

A new funding package for high-quality education

Russell Group universities deliver significant economic, social and cultural value to the UK. They inject nearly £87 billion into the national economy every year through their education, research and exportⁱ activities, and support over 261,000 jobs (full-time equivalent) – more than the entire population of cities such as Aberdeen and Plymouth. They provide local leadership and investment, bringing together key stakeholders at city, regional, national and international level, and driving efforts to level up.

Whilst the Government faces difficult trade-offs at this time, recent decisions are threatening the future financial sustainability of universities and will inevitably start to undermine the quality and international competitiveness of the teaching and research that they deliver. Russell Group analysis estimates that without further intervention the average deficit universities would incur for teaching each undergraduate student would increase from £1,750 in 2021/22 to approximately £4,000 in 2024/25.

There is an opportunity for the university sector and Government to come together to develop a new funding package for 2024/25 that is fair to students, supports the sector to deliver on Government ambitions and protects the UK's internationally competitive higher education sector.

The unit of resource for teaching has declined

The unit of resource for teaching is the amount of money per learner that universities receive predominantly from student fees and Government grants. It is used to build, maintain and run teaching facilities, employ staff to teach students and provide the additional support services that ensure an excellent student experience.

CURRENT LEVELS OF RESOURCE

In recent years the number of studentsⁱⁱ entering university has increased. This has been accompanied by an increase in the cost of teaching and the volume and variety of activity universities are expected to deliver. This increase in costs was not accompanied by a proportional increase in grant funding and student fees have been frozen since 2017/18.

Analysis from the Office for Students found that between 2021/22 and 2018/19 the unit of resource for teaching in England declined by 19.3% in real termsⁱⁱⁱ. Universities now face deficits across all subjects. For example, we estimate that across the sector deficits average £2,460 for each medical student per year and £1,940 per student per year in STEM subjects^{iv}.

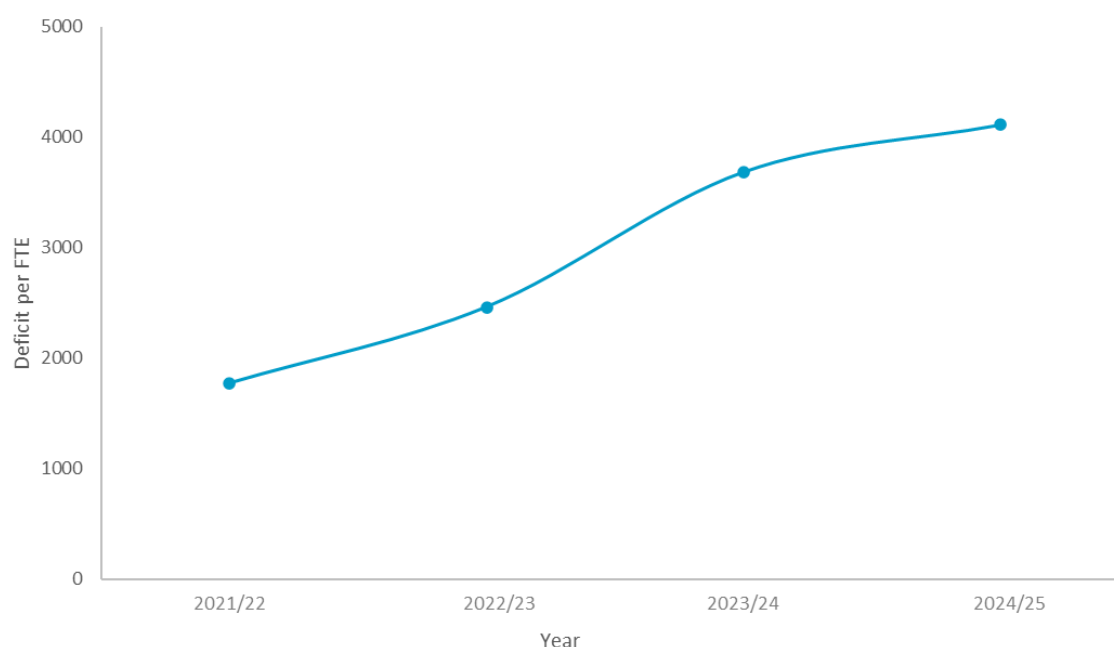
FUTURE LEVELS OF RESOURCE

We welcome the 2022 announcement of £300m additional investment into the Strategic Priorities Grant (SPG) over the next three years, with a particular focus on high-cost subjects which experience the largest deficits, as well as the maintenance of the capital budget.

However, the decision to continue freezing tuition fees up to 2024/25, combined with increasing teaching costs and rising student demand^v means that the unit of resource across all subjects in universities in England is projected to decline further - even when taking into account the additional SPG funding.

Russell Group analysis conservatively estimates that without further intervention the average deficit universities in England would incur for teaching each undergraduate student would increase from £1,750 in 2021/22 to approximately £4,000 in 2024/25. This projected deficit in 2024/25 is equivalent to 43% of the standard tuition fee of £9,250 in England.

Figure 1: Projected change in the average deficit universities in England would incur for teaching each undergraduate student between 2021/22 and 2024/25



Declining resource will impact the quality of teaching and learning

As the unit of resource declines, universities will continue to take steps to address deficits by working more efficiently and attempting to protect the quality of education and support they provide students. This includes wrap around support for students in areas like mental health and wellbeing, careers and employability, as well as helping under-represented students to access their institutions.

Despite these efforts, a continued decline in the unit of resource risks impacting the quality of teaching and learning. This could be a result of increasing class sizes, worsening staff:student ratios, reducing investment in practical teaching, infrastructure, and/or support services. We also expect to see a reduction in intake onto courses with the largest deficits, often STEM subjects. If this is not addressed, there will be knock-on impacts on the graduate pipeline for the economy, stymying universities' ability to innovate and respond to skills gaps.

Looking to the future, Russell Group universities aim to increase their activity to support their students, their local communities and to deliver on Government ambitions. This will include further support to help raise attainment in schools and embarking on exciting new initiatives such as expanding modular provision through the Lifelong Loan Entitlement.

However, in order to deliver on these ambitions, whilst maintaining the quality and volume of current activity, universities require a more sustainable way of funding teaching in universities that protects the unit of resource in real-terms.

Developing a new funding package for high-quality education

We would welcome the chance to work with the sector and the Government to develop a new funding package from 2024-25 that sustainably protects the unit of resource in real-terms, is fair for students, and supports the sector to deliver on Government ambitions. Whilst the funding systems differ across the devolved administrations, an effective funding package will need to be aligned across the administrations in the UK.

A truly sustainable funding package that protects the unit of resource in real-terms would help the sector to build on the world-leading teaching and research at UK universities, and deliver significant economic, social and cultural value to the UK.

Calculating the average deficit for teaching

The average deficits for teaching in universities in England in 2021/22 and 2024/25 were calculated by estimating the **income** and **costs** of teaching for each financial year **per full-time student**.

For 2021/22, per-student **income** for teaching was calculated using the 2021/22 grant allocation and student numbers published by HESES.

For 2024/25, per-student **income** was calculated by assuming that in 2024/25 the Strategic Priorities Grant will be uplifted by £150m (based on £300m being allocated across the three years and £51m allocated in 2022/23). We have conservatively projected the change in student numbers up to 2024/25 taking into account an expected increase in the population of 18-year-olds and demand for higher education, against an expected reduction as a result of changes to funding rules for EU students and the larger teacher and centre assessed grade cohorts in 2020/21 and 2021/22. If increases in student numbers are higher than expected, the average deficit per student will be higher than our estimate.

For both years, the **cost** for teaching activity was calculated by updating the 2019/20 OfS analysis of deficits for different price groups to reflect the latest OBR forecasts for RPIX published in March 2022. RPIX was used as a measure of inflation in line with OfS modelling. The [OfS analysis](#) showed that in 2019/20 all price groups were in deficit (ranging from -£974 per student for classroom-based to -£2,585 for price group intermediate cost subjects).

i For example, fee income from international students is categorised as an 'export' in government accounting terms.

ii 5% increase in first degree undergraduates between 2017/18 and 2019/20, HESA data

iii See Table 4, OfS consultation on recurrent funding for 2021/2022.

iv These deficits are calculated using Table B4 in Development of OfS approach to funding, September 2020 and Table 6 in OfS consultation on recurrent funding for 2021/2022, March 2021.

v [ONS data](#) shows that from 2021 the number of 18 year olds is set to increase, and between 2020 and 2030 this number will increase by 25%.