



The All-Party Parliamentary
University Group

27 January 2016

Agenda

The subject of the meeting of the All-Party Parliamentary University Group is international comparisons of funding of the higher education sector.

- 6.00pm** Lord Willis of Knaresborough, Co-Chair of the All-Party Parliamentary University Group, welcome and introductions.
- 6.05pm** Vivienne Stern, Director, UK HE International Unit
- c6.15pm** John O’Leary, Author, Times Good University Guide
- c6.25pm** Professor Sir David Greenaway, Vice-Chancellor, University of Nottingham
- c6.35pm** Questions, comments, and discussion with university leaders, MPs and Peers.
- 7.30pm** Speaker meeting concludes.

Speaker biographies



Vivienne Stern

Vivienne is the Director of the UK Higher Education International Unit. The Unit helps UK universities and higher education institutions engage with international partners, and represents their distinctive strengths and interests overseas. It contributes to national, European and international policy development, and delivers several high profile programmes and scholarship schemes, including the Science without Borders Scheme in the UK.

Prior to her role in the Unit, Vivienne was Head of Political Affairs at Universities UK where she was responsible for developing and implementing the political strategy for the membership body representing 134 UK Universities. She previously worked at the UK Parliament for the Chair of the Education and Skills Select Committee. She is a graduate in English Literature from the University of Cambridge.



John O'Leary

John O'Leary is a journalist and education consultant who works for a variety of newspapers and magazines, universities and national organizations. He was Education Editor of *The Times* from 1991 to 2002 and Editor of *The Times Higher Education Supplement* from 2002 to 2007. He edits *The Times and Sunday Times Good University Guide*, which introduced the first university rankings to the UK in 1993. He is also a member of the executive board responsible for the QS World University Rankings.

John is a member of the Higher Education Commission and was the author of *Higher Education in England*, published by the Higher Education Funding Council for England in 2009. He has a degree in politics from the University of Sheffield, where he is a trustee of the students' union, and began his career in journalism on the *Evening Chronicle*, in Newcastle upon Tyne. He has been writing about higher education for more than 30 years and won the Ted Wragg Award for Sustained Contribution to Education Journalism in 2011.



Professor Sir David Greenaway

Sir David Greenaway was appointed Nottingham's sixth Vice-Chancellor in 2008. A Professor of Economics, he was founding Director of the Leverhulme Centre for Research on Globalisation and Economic Policy.

He is Chair of the Russell Group of Universities and was a member of the Government's Asia Task Force, a high-level body helping to boost UK exports and investment in Asian Countries. He is Chair of the CASE Europe Board of Trustees.

He was awarded an Honorary Citizenship of Ningbo, China, in September 2012 and received a Knighthood for services to Higher Education in the 2014 Birthday Honours list.



Briefing: International comparisons of funding in the higher education 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 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.

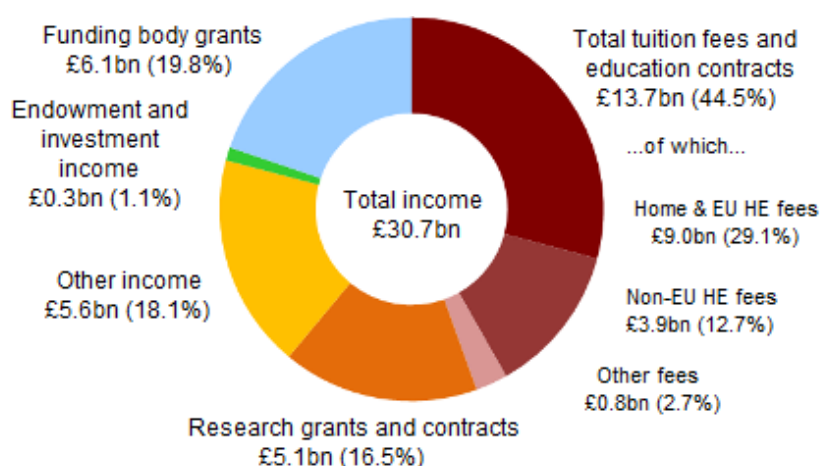
How is higher education funded in the UK?

Universities in the UK are funded primarily through three means:

1. Income from tuition fees
2. Grants from public funding bodies (for teaching and research)
3. Income from research grants and contracts

Across the UK as a whole, university income from tuition fees comprised 44.5% of all income in 2013/14, and funding body grants a further 19.8%. This represents a shift in balance since 2008/09, when these two sources of income represented 28.7% and 34.8% respectively¹. The main policy change responsible for this shift is the reforms to undergraduate funding across the UK in 2012-13, with increase in fee caps alongside reductions in grants for teaching funding.

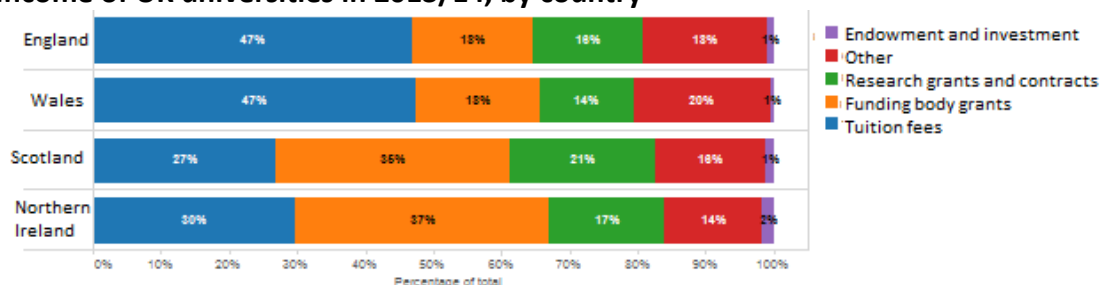
Income of UK universities in 2013/14



Source: HESA finance returns 2013/14

In 2013/14, 47% of English and Welsh universities' income came from tuition fees. In Scotland, where students domiciled in Scotland and the EU pay no fees, this was 27%².

Income of UK universities in 2013/14, by country



Source: HESA finance returns 2013/14

¹ HESA finance return 2013/14

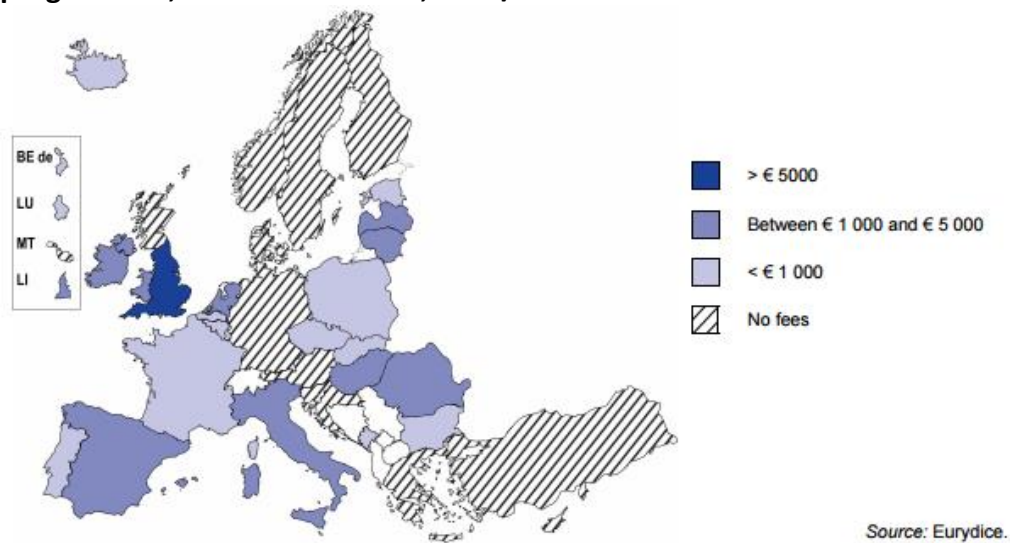
² Ibid.

Undergraduate tuition fees: Comparing the UK with other countries

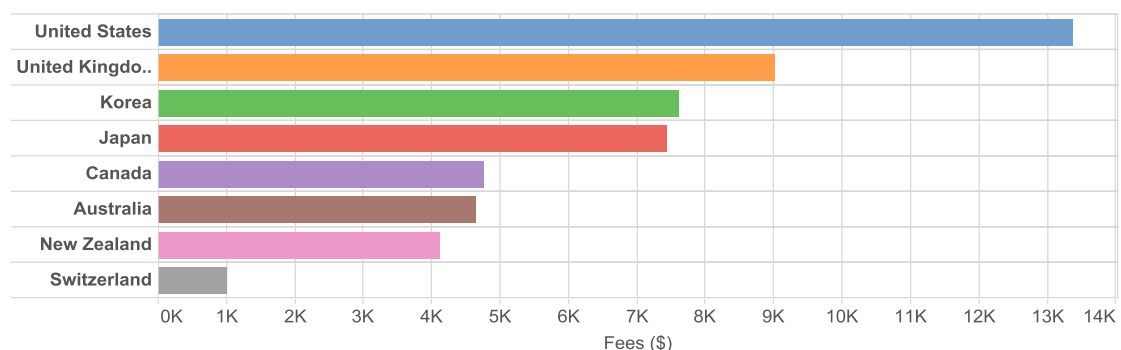
Within the EU, there is substantial variation in how higher education systems are funded. The balance between income from private sources (e.g. tuition fee payments) and public sources (e.g. grants) is by no means uniform.

A number of European countries, such as Austria, a number of German provinces, and most of Scandinavia, do not charge tuition fees for full-time undergraduate students. At the other end of the scale, as of 2014/15, fees in England are the highest in the EU.³

Most common fees (including tuition and administrative fees) in first cycle study programmes, full-time students, 2014/15



However, looking outside the EU, the charging of tuition fees is more common. In the United States; Australia; Canada; New Zealand; Japan and Korea, average fees set in 2013 all exceeded USD 4,000⁴.



³ European Commission (2014) [National student fee and support systems in European higher education 2014/15](#)

⁴ OECD (2015) [Education at a glance](#) Indicator B5

There are also differences in who determines fee levels. In some countries, including France, the Netherlands and Spain, the government or local authorities determine the fee that universities can charge. In others, universities set their own fees but a maximum fee is determined by authorities that cannot be exceeded, this is the case in England, Portugal and Italy. There are also examples of countries in which fees are set by universities alone, such as Greece, Poland and Serbia⁵.

Why is there such divergence in fees charged?

The OECD points out that: “there simply is no free university education”⁶. Divergence in tuition fees should therefore be viewed within a wider context of variation in the overall level of investment in higher education across countries, and sources of the investment.

Three rather distinct national funding environments are detailed below.

Zero fees with investment funded by high taxation:

Governments in the Nordic countries, where tuition fees are not common, are able to fund public investment in universities via steeply progressive tax systems. These tax systems typically affect graduates, who are likely to be among the highest earners throughout their working lives. For example, the rate of income tax in Finland can rise as high as 61.96%, and in Sweden 59.7%.

Low fees with low investment

In countries such as Germany, France and Spain, where fees tend to be low or non-existent, investment in higher education as a percentage of GDP is low compared to that in the UK. In Germany, expenditure (from public and private sources combined) represents 1.2% of GDP; in France 1.4%, and in Spain 1.2%. This compares to 1.8% in the UK; 2.3% in South Korea; 2.5% in Canada, and 2.8% in the United States⁷. According to the OECD, because governments in these countries are neither willing to put in the required funds nor allow universities to introduce or increase tuition fees, the result has been a compromise on quality and restrictions on access to higher education. The impact of such models has meant that “workers end up paying for the university education of the rich parents’ children”⁸.

High fees with varying levels of student support

Other countries typically charge tuition fees which are high when compared internationally. This includes: England; the United States, Australia; Canada; New Zealand; South Korea and Japan. Within these systems, however, there are varying degrees of student support systems, in relation to loans. Despite fees in England

⁵ Jongbloed, Ben. (2010) [“Funding Higher Education: a view across Europe”](#)

⁶ Schleicher, Andreas – OECD. (2015) [“The sustainability of the UK’s higher education system”](#) on OECD education today’s blog.

⁷ OECD (2015) [Education at a glance](#) Indicator B1

⁸ Schleicher, Andreas – OECD. (2015) [“The sustainability of the UK’s higher education system”](#) on OECD education today’s blog

being among the highest across OECD countries⁹, it also has the highest percentage of students who benefit from public loans and/or scholarships/grants – 91.6%, compared to 85.3% in the United States, and 87.4% in Australia¹⁰.

Further, the UK has one of the highest expenditures per student by educational institutions at the tertiary level – USD 24,338 compared to an OECD average of USD 15,028¹¹.

Remaining countries within this group – including Japan and South Korea – charge high fees but with less developed student support systems. In these two countries, comparatively small proportions of students benefit from public loans. The result is a heavy financial burden placed on students and their families.

How do other countries provide financial support to their students?

Many countries have well developed systems to help students pay their higher education tuition fees and living costs. Usually this involves publicly funded loans, grants or a combination of the two. In some countries the type and level of financial support available is dependent on need (often determined based on guardian's income), on merit or on a combination of the two.

Even when tuition fees are not charged, students typically still draw down loans or benefit from grants to support their living costs. In Norway, for example, tuition fees are not charged but average student debt at graduation has still been estimated at \$26,826 (compared to an estimate of \$30,349 for England in 2013-14)¹².

A common theme is for the repayment of loans to be dependent on a graduate's income. Systems like this have been developed in Australia, the Netherlands and New Zealand¹³. A number of countries have mortgage-style repayments, whereby debt is repaid through equal instalments over a period of time. This is the case in Finland, Japan and Turkey¹⁴.

Do different funding models affect entry rates into university?

On average across all OECD countries, 57% of people are expected to enter a bachelor degree programme over their lifetime. However, this does vary considerably between countries. For example, once international students are excluded 76% of people in Australia are expected to enter Bachelor programmes, compared to 25% in China and 34% in Austria.

⁹ OECD (2015) [Education at a glance](#) Indicator B5

¹⁰ Ibid.

¹¹ OECD (2015) [Education at a glance](#) Indicator B1

¹² OECD (2015) [Education at a glance](#) Indicator B5.

¹³ Ibid.

¹⁴ Ibid.

Participation rates are generally above the OECD average in countries that offer a generous level of support to students. In countries with no or low tuition fees and well-developed student-support systems, the average entry rate is above the OECD average at 59%. In countries with high tuition fees and well-developed student-support systems, the average entry rate is far above the OECD average at 74%.

In contrast, in countries with low tuition fees but also less-developed student support systems (as is the case Belgium, France or Italy for example), the average entry rate is below the OECD average at 52%. However, it is not clear whether different funding models affect entry rates, or rather reflect policies to support an expansion of higher education.

Do different funding models affect the number of students from disadvantaged backgrounds accessing higher education?

In almost all OECD countries the number of people with tertiary education has increased, particularly amongst young adults. Many of those graduating from tertiary education are achieving a higher level of education than their parents. In a number of countries where in previous years few people held tertiary qualifications, the number of tertiary graduates surpassing the educational attainment of their parents is particularly high. In Korea, for example, this accounts for 47% of students achieving a tertiary qualification¹⁵.

Although the proportion of students from lower socioeconomic backgrounds accessing higher education is increasing, differences remain. A study of access to higher education in the EU found that those with a lower socioeconomic background, as measured by their parents' occupational and educational status, are still less likely to enter higher education in most European countries.

The EU study concluded that some countries have been particularly successful in developing a more equitable system, including the Netherlands, Finland, Sweden and Ireland. In contrast Bulgaria, Latvia, the Czech Republic, Slovakia and Germany were found to have made the least progress. The report in particular finds a correlation between overall funding levels of higher education and the level of equity¹⁶. According to the OECD, "social mobility is worse in Germany, which pays for all university education through the public purse, than it is in the UK".¹⁷

In England, UCAS data shows that demand for a university education among 18 year olds is now at a record high, including among those from the most disadvantaged backgrounds. The entry rate among disadvantaged students has also increased in each year since 2006; including in the year £9,000 fees were introduced.

¹⁵ OECD (2015) [Education at a glance](#). Indicator C3.

¹⁶ Equinet (2010) [Evolving diversity: an overview of equitable access to HE in Europe](#)

¹⁷ Schleicher, Andreas – OECD. (2015) "[The sustainability of the UK's higher education system](#)" on OECD education today's blog

Where does the English higher education system fit within these funding models?

In England, the shift from a primarily publicly funded system to one of income mainly sourced from student tuition fees commenced in 2012/13, when maximum fees for undergraduate courses increased from £3,375 to £9,000.

This change was accompanied by improvements in the terms of student loan repayments (which are income contingent). Now, after graduation, students only repay 9% of income earned above £21,000 towards their outstanding loan debt, compared to £15,000 under the previous model. This means that a new graduate earning £15,000 now repays nothing, and – according to the Institute for Fiscal Studies – the lowest earners will repay less than they would have done before¹⁸. Analysis suggests that this is because some graduates may never earn more than £21,000 in their working lives, and all outstanding loan balances are cleared after 30 years.

The English system could therefore be characterised as one of high fees with a well-developed system of student support.

Impact of the undergraduate funding reforms in England

According to the OECD, the UK offers “the most scalable and sustainable approach to university finance”. Others, such as the National Union of Students, have criticised the reforms as placing too heavy a debt burden on graduates.¹⁹

In 2015, the independent Student Funding Panel, established by Universities UK, reached the following conclusions after assessing the impact of the post-2012 fees and loans system²⁰:

- The current system is broadly fit for purpose, and does not require wholesale reform, though some parameters in the repayment system may need modification over the medium term;
- Student understanding of the system needs to be improved, and
- Funding for maintenance support needs to be improved: both in terms of quantity and targeting.

As part of the work of the Panel, a survey of over 3,000 students found that:

- There are high levels of satisfaction with universities’ facilities for teaching and learning;
- Students were more concerned about meeting their living costs than tuition fees, but

¹⁸ Institute for Fiscal Studies (2014) [“Payback time? Student debt and loan repayments: what will the 2012 reforms mean for graduates?”](#)

¹⁹ For example, see the BBC article (2015) [“Students warn tuition fees pledge MPs of ‘payback time’”](#)

²⁰ Student Funding Panel (2015) [“An analysis of the design, impact, and option for reform of the student fees and loans system in England”](#)

- The majority of students are concerned about their ability to repay their loan once they graduate

How is postgraduate education funded?

The tuition fees charged for Master's courses in the UK varies more by subject area and institution than it does for undergraduate courses, but the average fee for taught postgraduate courses in the UK is estimated to be £5.901²¹.

The UK research councils also award around 6,000 grants each year to universities to fund students undertaking postgraduate courses. This grant covers the cost of tuition fees and provides a stipend towards the cost of living. Tuition fees for research Master's courses are typically aligned with the annual maximum fee set by Research Councils UK for studentship holders.

In a number of countries, including Australia, Korea and the US, average full-time postgraduate fees at public institutions are higher than average undergraduate fees²². In a number of European countries, Master's and Doctorate students do not pay tuition fees – including, Sweden, Norway and Denmark. In Norway, for example, candidates for Doctoral degrees are not formally students but are employed by their university as research fellows.

A new Master's loan of £10,000 will be introduced in England to help students with the tuition fee and living costs of Master's courses. Similar proposals are being discussed in the devolved countries. Applicants to Master's, research and doctoral degree programmes are able to apply for funding grants through the Research Councils, which is awarded on a competitive basis.

In the UK, substantial investment has been made to increase the number of doctoral places available, particularly in science, technology, engineering and mathematics subjects. Other countries, including Australia and the US have also seen an increase in the number of doctoral enrolments. There are exceptions though. In Germany, Norway and Spain doctoral numbers have been capped.

International students

In 2013/14, one in every eight pounds of UK university income came from international (non-EU) student tuition fees (undergraduate and postgraduate), equal to £3.9 billion.

The UK is the second-most popular destination in the world for international students (behind the United States), and education exports are a considerable success story for the UK, and were estimated to be worth £17.5 billion in 2011.²³ In

²¹ Times Higher Education "[Annual tuition fee data for full-time courses at UK institutions, 2015-16](#)"

²² OECD (2015) *Education at a glance*

²³ HM Government (2013) "[International education: global growth and prosperity](#)"

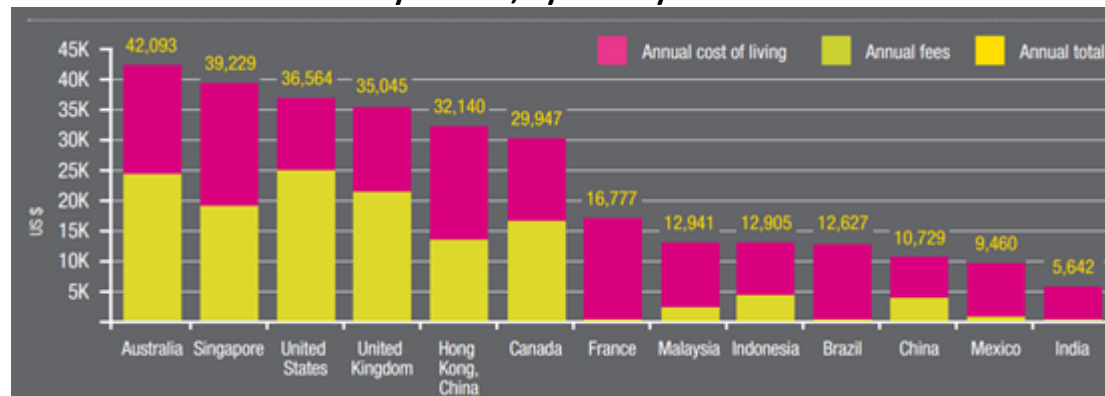
the 2015 Comprehensive Spending Review, the Chancellor confirmed a commitment to increase this to £30 billion by 2020.²⁴ The Spending Review documents also highlight that the “number of students from outside the EU at English universities is expected to rise by 55,000, worth more than £1 billion, by 2020”. The percentage of UK university funding coming from international students therefore has the potential to increase in the years ahead.

Tuition fees in the UK are higher for international students than for domestic students. This appears to be common. The OECD examined tuition fees charged to international students in 38 countries, and found that in 20 countries international students were charged different fees to domestic students including the US, Denmark, and the Netherlands.

Some countries have only recently started to charge international students more for higher education. Finland, for example, plans to start charging tuition fees to international students from 2015. In some countries, including Korea, Norway and Brazil, international students are still charged the same tuition fee as domestic students.

The average annual cost for an international student to study in the UK, taking into account tuition fees and living costs, has been estimated at \$35,045²⁵. This is more than in Canada, China and France, but less than Australia, Singapore and the US.

Annual cost of overseas study in 2015, by country



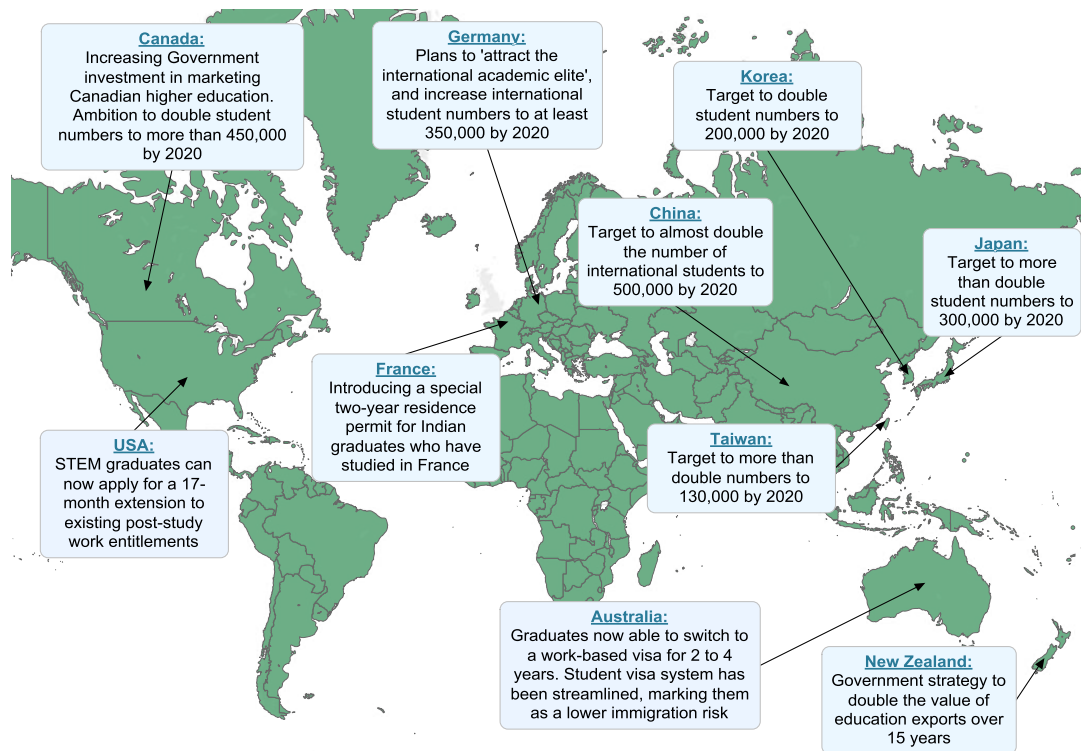
Source: HSBC

Looking globally, a number of governments overseas are making concerted efforts to tap into the highly lucrative market for international students. Increased awareness of the academic, cultural, but also financial benefits of attracting more international students has led to various countries developing recruitment targets and ambitious strategies.

²⁴ HM Treasury [Spending Review and Autumn Statement 2015](#)

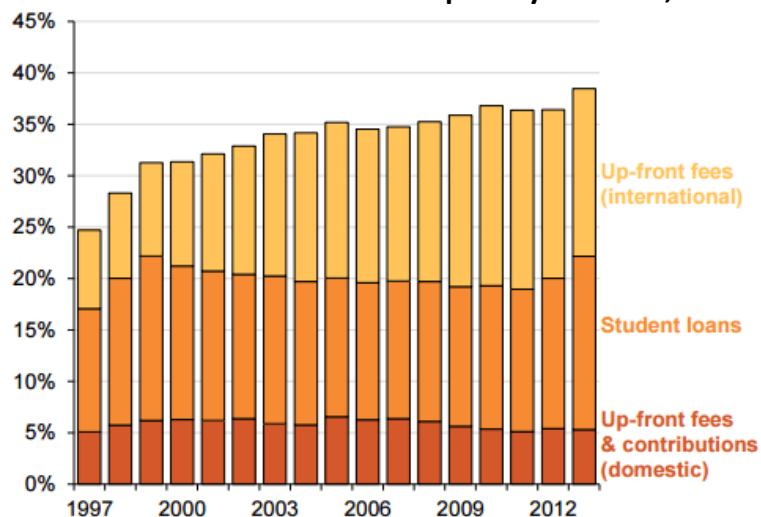
²⁵ HSBC (2014) [International education](#)

Competitor countries' strategies for recruiting international students



In Australia, the proportion of universities' revenue from international student fees grew considerably between 1997 and 2013, from around 8% to around 16%^{26,27}; in the United States, foreign students' contribution in tuition and fees was USD19.8 billion in 2013/14.²⁸

Proportion of Australian universities' revenue paid by students, 1997-2013



²⁶ Norton, Andrew (2014) "Mapping Australian higher education"

²⁷ Group Eight Australia (2014) "[International students in higher education and their role in the Australia economy](#)"

²⁸ NAFSA [The economic benefit of international students in 2013/14](#)

Source: Grattan institute (2014)

Similar to the rankings of domestic student fee levels, fees charged to international students are highest in the United States and Australia, on average, with the UK third. Particularly in the UK and Australia, income from international students is of growing importance within the wider funding mix. According to HEFCE, the latest forecasts show that universities in England are becoming increasingly reliant on overseas income to remain financially sustainable. A downturn in overseas recruitment would have a significant adverse impact on the sector's income and surplus projections. For example, just a 5% shortfall per annum in projected income from international students would see the sector in a deficit position by 2016-17.²⁹

Research income

In the UK, public funding for research in higher education is administered under a 'dual support' system. Under this system, public funding for research is provided by the UK higher education funding councils in the form a block grant to institutions³⁰, and by the research councils in the form of specific project grants.

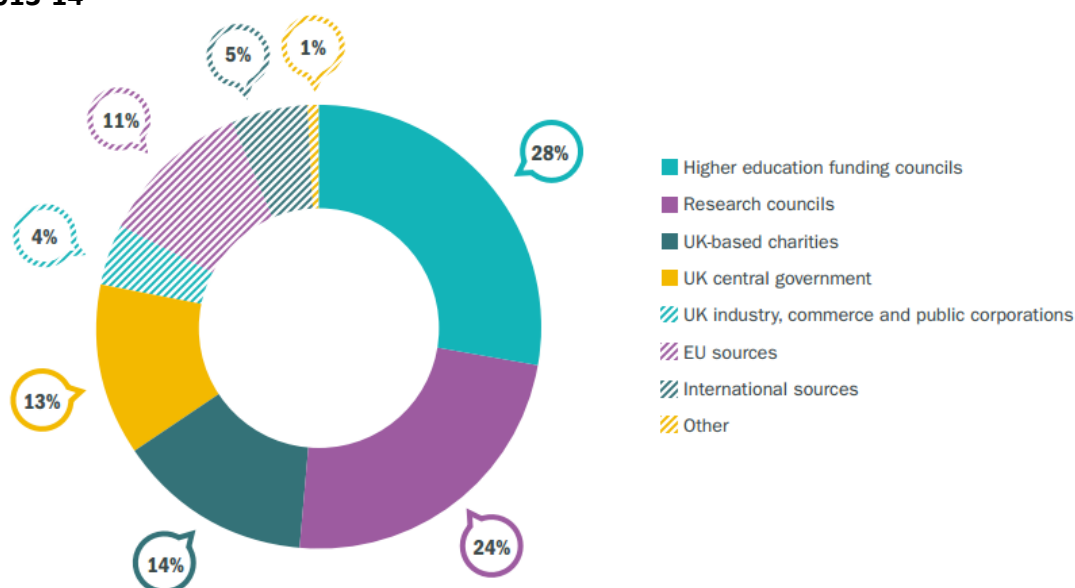
Research block grants allocated by the funding councils are awarded based on past performance. This was assessed most recently in the 2014 Research Excellence Framework, where 76% of the 191,150 research output submissions were judged as either 'internationally excellent' or 'world leading'.

Other income for research comes via the Research Councils; charities; the UK government, business and, increasingly, the European Union. This funding comes in the form of grants for specific research projects and programmes.

²⁹ HEFCE (2015) ["Financial health of the higher education sector: 2014-15 to 2017-18 forecasts"](#)

³⁰ More information available on HEFCE's website under ["how we fund research"](#)

Research and development funding received by UK higher education providers, 2013-14



Source: HESA finance record 2013/14

In a 2015 review of the UK Research Councils, Sir Paul Nurse highlighted that the dual support system is “one of the reasons for the success of the UK research system, providing a stream of stable, institution-focused, performance-driven funding available to all universities, and which complements other sources of research funding”.³¹

This success is evident in the impact of the UK research base. While the UK represents just 0.9% of the global population, 3.2% of R&D expenditure, and 4.1% of researchers, it accounts for 9.5% of downloads, 11.6% of citations and 15.9% of the world's most highly-cited articles. Amongst its comparator countries, the UK recently overtook the US to rank 1st by field-weighted citation impact (an indicator of research quality).³² The UK also ranks as second in the world on the Global Innovation Index, which measures innovation capabilities.³³

How do other countries fund university research?

A dual support system is a common feature among many of the UK's comparator countries, including: the United States; Canada; Australia; Germany; Switzerland; Norway, the Netherlands; Sweden and Denmark.

Usually, the competitive grant component is administered and provided by national Research Councils within these countries. However, not all countries within this list allocate block grant funding based on performance. In the United States, the federal

³¹ Nurse, Paul (2015) [“Ensuring a successful UK research endeavour”](#)

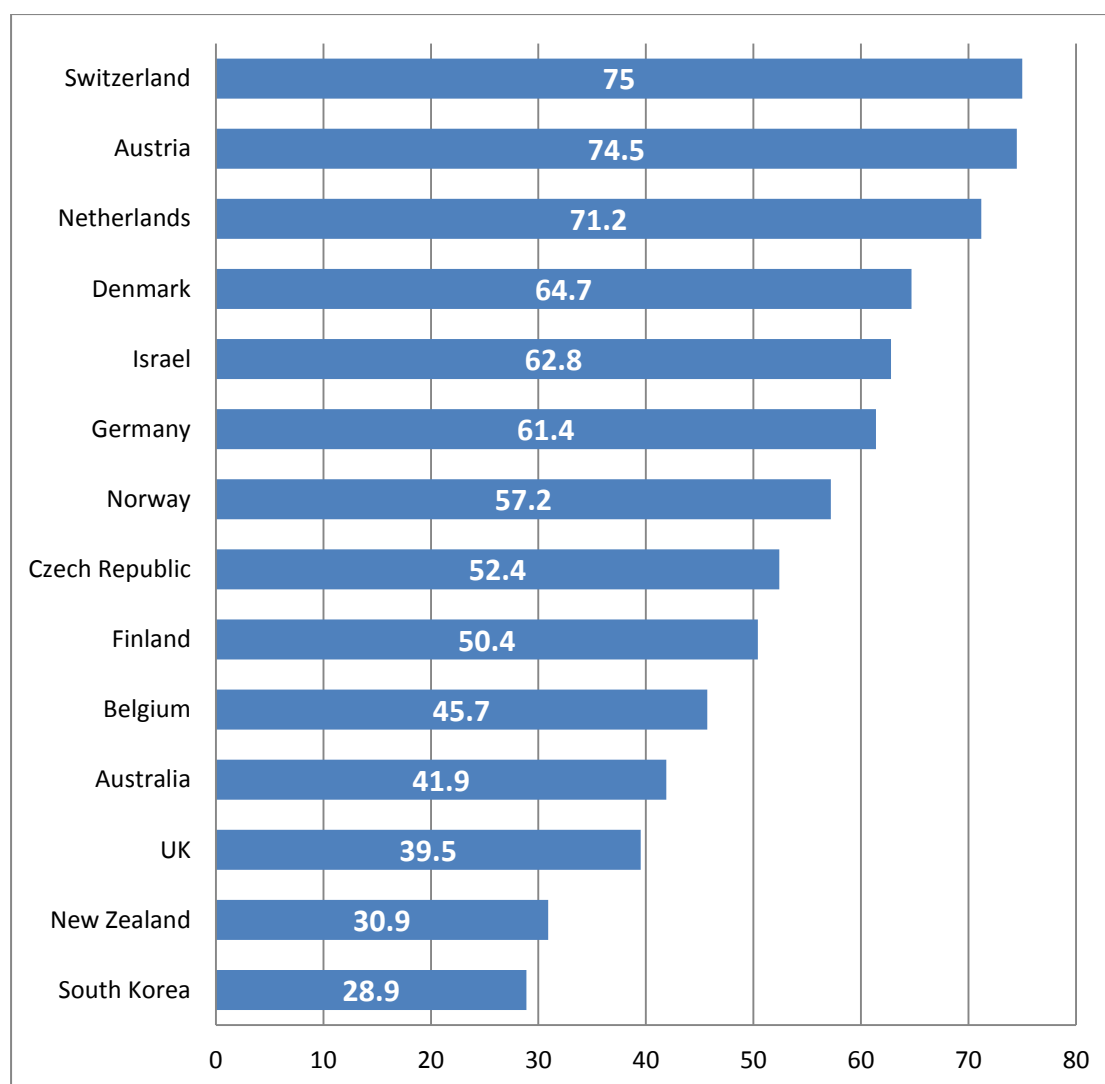
³² Elsevier [“International comparative performance of the UK research base – 2013”](#) A report prepared by Elsevier for the UK's Department of Business, Innovation and Skills (BIS)

³³ [The Global Innovation Index](#) (2015)

government generally does not provide direct, block grant funding to universities, although there is variation across states.

There are also large variations in the balance between the two components of the dual support system. The UK allocates a smaller proportion of public funding for research through block grants than the OECD average and most European research systems. Around 40% of UK public funding for national research performers is allocated as a block grant, compared to over 60% in Germany and 75% in Switzerland.

Institutional block grant funding as a % of total public funds to national research performers (2011 or most recent data available)



Source: OECD/ UUK analysis

As part of their analysis, the OECD has observed a general shift towards more competitive funding with the introduction of performance-based elements in block grant components. More generally, Research Excellence initiatives are already in operation in countries such as Canada, Hong Kong, Norway and Germany.

Like the UK, Australia and New Zealand have implemented national evaluation frameworks based on a different combination of quantitative and/or qualitative indicators. Funding agencies use these evaluation outcomes as part of a funding formula used to distribute part of the block funding among universities.³⁴

Comparatively, in China, there is relatively little expenditure on R&D at universities. However, funding has been allocated via two targeted projects, working in the interests of strengthening the research base. Project 211 began in the mid-1990s to address the fact that China's leading universities ranked too low by international research standards, and involved an allocation of around USD 2.2 billion of funding to universities. However, one of the results has been that Project 211 universities, which account for 6% of all China's higher education institutions, hold 96% of the state's key laboratories, and utilise 70% of scientific research funding.³⁵

Another, Project 985, started as a government plan to provide large amounts of funding to certain universities to build new research centres and attract international talent. Initially, the project funding was only made available to the C9 League of universities (the equivalent of the US Ivy League), although this has since expanded to 39 universities.

National and global comparisons of UK universities

Global and national reputations are extremely important for universities as they compete for domestic and international students, the best staff and research grants.

There are a wide range of league tables which attempt to rank universities both internationally and domestically. The league tables do differ on their methodology, coverage and emphasis, with international league tables typically having a greater emphasis on research indicators.

International league tables include:

- Times Higher Education World University Ranking/ Times Higher Education World Reputation Rankings
- Shanghai World Ranking
- QS World Rankings
- CWTS Leiden Ranking
- Academic Ranking of World Universities

Domestic league tables include:

- The Times and Sunday Times university league table
- The Guardian University Guide
- The Complete University Guide's university league table

³⁴ OECD (2011) [Issue brief: public sector research funding](#)

³⁵ <http://news.at0086.com/China-University-Guide/What-is-Project-211-in-China.html>

The UK does well in world university rankings. In the Times Higher Education World University Ranking, 78 of the top 800 institutions are in the UK and three UK universities are in the top 10³⁶. On both measures the UK is second only to the US. In the Shanghai World Ranking, the UK again comes second only to the US – with 37 institutions in the top 500 and two in the top ten.

In a number of national rankings, levels of university expenditure is taken into account. For example, the Guardian University Guide includes expenditure per student, the Complete University Guide considers Academic Services spend and The Sunday Times and the Times Good University Guide includes services and facilities spend.

³⁶ [Times Higher World University Rankings 2015/16](#)