UK's ability to attract the world's top talent to discover and adopt new technologies and innovations.

Why does it matter?

UK universities are a national asset and a critical part of our infrastructure, essential for our global competitiveness, economic growth and ensuring inclusive growth.

Global competitiveness

Universities are crucial to sustain the UK's global strategic advantage, through our world-leading research and innovation, and world-class education. 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. Our education is 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%). This comes from just 4% of the world's researchers, in a country of less than 1% of the global population. Eighty four percent of UK university research activity submitted to the 2021 Research Excellence Framework was classed as world-leading or internationally excellent.

The UK's research base covers the full range of disciplines and has a very high level of international collaboration with 61.5% of the UK's research outputs produced with international co-authors in 2022 (SciVal, 2023). Research conducted by universities has improved everyday life in many ways, and future research breakthroughs will be essential to address the climate emergency, capitalise on artificial intelligence developments and to discover new ways to save lives.

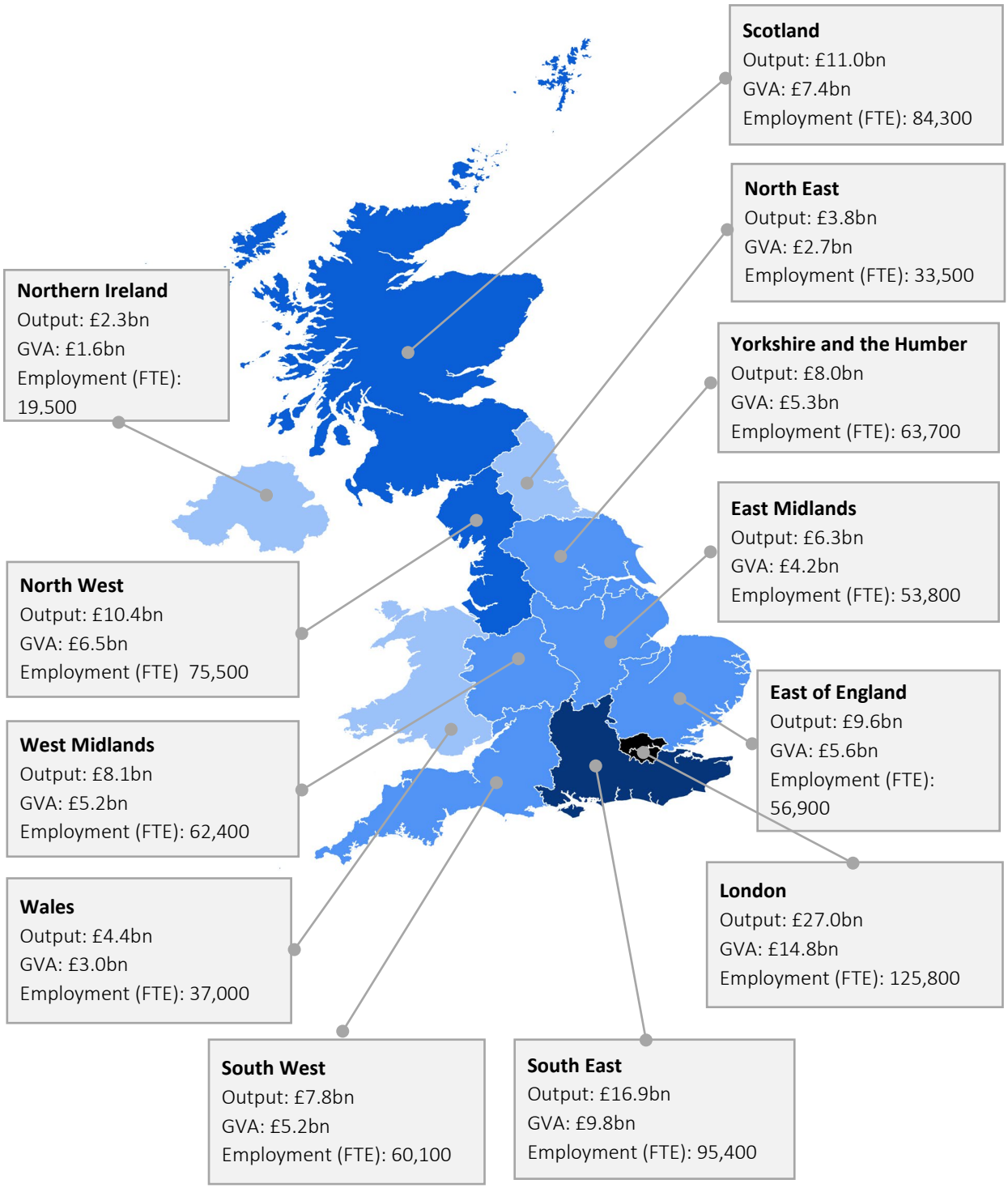
While the UK's quality of higher education and research ranks highly compared with our international competitors, in our system the balance between public and private investment is much more heavily skewed towards private contribution than other comparable systems, and it is this balance that we think we need to redress. However, the public contribution mostly appears (in the English and Welsh systems) through the loan subsidy/ write off which is designed to protect graduates who do not achieve high lifetime earnings.

UK investment in research and development is far outstripped by the most innovative economies in the world, including Israel, Korea, the United States and Germany. A high proportion of young adults with tertiary education will be essential for the UK to sustain future economic growth and remain competitive – however rates in the UK are surpassed by Korea, Canada, Japan and Ireland.

Economic growth

Our universities contribute £130 billion to the UK's economy through their role as employers and purchasers of goods and services, and from the spending of international students. These impacts are felt right across all nations of the UK and in all regions of England.

FIGURE 9: TOTAL IMPACT OF THE HE SECTOR IN 2021–22, BY REGION OR NATION OF IMPACT



Through their direct employment of staff and purchasing of goods and services throughout the economy, universities support 768,000 jobs across the UK. This economic impact is in addition to the contribution universities make to economic growth, which includes educating the future workforce, applying scientific, technological and social discoveries from research activities such as developing vaccines, and creating new products and services in partnership with local businesses.

Through increasing the number of people holding higher level qualifications, universities raise living standards over time through improving productivity. The increased share of graduate and postgraduate qualifications in the workforce has been a key factor in driving productivity growth. Evidence suggests that by 2035, more than 11 million extra graduates will be needed to fill jobs in computing, engineering, education and health. Due to developments in artificial intelligence, there will be a 10% net increase in jobs that require a degree over the next twenty years. Universities also educate public sector workers, with a predicted 210,000 nurses, 107,000 doctors and dentists and 195,000 teachers to graduate over the next five years (UUK analysis of HESA HE-BCI survey data).

Universities drive the growth of businesses through the supply of talent and give businesses a competitive edge through research insights. Every £1 invested to help businesses and academic partners collaborate on research and development reaps a benefit of £7 to £8 of net Gross Value Added (GVA). Around one-third of companies have R&D activities linked to university interactions, and universities have helped businesses and other partners nearly 600,000 times over the past five years.

Universities turn research breakthroughs into new businesses: in 2021–22 there were 21,000 active spin-outs, start-ups and social enterprises that came from UK universities. In the same period, businesses born at universities employed nearly 100,000 people and attracted over £6.4 billion in external investment (UUK analysis of HESA HE-BCI survey data).

Inclusive growth

Everyone across the UK should be able to benefit from rises in living standards as a result of economic growth. This requires addressing geographical disparities, and ensuring all individuals should have the opportunity to share equally in the UK's success. Universities play a critical role in addressing economic deprivation through:

- **Providing high level skills and driving growth across regions and local communities:** The link between a region's living standards and share of workers with tertiary education is becoming stronger.
- **Transforming lives:** 78% of graduates and 71% of business leaders who were the first in their family to go report that university opened doors, and likely led

to a higher starting salary than students not first in their family to attend. On average, graduates earn at least £100,000 more over their lifetimes than those without degrees.

- **Driving social mobility:** Universities have been highly successful in addressing participation gaps. While in 2005–06 only 14% of those receiving free school meals entered higher education by age 19, this has more than doubled to 29% by 2021–22. Black pupils have seen the greatest increase in the proportion progressing to higher education, rising to 64% in 2021–22 from 44% in 2009–10.

- **Helping small enterprises, local businesses and not-for profits to succeed**: Universities provide them with specialist advice and access to facilities to develop innovative products across the length and breadth of the UK

- **Delivering and attracting funding for local regeneration projects**, including an estimated value of £2 billion in local places across the UK over the next five years (UUK analysis of HESA HE-BCI survey data).

Underfunding will restrict the ability of universities to drive inclusive economic growth and underpin the UK's global competitiveness. On the flip side, sustained funding that ensures the quality of the student journey, maintains the opportunity for future students to access learning compared with those over the last decade, and enhances the UK's ability to deliver world-leading research and innovation will rapidly escalate the positive contributions of universities and their impact.

What's the solution?

The funding task and finish group heard a diverse range of solutions from stakeholders. It was recognised by many that there was a need for problems of underfunding to be addressed promptly, and a need for stability so students feel confident about making their decisions on entering university over time.

Recommendations for action

1. The income contingent loan system should be retained, but reformed, to ensure future students have the same opportunities as those of the last decade and can access learning over their lifetimes. This will require:

- enhanced maintenance support for students in England, reinstating maintenance grants for those who need them the most.
- growth and diversification in the capacity in the system so all qualified learners can enter, succeed and progress.

2. University teaching, research and innovation are vital to strengthen our knowledge-intensive and globally competitive economy. We must reduce a reliance on less stable sources of income and:

- reverse the long-term decline in funding for teaching, through increased government grants and index linking the fee cap from 2025 onwards in England
- increase the proportion of cost recovery on publicly-funded research grants in all parts of the UK
- address the decline in real-terms value of quality-related research funding and devolved equivalents
- scale up funding in support of university contribution to innovation

3. To achieve these recommendations, we need increased public investment, alongside continuous improvements by universities in quality, efficiency, and value for money.

Universities UK is the collective voice of 142 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.

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