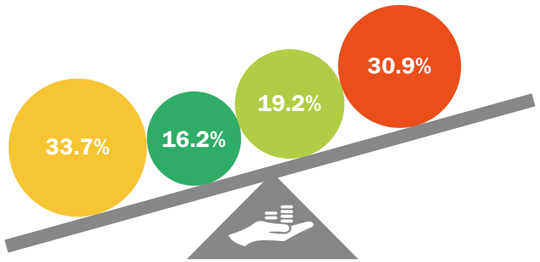
Income and Expenditure in Higher Education

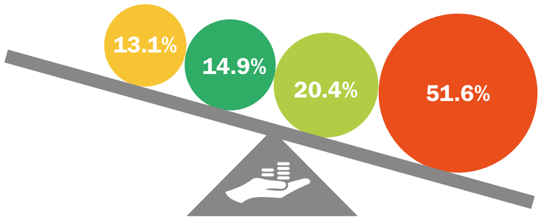
Where does the money come from?

Income

Income in UK HEIs 2009–10 £26.8bn



Income in UK HEIs 2019–20 £42.22bn



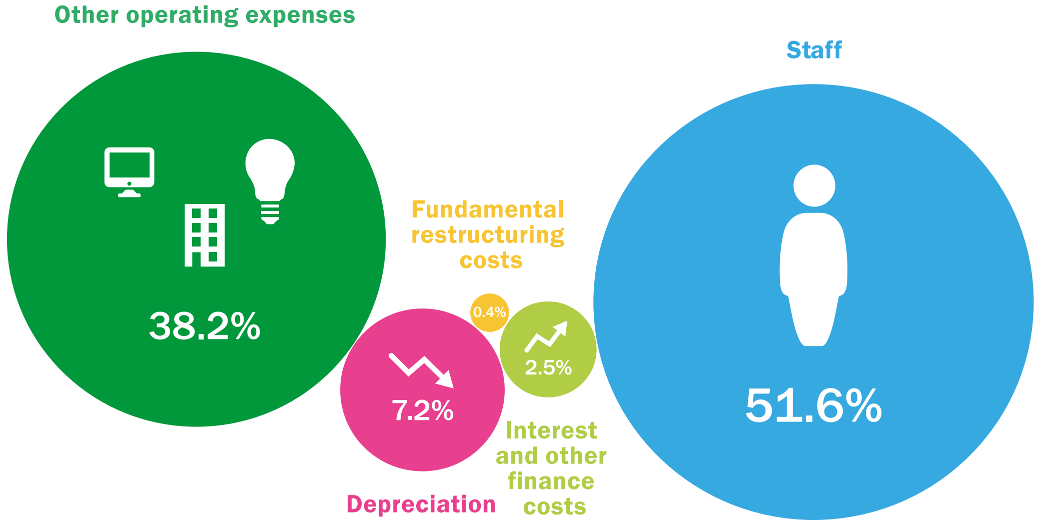
- Funding body grants
- Research grants and contracts
- Other income – including investment income, donations and endowments
- Tuition fees (and education contracts)

Source: HESA.

What do UK HE institutions spend their money on?

Expenditure

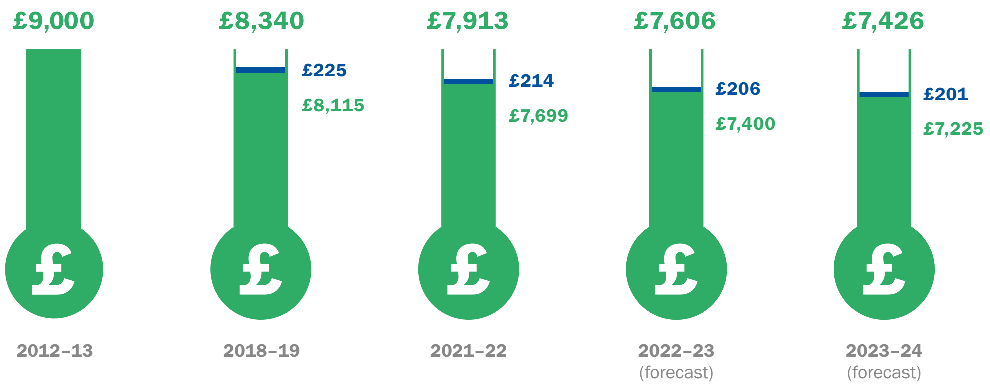
Total expenditure 2019–20



Sources: HESA. Based on 'head counts' numbers (FPE), excluding atypical staff.

What are student fees really worth?

Estimated value of the maximum £9,000 English undergraduate fee from 2012–13



- £9,000 fee (2012–13 real terms value)
- With uplift in 2017–18 to £9,250 (2012–13 real terms value)

Note: Estimate based on CPI increases allowed from September 2020 compared to the 2012–13 fee in real terms.
Sources: OBR, UCAS and UCEA.

How do UK HE investment increases in staff and capital expenditure compare?

5.8% increase in expenditure on staff

14.6% fall in capital expenditure on buildings

10.3% fall in capital expenditure on equipment

Source: HESA.

Income and Expenditure in Higher Education (2)

How do HE institutions maintain and demonstrate financial health?

"The proportion of higher education providers with an in-year deficit increased from 5% in 2015/16, to 32% in 2019/20. During 2020/21, 33 out of 247 providers (13%) had forecast that, by the end of the year, they would not have enough money to continue to fund at least 30 days' expenditure from their cash or credit facilities." NAO, 'Regulating the financial sustainability of higher education providers in England'

Liquidity

"[Liquidity] is indicative of the size of the buffer a provider has against unexpected financial challenges." OfS

HE institutions must have liquidity (i.e. readily available cash balances) – an essential element to financial health. Limited liquidity could mean that staff, bills, suppliers and debts may not get paid.

The OfS forecasted that in 2021–22 the average HEI would have enough reserves to last 92 days.

Surplus requirements

"Generating surpluses, over time, is important to enable a provider to invest in its business in the future, maintaining and improving the student experience." OfS

Surpluses represent the balance of income less expenditure in a given year and are typically presented as a 37.9% of income.

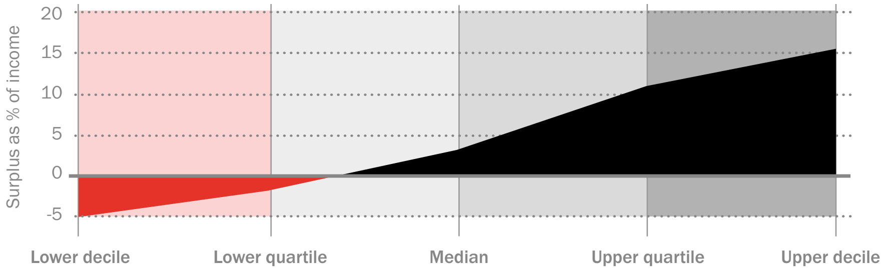
Surpluses are required to:

- invest in new facilities and equipment for students and staff
- invest in curriculum development
- manage cash flow
- manage financial risk
- demonstrate financial health to lenders
- maintain campus facilities for students and staff

Note: Since 2015–16 a new Statement of Recommended Practice (SORP) in financial reporting in HE has led to a change in definitions of income and expenditure, which affects the reporting of surpluses. Notably, HEIs are now required to recognise liabilities in respect of defined benefit multi-employer pension schemes.

Surplus distribution

There is significant variation in surpluses across the sector. The median surplus is 3.27% with an interquartile range of -1.71% to 11.06%.

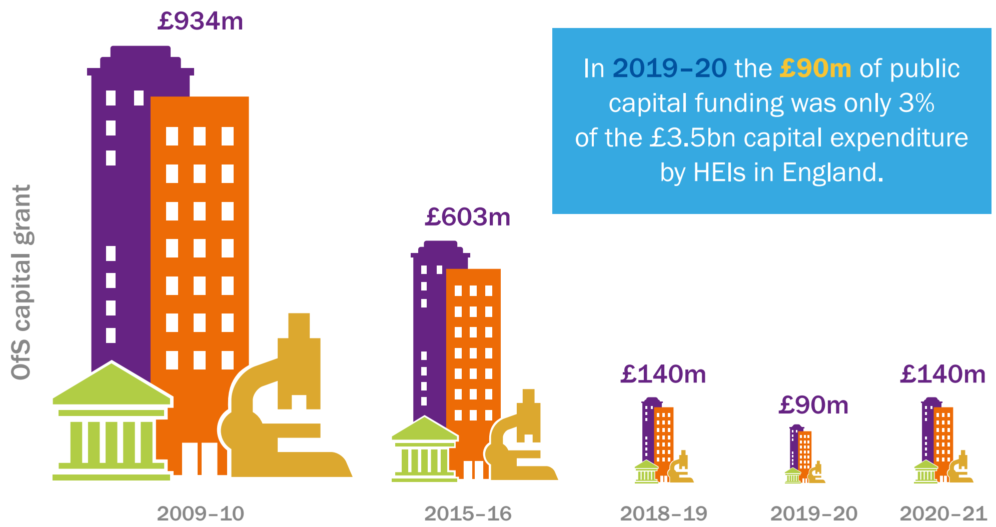


Note: The chart has been adjusted for stylistic purposes but the median and quartiles are based on HESA data. The ends of the distribution have been trimmed to the lower and upper decile for visual purposes to exclude outliers. Sources: HESA 2019–20.

How do HE institutions maintain investment in buildings and equipment?

Public capital funding for HE institutions in England

"Many providers rely significantly on the availability of borrowing to fund capital investment programmes and any reduction in the confidence that lenders have in the financial viability and sustainability of the sector could affect the availability and/or cost of borrowing for some providers." OfS

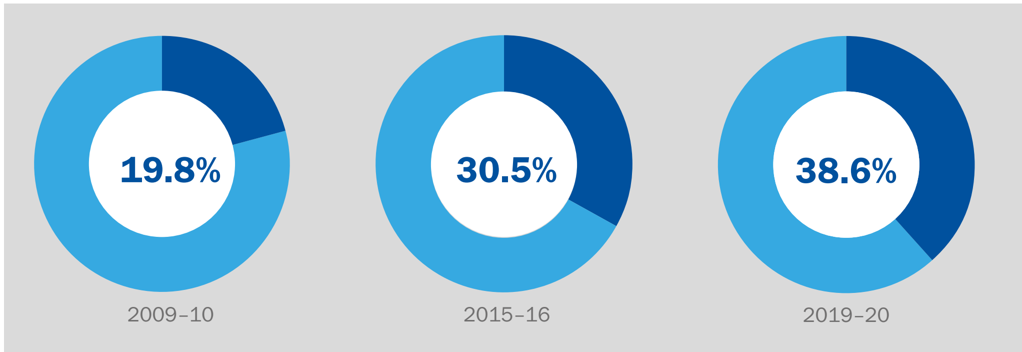


In 2019–20 the £90m of public capital funding was only 3% of the £3.5bn capital expenditure by HEIs in England.

Sources: HEFCE, Office for Students and HESA.

Borrowing

As capital funding has been reduced, HE institutions have increased borrowing from 19.8% of income to 38.6% of income.



Note: Borrowing considers bank loans and external borrowing, bank overdrafts, obligations under finance leases and service concessions and loans repayable to funding council. Source: HESA.