



BRIEFING PAPER

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Cost of university courses in England

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Summary

This paper analyses how higher education courses set their tuition fee levels and discusses the cost of provision of courses. It looks into how courses are funded and how tuition fee funding is spent.

The paper makes the following points:

- Most full-time undergraduate courses in England have the same tuition fee: £9,250 for home/EU students.
- There is a debate around whether this level is too high and should vary across different types of courses and different universities to more accurately reflect their costs, quality and supply and demand for places.
- With no cap on student numbers there is the potential for competition within the sector, but with nearly all universities charging the maximum fee there is little or no competition by price.
- 2012 changes to higher education finance resulted in additional funding per student when fees and funding council grants are combined. Universities that charged higher fees were also expected to increase expenditure on initiatives to improve access.
- Despite increases in fee income the data collected from the sector shows that universities overall make little or no economic surplus on teaching home/EU students.
- Income from the funding council for 'high cost' subjects is aimed at topping up the basic tuition fee income the universities receive to better reflect the higher costs of some courses.
- Around 40% of students are on 'high cost' courses which attract additional public funding of between £250 and £10,100.
- The 'model' used to reflect this is based on analysis of 2012-13 costs. The funding available for these variations in costs is limited: £680 million out of combined fee and funding council income for (home/EU student) teaching of just over £11 billion.

Readers may also be interested in the related Library briefing papers:

[Review of Post-18 Education and Funding](#)

[Higher education tuition fees in England](#)

[Higher education funding in England](#)

[Tuition fee statistics](#)

[Higher education finance statistics](#)

1. Background

In 2012 the Government brought in major reforms to the way higher education institutions in England were funded to make the higher education system more sustainable. Regulations were introduced to allow higher education institutions (HEIs) to charge tuition fees of up to £9,000 per year and at the same time the Government reduced the grant funding that it paid to higher education institutions for teaching by 40%. From that point onwards the cost of teaching most classroom – based subjects has been met by tuition fee funding with Government funding only being provided for high cost subjects.

Following this in 2016 HEIs with awards in the Teaching and Excellence Framework were permitted to further raise their fees to £9,250 per year in 2017/18.

In October 2017 following increasing concern about levels of student debt and rising tuition fees the Prime Minister announced that tuition fees would be capped at £9,250 per year in 2018/19. This cap has been maintained for 2019/20.¹ The history of tuition fee rises is discussed in more detail in library briefing, [Higher education tuition fees in England](#), 25 June 2018.

The high level of tuition fees in England have led to much debate about the value for money of higher education and how tuition fee funding is spent. The issue of the cost of course provision has also been raised.

In 2017 the Government announced that it would carry out a review of post-18 education funding. A large aspect of this review will be an analysis of the cost and benefit of higher education and value for money in the provision of higher education.

At the launch of the review the Prime Minister expressed disappointment at the lack of a competitive higher education market, with no variable tuition fees according to cost, quality and length of courses:²

...The competitive market between universities which the system of variable tuition fees envisaged has simply not emerged.

All but a handful of universities charge the maximum possible fees for undergraduate courses.

Three-year courses remain the norm.

And the level of fees charged do not relate to the cost or quality of the course. We now have one of the most expensive systems of university tuition in the world.

[...]

The review will now look at the whole question of how students and graduates contribute to the cost of their studies including the level, terms and duration of their contribution.

¹ Library briefing, *Prime Minister's announcement on changes to student funding*, 2 October 2017 discussed this.

² Gov.UK "[PM: The right education for everyone](#)". 19 February 2018

Our goal is a funding system which provides value for money for graduates and taxpayers, so the principle that students as well as taxpayers should contribute to the cost of their studies is an important one.

2. What do students pay in tuition fees?

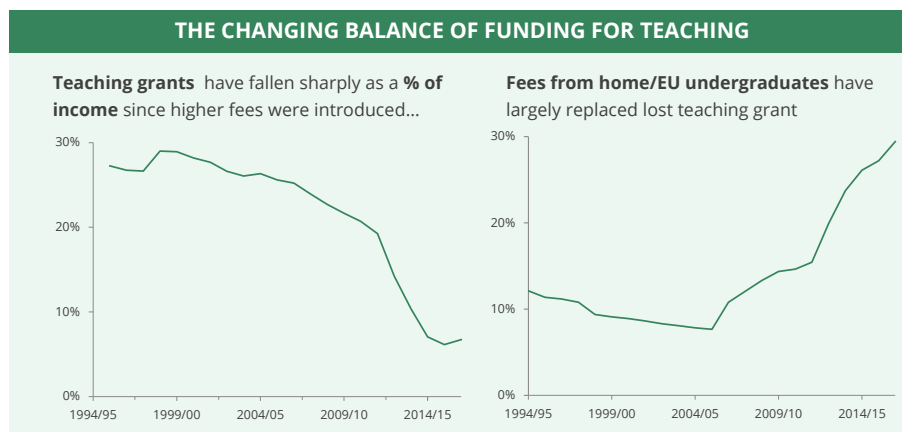
Variation in fee levels

In 2018/19 122 of 124 higher education institutions (HEIs) in England planned to charge home/EU the maximum fee of £9,250 for one or more of their full-time undergraduate courses. 22 expected to charge the maximum for all courses. The estimated average fee across the sector is £9,124,³ and there is very little variation in fees charges for courses either by institution or by subject.

All but two universities in England plan to charge the maximum fee of £9,250 in 2018/19 for one or more courses

2.1 Overall fee income

Overall income from home/EU students for universities across the UK was £10.5 billion in 2016/17. This was 29.4% of income from all sources and has increased rapidly since the 2012 reforms.⁴ This increase has broadly mirrored the fall in grants from the funding councils for teaching as shown below:



Fee income compared to spending on teaching

The funding council in England publishes an annual comparison of costs and income of different university activities. This is known as Transparent Approach to Costing or TRAC. In 2016-17 the TRAC returns showed the following:^{5 6}

- Total income from all sources was £31.3 billion compared to total expenditure of £29.4 billion; an operating surplus of £2.0 billion or 6.7%.
- The 'target surplus for sustainable operations'⁷ value of £3.0 billion is then added to the expenditure figure to get the 'full economic costs' of

³ Offa, [Access agreement 2018-19: key statistics and analysis \(revised\)](#)

⁴ *HE Finance Plus*, HESA

⁵ Data for English universities and two Northern Ireland institutions. Excludes Research and Development Expenditure Credit.

⁶ [Annual TRAC 2016-17: Sector analysis](#), Office for Students, 12 July 2018

⁷ Defined as 'earnings before interest, tax, depreciation and amortisation' adjusted as defined in the TRAC guidance requirements to provide the 'margin for sustainability and investment'.

£32.4 billion. This was £1.0 billion (3.3%) *higher* than income. When there is a deficit of this kind it is known as the 'sustainability gap'.

- Income from publicly funded teaching covered 99.9% of its full economic costs
- Income from non-publicly funded teaching (mainly overseas students) was £1.2 billion (27%) above its full economic costs
- Income from research was £3.4 billion (42%) less than the full economic costs of research
- Other activities generated a surplus of £1.2 billion or 19% above full economic costs

In 2016-17 universities made **no economic surplus on home/EU student fees**. They did make a surplus on overseas students and had a large deficit on research.

According to this analysis there was **no surplus on publicly-funded teaching**, in other words the combined value of home-EU fees and funding council grants was no more than the full economic costs of this teaching. This gives little or no scope, at an aggregate level, to use tuition fee income for other purposes –so-called cross subsidisation. However, the aggregate total includes different subjects, levels and modes of courses, so it does not rule out the *possibility* of cross-subsidisation within this category. This could be across different subjects or between undergraduate and postgraduate levels.

There was a **surplus on overseas teaching** and 'other' activities, but this was not enough to cover the **deficit on research spending**.

Box 1: Cross subsidisation of courses

Professor Madeleine Atkins in her role as Chief Executive of the Higher Education Funding Council for England gave evidence to a House of Lords Committee in which she said that tuition fee funding for class-room based courses was not being used to subsidise other courses:

The first point is that no vast profits are being made anywhere on UK and EU undergraduate fees. There is a sense sometimes in the media that classroom-based subjects are overpriced at £9,000 and that a considerable surplus must be being made there, which is then directed to higher-cost courses. Our analysis suggests that this is not the case. Indeed any surplus on class-room based courses is eroding fast, due to inflation and other things.

[...]

On our analysis the high cost subjects at undergraduate level are all running at a deficit.⁸

Changes to how TRAC figures are compiled from 2015-16 mean that direct comparisons with data from before this time are not possible. The 2015-16 data showed a smaller overall sustainability gap of 0.4%, but this was in part due to the use of a smaller sustainability adjustment (£2.3 billion rather than £3.0 billion) as well as a 7% increase in costs

Data from earlier years shows an **increase in the surplus on teaching after 2012**. Publicly funded teaching was 0.9% above full-economic costs in 2011-12, 0.7% higher in 2012-13, 2.1% higher in 2013-14 and

⁸ House of Lords Select Committee on Economic Affairs. Corrected oral evidence: *The Economics of Higher, Further and Technical Education*, 7 November 2017 Q.41

2.6% higher in 2014-15. Between 2011-12 and 2014-15 costs connected with publicly funded teaching increased by 12% and income by 14%.⁹

The 2016-17 data are also broken down by 'peer group'. These are groups of universities broadly arranged by the proportion of income they received from research. Peer groups go from A which has the highest share of research income to group E which has the lowest and F which are specialist music/art institutions. The analysis by peer group showed on average:¹⁰

- Income from publicly funded teaching was above full economic costs (by 0.3-2.2%) in groups A-D. Those in group E had a deficit of 3.5%.
- The surplus on other teaching was much more varied from 60% in the most 'research intensive' (group A) down to 5-7% in groups D and E.
- Only institutions in group A covered the full economic cost of (all) activities with a surplus of 0.2%. The other groups had a deficit from 5% in group B up to almost 9% in group D.

No group of universities (organised by 'research intensity') made a surplus on home/EU fees of more than 2.5%

The TRAC data referred to above was discussed in an article in the *Times Higher Education*, "[Only most research-intensive UK universities cover full costs](#)", 2 August 2018:

According to the [OfS] analysis, peer group "A" – which contains most members of the Russell Group but also some other research-intensive institutions – made a surplus of more than 60 per cent on average from non-publicly funded teaching, which mainly covers overseas students, compared with the full economic costs.

Such universities also did not lose as much money from research – which a sector-wide analysis published a few weeks ago showed was underfunded to the tune of almost £4 billion in 2016-17 – as others.

For instance, the average university in peer group A recovered 77 per cent of its full economic research costs.

However, universities in other peer groups tended to recover less of their research costs. In groups D and E – mainly made up of modern teaching-focused institutions – the average recovery of research costs falls below 40 per cent.

The data also indicate that universities in peer group A tended to make massive surpluses on "other" activity classed as "non-commercial" – which includes money from donations and endowments. In 2016-17, the average peer group A university made a surplus in this area more than 13 times higher than its costs.

Meanwhile, the analysis shows that for publicly funded teaching – primarily covering UK and other European Union students who can take on government loans – most peer groups in effect break even.

Taking all activity together, the OfS data suggest that, on average, only universities in peer group A manage to recover all their full economic costs.

⁹ TRAC income and costs by activity, various years, HEFCE

¹⁰ [Annual TRAC data 2016-17: analysis by TRAC peer group](#), Office for Students

3. How much do courses cost?

While the tuition fee income of universities varies very little between subjects, the costs of providing these courses varies considerably. Some allocations from the funding council are aimed at reflecting these costs in the funding for 'high cost subjects'. This is effectively top-up funding to bring the 'standard' level of fee income per student up to a level closer to the cost of providing these courses.

Higher education funding in England is allocated by the Office for Students (OfS). To calculate each university's high cost subjects allocation the OfS uses a formula which bands subjects into four price groups:

- Price group A.** The clinical years of study for medicine, dentistry and veterinary science.
- Price group B.** Laboratory-based science, engineering and technology subjects and pre-registration courses in midwifery and certain other allied health professions.
- Price group C1.** Intermediate-cost subjects of archaeology; design and creative arts; information technology, systems sciences and computer software engineering; media studies; and pre-registration courses in nursing.
- Price group C2.** Other intermediate-cost subjects with a laboratory, studio or fieldwork element, such as geography, mathematics, languages or psychology and students on placement years of sandwich courses.
- Price group D.** Classroom-based subjects such as humanities, business or social sciences.

From 2012/13 the former funding council stopped funding new students on courses in groups C1 and D (so-called 'arts and humanities'). 2018/19 funding rates per student for the remaining courses are:¹¹

A:	£10,100.00
B:	£1,515.00
C1:	£252.50

These rates are simply multiplied by the full-time equivalent student numbers by price band at each institution to give its total allocation.

Total funding for high costs subjects in England is £681 million in 2018/19 out of the total recurrent funding for teaching of £1.23 billion. Some other elements of funding are also aimed at covering the varying costs of different subjects or institutions including funding for 'very high cost' science and maths courses, some health courses, part-time courses and intensive/accelerated provision.¹²

In 2018/19 the OfS funding assumes that 42% of full-time equivalent students will be on a high cost subject. Around 40% of high cost funding will follow students in price group A, just over 50% will follow those in group B and 10% group C1.¹³

¹¹ Office for Students, '[Guide to funding 2018-19](#)'

¹² *ibid.*

¹³ Office for Students, '[2018-19 Sector Tables](#)'

These different funding rates are based on 2012-13 analysis of TRAC for teaching data. This linked the costs of teaching to student numbers at a subject level. The resulting costs per student data were used to organise subjects into the price groups shown above. There was some variation in costs per student *within* each group as well as *between* groups. So, for instance, some subjects at the top of their price group had average costs which were little different than those at the bottom of the next price group.¹⁴

3.1 Differentiation in fees

When the fee cap was raised to £9,000 in 2012 it was anticipated that universities would only charge the highest amount in 'exceptional cases' and that a market would develop in fees. However this did not occur and a report by the Institute for Fiscal Studies found that in 2016, all but three of the top 90 institutions charged fees of £9,000 per year for all of their courses.¹⁵

When the review of post-18 education and funding was announced Damian Hinds, the Education Secretary raised the issue of differentiated fees:

However, with a system where almost all institutions are charging the same price for courses – when some clearly cost more than others and some have higher returns to the student than others – it is right that we ask questions about choice and value for money.¹⁶

Universities UK's submission to the review discussed the low variability in fees and said that there was "little variation in undergraduate fee levels as universities price to cover losses incurred in some subjects" – the submission also expressed concern about the impact of increasing fee variation on social mobility:

Mechanisms can be used to induce greater variation in fee levels (for example by cost of subject or by level of graduate earnings). This poses many practical difficulties and risks:

- The system could become more difficult to understand and distort the decision making of prospective students. Students from more disadvantaged backgrounds or those concerned about future debt levels may choose cheaper courses of study to the detriment of achieving their potential. In Australia, the share of males from a low socioeconomic background declined by 38% in the most expensive courses following the introduction of differential charges.
- Linking fee levels to course costs would require significant increases in either fees or government grant funding for higher cost subjects, or it would not be financially viable for institutions to continue providing these subjects in the numbers needed to meet student and employer demand.

¹⁴ HEFCE, [High cost subjects analysis using TRAC\(T\) data: detailed commentary](#)

¹⁵ IFS, [Higher Education funding in England: past, present and options for the future](#), July 2017 p5

¹⁶ GOV.UK, ["Prime Minister launches major review of post-18 education"](#), 16 February 2018

- Linking fee levels to graduate earnings would not be a significant improvement on the current system, which already links graduate earnings to the total amount of loan repayments. It could also have the added disadvantage of increasing demand for areas with lower fees and lower salary outcomes, with knock-on effects for the UK's supply of skills.¹⁷

¹⁷ Universities UK [Response to the review of post-18 education and funding call for evidence](#), p11

4. Tuition fee debate

The level of tuition fees in England is the subject of much debate. In July 2017 the Institute for Fiscal Studies (IFS) published a briefing [Higher Education funding in England: past, present and options for the future](#), which stated that English graduates have the “highest student debts in the developed world” due to the combination of high fees and large maintenance loans. Much of the recent debate around the cost of higher education has been on whether students are receiving value for money and on whether the reforms have achieved a market in higher education.

4.1 Value for money

The Higher Education Policy Institute’s [2018 Student Academic Experience Survey](#), stated that from 2012 to 2017 there was a constant decline in the number of students stating that they felt their higher education represented good value for money. In 2018 however the number of students who said that their course was good value for money increased by 3% to 38%. – but there was still a significant proportion of students (32%) who said that their course was poor, or very poor value for money. The survey further showed that students’ perceptions of value for money varied across institutions and across subjects – with students at Russell Group universities and on medical degrees showing the highest levels of satisfaction.

To address these concerns the OfS has, as part of its remit, a duty to secure value for money and to promote competition in the student interest.

4.2 Higher education market

It was hoped that raising the cap on fees to £9,000 in 2012 would create a competitive market in fees and that this would potential drive fees to an average of £7,500 per year.¹⁸ This has not occurred and a report by the National Audit Office (NAO) [The higher education market](#), has commented that “there is no meaningful price competition in the higher education sector”.

The NAO report suggests that a market has not developed in fees because low cost in higher education tends to be equated with low quality so providers are incentivised to charge the maximum.

Universities UK’s submission to the post-18 review said that it was not financially viable for universities to compete on price, but said that they competed in other ways:

There are a wide range of ways that competition takes place in the domestic higher education market other than on price. It is in an institution’s best interest to make cost and efficiency savings. Universities across the UK reported making £1.4 billion of efficiencies in 2015, with more than £1 billion delivered in England over the previous three years.⁴⁷ Institutions compete for

“Greater transparency on how education providers compete and cover their costs is needed”

Universities UK
[Response to the review of post-18 education and funding call for evidence](#)

¹⁸ National Audit Office (NAO) [The higher education market](#), 8 December 2017 p29

students through developing their own unique course offerings, high-quality teaching and learning facilities, and investing in career services to achieve high employability outcomes for graduates. Initial evidence collected by Universities UK's flexible learning project shows that over the past five years, there have been significant changes to the course offerings of institutions – including more online courses, greater tailoring of courses to employer needs, and shifts to shorter, and more intensive, courses.¹⁹

¹⁹ Universities UK [*Response to the review of post-18 education and funding call for evidence*](#), p12

5. Use of increased fee income

The NAO report *The higher education market*, stated that between 2011/12 and 2015/16 capital investment in English increased from £2.35 bn to £3.8 bn.²⁰ This fee income has been used by institutions to improve facilities such as academic buildings, libraries and accommodation.

In November 2016 Universities UK published a webpage, [What do universities spend their money on?](#) which explained how fee income was being used:

Here are five areas on which universities spend money to ensure that all students get the best from their time in higher education.

1. The £14.4 billion spent by universities in 2014–15 on teaching and research within academic departments covers not just the cost of employing academic staff but also support and administrative staff, and the costs of designing courses, assessment, lecturers' research projects, and out-of-hours and one-to-one support.

2. In 2014–15 universities spent £1.34 billion on running the student accommodation they own.

3. In the same period universities spent £630 million running 390 libraries. At 94 of 130 universities, libraries are open 24/7 for all or some of the year.

4. Universities between them spent £833.8 million on scholarships and bursaries to support students in need of financial help to be able to go to (and stay at) university.

5. There are a whole host of other services for students that universities need to fund: in 2014–15 universities spent a total of £871 million on careers services, students' unions and societies, counselling and health services, sports facilities, accommodation offices, crèches, and transport for students and staff around campus.

Universities UK's submission to the post-18 education review also discussed how institutions use their fee income:

The average costs of providing undergraduate courses vary from £7,500 (humanities and social studies) up to £22,000 (veterinary science). There are also additional costs in providing a world-renowned student experience and catering for the needs of a diverse range of students. These include, but are not limited to, support services for those in need of financial help, disabled students and for counselling and health services. Institutions fund these costs through fee income (up to a maximum of £9,250) and government grants for higher cost subjects. Even with government grants, on average, institutions make a loss of £2,000 or more on some higher cost subjects, and fees cannot rise on these subjects to recover the loss. To break even institutions charge more than the cost for lower cost subjects. Small and

²⁰ National Audit Office (NAO) [The higher education market](#), 8 December 2017, figure 9 p31

specialist institutions have differing cost bases and face their own specific issues.²¹

The NAO report further stated that universities are spending more on marketing and advertising:

Most providers we spoke to were focusing increasingly on marketing and advertising since student number caps were removed. For example, one provider had tripled the size of its marketing team, while another was planning a £400,000 summer advertising campaign in the run-up to A-level results.²²

A number of universities include information on how they spend their fees on their websites, for example: University of Bath - [How we spend tuition fees](#), University of Southampton - [Where your tuition fees go](#), London School of Economics - [How we spend tuition fees](#).

²¹ Universities UK [Response to the review of post-18 education and funding call for evidence](#), p10

²² *Ibid* para 3.9

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