

'Breaking the Impasse: The Great Debate on University Funding'

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As a Vice-Chancellor, I am conscious of the immense privilege of playing a leadership role in the UK's outstanding university system – a system that is a cornerstone of our democracy, generating globally transformative ideas, discoveries and technologies, and contributing around £26bn per annum to the UK economy. We have one of the highest university participation rates in the world, exceptionally low drop-outs and comparatively high levels of spending per student. Our graduates still enjoy a significant earnings premium at both UG and PG levels and demonstrably boost economic growth. I do not need to rehearse the importance and strengths of the UK higher education sector in this company, and I am grateful that we are all here to consider ways in which to strengthen our great universities.

But this system is under strain. Some of these strains have been for some time inherent in the model whereby universities do not recover the full economic costs of publicly-funded or charity-funded research. And some relate to the long-term, chronic under-funding for high cost science and medical subjects, such that the top-up rate for a chemistry undergraduate is now only £1587 per year. We have also seen sharp rises in the overhead costs of our USS and TPS pension schemes. But many strains are very recent, owing to the inflationary erosion of the already static home undergraduate fee; it no longer covers the cost of delivering even relatively low cost subjects like my own. And then in the short term, we have the soaring utility costs of student accommodation, data centres and highly-serviced labs.

Universities have sounded the alarm in the past, but have carried on calmly. In the last year, however, the National Audit Office itself has drawn attention to worrying indicators of financial unsustainability across the sector, including liquidity concerns and a growing aggregate net in-year deficit for the sector. The alarm rings in Vice-Chancellors' ears every day.

As we scramble to cross-subsidise losses in home undergraduate education and research through overseas student recruitment, there is a danger that we are not preparing adequately for the coming UK demographic spike. Allowing for a slight post-Covid correction, young applicants for undergraduate places are already at an all-time high – not only in the UK but around the world. UCAS expects this number to reach a million by 2030. While rates of growth in international student numbers have been much faster in the past decade, thus

far there is little to suggest that this has been at the expense of opportunities for home students. But there is a very real risk this may change as demand continues to rise, and universities with a *de facto* civic student number cap and accommodation shortages exchange home for international student places. The significant improvements we have made in entry rates for the most disadvantaged students may be slowed down by market-driven constraints on home student numbers. And on the other side of the coin, there are well understood geopolitical risks to those overseas student markets, as well as security concerns about over-dependence on China. Most concerning of all, we are at risk of breaking our social contract with our UK student population and backtracking on hard-won social equality gains. Barely inflated maintenance loans cover less and less of the cost of study, and universities struggle to bridge widening gaps in provision for hardship, disability and mental health. We may also be starting to see a downturn in the numbers of UK students proceeding to masters programmes. Many can no longer bear the costs of continuing to live as a student. In the meantime, we have yet to deliver as a sector on a meaningful, accessible framework for a lifelong learning entitlement, of which many of us think that masters programmes should be a part.

As the Director of the LSE wrote in yesterday's FT, we have an opportunity now to return to the national conversation about the financial unsustainability of tertiary education on a cross-party basis. This conversation has three dimensions: the cost of study, the cost to universities of delivering research, impact and education, and the cost to the taxpayer. In relation to this third dimension, it is fair to say that University leaders do not expect that we will see any significant increases to public funding in the near future. Rather, we need a re-engineered financial model: one that encourages a more flexible, disaggregated approach to lifelong education, enables the further scaling up of high-cost science subjects, and allows UK students to pursue conversion masters programmes in areas such as digital skills. We need a system that promotes alignment, rather than competition, between universities and FE; one that encourages a balanced and planned approach to ratios of overseas and home students in a way that makes sense for cities and regions, and that is grounded in a long-term view about what we want from universities for sustainable growth and the enrichment of lives. I very much look forward to the conversation.