

Financial Sustainability Strategy Group (FSSG)

The FSSG is a high-level forum that considers the strategic, policy, cultural and technical issues concerning the financial sustainability of the higher education (HE) sector.

HE FINANCIAL SUSTAINABILITY

A sustainable financial position requires institutions to generate the necessary level of cash to finance their operations and strategic needs over the medium-to-long term, including its investment in human and physical resources.

Achieving a sustainable financial position is therefore complex. It requires medium-to-long term decision-making, backed up by a strong and clear financial strategy.

HE FUNDING

Within the UK HE sector funding has changed since the introduction of variable tuition fees in England. There are different fee structures in Scotland, Wales and Northern Ireland.

In addition, public funding of research is supported by a 'dual support' system whereby the funding councils provide annual funding for institutions in the form of a 'block grant'. The UK Research Councils and others provide funding for specific research projects and programmes.

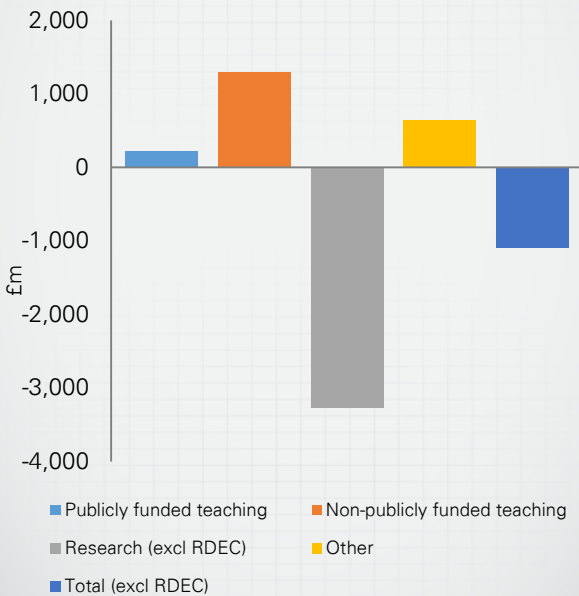
HE institutions (HEIs) are diverse, multi-activity, not-for-profit organisations. They are registered charities, undertaking teaching, research and other activities for the wider public benefit. This includes supporting:

- Social mobility, including widening access and participation, enhancing student opportunity and student outcomes;
- Research, innovation and knowledge exchange to support UK economic growth at local, regional and national levels, thereby supporting the UK's industrial strategy;
- A broad portfolio of subject provision including Science, Technology, Engineering and Mathematics (STEM) to support the demand for a skilled UK graduate workforce by targeting outreach and collaboration with employers to respond to the needs of the local, regional and national economy. This includes offering flexible modes of study such as part-time study, distance learning and apprenticeships.

TRAC surplus/(deficit) by activity

TRAC (Transparent Approach to Costing) data shows surplus/(deficit) by activity:

UK HE sector 2014-15



Although financial surpluses have, on average, grown in recent years (both in absolute terms and as a percentage of income), the HE sector has reported an overall deficit each year through institutional Transparent Approach to Costing (TRAC) returns. TRAC records the full economic cost (fEC) of all activities, including not only direct costs (such as staff costs and equipment) and support costs (such as IT, library and central costs), but also adjustments to reflect the fEC of sustaining activities.

Investment in infrastructure and future productive capacity, innovation and human capital are all activities to be sustained.

* The Research and Development Expenditure Credit (RDEC) scheme was established by Government in 2013 to offer tax incentives to large companies to encourage greater investment in research and development. The scheme has now been amended so that universities and charities are unable to claim RDEC in respect of expenditure incurred on or after 1 August 2015. As the RDEC income is a large one-off financial benefit to the sector we have shown the recovery on research activity and the sustainability gap figures excluding net RDEC income.

The 2014-15 TRAC data indicates that the UK HE sector in aggregate recovered 96.7% of its full economic cost (excluding RDEC*), with 79.5% of institutions having a recovery of less than 100% of the full costs. Most HEIs have a mixed portfolio of activity, and a range of factors which will impact upon sustainability.

TEACHING:

Overall for the sector, publicly funded teaching¹ in 2014-15 showed approximately break-even on the full economic costs of activities, whilst non-publicly funded teaching², which is mainly international students, made a significant surplus (139%).

Tuition fees also have an impact on sustainability. Institutions make commitments through access agreements to sustain or improve access, student success and progression among people from underrepresented and disadvantaged groups. These include for example fee reductions (fee waivers) and the provision of bursaries to support students with living costs whilst studying.

Based on Office For Fair Access (OFFA) data for 2015-16 (revised) (OFFA July 2015, 2015/06) average tuition fee income for HEIs was:

- Average fee £8,844;
- Average fee after fee waivers: £8,774
- Average fee cost (to the student) after all institutional financial support £8,401

Definitions:

1. Publicly funded teaching: includes higher education and further education courses at all levels (sub-degree, undergraduate, postgraduate taught level) which are fundable by public bodies; it also includes teacher training and training of nurses and allied health professionals.

2. Non-publicly funded teaching: includes teaching students from overseas (outside the EU) and self-funded students; short courses and commercially commissioned courses.

RESEARCH:

Overall, research does not recover the full economic costs of research activities.

The percentage of costs recovered has declined over several years. In 2014-15 HEIs only recovered 72.9% of full economic costs, relying on income generation from international students and from other sources to cover the costs of their activities.

UK HE sector aggregate total research recovery

AY	Percentage fEC recovery*
2010-11	78.5%
2011-12	77.0%
2012-13	76.3%
2013-14	74.5%
2014-15**	72.9%

*(adjusted for inflation expressed in 2014-15 prices)

**For 2014-15 figures exclude estimated RDEC income

There are different levels of research recovery across research funders and activity type. Overall, research funded by European Union, charities and the supervision and training of postgraduate research students shows the weakest recovery.

2014-15: Recovery on Research Council funded research	Other Government departments (excluding one-off net RDEC income)
71.8%	78.4%
Supervision and training of postgraduate researchers	EU
54.0%	65.3%
	Charities
54.0%	59.7%

Example of Research fEC recovery 2014-15

Examples of factors influencing financial sustainability



Source: FSSG Conference May 2017

FSSG'S AIM

'To contribute to the higher education sector by improving its understanding, management and communication of its sustainability. It will also support and enhance the understanding and development of management, governance and risk processes in the new regulatory and funding environment for higher education.'

Sustainability is a broad subject that has many elements. In the context of FSSG's role, sustainability has been defined to encapsulate the academic and financial sustainability of an institution's operations.

FSSG'S WORK

We aim to provide independent and evidence-based strategic policy advice to the sector, funders and government in matters concerned with sustainability and funding, in recognition of the changing and diverse funding environment for the higher education sector.

The FSSG and its sister group the TRAC Development Group are currently undertaking the following projects:

Understanding the relationship and interdependences between funding streams in the HE sector.

- The project aims to identify how funding cross-flows in UK HEIs help to enable a sustainable portfolio of activities (and outcomes for the public benefit) and how this could be impacted by the changes in government policy.
- It will analyse the sector's past financial performance based on a range of financial metrics. This analysis will help better understand the risks and enablers of financial sustainability.

Alternative models of undergraduate provision

The aim of this project is to understand the impact of different methods of delivery for higher education undergraduate courses (e.g. apprenticeships, condensed courses, blended and distance learning) and the costs to HEIs in the UK.

The study will undertake a series of case studies to provide greater understanding of the resource requirements associated with different delivery methods.

In addition, FSSG is also currently undertaking a project on how institutions fund and sustain medium-scale research facilities.

Examples of recent publications:



The sustainability of learning and teaching in higher education in England (2015) – FSSG



'Mind the Gap': Understanding the financial sustainability challenge (2016) – FSSG



Illustrative Practice Note 4 – Institutional Sustainability (2017) – Committee of University Chairs (CUC)

Information on assessing sustainability is available at www.hefce.ac.uk/funding/finsustain/projects/aisa

WHERE TO FIND OUT MORE

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