Securing a resilient higher education funding system to support students and boost the UK economy

Russell Group universities provide globally renowned higher education, developing the highly-skilled graduates needed for the UK to thrive. Members also deliver world-leading research and in 2020/21, the businesses spun out from members' research activity alone created over 30,000 new jobs. Overall, Russell Group universities inject nearly £87 billion into the national economy every year and support over 260,000 jobs in every region and nation of the UK.

Independent analysis shows education and research activities are funded at a loss and deficits have been growing – with these trends expected to continue. By 2024/25 per student funding is projected to be lower in real-terms than in 2011/12, before higher fees were introduced. Indeed, it will be at its lowest point this millennium. This is a result of a real-terms cut in public funding, rising cost pressures and the increased level of support universities offer to students, accompanied by growing shortfalls in the funding received to deliver research activity. Universities can maintain their world-class offer in the short term, but without action the high-quality experience students deserve will suffer, as will the UK's globally recognised science and technology activity.

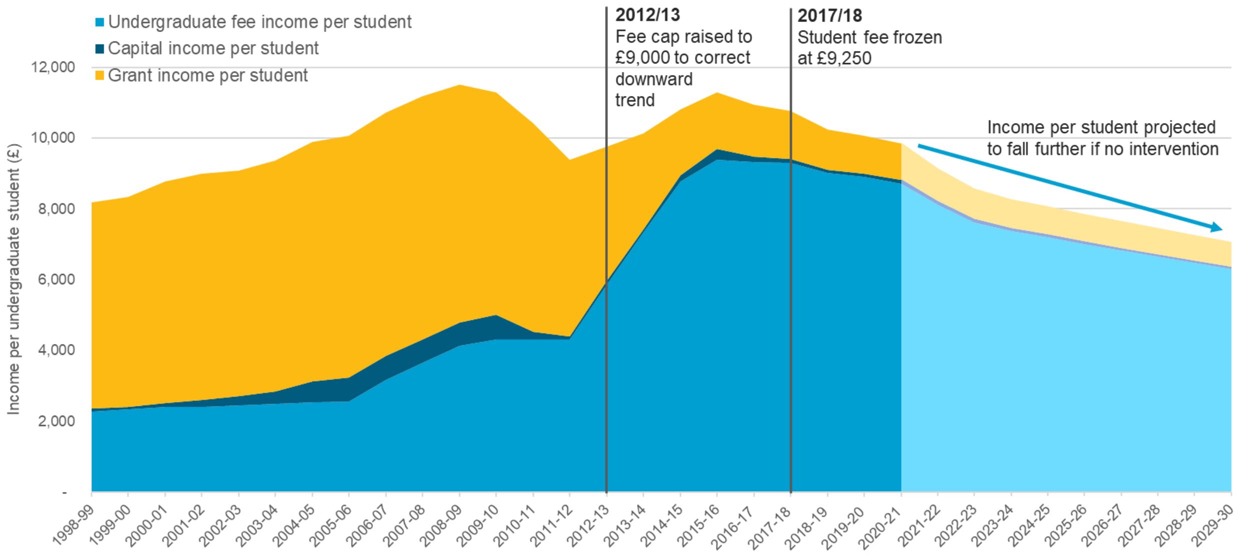
In the short term, we are urging the UK Government to ***uplift maintenance loans in line with current inflation and increase hardship support*** *for students to mitigate the cost-of-living pressures. Longer term it is clear* ***a new funding formula*** *is needed – one which is fair and affordable for students and provides universities with the appropriate level of funding to deliver the high-quality education and research necessary for the UK to remain internationally competitive.*

Delivering high-quality education and research activity incurs a deficit

To support the **education of home (UK) undergraduate students**, universities receive money from government grants and student fees. In recent years, this income has not covered the cost of delivery, meaning universities educate domestic students at a loss. In 2021/22 the average deficit that English universities incurred per home student was £1,750 per year. Russell Group analysis conservatively projects this will increase to approximately £4,000 per home student per year by 2024/25. This is equivalent to 43% of the current standard tuition fee of £9,250 in England. This deficit has been driven by recent Government funding decisions, inflationary pressures and increased expectations of what universities are to deliver.

Government funding decisions: In 2011/12, to correct a continuous downward trend in income, the student fee cap was raised to £9,000 and grant income was reduced accordingly. In 2017 student fees were frozen at £9,250. This has allowed inflation to erode the value of the fee, which is now worth around £6,500 in today's money. Whilst we welcome the £300m increase in grant income over the next three years announced in February 2022, this will not cover the resulting additional loss in income in real-terms between 2022/23 to 2024/25. **By 2024/25, per student funding is projected to be lower in real-terms than in 2011/12, before higher fees were introduced. Indeed, it will be at its lowest point this millennium**. See *Figure 1* below.

***Figure 1*: Approximation of undergraduate education income per student in English HEIs in 2020/21 prices (RPIX). More information can be found in Annex 1.**



Increased expectations, and demand, for student support, outreach and other activities: Increased deficits are not only driven by a reduction in income but also by universities increasing activities to meet the UK Government's ambitions and student needs. This includes increased support for wellbeing, counselling and career services for students, new digital learning and more school outreach programmes and widening participation initiatives.

Devolved administrations: Funding pressures seen in England are mirrored, or even intensified, across the devolved nations. In Northern Ireland, for example, there has been a 40% reduction in higher education funding between 2010/11 and 2021/22.

For **research activity**, the government and other funders do not pay the full costs of conducting research. This is by design and universities cover the remaining costs from other income sources. However, the proportion of the cost funders are covering is steadily decreasing. In 2020/21, UK universities ran a £4.2bn deficit on research, an increase from £2.2bn in 2008/09. The recent uplift in quality-related (QR) research funds in England this year has been welcomed and will help. However, the deficit in research funding remains and QR funding is spread thin with uses ranging from training and skills to infrastructure. The uplift was also not matched in all devolved nations.

One of the few areas where universities can generate a surplus is through international student fees. These surpluses are used to cover research and education deficits and allow universities to increase the number of UK students they accept year on year despite making a loss on delivery. Any surplus from this activity is redeployed into university activities including protecting the student experience and delivering civic responsibilities such as regenerating local communities. However, with deficits in research and education increasing, an ongoing overreliance on this model will be unsustainable and carries risks.

An immediate financial pressure for students

Our members are concerned about the impact cost-of-living pressures are having on students' studies and mental health and wellbeing especially as in 2022/23 the maintenance loan that some students rely on was only uprated by 2.3%. This has left students with around £2,000 less loan support compared to current inflation forecasts. Students are also not eligible for many of the cost-of-living government interventions to date, and given their often fixed income are likely to be disproportionately affected by rising prices on basic items.

Our universities are therefore taking all the steps they can to further support students, including stretching institutional hardship funding wherever possible. However, in most cases demand is outstripping supply, even when universities are increasing their hardship funds to levels seen during the Covid-19 pandemic and, without additional support, some of the most disadvantaged students will likely struggle to complete their courses successfully. **We therefore urge the UK Government to uplift maintenance loans in line with current inflation and to increase levels of central hardship funding to support students through a particularly difficult period. In addition, we continue to support the restoration of means-tested maintenance grants.**

Managing deficits in the short-to-medium term

Our universities work hard to deliver efficiencies that create savings whilst preserving the quality of education and research. Where impactful, Russell Group universities use purchasing consortia to drive down the cost of goods and services (including energy supplies), centralise decision making and services, automate processes, and share campuses, residences and equipment with other universities. However, the opportunity for further savings through efficiencies will not be sufficient to cover the worsening deficits in research and education activity.

In the short-to-medium term, universities can cover some of these deficits by scaling back or delaying investment in facilities such as lecture theatres, lab spaces or new equipment. However, high-quality infrastructure and state-of-the-art facilities are critical to the sector's ability to deliver world-leading education and research. Reducing investment or further delaying essential maintenance will impact student experience and risks the quality of our research and the UK losing top academics who are highly internationally mobile. Deficits will also prevent universities from updating estates to be more energy efficient and carbon neutral, preventing universities from accessing potentially significant efficiencies and from helping to address environmental challenges.

In the longer term, increasing deficits will impact students and the UK economy

Without additional financial support to deliver world-leading education our universities will be forced to make difficult choices that impact staff, students and research activity. These choices become more severe as both the demand and cost of delivery increases. Each university will respond in a different way depending on their financial model and strategic priorities, but possible impacts might include:

Education

- Pressure to control student intakes more precisely to ensure high quality teaching can be delivered and courses remain viable
- Increases to class sizes and worsening of *staff:student* ratios, diminishing quality and the student experience with a knock-on effect in readying students for the workplace
- Changes to courses available, reducing choice for students and impacting on the breadth and depth of skills and experience, with particular pressures on higher-cost STEM provision
- Reduced resources for outreach activities, wellbeing and counselling support
- Reduced capacity to deliver essential widening participation initiatives.

Research

- Reducing the quantity and variety of research performed, undermining the UK's global ambitions and diminishing potential benefits for the UK economy
- Restricting the number of postgraduate researchers a university can take on, impacting the talent pipeline and damaging the flow of new ideas and innovation into the system

Civic responsibility

- Cutting back on civic activities which will reduce the local and global impact of universities.

Establishing a resilient higher education system for the future

It is clear a new funding model is needed to create a resilient and sustainable higher education sector that is not over-reliant on a single source of income and that protects the high-quality education and research which delivers so much benefit to the UK economy and employers. We urge the government to work in partnership with the sector to **develop new UK wide funding approaches that are affordable for students, fair to the taxpayer and will protect the pipeline of skills and innovation needed to help the UK economy recover quickly and grow.**

Annex 1: Analysis notes

Notes to accompany Figure 1
This graph is an approximation of the income received to teach undergraduate students in English higher education providers and should be used to understand a trend of comparable figures over time. Figures are expressed in real terms in 2020/21 prices using RPIX reported in March 2022 by OBR. Data before 2021/22 is based on publicly available data from HESA, HEFCE and capital grant award letters. Projections are based on the OfS capital and recurring teaching grant announcement in 2022 and estimates of student number projections from providers. Following this, assumptions have been made that the student fee and grant allocation per student from OfS will remain the constant. We have also used a conservative estimate of 2% student growth per year from 2025/26.

Notes to accompany deficit calculation
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. Income per student was calculated as in Figure 1 and expenditure was calculated using 2019/20 OfS analysis of the cost of activity across different price groups and has been inflated in line with OBR forecasts for RPIX published in March 2022.

More information available on request.