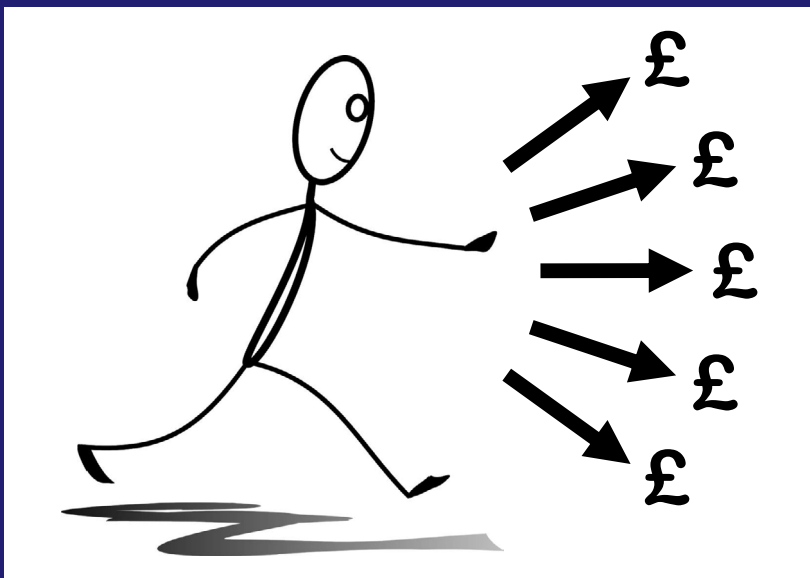


Where do student fees really go?

Following the pound

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Higher Education Policy Institute

HEPI Report 113

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Acknowledgements

This paper rests in part on numerous conversations over many years, including with representative organisations, senior institutional managers and students. We are very grateful to everyone who shared their thinking – and their numbers.

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Foreword

When arguing for more transparency on the uses of student fees in front of university finance directors and other staff, I have often met two unsatisfactory and contradictory responses.

1. Some people have rubbished the question by pointing out information on the uses of fees is already in the public domain, in places such as published university accounts. But it is unlikely everyone with an interest in the issue – including young people deciding where to apply – will wade through lots of complicated accounts to find some rough approximation of where fees go.
2. Others have said it is all too complicated and, anyway, no one really needs to know. You do not need to know how an engine works to drive a car, so why do you need to know the inner financial workings of a university to benefit from higher education? But it is comparatively easy to find out how an engine works, and someone somewhere inside most universities does know how fees are spent, even if this information is not always conveyed in accessible forms.

Not everyone has to be interested in the answer to a question for the response to prove useful. At the very least, HM Treasury, the Office for Students, universities' governing bodies and students' union representatives could benefit from knowing more about where the fees go – in public policy, this is known as 'following the pound'.

Others might too, such as taxpayers and students' parents (who are often contributing to the costs of their children's education),

as well as people who provide advice to those applying to higher education.

Last but not least, it is clear that students themselves have a right to know what their fees are buying.

Nick Hillman
HEPI Director

Executive Summary

Since it was first announced that full-time undergraduate fees for English-domiciled students would rise to £9,000, pressure has been put on universities by government, regulators and students to say more about what the fees are spent on.

For many years, this had less impact than might have been expected. There was scepticism about the value of extra transparency, a lack of agreement over the best way to provide the information and a fear of exposing cross-subsidies. But regulated higher education providers in England are now expected to provide some information on their income and expenditure, including the use of fees, in accessible forms.

Institutions have responded in different ways. Some have published total institutional income and expenditure data, some have provided a proportionate breakdown of fees and others have produced detailed information showing much more precisely where fees go – right down to the £10 that goes on a vice-chancellor's pay.

However it has been done, the figures suggest most universities spend somewhere between 40% and 45% of their income on the direct costs of teaching. The rest goes on a mix of other academic purposes (like buildings, IT and library provision) and non-academic uses (like administrative costs, mental health support and maintaining institutional reputation).

While great strides have been taken, it is clear there is some distance left to travel before all students have access to clear and comparable information.

When asked, students have clear preferences about how their fees should be spent. They have a strong preference for teaching-related spending and are sceptical of things that are important to institutions but which appear less directly beneficial to students, such as marketing and spending on community engagement.

As the demands for greater transparency are unlikely to disappear, the Government, regulators and institutions need to consider changes that will further increase transparency, improve understanding of the costs of providing higher education and bring institutional spending more in line with students' priorities.

The following changes should be considered.

1. When discussing student finance, people with a direct interest in the higher education sector should, wherever possible, refer to 'student fees' rather than 'tuition fees'.
2. Higher education providers should discuss the information requirements of students with their students' unions and strive to match their demands.
3. Unless it conflicts with students' demands, institutions should publish information on the uses of fees that show cash figures that are relatable to the actual fees paid, as well as percentages, to explain where fees go.
4. Institutions should strive to ensure any information on the uses of student fees splits them into easily-understandable categories.

5. Providers should put information on the uses of fees in places that are easy to find and consider sending the information to all of their students.
6. Arms-length bodies that monitor the higher education sector should consider doing more to promote best practice on transparency when presenting the uses of student fees.
7. Where feasible, financial reporting requirements for institutions should be harmonised with the sort of financial information that is of value to students and prospective students.
8. Regulators should continue monitoring students' perceptions of the information available.
9. Policymakers should work to ensure an understanding across all parts of Whitehall of the broad range of higher education institutions' spending.
10. Ministers should consider new income streams for higher education institutions to cover the costs of valuable work that proves difficult to justify funding from student fees.

It is clear that any reduction in the amount of funding that institutions receive for each student is likely to lead to cuts in areas that directly benefit students and / or activities that help to define our world-class higher education sector.

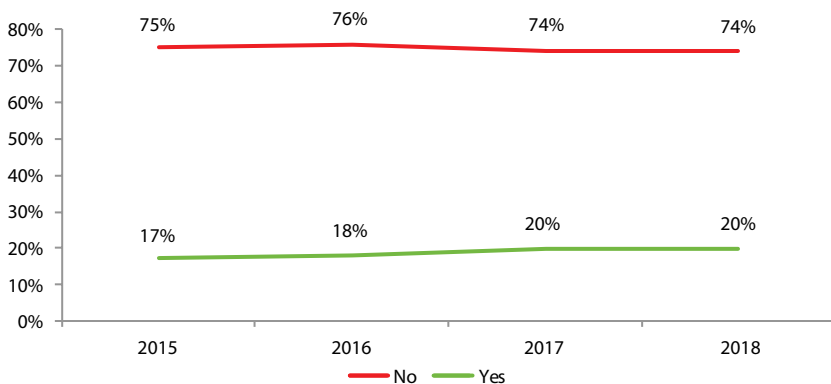
1. What students want to know

Students know relatively little about where their fees go and taxpayers also do not know much about where their subsidies for higher education end up. It is easier to discover where the money goes when buying an iPhone than it is for a degree.¹

The HEPI / Advance HE (previously the Higher Education Academy) *Student Academic Experience Survey* suggests around one-third (35%) of English-domiciled students think they are getting 'poor' or 'very poor' value for money from their course. The same proportion (35%) think they are receiving 'good' or 'very good' value for money.²

The *Survey* also shows consistently high levels of support among full-time undergraduates for knowing more about where their student fees go.³

Has your university provided enough information on how fees are spent?

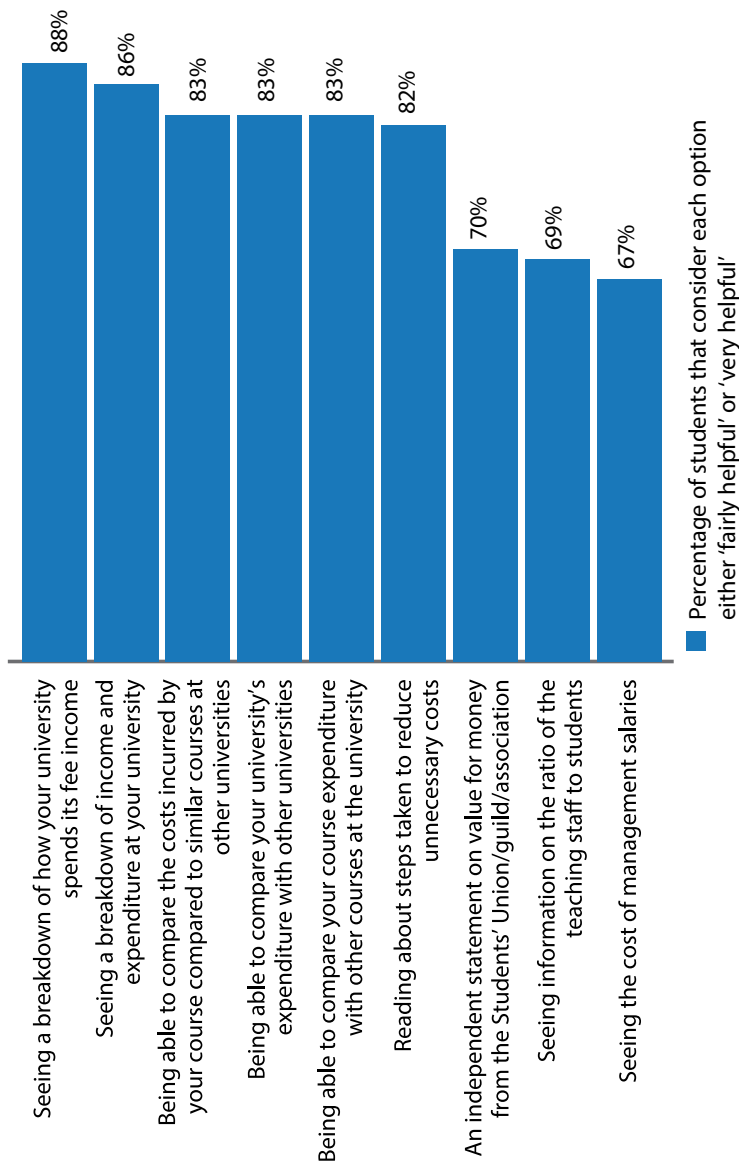


There are differences in the results according to the characteristics of students. For example, female students, first-year students and students from state schools are more likely than male students, third-year students and students from private schools to want more information.

In spring 2018, the following students said they wanted more information:

- 77% of female students and 70% of male students;
- 79% of students at Russell Group universities and 66% of students at specialist institutions;
- 77% of first-year students and 70% of third-year students;
- 75% of students from the UK / rest of EU and 61% of those who pay overseas fees;
- 87% of students who were not satisfied with their course and 71% of those who were satisfied;
- 83% of students perceiving 'poor' or 'very poor' value for money and 64% of students perceiving 'very good' or 'good' value for money;
- 86% of students whose experience had been worse than expected and 60% of students whose experience had been better than expected; and
- 75% of students from state schools and 68% of students from private schools.⁴

How helpful would these factors be when assessing whether your university provides value for money?



Separate work commissioned by the Office for Students from a group of students' unions reveals a similar picture. A breakdown of how universities spend their fee income was the single most popular answer among students to a question on the transparency of information on value for money.

The research quotes one student as saying:

The transparency of our fees is not clear to us as students; we are not out-right told where the breakdown of our £9,250 pounds a year goes.⁵

2. Progress on transparency, 2011 to 2017

There has been greater pressure in England than in other parts of the UK to provide more transparency on student fees.

This reflects the relatively entrenched high-fee model, as England has had high fees for home and EU students since 2012. For full-time undergraduate students, these were set at a maximum of £9,000 until 2017/18 and then at a maximum of £9,250.

In 2011, the higher education white paper, *Students at the Heart of the System*, said:

As students become more discerning, we expect they will increasingly want to know how their graduate contributions are being spent. It would be good practice for institutions to provide the sort of material that local councils offer to their residents, demonstrating what their council tax is being invested in.⁶

In 2013, the Higher Education Funding Council for England (HEFCE) began work with the British Universities Finance Directors Group (BUFDG), GuildHE, the National Union of Students (NUS) and Universities UK (UUK) to explore how institutional income and expenditure might be presented – see box overleaf.

In 2013, Universities UK published a report entitled *Where student fees go*.⁷ This included lots of case studies of new initiatives underway inside universities but did not attempt to break down the typical use of £9,000 in a detailed way.

HEFCE and transparency on student fees

In 2013, HEFCE commissioned a survey of students from NUS Research Services on the best way to present information on institutional finances. This confirmed many students wanted such information but for different reasons, including:

- to see what the money is spent on;
- as part of research;
- curiosity;
- as a prospective student; and
- to see a justification for fees.

Potential improvements proposed by the students included:

- making the information more accessible / easier to find
- putting it on the university websites; and
- adding detail.⁸

HEFCE also commissioned separate work on defining a model for conveying such financial information. This concluded:

tables, charts and graphics ... [on] income and expenditure, in either summary or detailed form, are likely to be the most effective approaches.

The research also called for accessible language appropriate for a non-specialist audience.

The report additionally recommended using audited financial statements as the basis for such information, in order to ensure reliability, as well as a standardised format to ensure comparability. It concluded:

Narrative information could also be used, though this is inherently less reliable and difficult to compare across institutions.⁹

In March 2014, HEFCE's guidance asked institutions to find 'a local website solution' by the end of October 2014, allowing for the publication of information from their 2013/14 audited accounts by January 2015.¹⁰ It did not insist on standardised categories or a single format.

Two-page case studies were then published by HEFCE for five institutions: Falmouth University; the University of Leeds; the University of Sheffield; the University of Southampton; and the University of the West of England (UWE).¹¹

However, these case studies did not break the £9,000 fee down in such a way as to show a monetary figure for each student's contribution to their university's various core functions.

For example, rather than saying that around £3,330 of each student's fee went towards academic departments, UWE's case study (which was arguably the most accessible) said 37 pence in every £1 was spent on 'academic faculties'.

In 2015, HEPI published a collection of essays entitled *'What do I get?' Ten essays on student fees, student engagement and student choice*, which included chapters about the use of fees at a range of universities and alternative providers and which was 'designed to encourage debate rather than end it'.¹²

In 2017, the official consultation on the new *Regulatory Framework* for higher education promised 'a transparency revolution' and repeated the 2011 comparison with Council Tax documents:

*Providers should ... allow students to see how their money is spent, following examples from other sectors, such as Local Authorities publishing breakdowns of how Council Tax is spent.*¹³

In general, however, these past attempts to provide information on where fees go have proved useful but unsatisfactory:

- even when the information has been produced, it has often been hard to find and comprehend; and
- there has been little consistency in approach, making comparisons between institutions difficult.

3. Why further change is coming

If the arguments in the preceding chapters do not make a sufficiently strong case for greater transparency, there are other reasons for addressing the issue. These include ministerial threats to force the sector to provide more granular information.

When Jo Johnson was the Minister for Universities and Science (2015-18), he said:

Since the 2012 reforms, student choice has become a key driver of change, but there are still significant information asymmetries. It is not at all clear to some students what their tuition fees of up-to £9,000 a year actually pay for, and this has led to calls, which I support, for greater transparency from providers about what they spend fee income on.¹⁴

Sam Gyimah has since replaced Jo Johnson, but if this continues to be a ministerial priority, there are two possible responses the higher education sector could follow. Either wait for the change to hit institutions in a clunky, bureaucratic and centralised way. Or own the issue by ensuring the sector takes the lead.

Universities UK have called for the latter approach. At their 100th anniversary conference in 2018, the President, Janet Beer, proclaimed:

Over the next year I would encourage individual vice-chancellors to be more visible on the 'hot' topics: to do more to explain where student fees go, how we price courses and to publish value for money statements.¹⁵

This conversation may lead to surprising places. During the recent dispute over the Universities Superannuation Scheme, affected students typically assumed their fees only go towards delivering face-to-face time with academics.

Many students calculated a monetary value for each hour of lost teaching time. Invariably, they divided their fee by the number of weeks they attend higher education each year and then again by the number of weekly contact hours. There is even an online calculator to show 'How much does uni cost you' on a per-hour basis that does exactly that.¹⁶

However, such sums neglect the other purposes to which fee income is put, from other academic uses (like providing libraries, ensuring good IT access and designing courses) to non-academic provision (like support for students' unions, counselling and widening participation activities).

If a student affected by the strike spent the time when they would otherwise have been in a lecture working in a university library, they were still using facilities that cost money to provide.

Indeed, the broader uses of fee income are essential to enabling a fully immersive student experience, which has been a defining feature of UK higher education.

The killer fact in the pages that follow is that only between 40% and 45% of students' fees end up being spent on the direct costs of providing education. Despite the heterogeneity of the higher education sector, this appears to be a fairly stable figure across a range of institutions.¹⁷ It is less than half the sum calculated by students who lost out during the strike and who assumed their fee income paid only for contact time.

Intriguingly, when reminded of the breadth of a university's responsibilities, the costs of teaching and learning are sometimes under-estimated rather than over-estimated. One of the authors recently spent a day with dozens of sixth-form (Year 12 and Year 13) pupils at a secondary school in the West Midlands who are hoping to attend higher education. After giving them the list of 11 separate items that Falmouth University say they use their fee income for, he asked them to guess how much institutions spend on average on each category from each student's fees. Overall, they put the figure for teaching at just 14%.

When both students and applicants are so far away from the true answer (though in different directions), the level of confusion is clear.

It is also evident that the policymakers who determine fee caps, taxpayer subsidies and the size of any direct spending on universities could benefit from more granular information.

A few years ago, universities were hopeful of an increase in the fee cap for undergraduates; now, a cut seems more likely. In either scenario, the best interests of the sector are likely to be served by improving understanding of the true cost base of institutions.

In short, the information would be useful for all the key players delivering higher education:

- **higher education providers**, who need to think about how best to use their available resources;

- **students and taxpayers**, who have a right to know where their money is going; and
- **policymakers**, who determine such things as fee caps.

4. Six case studies

The *Higher Education and Research Act* (2017) gives a statutory duty to the Office for Students, England's new market regulator for higher education, 'to promote value for money in the provision of higher education by English higher education providers'.¹⁸

In its *Regulatory Framework*, which sets out how it will operate, the Office for Students has set a 'public interest governance' principle on transparency for each regulated institution. This is meant to include:

Regular publication of clear information about its arrangements for securing value for money including, in a value for money statement, data about the sources of its income and the way that its income is used.

At the same time, the Office for Students also ruled out 'prescriptive requirements about how a value for money statement should be presented'.¹⁹ On registering with the Office for Students, higher education providers are merely asked to show how they comply with the registration conditions. This has led to a variety of approaches.

At the **University of Cambridge**, where 'tuition fees and education contracts' make up only 15% of institutional income, the annual cost of educating each home / EU undergraduate has been calculated at £18,500 for 2015/16 – see Annex One.²⁰

Excluding extra costs from the collegiate environment reduces the figure to £14,400. However, these numbers use the TRAC methodology so are less user-friendly than, and not directly comparable with, the other case studies – see box overleaf.

A note on cross-subsidies

The Transparent Approach to Costing (TRAC) exercise is designed to show the true costs of higher education to policymakers.

It combines expenditure data from institutions' financial statements, sustainability adjustments to reflect the true cost of delivery and cost drivers (such as academic staff time) to split the costs by academic departments and activities. For teaching, the results suggest that, across the higher education sector:

- home and EU student fees closely match the costs of educating them;
- international students pay more than their costs of education; and
- research makes a loss.²¹

As the headline figures treat all institutions together, there are some notable exceptions to the general findings – such as Oxbridge.

It is likely that some undergraduate education is subsidising some taught postgraduate courses.

Moreover, students on 'classroom' subjects are subsidising students on subjects that are more expensive to deliver, where the remaining teaching grant leaves a shortfall: analysis by *Times Higher Education* found 'there does appear to be a big transfer of funding from students studying classroom subjects to others.'²²

Overall, however, according to the TRAC data, home and EU students are not generally subsidising other institutional activity, such as research.

In contrast, HEPI's research suggests each non-EU international student contributes around £8,000 to non-teaching activities while studying in the UK.²³

The data used when institutions publish information on their income and expenditure, including income and expenditure relating to fees, generally comes from universities' financial statements. Unlike TRAC, the numbers are not adjusted to show the full sustainable costs of these activities.

The raw income and expenditure data suggest there are significant cross-subsidies from academic teaching to the range of institutions' activities.

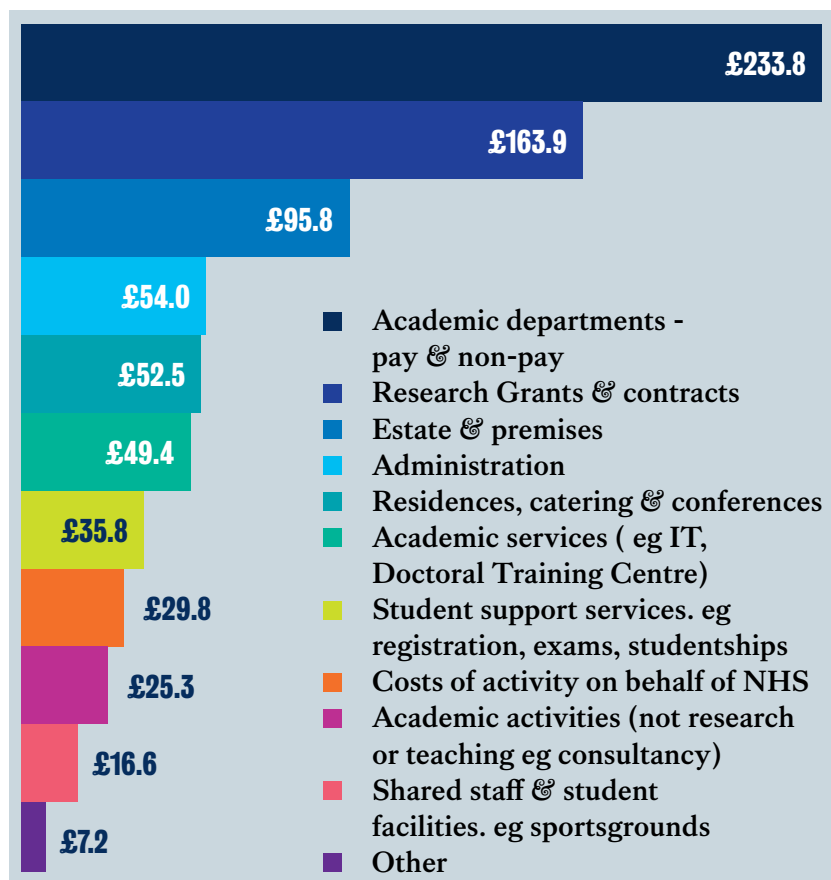
As a result, some institutions have been reluctant to release data on the uses to which students' fees are put.

The Russell Group has said:

Requiring provision of a granular breakdown showing how fee income is applied is not a simple exercise ... and could risk undermining the ability of institutions to apply their funds in an efficient manner across their core activities from which students benefit. This could diminish the overall student experience.²⁴

In common with many other research-intensive universities, **King's College London** – which receives 39% of its income from student fees – provides information on the institution's total spending rather than focusing specifically on where fees go.²⁵

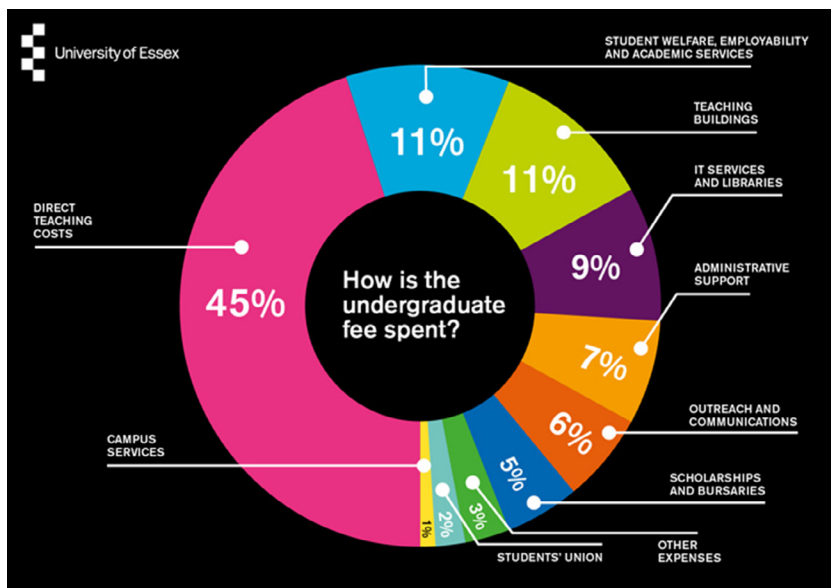
How King's spent its money (£m), 2016/17



In contrast, the **University of Essex**, which receives 54% of its income from 'Tuition fees and education contracts', provides a proportionate breakdown of fee spending.

This shows spending on teaching is a little under half of the undergraduate fee income (45%) and nine other categories are listed alongside.²⁶ Much of the rest of the spending from fee income is essential to successful teaching too, however. For example, teaching buildings, IT and the library account for another 20%, leaving around one-third of the income for other areas, including student welfare and careers support, administration and widening participation activities.

How the University of Essex uses tuition fees

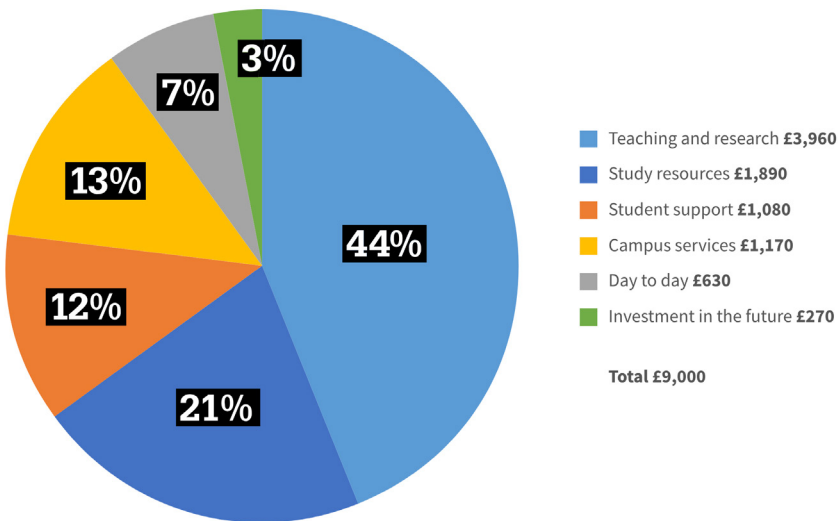


At **Manchester Metropolitan University**, where 77% of income comes from fees, information on both the proportion and the cash value of six uses of fees is made available.²⁷

The proportion assigned to 'Teaching and research' is 44%. Again, this does not account for all spending on the costs of education – for example, 'Study resources' make up a further 21% of the fee income.

How your university fees were invested in 2016/17

The pie chart below shows how your own individual fees were invested in each of the six key areas in 2016/17:



Falmouth University, which receives 83% of its income from fees, works with its students' union to produce an accessible and detailed document on the institution's finances. The proportion assigned to teaching and research is similar to the numbers for other institutions at 42%, with a further 20% assigned to estates and facilities. As well as showing where fees go, there is a separate section on the balance of spending in each academic department.²⁸

£3,770	TEACHING & RESEARCH 42% Lecturers, technicians, course admin, course materials
£1,730	ESTATES AND FACILITIES 20% Building running costs – maintenance, light, heat, power
£1,450	ADMINISTRATION 16% Quality Office, Student Records, HR, Finance and Funding, VC's Strategic Support
£560	IT & AV SERVICES 6% IT support, including Ed Tech
£480	MARKETING 5% Applicant Services, Sales, Events and Communications, Ambassadors
£340	BURSARIES 4% Paid in cash to eligible students
£280	LIBRARY AND ACADEMIC SKILLS 3% Running costs for Penryn and Falmouth libraries and related skills support
£120	RESIDENCES & CATERING 1% Including subsidies refectories and some student accommodation
£100	STUDENTS' UNION 1% For full breakdown see page 16
£85	WELFARE 1% Counselling, living support, chaplaincy, etc
£85	CAREERS 1% Employability advice, placements, etc

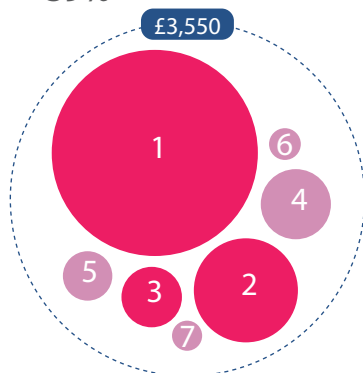
Falmouth University's Finance Director, Rob Holmes, recommends other institutions provide similar information:

It is well-received and answers a number of queries we have from students. With a growing focus on value for money and the Office for Students requiring more transparency we can effectively and widely show how student fees are spent.

At **Nottingham Trent University**, where 81% of income is from tuition fees and education contracts, students are provided with a more detailed breakdown covering four broad areas that encompass 23 more specific categories. This puts monetary figures on each of the University's activities funded through fees – including the Vice-Chancellor's pay, which amount to £10 per student.²⁹ 'Student Facing Activity' (39%) and 'Student Facing Services' (36%) together amount to three-quarters of fee income (75%).

Higher education is sometimes delivered in further education colleges. Although comparable data is lacking, it is believed the finances for 'HE in FE' are different. For example, the fees are often below the maximum fee cap, which reflects a different mix of subjects, lower management overheads, smaller marketing budgets and cheaper-to-run estates.³⁰ 'Alternative providers' also often deliver higher education in rather different ways to traditional universities and can also have different cost bases: some tend to charge less and some charge more than the £9,250 fee cap for 'Approved (fee cap)' providers.³¹

39% Student Facing Activity



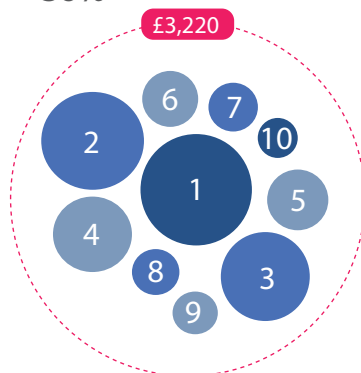
STAFF COSTS

1. £2,160 Academic Staff
2. £710 Course Administration
3. £190 Technical Staff

NON-PAY COSTS

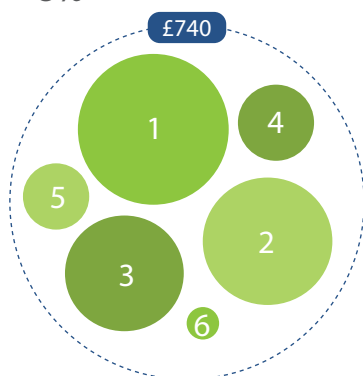
4. £270 Other Academic Costs
5. £130 Equipment & Consumables
6. £60 Events & Excursions
7. £30 Course Resources

36% Student Facing Services

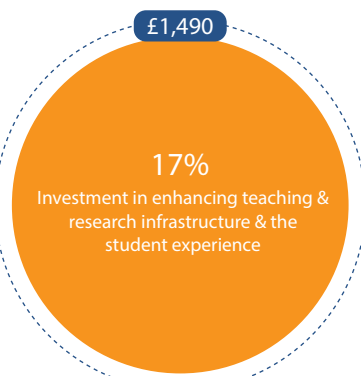


1. £750 Estates
2. £650 Student Support & Widening Participation
3. £520 Information Technology
4. £450 Libraries
5. £220 Culture & Sport
6. £200 Employability
7. £130 Academic Standards
8. £120 Student Union
9. £100 Registry
10. £80 Admissions

8% Other Professional Services



1. £260 Finance
2. £190 Marketing
3. £170 Human Resources
4. £60 Policy & Planning
5. £50 Development & Alumni
6. £10 Vice-Chancellor salary



5. Postgraduate education

How universities spend their postgraduate fees has had less attention than undergraduate fees. Yet developing a better understanding of how taught postgraduate students are funded and how their fees are used could usefully inform policy – for example, on improving postgraduate student support, which is a live policy area.

For postgraduates, the general arguments for greater transparency are the same as for undergraduates. But there is a distinct set of challenges involved in understanding and presenting postgraduate fees and spending. For example:

- postgraduate education has a higher proportion of international students, who pay higher fees than home / EU students;
- institutions often vary their postgraduate fees by course, making it harder to discern lessons on how fees are spent;
- teaching and research are typically more closely interlinked at the postgraduate level; and
- home / EU postgraduate students have less entitlement to taxpayer-subsidised loans (with an entitlement of £10,609 for fees and maintenance).

Few higher education institutions specifically reveal how they spend their postgraduate fees, although a number provide general information on how fees are spent without providing a breakdown between undergraduates and postgraduates.

Back in 2004, the Oxford Centre for Higher Education Policy Studies (OxCHEPS) put the average cost of educating taught postgraduate students at the University of Oxford at £18,700, just £100 higher than the £18,600 cost of educating each undergraduate. Excluding ‘core departmental research and many academic service costs’, the numbers fell to £12,700 for postgraduates and £13,800 for undergraduates.³² However, as HEPI explained in *How different is Oxbridge?*, our most research-intensive universities in Oxford and Cambridge are rarely representative of the sector as a whole and it is unwise to draw general conclusions from them.³³

How Falmouth University spends taught postgraduate fees

£3,480	TEACHING & RESEARCH 43% Lecturers, technicians, course admin, course materials
£1,600	ESTATES AND FACILITIES 20% Building running costs – maintenance, light, heat, power
£1,340	ADMINISTRATION 17% Quality Office, Student Records, HR, Finance and Funding, VC's Strategic Support
£520	IT & AV SERVICES 7% IT support, including Ed Tech
£450	MARKETING 6% Applicant Services, Sales, Events and Communications, Ambassadors
£260	LIBRARY AND ACADEMIC SKILLS 3% Running costs for Penryn and Falmouth libraries and related skills support
£110	RESIDENCES & CATERING 1% Including subsidies refectories and some student accommodation
£100	STUDENTS' UNION 1% For full breakdown see page 12
£70	WELFARE 1% Counselling, living support, chaplaincy, etc
£70	CAREERS 1% Employability advice, placements, etc

As with information on the uses of undergraduate fees, Falmouth University is more transparent than many other institutions. Using their standard full-time campus-based postgraduate fee of £8,000 in 2016/17, the institution has worked with its students' union to offer detailed information on where postgraduates' fees go.³⁴

The results are similar to the information Falmouth provide for undergraduate fees, with very similar proportions of the fee being spent on each of the eleven categories.

However, Falmouth is a small and specialist institution. While their information is useful for their own students, it is not necessarily representative of the sector as a whole.

In 2014, a study by KPMG commissioned by HEFCE, which used TRAC methodology and data for 2012/13, found the average postgraduate taught student cost £11,315 per year to educate. At the time, this was 47% more than an undergraduate cost (£7,694) using the same methodology.³⁵

Cost element	PGT cost per student FTE (£)	UG cost per student FTE (£)	Ratio of PGT to UG cost per student FTE
Staff costs	4,177.30	2,033.25	2.05:1
Direct costs	1,862.14	1,025.77	1.82:1
Indirect support costs	4,227.68	3,401.20	1.24:1
Estates costs	1,618.07	1,455.24	1.11:1
Total	11,885.20	7,915.46	1.50:1

Source: HEI submitted cost and student FTE data

The data in the table above, taken from the study, covers only the 13 higher education institutions that were able to break their costs down in the way shown. It shows that staff costs and direct costs (non-staff costs allocated to courses) are much

higher than for educating undergraduates and that taught postgraduates cost more in all four categories.

The most significant factors determining the cost of postgraduate teaching were found to include:

- the number of students (including the number of international students), as more students provide economies of scale;
- the costs of delivering teaching at specialist postgraduate institutions, which tend to be lower than at institutions with undergraduate and postgraduate courses; and
- higher costs for laboratory-intensive postgraduate taught courses.³⁶

More recent data show that postgraduate course fees have been rising fast but are still lower than typical undergraduate fees. In 2017/18, for home and EU students, taught postgraduate courses cost an average of £7,415 for classroom-based subjects and £8,205 for laboratory ones (compared to £6,490 and £7,214 respectively just two years before).³⁷ The evidence strongly suggests that postgraduate students' fees still do not cover the whole cost and are therefore often subsidised from universities' alternative income streams, including other fee income.

Given the relative shortage of accessible data for postgraduate-level education, we cannot provide as much detail on the uses of postgraduate fees. But the one conclusion we can make is that universities could be significantly more transparent.

6. Students' priorities for their fees

The information on the uses of student fees that has been published by institutions has been relatively hard to extract and, in the main, it is not as useful as it could be. For example, many institutions put 'teaching' and 'research' together without an accompanying explanation, all subjects are typically treated together despite the cross-subsidies between courses and postgraduates and undergraduates are also often mixed together – see Annex Two.

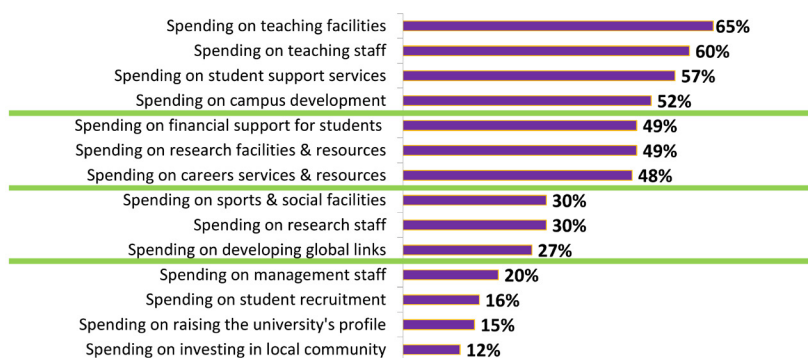
But a number of general points can be made.

- More research-intensive institutions, which receive a lower proportion of their income from home / EU undergraduate fees, have proved less keen to provide a detailed breakdown of fee spending that equates to the headline undergraduate fee cap.
- Among those institutions that do provide a breakdown, direct teaching and research costs tend to amount to between 40% and 45% of the fee income, or under £4,000 per student. But much of the rest is also spent on student-facing priorities. The inclusion of teaching buildings, IT and library facilities can take the total closer to two-thirds of fee income and including all student-facing expenditure (such as welfare services and the students' union) can increase it further to around three-quarters of fee income.
- Spending unrelated to the direct costs of a student's education amount to a relatively small proportion of the fee income but is still critical to the health of the higher education sector. It covers – for example – investment in

the future of university estates, the costs of senior managers and spending on how institutions engage with the world beyond.

As part of the 2018 HEPI / Advance HE *Student Academic Experience Survey*, we questioned over 14,000 current full-time undergraduate students on where they think their fees should go. Our categories are distinctly different from those used by institutions' finance teams when providing data to students on the use of fees, but they are based on lessons learned in earlier waves of the *Survey*.³⁸

Which of these areas that universities spend money on do you think is a reasonable use of your tuition fee?



The respondents were free to choose as many categories as they wished and the results split clearly into four categories:

1. all the answers that received the support of more than 50% of respondents cover areas where students very clearly benefit, such as 'teaching facilities';

2. next come services that are supported by roughly half of students and which are typically used more by some students than others (such as 'financial support' and 'careers services');
3. after this, with the support of under one-third of students, comes spending on 'research staff' and also 'sports & social activities'; and
4. last comes incidental spending, some of which is undeniably important to the smooth running of an institution ('management staff') and some of which goes on areas that can seem of less immediate benefit to current students ('raising the university's profile').

The most striking finding from the answers to this question is the scale of overlap between the areas that students want their money to go towards and the areas where their money ends up. The most popular spending categories – teaching staff and teaching facilities – are also the ones that receive the highest proportions of fee income. So there is considerable overlap between what students want their fees to be spent on and what they are being spent on.

It is notable that 'Spending on investing in [the] local community' comes at the very bottom of the list of students' priorities for their fees. Students may not feel this is always an appropriate use of their fee income – perhaps unsurprisingly given policymakers have tended to justify high fees by pointing to the private returns of having a degree. But it does not follow that this area of spending is unimportant. There are vital roles that higher education institutions have long played that may have to be supported by other income streams.³⁹

As this report was being finalised, rumours were swirling around that the Government could reduce the headline fee cap for full-time undergraduate courses in England below £9,250. It is possible to run higher education systems without high – or, indeed, any – fees. It already happens in many other European countries and beyond.⁴⁰ It currently happens in Scotland and used to happen all over the UK.⁴¹ But there is often a trade-off in terms of the resources spent on education and / or student numbers.⁴² ‘Free’ systems tend to spend less on each student and to have relatively fewer students. There tends to be less money for educating each student and less for other important roles fulfilled by institutions.

If the fee cap were to be reduced and the lost income were not completely made up immediately and in the future, then something would have to give.

- Either this would be some of the direct costs of teaching, which could seem odd given policymakers’ concerns about contact time and the quality and timeliness of feedback and assessment.
- Or any savings would have to come from non-teaching costs, which include many Government priorities, like widening participation activities, counselling and other mental health support and helping students secure graduate-level jobs.

The only alternative to these two options is to cut both teaching and non-teaching costs, leaving higher education institutions under-resourced, just as they were before fees were reintroduced.

7. Policy recommendations

Everyone

1. **When discussing student finance, people with a direct interest in the higher education sector should, wherever possible, refer to 'student fees' rather than 'tuition fees'.** This is a more accurate description of the many uses to which the money is put and consistent with the underlying legislation, while also reflecting the fact that students expect their fees to go on student-focused activities. It is preferable to the alternative of 'university fees' because higher education is delivered in a range of institutions, not all of which are universities.

Institutions

2. **Higher education providers should discuss the information requirements of students with their students' unions and strive to match their demands.** Campaigns against fees should not be allowed to mask the strong appetite within students' unions to improve transparency in their members' interests.
3. **Unless it conflicts with students' demands, institutions should publish information on the uses of fees that show cash figures that are relatable to the actual fees paid, as well as percentages, to explain where fees go.** This is more likely to be useful to other interested parties, including applicants.
4. **Institutions should strive to ensure any information on the uses of student fees splits them into easily-understandable categories.** Again, this is likely to make the information more valuable to a range of users. Institutions

should also consider carefully how to present teaching income that does not come from fees.

- 5. Providers should put information on the uses of fees in places that are easy to find and consider sending the information to all their students.** Institutions that have led on this issue to date, such as Falmouth University, have produced annual figures and worked hard to communicate them to students.

Regulators

- 6. Arms-length bodies that monitor the higher education sector should consider doing more to promote best practice on transparency when presenting the uses of student fees.** Work produced by HEFCE and its successor, the Office for Students, has been useful but it has encouraged incremental change and lagged behind public debate. The Office for Students could consider commissioning a detailed report on what financial information students want and how it should be presented.
- 7. Where feasible, financial reporting requirements for institutions should be harmonised with the sort of financial information that is of value to students and prospective students.** This could make the production of such information easier, cheaper and more consistent.
- 8. Regulators should continue monitoring students' perceptions of the information available.** Students' demands change over time and, where there is a conflict between what they want to see and other factors, the utility of information should take precedence over building a time series.

9. **Policymakers should work to ensure an understanding across all parts of Whitehall of the broad range of higher education institutions' spending.** It is not sufficient to leave a close interest in higher education to the Department for Education, given the numerous roles that higher education providers now play in society.
10. **Ministers should consider new income streams to cover the costs of valuable work that proves difficult to justify funding from student fees.** Where government as a whole looks to higher education institutions to deliver public priorities – such as improved health outcomes, adult education or economic regeneration – the case for direct funding should be considered.

Annex One

Cost of an undergraduate education (£k) at the University of Cambridge, 2015/16

Total University expenditure	1,733,753
Adjustment relating to USS Pension Scheme Liabilities	(16,281)
Taxation Charges	3,061
TRAC adjustment	90,663
Adjustment for other activity	(770,985)
The T&R University including TRAC adjustments	1,040,211
less cost of Research	(822,851)
Cost of teaching	217,360
less NPFT	(55,933)
less PGCE costs	(4,339)
Non subject related costs reinstated	(7,740)
Home/EU UG only cost of teaching	149,348
Non subject related costs reinstated	7,740
less PGT costs	(13,459)
Student FTE (Home/EU UG)	9,945
T per UG Home FTE	14.4
College fee	(4.5)
College costs	8.6
Total cost Home/EU UG FTE	18.5
Fee	8.6
HEFCE T	2.1
Total income	10.7
Funding gap Home EU UG FTE	7.8

Annex Two

Some of the more detailed issues that need to be considered when preparing data on the uses of student fees are listed below.

Surpluses and losses from different activities: Headline income and expenditure data tend not to say which activities at each institution provide substantial losses or surpluses. For a full understanding of institutional finances, elements such as income and expenditure from trading activities need to be portrayed in some way.

Research and teaching: In much published data, it can be difficult to distinguish research from teaching. Yet TRAC differentiates between the two. So it should be possible to display this information to students. If institutions are proud of delivering research-led teaching, then making such data available could emphasise the perceived link.

Cross-subsidies: Available data often mask the fact that courses that are more expensive to teach tend to be subsidised by other subjects. Just as the Teaching Excellence Framework is becoming more granular, so students may feel they have a right to see the different financial arrangements for different courses, and this could also help policymakers.

Comparability: Because institutions present figures in different ways, it can be difficult for students or their representatives to carry out meaningful comparisons. Yet the Statement of Recommended Practice followed by higher education institutions enables some comparability, and collective efforts should be made to ensure information can be meaningfully compared between institutions.

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November 2018 ISBN 978-1-908240-45-3

Higher Education Policy Institute

99 Banbury Road, Oxford OX2 6JX

Tel: 01865 284450 www.hepi.ac.uk

Printed in the UK by Oxuniprint, Oxford

Typesetting: Steve Billington, www.jarmanassociates.co.uk