

UNIVERSITY FUNDING EXPLAINED



Universities UK

INTRODUCTION

University funding has received a lot of attention in recent years, with the 2012 reforms to higher education and fees across the United Kingdom.

Much of the debate has focused on undergraduate fees and research grants from government – with conclusions being drawn on the finances of universities and the possible ‘winners and losers’.

This is only part of the story. Almost all universities that receive public funding are charities, and raise income from a wide range of sources. This publication illustrates the diversity of these sources.

Any surplus income is reinvested back in to improving teaching and research, and innovating with business to support local and national growth.

Without surpluses, universities would be unable to deliver the scale of investment required to meet student demands, remain internationally competitive and continue to be financially sustainable.

This publication explains how universities manage their finances to support their core activities, in both the short and longer term. Finally, it sets out how universities manage risks to ensure they remain sustainable in the long term.

Note that unless explicitly specified, all 2014–15 figures used in this publication include the impact of a number of universities recognising Research and Development Expenditure Credits (RDEC). This was a one-off financial benefit to the sector for 2014–15. Therefore research income, total income, and related surplus(deficit) figures will appear higher (lower) than if the impact of RDEC was excluded.

WHAT UNIVERSITIES DO



Educate graduates to meet UK and global demand for higher-level **skills**

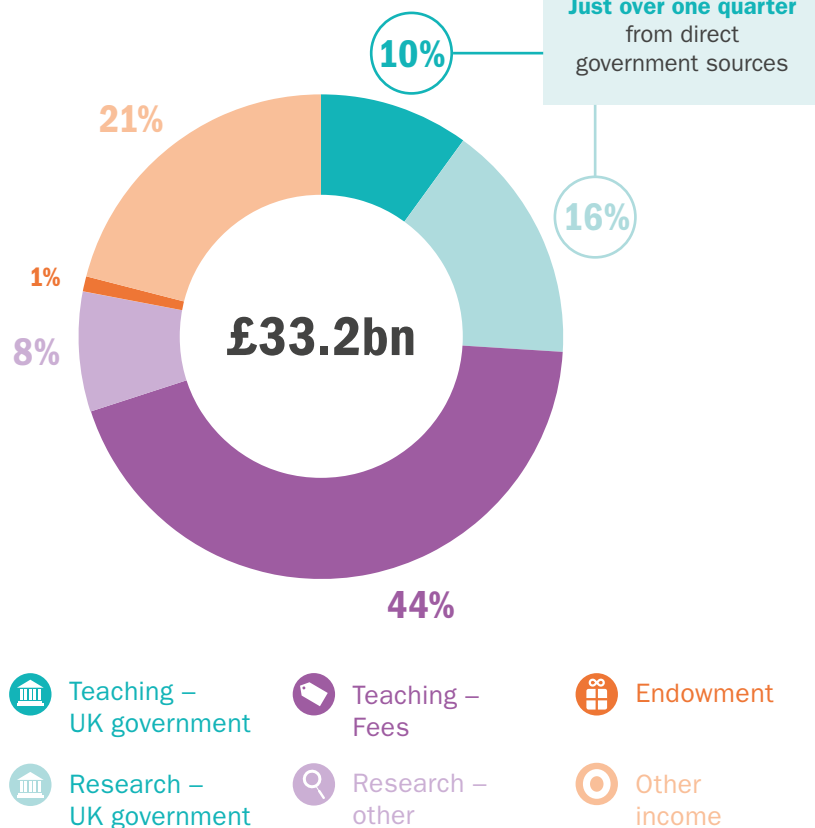


Generate world-class **research** that transforms lives



Drive **innovation** that supports local and national economic growth

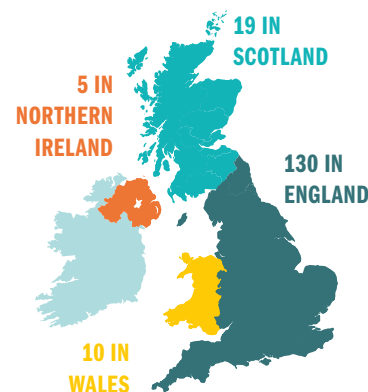
TOTAL INCOME FOR 2014–15



164

UK HIGHER EDUCATION INSTITUTIONS

In 2014–15 there were **164** higher education institutions in the UK which received an element of public funding.



This publication covers data from all 164 plus the University of Buckingham. It does not include alternative providers in the UK (estimated at 732 in 2014) or further education colleges.

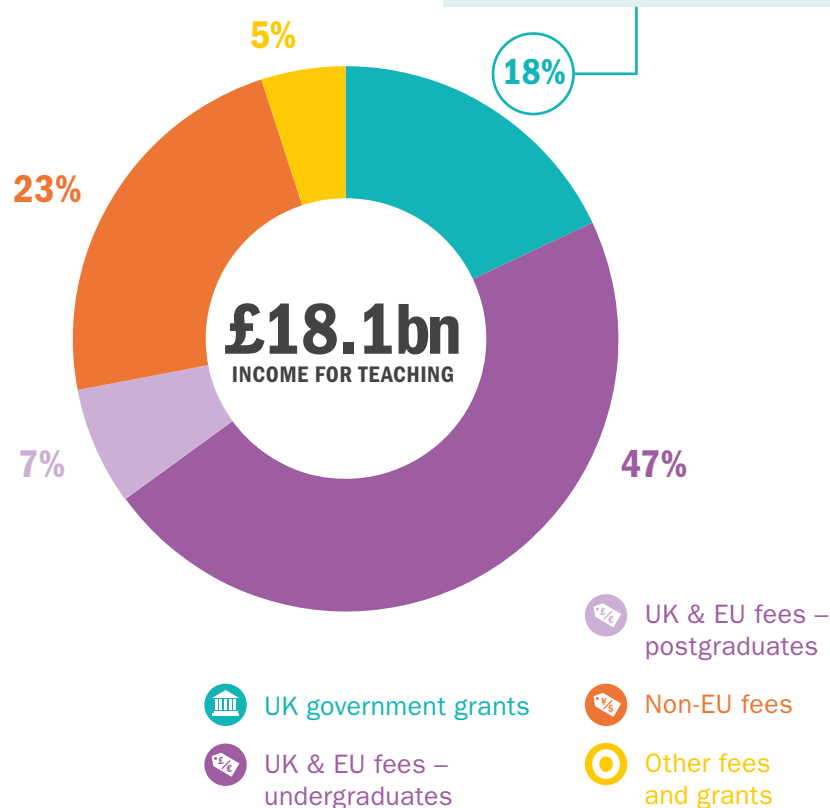
FUNDING THE TEACHING OF HIGHLY SKILLED GRADUATES

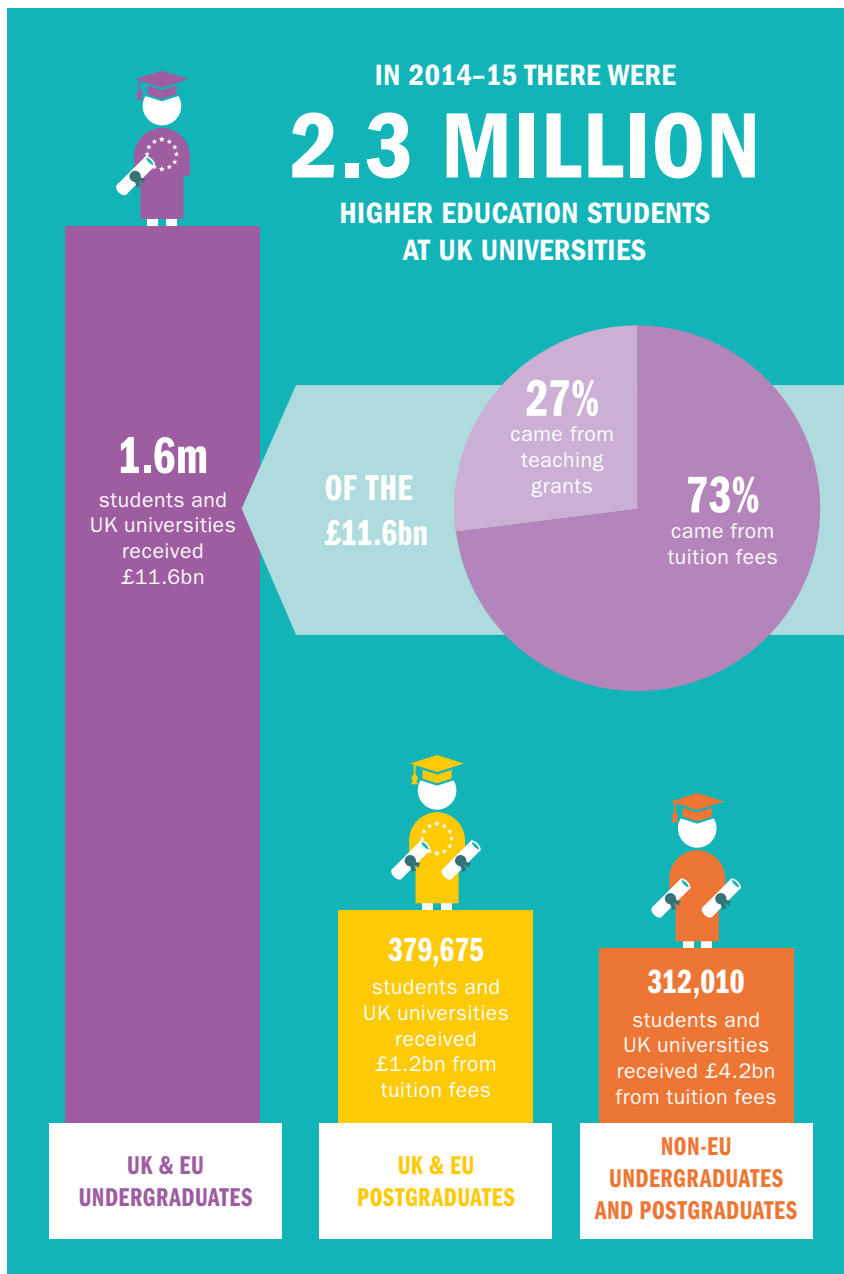
To be sustainable in the long term, universities need to meet their **'full economic costs'** of teaching.

This includes costs of staff, equipment, and services. It also includes the costs of replacing infrastructure and investing in innovation to meet the future needs of students, employers and society.

UK universities just broke even in covering the full economic costs of teaching UK and EU undergraduate and postgraduate taught students in 2014–15.

TEACHING INCOME, 2014–15



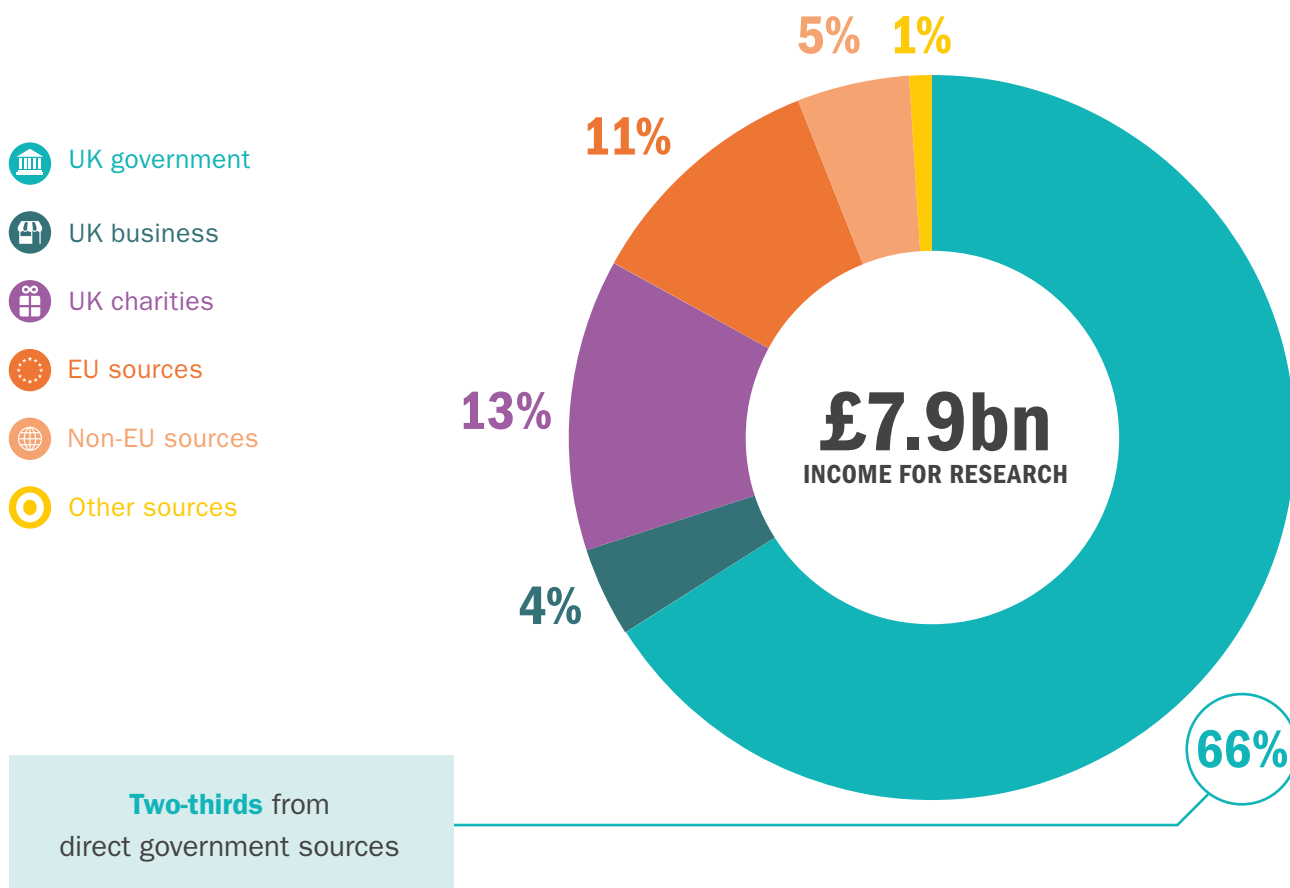


Some subjects cost more to teach than the university receives from UK and EU students. Government teaching grants are used to close this funding gap. However, income from students and government may still not be enough to cover the costs of teaching some subjects.

Fees charged to non-EU students are unregulated, and higher than for UK and EU students. This income allows universities to fund activities where costs exceed income – for example, teaching of some high-cost subjects and research activities.

FUNDING WORLD-CLASS RESEARCH

RESEARCH INCOME, 2014-15



UK RESEARCH PRODUCTIVITY IS

3.6
TIMES THE
WORLD AVERAGE

(citations per pound spent)



WORLD



UK

To be sustainable in the long term, universities need to cover the **‘full economic costs’** of conducting research. This includes academic staff, training of postgraduate research students, fieldwork, and laboratory and studio work. It also includes maintaining and replacing infrastructure, and investing in innovation.

The income UK universities received (from government and all other sources) in 2014–15 was not enough to be sustainable. There was a deficit of £2.9 billion (or £3.3 billion excluding the one-off impact of R&D Expenditure Credits*).

The UK invests significantly less in research and development (R&D) than many other countries. Total UK R&D expenditure is 1.7% of GDP, well below the OECD average of 2.4%.



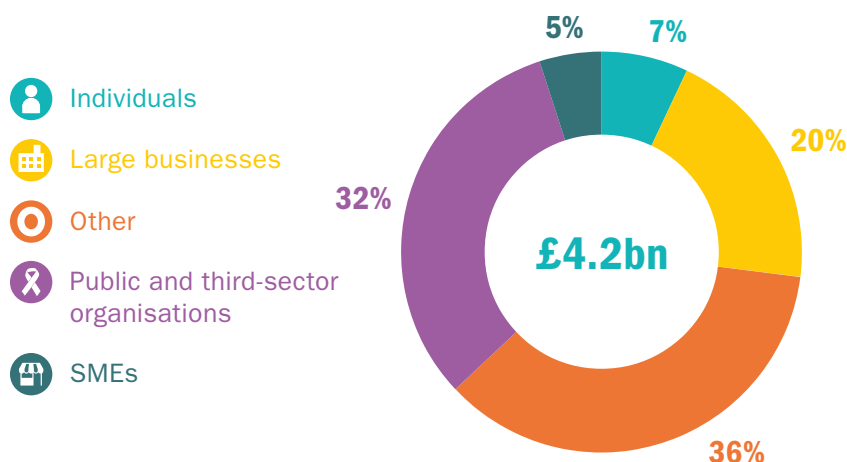
112,910

Postgraduate research students
in the UK, 2014–15

*See note on page 2

FUNDING INNOVATION TO SUPPORT GROWTH

INCOME FOR KNOWLEDGE EXCHANGE ACTIVITIES, 2014-15



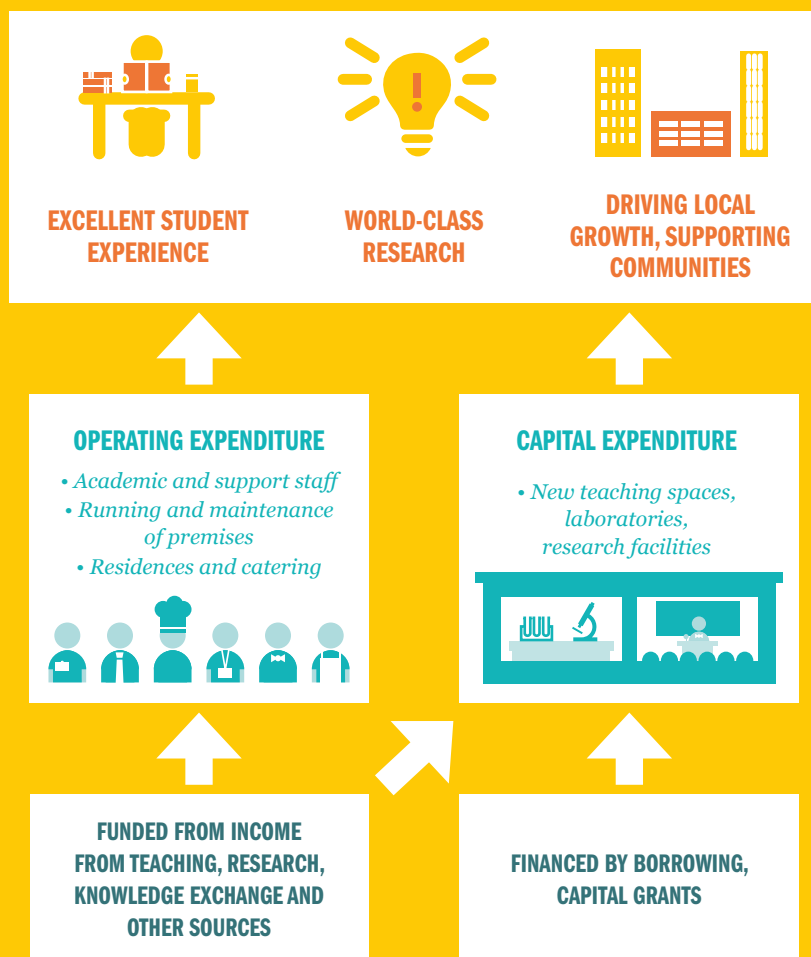
Universities share their expertise and collaborate with businesses and the wider community – this is known as ‘knowledge exchange’. Knowledge exchange drives innovation and economic growth both locally and nationally.

Governments across the UK provide a relatively small amount of funding to support this activity.

Universities receive income from knowledge exchange and reinvest this income to support future activities wherever possible.



HOW UNIVERSITIES MANAGE THEIR FINANCES



Almost all universities that receive public funding are charities and raise income from a wide range of sources.

Most of their income is spent on the day-to-day running costs of providing services for students, conducting research and translating that research to benefit society (**‘operating expenditure’**).

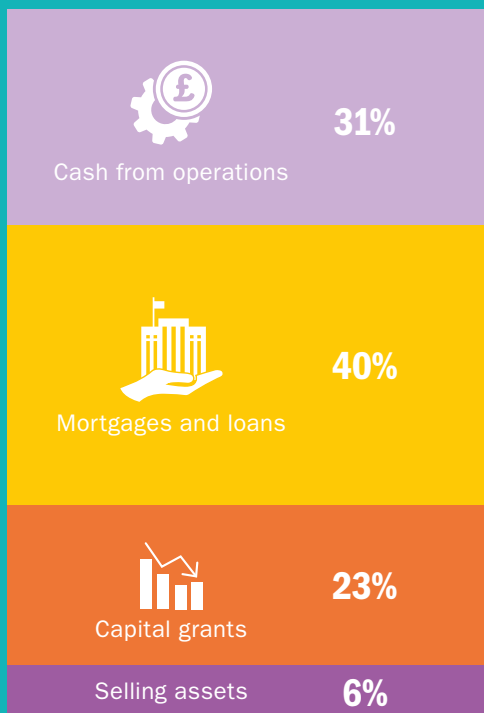
What is not spent (a margin of income over expenditure, or **‘surplus’**) is reinvested back into providing high-quality services in the future.

This includes investment in new teaching spaces and research facilities, and major refurbishment of existing buildings (**‘capital expenditure’**).

HOW CAPITAL EXPENDITURE IS FINANCED IN ENGLAND

£3.6bn

capital expenditure for universities, of which:



The vast majority of investment in new facilities and refurbishment is funded by universities themselves. In England, universities expect to finance 75% of their capital expenditure from their own cash by 2017–18, compared with 31% in 2014–15. Borrowing will be the second most important source.

SHORT-TERM OUTLOOK

‘Net liquidity’ measures the ability of universities to meet their short-term obligations from cash at a particular point in time, and so may fluctuate over the year.

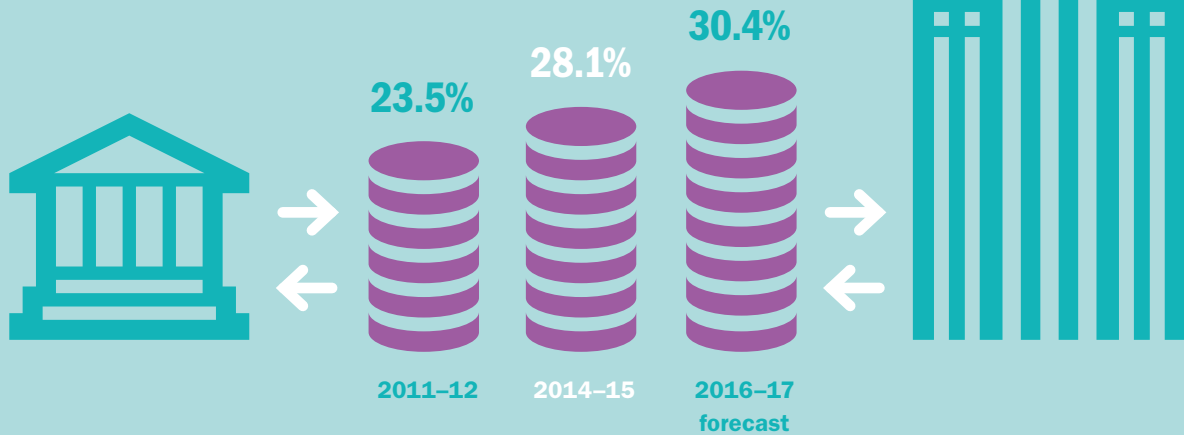
In England, for example, net liquidity was around four months (126 days) for universities in 2014–15. This is expected to fall to around two months (67 days) in 2017–18.

Therefore, universities in England are not holding large cash reserves. The fall is due to universities increasingly spending their cash on new facilities and refurbishment.

NET LIQUIDITY, DAYS OF EXPENDITURE



EXTERNAL BORROWING AS A PERCENTAGE OF INCOME FOR UNIVERSITIES IN ENGLAND



LONG-TERM OUTLOOK

Universities need to replace existing facilities due to wear and tear over time. They also need to invest in developing new and innovative approaches to meet the future needs of students, employers and society.

More investment is needed for refurbishing and building new facilities, and investing in innovation.

The only way many universities can invest more is through surpluses. There is limited government funding, and not all universities are able to borrow more. External borrowing is projected to rise for universities in England to over 30% of income by 2016-17.

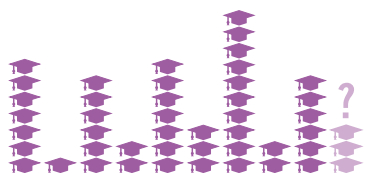
Over the long term, universities will need to maintain and grow their student numbers, including those from outside the EU, to fund increased investment.

FINANCIAL RISKS AND CHALLENGES

SHORT-TERM RISKS TO UNIVERSITIES

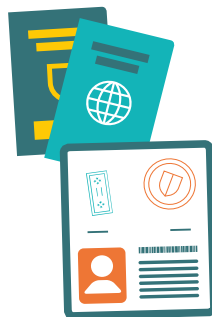
FLUCTUATIONS IN DEMAND FROM UK AND EU STUDENTS

The deregulated market in undergraduate higher education, demographic changes and increased competition from alternative providers mean that universities face increasing uncertainty in predicting their student numbers from year to year. They also increasingly face costs associated with greater competition (such as marketing).



CHANGES IN DEMAND FROM NON-EU STUDENTS

Reforms to immigration policy by the government have affected demand from overseas students. Ongoing uncertainty over future policy changes and increased international competition may affect the number of non-EU students.



FURTHER REDUCTIONS IN PUBLIC FUNDING

Government funding for higher education and research is limited, as outlined in the 2015 Comprehensive Spending Review. Teaching funding from direct government grants will fall by £120 million in cash terms by 2019–20.



MEDIUM TO LONG-TERM RISKS TO UNIVERSITIES

COVERING COSTS OF RESEARCH ACTIVITY

To be sustainable in the long term, universities need to meet their **‘full economic costs’** of research. This includes costs of staff, field and laboratory work, as well as maintaining and replacing infrastructure, and investing in innovation.

UK universities are not receiving enough income to cover the full economic costs of their research activity.

FUNDING PENSION SCHEMES

The Universities Superannuation Scheme (USS), the largest pension scheme in higher education, had an estimated deficit of £8.3 billion as at 31 March 2015.

Defined benefit schemes such as USS face ongoing funding challenges due to historically low gilt yields, low interest rates and increasing life expectancy.

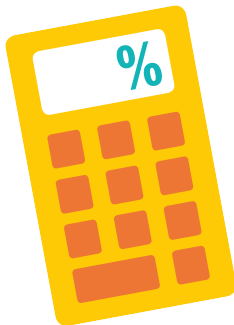
While USS and other defined benefit schemes have been reformed in recent years, challenges remain. This represents a financial risk to universities, including potential increases in contributions.



HOW UNIVERSITIES MANAGE THESE RISKS

STRATEGIES TO ACHIEVE SUFFICIENT SURPLUSES

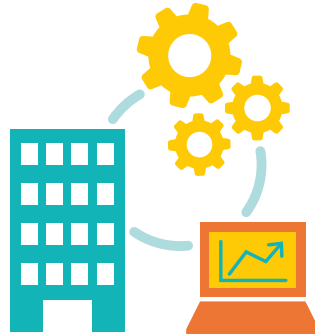
Universities are aiming to generate surpluses of income over expenditure to withstand increased volatility of student numbers, unexpected costs, and reductions in government funding. Any remaining surpluses are reinvested into teaching and research facilities.



EFFICIENCY, EFFECTIVENESS AND VALUE FOR MONEY

Universities have been bringing down costs and making their resources go further by maintaining control over pay costs, making better use of estates, and sharing assets and services.

In England, universities have achieved efficiency and cost savings estimated at £2.4 billion over the past decade.



PRUDENT AND RESPONSIVE FINANCIAL MANAGEMENT

The income UK universities receive from teaching non-EU students plays an important role in helping to manage their overall financial position.

Universities' long-term sustainability therefore depends on their continued ability to attract sufficient numbers of non-EU students.



CONCLUSION

It is clear that the income universities in the UK receive for teaching, research and innovation activities comes from a wide range of sources. While less than one fifth of income for teaching comes in the form of direct government grants, 66% of income for research comes from government. In total, only around a quarter of the income that universities receive comes directly from government sources.

Almost all universities that receive public funding are charities, and it is vital that they are responsive and strategic in how they manage their finances.

Universities will continue their robust and prudent financial strategies so they can continue to educate skilled graduates and postgraduates, carry out world-class research and innovate to support growth.

The evidence shows that sustained investment is needed over the longer term, particularly to maintain the UK's world-leading research reputation.

Sustainable university funding is essential to allow universities to continue to deliver the UK's enviable track record of world-class, high-quality teaching and research.

Universities UK (UUK) is the representative organisation for the UK's universities. Founded in 1918, its mission is to be the definitive voice of universities in the UK, providing high quality leadership and support to its members to promote a successful and diverse higher education sector. With 133 members and offices in London, Cardiff (Universities Wales) and Edinburgh (Universities Scotland), it promotes the strength and success of UK universities nationally and internationally.

Woburn House, 20 Tavistock Square, London WC1H 9HQ

Tel: +44 (0)20 7419 4111

Email: info@universitiesuk.ac.uk

Website: www.universitiesuk.ac.uk

Twitter: @UniversitiesUK

To download this publication, or for the full list of Universities UK publications, visit www.universitiesuk.ac.uk

July 2016

ISBN: 978-1-84036-361-6



Universities UK

