The All-Party Parliamentary
University Group

Note of speaker meeting: The financial sustainability of the university sector

Speakers:
Professor Mark E Smith, Vice-Chancellor, Lancaster University
Martin Lewis OBE, Founder and Executive Chair, MoneySavingExpert.com

Professor Mark E Smith stressed that when the topic for discussion was chosen it was during the last parliament and therefore in a slightly different context. He welcomed the fact the Financial Sustainability Strategy Group (FSSG) which was comprised of vice-chancellors, finance directors, funding bodies, research councils and government met to understand the issue of universities' financial sustainability in a non-partisan way.

Answering the question of whether universities were sustainable, he said "borderline". He stressed it was better to look at the operating cash flow of institutions rather than surpluses as capital grants and pension liabilities regularly came on and off the balance sheets. He spoke about the TRAC methodology which he described as a model which allowed rational debate on whether funding was sustainable or not.

He dismissed the common belief that student fees subsidised research, highlighting that out of all the money from one student's £9,000 fees, £8,400 went into teaching, as an aggregate figure across the whole sector. Professor Smith then told attendees that the FSSG was undertaking work to look at what individual courses cost, and cashflows.

Turning to research funding, he explained there were many reasons universities got quality-related research funding (QR), and that recovery from funding for research was in fact going down and not up. Programmes such as the global challenge research fund were positive, but only partly made up the cost of research, which was destabilising he thought.

Drawing his opening remarks to a close, Professor Smith refereed to a recent HEFCE publication which looked at 2015/16 outcomes across the English sector and projections for 2020/21. The report shows that case flow from operating activities as a percentage of total income was expected to fall by 2.9% between 2015/16 and 2017/18.

Martin Lewis OBE used his opening comments lay out his view there was a crisis in student finance both from the perspectives of perception and trust; he believed this was a bigger problem that the underlying issues of how finance worked. In terms of common misunderstandings, he thought "political spittle" was incredibly damaging, and not enough attention was paid to how this came across to current and potential students.

One of Martin Lewis's major points was that the current system was fundamentally misnamed, and should be called a graduate contributions system instead of a student loans system, as was the case in Australia. Giving statistics to back this up, he said that 85% of current students would pay back 9% of what they owned over a thirty year period.

In terms of wider issues with public misconceptions about the system, he thought telling 18 year olds they needed a loan to access higher education effectively introduced them to a life of taking on debt, without actually educating them about debt. Mortgage lenders did not look on the system as producing debt, just reduced disposable income. Martin Lewis thought it was for politicians to decide where the pendulum swung in terms of the balance between the taxpayer and individual paying for university education, adding that the real cost faced by many was not tuition fees, but the cost of living.

Turning to the role of parental contributions, he urged politicians to come clean in terms of admitting it was expected that parents would make up the shortfall between the amount loaned and the actual cost of living. He highlighted the inconsistency in that 18 year olds were considered old enough to vote and get married, yet their parents were still taken into consideration in the student finance system. There was also effectively a 'university one child policy' he thought, given the way means testing was currently calculated, and this risked families from some cultures prioritising their sons' education over their daughters'.

He disagreed with Universities UK's policy of reintroducing student grants, believing that middle earners would still be squeezed and therefore this policy pandered to the existing misunderstanding.

Finally, turning to an issue he had campaigned vociferously on, Martin Lewis told the meeting it was an outrage that student loan conditions could be changed retrospectively. Although the Government had now u-turned on the policy of freezing the repayment threshold, the fact it had been retrospectively frozen had caused a lot of damage, he thought. Acknowledging that not every aspect could be, he argued that the terms of student loans should be locked into statute. This formed his third recommendation, along with renaming the system to a graduate contribution system and increasing the amount of money available for living.

Q&A and Discussion

Wider discussion opened with a question on what would happen to **research funding post-Brexit**, to which Professor Smith highlighted that schemes like the global challenge research fund and industrial strategy challenge fund would fill some, but not all of the gap. He then told the meeting that the EU money was not very sustainable funding in the first place. Roberta Blackman-Woods MP added that the APPUG would revisit its previous work on the topic.

An attendee thought the real crisis was the **reduction in part-time students** from low participation areas; there had been a 47% fall in new entrants from this cohort since 2011/12. Martin Lewis said the simple reason for this was that increasing the price of education put people off. Giving further explanation, he said part-time students did not get maintenance loans and would be earning and repaying straight away which was a direct increase in the cost, unlike the situation for full-time students where the increase in fees did not necessarily result in more money being repaid. This point was later explored further, with flexible and modular learning also touched upon.

When asked about the prime minister's decision to put spend £2.4bn into increasing the repayment threshold, Martin Lewis said she made the right, if unpopular, decision as lowering the interest rate or tuition fees themselves would both benefit high earners. He would have placed the repayment threshold at £23,000 and put some money into maintenance, he added. Roberta Blackman-Woods MP agreed that students found it very demoralising to be paying back hundreds of pounds a month, without their total amount of debt going down.

The **cost of living and student accommodation** was then discussed by attendees; Martin gave his view students should not necessarily be encouraged to study in their home towns to avoid high accommodation costs as the local institution would not necessarily be a good fit for them.

Finally, there was a question on whether institutions' financial difficulties were a significant factor in the growing **mental health crisis**. Professor Smith agreed that the cost of support services was one of the factors behind the cost base going up, meaning that tuition was now only part of what fees had to cover.