



The All-Party Parliamentary
University Group

31 October 2017

Agenda

The subject of the meeting of the All-Party Parliamentary University Group is the financial sustainability of the UK university sector.

- 6.00pm** **Roberta Blackman-Woods MP**, Chair of the All-Party Parliamentary University Group, welcome and introductions.
- 6.05pm** **Professor Mark E Smith**, Vice-Chancellor, Lancaster University and Chair of the HEFCE Financial Sustainability Strategy Group
- c6.15pm** **Martin Lewis OBE**, Founder and Executive Chair, MoneySavingExpert.com
- c6.25pm** Questions, comments, and discussion with university leaders, MPs and peers
- 7.30pm** Speaker meeting concludes

Speaker biographies

Professor Mark E. Smith, MA, PhD, DSc

Professor Smith studied natural sciences at Churchill College, Cambridge before completing a PhD at the University of Warwick. After time in industry in Germany and with CSIRO in Australia, he was appointed to the University of Kent in 1992 and returned to Warwick as Reader in 1998. There he held roles within the Physics Department before being appointed Chair of the Faculty of Science in 2005, Pro-Vice-Chancellor for Research in 2007, and subsequently Deputy Vice-Chancellor. He is also a Fellow of the Institute of Physics.



He holds a number of external appointments which include – a member of Ampère Prize Committee; a Trustee of Jisc, Chair of the Board of HECSU/Graduate Prospects, Board member of the Higher Education Statistical Agency (HESA), Council member of the Higher Education Funding Council for Wales (HEFCW), a Council member of the Engineering and Physical Research Council (EPSRC), Chair of the employers' association (UCEA) and Chair of the Financial Sustainability Strategy Group (FSSG).

Martin Lewis OBE

Martin Lewis, the Money Saving Expert, is a campaigning broadcast journalist who is founder and Chair of MoneySavingExpert.com, the UK's biggest money website – over 12 million have opted to receive his weekly email. He is due to start the seventh series of his own prime-time ITV show soon, and is resident expert on many others, and has columns in newspapers including the Sunday Mirror, The Telegraph and the FT.



From 2010 to 2012 he was the chair of the Independent Taskforce on Student Finance Information. In 2016 he founded and funded the influential Money and Mental Health Policy Institute charity, which he now chairs.

Over the years he has spearheaded major financial justice campaigns including bank charges reclaiming (over seven million template letters downloaded) and PPI reclaiming (over six million), a successful large-scale campaign to get financial education on the national curriculum and a campaign to get the government to U-turn over its freeze of the student loan repayment threshold.

He was awarded an OBE for his contribution to consumer rights and charity work, was polled as the most trusted person on the EU referendum, and according to Google is Britain's most searched-for man.

Briefing: Financial sustainability of the university sector

Prepared for members of the All-Party Parliamentary University Group

This is not an official publication of the House of Commons or the House of Lords. It has not been approved by either house or its committees. All-Party Parliamentary Groups are informal groups of members of both houses with a common interest in particular issues.

This briefing document has been produced by Universities UK which provides the secretariat for the University APPG.

Introduction: university funding in the UK

Given the current political environment and the speakers present, it is likely that the All-Party Parliamentary University Group meeting will concentrate primarily on the undergraduate funding system in England. While focusing on this subject, this delegate guide also touches on other sources of funding which are important to the sustainability of UK universities, including EU research funding and international students.

Universities receive funding from many different sources and for various purposes. Analysis performed by Universities UK found that just under a quarter (24%) of funding for universities comes from direct government sources, with the majority of this support used to fund either teaching or research activities. Universities also have to allocate funding for other expenditure, such as upkeep of facilities.

The way research funding in the UK operates is referred to as the 'dual support system'. Under this system, universities receive both quality-related funding from devolved funding bodies (e.g. HEFCE, the Scottish Funding Council) based on the excellence of previous research, and researchers can also apply for grants from the UK-wide research councils. Many universities also receive smaller amounts of research funding from EU bodies, business and charities.

Funding for teaching is more complex, and varies across all four nations. In England, some support is offered through HEFCE (such as for high-cost subjects) while the majority of teaching is funded through tuition fees, which were limited at £9,250 p.a. in 2017/18. The way graduates repay their tuition fee loans is income-contingent, which means they only begin paying once they earn a certain salary (£21,000 in 2017/18 for post-2012 students). Loans are automatically written off if the graduate does not repay the full amount after thirty years.

The fundamental principles of the Welsh and Northern Irish systems are similar. In Northern Ireland, universities have their tuition fees capped at just over £4,000 p.a. Under the current system in Wales, maximum tuition fees are set at £9,000 p.a., though there is a universal tuition fee grant available to students which covers around half of this amount (£4,096 p.a. for 2017/18). From 2018/19, though, tuition grants are to be abolished in line with the recommendations of the recent Diamond Review, in return for more generous maintenance support arrangements.

The undergraduate funding system Scotland is more distinct, with no comparable tuition fees charged to students. The majority of teaching funding comes directly from the Scottish Funding Council (SFC), with a smaller proportion being contributed by the Student Awards Agency Scotland (SAAS). In order to finance this system, however, the Scottish government has retained a cap on the number of Scottish and EU students

that can go to university each year, a policy which was abolished in England in 2015/16. Scottish students can also take out loans for maintenance support.

Most universities in the UK also benefit substantially from international student fees, which are uncapped unlike fees for native and EU students. In 2014-15, international students paid an estimated £4.8 billion in tuition fees to UK universities (around 14% of total university income).

The political background to current debates

In its manifesto for the 2017 general election, the Labour Party announced its intention to abolish tuition fees in England if in government. In addition to principled objections to tuition fees, the party has criticised the current levels of debt which some students graduate with and has claimed that this has deterred some from going to university.

The unexpected seat gains which the party made in the election – including in university towns like Plymouth, Lincoln and Canterbury – were partly ascribed by many commentators to this pledge. These surprise gains, coupled with anxiety on the government benches over the perception that its policies have failed to appeal to young people, have re-ignited the debate on how higher education, particularly in England, should be funded.

Following a summer of intense scrutiny on the governance and value of universities, three parliamentary select committees are now examining the higher education sector. The Economic Affairs Committee has a broad inquiry into tertiary education, the Education Committee has one focused on value for money in higher education, and the Treasury Committee has this month launched an inquiry into student loans. In his first speech to party conference this year, the new Liberal Democrat leader, Rt Hon Sir Vince Cable MP, also announced an internal policy review into the funding of higher education, with particular consideration of a graduate tax.

At her party conference speech earlier this month, the Prime Minister announced a 'major review of university funding and student financing', though the full details and scope of this review are yet to be detailed. This followed indications from the Chancellor at an oral evidence session before the Economic Affairs Committee that implied the Treasury was examining the possibility of linking tuition fee caps with judgements around 'value for money'.

In Scotland, debates have continued about how to improve social mobility within its higher education system, with disadvantaged young people far less likely to enter university than their counterparts in other UK nations. Meanwhile, in Wales, the implementation of the recommendations of the Diamond Review (outlined above) is

underway, though Welsh opposition parties have pointed to discrepancies between the proposals of the Labour government in Wales and party policy in England.

Recent changes announced by the Prime Minister

In addition to the government review mentioned above, in her speech to the Conservative Party conference on 4 October 2017, the Prime Minister announced a number of changes to the tuition fee loan repayment scheme in England. These were outlined in further detail in a written ministerial statement released once parliament had returned from recess.

The main changes announced were:

- Maximum tuition fees in England frozen at £9,250 until completion of a review (or £6,935 for part-time courses).
- The earnings threshold for repaying student loans will rise from £21,000 to £25,000 for the 2018-19 financial year, and thereafter be adjusted annually in line with average earnings.
- The lower threshold for variable interest rates will also rise to £25,000 and the upper threshold will rise to £45,000 (from £41,000).

These changes will apply to those who have (or will) take out loans for tuition and living costs for full time and part-time undergraduate courses in the post-2012 system, and also advanced learner loans for a further education course. The changes do not apply to masters loans, pre-2012 loans or older mortgage style loans. The Institute for Fiscal Studies has estimated the overall effect of these policies is to increase the long-run government contribution to higher education by £2 billion per year.

The university sector's response to recent debates

On the whole, the university sector in England has expressed caution about the Labour Party's plans to abolish tuition fees because of the lack of detail about how such a policy will be implemented and the implications for the sector. Universities are concerned that this policy could undermine institutional funding if the support was not adequately replaced, and then maintained sufficiently in the future. Another concern is that a system based entirely on central government funding may lead to the re-imposition of student number controls, a policy which would most harm university access for students from disadvantaged backgrounds.

Similarly, Universities UK is opposed to any government policy which links tuition fees to reductive definitions of 'value for money' centred around the perceived prestige of certain universities or the worth of specific courses. It argues such a decision could

undermine key regional institutions which are vital for skills training and employment, and would likely harm students from disadvantaged backgrounds the most.

Universities UK considers the current undergraduate funding system in England to have significant strengths: it provides sustainable funding, promotes access and is highly progressive. The evidence shows that the 2012 increase in fees to £9,000 did not deter young full-time students from applying to university, with those from disadvantaged backgrounds now more likely than ever before to enter university.

While many university leaders would agree that retaining the key aspects of the current undergraduate funding system in England, there are a number of areas which have been highlighted which could be improved to make it more progressive. Most notably, Universities UK has said it would like to work with government and students on developing a policy which sees targeted maintenance grants reintroduced for disadvantaged students.

Universities UK also acknowledges that, along with other factors, fee increases would appear to be a contributing factor to the significant decline in applications from mature and part-time students. The representative body therefore believes that this subject must be a key focus of the government's review of higher education, and are also calling for enhanced support for lifelong learning, such as through greater government support for adults to retrain, upskill and to adopt more flexible ways of learning.

Some commentators have noted that a fundamental problem with the current undergraduate funding system is the way it is perceived and understood among the general public. This is particularly true for how repayments are calculated, the effect of loan interest rates, and the government write-off of outstanding loans for lower- and middle-income graduates after 30 years.

A key focus of the work which Martin Lewis has done, including as head of the student finance taskforce under the Coalition, has been centred around improving understanding of the loan repayment system and dispelling myths about how it works. While criticising many aspects of the current repayment system, he has said that if it is to continue it will need a fundamental rebranding as a 'graduate contribution system' and the government will have to make long-term commitments on the terms of repayments.

In light of widespread problems with how the current loan repayment system in England is understood, Universities UK has recently committed to stepping up its own activities on working with government, students, graduates and their families to improve how details of the system are communicated. The organisation has previously worked with students to assess the impact of the funding reforms introduced in 2012/13

through its Student Funding Panel, the findings of which noted issues with understanding of the repayment system for students and graduates.

The university sector is also keen to ensure stability in relation to other forms of income, particularly in the context of Brexit. Most notably, Universities UK is urging the government to seek continued participation in Horizon 2020 until the end of the programme, and then to provide a seamless link to participation in and influence over its successor, Framework Programme 9. Clarification about arrangements for replacement funding for European Structural Investment Funds (ESIF) is also necessary, with this funding being particularly important to universities in the devolved nations of the UK.

Looking ahead

As mentioned above, the scope of and timeframe for the government's review of university funding and student financing in England are yet to be announced. How influential this review will be will depend on its depth and the nature of any eventual recommendations put forward. The university sector will be engaging closely with ministers and parliamentarians in the coming months to ensure that any recommendations are evidence-based, and adequately consider the need for a sustainable funding system which prioritises social mobility.

The outcome of ongoing select committee inquiries may also have an influence on public debate and government policy in England:

- Economics Affairs Committee inquiry into the economics of higher, further and technical education: currently receiving oral evidence
- Education Committee inquiry into value for money in higher education: written evidence deadline 23 October 2017
- Treasury Committee inquiry into the student loan system and related financial implications: currently receiving oral evidence

The ease and outcome of the ongoing negotiations as the UK leaves the EU will also be important to the financial sustainability of the UK university sector. While it is hopeful that the UK will still engage with EU-wide research programmes in some capacity – and structural funds will be replaced domestically – the specific details of how these mechanisms will work in practice is unknown. Universities will also need certainty during any transitional period, not just on research funding but in other areas like EU student mobility and Erasmus+. Failure to do so would undermine the stability of some institutions, particularly those more reliant on EU funding and student fees.

The next general election is not scheduled until 2022, though one may take place earlier if the government is unable to maintain its majority in the House of Commons. If the succeeding government is elected on a platform of extensive reform of the higher education sector, it will be vital for universities to work closely with the government to ensure the UK's world-class sector is properly financed under new arrangements.

Given the vital contribution which international students make to university finances, ensuring that the UK continues to attract these students is important to the continued financial sustainability of the sector. In recent years, however, the UK has lost market share for international students to our competitor countries. This has been ascribed by many in the sector to government policies which discourage overseas students, such as their inclusion in the net migration target and the scrapping of a post-study work scheme.

The Home Office recently commissioned a study by the Migration Advisory Committee (MAC) into the economic and social impacts of international students in the UK. The initial consultation will close on 26 January 2018, and the committee will produce recommendations for government by September 2018. The outcome of this independent review may have significant influence on government policy towards international students in the coming years.



The All-Party Parliamentary **University Group**

Future meetings

Tuesday 28 November 2017

Higher education as an export

18.00-19.30, Committee Room 4, followed by dinner

- Professor Colin Riordan, Member, UUK International Policy Network
- Professor L. Alan Winters, Director, UK Trade Policy Observatory

Tuesday 12 December 2017

Degree apprenticeships

8.30-10.00, Dining Room B

For more information about the group please email appug@universitiesuk.ac.uk or visit www.universityappg.co.uk.