

**To: Heads of higher education institutions in England, Wales, Scotland and Northern Ireland**

Dear Vice-Chancellor or Principal

**Understanding the impact of income cross-flows on financial sustainability in the UK higher education sector**

I am pleased to announce the publication of the latest report from the Financial Sustainability Strategy Group (FSSG), 'Understanding the impact of income cross-flows on financial sustainability in the UK higher education sector'. The report is available to download from the FSSG webpages: [www.officeforstudents.org.uk/for-providers/finance-and-funding/trac-transparent-approach-to-costing/#fssgresources](http://www.officeforstudents.org.uk/for-providers/finance-and-funding/trac-transparent-approach-to-costing/#fssgresources).

The FSSG was keen to undertake this study given the changes that were made to the oversight of the sector following the passing of the Higher Education and Research Act (2017), together with the increasing challenge of achieving financial sustainability in the higher education sector. The FSSG also recognised that the HE sector had not clearly communicated the benefits of income cross-flows between teaching and research, and this needed to be better understood. FSSG provided a briefing to the Post-18 Education and Finance review last year on the emerging issues from the study.

The report aims to provide Government, UKRI, the OfS and Funding Councils with insight into the extent of income cross-flows and the benefits they provide. Although some aspects of the report will of course be known by you and your senior teams, the report provides, for the first time, the range of data reported in the Transparent Approach to Costing (TRAC). The data are anonymised, but you will be able to identify your own position which enables you to compare your performance relative to the rest of the sector. It also identifies some good practice and in particular the benefits of income cross-flows being known and understood within institutions.

The key findings from the study include:

- a significant majority of institutions (79%) fail to recover the full economic cost of their activities;
- certain activities, notably research, are not funded at levels that meet the full economic cost;
- income cross-flows enable a diverse range of activities to be delivered and maintained for the public good;
- the sector is diverse and institutions plan to deliver their strategic aims and pool financial resources to enable this;
- institutions plan for the medium term and sustain important academic disciplines, but this is only possible as a result of financial resources being pooled;
- supporting the government target for growing research and development activity to 2.4% of GDP by 2027 can only be delivered by permitting income cross-flows from non-publicly funded teaching and other activity, or by increasing funding for research.

We are all facing a plethora of challenges and uncertainties, including: changes to funding policy in Wales, the outcome of the Review of Post-18 Education and Finance in England, the impact of leaving the EU, the reliability of the international student market and changes to pension obligations.

Ensuring the sustainability of our institutions is therefore becoming more challenging. Understanding the financial performance of the different activities within our institutions is crucial to achieving a sustainable higher education sector.

I hope you find the report of interest and I urge you to share it with your teams and governing bodies.

Yours sincerely,

A handwritten signature in blue ink that reads "Mark E. Smith". The signature is written in a cursive style with a large initial 'M'.

Professor Mark E. Smith  
Vice-Chancellor, Lancaster University  
Chair of the Financial Sustainability Strategy Group