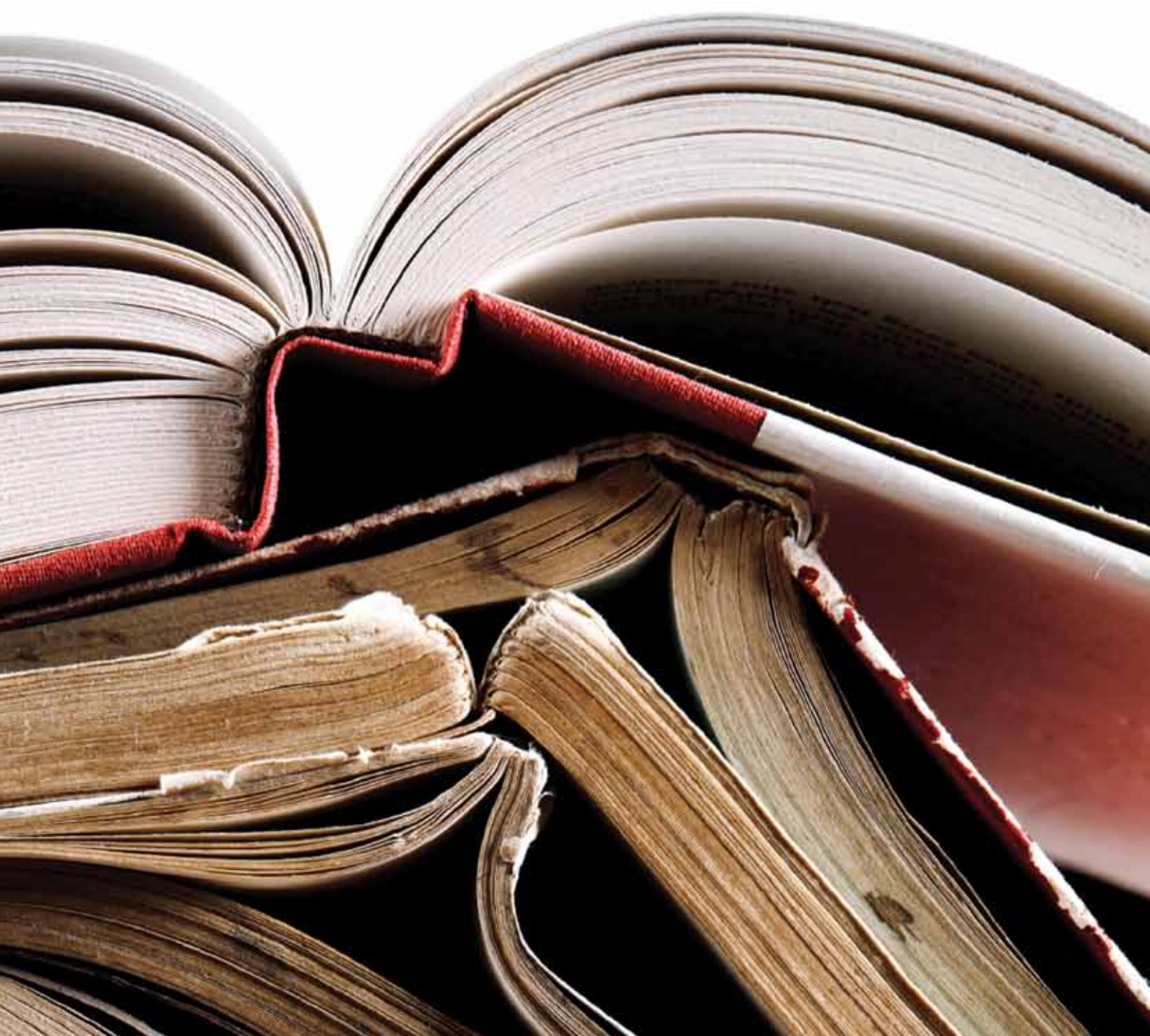


More Fees Please?



The future of university fees
for undergraduate students

Anna Fazackerley and Julian Chant



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Executive Summary

University Finances

A brief glance at total funding for universities over time appears to show that their finances have rarely been better. Total income has increased dramatically over the past decade, rising from £12 billion in 1998-99 to £23 billion in 2007-08. However, if we look at the unit of funding for teaching over time, it is clear that universities still receive far less money per student than they did 20 or 30 years ago. Funding per student fell from around £9,000 at the end of the 1980s to around £5,500 in 1997. Since then it has lifted significantly (it is expected to be around £7,000 by 2009-10) but it still remains well below historical levels of funding, and many universities argue that it falls far short of their real teaching costs.

Years of chronic under-funding have had a number of serious consequences that are still being felt today. Buildings were allowed to decay as necessary infrastructure projects were put on hold and academic pay fell far behind levels in other developed countries, making it harder to attract and retain the best staff. Student to staff ratios also rocketed up. From a starting point of around 8:6 students to staff in 1975-76, data from the Higher Education Statistics Authority (HESA) now puts the number of students to teachers at 16:4 for 2007/08.¹ As a result institutions have increased the size of student teaching groups, pulled in a wider range of staff to teach (including postgraduate students) and replaced some lectures with online resources.² Most negatively a report for the Higher Education Funding Council for England found that there has been an effective breakdown of the system of pastoral tutoring in some cases, a reduction of staff-intensive forms of learning such as laboratory sessions in the sciences and essay tutorials in the humanities, and cut-backs in face-to-face feedback.³

There are worse financial pressures to come. Universities will face a 'perfect storm' in funding over the next decade. Public spending cuts are now unavoidable. The Government's annual grant letter to HEFCE, strategically released over the 2009 Christmas holiday, announced the third major cut to the HE budget over the past 12 months. It signalled an overall reduction of £915 million, which is believed to represent a 12.5% cut between 2010/11 and 2012/13.⁴ Meanwhile, universities are anticipating much fiercer competition for lucrative international students, while the expansion of domestic student numbers has been cut sharply by the Government, and the global recession is eating into a number of lucrative income pots including endowments, business activity and privately-funded research. Throw rising costs such as pension liabilities and servicing debt into the mix, and vice-chancellors across the country are forecasting, if not already announcing, significant staff and departmental cuts.

1 AUT (2005), *Packing them in – The student-to-staff ratio in UK higher education*, p2; email correspondence with HESA, taken from the 2003/04-2007/08 HESA Student and Staff Returns.

2 JM Consulting (2008), *The sustainability of learning and teaching in English higher education*, a report prepared for the Financial Sustainability Strategy Group, p22.

3 Ibid

4 The Guardian Online, *University funding: Shape of cuts to come*, <http://www.guardian.co.uk/commentisfree/2009/dec/24/mandelson-higher-education-university-funding>.

What have top-up fees been spent on?

Top-up fees (capped at £3,000 per annum, to rise annually in line with inflation) came on stream in 2006 and have provided a significant injection of cash for universities. Overall, universities have generated close to an additional £2.7 billion in income from top-up fees since 2006.⁵

Top-up fee income is not hypothecated, and with the exception of spending on bursaries and new outreach programmes, universities do not marry specific expenditures on their balance sheets with additional income from fees. This makes it hard to pin down exactly how these fees have been spent. Moreover, there has been a resounding and unhelpful silence from the sector on this question. If universities are to argue for higher fees in the future, there is no doubt that the public and politicians will demand that they tell them where fees have gone thus far. Our research shows that the story is not one of which the sector needs to be ashamed. It is clear from our survey of vice-chancellors⁶ that top-up fees have been spent on a number of areas that are crucial to the quality of provision and to the student experience in particular. These include bursaries for poorer students, extra spending on widening participation, new buildings and student services, and reversing the damaging trend of inadequate staff pay levels, which had fallen well behind those in other countries and the US in particular.

What will the future look like?

When faced with potential cuts the typical response from the sector is to rush out reports emphasising how much higher education contributes to the economy. Such information is useful, however, if we are to make a judgement about the impact of continued under-investment in the sector – particularly if Government funding is slashed and fees remain at the same level while other major revenue streams are squeezed – we really need to ask what this funding shortage will mean for students on the ground. As part of our research we conducted a number of face-to-face and telephone interviews with vice-chancellors, finance directors and other experts in the sector, and tried to pin down the sorts of measures they would be forced to undertake in a tightened financial climate. Our research indicated that we should expect the following:

- **Cuts to capital/maintenance costs.** Buildings and infrastructure are a long-term concern, and there is a consensus that this would be the first major budget line to suffer. The infrastructure for teaching and learning, which includes buildings, equipment, IT, libraries and services, is the second largest cost after staff. In the short-term students may not feel these cutbacks, yet they could seriously damage the reputation of British HE in the long run. As the JNCHES study explains: “If the higher education infrastructure is not fit for purpose, attractive, and efficient, fewer students will study in the UK, and UK universities will fail to attract the research staff they need to recruit.”⁷
- **Cuts to subjects.** Inevitably, vice-chancellors and finance directors will look to cut any remaining ‘fat’ from their institutions, and one of the first places to look will be underperforming and/or unprofitable departments. This is never a welcome measure, as vice-chancellors understand the detrimental impact cuts could have on the brand of the university, as well as the impact on diversity and academic mix. Departments that may face the axe will include those that fail to secure high ratings in the Research Assessment Exercise (or the upcoming Research

⁵ Barr N (2009), *Paying for higher education: What policies, in what order?*, London School of Economics, p16.

⁶ In Autumn 2009, Policy Exchange emailed vice-chancellors at a cross-section of English universities to find out what they thought about top-up fees, the cap on fees, mandatory bursaries, and other issues. We received over 20 detailed written responses. This was followed up with interviews with around 15 vice-chancellors and finance directors from a cross section of universities about funding issues and the shape of the sector in the future.

⁷ JNCHES (2008), *Review of Higher Education Finance and Pay Data: Final Report*, p48.

Excellence Framework). Some institutions indicated that they would consider cutting science subjects, which are considerably more expensive to run, with more extensive facilities, longer contact hours, and smaller class sizes. Some vice-chancellors we spoke to argued that the costs of scientific research may lead to the demise of a department in the event of a poor RAE result. But arts and humanities subjects, which receive less Government funding, are also likely to face the axe. Modern languages in particular could be in the firing line.

- **A move away from widening access.** A number of vice-chancellors we spoke to privately admitted that institutional activity peripheral to teaching and research would come under pressure. This includes outreach programmes and generous student support packages.
- **Increased international students.** International students, whose fees are not capped, are a lucrative source of income for a growing number of universities across the sector. If funding dropped considerably many universities said they would be forced to ramp up international enrolments to compensate. Indeed, some even suggest that taking on domestic students may begin to seem more of a charitable endeavour in the future. This will have consequences. First, any dramatic change to the student body will change the culture of that institution. While few would debate that higher education is now a global activity and all students will benefit from studying and living with people from different cultural backgrounds, if an institution leans too heavily towards international students, both domestic students and international students seeking a UK experience will notice the difference. Secondly, there is a concern that if institutions are under pressure to ramp up international student numbers the temptation to take students of lower quality will increase. We have seen this happen in recent years in Australia, where increased international student quantity has not been matched by quality.

There is no doubt that universities face a difficult and uncertain financial future. We are concerned that continued underinvestment could lead to a serious deterioration of quality in the sector. It is crucial that the Government does not see fees as a replacement for state funding and an excuse to continue to cut a sector that is of real importance to our economy and society. However, it is right that those who benefit from higher education – graduates – should have to contribute to its costs. We are convinced that fees will need to rise in the future if we are to protect and improve the student experience, and retain Britain's position as a global leader in higher education.

We urge the Government to make its first move on fees a bold one. It is clear that if the cap is set at £5,000 or lower, once again the majority of institutions will charge the maximum fee and no market will be activated. We would argue that creating a real market in higher education is vital if we are to have a fair system in which institutions who serve students well are rewarded.

However, we do not think it is appropriate to stick our fingers in the air and specify a level for the cap here. Such a decision must not be purely political – as the decision to set the cap at £3,000 in 2003 clearly was. Instead it must be based upon a proper analysis of a number of different factors including: the real costs of teaching and the current and future gap in funding, possible new models for raising additional support e.g. from the private sector, the 'tipping point' at which the fees cap will activate a real market variation across the sector, and affordability

for all student regardless of background. Finally there must be a commitment to radical reform of the student support system, which is currently unsustainable. In the student support section of this report we recommend a variety of different ways for the Government to reduce the student support burden to allow for some movement on fees. Any decision on where to place the fees cap must of course be linked to how much money such options will raise.

For a full account of university finances please see Chapter 3.

The Student Experience

If fees are to rise there must be a clear commitment from universities to invest in the student experience. The introduction of tuition fees marked a fundamental shift in the way students regarded their higher education. For the first time they were purchasing that education (albeit only covering some of the costs). This meant that for the first time students had effectively become consumers. Such a notion is dismissed by some, but this shift should be a good thing. The arrival of the student consumer has the power to force universities to think much harder about what they are offering, and thus to drive up quality.

But for a higher education market to function properly there is a very real need for students and their parents and teachers to have access to decent, comparable information with which to make informed choices. There is already a large amount of data about universities in the public domain, however it is spread between different organisations and websites and is often hard to find and understand. Crucially, some very important data is not collected (or not collected in a sufficiently robust fashion) and there should be serious pressure from the Government for universities to provide it. In particular students and parents want information on employment and salary prospects, contact hours and class sizes. Universities have resisted making such information available, but without it we will have a market that is not properly responsive to quality, and instead is driven by historical or ill-informed opinions about which courses or institutions are good or worthwhile. To read about the student experience and fees in more detail please go to Chapter 5.

Protecting Poorer Students

Cost must not be an impediment to going to university. There must be a clear requirement for universities to focus on protecting the poorest students, and the Government must ensure a clear system of financial aid exists and that help is given to all potential students to understand it.

There is clear evidence that top-up fees have not deterred poorer students from going to university, as the anti-fees lobby predicted they would. In fact in the second and third years of top-up fees applications soared in England, much more so than in the years preceding the introduction of top-up fees. Most crucially, the increase in applications was not just from middle-class students. In the 2007-08 academic year applications in England for students from the three lowest socio-economic groups rose by nearly 10%, and in 2008-09 climbed by a further 27%.⁸

The overwhelming evidence suggests that attainment at GCSE and A-Level is still by far the major predictor for participation in HE. The Government has often chosen to vilify universities for the failure of the high profile widening participation

⁸ Data from UCAS.

agenda, but the fact is that the problem is cemented years before pupils apply to go to university. The idea that there are huge numbers of under-privileged young people with the right A-Level grades who are walking away from university – or being turned away – is quite simply a myth. The number of students across all socio-economic backgrounds that go to university is around 95% for those with the best A-Levels, 90% for those with slightly less good A-Levels, and just under 80% for those with 12 A-Level points or less.⁹ Participation for students with three grade Bs and above is practically identical for the richest 20% and the poorest of the population, although overall there is a difference in participation of around 30% for the two populations.

Nonetheless, universities should continue their attempts to reach out to poorer students, and in particular must ensure that poorer students who are qualified to go to university are not deterred by cost – or the perception of cost.

“ The idea that there are huge numbers of under-privileged young people with the right A-Level grades who are walking away from university – or being turned away – is quite simply a myth ”

Bursaries

A fundamental principle of fair admissions is that they should be ‘needs-blind’. In other words, those choosing who comes to the university make their decisions based upon academic merit and not upon whether an individual can afford to pay. Many universities argue that as long as fees do not have to be paid upfront and an adequate loans system is in place, with students not repaying until they graduate and are earning a reasonable wage, then needs-blind admissions will be safeguarded. In theory this is true, however, in practice we argue in this report that needs-blind admissions is more complicated, and a financial deterrent effect exists regardless of adequate loan provision. We know from evidence both here and abroad that the perception of cost can have a greater impact on students than the actual cost of going to university, in particular for those from less-privileged backgrounds. Thus ensuring a fair system of loans for all students, and making sure that people understand how the loans scheme works is only half of the battle. It is not enough to expect the Government to continue to shoulder the responsibility for financial aid through non-repayable grants, which are likely to depreciate in value over time. We believe that it is strongly advisable to have additional financial assistance such as bursaries to cushion the burden of cost – and the perception of that burden – for the poorest students.

The biggest failure of the bursaries scheme has been the failure to explain it adequately to students and parents, which has led to significant confusion and low take-up (although this is improving). The Office for Fair Access (OFFA), or whoever succeeds OFFA as the access regulator, should take a lead on establishing vastly improved information, advice and guidance about bursaries. Universities must play a big role in this area. It is not enough for institutions to offer bursaries, and to distribute marketing material outlining their scheme in an untargeted fashion. Shockingly half of institutions surveyed by OFFA focused their efforts on publicising bursaries to students once they had started their course and were attending university – for many this is too late.¹⁰ Instead they should be

⁹ Barr (2009), *Paying for higher education*, p25.

¹⁰ Callender C (2009), *Awareness, take-up and impact of institutional bursaries and scholarships in England*, report for OFFA. p29.

making much greater efforts to try to communicate with would-be students before they make their UCAS application - the stage at which information on bursaries is most likely to influence their decision-making. Universities must also try much harder to communicate with advisors in low university participation schools, particularly in their local area.

We disagree with vice-chancellors who feel they should be allowed to charge higher fees and walk away from their bursary commitments. We feel strongly that it is right that universities should play a role in the student support system, and that as a direct result of earning additional income through higher tuition fees, universities should make a significant contribution to the financial support of students in financial need. As part of its review of fees the Government must look afresh at the structure of the bursary scheme. There are three options that they should consider:

1. Maintain the current mandatory bursary system, with an understanding that those universities which charge higher fees will be expected to offer more generous support for those students most in need as they do now;
2. Abolish the current mandatory bursary system and instead require each university to make a compact with the access regulator, outlining what financial aid they will offer, as part of their general access agreement. This would put the onus of responsibility to prove needs-blind admissions largely on universities;
3. Introduce a national bursary scheme to radically simplify the process. This could be designed as a set tax on tuition fee income, the same for all universities, and would supplement the national maintenance grant scheme.

For further details on reaching out to the poorest students see Chapter 6.

Reforming the system of student support

A fact that many in the universities sector seem to be ignoring is that if the student support system remains as it is, the cap on top-up fees cannot be lifted following Lord Browne's review of HE funding because of the damaging effect it would have on the Treasury's balance sheet. The system of student support is alarmingly unaffordable and in urgent need of reform. It is time to look at student support with fresh eyes, to make some tough decisions about how to best support those most in need, and to repackage government and institutional financial aid more clearly and decisively. As a starting point, the Government should make it clear that the main purpose of student support is to help those who are unlikely to meet their educational goals without financial help. Furthermore, and in light of constraints on government expenditure, it must be understood that not all students can (nor should) be fully supported in the same way.

The costs of the present system of student support are very considerable, but many will be unaware of them. Student loans come with two major government subsidies attached: a zero real rate of interest and debt forgiveness after 25 years. Maintenance grants are non-repayable, and the majority of students are eligible for at least a partial grant.¹¹ The total amount of student support awarded in the form of loans and grants in 2009/10 was £6.2 billion, up 6.5% on the previous year.¹² The size of total debt outstanding is already £25 billion and predictions about the future size of the loan book are extremely worrying.¹³ It is expected to

11 SLC (2009) Student Support for Higher Education in England: Academic Year 2009/10 (Provisional) Published 25th November 2009, p2

12 Provisional figures. See SLC above.

13 HM Government (2009), 'Student Loans Portfolio', Operational Efficiency Programme: Asset Portfolio, p67

rise to £34 billion by 2010/11¹⁴ and to £55 billion by 2018.¹⁵ In short, particularly in a scenario where the cap on top-up fees is raised, the size of the loan book is set to spiral out of control.

In this report we recommend a combination of different changes to the student support system which will make it more equitable and more acceptable as a use of taxpayers' money, as well as making it possible to raise the cap on fees without an unmanageable cost to the Treasury. We suggest:

1. Introducing a targeted, regulated private loans scheme for selected students from higher income families, alongside the public loans scheme.
2. Discounts for students who choose to pay their fees early or upfront.
3. Selling off some of the public student loan book debt both now and in the future.
4. Removing the current ineffective and costly interest rate subsidy on the public loans scheme.
5. Repackaging and demystifying the entire system of student support.

Some of these options are summarised below, but for full detail please see Chapter 7 on student support.

Introducing a targeted, regulated private loans scheme

We strongly recommend that the Government should consider introducing a targeted, regulated, private loans scheme in tandem with the current public loans scheme. This private loans scheme would be exclusively for students from the highest income backgrounds, but the Government should ensure that banks charge below the commercial rate of interest so that all students continue to have access to some sort of subsidised loan scheme. Creating a new private loans scheme for low risk borrowers would help to reduce the burden of government student loan debt, and target government financial aid at those who need it most.

Below are some basic principles we believe are integral to its operational and political success, and to its fairness:

- **Availability:** All students must have access to either the regulated, private loans scheme or the subsidised, public loans scheme. This ensures that everyone who wants to go to university can afford to, regardless of their financial background, and no one need take on excessive paid work during term-time (although we should assume that as fees go up so more students will choose to take on more paid work to support themselves, as they do in the US and Australia).
- **Eligibility:** The private loans scheme should only be available strictly to students from the wealthiest households. Students deemed to be part of this group will not have access to the public loans scheme. On the flipside, all other students will have access to the public loans scheme, and will not have access to the private loans scheme. The Government, in partnership with commercial banks, must try to make it as clear as possible to all students who is eligible for which scheme.
- **Why eligibility matters:** There are a number of reasons why it is necessary to limit the amount of borrowers in this scheme, and why they should come from the wealthiest households:

¹⁴ <http://www.davidwilletts.co.uk/2009/10/05/conservatives-will-provide-an-extra-10000-university-places-next-year/>

¹⁵ Hoareau C (2009), Student loans in the UK, equity and cost efficiency, London School of Economics, p12

- First, it is in the interests of students because a) private loans should not be given to those who cannot afford them, and household income is a good proxy for ability to repay, especially if the loans have mortgage-style and not income-contingent repayments, and because b) these students have a lower risk of default, which enables banks to charge a lower interest rate;
- Second, it is in the Government's interest because a) it will make the scheme politically viable, b) it will minimise the subsidy necessary to cover part of the risk of default, and c) it will keep the scheme to a manageable size in order to properly regulate it.
- **Cost:** Banks should charge an affordable interest rate. In other words, something between the Government's cost of borrowing (the rate at which students in the public scheme will be charged under our model) and a normal commercial loan.
- **Risk:** There should be recognition that risk will be shared in some way between banks, the Government, the borrower, and certain stakeholders (such as universities). This risk-sharing arrangement will partly determine at what interest rate students will be charged.
- **Transparency:** There should be clear guidelines about how banks should market and operate loans. Keeping to these guidelines will be a strict condition of participating in the scheme. The Government must ensure there is a form of oversight to keep banks in check, and act to maximise transparency and minimise confusion of loan terms and conditions.

We do not attempt in this report to specify exactly which students should be defined as 'wealthy' and included within this new private loans scheme, because this would need careful modelling to assess how the means test should operate and what proportion of students would fall within this particular bracket. This should be the subject of further work.

Keep interest rates affordable

There are a number of ways to share the banks' (and hence borrowers') exposure to risk in a targeted, regulated, private loans scheme. Some of the most attractive options include:

1. **Establish a subsidised reserve fund** to cover at least part of the cost of default. This could be funded by a mixture of sources, such as the Government, private donors or even universities themselves. As a condition of raising the fees cap, for example, the Government could force universities who charge higher fees to contribute a fixed amount to the fund for each of their students that take part in the loans scheme.
2. **Secure a guarantor for the loans.** In the current public student loans scheme the Government acts as guarantor, as all unpaid debt after 25 years is forgiven. In a regulated private loans scheme the Government could also act as guarantor, although this would have serious implications for Treasury accounting liabilities due to classification issues, particularly if there was not a reserve fund. Alternatively a third party, such as the student's parents, could be used to guarantee the value of the loan to a major asset, such as a house.

3. **Design the repayment schedule to encourage early repayment of loans. It is desirable to maintain the current income-contingent repayment mechanism as it does not place undue strain on graduates in times of low earnings, such as during and immediately following study.** On the other hand, from the bank's point of view it would be much less risky to have a stable stream of income commencing as soon as possible, such as under a mortgage-style repayment system. As outlined in this report, there has been a general decline in parental contributions across all households over time, however one can assume that this has happened (particularly at the upper end of the income spectrum) partly because the state student support system has filled the gap. Those graduates who have private debt are more likely to receive significant financial support from their parents as they come from wealthier households which can afford to contribute, and the terms of the loan will give them more of an incentive to help.
4. **Require students to take out life insurance** to minimise the impact of death or incapacity from severe illness or accident.

Full List of Recommendations

Chapter 3

- It is right that the graduates who benefit from higher education should have to contribute to its costs. We are convinced that fees will need to rise in the future if we are to protect and improve the student experience, and retain Britain's position as a global leader in higher education. Nonetheless, fees should only be allowed to rise if three basic principles have been met:
 1. There must be a clear investment in the student experience
 2. Cost must not be an impediment to going to university. There must be a clear requirement for universities to focus on protecting the poorest students, and the Government must ensure a clear system of financial aid exists and that all potential students understand it.
 3. There must be fundamental reform to the system of student support. At present any rise in fees would prove prohibitively expensive for the Treasury and is simply not realistic.

Chapter 4

- The fees cap should not be removed completely now – although this could be a long-term aim. Instead higher fees should be introduced in stages, so that the Government and universities can monitor and deal with the effects.
- Nonetheless, we urge the Government to make its first move on fees a bold one. It is clear that if the cap is set at £5,000 or lower, once again the majority of institutions will charge the maximum fee and no real market will be activated.

Chapter 5

- While we encourage moves by the Government to ensure that universities publish a standard set of information about what students can expect from

their university experience, the current steer needs to go much further. The Government must compel universities to collect data or assist in the collection of data on employability, salary outcomes, contact hours, class sizes and teacher numbers, as part of a deal for introducing fees.

- In return for higher fees universities should guarantee a significant investment of time and resource in maintaining and improving the quality of experience students will receive.

Chapter 6

- The biggest failure of the bursaries scheme has been the failure to explain it adequately to students and parents. OFFA should take a lead on establishing vastly improved information, advice and guidance about bursaries. Universities must make much greater efforts to try to communicate with would-be students before they make their UCAS application. Universities must also try much harder to communicate with advisors in low university participation schools, particularly in their local area.
- We feel strongly that it is right that universities should play a role in the student support system, and that as a direct result of earning additional income through higher tuition fees, universities should make a significant contribution to the financial support of students in financial need. As part of its review of fees the Government must review the structure of the bursary scheme.
- The Government and institutions must engage with merit aid as a potential problem. In an aggressive higher education market where institutions are competing against others in their segment of the sector for the best students, the temptation to push more money into merit-based scholarships and away from needs-based aid will be strong. One option is that as part of the new deal on fees OFFA could set a requirement for a certain proportion of institutional aid to be directed towards need rather than merit across the sector. A lighter-touch alternative would be to expect universities to demonstrate that they are not significantly shifting money from needs-based aid into merit aid, as part of their access agreement.
- To help simplify the system of institutional aid for confused students, universities should refer to all needs-based awards as bursaries, and all merit-based awards as scholarships. At present the two terms are somewhat interchangeable and this is very unhelpful.
- Universities should be given the responsibility to charge the fees that they think appropriate (within the Government cap). In return they must demonstrate that they are offering truly needs-blind admissions, and working hard to reach out to potential students from poorer backgrounds. We should retain the system of compelling universities to sign an access agreement with OFFA in return for charging higher fees.
- There is a very real need for an access regulator. This could either be OFFA, or a replacement organisation with a fresh slate and a clearer function. However, it is essential that OFFA should be given teeth, so that it is taken seriously in the sector. The Government should define clearly what will happen if an institution fails to meet its access requirements.

Chapter 7

- At present the cap on tuition fees cannot be lifted because the cost of the student support system is prohibitively expensive. The size of the student loan book is rocketing out of control. As a matter of urgency the Government must use the range of policy options available to reduce the amount of loans outstanding, as well as minimising the current cost of providing public loans. We recommend the Government acts to:
 1. Introduce a targeted, regulated, private loans scheme that cuts students from the wealthiest backgrounds out of the public loans scheme. All other students would remain eligible for income-contingent, public loans. Accelerate the sale of student loans programme, starting with small tranches of high quality debt, in order to build more market data and a better platform to sell large parts of the Government's debt liability in the future.
 2. Offer a discount for upfront fee payments and early loan repayments. This will help to reduce the Government's burden of debt and bring in private money sooner.
 3. Remove the blanket interest rate subsidy and charge something closer to the government's cost of borrowing on public loans. This should include a risk premium to ensure that middle and upper lifetime income earners shoulder some of the subsidies directed at low lifetime earners (a form of social insurance), as well as an assurance that real debt will never rise, in effect protecting low current earnings against periods of unemployment or poor earnings. The repayment threshold should be lowered and the repayment rate increased to ensure that graduates pay off their loans more quickly.
 4. The Government must repackage and explain the system of student support to eliminate the mass confusion that currently exists around fees and loans, bursaries and grants.

Chapter 8

- In the short-term the Government should change the criteria for state support for part-time students to reflect the income thresholds for grants received by full-time students. The Government should also extend support to those who study less than 50% of the full-time course each year, which accounts for over half of all part-time undergraduate students. At present only 44,000 part-time students receive any assistance from the Government, and under our proposals this would rise to 104,000, an increase of roughly 60,000 students.
- However, in the long-term the Government's aim should be to go considerably further than this. It is clear that equal access to loans for all undergraduate students should be the Government's long-term aspiration.

Glossary

The National Union of Students (NUS)
The Office for Fair Access (OFFA)
Student Loans Company (SLC)
Organisation for Economic Co-operation and Development (OECD)
Office for National Statistics (ONS)
Higher Education Statistics Authority (HESA)
University and Colleges Union (UCU)
Higher Education Funding Council for England (HEFCE)
Universities UK (UUK)
Confederation of British Industry (CBI)
Business Innovation and Skills (BIS)
Institute for Fiscal Studies (IFS)
British Universities Finance Directors Group (BUFDG)
Universities and Colleges Employers Association (UCEA)
UK Council for International Student Affairs (UKCISA)
Joint Negotiating Committee for Higher Education Staff (JNCHES)
Quality Assurance Agency (QAA)
Higher Education Policy Institute (HEPI)
National Student Survey (NSS)
Association of University Teachers (AUT)
Public Accounts Committee (PAC)
Student Income and Expenditure Survey (SIES)
Student Finance England (SFE)
Higher Education Bursary and Scholarship Scheme (HEBSS)
Universities and Colleges Admissions Service (UCAS)

1

A Brief History of University Fees

The Introduction of Tuition Fees

University fees have been cemented in popular memory as the thorny issue that nearly toppled Tony Blair's Labour Government in 2003. In reality, however, discussions about the need for graduates to contribute to higher education began many years before. Sir Ron Dearing, who headed the groundbreaking National Committee of Inquiry into Higher Education, is often cited as the father of fees. His committee was appointed in May 1996 by the Conservative Prime Minister John Major, to make recommendations on how the purposes, shape, structure, size and funding of higher education, including support for students, should develop over the next 20 years. Crucially, the Committee had bipartisan support, with David Blunkett, then Shadow Secretary of State for Education, contributing to its terms of reference. Dearing's final report, *Higher Education in the Learning Society*, outlined the history of higher education funding over the previous 20 years:¹

- The number of students had more than doubled;
- Public funding for higher education had increased in real terms by 45%;
- The unit of funding per student had fallen by 40%; and
- Public spending on higher education, as a percentage of GDP, had stayed the same.

The report concluded that students should pay towards the cost of university in order to help meet the higher education shortfall of £2 billion which was expected by 2016.² It argued that the beneficiaries of university education should contribute to the cost of full-time courses once they could afford to do so. However, its recommendations for achieving this were relatively tentative. The Committee called for all students to pay a flat-rate tuition fee of £1,000 – around 25% of the average cost of a full-time course – with the other three quarters being met from public funds. Importantly however, it established that the fee must be payable *after* graduation through long-term loans. The report also warned that the introduction of the fee should not be accompanied by an abolition of the maintenance grant which was available for students from lower income families. Dearing argued that the grant was the only progressive element encouraging working-class participation in higher education. Instead, he recommended that a flat-rate grant to cover living expenses should continue to be paid to all students, and be topped up with loans.

The Labour Government was elected in May 1997 with a manifesto commitment to bring in tuition fees, arguing that the “improvement and expansion

¹ The National Committee of Inquiry into Higher Education, Summary Report – A vision for 20 years: the learning society, available at <https://bei.leeds.ac.uk/Partners/NCIHE/>.

² Ibid

needed cannot be funded out of general taxation”.³ While the Government accepted the general proposals of the Dearing Report, in a departure from the specific recommendations, Blunkett, now Secretary of State for Education, announced proposals for the introduction of means-tested tuition fees in July 1997. Under his proposals, charges for students whose parents earned less than £16,000 a year would be waived and only students whose parents earned more than £35,000 would pay the full amount, with the rest paying in proportion to parental earnings.⁴ Furthermore, Blunkett announced that the student grant of £1,710 was to be abolished and replaced by income-contingent student loans of up to £4,000.⁵

From the outset, the proposals were attacked by teachers, parents and students. In the lead up to the vote on the Teaching and Higher Education Bill, two Labour MPs, Llew Smith and John McDonnell, attracted at least 36 names for an amendment to the Bill and instigated a backbench rebellion. This was based largely upon assumptions that students – and particularly poorer students – would be deterred from going to university if they were made to contribute to the cost of their education. In response to the dissent, Blunkett announced concessions in the Commons stages including raising the upper limit for mature students to receive financial help from 50 to 55 years of age; a new £1,000 grant for single parents, sufficient to cover the cost of the tuition fee; and retention of a grant for dependents of mature students.⁶

3 Labour Party Manifesto 1997, available at <http://www.labour-party.org.uk/manifestos/1997/1997-labour-manifesto.shtml>.

4 House of Commons debates, 23 July 1997, <http://www.theyworkforyou.com/debates/?id=1997-07-23a.953.0#g960.3>.

5 Alley S and Smith A (27 January 2004), *Timeline: tuition fees*, The Guardian, <http://www.guardian.co.uk/education/2004/jan/27/tuitionfees.students>.

6 Cave O and Brown C (9 June 1998), *Politics: MPs rebel over proposals for student fees*, The Independent, <http://www.independent.co.uk/news/politics/mps-rebel-over-proposals-for-student-fees-1163775.html>.

7 BBC Online (8 June 1998), *Labour MPs revolt over tuition fees*, http://news.bbc.co.uk/1/hi/uk_politics/108690.stm.

8 The Guardian (9 June 1998), *Blunkett defied by 31 rebels*, <http://www.guardian.co.uk/politics/1998/jun/09/Whitehall.uk>

9 Ibid

10 Brown C and Cave O (9 June 1998), *Politics: MPs rebel over proposals for student fees*, The Independent, <http://www.independent.co.uk/news/politics/mps-rebel-over-proposals-for-student-fees-1163775.html>.

11 Ibid

Backbench Rebellion

On 8 June 1998, 31 MPs voted against the Government's Teaching and Higher Education Bill opposing tuition fees and the abolition of student grants.

“In my own constituency I've had people stopping me in the street, and phone call after phone call from people shocked that a Labour government should be doing this” (Llew Smith MP, Labour)⁷

“Nothing a Labour government does should come between young people and their desire for education. I campaigned in good faith on 'education, education, education’” (Tim Dalyell MP, Labour)⁸

“This is an erosion of the whole principle of the welfare state...I benefited from a free education...I would find it awfully hard for any MP who benefited by grants to go into the division lobbies to oppose those grants” (Tony Benn MP, Labour)⁹

“Either we support students going to university or we don't. If we don't, it is the middle classes who will benefit” (Jeremy Corbyn MP, Labour)¹⁰

“Had it not been for the vision of the Labour movement that education was the liberation of the working classes, I would not have been able to study. Now that I am a grandfather, I have the duty to give my grandchildren the same opportunities that I had” (Dennis Canavan MP, Labour)¹¹

On 8 June 1998, 31 MPs voted against the Government's proposed Bill and another 15 abstained. The Government still managed to secure a majority of 137 and was able to pass the Teaching and Higher Education Act in time for the new academic year.¹²

Following the implementation of tuition fees in 1998, objection continued with students protesting at over 150 universities across the country.¹³ Some students even refused to pay their fees altogether, following the precedent set by a group of Oxford University students who withheld payment of their fees until threatened with suspension¹⁴. The National Union of Students (NUS) backed students taking their cases to court claiming that universities had effectively broken a contract with students by not announcing in their prospectuses that they would be charging fees.

Amidst growing anger and suspicion about the future extension of tuition fees, 'topping them up' to nearer the actual cost of providing a course, David Blunkett said in 2001: "I've made my position clear over the past two years that I am against top-up fees. But I can now make the Government's position clear. There will be no levying of top-up fees in the next parliament if we win the next election."¹⁵

Labour was later re-elected on 7 June 2001 with a manifesto pledge stating that it would "not introduce top-up fees" and had legislated to prevent them.¹⁶ To the outrage of many in the party, within a couple of years this promise had been tossed firmly out of the window.

The Introduction of Top-up fees

In October 2002, Tony Blair announced a further delay to the review of higher education which was scheduled to be released the following month, but insisted that he would abide by his party's manifesto commitment not to introduce top-up fees in the present parliament. He did, however, decline to promise that he would never allow extra fees while in office.¹⁷ In January 2003, the Government made a massive U-turn when then Education Secretary Charles Clarke announced his intention to introduce variable top-up fees for the academic year beginning in 2006. The White Paper, *Financing higher education in the UK*, outlined proposals that would allow universities to charge fees up to the capped level of £3,000 per year (up-rated by inflation each year) to every home and EU student studying a full-time undergraduate course. Crucially, the fees would no longer be paid upfront and would be balanced with a complex package of grants and subsidies for students from low-income families. The fees would only be repayable after graduation once the individual had a job and was earning £15,000 a year.

In return for these higher fees universities would have a clear requirement to widen access. The Office for Fair Access (OFFA) was launched to lead this agenda. Each institution would sign an access agreement with OFFA, committing them to use additional funds raised through fees for bursaries and financial support for students, and focusing on outreach work with schools as well as giving them milestones by which to measure progress towards the goal of widened participation.

Once again Labour immediately came under fire from students and teachers as well as from MPs in all the major parties, including its own, and faced a second

12 BBC Online (26 February 2003), *Blair's backbench rebellions*, <http://news.bbc.co.uk/1/hi/uk/2802791.stm>.

13 BBC Online (4 April 2008), *Students drop opposition to fees*, <http://news.bbc.co.uk/1/hi/education/7330231.stm>.

14 Currie J (2 July 1999), *Why I ... am prepared to withhold my tuition fees again*, The Times Higher, <http://www.timeshighereducation.co.uk/story.asp?storyCode=147033§ioncode=26>.

15 BBC Online (8 February 2001), *Blunkett: No top-up fees*, <http://news.bbc.co.uk/1/hi/education/1160403.stm>.

16 Labour Party Manifesto 2001, available at <http://www.labour-party.org.uk/manifestos/2001/2001-labour-manifesto.shtml>.

17 Smithers R and Wintour P (31 October 2002), *We must face top up fees, says PM*, The Guardian, <http://www.guardian.co.uk/politics/2002/oct/31/uk.education>.

backbench rebellion. The key objection to top-up fees was again the idea that they would put people from disadvantaged backgrounds off going to university. Opponents were not reassured by the access requirements put in place, nor by the presence of bursaries or grants, or the fact that loans did not have to be paid back until a graduate was earning a reasonable amount. In particular, arguments centred on the assumption that those from poorer backgrounds would be more debt averse. Frequently, such arguments were based more on emotion and conjecture than on real evidence, although there were several research papers published which backed up the fear of debt argument. In practice, as we will discuss in detail in the chapter on fees and access, fees did not prove to be the deterrent many predicted. However, at the time a large number of Labour MPs, including former cabinet members like Robin Cook and Clare Short, felt top-up fees were sufficiently disastrous to merit defying the Government.

Heated Opposition

"I will never sleep until I get rid of variable fees." (Dr Ian Gibson MP, Labour)¹⁸

"Tuition fees will work against the interests of bright working-class students and people of moderate incomes. Wild horses would not drag me into the division lobby to vote for tuition fees or top-up fees." (Robert Wareing MP, Labour)¹⁹

"Top-up fees are completely unfair and will discriminate against young people from less well-off backgrounds. I went to university and got a maintenance grant and rent allowance in vacation. Holiday jobs were for inter-railing. Today, students cannot make ends meet. No concessions will win me over." (Helen Clark MP, Labour)²⁰

"The fees have penalised hard-working families who simply want their children to get on." (Iain Duncan Smith MP, then Conservative Party Leader)²¹

"By introducing top-up fees, the Government has slashed the already limited chance young people from our most disadvantaged backgrounds have of going to university." (Phil Willis MP, Education spokesman, Liberal Democrats)²²

18 BBC Online (28 January 2004), *Top-up fee rebels 'to fight on'*, http://news.bbc.co.uk/1/hi/uk_politics/3436221.stm.

19 Sanders C et al (28 November 2003), *Rebel MPs unmoved as fee juggernaut rolls on*, The Times Higher, <http://www.timeshighereducation.co.uk/story.asp?storycode=181490>.

20 Ibid

21 BBC Online (13 May 2003), *Tories say 'scrap tuition fees'*, <http://news.bbc.co.uk/1/hi/education/3024041.stm>.

22 Hall S (23 June 2003), *Blair faces new rebellion on top-up fees*, The Guardian, <http://www.guardian.co.uk/politics/2003/jun/23/uk.highereducation>.

23 Garner R (19 March 2003), *Vice-chancellors unite in calling for £3,000 cap on top-up fees to be raised*, The Independent, <http://www.independent.co.uk/news/education/education-news/vicechancellors-unite-in-calling-for-acircpound3000-cap-on-topup-fees-to-be-raised-591587.html>.

Meanwhile, even some of the supporters of top-up fees were angry with the Government for its decision to cap fees at £3,000. In March 2003, vice-chancellors representing the Russell Group of leading research-intensive universities united in calling for the proposed cap to be raised. Sir Richard Sykes, Vice-Chancellor of Imperial College London said: "I don't think £3,000 is a sensible cap. It encourages everybody to charge £3,000. I think what we should have tried to do here is create a top level of £5,000 – institutions may then have charged anything from £1,000, £2,000, £3,000 or £5,000."²³ Sir Richard had previously caused uproar among academics and opponents of top-up fees when Imperial suggested it might charge some students full-cost fees of £15,000 a year. However, he later acknowledged that Britain was not ready for unlimited fees.

A freedom of information request by the Times Higher Education Supplement two years later revealed that the Government had in fact been modelling fees of £5,000.²⁴ However, presumably the Government decided that this would be a leap too far politically.

In July 2003, the Government came under further pressure to lift the £3,000 cap when a report by the Education and Skills Select Committee suggested that fees should be raised to £5,000 to create a genuine market with price differentiation between courses.²⁵ The Committee concluded:

“The evidence we have heard suggests that the differentials in fees charged by universities and colleges will be small at best and possibly non-existent. We hope that the Government does not intend to seek to impose a market and believe it would be a very grave error of judgment if it did so. It would be quite wrong for the Government to act in this way. If a market does not arise it will be because of the restrictions which the Government has itself imposed, and it must live with the consequences.”²⁶

Giving evidence to this committee, Charles Clarke did indicate that it would be useful to have some flexibility on the duration of the £3,000 cap and suggested that the figure could perhaps be set in secondary rather than primary legislation. However, under growing pressure from opponents the Government retreated and by November had made assurances that the cap would not be lifted in the lifetime of the present parliament.²⁷

The Higher Education Bill was announced in the Queen’s Speech on 26 November 2003. It was expected that the Bill would be published soon after the Queen’s Speech and that the second reading would be before Christmas.²⁸ Within hours, Labour MP Ian Gibson tabled an Early Day Motion on top-up fees that received a massive 185 signatures from MPs. The motion called on the Government to publish full details of alternative reforms to the higher education funding system due to fears that top-up fees would impede access from students from lower-income backgrounds.²⁹ In response, Blair delayed his presentation until early the next year and embarked on a series of seminars to debate the issue.

On January 8 2004, the Higher Education Bill was presented in the House of Commons. Charles Clarke presented a raft of concessions to Labour rebels in a bid to avoid defeat in the Commons later that month. Amendments to the Bill included an increase in the maintenance grant for the poorest 30% of students, from £1,000 to £1,500, as well as remission on the first £1,200 of the fees and a £300 bursary from universities.³⁰ An independent review of the £3,000 fee cap was announced after three years, and it was agreed that any change to the cap required full parliamentary assent. Student loans were to be increased to cover a more substantial proportion of the cost of living, and a debt forgiveness policy was introduced which would see all unpaid student debt written off after 25 years.³¹

On the 27 January 2004, the Government narrowly won the second reading of the Bill by a margin of five votes with 72 Labour MPs rebelling, with the vote attracting further controversy because of the involvement of Scottish Labour MPs whose constituents were not affected. At its third reading, the Bill cleared the Commons with a majority of 61 votes, with 18 Labour MPs voting against their whip.³² Finally, on 1 July 2004 the Higher Education Act was given Royal Assent and tuition fees came into effect for the 2006-2007 academic year.

24 Baty P (25 March 2005), *Government considered £5,000 fee*, The Times Higher, <http://www.timeshighereducation.co.uk/story.asp?storyCode=194931§ioncode=26>.

25 Ibid

26 Education and Skills Committee, Fifth Report of Session 2002-03, *The Future of Higher Education*, HC 425, p77.

27 HC Deb 12 November 2003 vol 413 c353W, http://hansard.millbanksystems.com/written_answers/2003/nov/12/top-up-fees.

28 Sanders C et al (28 November 2003), The Times Higher.

29 Alley S and Smith A (27 January 2004), The Guardian.

30 Ibid

31 Ibid

32 Helm T and Jones G (1 April 2004), *Top-up fees rebellion fails as Bill is passed with majority of 28*, The Telegraph, <http://www.telegraph.co.uk/education/educationnews/3337328/Top-up-fees-rebellion-fails-as-Bill-is-passed-with-majority-of-28.htm>.

The Future

The independent review of top-up fees, promised as a means of pushing the Bill through a reluctant Parliament, was launched in November 2009 and will report by autumn 2010. This was suspected by many to be a neat trick to enable the Government to kick the question of what to do about top-up fees into the long grass until after the General Election. The review will be headed by Lord Browne, former chief executive of BP, and includes four members from business, two vice-chancellors and one student representative.³³

We hope that our report will provide useful background evidence for this review, and for the inevitably heated debate that lies ahead. It attempts to bring the arguments around top-up fees into the open at a time when most discussions on the topic are held behind closed doors. We will look at the financial situation universities find themselves in now, and explore what top-up fees have been spent on, as well as what universities will look like without increased investment in the future. We will debate the notion of a market in higher education, and look at the student experience as it is now and ought to be in the future. We will look in detail at the impact of fees upon access (using evidence from the US as well as in England) and ask what universities' access requirements should be if fees are allowed to go up. Finally, and crucially, we will evaluate the success of the current student support system, and suggest ways in which it could be adapted to allow the Government to raise fees, should it choose to do so, without incurring huge costs to the Treasury.

³³ See <http://hereview.independent.gov.uk/hereview/>.

2

How Does the Fees System Work Now?

The Current System

The 2004 Higher Education Act marked a major shift in both the delivery of tuition fees and the system of student support. In order to counter any detrimental social effects of charging higher fees, the Government implemented a generous new package of student support in the form of student loans, grants and mandatory institutional bursaries.

The New Deal for full-time undergraduate home students in England

Loans – all students are eligible for loans up to the maximum value of tuition fees, which was £3,225 in 2009/10. All students are also eligible for loans to pay for living costs. The maximum allowance depends on whether they are living at home or studying in London. The first 75% of the maximum limit is not means-tested. In 2009/10 the maximum maintenance loan for someone living away from home and studying outside London was £4,950.

Grants – students from less-privileged backgrounds are also eligible for non-repayable grants to help with living costs. In 2009/10, a full grant of £2,906 was available to students with household incomes of less than £25,000, with a sliding-scale partial grant available to those with household incomes of less than £50,000.

Bursaries – students claiming full maintenance grants are also eligible for mandatory bursary support from their institution. In 2009/10, the mandatory bursary was £319 for the poorest students.

Loans

The old flat-rate, upfront tuition fee of £1,200 for full-time undergraduate home and EU students (with means-tested discounts to those from low-income students) was replaced with top-up fees in 2006, capped at £3,000 per annum, to rise annually in line with inflation. Despite being required to pay higher fees, students had access to generous government-subsidised, income-contingent tuition fee loans. This meant that no student or parent had to pay anything upfront, a significant departure from the introduction of fees in 1998. Students are not required to make repayments until after graduation, and only once their income rises above a certain threshold. A

set percentage of their income above the threshold is withdrawn from their monthly wage through the tax system and transferred to the Student Loans Company (SLC), who administers all student loans and grants. In 2009/10 this repayment percentage was set at 9% of monthly income earned above the £15,000 per annum threshold. “Consequently”, as Callender writes, “the financial burden of tuition has shifted from students’ parents to graduates, and from the state and taxpayers to graduates.”³⁴

All full-time, undergraduate home students are also eligible for maintenance loans to cover some of the costs of their accommodation and living expenses. These are administered in the same way as tuition fee loans and the amount each student is allowed to draw out depends on their household income, where they study in the UK, and whether they live at home. The interest graduates are expected to pay for both maintenance and tuition fee loans is set at the rate of inflation, so effectively a zero real interest rate. Students make repayments until the full amount of the original loan (which could be a combination of tuition and maintenance loans) is paid. Any remaining debt after 25 years is written off by the Government. This is an integral part of any progressive government-subsidised loan scheme which seeks to protect those who do not receive a substantial personal finance gain from going to university.

It is important to stress some basic principles about the current tuition fee/loan system which are still not commonly understood:

- No student has to pay their fees upfront, and every student, regardless of their household income, is eligible for a government-subsidised, deferred, income-contingent loan;
- Thus it is graduates and not students (or necessarily parents) who personally contribute to the cost of their own university education;
- Students are charged an incredibly favourable zero real interest rate on their loans from the time they graduate (not from the time they take out their loan at the start of their degrees) which is much lower than the Government’s cost of borrowing, and drastically lower than commercial loans such as credit cards;
- Student loans are unlike any other form of debt, in that any unmet payments are wiped off by the Government after 25 years, and graduates are not required to make repayments in times of low earnings;
- Repayments are administered by the tax office and the SLC, so it is very easy for graduates to manage and keep on top of.

Grants

Alongside the new generous student loans scheme, the Government reintroduced means-tested maintenance grants (which had previously been abolished in 1998) to help reduce financial barriers for those students from poorer backgrounds. Initially set at £2,700 in 2006/07, maximum grants have increased annually in line with inflation, so by 2009/10 they were worth up to £2,906.³⁵ Maintenance grants are assessed on a sliding scale. When household income is £25,000 or less students may be entitled to a full maintenance grant. When household income exceeds £25,000 but does not exceed £34,000, the amount of grant students can receive will decrease by £1 for every £5 of household income above £25,000. For example, household income of £30,000 will be equivalent to a grant of £1,906. When household income exceeds £34,000 but does not exceed £50,020, the amount of

34 From Callender C and Heller D, ‘The future of student funding in England’, in Withers K ed. (2009), *First Class? Challenges and opportunities for the UK’s university sector*, Institute for Public Policy Research, p56.

35 SFE (2009), *Higher education student finance – how you are paid and assessed 2009/10*, p20.

36 Ibid

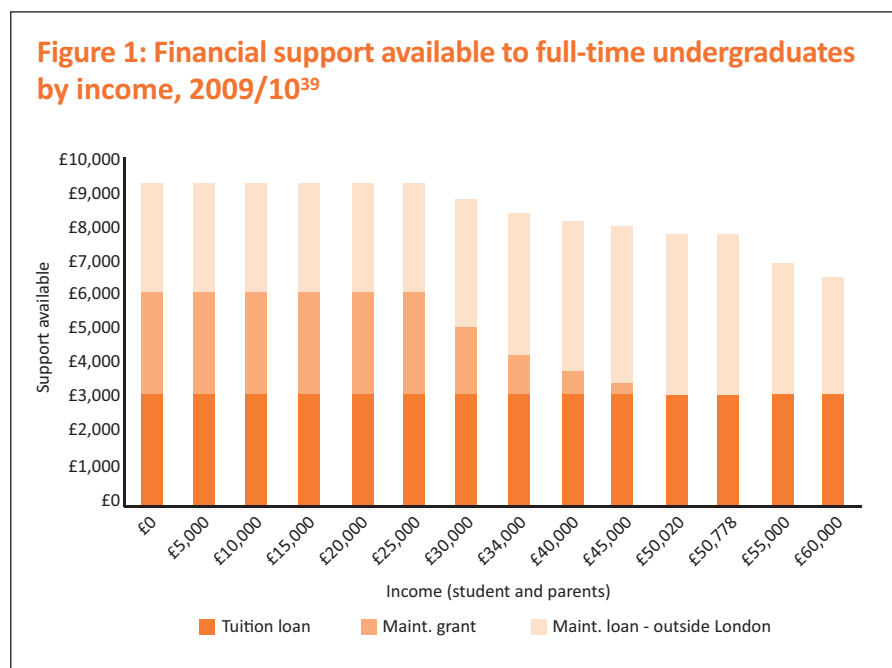
grant students can receive is further reduced by £1 for every £15.17 of income above £34,000. When household income is more than £50,020, students will not be eligible to receive any maintenance grant.³⁶

Bursaries

The third arrow in the Government's student support bow was to introduce a system of mandatory bursaries. The logic was simple: those institutions who wanted to charge higher tuition fees were required to offset the cost of tuition for the poorest students. This tied institutions into the system of student support in a way that had not occurred before. In effect, universities were required to offset their additional income from tuition fees with a nominal payment that made up the difference between fees and grants. A minimum bursary level was set for those students in receipt of a full maintenance or special support grant, initially at around £300.

Bursaries caused a lot of confusion from the beginning, and research into their origins provides few clues about exactly what purpose they were hoped to serve. Indeed, many in the sector see bursaries as an afterthought to the Government's 2003 White Paper on HE, with no documents available before the publication was released to detail the rationale for their introduction.³⁷ Since then, bursaries have been touted as a way to remove any remaining financial barriers that students might face, and integral arm of the institution's widening participation arsenal. This conflation of policy goals has ultimately damaged the effectiveness of bursaries, as well as people's understanding of them.

Tuition fees, loans (for both fees and maintenance), as well as mandatory bursaries have all increased in line with inflation since 2006/07, but from 2009/10 only tuition fees and fee loans will continue to do so. This means that there will be less guaranteed support from both the Government and institutions for those students who need it most.³⁸ The graph below illustrates the different types of student support that are available for different household income groups (not including bursaries).



37 Callender C (2010), *Bursaries and Institutional Aid in Higher Education in England: Do they safeguard access and promote fair access?*, Oxford Review of Education, Vol 36:1, p7.

38 Callender C and Heller D, p57.

39 Callender C and Heller D, p58.

3

University Finances and the Case for Higher Fees

Overview of higher education funding

When considering whether there is a case for UK students investing more in their higher education, it is useful to begin with some basic principles.

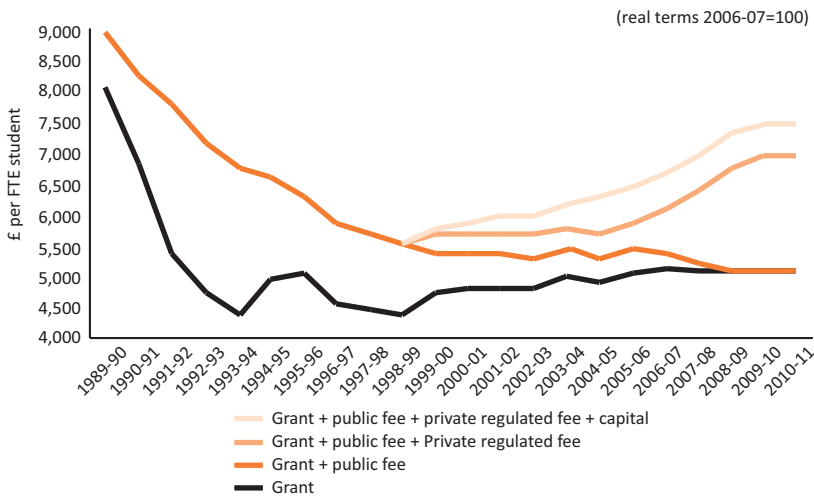
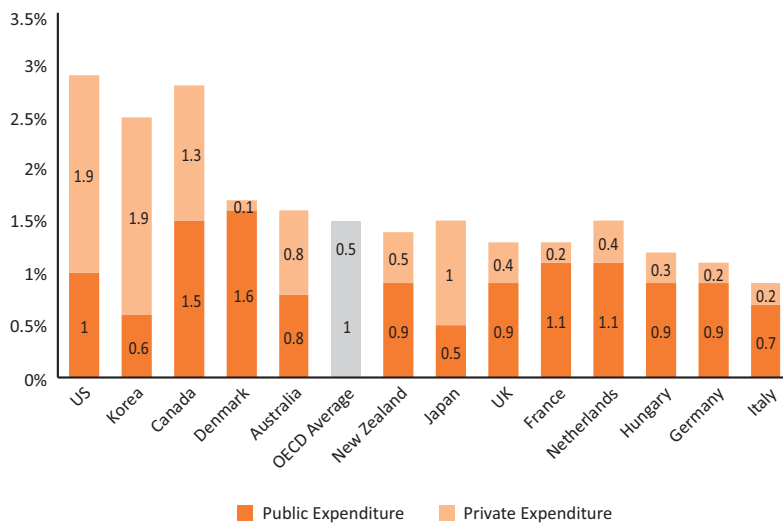
1. Higher education plays an invaluable role in society and the economy, and maintaining a high level of quality across the sector should be a priority for government, business and society as a whole.
2. Higher education is very expensive and has changed enormously over the past few decades. As a necessity universities must continue to draw on a wide pool of funding to stay competitive in the global market for higher education.
3. While overall income across the sector has grown dramatically over recent years, funding for higher education remains proportionally low in comparison with other wealthy countries, and per student funding is well below the levels of the 1970s and 80s.
4. Universities continue to evolve and change over time, and the cost pressures for individual institutions will continue to rise. It is not enough to expect that historic levels of public and private funding will be adequate to support a vastly expanded, diverse and globally competitive higher education sector.

How has overall and per student funding for universities changed over time?

A brief glance at total funding for universities now appears to show a real turn for the better. Total income (and expenditure) increased dramatically over the past decade, rising from £12 billion total revenue in 1998-99 to £23 billion in 2007-08. However, if we consider this improved investment alongside the unit of funding for teaching over time, we can see that universities still receive far less money per student than they did 20 or 30 years ago. As Figure 2 below shows, funding per student fell from around £9,000 at the end of the 1980s to around £5,500 in 1997 when New Labour came to power. Since then funding per student has lifted significantly (it is expected to be around £7,000 by 2009-10) but still remains well below historical levels of funding.

The UK higher education system is one of the largest and most successful in the world, and includes more world-class universities than any other country apart from the US.⁴⁰ However, when overall funding, both private and public, is compared to other wealthy countries, it is clear that the UK under-invests in higher education as a proportion of GDP. This has long been lamented by academics

40Baty P (8 October 2009), *UK boosts standing but Asian countries 'snap at our heels'*, The Times Higher, <http://www.timeshighereducation.co.uk/story.asp?section-code=26&storycode=408580>.

Figure 2: Government's planned unit of funding for teaching (data from HEFCE)⁴¹**Figure 3: Spending on tertiary education as a proportion of GDP (2006)⁴²**

as a failing on the part of government to fully recognise the value and return of investing adequately in higher education. Indeed, the sector has lobbied hard about the economic impact of universities, showing that in 2007/08 universities generated £59 billion through both direct and multiplier effects⁴³ – this is in addition to the substantial contribution universities make to raising skill levels in the economy and boosting the earning premium of graduates. Figure 3 above shows that the UK higher education sector receives 0.2% less income as a percentage of GDP than the Organisation for Economic Co-operation and Development (OECD) average, and much less than other competitor countries such as the US, Canada and Australia.

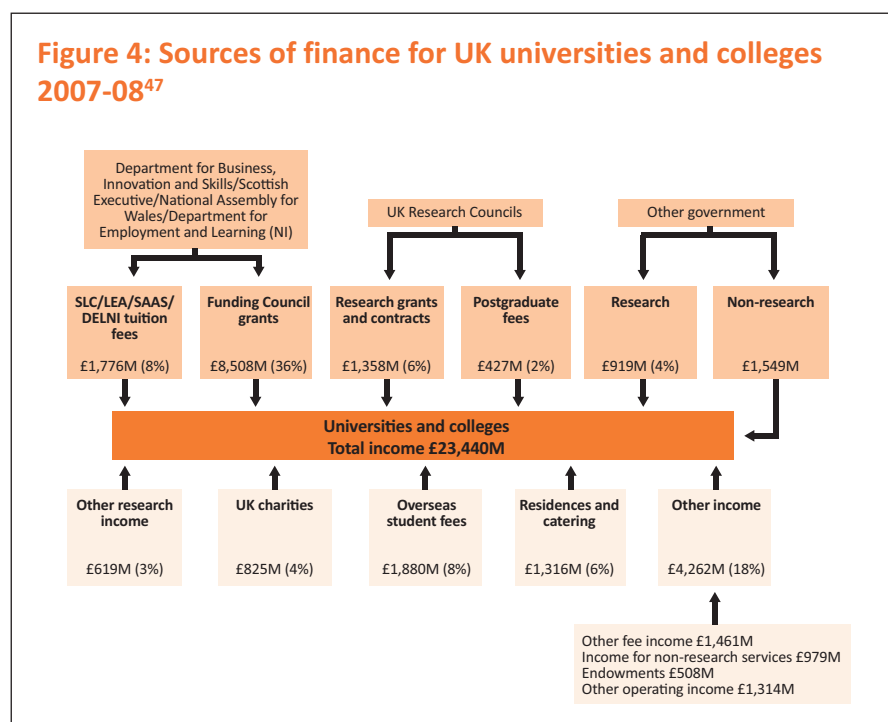
41 JM Consulting (2008), *The sustainability of learning and teaching in English higher education*, a report prepared for the Financial Sustainability Strategy Group, p15.

42 OECD (2009), *Education at a glance 2009: OECD Indicators*, OECD Publishing, p221.

43 Kelly U et al (2009), *The impact of universities on the UK economy: fourth report*, Universities UK, p3.

Today's universities have very diverse income streams. Non-public income has risen considerably from the early 1990s as a proportion of total income, and includes a wide variety of different revenue streams such as tuition fees, private research funding, consultancy, spin out companies and donations. Between 1994/95 and 2005/06 private revenue rose from around 30% to 40% of total income.⁴⁴ Over a similar period (1995/06 to 2007/08) funding body grants as a proportion of total income dropped from 42% to 36%.⁴⁵ Interestingly, the gap between funding body grants and tuition fees changed very little between this period, indicating that tuition fees have gone some way to make up for the fall in funding body grants.⁴⁶ Figure 4 below breaks down total sector revenue for 2007-08 by different income streams.

Figure 4: Sources of finance for UK universities and colleges 2007-08⁴⁷



The Financial Background to Top-Up Fees

To understand the state higher education finances from 1997 onwards, it is important to first consider how the sector changed over the previous two decades. As noted earlier, funding per student dropped dramatically during the 1980s and early 1990s. This was due in large part to a rapid expansion of the student population without a matched increase in public funding. Data from the Office for National Statistics (ONS) shows that home and overseas student enrolments in the UK at all levels rose from 937,000 in 1985-86 to 2.5 million in 2005/06, an 170% increase in 20 years.⁴⁸ The expansion of higher education has been a fundamentally good thing, spreading opportunity far beyond the privileged few. However, there is clearly a very serious danger that quality will deteriorate when that expansion is achieved without the necessary investment.

It is worth remembering, that the political desire to expand on the cheap has certainly not gone away. During the unprecedented scramble for university places in August 2009, when tens of thousands of students who achieved the required grades realised that they would be turned away, the Government agreed to provide

44 JNCES (2008), *Review of Higher Education Finance and Pay Data: Final Report*, p31.

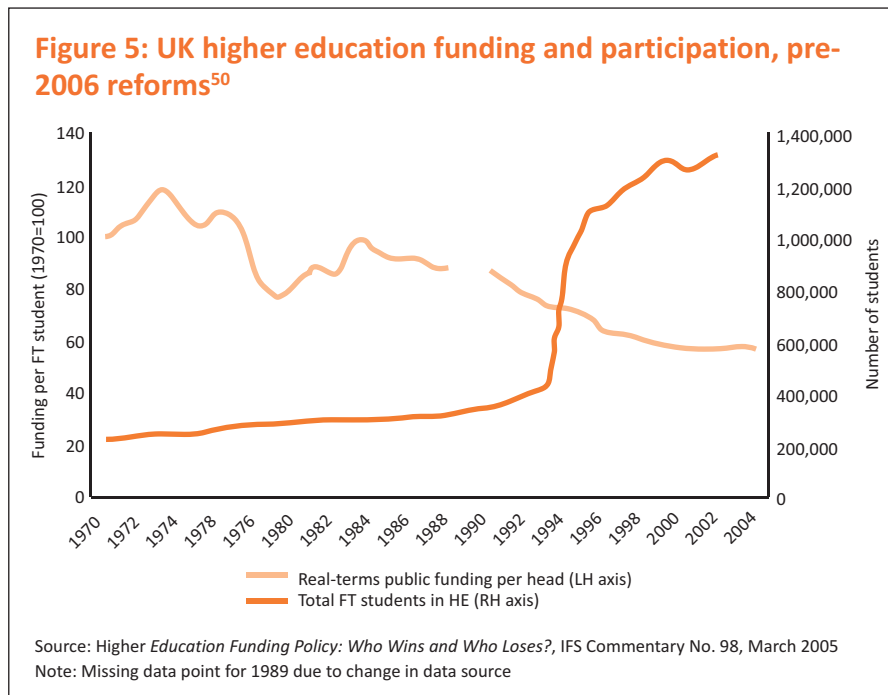
45 University and College Union (2009), *No strings attached? Funding body grant as a proportion of college and university income*, p5.

46 Ibid

47 HEFCE (2009), *A Guide to UK Higher Education*, p12.

48 JM Consulting (2008), p11.

an extra 10,000 unfunded places within the university system.⁴⁹ Many leading universities refused point blank to accept such a precedent, although as we will discuss later in this chapter most universities quietly admitted extra unfunded students anyway. Figure 5 below illustrates both the explosion of full-time equivalent student numbers in England over the past 30 years, in particular since the early 1990s, alongside the dramatic fall in per student funding over the same period.



This dramatic drop in funding resulted in a number of short and medium term consequences. First, student to staff ratios (SSRs) rocketed up. There are a number of different estimates, but from a starting point of around 8:6 students to teachers in 1975-76, data from HESA now puts the number of students to teachers at 16:4 for 2007/08.⁵¹ The University and Colleges Union (UCU) claimed in 2006 that average SSRs had increased from 11:4 in 1990/01 to 18:8 in by 2003/04, while earlier HESA estimates put the figure as high as 19:4 in 2002/03 before a change in the way student numbers were recorded.⁵² Of course, SSRs are not a neat proxy for student satisfaction, which is likely to depend on a number of additional factors. The HEFCE Financial Sustainability Strategy Group's 2009 report on the sustainability of teaching and learning illustrated this with two case study examples. It said: "In a social science department which is growing fast, student satisfaction is high – notwithstanding that this is leading to a squeeze on SSRs and resources. In an engineering department which has seen a long-term decline in demand, student satisfaction is low for a variety of reasons unconnected to staffing ratios which are currently very favourable."⁵³ Nonetheless, as this report acknowledges, SSRs do show the total amount of academic staff time available per student and this will often have an impact on the quality of teaching and support students have.

As we will discuss in the chapter on the student experience, the quality of teaching, and in particular the size of classes, are a very real concern for students. Whether we like the idea or not, students now see themselves much more as consumers

49 Higher Education Council for England (2009), *A Guide to UK Higher Education*, p12.

50 Chowdry H (2009), *Funding Higher Education: Issues and Implications*, IFS, p2.

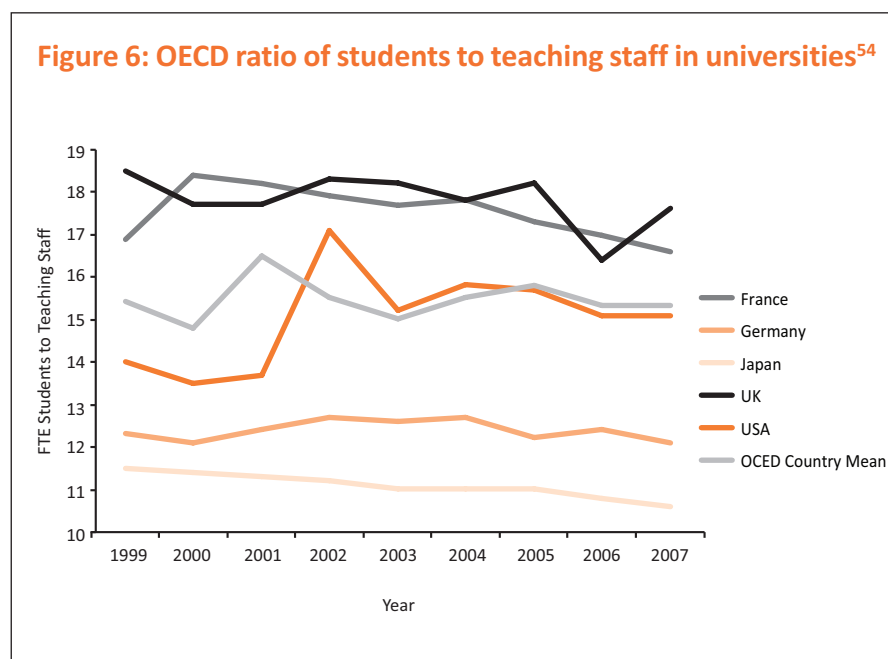
51 AUT (2005), *Packing them in - The student-to-staff ratio in UK higher education*, p2; email correspondence with HESA, taken from the 2003/04-2007/08 HESA Student and Staff Returns.

52 JM Consulting (2008), p21.

53 JM Consulting (2008), p20.

purchasing a service, and it is becoming less and less acceptable to stack our lecture theatres and seminar rooms without thinking about the consequences. It is particularly concerning that the UK's growing SSRs from the early 1990s onwards are relatively high when compared to other wealthy countries. Figure 6 below shows that the UK's SSR was much higher at the start of the decade than the OECD average and a number of major countries including Japan, Germany and the US.

Figure 6: OECD ratio of students to teaching staff in universities⁵⁴



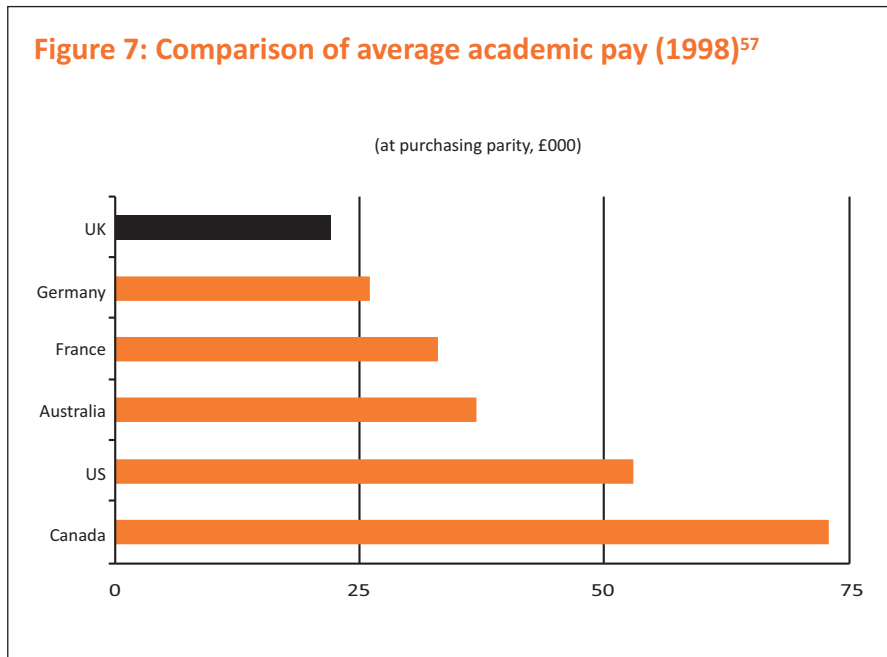
The second noticeable consequence of the funding crisis was that the level of academic pay in England significantly lagged behind other countries. There is nothing more important to the student experience or the quality of teaching than the calibre (and morale) of teachers themselves, and there is strong evidence to suggest that pay does have an impact on the quality of teachers that universities are able to attract. As Schwartz noted in 2003, “the lack of [university] resources available to British universities is starkly reflected in academic pay”, and Figure 7 below shows that at the end of the 1990s the UK comfortably trailed Germany, France and Australia, while the US and Canada were drastically out of reach. As we will discuss later in this chapter, when top-up fees eventually came on stream in 2006 a new pay settlement claimed a large proportion of the proceeds. Pay negotiations rumble on today, and vice-chancellors regard this as an area of financial uncertainty going forward.

The third impact of unfunded expansion was a depreciation of the quality of infrastructure and the build up of a major backlog in buildings maintenance. Physical infrastructure is the second largest cost of teaching, making up approximately 15% of university costs.⁵⁵ As a direct result of the unsustainable growth in student numbers and lack of government funding over the preceding two decades, a major backlog of maintenance costs was allowed to build up by the start of the noughties. A study of ‘Teaching and learning infrastructure in higher education’ published by HEFCE in 2002 found that “the sum required for remedial investment in generic institutional infrastructure to deal with the issues above is approximately £8 billion, of which 60% or £4.6 billion is specific to the needs of teaching and learning”.⁵⁶

⁵⁴ From AUT (2005) p4; yearly updates of OECD Education at a Glance.

⁵⁵ JM Consulting (2008), p17.

⁵⁶ JM Consulting (2002), *Teaching and learning infrastructure in higher education*, report to the HEFCE, p8.



As the 2002 HEFCE report explained, a number of factors combined to create a situation where the physical infrastructure of universities came to be undervalued and under-supported, for the following main reasons:⁵⁸

- the unit of resource for teaching had declined considerably in the long term;
- recurrent funding of research below full economic costs placed enormous pressures on a wide range of infrastructure (including that for teaching);
- capital funding of universities tended to focus on specific projects and ultimately rewarded institutions with poor infrastructure, which proved unsustainable in the longer-term;
- the significant concentration of 1960s and 1970s buildings were not built to last much after the turn of the century; and
- properly integrated teaching and learning resource strategies were absent in many institutions.

“Government investment has gone some way towards addressing this backlog in infrastructure, yet this remains a very real problem, and will undoubtedly worsen if universities’ budgets continue to be squeezed”

As we will see later, Government investment has gone some way towards addressing this backlog in infrastructure, yet this remains a very real problem, and will undoubtedly worsen if universities’ budgets continue to be squeezed.

Overall it is worth highlighting these three major trends resulting from the unfunded expansion of student numbers in the 1980s and 1990s in light of the current pressures on university funding streams: universities were forced to absorb efficiency savings wherever they could, and student to staff ratios boomed as a result; academic pay continued to be under-funded and lagged well behind the levels of other developed countries; and the stock of buildings and infrastructure was allowed to deteriorate significantly, creating a major backlog that required future investment.

⁵⁷ Schwartz S (2003), *Reclaiming Our Universities*, Policy Exchange, p5.

⁵⁸ JM Consulting (2002), pp5-6.

Where did top-up fees go?

What additional resource did top-up fees introduce between 2006-07 to 2008-09?

Top-up fees came on stream in 2006 and have provided a significant injection of cash for universities. Overall, universities have generated close to an additional £2.7 billion in income from top-up fees since 2006 – £460 million in 2006/07, £893.5 million in 2007/08, and an estimated £1.35 billion in 2008/09.⁵⁹ The 2008 academic year was the first in which all cohorts of undergraduate students paid top-up fees, so in this constant state we can expect additional tuition fee income to remain at over £1 billion at present levels of attendance.

Income from tuition fees varies from university to university. This depends largely on the proportion of UK and EU full-time undergraduate students the institution has on its books. An analysis of income dependency for the different university mission groups, undertaken by the UCU in 2009, found that the proportion of income earned from ‘tuition fees and education contracts’ – which includes fees from international students – varied considerably. As one might expect, in 2007/08 only 19.5% of income for Russell Group universities was generated from top-up and other fees, compared to 36.2% for Million+ institutions.⁶⁰ This diversification highlights how vital tuition fee income has become for a large number of universities, in particular many of the newer universities. As can be seen from Table 1 below, ‘tuition fees and education grants and contracts’ was the fastest growing income stream between 2000-01 to 2007-08, rising over 100% in England over the seven year period.

Table 1: Main sources of income received by English higher education institutions (cash terms)⁶¹

	Year		
	2000/01	2007/08	Percentage Change 2000/01 to 2007/08
Funding Council Grants	4,299,885	6,861,061	60%
Tuition Fees and Education Grants and Contracts	2,589,365	5,374,265	108%
Research Grants and Contracts	1,812,384	3,011,248	66%
Other Income	2,121,062	3,732,314	76%
Endowment and Investment Income	245,949	421,303	71%
Total Income	11,068,645	19,400,191	75%

What data exists in the public domain about expenditure of additional income?

Top-up fee income is not hypothecated, and with the exception of spending on bursaries and new outreach programmes, universities do not marry specific expenditures on their balance sheets with additional income from fees. This makes it hard to pin down exactly how these fees have been spent. Moreover, there has been a resounding silence from the sector on this question. It is clear from our conversations with vice-chancellors that many fear the Treasury and others do not understand that top-up fees were plugging a yawning funding gap for teaching, and therefore it is hard to deliver a neat list of returns. In addition it is clear that the 2006 pay settlement (and particularly the unexpected hike in pay contributions in

⁵⁹ Barr N (2009), *Paying for higher education: What policies, in what order?*, London School of Economics, p16.

⁶⁰ UCU (2009), p10.

⁶¹ Ramsden B (2009), *Patterns of higher education institutions in the UK: Ninth report*, Universities UK, p24.

2008 which we will explore below) ate into the new top-up fee income quite considerably. While this was an essential and long overdue investment, many university heads feared that politicians and students would not make the link between staff pay and the student experience. Their desire to keep quiet about the amount spent on pay was compounded by a feeling amongst the management of many institutions that they caved in to the unions too readily in 2006. As David Sweeney, Director of Research at HEFCE, told education staff at a conference recently: “We have awarded ourselves enormous great pay rises out of student fees and we haven’t spent the money on providing high quality student experience. That is the perception in government and it’s absolutely embedded right up to the PM.”⁶²

This underlines the fact that while the sector’s reluctance to explain what fees have been spent on may be understandable, it has done universities no favours. If universities are to argue for higher fees in the future there is no doubt that the public and politicians will demand – quite reasonably – that they tell them where fees have gone thus far. It is no coincidence that the first call for evidence from Lord Browne’s independent fees review was on the impact of the introduction of top-up fees.⁶³

As we will explain, the story is not one of which the sector needs to be ashamed. It is clear from our own survey of vice-chancellors⁶⁴, as well as additional research, that top-up fees have been spent on a number of areas that are crucial to the quality of provision and to the student experience in particular. These include bursaries for poorer students, extra spending on widening participation, new buildings and student services. The experience of one vice-chancellor was typical: “The University did not pass on the net additional fee income to academic schools. As much as you can match specific income to specific expenditure, we focused on facilities: refurbishing teaching and learning spaces, additional funding for advice services, a new lecture theatre, and developments on our campus. In other words things that impacted upon the student experience.”⁶⁵

Bursaries

In 2006-07, the year that top-up fees came on stream, universities spent more than a quarter of their increased fee income on access measures – almost £96 million on bursaries and around £20 million on additional outreach.⁶⁶ An estimated 70,000 students from lower-income backgrounds received bursaries.⁶⁷ In 2007-08, universities also spent roughly a quarter of their additional fee income on access measures including £192 million on bursaries and scholarships for lower income students.⁶⁸ Furthermore, universities spent just under £27 million on additional outreach – an increase of £6 million from 2006-07.⁶⁹ More than 70% of the money spent by universities on financial support went to the very lowest income group, helping almost 133,000 students with a household income of less than £17,910.⁷⁰

In 2007-08, the most recent year for which data is available, universities spent between 6% to 48% of their additional fee income on bursaries and scholarships for lower income groups.⁷¹ On average, institutions spent 21.5% of their additional fee income on bursary and scholarship expenditure for lower income students.⁷² More than half of institutions (63) fall within the 15% to 25% range.⁷³

62 Lipsett A (13 March 2009), University Pay Rises Perceived as Excessive, The Guardian, <http://www.guardian.co.uk/education/2009/mar/13/lecturers-pay-universityfunding>.

63 <http://hereview.independent.gov.uk/hereview/2009/12/call-for-evidence/>.

64 In Autumn 2009, Policy Exchange emailed vice-chancellors at a cross-section of English universities to find out what they thought about top-up fees, the cap on fees, mandatory bursaries, and other issues. We received over 20 written responses with detailed answers. This was followed up with interviews with around 15 vice-chancellors and finance directors from a cross section of universities about funding issues and the shape of the sector in the future.

65 Private information

66 All data on bursaries is based on universities’ responses to OFFA’s monitoring requirements set out in the ‘Access agreement monitoring’ documents every year – Office for Fair Access (2008), *Access agreement monitoring: Outcomes for 2006-07*, p1.

67 OFFA (2008) p1.

68 Office for Fair Access (2009), *Access agreement monitoring: Outcomes for 2007-08*, p1.

69 OFFA (2009), p4.

70 OFFA (2009), p1.

71 OFFA (2009), p7.

72 OFFA (2009), p7.

73 OFFA (2009), p7.

While total spending on bursaries remained constant between the two years for which data is available, it is clear that many universities significantly shifted their policy on bursary expenditure after trialling the scheme. As one vice-chancellor explained: “Bursaries absorbed 45% of our additional fee income in the first two years. We had a very generous scheme, driven by our social mobility approach to education. This was unaffordable and it is now around 28%. We intend to provide preferential bursaries for “local” students in 2010 onwards.” Similarly, OFFA reports that the proportion of additional fee income spent by individual institutions on bursaries and scholarships for students from lower income and other under-represented groups between 2006/07 and 2007/08 changed as follows: Bristol dropped from 18.4% to 16.5% expenditure, Coventry from 28.4% to 19.9%, Gloucestershire from 17.9% to 13%, Hertfordshire from 37.6% to 31%, and Sussex from 19.6% to 14.1%. At the same time other institutions decided to ramp up their spend on bursaries.

OFFA finds that the difference in the proportion of additional fee income that universities spend on bursaries is due to the numbers of lower income students at each institution, the size of bursary that students receive and the individual priorities of the institution on widening participation and recruitment. The latter is largely based on the current make-up of their student body.⁷⁴ For example, Callender finds that in the 2006-07 academic year post-1992 universities (with high proportions of low-income students) devoted an average of 24% of their additional tuition fee income to support poorer students. In the same year, pre-1992 institutions (with few lower-income students) allotted only 19% of their additional fee income to poorer students.⁷⁵ Furthermore, in 2007-08 some 88% of institutions had established non-mandatory bursaries and scholarships that exceeded the mandatory minimum bursary.⁷⁶

We will discuss in detail in a later chapter how successful bursaries have been, but for now it is important to understand that they have been a major source of expenditure since top-up fees came on stream. Indeed, analysis from a Policy Exchange survey conducted in September 2009 of vice-chancellors across the sector found that the vast majority had spent between a quarter to a third of their additional fee income on bursaries and outreach.⁷⁷

Pay review

The higher education sector has come a long way in addressing the unsustainable and inequitable pay gap that existed for many years. After bursaries and outreach, expenditure on staff pay, which makes up three-fifths of total costs for the sector, has been the second major area of funding which has benefited directly from the introduction of top-up fees in 2006.

Staff pay has long been a major problem for universities, with a growing consensus that academic staff have been underpaid relative to other countries and comparable professions. Back in 1997 the Government-commissioned Dearing Committee report into the future of higher education concluded that there was a need for a “significant increase” in minimum starting salaries for young lecturers, and a need to offer professors and equivalent senior academic managers “rewards more commensurate with the weight of their responsibilities”.⁷⁸ This was backed up by an independent review of academic pay headed by Sir Michael Bett in 1999, which called for higher starting salaries to try to attract more people into university teaching, and salary increases for the most senior academics.⁷⁹

⁷⁴ OFFA (2009), p8.

⁷⁵ Callender and Heller (2009), p61.

⁷⁶ Callender and Heller (2009), p60.

⁷⁷ See previous explanation.

⁷⁸ For the Dearing Committee’s full recommendations on pay, see <http://www.archive.official-documents.co.uk/document/irhec/irhec.htm>.

⁷⁹ BBC Online (24 June 1999), *Academics Deserve Pay Rise*, <http://news.bbc.co.uk/1/hi/education/375548.stm>.

For many years higher education salaries in the UK have lagged dangerously far behind those in the US, meaning that there is a very compelling reason for the best academics to migrate overseas. Research on academic salaries in the UK and the US published by the National Institute of Economic and Social Research in 2004 found that academics in the UK earned less than academics in the US at all levels.⁸⁰ The differences between the wages of UK and US academics were particularly pronounced at the later stages of an academic's working life, because institutions in the US are less constrained in their pay scales and able to reward academic high flyers in order to attract and retain them.⁸¹ The research showed that academics at the lower end of the scale in the UK and US earned similar amounts.⁸²

Table 2: UK and US wage differential in 2004⁸³

	UK	UK	US	US
	Men	Women	Men	Women
Under 30	£19,744	£20,386	£21,730	£18,997
30-39	£28,277	£26,094	£38,331	£28,891
40-49	£34,802	£28,455	£44,535	£35,611
50-59	£37,290	£31,330	£47,461	£38,354
Over 60	£41,433	£31,824	£52,440	£39,252
Total	£32,763	£26,821	£43,225	£33,580

This alarming research was backed up by a report from the Centre for the Economics of Education at the London School of Economics, published three years on in 2007, which noted that “a professor at a top British university can expect to earn half as much as her US counterpart”.⁸⁴ The report found that overall relative UK academic pay rates are below those of their US counterparts at all ages.⁸⁵

Recent initiatives have started to reverse this glaring pay gap. The 2004 Framework Agreement for the Modernisation of Pay Structures established a single national pay structure to support locally determined reward structures and enabled the largest human resources initiative ever undertaken in the higher education sector.⁸⁶ Consequently, pay increases since 2001 have more than met the recommendations made to the sector in the Bett and Dearing reports of the previous decade, and HE staff have received the biggest pay increases in the public services in recent years.⁸⁷

Between 2001 and 2007 pay increased by a minimum of 30% and overall pay will have increased by at least 13.1% since the 2006 pay negotiations alone, with a 15.5% increase for the lowest paid support staff.⁸⁸ Pay modernisation has been very costly for the sector however, with total staff costs rising by 8% per annum over the six years to 2006-07, considerably faster than the rise in public funding for teaching.⁸⁹ These pay negotiations have been at the very limits of affordability for universities, with staff costs accounting for three-fifths of the total expenditure of universities.⁹⁰

The 2006 pay settlement has been particularly costly for the sector. The bitter negotiations, which led to national strikes, were lengthy, complicated and intense. A three-year pay agreement with all unions was finally resolved with an overall total pay increase of 13.1% by 2009.⁹¹ Pay rates for non-clinical staff covered by the pay deal were to increase by the greater of 3% or £515 in August 2006, 1% in February 2007,

80 Stevens P (2004), *Academic Salaries in the UK and US*, National Institute of Social and Economic Research, p104.

81 Stevens (2004), p111.

82 Stevens (2004), p106.

83 Stevens (2004), p110.

84 Collins M et al (2007), *Higher Education Academic Salaries in the UK*, Centre for the Economics of Education, London School of Economics, executive summary (quoting 'Battling for Brains', The Economist, 23 September 2004).

85 Collins et al (2007), p4.

86 Wakeham W (24 September 2009), *A united front for the future*, The Times Higher, <http://www.timeshighereducation.co.uk/story.asp?storyCode=408325§ioncode=26>.

87 Ibid

88 UCEA (2008), *Where Are We Now? The Benefits of Working in HE*, p2.

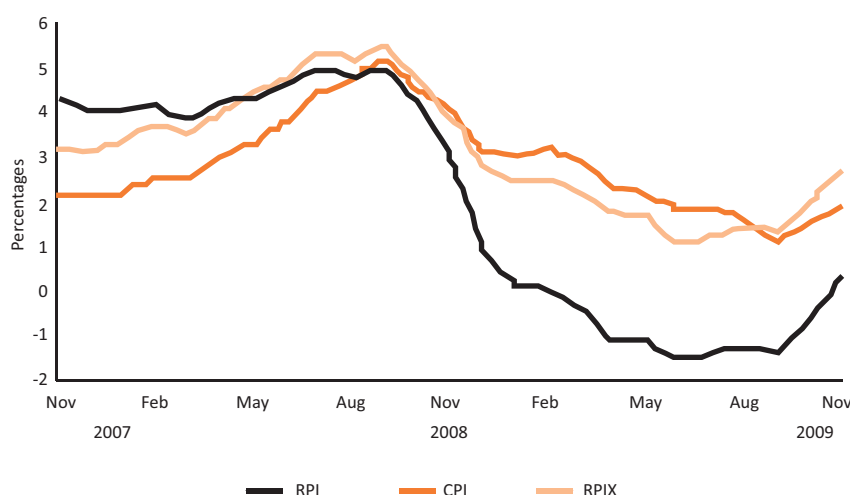
89 HEFCE (2008), *Board Paper: Single Conversation Outcomes 2006-07*, p2.

90 Universities UK (2009), *Higher education in Summer 2009 Facts and Figures*.

91 UCEA website, 'Pay & Conditions', available at http://www.ucea.ac.uk/en/Pay_and_Reward/.

3% in August 2007, the greater of 3% or £420 in May 2008, and finally the greater of 2.5% or RPI (as at September 2008) in October 2008.⁹² This final pay increase proved to be the most problematic for universities. As the graph below illustrates, RPI inflation peaked in September 2008 at around 5% (much higher than the 2.5% alternative) before crashing down in the past 12 months. This was bad news for vice-chancellors, whose budgets were already being squeezed by the dismal economic environment.

Figure 8: CPI and RPI inflation between 2007 and 2009⁹³



Analysis from the Policy Exchange vice-chancellors survey conducted in September 2009 shows that the vast majority had spent close to a third of their additional fee income on staff pay, and in some cases even more.⁹⁴ However, while some members of the Government may portray this as universities unnecessarily “feather-bedding” their staff,⁹⁵ it is crucial to remember how low the level of academic salaries had become, and how long it took for pay gaps to be rectified. Those who attempt to portray a move towards more competitive salaries (in order to attract and keep the best staff) as avoidance of university obligations to students wilfully ignore the fact that nothing is more critical to the student experience than the quality of teaching.

Case Studies: Infrastructure, the student experience and leveraging fee income

As well as paying for generous bursary and outreach schemes for less well-off students and a more equitable pay deal for staff, additional income from top-up tuition fees has played an important role in shoring up the long term decline of capital and teaching funding. This has meant that universities have been able to continue to invest in the vital maintenance of buildings and facilities, while having the financial security to plan for longer-term investment in new projects and the capital to leverage larger sums for more ambitious projects. The case studies below outline some of the projects that have been made possible from the top-up tuition fee income.

92 UCEA website, ‘2006 Pay Agreement’, available at http://www.ucea.ac.uk/en/Pay_and_Reward/Pay_Agreement/.

93 Office for National Statistics (2009), ‘CPI inflation 2.9%, RPI inflation 2.4%’, <http://www.statistics.gov.uk/CCI/nugget.asp?ID=19&Pos=4&ColRank=2&Rank=576>.

94 See previous explanation.

95 Lipsett A (13 March 2009), The Guardian.

Leeds – The vice-chancellor of the University of Leeds, Professor Michael Arthur, says that the university has endeavoured to spend additional fees on things that matter to students. He explained: “It becomes difficult to say what was funded from where, but there were many things that we have done where the additional money from fees was instrumental in us going ahead.” As well as pay increases and bursaries, this included reducing the backlog of maintenance from £100 million to £60 million, mostly focusing on facilities for learning and teaching and others that are student-facing. In addition Leeds has invested in new capital projects for students, such as improvements to the refectory, a new nursery, a new swimming pool and sports centre, new outdoor sports facilities and major redevelopments of halls of residence. The university has also spent more on the library and on campus and hall security at the request of student leaders.⁹⁶

Edge Hill – Edge Hill University has invested heavily in the university’s physical infrastructure using the new income from top-up fees. The university acquired 86 acres of land for future development, built a new £14 million Health Building, opened a new £9 million Management School and constructed 240 top quality student rooms, as well as improving IT facilities, library resources and social spaces. The university says it has also focused on introducing new support for students, with services such as a £200 Uni-card each year for full-time students for the purchase of books and items such as IT consumables. The university has also ploughed new money into the Students Union, funding two new sabbatical posts.⁹⁷

Nottingham – Additional income from top-up fees has allowed the University of Nottingham to establish two new student support centres on separate campuses with a third to follow in 2010, offering a wide range of services to new and existing students. Additional sports facilities have also been made available on all campuses, including a new sports centre. The main library has undergone a substantial refurbishment and now offers 24 hour access, and the main student recreation building has been expanded to improve social space and facilities, including refurbishment of the student union bar.⁹⁸

University of West of England – UWE has used a proportion of its additional fee income to establish and develop the Graduate Development Programme. This helps students to focus on their personal development and employability skills, helping them with the transition to university and encouraging them to think about how they can prepare for whatever future they choose. It addresses a growing concern that universities need to respond to student learning and social needs and not just provide the core teaching for their course. In addition the university used a proportion of its fee revenue to establish the Student Well-being service in 2008. The service offers the opportunity for students to gain specialist support for any mental health difficulties. It helps students who feel overwhelmed, stressed, anxious, or depressed, and who are finding it difficult to meet their academic demands.⁹⁹

Warwick – The University of Warwick is halfway through an £11 million rebuild project of their student union. The aim of this major construction project is to build the best Students’ Union building in the UK.¹⁰⁰ This directly impacts on the student experience as it provides students with a high-quality, multi-purpose venue for social and academic events.

⁹⁶ Private information

⁹⁷ Ibid

⁹⁸ Ibid

⁹⁹ Ibid

¹⁰⁰ For more details see <http://www.warwicksu.com/unionrebuild/>.

Threats on the horizon

So far we have analysed how universities are funded, how this funding has changed over time, what effects these shifts in funding have had on different aspects of the student experience, and what impact top-up fees have had on the sector. Now we will consider the challenges that lie ahead.

In short, universities will face a 'perfect storm' in funding over the next decade. Public spending cuts loom, fierce competition for international students awaits (and just as this income stream becomes more of a lifeline for universities), the expansion of domestic student numbers has stalled, and the global recession is eating into a number of lucrative income pots including endowments, business activity and privately-funded research. Throw rising costs such as pension liabilities and servicing debt into the mix, and vice-chancellors across the country are forecasting, if not already announcing, significant staff and departmental cuts.

Funding cuts

Ever since the reality of the global financial crisis and the Government's soaring debt levels became public in late 2008, speculation has been rife about what cuts universities should expect in the next spending review. In fact the sector was so convinced that real terms cuts are inevitable, with cash focused instead on vital and vote-winning areas such as hospitals and schools, that the debate quickly moved on from whether the Government could be in a position to maintain the unit of resource at all, to just how badly funding would be reduced.¹⁰¹

Horizon Scanning

Professor Steve Smith, President of Universities UK and Vice-Chancellor of Exeter University, September 2009: "It's hard to imagine significant additional funds coming into the university sector. We are going to face reductions in real terms in university funding. I think that's the case whoever wins the next election. I look at the public expenditure predictions and they are dire."¹⁰²

Professor David Eastwood, Vice-Chancellor of Birmingham University, former Chief Executive of HEFCE, September 2009: "Many of us remember the glorious Monty Python Four Yorkshiremen sketch. A quartet of the now-comfortably off, drinking Château de Chasselas, and seeking to outdo one another in recollections of an impoverished childhood. Glorious, surreal, and a high point of British social satire. Yet I keep bumping into higher education's modern reworking of this sketch. I overhear, in the margins of events, one savant saying "We're modelling 5% cuts". Another intervenes: "5%, oh, we used to dream of 5%, we're modelling 10%"; and then another, "10% – luxury! We're modelling 15%". And so it goes on, until someone says, without apparent irony, that they are modelling 25%."¹⁰³

Sir Alan Langlands, Chief Executive of HEFCE, November 2009: "It seems to me we're in what could be a very difficult transition. We've had a period of real terms growth that may be seen in history as a bit of a golden age. This is happening at a time when there is intense competition for overseas students, reduced spending [and] significant cost pressures."¹⁰⁴

Sally Hunt, General Secretary of the UCU, November 2009: "We are in real danger of being left behind as we try to get back on track economically. Most countries are

¹⁰¹ For example, see Marshall P (2009), 'What should Higher Education expect from a new government?', Speech at the NUS Conference, 28 October 2009.

¹⁰² Shepherd J and Curtis P (8 September 2009), *UUK's new president plans to tackle university funding*, The Guardian, <http://www.guardian.co.uk/education/2009/sep/08/university-funding-uuk-new-president>.

¹⁰³ Eastwood D (29 September 2009), *Higher education spending cuts - achievable, perhaps, but hardly desirable*, The Guardian, <http://www.guardian.co.uk/education/2009/sep/29/higher-education-spending-cuts>.

¹⁰⁴ Curtis P (20 November 2009), *Cuts will cost British universities their international reputations*, The Guardian, <http://www.guardian.co.uk/education/2009/nov/20/spending-cuts-funding-universities>.

investing in universities and they recognise that help for education must be at the heart of their fiscal stimuli. Despite warm words from government the opposite is happening in the UK. If the Government does not make bold decisions to back education now then we have little doubt that the fallout from that decision will be felt in years to come.”¹⁰⁵

Paul Marshall, Executive Director of the 1994 Group, November 2009: “[There will be] a cut of a least 15% over the first three years of the next government.”¹⁰⁶

Professor John Holman, Ministerial adviser on science education, October 2009: “It’s very difficult to see how a future of excellence throughout the university system can be maintained unless at some point there’s a more economic approach to university fees. I think at some point we need to question whether the cap on fees is lifted. It is difficult to see how excellence is sustainable without it. We need to look at the possibility in the long term of raising the cap.”¹⁰⁷

In December 2009 the Pre-Budget Report confirmed that £600 million will be cut from higher education and science and research budgets as part of a £5 billion of savings programme by 2012-13.¹⁰⁸ This will come from the £13 billion spent on HE, through a combination of changes to student support, efficiency savings and prioritisation across universities, some switching of modes of study in higher education, and reductions in budgets that do not support student participation.¹⁰⁹ The Public Value Programme (PVP), launched in the Budget 2008, looks at all major areas of public spending to identify where there is scope to improve value for money. Based on the early findings of the PVP, the Government has also looked at what other efficiencies can be achieved across the public sector through better procurement, or through cutting lower-value or lower-priority programmes or projects.¹¹⁰

However, weeks later the news got worse. The annual grant letter to HEFCE from Lord Mandelson, Secretary of State for Business, Innovation and Skills (BIS), strategically released over the 2009 Christmas holiday, announced that the HE budget will be cut by up to 6.6% in 2010/11.¹¹¹ Lord Mandelson outlined an additional £270 million in cuts on top of the £263 million that was already known, leaving the funding council’s budget at a significantly reduced £7.3 billion for next year.¹¹²

The following is a brief summary of the major Government funding cuts to date:

- £135 million cut to HEFCE’s settlement for 2010-11, announced in December 2009 grant letter
- £600 million cut to HE and science funding (likely to come from HEFCE’s settlement) for 2011-13, announced in December 2009 PBR
- £180 million efficiency savings for 2010-11, announced in the April 2009 Budget
- **Overall, there is likely to be a £915 million cut or 12.5% over three years from 2010-11 to 2012-13**
- The HEFCE unit of resource dropped £190 in real terms in 2010-11 compared to 2007-08. This was due to the £180 million efficiency savings, £135 million

105 Curtis P (20 November 2009), The Guardian.

106 Marshall (2009).

107 The Guardian (20 October 2009), *University tuition fees may have to rise, says adviser*, <http://www.guardian.co.uk/education/2009/oct/20/university-tuition-fees-adviser-holman>.

108 HM Treasury (2009), Pre-Budget Report: Chapter 6, p110.

109 HM Treasury (2009), p110.

110 HM Treasury (2009), p109.

111 The Guardian Online, *University funding: Shape of cuts to come*, <http://www.guardian.co.uk/commentisfree/2009/dec/24/mandelson-higher-education-university-funding>.

112 Mandelson P (22 December 2009), *Grant letter to the HEFCE*, <http://www.hefce.ac.uk/news/hefce/2009/grant1011/letter.htm>.

baseline reduction split between £51 million for teaching and £84 million for the capital baseline, and an £83 million reduction for fewer than expected student numbers

- Universities are also set to be fined £3,700 per student that they over-recruit in 2010-11, or around £60 million based on UCAS figures of 16,000 extra students

The Pre-Budget Report on 9 December 2009 provided some strong hints as to where more cuts will fall, but it will not be until the next Comprehensive Spending Review (CSR) that the situation will become clear.¹¹³ The Comprehensive Spending Review sets firm and fixed three-year Departmental Expenditure Limits and, through Public Service Agreements (PSA), defines the key improvements that the public can expect from these resources.¹¹⁴ A decade on from the first CSR, the 2007 CSR represented a fundamental review of government expenditure and covered departmental allocations for 2008-09, 2009-10 and 2010-11.¹¹⁵ The date of the next Review, which will set out spending plans for the period 2011-12 to 2013-14, has not yet been announced. It is also understood that if the Conservative Party wins the general election in 2010, they are likely to call an emergency Budget to implement necessary public spending cuts.¹¹⁶

In the wake of the Pre-Budget Report announced in early December 2009, the Institute for Fiscal Studies (IFS) predicted that unprotected departments – which include anything other than schools, hospitals and international development – face average cuts of 5.6% a year, or a total £36 billion in the three years to 2013-14.¹¹⁷ According to one of their researchers, this will mean that “all the increase in central government spending on public services over Labour’s second and third terms will be reversed by 2013-14, and potentially the first-term increases could be reversed by 2017-18”.¹¹⁸ In fact the Institute warns that HE could be a “significant unprotected area” alongside defence, transport and housing.

113 Corbyn Z (28 November 2009), *Government axemen on the lookout for targets*, The Times Higher, <http://www.timeshighereducation.co.uk/story.asp?section-code=26&storycode=409274&c=2>

114 HM Treasury website, ‘Spending Review’, available at http://www.hm-treasury.gov.uk/pend_index.htm.

115 For further explanation of the 2007 CSR see http://www.hmtreasury.gov.uk/sr_csr07_index.htm.

116 Corbyn (28 November 2009), The Times Higher.

117 Morgan J (10 December 2009), *Academy denounces £600 million funding cut*, The Times Higher, <http://www.timeshighereducation.co.uk/story.asp?section-code=26&storycode=409541>.

118 Ibid

119 Mandelson P (2009), ‘Higher Education and modern life: the transformation of higher education’, Speech at Birkbeck University, 27 July 2009.

120 Lammy D (2009), Speech at the Universities UK Annual Conference, 10 September 2009.

121 Newman M (17 September 2009), *Image is everything, Lammy tells v-cs*, The Times Higher, <http://www.timeshighereducation.co.uk/story.asp?section-code=26&storycode=408209>.

Over the course of 2009 the Government has made it increasingly clear that departmental cuts are inevitable. In numerous speeches it has cautioned the sector about fiscal pressures in the years ahead:

- In his first address as Secretary of State for BIS in July 2009, Lord Mandelson stressed that “we now face the same challenge [that was faced at the start of 1997] with inevitable pressure on public resources” and “part of the solution must be widening the sources of funding universities can draw on”.¹¹⁹
- In September 2009 the Minister of State for Higher Education and Intellectual Property, David Lammy, said at Universities UK’s Annual Conference: “In funding terms, universities have had it good for more than a decade. Nevertheless, it’s no secret that current levels of public investment are unlikely to be sustainable in future”.¹²⁰ At the same conference Mr Lammy also admitted that the Government’s commitment to the unit of resource extended only to the end of the current Comprehensive Spending Review period in 2010.¹²¹
- In October 2009 at the CBI’s Conference on Higher Education, Lord Mandelson reiterated that “both HE and FE will be subject to increasingly tight fiscal constraint for

the foreseeable future” and that “universities will have to deepen and diversify their sources of non-public income”.¹²²

- In November 2009 Lord Mandelson’s Framework for Higher Education said: “Universities have enjoyed a benign financial climate over recent years. Growth based so heavily on state funding cannot continue and this presents government and universities with a series of challenges. Maintaining excellence in both teaching and research is key. We recognise that per capita funding is important but also that in the current circumstances maintaining that level through public expenditure alone will be extremely difficult. That is why the development of a diverse set of funding streams is important if the quality of higher education is to meet new expectations.”¹²³

On top of looming budget cuts the sector has already had to absorb significant efficiency savings from the 2009 Budget. In 2009 John Denham, then Secretary of State for Innovation, Universities and Skills, asked for “further value for money” savings of £400 million in 2010-11, which represents 2.2% of the total DIUS budget in 2010-11.¹²⁴ According to Denham, savings should come from programmes that “do not directly contribute to the frontline delivery of teaching and research”.¹²⁵ The HE sector will have to make £180 million of efficiency savings by reducing universities’ administrative costs, which can amount to as much as £16,000 per student, depending on the institution. Savings of £106 million are expected of the research councils, which will be reinvested in research,¹²⁶ while HEFCE has been told to trim a further £50 million on estates.¹²⁷

As a contribution to the overall efficiency saving of £180 million required in the 2010-11 financial year, a £65 million saving has been applied to the teaching grant in the 2009-10 academic year. This efficiency saving has been applied pro-rata and represents 1.36% of total teaching funding.¹²⁸ Furthermore, in November 2008 the Chancellor announced a package of stimulus measures including £3 billion of capital expenditure to be brought forward from 2010-11, of which universities and colleges were asked to contribute £250 million: £200 million to 2009-10 and £50 million to 2008-09.¹²⁹ The sector is understandably nervous about how this fast-tracked investment will be replenished in future years.

The scale of cuts to date, combined with the forecasted cuts post-election 2010, has left many vice-chancellors suspecting that they will soon be managing a period of decline. It is astonishing that in light of the significant public funding pressures mounted on universities, Lord Mandelson has not asked the Independent Fees Review to look at the funding picture as a whole.

Recessionary impacts

A number of other sources of income have come under threat because of the dire economic climate. Dirk Van Damme, Head of the Centre for Education, Research and Innovation at the OECD, warned delegates at an international HE conference in 2009 that universities are likely to face “sometimes spectacular falls” in private income such as endowments and donations.¹³⁰ Other areas likely to come under strain include research contracts as industry may reduce their demand for universities’ services, and investment plans, which will be hit by continuing credit restrictions.¹³¹

122 Mandelson P (2009), ‘Higher Ambitions’, Speech at the CBI HE Conference, 20 October 2009.

123 Department for Business, Innovation and Skills (2009), *Higher Ambitions: The future of universities in a knowledge economy*, p95.

124 Denham J (2009), ‘Letter from Secretary of State John Denham to stakeholders on Budget’, <http://www.dius.gov.uk/budget2009>.

125 Lipsett A (7 May 2009), *Universities told to cut admin costs, not teaching or research*, The Guardian, <http://www.guardian.co.uk/education/2009/may/07/denham-cut-university-admin>.

126 Ibid

127 Brown R (2009), *Invest for Greatness in Higher Education: Valuing Higher Education*, p14.

128 HEFCE Online, ‘Funding agreements for 2009-10 issued’, <http://www.hefce.ac.uk/news/hefce/2009/grant.htm>.

129 HEFCE (2008), ‘Circular letter: Bringing forward capital spending from 2010-11’, http://www.hefce.ac.uk/pubs/circulars/2008/c135_08/.

130 Baty P (9 July 2009), *Restructure or die, funding chief tells cash-hit universities*, The Times Higher, <http://www.timeshighereducation.co.uk/story.asp?storycode=407288>.

131 Ibid

Although the UK still trails far behind the big American institutions on fundraising, alumni have become a rich source of income for a number of universities in recent years, particularly at the research intensive end of spectrum. The Ross-CASE survey, an annual study of higher education fundraising, recently revealed that gift income increased by 54% in the two years from 2005-06 to 2007-08.¹³² £682 million was raised in new gifts in 2007-08 alone.¹³³ However, the universities of Oxford and Cambridge accounted for 47% of the sector's new

“A survey by The Guardian in 2009 found that at least £250 million had been lost at the leading British universities, with Cambridge and Oxford suffering most heavily”

philanthropic income. Other institutions in the Russell Group of research-intensive universities also performed strongly, with the Group's members pulling in a total of £484 million in 2007-08, compared to £48 million for the 1994 Group of smaller research intensive universities.¹³⁴ There are early signs, however, that that the

global economic downturn has wiped significant reserves from endowment funds. A survey by The Guardian in 2009 found that at least £250 million had been lost at the leading British universities, with Cambridge and Oxford suffering most heavily.¹³⁵

The sustainability of business income is also up in the air. As the Standard and Poors report on income diversification noted in 2008: “the income from businesses for consultancy, research, support for students on MBA and other programmes is already slowing as businesses curtail their budgets. The belief that they will co-fund new workforce development programmes looks increasingly unlikely – with implications for the diversification strategies of those institutions that are attempting to break into this market.”¹³⁶ The recent CBI Taskforce report on higher education noted anecdotal evidence that many companies see UK universities as offering less value for money than their international competitors, and that some report that the level of their research-related involvement with UK universities has stagnated or declined in recent years, with costs as the prime reason.¹³⁷ While calls from the Government and heads of industry for business to contribute more to the costs of educating Britain's workforce are welcome, it would be naive to think that vast sums of new money will be pouring into universities in the near future.

International response

Alarming, while the Government is set to continue to cut big chunks out of the HE budget, other developed countries are taking the lead and piling huge amounts of money into universities in an attempt to stimulate demand and foster a more highly-skilled workforce for the future. According to Sir Alan Langlands, Chief Executive of HEFCE, the UK and Spain are the only countries in Europe not investing in higher education. In particular Germany, Australia and the US have made universities central to their fiscal stimulus plans. US President Barack Obama's plans to use higher education as an integral platform of his spending programme have been well publicised. In early 2009 the Senate passed a stimulus bill which set students and colleges poised to receive somewhere between \$50 billion and \$75 billion, including a 32% increase in overall federal student aid, to \$129.4 billion.¹³⁸

¹³² Fearn H (12 November 2009), *Old hands collect most from alumni*, The Times Higher, <http://www.timeshighereducation.co.uk/story.asp?section-code=26&storycode=409018>.

¹³³ Ibid

¹³⁴ Ibid

¹³⁵ Lipsett A and Curtis P (12 December 2008), *Crisis blows £250m hole in university funding*, The Guardian, <http://www.guardian.co.uk/education/2008/dec/12/oxford-university-funding-credit-crunch>.

¹³⁶ Standard & Poor's (2008), *Revenue Diversification and Sustainability: A Comparison of Trends in Public Higher Education in the UK and US*, Commissioned by the Council for Industry and Higher Education, piv.

¹³⁷ CBI (2009) p18.

¹³⁸ Lederman D (13 February 2009), *The Final Stimulus Bill*, Inside Higher Ed, <http://www.insidehighered.com/news/2009/02/13/stimulus>.

Federal and state governments in Germany are pumping €18 billion into higher education and research as part of the Higher Education and Research Pact. The pact should allow for €26,000 of funding for each of the planned 275,000 student places set to be created by 2015.¹³⁹ Higher education and research were also key arms of France's recent 'Big Loan' programme, taking up €16 billion of the €35 billion package. President Sarkozy saw a massive new investment in France's universities, R&D labs and renewable energy sources as an efficient way to lift the country's long-term growth.¹⁴⁰ Meanwhile, the Australian Government has shown its commitment to higher education with a major increase in spending on science and innovation in its 2009 budget. Despite tough economic conditions, the 2009-10 expenditure on science and innovation will be AUD\$8.6 billion (£4.3 billion), up 25% on the previous year, with additional funding worth AUD\$5.7 billion over four years for higher education.¹⁴¹

These developments do not bode well for the UK and put even greater pressure on UK universities to seek additional income elsewhere. Interestingly, while schools will always be a natural first priority, there is a strong level of support for more HE investment among the public. A ComRes poll on university funding released in December 2009 and commissioned by the 1994 Group found that 86% of the public back such Government investment in universities despite the pressures on state finances.¹⁴²

Pensions

Pension liabilities are the HE sector's 'elephant in the room'. Pensions are a very significant cost factor in the overall remuneration of HE employees, and as staff costs make up the vast majority of all universities' expenditure, cannot be easily ignored. In the short term, even a minor increase in employer contributions would have a drastic effect on the financial health of the sector. The British Universities Finance Directors Group (BUFDG) Pensions Report notes that a 2% increase in employer contributions, such as the one implemented in October 2009, could move UK universities from a surplus to a deficit position.¹⁴³ The medium-term impact of pensions on sustainability is an even more significant issue.¹⁴⁴

Pensions are a complex subject. Staff at different types of institutions have different pension arrangements. For example, academics at pre-1992 universities tend to be covered by the Universities Superannuation Scheme (USS), with support staff serviced by Self-Administered Trust schemes. Academics at post-1992 universities are largely covered by the Teachers Pension Scheme (TPS), with support staff eligible for the Local Government Pension Schemes (LGPS).¹⁴⁵ These main national schemes are similar to others in the public sector, and compare favourably with private sector provision.¹⁴⁶

Some of the major challenges facing the sustainability of pension provision include final salary schemes, the longevity of the workforce, and a retirement age well below the Government's recent changes. The Association of Consulting Actuaries recently warned that across all sectors final-salary schemes are "all but extinct", with nine out of ten now closed to new entrants.¹⁴⁷ Longevity is a major concern. There are now fewer people working to support a larger number of pensioners, who are living longer than actuaries predicted. The Universities and Colleges Employers Association (UCEA) would like to abolish the final salary scheme for new entrants in favour of something like a career average, lift the

139 Gardner M (21 June 2009), *GERMANY: Record funding for higher education*, <http://www.universityworld-news.com/article.php?story=20090618200051988>.

140 CNBC Online (19 November 2009), *France to take 'Big Loan' to boost economy*, <http://www.cnbc.com/id/34031803>.

141 Harries-Rees K (19 May 2009), *Major increase in Australian science spending*, RSC Online, <http://www.rsc.org/chemistry-world/News/2009/May/19050901.asp>.

142 Wellings P (7 January 2010), *We have a compelling case for investment: it's time to make it*, The Times Higher, <http://www.timeshighereducation.co.uk/story.asp?sectioncode=26&storycode=409852&c=1>.

143 Bourn M (2007), *Pensions Report 2007*, BUF DG.

144 JNCHES (2008) p42.

145 JNCHES (2008) p42.

146 JNCHES (2008) p97.

147 Morgan J (7 January 2010), *Warning sounded on final-salary pensions*, The Times Higher, <http://www.timeshighereducation.co.uk/story.asp?sectioncode=26&storycode=409862&c=2>.

retirement age from 60 to 65, and have a more balanced risk-sharing approach whereby employers are not expected to shoulder the full brunt of future increases in contributions. The unions are predictably resistant to change. A UCU spokesman said in January 2010 that the union “would like to see USS continue as a final-salary scheme and we would need convincing that any proposed changes were not detrimental to members, pensioners and the fund itself before making any recommendation to members”.¹⁴⁸

Tackling USS, the second largest private pension scheme in the UK, is a necessary stepping stone in addressing the pension problem. The Joint Review Group looking at USS, chaired by Andrew Cubie, hopes to reach a conclusion in April 2010. Many vice-chancellors are privately banking on Cubie using his powers of veto if a stalemate with the unions arises. Meanwhile the TPS and the LGPS are in the process of being reformed. Yet post 1992 universities may find themselves in a difficult position if these reforms stall or are insufficiently radical. It is easy to envisage a scenario in which unions representing academics in older institutions would play themselves off against those at modern universities, further impeding progress towards a sustainable alternative.

Nonetheless, pensions are an issue that universities can no longer afford to brush under the carpet. They are a major financial liability at a time of increasingly fragile income. Crucially, if universities wish to demonstrate robust financial management to help support their argument for higher fees, pension commitments that appear excessively generous at a time when others are tightening their belts will be a serious black mark. While the public and politicians may be convinced that fair academic pay is a worthwhile investment, they are unlikely to feel the same way about pensions that far outstrip those offered in the private sector.

Pay

In December 2009 vice-chancellors were handed a reprieve after the UCU backed down on 2009 pay negotiations, offering to settle for the 0.5% pay rise offered by the UCEA which was initially opposed in July 2009.¹⁴⁹ The UCEA offer was a long way off the highly optimistic 8% minimum demanded by the University and College Union in 2008.¹⁵⁰ However Michael MacNeil, national head of higher education at the UCU, warned employers that the UCEA’s offer remained “unacceptably low”, and that the “unwillingness to provide a pay increase of more than 0.5%, along with rising inflation, would be treated as an IOU to be included in the 2010 pay claim”.¹⁵¹ Interestingly, a number of universities and colleges had previously started paying the 0.5% salary increase to staff in the absence of a national deal, prompting campus unions to claim that they have broken a collective agreement and “imposed” a resolution to the long-running dispute.¹⁵² This could be an early sign that universities are prepared to be tough on future pay negotiations, as any further increase in staff pay will squeeze universities’ already tight budgets.

International students

The recruitment of international students has been one of the strongest growth areas in HE over recent years and may come under threat in the near future. The dramatic rise of international student numbers over the past two decades has been a

148 Ibid

149 Morgan J (10 December 2009), *UCU backs off on pay, but vows to fight job cuts*, The Times Higher, <http://www.timeshighereducation.co.uk/story.asp?section-code=26&storycode=409520>.

150 Newman M (15 August 2009), *Unite rejects 0.5 per cent pay offer*, The Times Higher, <http://www.timeshighereducation.co.uk/story.asp?section-code=26&storycode=407786>.

151 Morgan J (10 December 2009), *The Times Higher*.

152 Morgan J (12 November 2009), *Unions angry over breaches to collective salary negotiations*, The Times Higher, <http://www.timeshighereducation.co.uk/story.asp?storycode=409058>.

major boon for the financial health of universities. However, universities are now much more reliant on the significant income buffer that international students provide. In 2007/08, there were 341,810 students from outside the UK registered in universities. These made up nearly 15% of the total student population.¹⁵³ This is compared to less than 220,000 non-UK students in 1998-99, which accounted for just over 10% of the total student population.¹⁵⁴

Most overseas students starting an undergraduate degree in the sciences will pay an average of £10,781 in fees for each year of their course, while those on undergraduate arts degrees will spend an average of £9,911 in fees each year.¹⁵⁵ Overseas students contribute £4 billion a year in fees, according to the UK Council for International Student Affairs (UKCISA). More than 8% of the total income of UK universities comes from overseas student fees,¹⁵⁶ and in 2007/08 international students provided a bigger source of income for UK universities than government grants for research.¹⁵⁷

The number of competitors to UK higher education are continually growing, including the US, China, India, the Asian Tiger economies, and other European countries offering courses in English, such as Germany and the Netherlands.¹⁵⁸ Recent concerns have included changes to visa and immigration rules, as well as an over-reliance on the recruitment of Chinese and Indian students, who are ruthlessly pursued by other large HE-exporting countries such as Australia. Keeping up this level of recruitment will be a major challenge. As Professor David Eastwood recently remarked, “holding our own in this globally competitive market now will be an achievement, and all but impossible if the quality of the system is eroded at home.”¹⁵⁹

New visa regulations are a major issue. The introduction of the Tier 4 student points-based visa system could seriously damage the attractiveness of the UK as a study destination. A study by UKCISA, which questioned 2,777 international students who applied for a student visa between July and September 2009, found that two-fifths of the students had experienced difficulties or encountered “errors or obstructions” that had put them off studying in Britain or resulted in them being refused visas.¹⁶⁰ The study also found that 60% of applicants had problems with the application form and guidance, two-fifths said immigration officials had been slow and inefficient, while just under one in six of the students had to pay an extra £200 on top of the £145 admin fee to ensure they had the correct paperwork.¹⁶¹ A review is now being undertaken by the UKBA with proposals for discussion which would have a devastating impact on the sector. If the proposed minimum course level for a student visa is raised from NQF 3 to NQF 4 this would mean that no international students would be granted visas for sub-degree level study, including A-levels, International Baccalaureate and Foundation courses, severely hitting those institutions that prepare international students for university. Study Group estimates that the UK could lose up to 25,000 international students (to the US or Australia, whose visa systems are far more competitive) and some 10,000 high quality jobs as a result of these new restrictions. Furthermore, Universities UK claims that 24% of universities missed their targets for international students in 2009, largely because of the problem of student visas.¹⁶²

In the short term there are some reasons to be optimistic about a buoyant international student market. Though market conditions may not favour Chinese

153 Kelly (2009) p16.

154 Ramsden (2009) p22.

155 Shepherd J (14 October 2009), *Overseas students prop up university finances*, The Guardian, <http://www.guardian.co.uk/education/2009/oct/14/international-students-pay-20000>.

156 Ibid

157 The Guardian Online (24 September 2009), *Twice as many foreign students at UK universities*, <http://www.guardian.co.uk/education/2009/sep/24/international-students-students>.

158 UKCISA (2008), *Mobility matters: Forty years of international students*, p9.

159 Eastwood (29 September 2009), The Guardian.

160 Shepherd J (6 December 2009), *Britain 'losing out on tens of thousands of overseas students'*, says report, The Guardian, <http://www.guardian.co.uk/uk/2009/dec/06/immigration-students-blocked>.

161 Ibid

162 Ibid

students, who come to the UK in larger numbers than any other group, the weak pound, expected to continue in 2010, will mean that courses will be good value for money for a number of international markets.¹⁶³ Table 3 below demonstrates how important tuition fees from international students are for a selection of London-based universities. Analysis by accountants Grant Thornton predicted at the start of 2009 that seven UK universities would fall into the red if their international student income dropped by even 10%.¹⁶⁴

Looking at the sector as a whole, the number of institutions recording less than 5% of their income coming from non-EU student fees has reduced over recent years, and there has been a marked increase in the number of universities recording more than 15% from this source. The significance of this source of funding is plainly increasing for many institutions.¹⁶⁵

Table 3: Dependence on international student fee income¹⁶⁶

University	% Overseas (ie non-EU) students	Annual fee income from all full time students (£m)	% Annual full time fee income from overseas students
Brunel	15%	38.4	43%
City	15%	60.7	52%
Greenwich	15%	34.1*	48%
Imperial	25%	82.3	74%
Kingston	9%	48.2	32%
London Metropolitan	16%	45.1*	45%
London Southbank	9%	25.4	37%
Middlesex	17%	48.1	45%
Queen Mary	18%	51.4	52%
Thames Valley	9%	17.0	41%
UCL	21%	84.6	62%
Westminster	14%	45.4	43%

163 Morgan J (10 December 2009), *Weak pound may boost overseas student market*, The Times Higher, <http://www.timeshighereducation.co.uk/story.asp?sectioncode=26&storycode=409521>.

164 Fearn H (22 January 2009), *When it comes to the crunch...*, The Times Higher, <http://www.timeshighereducation.co.uk/story.asp?sectioncode=26&storycode=405076&c=1>.

165 Ramsden B (2008), *Patterns of higher education institutions in the UK: Eighth report*, Universities UK, p55.

166 Fazackerley A and Chant J (2009), *Sink or Swim? Facing up to Failing Universities*, Policy Exchange, p4. Sourced from institution's individual financial statements for the year 2007-08 unless otherwise denoted by an * which relates to 2006-07 (the most recent year available).

167 Shepherd J (2 November 2009), *Record numbers apply early for University*, The Guardian, <http://www.guardian.co.uk/education/2009/nov/02/university-applications-ucas-students-2010>.

168 Denham J (2009), 'Grant letter for 2009/10', <http://www.hefce.ac.uk/news/the-fce/2009/grant/letter.htm>.

Student numbers

Following the crisis in student places that played out over the summer of 2009, the Government is set to limit the amount of additional student places for 2010-11. In May 2009 John Denham, former Secretary of State for Innovation, Universities and Skills wrote to HEFCE authorising them to support 10,000 additional funded student places for 2010-11. These places are likely to be filled as early as February 2010, leaving very little room for manoeuvre if there is anything like the expected demand seen this year. In fact all universities applications for 2010/11 were already up by 11.6% in November 2009 compared to the previous year.¹⁶⁷ In light of the thousands of well-qualified applicants who failed to secure a place in 2009, it is a further kick in the teeth for universities eager to expand their provision.

Interestingly, HEFCE's stern warning in 2009 about over-recruitment (and the threat of consequent fines) has clearly been ignored by the sector in a calculated gamble. In January 2009 Denham had instructed HEFCE to "bear down on over-recruitment", later demanding that institutions "preferably eliminate" increased

recruitment.¹⁶⁸ Lord Mandelson recently announced in the annual grant letter that individual universities will now be fined £3,700 for each student they take above the Government's cap. Recent figures from UCAS suggest there are already 16,000 students above the cap, meaning universities will have to pay back around £60 million in 2010.¹⁶⁹

During Conference season, October 2009, the Conservative Party announced a temporary fix to the student places squeeze, offering a financial incentive for students to pay back their loans sooner. Under their system, and for the next three years, students would be given a 10% discount for early repayments over £500 and for up front repayment of their fees. The Conservatives expect that offering a three year incentive for early repayment will bring in at least £300 million in additional voluntary repayments, around 1% of the expected size of the loan book by 2010. This is partly based on estimates for a similar scheme which is being introduced in New Zealand,¹⁷⁰ and should fully cover the cash costs of 10,000 new student places each year, or 30,000 over the next three years.

In summary, universities face a perfect funding storm in the immediate future. This will be fuelled largely by deep budget cuts from Government, but also fall-outs from the recession such as a reduction in private investment from business and charities; less room to manoeuvre on student numbers; potential difficulties for some institutions in recruiting international students; and increasing internal cost pressures, including uncomfortable pension liabilities and further pay negotiations.

A number of universities have already been forced to make serious cost reductions in the current funding climate. The box below catalogues a number of the larger-scale cuts. We should expect many more to come.

- **The University of Bristol** announced in November 2009 that it must cut 250 jobs, about 5% of its total posts, by 2011-12 and find annual savings of £15 million.¹⁷¹
- The **University of Sussex** announced in December 2009 that it is consulting on plans to cut 115 jobs, tempered by about 20 "potential redeployment opportunities", from July 2010.¹⁷²
- The **University of Leeds** is planning on cutting 187 jobs after announcing a budget cut of £35 million. Prior to this, 52 staff based in the Faculty of Biological Sciences and School of Healthcare left the university over the summer.^{173, 174}
- **Manchester Metropolitan University** is to reduce staffing across a number of support areas by up to 127 posts.¹⁷⁵
- **Sheffield University** indicated in July 2009 that it aimed to save £15 million over two years through a voluntary severance scheme.¹⁷⁶
- At the **University of Sheffield** more than 300 staff have volunteered to quit their jobs and will leave the University by the end of November 2009. A spokeswoman said that about 320 staff – or 5% of the total workforce – would be leaving over the next three months, including 67 academic staff. The university is aiming to reduce costs by £25 million by 2011-12, with £15 million in savings coming from staff cuts.¹⁷⁷
- **The University of Bolton** has announced plans to cut 61 jobs.¹⁷⁸

169 Curtis P (22 December 2009), *Fast-track degrees proposed to cut higher education costs*, The Guardian, <http://www.guardian.co.uk/education/2009/dec/22/fast-track-degrees>.

170 Willetts D (2009), 'Conservatives will provide an extra 10,000 university places next year', Conservative Party press release, <http://www.davidwilletts.co.uk/2009/10/05/conservatives-will-provide-an-extra-10000-university-places-next-year/>.

171 Morgan J (19 November 2009), *Funding cuts to force job losses at Bristol and Manchester Met*, The Times Higher, <http://www.timeshighereducation.co.uk/story.asp?sectioncode=26&storycode=409155&c=1>.

172 Morgan J (3 December 2009), *Funding cuts create staff and course turmoil*, The Times Higher, <http://www.timeshighereducation.co.uk/story.asp?sectioncode=26&storycode=409398>.

173 UCU Online (9 October 2009), *Hundreds of jobs at risk at University of Leeds*, <http://www.ucu.org.uk/index.cfm?articleid=4201&from=4186&start=21>.

174 UCU Online (16 July 2009), *Education crisis: 6,000 jobs slashed and over 100,000 students affected as recession hits education*, <http://www.ucu.org.uk/index.cfm?articleid=4083>.

175 Morgan (19 November 2009), *The Times Higher*.

176 Roberts J (15 July 2009), *Yorkshire campus job cuts 'worst in regions'*, The Yorkshire Post, <http://www.yorkshirepost.co.uk/news/Yorkshire-campus-job-cuts-worst.5464179.jp>.

177 Newman M (27 August 2009), *Hundreds of Sheffield staff opt for severance*, The Times Higher, <http://www.timeshighereducation.co.uk/story.asp?sectioncode=26&storycode=407919>.

178 UCU Online (23 October 2009), *University of Bolton urged to explain job cuts plans*, <http://www.ucu.org.uk/index.cfm?articleid=4240&from=4186>.

Part 4: What under-investment in higher education would look like

When faced with potential cuts the typical response from the sector is to rush out reports emphasising how much higher education contributes to the economy. Such information is useful. However, if we are to make a judgement about the impact of continued under-investment in the sector – particularly if Government funding is slashed and fees remain at the same level – we really need to ask what these cuts will mean for students on the ground. As part of our research we conducted a number of face-to-face and telephone interviews with vice-chancellors, finance directors and other experts in the sector, and tried to pin down the sorts of measures they would be forced to undertake in a tightened financial climate. The following discussion raises some of the major issues that a number of interviewees raised, and aims to provide a broad outline of some of the reactions we are likely to see universities make in light of the looming funding cuts.

Capital/maintenance costs

There is a consensus in the sector, both privately and publicly, that maintenance and capital expenditure would be the first major budget line to suffer from any sustained period of funding cuts. This is an obvious way for universities to cut corners in the short term as the maintenance of buildings and infrastructure is much more of a longer term concern. Looking to the past, the physical assets of universities were one of the major areas to suffer as a direct result of the funding pressures in the 1980s and 90s. The infrastructure for teaching and learning, which includes estates, equipment, IT, libraries and services, is the second largest cost after staff. Overall, estates make up approximately 15% of institutional costs, libraries 4%, and IT 2%.¹⁷⁹

As noted earlier, a study of teaching and learning infrastructure from HEFCE in 2002 found that at the start of this decade there was a general infrastructure backlog of around £8 billion, of which roughly 60% was directly linked to the needs of teaching and learning.¹⁸⁰ Since then both overall and direct capital funding levels have improved. As the Financial Sustainability Strategy Group report explains: “The sector is in a catching-up phase after a period of expansion without commensurate investment in infrastructure, and after a past where the responsibility for ensuring the sustainability of infrastructure was unclear.”¹⁸¹

Nevertheless, the adequate up-keep of universities’ continues to be a thorny issue, and a further national study of infrastructure investment needs in 2006 identified a remaining backlog of infrastructure investment in the region of £2-4 billion.¹⁸² Another estimate of the total cost of backlog maintenance put the figure at £3.9 billion in 2006-07.¹⁸³

Vice-chancellors we spoke to were clear that although universities could absorb some of the reductions in infrastructure investment and maintenance in the short-term, without any negative consequences for the student experience, this created a major long-term sustainability problem, and one that could seriously damage the reputation of British higher education in the long run. As the Joint Negotiating Committee for Higher Education Staff (JNCHES) study explains: “Adequate investment is critical for the reputation, influence, and economy of the UK in an increasingly competitive global economy. If the higher education

179 JM Consulting (2008) p31.

180 JM Consulting (2002) p8.

181 JM Consulting (2008) p36.

182 JM Consulting (2008) p32.

183 HEFCE (2009), *Performance in higher education estates: EMS annual report 2008*, p24.

infrastructure is not fit for purpose, attractive, and efficient, fewer students will study in the UK, and UK universities will fail to attract the research staff they need to recruit.”¹⁸⁴

Subject provision

Cross-subsidisation of subjects is rife within the higher education sector. Because universities vary so dramatically in their provision and means of funding, and because public investment is not delivered on a ‘full economic cost’ basis, universities are frequently required to be inventive with their accounting practices and funding allocations. It is no secret that many elite universities such as Oxford, Cambridge, UCL and Warwick subsidise the teaching of undergraduate home students by between £4,000-£10,000 per student.¹⁸⁵ This money will often come from international student fee income, research activity or endowments.

But cross-subsidisation is not limited to the oldest and most research-intensive universities. Universities across the sector have found often innovative ways to sustain a wide range of institutional activity despite being under-funded in certain areas. Commercial activity is another pot of money that can subsidise either teaching or research, while some teaching-focused institutions actually subsidise some research programmes with fee income. Importantly, as varying sources of income dry up for universities in the coming years, this trend to cross-subsidise numerous courses will come under increasing pressure, and many vice-chancellors may find it is no longer sustainable to prop up one area of the university at the expense of another.

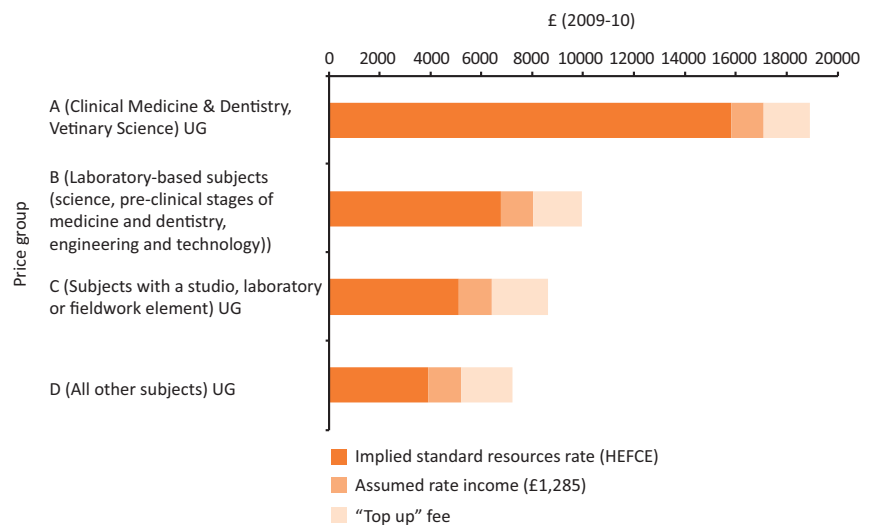
Inevitably, vice-chancellors and finance directors will look to cut any remaining ‘fat’ from their otherwise lean institutions, and one of the first places to look will be underperforming and/or unprofitable departments. This is never a welcome measure, as vice-chancellors understand the detrimental impact cuts could have on the brand of the university, as well as the impact on diversity and academic mix. Departments that may face the axe will include those that fail to secure high ratings in the Research Assessment Exercise (or the upcoming Research Excellence Framework). However discussions with leaders in the sector lead down a number of different paths.

The first contentious issue was whether STEM or arts-based subjects would be more likely to come under pressure. On the one hand STEM subjects are considerably more expensive to run, with more extensive facilities, longer contact hours, and smaller class sizes. Some vice-chancellors we spoke to argued that it is actually the costs of STEM research, not teaching, that is often the reason for a department becoming unviable, in particular in the event of a less good RAE result. On the other hand they are much more generously funded through the teaching grant. As can be seen from the graph below, band B STEM subjects receive a much more generous per student funding rate than band D humanities subjects (well over 50% more). STEM is often seen as crucial to the balance of subject provision and is very important in securing outside investment from a number of different areas.

“As varying sources of income dry up for universities in the coming years, this trend to cross-subsidise numerous courses will come under increasing pressure, and many vice-chancellors may find it is no longer sustainable to prop up one area of the university at the expense of another”

184 JNCHES (2008) p48.

185 For example see Newman M (3 July 2008), *Free sector and let fees rise, argue Lords*, The Times Higher, <http://www.timeshighereducation.co.uk/story.asp?storyCode=402602§ioncode=26>.

Figure 9: English undergraduate funding, by subject¹⁸⁶

186 Nutbeam D (2009), 'Who Pays in Australia', speech to the Universities UK conference on HE funding, 11 December 2009, p3 (sourced from HEFCE Recurrent grants for 2009-10, p9).

187 Newman M (15 November 2009), *Poor staff relations threaten Birmingham's sociology department*, The Times Higher, <http://www.timeshighereducation.co.uk/story.asp?storycode=409096>.

188 Attwood R (15 May 2009), *Liverpool lifts threat of closure from three departments*, The Times Higher, <http://www.timeshighereducation.co.uk/story.asp?section-code=26&storycode=406558>.

189 BBC Online (2 March 2009), *University staff fear job cuts*, <http://news.bbc.co.uk/1/hi/england/berkshire/7919651.stm>.

190 Morgan (19 November 2009), The Times Higher.

191 UCU Online (26 November 2009), *University of Bournemouth slammed over controversial job cuts*, <http://www.ucu.org.uk/index.cfm?articleid=4313>.

192 UCU Online (9 October 2009), *Bad management to blame for proposed job losses at University of Gloucestershire, says union*, <http://www.ucu.org.uk/index.cfm?articleid=4200&from=4186&start=21>.

193 CBA Education, 'Engaging with the Historic Environment: Continuing Education', <http://www.britarch.ac.uk/education/ehe>.

Arts and humanities subjects tend to be much cheaper to run, with less-resource intensive facilities, fewer contact hours and higher staff to student ratios. Their profitability is influenced by the teaching grant formula, however, and this is seen as one reason why they may in fact come under more scrutiny than STEM-based subjects. Looking at the departmental closures and staff cuts below, it is apparent that there have already been a number of cutbacks in the arts and humanities, much more so than any other area. While it is hard to predict just how severe the measures vice-chancellors take will be, there is already some indication of the consequences of the current financial climate. The box below catalogues some of the shifts in the sector to date.

- A review of the **University of Birmingham's** Sociology Department recommended in November 2009 that it should close along with its degree programmes in media, culture and society. Furthermore, the university's **Institute of Local Government Studies and Department of Theology and Religion** are also under review.¹⁸⁷
- The **University of Liverpool's** Departments of Statistics and Philosophy, and the School of Politics and Communication Studies, have been threatened with closure.¹⁸⁸
- The **University of Reading** has recommended closing its School of Health and Social Care in 2011 with the loss of 35 jobs.¹⁸⁹
- **Bath Spa University** is set to close its international activities department.¹⁹⁰
- **Bournemouth University** is cutting 15 academic posts from its Business School, part of the second restructure in two years.¹⁹¹
- The **University of Gloucestershire** is closing campuses in Cheltenham and London, with the university's Media, Art and Communications Department in particular danger.¹⁹²
- By the end of the 2009 academic year the **Universities of Bristol, Manchester and Reading** will be ending their continuing education provision.¹⁹³

One worrying outcome is that modern languages in particular could be in the firing line. University language departments have been in trouble for some time. A report commissioned by the Arts and Humanities Research Council in 2008 found that as many as a third of university language departments had closed in the past seven years.¹⁹⁴ Even the 2008/09 academic year alone has seen several universities announcing drastic reductions in language provision¹⁹⁵. Language courses have seen a drop in interest for a number of years. While the number of applicants to European language courses increased overall by 20% over the period 2002-08, the number of applicants to non-European language degrees declined steadily, by 22% over the same period.¹⁹⁶ For subjects of other disciplines, only Mathematics and Computer Science recorded a similar decline over the same period.¹⁹⁷

In 2002/03, 3.3% of all full-time undergraduate equivalent students were studying languages as a named component of their degree, though in 2007/08 this figure had fallen to 2.9%.¹⁹⁸ The overall decrease in the number of students studying languages over the period was 3%, compared with a 9.4% increase in students overall.¹⁹⁹

One hope for Modern Foreign Language (MFL) Departments is that while the Government's protection of STEM disciplines in public funding levels appears to amount to an 11% cut in funding for languages, the STEM protection greatly benefits the pre-1992 universities, where the majority of MFL Departments are located.²⁰⁰ The hope would be that those working in MFL Departments could lobby for cross-subsidisation within their own wealthier institutions, but in a tight fiscal market this outcome seems unsustainable.²⁰¹

However, we should sound a cautionary note on subject cuts. Restructuring is never as simple as cutting a subject or letting a few staff members go here or there. The costs of restructuring are considerable, and the cash reserves of many institutions are modest. This will always be a factor in which areas vice-chancellors choose to find their savings. Just because a department is losing money or performs less well than others in terms of research funding does not mean that it will be an immediate candidate for cuts. There are numerous other factors to consider such as the facilities involved and the strategic importance of the discipline to the university. Furthermore, achieving any restructuring would deplete cash reserves and may require further borrowing, something very unattractive in the current economic climate.²⁰²

Widening Participation

A number of vice-chancellors we spoke to privately admitted that institutional activity peripheral to teaching and research would come under pressure. This includes outreach programmes and generous student support packages. While understandable, these measures could further harm attempts to bring more non-traditional students into higher education, and send confusing signals to potential students about the priorities of universities.

International students

As outlined earlier, international students are a lucrative source of income for a growing number of universities across the sector. In the last section we looked at how much enrolments, income and income reliance have grown over time, and

194 Worton M (2009), *Review of Modern Foreign Languages provision in higher education in England*, report commissioned by HEFCE, p16 (citing the LLAS report for the AHRC in 2008).

195 Ibid

196 Worton (2009) p16.

197 Ibid

198 Worton (2009) p17.

199 Ibid

200 Worton (2009) p3.

201 Ibid

202 Eastwood (29 September 2009), *The Guardian*.

discussed some of the threats to this trend on the horizon. However, a number of vice-chancellors told us that if funding dropped considerably they would be forced to ramp up international enrolments to compensate. Indeed, some even suggest that taking on domestic students may begin to seem more of a charitable endeavour in the future. There is no cap on the tuition fees that institutions are allowed to charge international students and when cash is tight taking on more foreign students becomes an obvious way to ease pressure. Given the increased international competition this may be a difficult strategy for some institutions to pursue, yet it is likely that the more selective institutions would find it much easier to recruit. However, of course pushing up international student numbers will have consequences. First, any dramatic change to the student body will change the culture of that institution. While few would debate that higher education is now a global activity and all students will benefit from studying and living with people from different cultural backgrounds, if an institution leans too heavily towards international students, both domestic and international students seeking a UK experience will notice the difference. Secondly, there is a concern that if institutions are under pressure to ramp up international student numbers the temptation to take students of lower quality will increase.

A useful way in which to consider the impact of this strategy is to look at the experience of Australia, which faced similar funding pressures in the 1980s and 1990s. Australia's response to declining state funding was to boost private contributions to HE, first through tuition fees and then through a radical expansion of international student numbers.

Case study: Australia's dependence on international students

Foreign students are big business in Australia. Education is now Australia's third largest export, mainly thanks to the colossal contribution of higher education, which is an incredible story of growth from an export industry that did not exist 25 years ago.²⁰³ Student numbers have rocketed since the Howard Government came to power in 1996. At that point there were just over 54,000 foreign students in Australia, whereas at the end of the Government's term in 2007 there were 273,099 (a leap of 8.5% to 26.5% of the total student population).²⁰⁴ Between 2000 and 2006 Australia's global market share of international students grew from 5.6% to 6.3% at a time when the top three international student recruiter countries (namely the US, UK and Germany) all experienced a reduction.²⁰⁵ The vast majority of students come from Asia (over 80%) and most study in management and commerce disciplines (over half).²⁰⁶ Almost 60% of international students are at the undergraduate level (much higher than in the UK), with only 3.6% undertaking a research higher degree.²⁰⁷ Like the UK, the largest single funding source for Australian universities is the Government, which provides around 45% of total income with a further 21% funded by local students and 15% funded by foreign students.²⁰⁸ This dependence on foreign students, which for the sector as a whole is nearly double the funding stream that it is in the UK, varies greatly between institutions. A reliance on fee income from international students ranges between 3% for access institutions and 44% for those universities that recruit most aggressively.²⁰⁹

The boom in international student numbers is largely due to the Howard Government's explicit policy of rapid international student growth, sustained by the

203 IDP Education website, 'The value of international education to Australia', http://www.idp.com/research/statistics/education_export_statistics.aspx; Universities Australia (2008), *Universities Australia Submission to the Review of Export Policies and Programs*, p1.

204 Bradley D et al (2008), *Review of Australian Higher Education Final Report*, Australian Government, p70.

205 CBI (2009) p20.

206 Bradley et al (2008) p93.

207 Bradley et al (2008) p93.

208 Marginson S (2009), 'Tradition and change in universities: The case of Australia', presentation at Hijiya University, Hiroshima, 16 October 2009, p8.

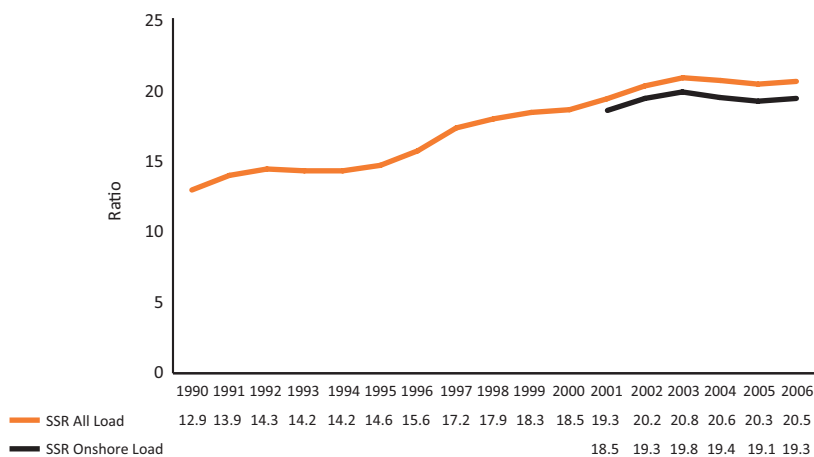
209 Bradley et al (2008) p92.

public under-funding of universities, which has locked the HE sector into a long-term dependence on income from foreign students. This intentional public under-funding – including the part-funding of research and funding of domestic student places well below the real cost of provision – is also fostered by a marketing and quality assurance culture whereby institutions actively sell themselves as ‘products’, and in doing so sustain the reputation of the national (export) industry.²¹⁰

Australia’s shift towards an HE sector that is so reliant on international students has had some big impacts on universities and students. Despite excelling at the quantity of international students, Australia continues to struggle to attract *quality* students, as indicated by such measures as the capacity to recruit the best international PhD students, as well as global research strength compared to the other English-speaking nations.²¹¹ This has serious implications for the long-term reputation and quality of Australian HE.

A major review of the sector in late 2008 found that many institutions use international student revenue to support services for domestic students and to bolster research infrastructure, and was concerned that “there appears to be a systematic pattern across institutions of cross-subsidisation to supplement other institutional activities”.²¹² This is largely because financial constraints force universities to siphon as much money as possible from international student revenues for other purposes.²¹³ The pressures on teaching provision and student to staff ratios can be seen in Figure 10 below.²¹⁴

Figure 10: Australia’s rising student to staff ratio, 1990 to 2006²¹⁵



Meanwhile, the experience that international students receive may also be suffering. Vice-chancellors recognise that it is cheaper to provide international students with essentially the same teaching and learning experience as domestic students, meaning that education is not customised sufficiently to meet the specific needs of international students. The Australasian Survey of Student Engagement (AUSSE)

210 Marginson S (2009), ‘Australian Higher Education and the World: Has the Bradley Report got it right?’, speech at the NTEU Breakfast Forum, 21 April 2009.

211 Marginson S (2009), ‘Presentation on global position and positioning of Australian higher education’, Vice-Chancellor’s Luncheon, James Cook University, 5 May 2009.

212 Bradley et al (2008) p93.

213 Marginson S (2007), ‘In the global context: national policy on international education’, Symposium: University of Melbourne Centre for Public Policy and Centre for the Study of Higher Education.

214 Marginson (2009), speech at NTEU Breakfast.

215 Bradley et al (2008) p72. Data is from Universities Australia member universities only.

2008 raised some serious concerns about the international student experience. The survey found that while international students were equally, or perhaps a little more, engaged than their domestic counterparts (with the exception of their participation in team-work related study) international students reported lower average overall grades, had slightly greater intentions of departing before degree completion, and had lower overall satisfaction.²¹⁶ For those students that spoke a language other than English at home their general development outcomes were lower, as were average grades and overall satisfaction.²¹⁷

The experience of Australia, in particular the need to plug public funding gaps with a high intake of full fee-paying foreign students, highlights some of the consequences of under-investment in teaching, both to the quality of domestic provision as well as to the experience of international students. If the unit of resource is allowed to depreciate over time, English universities may be faced with the same choices (and consequences) as Australian universities.

Recommendations

- Universities have not yet made a clear case for top-up fees. In particular, their reluctance to explain what fees have been spent on has done them no favours. If universities are to argue for higher fees in the future there is no doubt that the public and politicians will demand – quite reasonably – that they tell them where fees have gone thus far. It is clear from our own survey of vice-chancellors, as well as additional research, that top-up fees have been spent on a number of areas that are crucial to the quality of provision and to the student experience in particular. These include bursaries for poorer students, extra spending on widening participation, new buildings and student services. Universities should see it as a priority to communicate this message to students, parents, taxpayers and politicians.
- There is no doubt that universities face a difficult and uncertain financial future. We are concerned that continued underinvestment could lead to a serious deterioration of quality in the sector, with universities cutting back on the maintenance of buildings, student: staff ratios rising, core subjects being axed, and an over-reliance on international students in many institutions. It is crucial that the Government does not see fees as a replacement for state funding and an excuse to continue to cut a sector that is of real importance to our economy and society. However, it is right that those who benefit from higher education – graduates – should have to contribute to its costs. We are convinced that fees will need to rise in the future if we are to protect and improve the student experience, and retain Britain's position as a global leader in higher education.
- Nonetheless, fees should only be allowed to rise if three basic principles have been met:
 1. There must be a clear investment in the student experience
 2. Cost must not be an impediment to going to university. There must be a clear requirement for universities to focus on protecting the poorest students, and the Government must ensure a clear system of financial aid exists and that all potential students understand it.
 3. There must be fundamental reform to the system of student support. At present any rise in fees would prove prohibitively expensive for the Treasury and is simply not realistic.

²¹⁶ Australasian Survey of Student Engagement (2009), *Engaging Students for Success*, p. ix.

²¹⁷ Ibid

4

A Market in Higher Education

Today's vastly expanded higher education system, with its large number of universities and increasingly threatened resource, certainly leaves most vice-chancellors feeling intense pressure, something they might characterise as 'market competition'. In truth, however, we do not yet have a real market in higher education.

Top-up fees were introduced by the Government to the public as 'variable fees', with the anticipation that prices would differ across institutions and courses, based upon returns, popularity and quality. Crucially, this would mean that students would drive up standards through the power of their choices, forcing institutions to think hard about what they were offering.

Accordingly, the run-up to the arrival of top-up fees was fraught with uncertainty. Institutions were prevented by the Office of Fair Trading from discussing pricing, although inevitably they were all watching each other intently and there were reportedly a great deal of private conversations as well as speculation in the media. Universities were unsure of the so-called market in which they would be operating, and in particular had no clear evidence of how their would-be students might react to different prices.²¹⁸

Yet in reality much of the conjecture about different fee levels was irrelevant. The cap was set so low that variability was a pipe dream. Almost every university immediately charged the maximum fee when top-up fees came on stream in 2006. Only four universities – Greenwich, Leeds Metropolitan, Northampton and Thames Valley – charged less. These universities succeeded in setting themselves apart in a crowded marketplace, yet many believed that the reputational risk of doing so outweighed the returns. This is perhaps borne out by the fact that Greenwich is now the only one of these institutions still to offer a discount. The perception amongst most vice-chancellors was that offering 'cut-price' degrees would devalue an institution's reputation for quality.²¹⁹ What is not clear when we think about the future is at what fee level this anxiety might shift.

The failure to activate a market was an explicit failure of one of the Government's key objectives in introducing these fees. They clearly perceived the arrival of a market as the beginning of a new, fairer and more realistic age. After all, why should someone who is studying at Oxford University, with all the cachet and greatly enhanced employability prospects that implies, pay the same as someone studying at their local modern university, which while probably very good,

“The failure to activate a market was an explicit failure of one of the Government's key objectives in introducing top-up fees”

218 Carasso H (2008), *The making of a market – how English universities have set fees and bursaries for Home/EU undergraduates since 2006*, Society for Research into Higher Education Annual Conference 2008, p2.

219 Ibid

is offering something markedly different? In the White Paper that launched top-up fees in 2003 the Government summed this up, saying:

“We have carefully considered the question of whether an additional contribution should be paid at a flat rate – so that it is the same wherever and whatever a student studies – or whether it should vary according to institution and course. It is absolutely clear that students get different returns from different courses. More recent research found a 44 percentage point difference in average returns between graduates from institutions at the two extremes of the graduate pay scale. We believe that a revised contribution system should recognise these differences properly, and not ask students who can’t expect such good prospects in the labour market to subsidise those that can, through a flat fee.”²²⁰

What would a future market look like?

If the fees cap were to be raised in the future, experts predict that there will be an element of the ‘guessing game’ that we saw in 2003 when it comes to pricing. Many institutions we spoke to have already begun an internal evaluation of the real cost of different courses and their popularity with students, but their position in relation to competitors and the likely behaviour of students remain big unknowns. There will be a great deal of internal as well as external politics at play here. With a higher fees cap vice-chancellors would need to decide not only where to set the costs of particular courses, but also how to distribute that money within their institution. As with research funding it is possible that certain popular departments will subsidise others. Of course any decision to prop up a struggling department on a less than temporary basis will also have implications for the institution’s overall strategy and mission, which as we will discuss will become much more crucial in a proper market.

Overall, this uncertainty points to a phased approach to raising the cap being infinitely more sensible for the country. Some institutions will undoubtedly take great risks with pricing in an attempt to keep up with competitors, and inevitably some big mistakes may be made. It is worth noting the Australian example here. Australia’s original income-contingent loan and fees scheme, known as the Higher Education Contribution Scheme (HECS), began in 1989. Since then the cap on tuition fees for full-time undergraduate students has been raised twice: first in 1997 when ‘differential HECS’ divided courses into three price categories, and then again in 2005 when universities were allowed to raise fees by 25% above the previous maximum ‘student contribution amounts’.²²¹ While Australia has not established anything like a perfect fee regime – with too much government intervention on the pricing of particular courses – we would argue that they were right in treading somewhat cautiously and implementing change over time.

At the time of writing there has been no serious research published investigating what fees different universities would charge given the opportunity. Generally vice-chancellors are playing their cards close to their chest and are particularly loath to ‘discuss numbers’ lest they are quoted in the media or they influence the political debate unhelpfully (by demanding too much or too little, or by making demands too early, before the case for fees has been made). Perhaps surprisingly, even the heads of most leading research intensive universities who are resolutely committed to the raising of the fees cap are anxious not to put their heads above the parapet, preferring to allow their mission groups to take a general stance on

²²⁰ Department for Education and Skills (2003), *The Future of higher education*, pp83-84.

²²¹ Norton A (2006), *HELPLess: How the FEE-HELP loans system lets students down and how to fix it*, Centre for Independent Studies, p3.

their behalf (and again not discussing numbers). Nonetheless, while a minority of vice-chancellors is wedded to the status quo, there is a growing appetite across the sector for real competition, with variation by university and by course. A survey of 53 vice-chancellors by the BBC in March 2009 found that two-thirds wanted to raise fees, with suggested levels varying from £4,000 to £20,000 per year. More than half of these university heads felt students should pay at least £5,000 per year and one in ten wanted the cap removed completely with universities allowed to charge whatever they chose.²²²

What does seem inevitable, based on our conversations with vice-chancellors and experts from across the sector, is that if the cap is set at £5,000 (a figure that is often mentioned as ‘politically achievable’, and ironically the level originally discussed by Blair’s Government in 2002), or lower than £5,000, once again the majority of institutions will charge the maximum fee and no real market will be activated. Any variation will happen only at the newest end of the sector, and is likely to be limited. This was backed up by a report from the vice-chancellors group Universities UK in 2009, which found that an increase in the fee of up to £5,000 a year would mean “universities would not expect to change their behaviour by setting differential fees by course or in terms of student response.” They also argued that students are insensitive to variations in tuition fees below this level.²²³

Raising the cap without creating a market would be a serious policy failure. Although there is still considerable squeamishness about the idea of a market in some elements of the sector, there is no sound evidence to support this. Indeed, we would argue that creating a real market in higher education is vital if we are to have a fair system in which institutions who serve students well are rewarded.

However, a higher fees cap alone will not be enough to drive up quality. As we have learned in the schools sector, markets need to operate in tandem with accountability. Sweden, for example, has an exciting range of school providers for parents to choose from, but very little information upon which to base that choice: thus the market is in one major sense a failure.²²⁴ The same will be true of higher education. For a market to function properly there is a very real need for students and their parents and teachers to have access to decent, comparable information with which to make informed choices. There is already a large amount of data about universities in the public domain, however, it is spread between different organisations and websites and is often hard to find and understand. More worryingly, some very important data is not collected (or not collected in a sufficiently robust fashion) and there should be serious pressure from the Government for universities to provide it. In particular students and parents want information on employment and salary prospects, contact hours and class sizes. Universities have resisted making such information available, but without it we will have a market that is not properly responsive to quality, but instead is driven by historical or ill-informed opinions about which courses or institutions are good or worthwhile. As students become increasingly savvy about the investment they are making, institutions will have to face up to the need for proper transparency. We will explore this in more detail in the chapter on the student experience.

A real market will force institutions to make much more definite decisions about what their mission is – rather than persisting with the current pretence that

222 Coughlan S (17 March 2009), *Universities push for higher fees*, BBC Online, <http://news.bbc.co.uk/1/hi/education/7946912.stm>.

223 Brown N et al (2009), *Changing landscapes: future scenarios for variable tuition fees*, Universities UK.

224 For further discussion of accountability and markets see the Policy Exchange report: Meyland-Smith D and Evans N (2009), *A Guide to School Choice Reforms*.

every university is broadly the same. This argument is often presented in entirely negative terms. A recent lecture by Roger Brown, Professor of HE at Liverpool Hope University, which painted a “dystopian” picture of a world in which universities were split into different types with “disastrous consequences” is a case in point.²²⁵ One of his chief concerns is that a new market-based system would serve ‘the elite’ and others would suffer. This is a common misconception. First, we should point out that we reject the broad notion that ‘elitism’ within education is automatically a bad thing. Intellectual elitism is often deliberately confused with social elitism to make political points. The simple fact is that the brightest students, no matter what their family background is, have a right to aspire to study at the very best universities. We should not be ashamed of those universities and should seek to protect and support them. However, a market does not only benefit those institutions at the research-intensive end. In the sense that a market will reward all those institutions which are genuinely, demonstrably good at what they do, then an ‘elitist’ system would drive up quality across the spectrum. Institutions would strive to become the ‘elite’ within their own tier or segment of the market.

Crucially, such tiers should not be imposed or defined by the Government. Institutions must decide themselves what their key missions are and where they fit in the overall market. Many are already doing this. For instance, the universities of Hertfordshire and Liverpool John Moores have successfully refocused their strategies and marketing around the idea of preparing their students for the real world of work. Similarly, the smaller research-intensive universities such as Durham and Surrey are positioning themselves as research-based universities that are particularly focused upon the student experience. In a market it is likely that

“In the sense that a market will reward all those institutions which are genuinely, demonstrably good at what they do, then an ‘elitist’ system would drive up quality across the spectrum”

some institutions would take this further, actively selling on issues that are often dodged today, such as having smaller class or seminar sizes, or a high percentage of teaching carried out by professors rather than PhD students.

Dividing lines can already be seen in the form of the mission groups within the sector. The Russell Group comprises the big volume, big reputation research institutions, and strives to position itself as the ‘top’ of the sector. Alongside it is the 1994 Group of smaller institutions who market themselves as serious research institutions but with a friendlier focus upon the student experience due to their size. The Alliance (formerly the more ambiguously titled Alliance of Non-Aligned Universities) is the newest of the mission groups, and is carving out a fresh territory at the modern end of the sector, emphasising student employability and strong links with business. Finally there is the prominent Million Plus, which styles itself as a ‘think tank’ but is another mission lobby group representing modern universities, many of whom are leading the way on spreading opportunity to less traditional ‘access’ students. However, as several vice-chancellors remarked to us privately, there is also considerable disparity within these mission groups. In a market that is properly accountable and responsive to quality, simply being in a particular mission group may not be enough (and indeed memberships may shift over time). At present the mission groups lobby for their

²²⁵ Brown R (2009), *What Future for UK Higher Education?*, Guest Lecture, Thames Valley University London, 28 October 2009.

members' needs over those of other parts of the market. In a market, institutions within each grouping will also compete much more obviously with each other, and with proper information historical reputation or a place in a particular mission group should not be enough to maintain a high ranking. Of course, not all institutions belong to a group. This need not matter, as long as the university has a clear vision of what it exists for and a definite and realistic strategy for the future.

One other new trend which would be likely to emerge in a market is an increase in institutions offering flexible learning to older and non-traditional learners, probably online or part-time or in venues more suited to people juggling busy lives. Such institutions are already big business in the US, and this is an area in which the private sector would be particularly keen to operate. Private providers such as Kaplan and Apollo already have a foot in the UK market and are hoping to expand in the future. Such a development is often perceived to be a dangerous threat by many in the sector – with an automatic assumption that private providers will cut corners and offer low quality courses in order to make a profit. However, private providers we spoke to countered that they are much more receptive to student feedback than traditional universities, because they are not trading on an historic brand and will live or die by their reputation amongst customers. They argued that they could make a profit by cutting many of the inefficiencies that they see in the rest of the higher education system. One senior figure in a private education company told us that his firm could make a profit of 10% even with fees set as low as £3,000, by cutting out inefficiencies.²²⁶ Bringing alternative providers into the system will benefit students by broadening the choices available to them. While many may see new competition as a threat we would argue that it can only drive up quality.

Historically, the ability to receive degree awarding powers from the Quality Assurance Agency (QAA) was a significant barrier for any private provider wishing to enter the higher education market. Yet QAA's criteria changed as a result of the 2004 Higher Education Act and now allows private bodies to apply for their own degree-awarding powers. The profit-making BPP College and the not-for-profit College of Law have since received degree-awarding status.²²⁷ Furthermore, institutions no longer have to award higher degrees or undertake research in order to offer undergraduate courses.²²⁸ The biggest barrier to entry for these companies may be opposition from academics themselves, and the unions in particular. Sally Hunt, Secretary of the University and College Union, has made her position very clear: "We are not prepared to watch our universities risk hard won reputations and future financial health by signing capital and revenue over to what are in effect private sector property developers. We've seen the disastrous consequences of this kind of privatisation across the public sector and will fight it wherever it rears its head."²²⁹ Bearing this in mind, there would need to be a very clear steer from the Government that private providers have something valuable to offer to the market, if they are to be more actively involved.

Introducing a market with clear differentiation between institutions is not about stopping universities doing what they want to do. Instead it is about encouraging them to think hard about what they are already good at. It makes sense that a university that is changing lives by taking risks and giving places to students from less traditional backgrounds, focuses upon its role as an access

226 Private information

227 Gill J (14 February 2008), *Degree powers come with risks*, QAA head tells private firms, The Times Higher, <http://www.timeshighereducation.co.uk/story.asp?sectioncode=26&storycode=400558>.

228 For more information see 'Guidance for applicant organisations in England and Wales (August 2004)', Quality Assurance Agency, <http://www.qaa.ac.uk/reviews/dap/CriteriaGuidance.asp>

229 Spencer D (13 July 2008), *UK: Fears over privatization*, University World News, <http://www.universityworldnews.com/article.php?story=20080710160335483>.

university delivering excellent teaching, instead of positioning itself as a research university. That does not mean a modern access university should not be doing research – but it means that it should be thinking harder about where its research strengths lie and focusing on them.

The question then becomes – who will suffer in such a market? Institutions which do not offer demonstrable quality, regardless of where they are in the market, should certainly lose out. But so too should institutions who have not thought carefully enough about their strategic offering. The assumption is often that those who wobble will be at the modern end of the sector – and indeed HEFCE has a list of ‘high risk’ institutions, which are all thought to be post-1992 universities. However, some years ago Sir Howard Newby, then Chief Executive of HEFCE, warned that the universities who really needed to rethink their mission were those in what he called the “squeezed middle” – pre-1992 universities who were outside of the research elite, often because they were still trying to succeed in all areas, rather than specialising, and who could find themselves struggling in a world of increasingly concentrated research funding.²³⁰ Some universities who might have fallen into this ‘squeezed middle’ have gone through painful restructuring in order to escape such a fate. Others have yet to wake up to a need for change.

Exeter University is an interesting example of a university embracing tough strategic change in order to set itself apart in a coming market. It hit the headlines in 2004 with its controversial decision to cease entry to single honours Chemistry, Music and Italian. Professor Steve Smith, the vice-chancellor, has explained that the university wanted to be in the top 20 in the country and therefore decided its growth needed to be selective, that it had to stop draining resources by propping up unsustainable departments and instead invest in success. Writing about the difficult restructuring process he said: “We are currently spreading our jam too thinly and cannot sustain or achieve international excellence over the 37 subjects we have submitted to the 2001 RAE.”²³¹ He added: “Time will tell if we made the right decisions, but we are certain that we have repositioned Exeter, and to do that required the radical, painful, but necessary re-focusing of 2004-05.”

Of course, a real market will also raise the uncomfortable possibility that a university may go to the wall and with the sorts of cuts that are looming over the sector right now, that possibility is surely becoming a reality. No university has yet gone bankrupt in Britain. Instead there have been 27 mergers, most of which were whisked through with little or no publicity or discussion, and many of which have failed in the long term. An environment in which every vice-chancellor and governing body knows that if they get into trouble they will be bailed out can only encourage bad practice. Nor is public money always being spent wisely. If quality is allowed to deteriorate at any one institution this is not simply an issue for them but for the reputation of UK higher education as a whole. We feel strongly that taxpayers, students, parents, businesses, and others who use university services have a right to a greater level of accountability. While in an under-provided area outside London the impact of a major university going under would be so great that a merger would be the preferred option, in London, where there are 42 HE institutions, the notion should be much more possible.²³²

230 For a commentary on the squeezed middle see the Davies R (29 July 2005), *Minor Pain, Major Gain*, The Times Higher, <http://www.timeshighereducation.co.uk/story.asp?storyCode=197611§ioncode=26>.

231 For a full account of Exeter’s restructuring, see ‘Exeter as a case study for a changing higher education marketplace’ by Professor Steve Smith, p160-173, in ‘Can the Prizes Still Glitter? The Future of British universities in a changing world’, edited by Hugo de Burgh, Anna Fazackerley, Jeremy Black, University of Buckingham Press.

232 For a full discussion of the implications of allowing universities to fail see the recent Policy Exchange report ‘Sink or Swim? Facing up to failing universities’.

Recommendations

- If the fees cap were to be raised in the future, experts predict that there will be an element of the ‘guessing game’ that we saw in 2003 when it comes to pricing. Overall, this uncertainty points to a phased approach to raising the cap being infinitely more sensible for the country. Some institutions will undoubtedly take great risks with pricing in an attempt to keep up with competitors, and inevitably some big mistakes may be made. We would recommend phasing in change over time. This means that the cap should not be removed completely – although this could be a long-term aim. Instead higher fees should be introduced in stages, so that the Government and universities can monitor and deal with the effects.
- Nonetheless, we urge the Government to make its first move on fees a bold one. It is clear that if the cap is set at £5,000 or lower, once again the majority of institutions will charge the maximum fee and no real market will be activated. Any variation will happen only at the newest end of the sector and is likely to be limited. Raising the cap without creating a market would be a serious policy failure. We would argue that creating a real market in higher education is vital if we are to have a fair system in which institutions who serve students well are rewarded.
- However, we do not think it is appropriate to stick our fingers in the air and specify a level for the cap here. Such a decision must not be purely political - as the decision to set the cap at £3,000 in 2003 clearly was - but rather it must be based upon a proper analysis of a number of different factors. The financial health of the sector is of course important, and further detailed work should be done to understand the extent of the current and future gap in funding. This should include an analysis of possible new models for raising additional support from sources other than graduates and the state, in particular the private sector, and the revenue they could raise. As we have discussed it is also crucial that we raise fees to a level that will activate a market, and there needs to be further work to establish exactly where that tipping point is. However, the ability of students to pay for their degrees must always be of paramount importance. Any new fee regime will have to be affordable for students from all backgrounds, so that no one is deterred from going to the university of their choice on financial grounds. We are convinced that this is achievable, with a fair and easy to understand student support system. Yet there remains a serious question of what sort of student support system the Government can afford, particularly in our severely constrained economic circumstances. The blunt truth is that fees simply cannot rise with the current system in place. In the student support section of this report we recommend a variety of different ways for the Government to reduce the student support burden to allow for some movement on fees. Any decision on where to place the fees cap must of course be linked to how much money such options will raise.
- However, a higher fees cap alone will not be enough to drive up quality. For a market to function properly there is a very real need for students and their parents and teachers to have access to decent, comparable information with which to make informed choices. The Government should encourage or if necessary compel universities to provide robust information on issues students and parents care about, including employment and salary prospects, contact hours and class sizes.

5

The Student Experience

The Student Consumer

The introduction of tuition fees marked a fundamental shift in the way students regarded their higher education. For the first time they were purchasing that education (albeit only covering some of the costs). This meant that for the first time students had effectively become consumers. As consumers their demands would probably increase, and the way in which universities interacted with them would probably have to change quite significantly.

The notion of the student as a consumer is a controversial one, which is rejected outright by many in the sector, or accepted by others as a regrettable fact of modern life that will inevitably change universities for the worse. If consumerism suggests a passive relationship – in which a student simply purchases a service, or a piece of paper showing they have received that service – then it would certainly be a negative thing. Naturally, we want students to be involved in their university experience. Higher education should involve independent learning as well as tuition, and crucially it should be about learning to think and to question rather than being spoon-fed information. At its best, university should also be a life-changing personal and social experience. In short, as Paul Ramsden, the Head of the Higher Education Academy has said recently, there must be a partnership between the university and the student.²³³

However, if we are to assume that a student can be a consumer and still see university as something that they are actively involved in, which will involve certain commitments from them as well as simply a cash contribution, then this shift may in fact be a good thing. The arrival of the student consumer has the power to force universities to think much harder about what they are offering, and thus to drive up quality. It may also have the power to make students think much harder about what they are going to university for and what they seek to gain from the experience.

Both the Conservatives and the Government have now championed the idea of the student experience and the savvy new student consumer. Significantly, David Willetts' first major speech after taking up the new post of Shadow Secretary of State for Innovation, Universities and Skills in 2007, was about higher education and the student experience. He argued that: "Students and their parents are not simply concerned about the cost of higher education. They care about quality. Students now regard themselves as customers, and they want to know that they are investing in the right student experience."²³⁴ He told the Conservative party conference the same month: "The biggest single issue in higher education is the student experience."²³⁵ This was something of a departure for the sector, and

²³³ Ramsden P (2009), 'A Better Student Experience', lecture to the 1994 Group student experience conference, 19 November 2009.

²³⁴ Willetts D (2007), 'Higher Education and the Student Experience', lecture to the Sheffield University Academy of Public Service, <http://www.davidwilletts.co.uk/2007/10/31/student-experience/>.

²³⁵ The Times Higher (5 October 2007), *Willetts questions HE value for money*, <http://www.timeshighereducation.co.uk/story.asp?storyCode=310730§ion-code=26>.

privately many vice-chancellors expressed surprise that the student experience should have travelled further up the political agenda than issues such as research. Indeed, a few vice-chancellors have continued to express this view to us, querying why we need to discuss the student experience when the UK has a world class higher education system. We would argue in response that no excellent system should be complacent enough to assume that it should never have to prove itself. Nor should universities (excellent or otherwise) expect students (or rather graduates) to invest in their higher education without being willing to think hard about what they are offering to students and to engage in a transparent discussion about that offering.

Negative views about the student experience have become less and less commonly heard as universities realise that this is not a political storm in a teacup but a long-term policy trend. The Government has now firmly endorsed the student experience agenda as being core to its overall higher education mission. There was a chapter on the student experience in Lord Mandelson's Framework for Higher Education.²³⁶ In his recent annual grant letter to HEFCE he talked about the importance of quality assurance and stressed: "A high quality student experience, with excellent teaching well supported by the latest technology, is vital for our universities to continue to flourish. The evidence is that our universities do provide such an experience, but we cannot be complacent."²³⁷

Student Consumer Protests

A number of student protests linked to the student experience have hit the headlines in recent years. Below are a few examples from 2009:

- The **University of Bristol** hit the headlines in early 2009 when 600 economics and finance students signed a written complaint questioning improvements to the quality of their teaching since top-up fees came on stream in 2006. The complaint raised concerns about student to staff ratios in lectures and tutorials, evidence of a robust exam-marking system, and the allocation of tuition fee income, which is believed to have been diverted to uses other than undergraduate teaching. Tellingly, the students complained not because contact hours were too low, but because they were lower than the institution had led them to believe they would be.²³⁸
- The **University of Manchester** faced a similar headache when student protestors forced the university to reverse a decision to cut lectures from 30 to 20 hours per module, to be replaced by FAQ sessions.²³⁹
- In response to poor ratings in the NSS, the student union at **Manchester Metropolitan University** launched their 'LATE' program in 2009 to monitor patterns of late and cancelled lectures, which predictably drew outrage from the UCU.²⁴⁰
- These three examples are just a small snapshot of the unrest that many students feel about the quality of their teaching and university experience. Crucially, individual institutions could be more transparent and they need to manage the expectations of students better.

236 BIS (2009), *Higher Ambitions*, chapter 4.

237 Mandelson (22 December 2009), Grant letter.

238 Grimston J (10 May 2009), *Students at top university revolt over teaching standards*, The Sunday Times, http://www.timesonline.co.uk/tol/life_and_style/education/article6256503.ece.

239 Newman M (21 May 2009), *Students force U-turn over cuts to law lectures*, The Times Higher, <http://www.timeshighereducation.co.uk/story.asp?sectioncode=26&storycode=406626&c=1>.

240 MMU Online, 'If you're on time, why is your class LATE?', <http://www.mmunion.co.uk/talk-tous/campaigns/late/>.

Pressures upon Teaching and the Student Experience

The Research Assessment Exercise, which rates the quality of research in order to distribute nearly £1.5 billion of research funding a year, has undoubtedly had a huge impact upon the culture of universities. The exercise, which was launched in 1986 and happens about every five years, consumes huge amounts of universities' energy, and prompts hiring sprees as institutions attempt to beef up their research departments with star researchers or even whole teams.²⁴¹ Given this it is inevitable that teaching, which has a fixed (if inadequate) funding formula based upon the costs of different subjects or disciplines, should have assumed a somewhat lower priority. The Higher Education Academy has warned that while some institutions do have a culture that rewards good teaching, others are much further behind. Launching its strategic plan in July 2008 the HEA warned that: "Many academics say that research carries too much weight compared with teaching when it comes to promotions and recognition. A major task for the Academy is to find out what lies behind these perceptions and make it easier for teaching to gain the recognition it deserves."²⁴² The RAE is due to be phased out and replaced with another exercise, the Research Excellence Framework. One of the intentions is to create a simplified system that is less prone to gaming by institutions, however this outcome is beginning to look optimistic, with the proposals becoming increasingly complicated. It seems highly unlikely that the REF will do anything to radically change a culture which favours research, and thus the Government must give a strong steer to universities on the importance of teaching. If universities are to charge higher fees they will need to demonstrate that they value and promote excellent teaching: nothing is more important in guaranteeing a good student experience.

As we have already discussed, one serious outcome of poorly financed expansion in our universities has been that staff numbers have not kept pace with the growth in students. While staff numbers do not always tally neatly with student satisfaction, high student to staff ratios do indicate a reduction in the amount of time staff have to spend with students, and this has real implications for quality.²⁴³ HEFCE's Financial Strategy and Sustainability Group reviewed the ways in which universities had changed their behaviour to adapt to these staffing pressures. They found that institutions had increased the size of student teaching groups, pulled in a wider range of staff to teaching (including postgraduate students, graduate teaching assistants and part-time staff) and replaced some lectures with online resources.²⁴⁴ The group argued that none of these changes were detrimental to teaching. However, it seems reasonable to ask whether students are aware of these sorts of shifts when they imagine what their university experience will be like. The report also identified "coping strategies" at some institutions which were much more obviously negative. These included:

- Effective breakdown of the system of pastoral tutoring in some cases (only partly compensated for by the improvement of central student support services);
- A reduction on staff-intensive forms of learning such as laboratory sessions in the sciences and essay tutorials in the humanities;
- A reduction in staff's ability to provide timely, tailored and formative feedback on students' work;
- A cut-back in face-to-face feedback in particular.

²⁴¹ See Fazackerley A (2 December 2005), *RAE poachers take big game*, The Times Higher, <http://www.timeshighereducation.co.uk/story.asp?storyCode=200072§ioncode=26>; and Corbyn Z (12 February 2009), *Poachers eye rich pickings amid the RAE's pockets of excellence*, The Times Higher, <http://www.timeshighereducation.co.uk/story.asp?storyCode=405355§ioncode=26>.

²⁴² Higher Education Academy (2008), *Higher Education Academy calls for greater recognition for university teaching*, Press Release, http://www.heacademy.ac.uk/news/detail/academy_2008_13_strategicplan_24Jul08.

²⁴³ JM Consulting (2008) pp20-21. Also see Chapter 3 of this report, on university finances, for a more detailed analysis of student to staff ratios.

²⁴⁴ JM Consulting (2008) p22.

A related issue that has come to the fore in recent years (to the frustration of many universities) is contact hours. The Higher Education Policy Institute (HEPI) sparked a public debate with the publication of two student surveys on the academic experience.²⁴⁵ The first was more robust, surveying 15,000 students in England, while the second has been criticised for only surveying 2,000. Nonetheless, both surveys opened the door to a thorny issue that had not been properly explored before. HEPI found that students receive an average of 14.5 hours teaching time per week, but as one would expect this varies considerably according to discipline.

This is significantly lower than the average in other European countries, and HEPI warned that this might threaten quality and be seen as poor value for money for students. More worryingly, there were found to be large differences between institutions on contact hours for the same

discipline. For instance, in historical and philosophical studies the contact hours ranged from 39.5 hours per week at the most demanding institutions to 14 hours at the least demanding. The FSSG report also presented some evidence that contact time had fallen. It noted, for example, that the engineering department at one university had cut first year contact hours from 524 in 1990/91 to 320 hours in 2007/08. Given that engineering is one of the subjects that traditionally requires high levels of contact time, including extensive laboratory work, this example is particularly surprising and worrying.

“High student to staff ratios do indicate a reduction in the amount of time staff have to spend with students, and this has real implications for quality”

Information about the student experience

As we discussed in chapter four, a higher education market cannot operate well unless there is sufficiently robust, comparable information upon which students can base their choices of where and what to study. The annual National Student Survey (NSS), which was launched in 2005 and is commissioned by HEFCE and the other funding councils, with the support of the NUS, introduced a level of accountability that had not been present in the system before. The survey asks final year students at institutions across the UK a series of questions about the quality of teaching they have received. It covers topics including: teaching, assessment and feedback, academic support, organisation and management, learning resources and personal development. Feedback is consistently highlighted by students across the sector as the area they are most unhappy with, and although institutions say they are working hard on this there has been no sign of real improvement. In the 2008 NSS overall student satisfaction in England was 82%, but only 64% felt feedback on their course had been prompt.²⁴⁶ This points once more to the problem of staff numbers not keeping pace with student numbers.

Would-be students and staff can now search the NSS results online, via the Government's UniStats website, looking at results for particular departments within institutions. This has placed a useful pressure upon institutions to improve quality in areas where they are shown to be weak, and vice-chancellors we spoke to said they took a poor score for a department very seriously, and actively compared departments across the university. Nonetheless, the Select Committee on Innovation Universities and Skills questioned the independence of the survey. Some vice-chancellors we spoke to agreed that there were ways of manipulating the survey. For instance, in the run up to the survey institutions may avoid pushing students too hard, organising early morning starts, reprimanding students or sending out bills. Similarly, staff may

245 Bekhradnia B (2009), *The Academic Experience of Students in English Universities 2009 Report*, HEPI May 2009; and Bekhradnia B and Sastry T (2007), *The Academic Experience of Students in English Universities 2007 report*, HEPI.

246 HEFCE (2008), *Best-ever response rate for NSS*, <http://www.hefce.ac.uk/news/hefce/2008/nss.htm>.

impress upon students the importance of scoring generously in order to maintain the reputation and brand of their course. However, one VC told us that it was obvious when a department's score leaped for no apparent reason that some pressure had been applied, and the management team would crack down upon the department in question. In short, the NSS has been a valuable introduction, and has empowered students to a new level, yet there is still a real need for further information on top of this survey.

There is already a large amount of data about universities in the public domain, however it is spread between different organisations and is often hard to find and understand. Comparable information that is already collected and that students and parents might be interested in includes:

- Data on university estates (collected by HEFCE);
- Research quality ratings (currently the RAE, collated by HEFCE);
- Information about library facilities (collected by SCONUL); and
- Drop-out rates and widening participation data (collected by HESA).

Crucially, data on several key issues that students and parents do care about is not collected – or not in a sufficiently robust manner. In particular, students who are making choices about where and what to study are likely to want to know whether a course will lead to a job (or where previous graduates have ended up) as well as likely salary outcomes. There is clear evidence that having a degree enhances both one's earning potential and one's ability to secure a job. A Universities UK report showed that the average graduate earns an additional £160,000 over a lifetime compared with an individual with two or more A-levels but no degree.²⁴⁷ Yet it is much harder to find serious data on job prospects for graduates at individual institutions. This is not acceptable. Students and parents have a right to know more about employment rates and salaries.

One common argument against publishing data on jobs and salaries is that employers often automatically recruit from Russell Group universities, and therefore these universities are at an unfair advantage, thus potentially harming the reputations of newer universities. In fact, the experience of London South Bank University, which conducted its own survey of graduate salaries and discovered that they fared extremely well, suggests that such an argument is tenuous.²⁴⁸ Moreover, if the publication of data puts pressure upon universities to think harder about making their graduates more attractive and useful to employers, regardless of which part of the sector they are in, that will be a good thing. Institutions must think hard about preparing their students for the job market. With more and more people going to university, and over six out of ten acquiring a first or 2.1 degree, the graduate job market is now an incredibly competitive place.²⁴⁹ Employers will look for more than just a degree certificate, wanting skills such as creativity, the ability to work with others and strong communication skills. Universities may need to increase their students' exposure to business. An interesting model might be Singapore Management University, where no student can graduate without having passed a work experience module working within a relevant company.

As discussed, another issue which really concerns students is contact hours. The QAA looked at collating data on contact hours some years ago, but the idea was discarded. This was short-sighted. Of course, as we have seen, contact hours vary according to subject. A laboratory-based subject such as chemistry will require many more hours of supervision than a subject such as history, which will demand a great

²⁴⁷ Universities UK (2006), *'Higher level learning: Universities and employers working together'*.

²⁴⁸ Times Online (27 May 2009), *Profile: London South Bank University*, http://www.timesonline.co.uk/tol/life_and_style/education/good_university_guide/article2166599.ece.

²⁴⁹ Garner R (14 January 2010), *1 in 7 gained first-class degrees in 2009*, The Independent, <http://www.independent.co.uk/news/education/education-news/1-in-7-gained-firstclass-degrees-in-2009-1868188.html>.

deal of independent study and may only need six or eight hours a week in seminars or lectures. Institutions often argue that this data should not be released because the public do not understand this subtlety. We disagree strongly. If institutions feel that a subject needs very few contact hours, they need to explain why this is the case. Secrecy is only counter-productive, leaving students and parents feeling cheated. Expectations are absolutely crucial. A survey of first-year students by the Higher Education Academy found that 41% of students who knew nothing about their course before they enrolled had considered dropping out, compared with only 25% of students who knew a moderate amount or a lot about what to expect from their course.²⁵⁰

Information about class sizes is also kept very quiet. However, professors and lecturers from all sorts of universities (including the Russell group) report that their class sizes are spiralling. This may not be such a problem for lectures. If you are simply listening and taking notes it may be relatively unimportant to you whether you do this in a room full of 50 or 200 other students. However, if seminar and tutorial sizes are being squeezed this will of course have more of an impact. Class size information could be narrowed down, with information on numbers of hours spent in lectures and smaller tutorials. As we have seen such changes in group sizes are driven by increasing student to staff ratios, but nonetheless this is another area in which institutions need, at the very least, to manage student expectations. If they want students to pay higher fees they will need to think hard about the quality of the teaching they are offering, and that will include the teaching environment.

It would also be desirable for students to be able to research student to staff ratios and the professional level of staff who teach. While HEFCE's FSSG group may have judged that asking postgraduates to take over more of the teaching does not harm the quality of teaching, if an institution is marketing itself to students based upon the quality of its professorial staff, they may be less happy with this shift. As we have noted before, when a proper market emerges it is likely that these are the sorts of things that universities will actively compete on, as the more expensive Liberal Arts Colleges do in the US, offering small classes taught by professors.

Recommendations

- While we encourage moves by the Government to ensure that universities publish a standard set of information about what students can expect from their university experience, the current steer needs to go much further. It is not enough to ask for information simply on what students will learn, what facilities they will have access to, and what their study responsibilities will be, as laid out in Lord Mandelson's annual grant letter to HEFCE in December 2009. The Government should support moves to introduce a national student experience website collating data on the issues that students care about. This should involve compelling universities to collect data or assist in the collection of data on employability, salary outcomes, contact hours, class sizes and teacher numbers, as part of a deal for introducing fees.
- We feel it is right that those who benefit from their higher education should contribute towards the cost of it. However, in return universities should guarantee a significant investment of time and resource in maintaining and improving the quality of experience they will receive. It is unrealistic for any university to expect to be allowed to charge higher fees if they do not make the student experience a clear and major priority.

250 Yorke M and Longden B (2008), *The first-year experience of higher education in the UK*, The Higher Education Academy.

6

Widening Access: Fees and Poorer Students

The aim of providing a university education to everyone who would benefit from it, regardless of their family background or their ability to pay for that education, is absolutely crucial to any debate about fees. In short, fees should not be able to rise if the net result would be a return to the old days of education for the privileged few. Indeed, much as universities need and want more money, none would argue that this can entail shutting people out of the system simply because they cannot afford it. Leading research universities such as Cambridge have warned the Government that they are not engines of social justice²⁵¹: from a teaching point of view they exist to teach the very best students and this is crucial to their continuing excellence. Such statements are deliberately provocative, designed to warn off a Government that has become increasingly keen on micro-managing universities in return for funding, and increasingly likely to vilify universities for failures happening within the schools system. However, the point is not that leading universities wish to turn away clever poor students. Quite the reverse: they are anxious that finance should not be an impediment to excellence. At the other end of the spectrum most modern universities see one of the main *raison d'être* as recruiting and supporting so-called 'access' students, whose families have probably never been to university before, and who are slotting university into their often complicated lives. These access universities may not seek to charge particularly high costs for their courses in the future, but nonetheless they will want to know that any increase is going to allow them to protect quality without harming what is probably their most important mission.

In this chapter, we will consider what impact top-up fees have had on participation, debt and the affordability of going to university. This will include a discussion of the student support system, students' cost of living and lessons to be learnt from the experience of institutional financial aid in the US.

Impact of top-up fees

What was the *expected* impact of top-up fees?

As we have seen, debate around the 2004 Higher Education Bill was fierce, emotional and sometimes rather light on evidence. Those who were opposed to fees voiced major concerns about the affordability and potential deterrent effect of student debt. A number of groups including the NUS, backbench Labour MPs and

²⁵¹ Richard A (2008), Quality, 'Talent and Diversity in the UK university system', Speech to open the Universities UK Annual Conference in Cambridge, 10 September 2008.

‘access’ experts had grave concerns that raising the cap on tuition fees would discourage many students from going to university on financial grounds, in particular those from poorer backgrounds. The logic was that these students would be much more debt averse than their wealthier peers, and that charging a significant contribution for a university education would deny students their fundamental right to an affordable education.

The Evidence Against Fees

The anti-fees lobby quoted a body of research to support this core argument. A study commissioned by the Joseph Rowntree Foundation in 2000 found that as result of the extra financial barriers disadvantaged young people face, some students were “more likely to enrol in less advanced or prestigious courses than their more advantaged peers”. Specifically, “lack of funds and reluctance to take on debt limited the length of courses that many disadvantaged young people felt they could afford to enrol in”, and the costs of leaving home and daily commuting “limited the range of institutions that some disadvantaged young people felt they could attend”.²⁵² HEFCE commissioned a report in 2001 of the literature on the impact of introducing means-tested contributions to tuition fees for full-time undergraduates from 1998-99 onwards. It found that although much of the research available at the time was based on relatively small samples of individuals and relied heavily on focus groups, the evidence tended to support the conclusion that “options for increased funding for institutions that involve either increased fee contributions and/or increased loan debt are likely to have a disproportionate effect on participation by students from the lowest socio-economic groups”.²⁵³ Furthermore, “even if they are means-tested out of any contribution to increased fees, experience with the current system suggests that it is most difficult to get across the message about means-testing to those who are most likely to benefit”.²⁵⁴

Academic unions were also vocal in their opposition to fees. The Association of University Teachers (AUT) argued back in 2003 that “student debt is a major disincentive for working-class students”. They were unconvinced that the Government’s ‘safeguards’ would “allow for the introduction of differential fees without undermining access to the institutions that charge them”.²⁵⁵ Predictably, the NUS was also strongly opposed to higher tuition fees. A Higher Education Authority research paper from 2006²⁵⁶ summarises the main NUS objections to top-up fees: “In general students everywhere do not support the loan system. In the UK, the NUS are especially opposed to the variable top-up fees model, arguing that... it is an imposition of graduate contributions which will inhibit participation from disadvantaged sections of our community and place an unfair burden on students when they graduate...”.²⁵⁷ The NUS believed that the “proposal will not assist in widening participation nor solve the funding crisis in our universities and colleges - it only enables the creation of a commercial market in HE at the expense of people who will be saddled with debt for more than a generation”.²⁵⁸ After the Bill was passed, further doubt mounted from some corners, and a 2005 paper published by Professor Claire Callender argued that the Government’s student funding policies “are predicated on the accumulation of debt and thus are in danger of deterring the very students at the heart of their widening participation policies”.²⁵⁹

252 Joseph Rowntree Foundation (2000), *Socio-economic disadvantage and access to higher education*, p1.

253 Brown N and Clark T (2003), *Impact on student demand of tuition fees and changes in higher education student support*, commissioned by HEFCE.

254 Ibid

255 AUT (2003), *Widening Participation in Higher Education*, Response by to the Government’s proposals for the Office for Fair Access, p4.

256 Foskett N et al (2006), *Changing Fee Regimes and their Impact on Student Attitudes to Higher Education*, Higher Education Academy.

257 Ibid p26

258 Ibid

259 Callender C and Jackson J (2005), *Does the Fear of Debt Deter Students from Higher Education?*, Cambridge University Press.

For

The Government and the higher education sector as a whole were more optimistic about the power of an effective student support system to negate such deterrent effects, and much more resolute about the necessity of greater graduate contributions. The Government received unexpectedly resounding support from the OECD, which published a paper in 2004 that firmly supported the introduction of graduate contributions and suggested that the UK system should be a model for the rest of Europe. The OECD maintained that while “it is sometimes argued that funding higher education by individual loans rather than taxes could discourage students from poor families, and that it is unfair that very successful graduates will end up paying a smaller share of their income than less successful graduates... These arguments miss the point that social gradients in access to higher education, and equity in educational attainment more generally, are primarily determined by cognitive developments in early childhood and the foundation laid during school”.²⁶⁰

Professor Nicholas Barr, widely known as the one of the UK’s leading experts on higher education finance, strongly supported the Government’s 2003 White Paper, confident that the generosity and insurance provided by the Government’s income-contingent loan scheme would completely change the nature of debt. As he explained: “under plausible assumptions a graduate will pay £850,000 in cash terms in income tax and national insurance contributions over a 40-year career. People do not lose sleep over that. Nor do they lose sleep over an increase in the basic rate of tax by a penny in the pound, though in cash terms it adds £25,000 to a person’s tax bill over 40 years.” He emphasised that student loans are not like a bank overdraft since repayments are added to income tax, and debt is relieved after 25 years.

In light of the experience of other countries that already charged higher tuition fees and maintained robust systems of student support including income-contingent loans, such as New Zealand and Australia, a greater body of evidence existed to dispel the myth that fees harm access. Indeed, much of the anti-fees lobby was fuelled by emotion, conjecture and politics rather than an evidenced-based approach to policy.

What are the major trends in participation since the introduction of top-up fees?

Applications

There are two major enrolment trends worth noting when considering the impact of top-up fees coming on stream – one expected and one not. First, predictably, there was a significant spike in applications the year before top-up fees were introduced, and a subsequent fall in 2006/07, the first year students were required to pay the higher, deferred contributions. This was because many students logically chose to forego gap years in response to the increased cost of study. By 2007/08, the second year of top-up fees, this short-term fall had been reversed. Less predictably, in the second and third years of top-up fees, applications soared in England, much more so than in the years preceding the introduction of top-up fees. This directly contradicted the gloomy predictions of the anti-fees lobby around the time of the Higher Education Bill debate. Most crucially, the increase in applications was not just from middle-class students. Figure 11 below, outlines the

²⁶⁰ OECD (2004), *Economic Survey Of The United Kingdom: Graduate Contributions For Higher Education*, p2.

change in applications between 2003/04 and 2008/09 for students from the three lowest socio-economic groups.²⁶¹ From the graph we can see that in the 2007-08 academic year applications in England for students from the three lowest socio-economic groups rose by nearly 10%, and in 2008-09 climbed by a further 27%.²⁶² While this dramatic increase in applications cannot be directly attributed to the introduction of top-up fees, it provides strong evidence that despite higher fees, applications to university have remained very buoyant over recent years, in particular for less-privileged students.²⁶³

Figure 11: University applications between 2003-2008
Year on year changes in applications from the three lowest socio-economic groups²⁶⁴



Has the Government's widening participation agenda been a success?

While there is clear evidence that the introduction of top-up fees has not harmed access for the poorest students, the Government still has a long way to go before realising its much-publicised goal of making higher education accessible to all students, including those from non-traditional backgrounds. Prompted in part by the creation of the Office for Fair Access (the government regulator established to oversee the implementation of fees and monitor access) and in part by significant Government funding for widening participation activities (the 'Aim Higher' scheme received around £89 million in funding in 2009 alone)²⁶⁵ universities have made greater efforts in the past four years to reach out to less privileged schools and young people and to improve opportunities for less-privileged students. Sadly, evidence to date suggests that they have very little to show for their efforts, although some positive signs are starting to emerge.

Data on the participation of students from different socio-economic groups must be considered carefully. The 'Full-Time Young Participation by Socio-Economic Class' (FYPSEC) measure was introduced in 2007 and spells out the proportion of young people from the top three and bottom four socio-economic classes who participate for the first time in full-time higher education.²⁶⁶ The methodology for calculating the Higher Education Initial Participation Rate (HEIPR), on which the FYPSEC is based, has been changed twice since its inception

261 These include 'Lower supervisory and technical occupations', 'Semi-routine occupations' and 'Routine occupations'. The top four socio-economics backgrounds include 'Higher managerial and professional occupations', 'Lower managerial and professional occupations', 'Intermediate occupations' and 'Small employers and own account workers'. For a further discussion of the classifications, see <http://www.ons.gov.uk/about-statistics/classifications/current/ns-sec/index.html>.

262 Data from UCAS.

263 UCAS data sourced from the statistical services section of their website.

264 Barr (2009), *Paying for higher education*, p17. Data sourced from UCAS website.

265 HC Deb, 18 May 2009, c1235W, <http://www.theyworkforyou.com/wrans/?id=2009-05-18c.275745.h&s=aimhigher#275745.r0>.

266 Department for Business, Innovation and Skills (2009), *Full-time Young Participation by Socio-Economic Class, 2009 update*, p1.

in 2004, leading the universities department (BIS) to admit that “only FYPSEC figures for 2007/08 are entirely accurate”, while “figures for 2002/03 to 2004/05 are less accurate, but have been included to provide some time series comparison”.²⁶⁷

Putting this reliability issue aside, FYPSEC analysis shows the participation rate for the bottom four socio-economic classes hovered just below, and then just above, the 20% mark between 2002/03 and 2007/08. Conversely, participation for the top three socio-economic groups hovered between 45% and 40% over the same period. This has led the Government to claim that “between 2002/03 and 2007/08, the gap [between rich and poor students] has reduced 7.0 percentage points”, but this takes a rather optimistic and misleading interpretation of the available data.²⁶⁸ Indeed, many in the sector are doubtful the Government has managed to make a considerable difference in the gap between participation of rich and poor students.

Analysis of universities’ efforts to widen participation for less-traditional students is far from encouraging. The Public Accounts Committee (PAC) found early in 2009 that despite the £392 million that had been spent by the Government and the Funding Council on widening participation between 2001/02 and 2007/08, “progress in widening participation has been slow”.²⁶⁹ The Committee felt that while some universities were making big strides in opening up higher education to under-represented groups, others “perform poorly”, and to be more effective, “universities need to target schools in disadvantaged areas to reach those most in need”.²⁷⁰ We will discuss later in this chapter how part of providing a needs-blind admissions system must include genuine attempts to reach out to those students in disadvantaged schools and neighbourhoods, and how improving information, advice and guidance about student finance can help to bridge the gap between rich and poor students.

How have levels of student debt changed since the introduction of top-up fees?

One of the biggest concerns arising from the introduction of top-up fees in 2006 was the potential for student debt to balloon out of control. With annual tuition fees set at around £3,000 and students allowed to take out Government loans not only for fees but also for living expenses (up to £7,000 for those in London), as well as interest-free overdrafts and credit card allowances which were readily available from banks, it was easy to draw dire conclusions about vast numbers of students owing tens of thousands of pounds. However, with the benefit of hindsight, it is clear that such blanket predictions were overly simplistic.

For a start, not all students take out tuition fee loans. In 2009/10, just over 810,000 English and EU students took out tuition fee loans at an average of around £3,000.²⁷¹ Considering there are over 1 million English and EU students studying in England each year, this means that roughly 20% of students did not take out tuition fee loans at all. This is backed up by data from the Student Income and Expenditure Survey (SIES) 2007/08, the most extensive of its kind, which found that a quarter of students interviewed had not taken out a tuition fee loan.²⁷² The SLC has not published official data on the breakdown of household income for those who do not choose to borrow, although anecdotal evidence

²⁶⁷ Ibid pp1-2

²⁶⁸ Ibid p2

²⁶⁹ PAC (2009), *Widening participation in higher education*, Fourth Report of Session 2008–09, p1.

²⁷⁰ Ibid

²⁷¹ Student Loans Company (2009), *Statistical First Release: Student Support For Higher Education In England, Academic Year 2009/10* (Provisional), 25 November 2009, Table 4B : Take-up of Tuition Fee Loans in England.

²⁷² Johnson C et al (2009), *Student Income and Expenditure Survey 2007-08: English-domiciled Students*, DIUS, p45.

suggests that it is largely wealthier students who pay their fees upfront. This is supported by the 2007/08 SIES which found that students from routine/manual social backgrounds were 5% more likely to take out loans than those from managerial/professional backgrounds.²⁷³

Not all students take out a loan for their living expenses either, and the level of loans varies greatly between students. In 2009/10, nearly 750,000 students took out maintenance loans at an average of £3,600. Again, around 20% of eligible students have not taken out maintenance loans since top-up fees came on stream in 2006/07.²⁷⁴ A regression model used in the 2007/08 SIES found that those from intermediate and routine/manual backgrounds were more likely than those from managerial/professional backgrounds to have taken out a maintenance loan, once other characteristics were taken into account.²⁷⁵

A sizeable proportion of students now receive at least a partial grant from the Government for living costs, which unlike student loans does not have to be repaid. In 2009/10, a third of all new students received the full maintenance grant of £2,900, while a fifth received a partial grant.²⁷⁶ Most students also have support from elsewhere. Results from the 2007/08 SIES show that full-time undergraduate students received an average of £2,04 from their parents, relatives and friends.

In addition, we should remember that times have changed, and different students make different lifestyle choices that affect their debt levels. For example, more students are now living at home. A fifth of all new full-time undergraduate students in 2006/07 lived at home, while those from lower socio-economic groups are more likely to do so.²⁷⁷ Term-time and holiday work is becoming increasingly important too. The 2007/08 SIES found that over half of full-time students undertook some form of paid term-time work in 2007/08. For those that did work, average earnings over the academic year were £4,000.²⁷⁸ Furthermore, the vast majority of full-time students work in the holidays, earning on average an additional £1,750 over the summer vacation alone.²⁷⁹ The second phase of the Futuretrack Survey, which accounted for 50,000 full-time students, found that students who started university in 2006/07 and worked in term-time undertook an average of nine hours employment per week.²⁸⁰

It is also worth noting that anecdotally some students from wealthier backgrounds are actively encouraged by their parents to take out the maximum loan amounts and to use them for personal investments. Unfortunately there is no data with which to estimate the scale of this trend, but it is further evidence that not all students have the same debt concerns. Nevertheless, current and future levels of student debt remain an important consideration, and one that must be treated carefully in light of any increase in the cap on tuition fees.

Taking all of the above factors into consideration, it is understandable that there is conflicting evidence as to exactly what levels debt has reached for the majority of students under the new student support scheme. The 2007/08 SIES measured borrowing levels, savings and debt for first year full-time students to provide a comparison with first year full-time students in the 2004/05 cohort. This provides a rough snapshot of students from the two different fee regimes: £1,000 annually upfront and £3,000 annually with the option to defer. Average borrowing levels increased 33% for full-time students during this period, from

273 Johnson et al (2009) p52.

274 SLC (2009), Table 4A: Estimated eligibility and take-up of Maintenance Loans in England.

275 Johnson et al (2009) p50.

276 SLC (2009) Table 3A: Distribution of Maintenance Grants in England.

277 HEFCE (2009), *Patterns in higher education: living at home*, p3.

278 Johnson et al (2009) p64.

279 Ibid

280 Attwood R (19 November 2009), *Cost is the big deterrent for would-be students*, The Times Higher, <http://www.timeshighereducation.co.uk/story.asp?section-code=26&storycode=409146>.

£4,403 and to £5,835. The increase was driven by a 51% rise in student loan debt, up from £3,459 to £5,232, reflecting the introduction of tuition fee loans. Consistent with the pattern found across both full and part-time students, borrowing from higher cost sources fell from £894 in 2004/05 to £561 in 2007/08.²⁸¹ This is a welcome development considering the dangers of credit card and other high cost debt for young adults, in particular in comparison to the very generous income-contingent loans provided by the Government. Table 4 below outlines the difference in borrowing between the two surveys. The SIES also predicts net debt by taking into account students' savings. Net debt among first year students rose quickly between 2004/05 and 2007/08, up by 46% in real terms, mostly accounted for by tuition fee loans.²⁸² Table 5 below shows that net debt was estimated to rise from £2,415 to £3,518 between the two surveys.

Table 4: Net borrowing comparison, English-domiciled full-time students²⁸³

	SIES 2007/08	SIES 2004/05	
	Year 1 full-time students (£)	Year 1 full-time students (£)	Index (07/04)
Commercial Draft	332	500	0.66
Overdraft	229	394	0.58
Arrears	29	32	0.91
Informal Loans	10	10	1
Career Development Loans	0	8	N/A
Outstanding Student Loan Debt	5,232	3,459	1.51
Outstanding Access to Learning Funds	2	1	2
Estimated borrowing	5,835	4,403	1.33
N = Unweighted	680	858	

2004/05 data were multiplied by 1.113 to reflect RPI increases

Base: all English-domiciled full-time students and full-time first year students

Table 5: Net debt comparison, English-domiciled full-time students²⁸⁴

	SIES 2007/08	SIES 2004/05	
	Year 1 full-time students (£)	Year 1 full-time students (£)	Index (07/04)
Savings	2,318	1,988	1.17
Borrowings	5,835	4,403	1.33
Net Debt	3,518	2,415	1.46
N = Unweighted	680	858	

2004/05 data were multiplied by 1.113 to reflect RPI increases

Base: all English-domiciled full-time students and full-time first year students

Source: NatCen/IES SIES 2004/05 and 2007/08

281 Johnson et al (2009) p284.

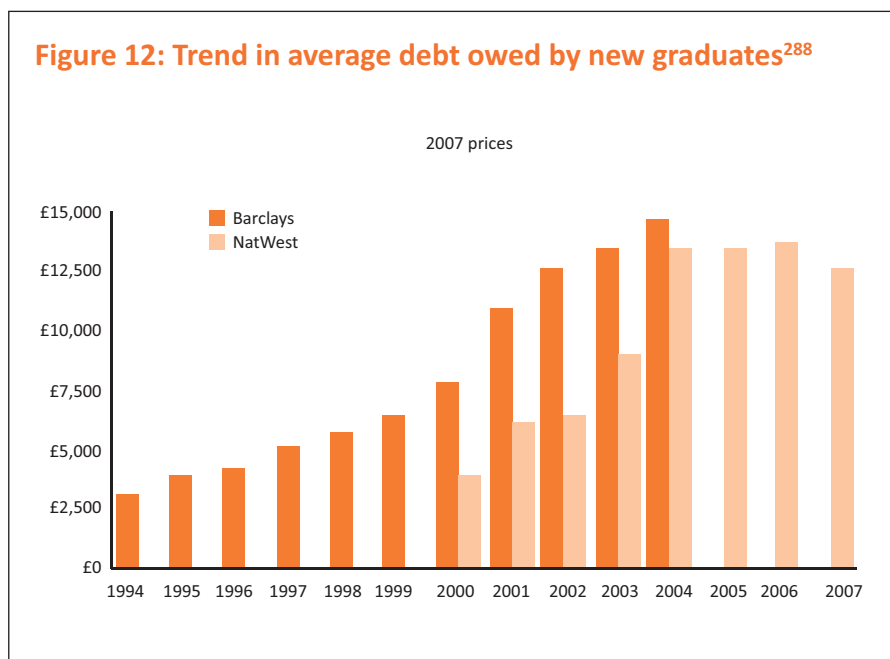
282 Ibid p286.

283 Ibid p284.

284 Ibid p287.

Indications from an assessment of first year students' financial situations are that, although savings levels have increased and borrowing from commercial sources has decreased, increases in overall borrowing levels far outweigh these – so by the end of their course, the net debt of new system students is likely to be considerably greater than the £7,798 expected for 2007/08 graduates.²⁸⁵ Yet if we were to extrapolate the annual net debt estimated for those students starting their course in 2007/08, the SIES currently places graduate debt at just under £11,000, much lower than the maximum loan limits frequently trumpeted in the press.

Other surveys paint a slightly different picture. The push.co.uk survey notes that average annual student debt, across all year levels, has risen from £3,379 in 2004 to £5,271 in 2009, with the projected debt on graduation for all full-time students standing at £16,159.²⁸⁶ The Barclays Graduate Debt survey (which ran from 1994 to 2004) and the NatWest Student Money Matters survey (which ran from 2000 to 2007) estimated graduate debt at £14,700 in 2004 and £12,500 in 2007.²⁸⁷ Unfortunately data is not yet available for either graduate survey on debt levels for students who started university since top-up fees came on stream in 2006, but earlier projections would suggest debt levels would be even higher for these students. Table 12 below charts data for the two graduate surveys.



Overall, due to the limitations of these surveys, including small sample sizes, they should be taken with a large pinch of salt, and instead it makes more sense to consider the more robust data available in the 2007/08 SIES. As we have discussed we cannot make simple blanket assumptions about debt: not all students take out loans or the maximum loan allowances, most students receive some form of grant aid, most students work, many more now live at home, and many receive help from their parents. It is clear that debt has risen for many students since 2006, but it is not clear that debt has ballooned to the maximum levels predicted by the press and doom-mongers in the sector.

²⁸⁵ Johnson et al (2009) pp286-287.

²⁸⁶ Statistics available at Push.co.uk

²⁸⁷ Bolton P (2009), *Student and graduate debt statistics*, House of Commons Library, p4.

²⁸⁸ Ibid

What effect has debt and the perception of debt had on students?

Student debt, in particular in its current form as a future tax liability, is not a problem in itself. If students value the personal benefits of going to university, such as the average £100,000 lifetime earnings premium compared to non-graduates, then it is rational for them to invest in their education.²⁸⁹ Problems arise when debt creates a significant deterrent effect on students, in particular for those from less wealthy backgrounds, either in their decision to go to university, or in the types of choices they make, such as what subject to study. The evidence so far is conflicting.

“The sum of evidence to date suggests that debt and the perception of debt has not harmed access, though there must be a better focus on educating young people about student finance”

First, the behavioural data (i.e. applications) shows that not only have participation levels remained buoyant, but applications from the lowest socio-economic groups have boomed in recent years. Second, survey evidence suggests that some students have been

put off going to university due to financial concerns. There is strong evidence to suggest that for these students a lack of clear financial information, advice and guidance is the most significant barrier. Third, recent statistical modelling suggests that while credit constraints (i.e. not having enough money in hand) can harm attainment, this can be relaxed by loans, even without the help of grants. In total, the sum of evidence to date suggests that debt and the perception of debt has not harmed access, though there must be a better focus on educating young people about student finance.

Survey data and financial IAG

Nonetheless, survey data on the deterrent effect of debt does raise some concerns. Findings from the second phase of the Futuretrack survey – a major national initiative tracking a cohort of students over five years from when they apply to university until two years after they graduate – published in 2009, found that the cost of going to university is the major deterrent for people who applied to but did not enter higher education.²⁹⁰ In the first phase, 130,000 students were surveyed as they applied to university, and in the second phase, 50,000 full-time students were surveyed after their first year.²⁹¹ Almost 40% of students who applied but did not go to university were put off by the cost, and 32% were put off by the prospect of incurring debt.²⁹²

Furthermore, the 2007/08 SIES found that the proportion of full-time first-year students who reported that the student funding and financial support available to them affected their decisions about HE study had risen since 2004/05, from 26% to 36%.²⁹³ Nevertheless, the proportion of full-time first-year students citing financial concerns as a reason for dropping out remained constant at just over a quarter between 2004/05 and 2007/08.²⁹⁴

This survey data highlights an important point. If we assume that the idea of taking on a burden of debt will be intimidating for at least some would-be students, it is incredibly important that there is sufficient financial information, advice and guidance available to them. Students, parents and teachers all need to have access to clear and accessible advice on what the costs of going to university are, and what support is available. It is a considerable flaw that the Government

289 See <http://hereview.independent.gov.uk/hereview/call-for-evidence/>

290 Attwood (19 November 2009), *The Times Higher*.

291 Purcell K et al (2009), *Plans, aspirations and realities: taking stock of higher education and career choices one year on*, Findings from the Second Futuretrack Survey of 2006 applicants for UK Higher Education, report commissioned by the Higher Education Career Services Unit, p1.

292 HECSU (2009) p145.

293 Johnson et al (2009) p289.

294 Ibid

did such a poor job of explaining to the public the extremely generous student support system that accompanied the introduction of top-up fees. From the outset they failed to convey the simple message that fees would not be paid upfront and that students would not start to repay until they could afford to. And in common with America, the Government introduced a heavily subsidised and very costly public loan scheme without clearly communicating what a good deal students were getting. Even now, potential students with questions about finance are expected to extract complicated information from the catch-all Directgov information website is far from being a student-friendly, accessible experience and will doubtless do little to allay anyone's fears. This will be discussed in further detail later in this chapter.

Information should also extend to the student experience, and to the outcomes of higher education. As we discussed in the student experience chapter, if we are to expect students to make rational decisions about whether it is worthwhile taking on a certain amount of debt, they need to know what studying a particular course at a particular university will mean to them. At present such data is worryingly thin, and would-be students are left largely in the dark about many questions that they consider to be important.

Statistical modelling

The IFS is currently undertaking research on the participation effect of changes to fees, grants and loans. Preliminary data suggests that increasing fees has a negative effect on the enrolment patterns on students from less privileged backgrounds. This is intuitive – the greater the cost of going to university, the less incentive for those who least understand the financial benefits. Encouragingly, grants do much to cancel out this effect, which supports the reasoning behind reintroducing maintenance grants when top-up fees came on stream in 2006. Furthermore, there are early signs that an increase in loans can also do much to negate the deterrent effect of higher fees. The researchers found “a small but significant negative impact of upfront fees on participation, and positive impacts of a similar magnitude of grants and loans”.²⁹⁵ The jury is still out on whether an equivalent rise in loans completely offsets a rise in fees, and policy-makers and universities will be waiting anxiously on the outcome of the research to determine whether loans alone are enough to minimise the deterrent effect of higher fees.

If not financial barriers, then what is the main deterrent to going to university?

The overwhelming evidence suggests that attainment at GCSE and A-level is still by far the major predictor for participation in HE. The Government has often chosen to vilify universities for the failure of the high profile widening participation agenda, but the fact is that the problem is cemented years before pupils apply to go to university. As the IFS argued in 2008 “the socio-economic gap in HE participation does not emerge at the point of entry into higher education”, but rather “it comes about because poorer pupils do not achieve as highly in secondary school as their more advantaged counterparts.”²⁹⁶

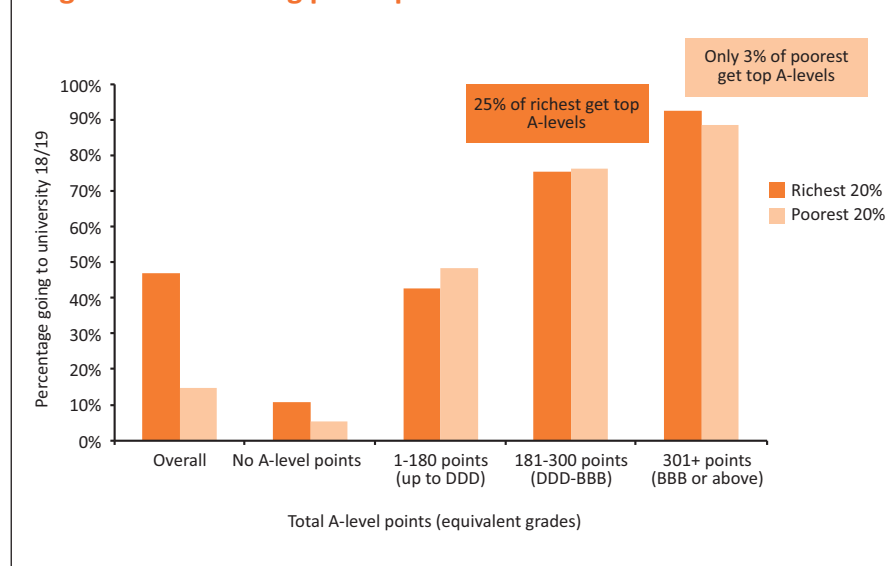
The number of students from poorer backgrounds, in this case defined as ‘lower supervisory’ and ‘routine’, who did not even achieve five A-C GCSEs in 2006 (the minimum requirement for going to university) was still as low as 46%

²⁹⁵ Barr (2009), *Paying for higher education*, p44.

²⁹⁶ Furthermore, the IFS found that “the socio-economic gap that remains on entry into HE, after allowing for prior attainment, is very small indeed: just 1.0 percentage points for males and 2.1 percentage points for females (between those from the most and least deprived backgrounds); Chowdry H et al (2008), *Widening Participation in Higher Education: Analysis Using Linked Administrative Data*, IFS, pii.

and 42% respectively.²⁹⁷ This compares to 81% of students from ‘higher professional’ backgrounds and 73% from ‘lower professional’ backgrounds.²⁹⁸ The idea that there are huge numbers of under-privileged young people with the right A-level grades who are walking away from university – or being turned away – is quite simply a myth. The number of students across all socio-economic backgrounds that go to university is around 95% for those with the best A-levels, 90% for those with slightly less good A-levels, and just under 80% for those with 12 A-level points or less.²⁹⁹ Figure 13 below illustrates the difference in participation at university for the richest and poorest 20% of households. Strikingly, participation for students with three Bs and above is practically identical for the two groups, although overall there is a difference in participation of around 30% for the two populations.

Figure 13: Widening participation in HE³⁰⁰



297 Department for Children, Schools and Families (2008), *Youth Cohort Study & Longitudinal Study of Young People in England: The Activities and Experiences of 16 year olds, England 2007*, TABLE 4.1.2 - Academic attainment in Year 11 (2006) by characteristics.

298 Ibid

299 Barr (2009), *Paying for higher education*, p25.

300 Goodman A and Wyness G (2009), *HE funding: ongoing work at IFS*, Presentation given to Universities UK, 15 September 2009.

301 Turner S, 'Common Across the Atlantic: The Underrepresentation of Low-Income Students in Higher Education in the US and the UK', p144 in Sutton Trust (2009), *Social Mobility and Education*, Academic papers presented at a high level summit sponsored by the Carnegie Corporation of New York and the Sutton Trust.

302 Ibid

303 Chowdry (2008) piii.

The Sutton Trust has also looked closely at the achievement gap at GCSE level, and found that for students in the bottom income quintile a shocking 4% of young men and 6% of young women score in the top fifth of the GCSE distribution.³⁰¹ Conversely, 16% of young men and 24% of young women among the more affluent students score in the top fifth. Representation in the bottom quintile of GCSE scores is the reverse for the two groups. As a result, the report found that “such dramatic differences in achievement by family circumstances at age 16 underscore the point made [by the IFS]” about attainment at A-Level.³⁰²

The IFS study also found that, once prior attainment was accounted for, the impact of material deprivation on the likelihood of attending a high-status university largely disappeared.³⁰³ Thus we can ask universities to try harder to reach out to poor students who have obtained the grades they require, but the real impact can only be had by raising attainment and aspiration years before A-Level and increasing the size of the pool universities can fish in.

Other financial considerations

Student living costs

Policymakers need to be aware that as well as fees there are also significant living cost pressures on today's students. Indeed, it is unhelpful that in this country discussions about the cost of a university education tend to only consider the cost of tuition. This has long been understood in the US where financial student support takes into account all of a student's costs. Student expenses other than tuition include accommodation, food and socialising, transport, books, equipment, field trips and utility bills.

There are a number of studies from which we can draw upon to estimate the current cost of going to university. The 2007/08 SIES found that the average total annual expenditure across all full-time students in England increased from £11,434 in 2004/05 to £12,254 in 2007/08, a rise of 7%.³⁰⁴ This increase was largely fuelled by the rise in tuition fees, meaning that living, housing and child-related costs remained fairly constant between the two surveys. However, there is strong evidence to suggest that the cost of accommodation has risen substantially in recent years. An NUS survey of 96 universities and 61 private providers in 2006 found that when top-up fees came on stream in 2006/07 the cost of accommodation, which accounts for a fifth of expenditure for both full and part-time students, had risen by 37% since 2001/02.³⁰⁵ The survey found that the overall average weekly rent for a room in institutionally provided or allocated accommodation was £81.80.³⁰⁶

Another report published by the NUS in 2008 examined attitudes to living costs and found that students tend to significantly underestimate a wide range of costs. For example, cost for groceries and routine travel were underestimated by 39% and 35% respectively.³⁰⁷ Table 6 below outlines the difference in predicted and actual spend for a number of different living costs. According to the NUS survey, actual annual spend on living costs comes to around £4,900, which after taking into account tuition fee costs, is significantly lower than the SIES estimate, a breakdown of which is illustrated below in Table 6.

Table 6: Average weekly expenditure survey³⁰⁸

Q12/Q83: How much, approximately, do you (expect to) spend each week on...

Item	Current students (actual weekly spend)	School leavers (predicted weekly spend)	Actual annual spend*	Predicted annual spend*	Annual shortfall in prediction*	Shortfall as % of prediction
Books	£9.40	£8.77	£225.60	£210.48	£15.12	7.2%
Equipment	£8.04	£8.34	£192.96	£200.16	-£7.20	-3.6%
Field trips	£6.74	£7.93	£161.76	£190.32	-£28.56	15.0%
Groceries	£29.52	£21.24	£708.48	£509.76	£198.72	39.0%
Rent	£75.47	£79.25	£1,811.28	£1,902.00	-£90.72	-4.8%
Other Bills	£30.82	£24.32	£739.68	£583.68	£156.00	26.7%
Socialising	£28.15	£23.92	£675.60	£574.08	£101.52	17.7%
Daily/routine travel	£16.04	£11.85	£384.96	£284.40	£100.56	35.4%
Total	£204.18	£185.62	£4,900.32	£4,454.88	£445.44	10.0%

*Base: All students (2,393), all school leavers (250).

8 Based on 24 weeks: HESA minimum definition of a full-time student

304 Johnson et al (2009) p115.

305 NUS (2006), *Accommodation Costs Survey 2006/07*, p5.

306 Ibid

307 NUS (2008), *NUS Student Experience Report*, NUS Publishing, p4.

308 Ibid p27

Increases in accommodation costs help to explain an increasing trend for students to live at home with their parents. According to research from HEFCE a fifth of new full-time students now live at home with their parents.³⁰⁹ Any debate about fees, student support and affordability should be considered in the context of living cost pressures. The growing trend for more private student housing is likely to further drive up the cost of accommodation in the future. Nationally, student numbers are growing at ten times the rate of new housing supply and 15 times in London, which leaves significant opportunities for purpose-built student housing (PSHB) in historically constrained areas.³¹⁰ Nationally, average rents for PBSH grew by 5% between 2007/08 and 2008/09, and 7% in London.³¹¹ With financial resources limited, universities will continue to cut down on institutionally-run accommodation, leaving students to fend for themselves in the market, or opting to stay at home. Any judgement of a university's attempts to widen access should consider whether the institution has ensured that there is some budget, no-frills accommodation available for those who need to keep their living costs to a minimum.

There is an established trend in the US and France where the majority of students stay at home to study, and this is certainly becoming more of a trend in England. We think that it is an important principle to make it possible for poorer students to leave home, otherwise a two-tier system will emerge whereby only wealthy students will enjoy the life experience of studying somewhere other than their home town.

Savings culture

To compound the challenges arising from the major shift in student finance which followed the introduction of top-up fees, there exists a lax culture of savings in the UK which does little to encourage household investment in higher education, especially amongst the less well-off. In 2002 a comparative study of international education systems and saving patterns (focusing specifically on the experience of Denmark, Japan, New Zealand, the US and the UK) found that cost of education is the single most important determinant of saving for learning. On the one hand, if the costs of education were to rise in the UK it would be expected that saving for learning would increase. However the evidence suggests that student loans may in fact create a disincentive to save and hinder targeted saving for learning.³¹² As the study points out, it is important to remember that “the use of a loans scheme does not lower the investment of the individual in their education”, but rather “shifts the burden of financing from the parent to the child”.³¹³ This is a dilemma. It is right that the Government should seek to provide a safety net for students in the form of a government-subsidised loans scheme that covers the full cost of higher education, in particular for those from poorer backgrounds, but at the same time it is an imperative that students and parents prepare adequately for the financial investment in learning.

Looking at specific ways in which to encourage saving, in particular for the less well-off, the study found that tax breaks to encourage saving for learning are unlikely to alter saving patterns for learning in any significant way, but rather when saving is necessary (say for prohibitively expensive education) then tax breaks make little difference. Worryingly, from a policy and short-term impact point of view, there is clear evidence that saving patterns develop over a long

309 HEFCE (2009) Patterns in higher education, p2.

310 Savills (2009), *Spotlight on Student Housing: Rental growth and high occupancy rates continue to attract investors to the student accommodation sector*, Savills Research, p1.

311 Ibid

312 Learning and Skills Research Centre (2002), *Saving for Learning: Strand 2 – An international comparison of education systems and patterns of saving for learning in Denmark, Japan, New Zealand and the USA*, p46.

313 Ibid p45.

period of time, as they have done in Japan and the US, where the state has always played a lesser role in the financing of tertiary education at private institutions.³¹⁴ The Government has made some attempts to reverse the dismal level of savings in the UK, such as introducing the Child Trust Funds, but this scheme does not require that savings are spent for educational purposes, which does little to encourage saving for university.

The review of top-up fees has a major responsibility to assess the saving for learning culture in the UK and recommend ways in which to improve it. As the cost of education increases over time, as it has done in the US, it is likely that households will start to adjust their expectations about how much money they need to put aside for a university education. But the Government can do more. Encouraging early savings programmes, in particular for those households with the most education-related financial need, must be part of an overall package of student support reform.

Parental contributions

Considering university now costs more for the average full-time undergraduate student, one would expect that parental contributions would have risen substantially since top-up fees came on stream in 2006. The 2007/08 SIES found that on average, full-time students in the new system received £1,893 from their family, partner and friends in 2007/08.³¹⁵ This was a lower amount and proportion than in 2004/05. Those students who received the most money from family, partner and friends were ‘traditional’ students, including those dependent students living away from home to study, and those from managerial/professional social class backgrounds. As one might expect, students from intermediate and routine/manual social class backgrounds gained less from this type of income, as did students whose parents had not been to university.³¹⁶ More needs to be done, as Callender notes, to stem the “continuing decrease in parental contributions towards the cost of HE that has arisen since 1990 and has been particularly pronounced since the 2004 Higher Education Act”.³¹⁷ Later we will discuss a proposal put forward by the Conservative Party in 2009 which aims to encourage greater parental contribution by offering a discount for upfront tuition fee payments (as well as early loan repayments).

Financial information, advice and guidance

The Government and the sector have much to answer for with regards to how top-up fees and the new system of student support were communicated to the public. The 2006/07 academic year signified a major step change in student contributions towards the cost of higher education, and financial information, advice and guidance (IAG) has been wholly inadequate for all students, in particular those from non-traditional backgrounds. It is important to remember that students face a radical shift in the management of their personal finances. The idea of taking out an annual loan of up to £10,000, applying for a grant, researching different bursary offers and starting a budget is understandably quite daunting for a 16 or 17 year-old. Ensuring that financial IAG is delivered effectively must be a cornerstone policy in abolishing any possible deterrent effect of fees and debt.

314 Ibid

315 Johnson et al (2009) p74.

316 Ibid

317 Callender and Heller (2009) p66.

Students consider a wide range of costs when deciding where and what study. These include the cost of accommodation and travel, entertainment and food, the possibility of term-time employment, eligibility for bursaries and a number of other factors. Awareness of the different types of student support available is crucial in determining whether students go to university. A recent Sutton Trust survey found that “students who had decided not to pursue study in HE felt significantly less knowledgeable about student finance”, with 37% reporting being ‘not knowledgeable at all’ about student finance compared to 11% of students who were considering going to university.³¹⁸

Who provides financial IAG in England?

In 2009 financial IAG about higher education was centralised in England in an attempt to minimise the variability of advice offered by local education authorities. Called the Customer First Programme, and run by the SLC, it was designed to “centralise and modernise the end-to-end delivery of student finance”, and as a result the SLC’s role has expanded considerably. The Programme came about after a review commissioned by the former Department for Education and Skills found that the “existing service [of student finance] as delivered by Local Authorities was unsatisfactory, with variable service standards, blurred accountability and poor value for money”.³¹⁹ The NUS was among the groups that pushed hard for a manageable, centralised system, to ensure students were not subject to a ‘postcode lottery’. The new centralised system of student finance delivery in England was called Student Finance England (SFE), and the SLC was supported in the delivery of financial IAG by a set of regional consultants and financial advisers.

The recent independent review of the SLC led by Professor Sir Deian Hopkin raised some very serious concerns about the quality of financial IAG available to staff and students. For example, the review was informed that there was “no official direct contact for [financial] advisers in student support services at HEIs”,³²⁰ and that regional consultants were largely ineffective. One university surveyed in the review lamented that their consultant had “no background or expertise in student finance”. Understandably, the review has argued for a major overhaul of the entire process, and that the SLC should “urgently improve the training of advisers on student finance policy and regulations” in order to ensure that accurate financial IAG is provided consistently.³²¹

One of the biggest issues with SFE which came out of the SLC review was that there was a fundamental lack of communication between the SLC, universities and students. There is wide consensus among financial practitioners that SFE handles the information side of IAG quite well, as evidenced by the detailed information available to students on loan and grant eligibility. However, we have real concerns about the ease with which students can access the information they need. It is unacceptable that SFE still does not have a central website, but rather siphons students off to the very confusing Directgov pages, which also service a wide range of other government activities. Other information is also tied up in the SLC and Aimhigher websites, among others, making it hard for students to clearly identify where the most up-to-date a comprehensive source of information is kept.

SFE has taken on board a number of financial IAG tools which are considered essential to getting through to students, such as the student calculator and case studies for different student finance profiles. There is concern that these were

318 Davies P et al (2008), *Knowing Where to Study? Fees, Bursaries and Fair Access*, Institute for Educational Policy Research and Institute for Access Studies, Staffordshire University, research conducted for The Sutton Trust, p34.

319 Hopkin D (2009), *Review of the delivery of financial support to students in England by the Student Loans Company for the academic year 2009/10 and plans for academic year 2010/11*, p10.

320 Ibid p21.

321 Ibid

developed without the expertise of other stakeholders in the sector, and the fact that many universities are hiring student finance organisations to develop their own calculators suggests that there is significant room for improvement.

Debate still rages about whether a centralised service is a viable delivery mechanism for financial IAG, or whether localising advice is the only realistic way to get through to students who need guidance most. However, one clear problem of the 2009 reforms was to hand too great a remit to the SLC. It does make sense that students should be able to apply for government financial support online with a clear brand and point of call. But there is a serious question mark on how adequately a body like the SLC can offer advice to all students, including those with specialist needs such as disabled students.

Like first home buyers comparing different mortgages on ‘Uswitch’ or ‘Moneysupermarket’ online, students want an independent source that they can trust will provide an impartial evaluation of the different options available. While the Government currently provides the vast majority of student support in the form of loans and grants, other stakeholders such as universities (and in the future potentially commercial banks) will play a greater role in the provision of student support. Even if the SLC raises its game, it is still both the lender and the administrator, and as such will struggle to offer truly impartial advice on a range of different financial products when it provides some of those services itself.

One of the problems with the current system is that the SLC sees itself as in competition with all the other organisations and student finance products operating in this space. There is a real need for a one-stop portal which points students in the direction of useful information. This could be relevant links and information for disabled students, students from poorer backgrounds, students interesting in budgeting tools, and so on. There is a lot of useful content currently in the public domain but it is not easy for students, and in particular those who are poorly informed, to access it. Above all, financial IAG needs to be accessible and comprehensible. It is not acceptable to treat students as adults with a keen interest in, and background knowledge of, higher education funding policy.

We recommend that the Government should consider bids from other organisations, including those in the voluntary sector such as UniAid, to champion advice and guidance on student support.

What role do schools play?

A central tenet of financial IAG must be early intervention. Today’s students make choices that will impact on their lives very early on, and it is essential to equip them with the knowledge and understanding of a potentially daunting student finance regime as early as possible. A number of financial practitioners we spoke to felt that financial IAG should be delivered as early as Year 9 in order to adequately prepare teenagers for the financial commitments ahead. As the Sutton Trust notes, “schools should be encouraged to make students aware of the financial options for studying in higher education much earlier in their school careers”, as “many students are only introduced to the options after they have effectively made their decisions”.³²² Alan Milburn’s recent paper on social mobility also recommended that “in order to overcome financial fears, universities should help schools to inform children before they reach the age of 16 – together with their parents – about the grants and financial support to which they would be entitled if they progressed to university.”³²³

³²² Davies P et al (2008), p3.

³²³ Milburn A (2009), *Unleashing Aspiration: The Final Report of the Panel on Fair Access to the Professions*, Cabinet Office, p95.

At present, general information about going to university is incredibly varied across schools, with a wide spectrum of knowledge and understanding among teachers. Financial IAG is no different, and students are faced with a lottery in the advice that is available to them. Worryingly, the Sutton Trust has found that it is independent schools, where students are less likely to be in serious need of financial assistance, which are likely to provide the best advice about going to university. We fully endorse the Sutton Trust's recommendation that all secondary schools appoint a lead teacher with responsibility for careers and education guidance, and that this teacher should be expected to undertake regular training to keep this knowledge up to date.³²⁴

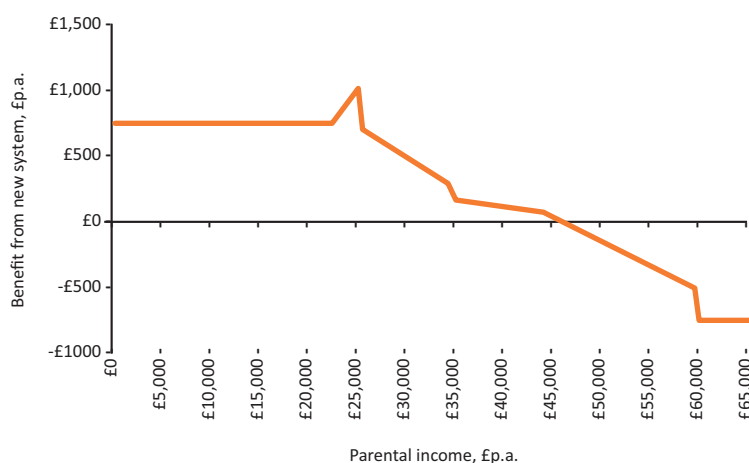
Cost to students and the public purse

Is the overall cost of education more expensive for all students under top-up fees?

The new system of student support introduced in 2006/07 represented a great deal for all students, in particular those from poorer backgrounds. As part of softening the political blow of introducing higher fees, the Government put together a raft of generous measures that have actually reduced the overall cost of education for the poorest students. Analysis from the IFS found that “individuals from the lowest part of the parental income distribution will typically find a substantial net reduction over their lifetime in the cost of their higher education, due to the new grants and bursaries”. As expected, costs have risen for those from wealthier backgrounds, due to higher fees and the less generous support available.³²⁵ It should be remembered that although students from wealthier backgrounds saw the long-term costs of their studies increase, all students now have access to generous tuition fee and maintenance loans, and are not required to pay their fees upfront.

The net financial improvement to a student per year of study from switching from the old system (in this case the one in place in 2003-04) to the new system (the one in place in 2008-09) is outlined in Figure 14 below. These calculations are based on the assumption that students take out the maximum loan possible, receive the average loan subsidy through the course of their working life and incur the maximum tuition fee.³²⁶

Figure 14: Change in net financial position due to moving to the new funding regime, by parental income³²⁷



324 For a more detailed analysis of advice in schools about university see Policy Exchange's recent paper, 'The Hard Truth About Soft Subjects', p11-12.

325 Dearden L et al (2007), *Higher education funding reforms in England: the distributional effects and shifting balance of costs*, The IFS, p31.

326 Ibid p6.

327 Ibid

The effects of the new system of student support vary considerably across different parental income distributions. The IFS estimates that students with parental incomes below around £46,000 should be better off under the new system. This is because they gain in grants, bursaries and loan subsidies by more than the additional fees they will be required to pay.³²⁸ This advantage will be higher for students from less-well off backgrounds if they go on to be low earners later in life, due to the subsidies built into the student loans scheme. In other words, if their earning are not high enough to repay their debt within 25 years, the Government will write it off.

Who benefits from government-subsidised student loans?

The Government subsidises student loans (and hence reduces the burden of debt) in two ways – a blanket interest rate subsidy for all graduates and debt forgiveness after 25 years. Government estimates put the overall subsidies of maintenance and tuition fee loans at 29% and 42% respectively.³²⁹ This means that for every pound lent by the Government, on average 29 pence and 42 pence will not be repaid for the two different types of student loans.³³⁰ As Professor Nick Barr points out in his analysis of government-subsidised student loans, this is understandable because loan subsidies apply to all borrowers (including the rich), income-contingency means that the duration of repayments is long (and hence the interest rate subsidy is greater) and borrowers face an incentive to arbitrage (i.e. take advantage of the price differential between borrowing costs and the returns on low-risk investments).³³¹

“Taxpayers are effectively subsidising the educational costs (and future potential to earn higher wages) of those who need help the least”

The IFS has carried out detailed estimates of the distributional effect of loan subsidies and found that while lower lifetime-earning graduates will eventually repay less of their debt than higher earners for a given level of debt on graduation, those who benefit chiefly from the interest rate subsidy are high-earning graduates who had low earnings early in their career, and high-earning graduates who are able to repay their loan in full. Thus, and as Barr argues forcefully, “beneficiaries tend to be successful professionals in mid career, whose loan repayments stop earlier because of the subsidy”.³³² This of course is not a progressive or equitable outcome, as taxpayers are effectively subsidising the educational costs (and future potential to earn higher wages) of those who need help the least.³³³

Those who need help the most benefit from functions of the loans system. Low current earners, whether those on lower wages or unemployed, are protected by the income-contingent repayment structure of loans. No matter how big their debt balance becomes they will never have to pay more than a set proportion of their monthly income (currently 9%) over a relatively generous threshold (now £15,000 per annum). Low life-time earnings benefit primarily from the generous debt forgiveness policy which ensures the Government writes off any remaining debt after 25 years.³³⁴ Importantly, women (whose careers are often interrupted by care-giving) are disproportionately protected by this crucial element of the scheme. In policy terms this is a favourable outcome to ensure that women continue to invest in their educations.

328 Ibid p7.

329 Barr N and Johnston A (2009), *Interest subsidies on student loans: A better class of drain*, London School of Economics, p4.

330 It is worth noting that tuition fee loans are deemed to be paid after maintenance loans have been repaid.

331 Barr and Johnston (2009) p5.

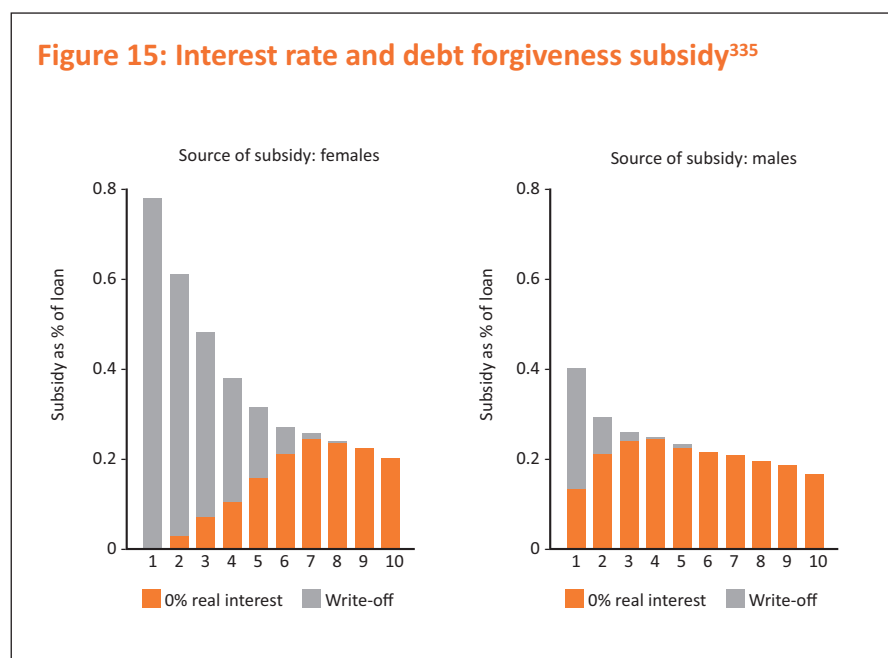
332 Ibid p7.

333 Ibid

334 Ibid

A breakdown of the distribution of subsidies arising from the blanket zero real interest rate and debt forgiveness policies are illustrated in Figure 15 below. The distribution of subsidies is split between men and women, with the vertical axis marking the proportion of the loan that is not expected to be repaid within 25 years, and the horizontal axis marking the decile of lifetime earnings distribution, with one being the lowest lifetime earners and ten being the highest lifetime earners. Note that this does not relate to parental household income, but rather the potential future earnings of the graduate population. The breakdown shows that the interest rate subsidy (in the lighter shading) benefits graduates of both sexes in the median and higher deciles, and much more so for male than female graduates. This reflects the fact that women have lower lifetime earnings than men, partly because a greater proportion of women take time out from work. Conversely, the debt forgiveness subsidy (in the darker shading) benefits those graduates on lower lifetime incomes who do not earn enough income to pay back the full cost of the loan.

Figure 15: Interest rate and debt forgiveness subsidy³³⁵

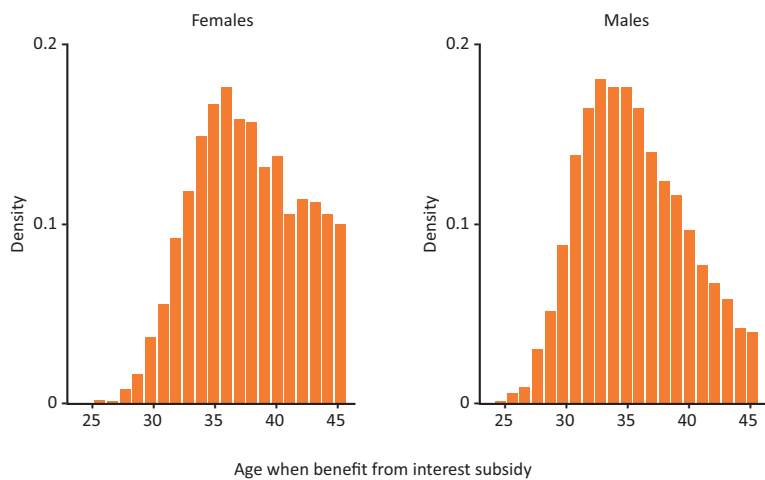


The subsidy for poorer students, as a percentage of the total loan, starts out quite high but falls as income rises. As the IFS notes, “for women it ranges from around 60% for the lowest lifetime earners to around 15% for the highest earners” while for men “the range of taxpayer subsidy is narrower, from around 27% for the lowest-earning men to 12% for the highest earners”.³³⁶ This includes a combination of both the interest rate and debt forgiveness subsidy, and also provides an estimate of the years taken to repay the loans. The average time for repayment is around 17 years for women and around 13 years for men. It is estimated that around a fifth of graduate women can expect to have some debt written off, with repayments ceasing at the 25 year cut-off point, whilst only around 2% of graduate men can expect the same benefit.³³⁷ Figure 16 below portrays the repayment timescales in a different manner and supports the argument that professionals in mid career are the main beneficiaries from the interest rate subsidy.

³³⁵ Ibid p9.

³³⁶ Dearden et al (2007) p16.

³³⁷ Ibid p17.

Figure 16: Age at which repayment stops³³⁸

These results highlight the importance of reforming the current loans scheme to target subsidises to those who need them most, and ensuring that the scheme is sustainable and viable for future lending. We will discuss possible reforms in the next chapter.

Bursaries

Mandatory bursaries of £300 were introduced alongside top-up fees in 2006 and bursaries are now an integral part of the student support package. They are the subject of heated discussion in the tuition fees debate because many in the sector are sceptical about whether the heavy investment they have made has had any ready impact on the choices of students. As with student debt, there is divergence between behavioural data and survey data, with the former showing that varying bursary levels have not yet had an impact on admissions between universities, and the latter suggesting that bursaries are a major consideration for whether (and where) students will study.

As part of a commitment to offer larger bursaries across most universities, a plethora of different bursaries and scholarships have sprung up since top-up fees came on stream. As the Office of Fair Access to Higher Education (OFFA) explains on their website the three main types of bursary are:³³⁹

- A fixed bursary: for example where a university gives £1,000 to students on full state support and £500 to students on partial state support;
- A sliding scale: for example where a university gives a bursary of between £50 and £2,000 depending on the student's assessed household income; and
- A matched bursary: for example where a university gives a bursary equal to 50% of a student's state support.

The bursary application process begins when a student applies for a grant or loan. To make life easier for universities and students, the SLC runs the Higher Education

³³⁸ Barr and Johnston (2009) p10.

³³⁹ OFFA website, 'Bursary facts and figures for 2008-09', <http://www.offa.org.uk/press/quick-facts/#bursary-types>.

Bursary and Scholarship Scheme (HEBSS), which channels funds from universities directly through to students, provided they have consented to share their financial information with their university.³⁴⁰ The majority of universities (around 70%) subscribe to this scheme.³⁴¹ Students need to reapply for bursary support for each year that they study (as they have to do with government loans and grants). Students will typically know what level of support they are entitled to at the time they apply, but their university will not confirm the level of bursary given until they commence their course.

As a starting point, we believe that it is right (and in fact desirable) that universities should play a role in the student support system, and that as a direct result of earning additional income through higher tuition fees, universities should make a significant contribution to the financial support of students in financial need.

A fundamental principle of fair admissions is that they should be ‘needs-blind’. In other words, those choosing who comes to the university make their decisions based upon academic merit and not upon whether an individual can afford to pay. Many universities argue that as long as fees do not have to be paid upfront and an adequate loans system is in place, with students not repaying until they graduate and earning a reasonable wage, then needs-blind admissions will be safeguarded. In short, these loans remove financial barriers so universities can concentrate on admitting the people they feel are best suited to the course, without worrying about their financial background. In theory this is true. However, in practice we would argue that needs-blind admissions is more complicated, and a financial deterrent effect exists regardless of adequate loan provision. We know from evidence both here and abroad that the perception of cost can have a greater impact on students than the actual cost of going to university, in particular for those from less-privileged backgrounds. Thus ensuring a fair system of loans for all students, and making sure that people understand how the loans scheme works (an issue we will come back to in some detail), is only half of the battle. It is not enough to expect the Government to continue to shoulder the responsibility for financial aid through non-repayable grants, which are likely to depreciate in value over time. We believe that it is strongly advisable to have additional financial assistance such as bursaries to cushion the burden of cost – and the perception of that burden – for the poorest students.

What are the major problems with the current bursary arrangements?

The biggest barrier that the bursary system has faced in achieving the goals of widening participation and reducing the financial barriers of university study has been a lack of awareness among students, and in particular those from poorer backgrounds. Confusion about how the scheme worked inevitably impacted upon take-up of bursaries.

Professor Claire Callender has recently produced a series of reports for OFFA looking at the effectiveness of institutions’ bursary schemes and take-up from students. The following discussion draws upon the key points from that analysis.³⁴²

Though it is improving, take-up of mandatory bursaries for the poorest students has been well under 100% since the scheme began, suggesting a failure of communication:

340 Hackett G (13 August 2008), *Bursaries and scholarships: are you getting enough?*, The Independent, <http://www.independent.co.uk/student/student-life/finances/bursaries-and-scholarships-are-you-getting-enough-892218.html>.

341 Callender C (2009), *Awareness, take-up and impact of institutional bursaries and scholarships in England*, report for OFFA, p7.

342 For a detailed discuss of these issues see Callender’s research for OFFA.

- In 2006-07, the first year top-up fees and bursaries were introduced, only 80% of the estimated number of eligible students took up bursaries;
- In 2007-08, after considerable effort had been made to arrest this poor take-up rate, 92% of the estimated number of eligible students received bursaries;³⁴³ and
- In 2008-09, early signs indicate the take-up rate will be even higher, with a larger percentage of students successfully choosing to allow their financial information to be shared between the SLC and universities, an important step in the bursary application process.³⁴⁴

Variance and complexity

The level of bursary support varies greatly across different institutions. In 2008-09, nearly four-fifths of the universities charging the maximum tuition fee offered students who received a full maintenance grant a bursary above the statutory level of £310, with an average across all institutions of £900 a year.³⁴⁵ The level varied between universities from £310 to £3,150.³⁴⁶ Poorer students who attended a Russell Group university received twice as much on average as similar students at modern universities (£1,500 compared with £700) largely because modern universities have more students in financial need and therefore have to spread their funds much more thinly.³⁴⁷

A striking 83% of universities offered financial support to students beyond the 'full state support' threshold, which is those with household incomes above £25,000. Furthermore, 94% of universities provided other 'discretionary bursaries and scholarships' with additional or separate eligibility criteria other than household income.³⁴⁸ Of those universities offering 'discretionary bursaries', which includes traditional scholarships for excellence and various other targeted support, nearly two-fifths had some sort of scholarship, most of which were not means-tested; a fifth had awards based on subjects; close to one fifth offered awards for achievement or progression while at university; 13% had schemes for students progressing from partner schools; and close to one fifth had awards targeted at those who have been in care.³⁴⁹

An inevitable result of this abundance of different schemes is that students, parents and HE advisers at schools and other organisations are forced to struggle to piece together an understanding of the system. In fact when surveyed for OFFA they all largely agreed that 'bursaries are too complex', a notion that universities themselves have endorsed in previous surveys.³⁵⁰ This has had some detrimental effects. As Callender notes, "complex rules make it more difficult for students to assess if they are eligible for bursaries and scholarships".³⁵¹ The OFFA survey backed this assertion up, finding that those students who did not think they were eligible for a bursary or scholarship were far less likely to apply for one than those who thought they qualified (one fifth compared to four-fifths).³⁵²

The classification between scholarships and bursaries is also an area of concern. There is an understanding among students and the sector that bursaries provide financial support predominately to students from lower income backgrounds, while scholarships are rewarded more on a merit basis and not based on financial need. Unfortunately this distinction is not black and white in practice, with a number of universities classifying means-tested awards as scholarships. It is no surprise then that around two-thirds of parents and HE advisers, and nearly half of students believed "it is difficult to understand the difference between bursaries and scholarships".³⁵³

343 OFFA (2009) p4.

344 The 'consent to share' rate reported in August 2009 was 96%, the highest to date, indicating "we can expect the take-up of bursaries for future years to be much higher from 2008/09 than in previous years." Callender (2009) p7.

345 Ibid p12.

346 Ibid

347 Ibid

348 Ibid

349 bid

350 Well over half of the parents (55%) and HE advisors in schools and colleges (59%), along with 40% of students agreed with this statement. Callender (2009) p12.

351 Ibid

352 Ibid

353 Ibid

Why does complexity matter?

The 2007/08 SIES found that the availability of government and institutional financial aid had affected the HE decisions of over a third of students, a large number of whom felt they could not have gone to university without this support.³⁵⁴ Surprisingly, bursaries were ranked second in importance after maintenance grants and before student loans, emphasising the critical role they now play in shaping the decisions of potential students.³⁵⁵ Data released recently from the landmark Futuretrack Survey found that around 12% of students felt their choice of university had been influenced by the course fees and bursaries available, and that students from poorer backgrounds were much more likely to be influenced in this way than those from wealthier backgrounds.³⁵⁶

Tellingly, the OFFA survey found that bursaries had the largest impact on those students who were most anxious about the costs of going to university. Over a third of students who said that the costs of university seriously influenced their decision about whether or not to go to university thought that bursaries were important, compared to a fifth who were unconcerned.³⁵⁷ Furthermore, the third of students who were very worried about the costs of going to university and the third who were very worried about building up debt while at university rated bursaries as significant in their decision making.³⁵⁸ Further evidence suggests that it is not actually parental income that determines how much value students place on the type and size of bursaries, but rather students' perceptions of costs.

Alarmingly, however, even after top-up fees had been around for over two years, many people still had no understanding that bursaries existed at all, let alone what they were for or how they were delivered. The OFFA survey found that a quarter of students and their parents had not heard of bursaries even though all the students surveyed were about to go to university.³⁵⁹ One major problem is that students, parents and HE advisers do not understand how they differ between universities or who is eligible for them. As we will discuss later in this chapter, the perception of net and gross cost, and the ability of institutions to discount their tuition costs, has serious implications for students who are less-well informed, such as those from poorer and non-traditional backgrounds.

National Bursary Scheme

Since the introduction of mandatory bursaries in 2006 there have been strong calls for a national bursary scheme. Under such a scheme all institutions would be required to contribute a set amount of their additional fee income to a national pot, to be distributed equally to students in need across the sector. Major proponents of this scheme include the NUS, the modern universities group Million+ and the HEPI. The biggest opponents include the Russell and 1994 Groups of research-intensive universities.

Arguments for a national bursary scheme include:

- **Simplicity** – all students, no matter which university they attend, would know exactly what mandatory bursary they were eligible for. This would seriously reduce the problems of variance and complexity in the current scheme;
- **Fairness** – a national scheme would eliminate the significant difference between mandatory bursaries offered at pre-1992 and post-1992 universities. Levels of financial aid would be a function of need and not choice of university.

354 Callender (2009) p9.

355 Ibid

356 Callender (2009) p9.

357 Ibid p15.

358 Ibid

359 The two student groups least likely to have heard of bursaries were black students (31%) and those with family incomes of £25,000 or more (31%), Callender (2009) p23.

There are a number of arguments against, listed below, for which we will also outline some rebuttal. The major arguments against a national bursary scheme include:

- **Replication and fairness** – a national scheme already effectively exists in the form of maintenance grants and it is wrong to punish those institutions who offer more than the minimum bursary level of support to the most needy students;
- **Link between students and fees** – a national scheme would damage the relationship between students, fees, and the direct investment in the institution they attend;
- **Widening participation** – a national scheme is more likely to hamper efforts to widen participation, taking funds away from those institutions that need to make the greatest efforts to open up admissions to a wider student body;
- **Attainment** – a national scheme would be ineffective in increasing participation for less-privileged and non-traditional students because performance at school, and not financial issues, is the major barrier to widening participation; and
- **Fundraising** – a national scheme is likely to deter donors from giving money for need-based scholarships, with a fear that the Government would be able to siphon it off to other institutions.

Of these arguments against we think the first two should potentially be taken seriously. However, we feel that some of the arguments against introducing a national scheme are red herrings. With a national bursary scheme universities would still be in a position to use a significant portion of their fee income for widening participation activities; in particular it should be very easy for institutions to assure potential donors that their pledges would be separate from the national scheme and the cash would be ring-fenced.

Are universities doing enough to publicise bursaries?

The majority of universities (88%) do publicise their bursaries and scholarships, producing stand-alone material that covers all the key information students might need. However, given the barriers we know we have to surmount when it comes to encouraging some poorer students to go to university, simply producing a booklet or web-page is unlikely to be enough. All HEIs targeted their stand-alone bursary information at students, but the vast majority (91%) distributed it at all stages in the university application process, rather than concentrating on the pre-UCAS application period – the stage at which information on bursaries is most likely to influence a student's decision-making. One third of institutions did not take any further action to promote their bursaries. About half the institutions surveyed focused their efforts on publicising bursaries to students once they had started their course and were attending university.³⁶⁰

The analysis of advice in schools about bursaries painted a similarly worrying picture. The vast majority of HE advisors (94%) who had heard of bursaries gave their students some information and advice specifically about bursaries, but only half of these advisors did so before students had to submit their application form to Universities and Colleges Admissions Service (UCAS) or while they were completing it. Critically, advisors in schools with low university participation rates

³⁶⁰ Callender (2009) p29.

were less likely to give advice on bursaries to their students than those in high university participation schools (47% compared with 68%). This is particularly disappointing given that low income applicants who are most likely to be affected by the affordability of higher education are more likely to be based in low participation schools. Given this failure, universities should be doing more to ensure that schools understand their bursary systems, and reaching out to advisers in low participation schools in particular.

Scepticism in the sector

Privately, many vice-chancellors are sceptical that bursaries have made any real difference to the perceptions of debt or affordability of going to university. Some argue that bursary money would be much better targeted in other ways, such as outreach work or hardship support funds. In particular, many modern access universities feel that bursaries have unfairly penalised them, as they have so many eligible students and have therefore incurred massive costs, while at the same time being unable to offer bursaries as generous as those at many research intensive universities. A number of vice-chancellors were sceptical that a few hundred pounds could make any real difference, and argued that ultimately a university's status and reputation in specific subjects (and to a lesser extent its location) were more important variables.

Others felt that students from the poorest backgrounds already received very generous support through the student loans and grants system, and that bursaries did not make any discernible difference to their decision-making or student experience.

The future for bursaries

The biggest failure of the bursaries scheme has been the failure to explain it adequately to students and parents, which has led to significant confusion and low take-up (although this is improving). OFFA, or whoever succeeds OFFA as the access regulator, should take a lead on establishing vastly improved information, advice and guidance about bursaries. Universities must play a big role in this. It is not enough for institutions to offer bursaries, and to distribute marketing material outlining their scheme in an untargeted fashion. Instead they should be making much greater efforts to try to communicate with would-be students before they make their UCAS application - the stage at which information on bursaries is most likely to influence their decision-making. Universities must also try much harder to communicate with advisers in low university participation schools, particularly in their local area.

We disagree with vice-chancellors who feel they should be allowed to charge higher fees and walk away from their bursary commitments. We feel strongly that it is right that universities should play a role in the student support system, and that as a direct result of earning additional income through higher tuition fees, universities should make a significant contribution to the financial support of students in financial need.

As part of its review of fees the Government must review the structure of the bursary scheme. There are three options that they should consider:

1. Maintain the current mandatory bursary system, with an understanding that those universities which charge higher fees will be expected to offer more generous support for those students most in need as they do now;

2. Abolish the current mandatory bursary system and instead require each university to make a compact with the access regulator, outlining what financial aid they will offer, as part of their general access agreement. This would put the onus of responsibility to prove needs-blind admissions largely on universities;
3. Introduce a national bursary scheme to radically simplify the process. This could be designed as a set tax on tuition fee income, the same for all universities, and would supplement the national maintenance grant scheme.

Merit aid

As well as offering bursaries for financial need, many universities offer scholarships based on academic or sporting merit. Callender found that in 2008/09 of the vast majority of universities who offer some sort of financial aid beyond the required Government minimum, 38% awarded scholarships based on merit, most of which were not means tested. In addition 20% of institutions had awards based on subject and 18% offered awards for achievement while at university.³⁶¹ Such awards are not a bad thing in themselves – after all universities are places that exist to encourage and celebrate personal achievement (and particularly intellectual achievement). Yet it should be noted that evidence in the US has shown that these awards are more likely to go to the most privileged students.

If in the future universities were to invest in so-called ‘merit aid’ at the expense of aid to help poorer students fund their studies, that would be cause for serious concern. As we will describe below, this is the situation that has emerged in the US. Institutions here do not want to engage with merit aid as a potential problem. Vice-chancellors we spoke to argued that the US is a totally different country, with its own complicated problems and a super league of universities who charge on a totally different scale to England, and therefore the same issues will simply not arise here. We are less confident. In an aggressive higher education market where institutions are competing against others in their segment of the sector for the best students, the temptation to push more money into merit-based scholarships will be strong. To say that we do not need to consider this, or its potential impact on financial needs-based aid for the poorest students, is naive at best and negligent at worst.

Case study: Institutional financial aid in the US

Despite pumping huge amounts of money into financial aid, access rates in the US have remained relatively stagnant over recent decades. As is the case in the UK, high school graduates from middle and upper-income families are much more likely than those from less well-off and non-traditional to go to, and complete, university.³⁶² While we know that attainment is also the key barrier to participating in higher education for poorer students in the US, financial concerns are much more pronounced due to the greater cost of university attendance and the complexity of the student finance system. There is powerful statistical evidence to suggest that large, simple programmes to subsidise college costs can have a measurable impact on both initial attendance and college completion.³⁶³

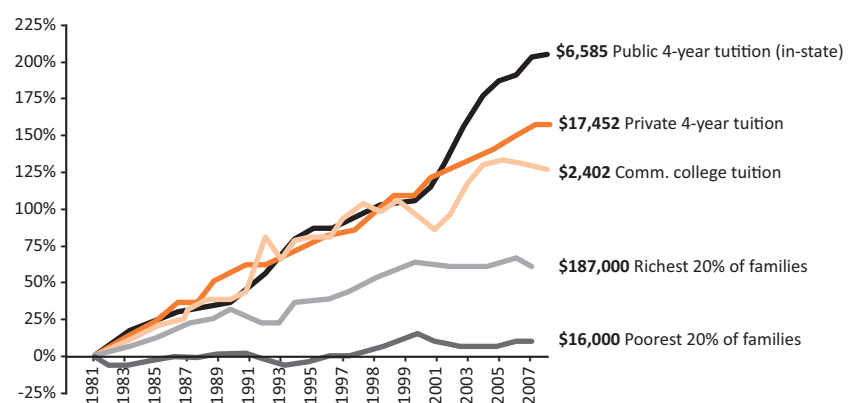
³⁶¹ Callender (2009) p12.

³⁶² In 2005, 77% of students from the top 40% of the income distribution and just 54% of those from the bottom 40% enrolled in some for higher education institution, including community college. College Board (2008), *Fulfilling the commitment, Recommendations for Reforming Federal Student Aid*, The Report from the Rethinking Student Aid Study Group, p3 (referencing Baum and Ma, *Education Pays 2007*, The College Board, 2007).

³⁶³ Ibid p5.

The cost of tuition – fuelled largely by the deregulation of state universities, falls in state funding, cost pressures and competition over league table ratings – has grown substantially over the past 40 years. Furthermore, the cost of attending all universities, in particular public and private four-year institutions, has far outpaced income growth for the whole population. For the poorest 20% of households (which covers those with incomes of less than \$18,000), the proportion of income required to pay for an average public university degree increased from 12% in 1967 to 30% in 2003. For the richest 5% of families the proportion of income required grew from 2% to only 3.5%.³⁶⁴ Figure 17 below demonstrates the change in household income and tuition prices over the past 30 years. In response to this surge in tuition costs the levels of overall financial aid have also boomed over this period. In 2007/08, the federal government provided \$16.5 billion in grants, states added \$7.5 billion, employers and private donors contributed about \$7 billion, and colleges and universities supplied almost \$21 billion in grants and price discounts.³⁶⁵

Figure 17: Changes in tuition prices and income (increase since 1980, constant dollars)³⁶⁶



However, to the distress of student financial aid practitioners across the country, merit-based aid has replaced needs-based aid as the major source of institutional bursary expenditure. Professor Donald Heller, who has done extensive research into the changing nature of financial aid, found that in 1995, just over one-third of all university bursaries were merit-based, whereas by 2003 this had risen to 54%. He pointed out: “As research has shown, merit-based bursaries are awarded disproportionately to students from higher income and ethnic majority families.”³⁶⁷

A popular hypothesis put forward is that universities have taken this route largely in response to the competitive pressures forced on them by the market for students, which is largely driven by league table rankings. This has created an “arms race” between universities to secure the best and brightest students at the expense of traditional, targeted, needs-based aid. Worryingly, state universities have also followed private universities, increasing their proportion of merit-based aid in an attempt to attract the best and brightest students to their universities. The graph below illustrates the scale of institutional aid which is being targeted at students from the wealthiest households. Ultimately, this explicit policy from universities (and state governments)

³⁶⁴ Heller D (2007), ‘Financing Public Research Universities in the United States: The Role of Students and Their Families’, in Geiger R et al. (eds), *Future of the American Public Research University*, p39.

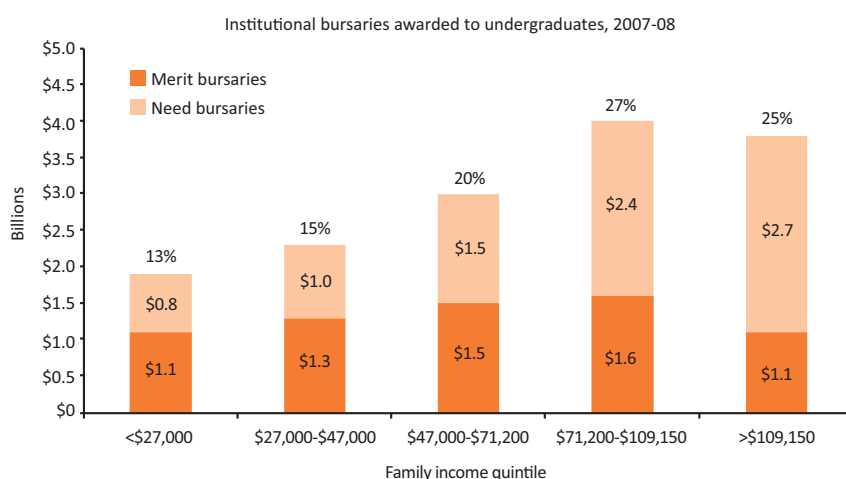
³⁶⁵ Baum S et al (2008), *The Effectiveness of Student Aid Policies: What the Research Tells US*, College Board, p10.

³⁶⁶ Heller D (2009), ‘Access to Higher Education in the United States: Issues and Challenges’, presentation at the Institute for Education Policy Research, Staffordshire University, 25 March 2009.

³⁶⁷ Johnson et al (2009) p68.

has left many needy students out of pocket, and the choice of which university to attend is now heavily influenced by affordability and the availability of financial aid. Turner points out that “the decentralised system for the allocation of financial aid in the US does not guarantee that students will have all need met as it is quite possible that the sum of the [federal] grant, [government-subsidised] loan and whatever aid is available from the institution may be less than total need in many circumstances”.³⁶⁸

Figure 18: Institutional bursaries awarded to undergraduate, 2007/08³⁶⁹



There is no doubt that there are many differences between the English and US higher education systems. However, there are still a number of lessons to be learnt from a country that has a genuine market in tuition fees and has been battling with many of the student financial aid pressures that we are just beginning to wake up to for over 40 years. With further expansion of higher education, the prospect of higher fees, more demands placed on the system of student support, and inevitably a greater reliance on institutional financial aid to support students, the Government would be wise to think hard about merit aid. One option is that if fees do rise as part of the new deal with universities OFFA could set a requirement for a certain proportion of institutional aid to be directed towards need rather than merit across the sector. For instance, institutions might be required to demonstrate that they are spending at least two-thirds of all institutional aid on needs-based bursaries. From our initial soundings of universities it is clear that they would be opposed to such a measure, arguing that it is too prescriptive. A lighter-touch alternative might be to expect universities to demonstrate that they are not significantly shifting money from needs-based aid into merit aid, as part of their access agreement, but not to set any rigid boundary as to what the proportions spent on each should be. In addition, to help simplify the system of institutional aid for understandably confused students, universities should refer to all needs-based awards as bursaries, and all merit-based awards as scholarships. At present the two terms are somewhat interchangeable and this is very unhelpful.

³⁶⁸ Turner (2008) pp160-61.

³⁶⁹ Heller D (2009), 'Institutional Bursaries in the United States: Lessons for the UK', presentation at the Nuffield Foundation, 19 May 2009.

University Access Agreements

If universities are to be allowed to raise fees it is important for us to think through access requirements very carefully. We are convinced that the majority of institutions do care about extending opportunities to the poorest students, and all institutions work towards this mission. Nonetheless, for many institutions access will not be a natural priority. Thus the Government must continue to apply pressure to universities on this agenda. This does not have to imply excessive central intervention.

The ideal model would be a system in which universities are given the responsibility to charge the fees that they think appropriate (within the Government cap) and have to demonstrate that they are offering truly needs-blind admissions, and working hard to reach out to potential students from poorer backgrounds in return. This poses some difficult questions for Government as to how to regulate universities to ensure that they are upholding their end of the bargain.

It is critical that universities are held to account by OFFA or another access regulator (we will discuss how OFFA has performed on this to date below). At present universities, have to sign an access agreement with OFFA in order to charge top-up fees. This should continue. In particular, universities must make assurances that they fulfil the following four criteria:

- First, each university must demonstrate that they offer truly needs-blind admissions. This means that they are completely impartial to the financial needs of students and assess applicants only on ability, or potential ability, in the application process;
- Second, as part of their mission to offer needs-blind admissions universities must make a significant contribution to the cost of university attendance for the poorest students through bursaries. Information about these bursaries should be distributed to key access schools and universities must show that they are making considerable efforts to market their schemes to would-be students before they apply through UCAS.
- Third, universities must show that they are running proactive and sustained widening participation programmes aimed at the most deprived neighbourhoods and schools. It is not enough for universities to offer needs-blind admissions to all who apply to them. They must also continue to make considerable efforts to reach out to students who are either qualified, or have the potential, to attend university but are deterred by low aspirations, poor advice or fear of debt.
- Fourth, as discussed, there should also be a clear requirement to demonstrate that merit aid and needs-based aid are fairly balanced at the institution.

It is worth noting that in the US, where the financial aid system is much more complicated than here, the notion of needs-blind admissions has been watered down at many institutions to 'needs aware' admissions. This means that a university admits a certain percentage of its students without taking account of their financial needs, setting aside a proportion of places which it can afford to subsidise. This has become a common admissions strategy, with only a handful of very wealthy institutions now offering genuinely needs-blind admissions. This is of course a less than desirable compromise, and one that we should ensure we avoid in this country.

What is OFFA and has it been effective?

The Higher Education Act 2004 created the Office of Fair Access to Higher Education (OFFA), and the post of Director of Fair Access to Higher Education, in order to ensure that the new tuition fee regime created by the Act would not prevent students from lower-income backgrounds attending university.

Universities must agree approved ‘access agreements’ with OFFA before they can charge undergraduate students the full top-up fee amount. These agreements, which last up to five years, detail the university’s awards of both mandatory bursaries, to which all students from lower socio-economic backgrounds are entitled, and non-mandatory bursaries which universities are encouraged to award to a broader range of students. A National Audit Office report published in June 2008 examined the success of OFFA (as well as DIUS and HEFCE) in “widening participation in higher education”, by carrying out a survey of 2,900 unsuccessful applicants for higher education places and 1,000 teachers in primary and secondary schools, as well as visiting institutions and meeting representatives of key organisations.³⁷⁰

The report looked at three general areas: whether participation of under-represented groups is increasing; whether the initiatives of DIUS, HEFCE and OFFA are effective; and whether the delivery of higher education addresses the barriers to widening participation. It noted that while OFFA had “not identified any breaches of access agreements to date...there is insufficient information about institutions’ activities to widen participation”, partly because “the access agreements approved by the Office for Fair Access have superseded the requirement to report directly to the Funding Council.”³⁷¹ The NAO evaluation was also critical that “where institutions cannot demonstrate that they are taking reasonable action to improve, [OFFA] should impose appropriate sanctions.”³⁷²

Criticism of OFFA is common. In particular, it is often accused of having no teeth to intervene when institutions are deemed to be failing on their access requirements. David Palfreyman, Director of the Oxford Centre for Higher Education Policy Studies, has suggested that the problem arose early in OFFA’s creation, when it was “being simultaneously presented to New Labour backbenchers as the sharp teeth of the OFFA Rottweiler and to universities as OFFA the Rottweiler being harmless really.”³⁷³ As a result, he sees OFFA as fulfilling its “true narrow and sole political purpose” which was “securing the New Labour backbench votes for the second reading of the Higher Education Bill” to ensure that top-up fees went through.³⁷⁴

OFFA was essentially a fig leaf created to satisfy the anti-fees lobby against the deterrent effect of fees, loans and student debt. It has little power to influence university admissions policies, or to sanction universities if it is felt they are not working hard enough in their efforts to widen participation for non-traditional students. While providing loose guidelines on overall levels of financial aid, it does nothing to control the proliferation of different bursaries or varying level of bursary support across universities.

Nevertheless, the presence of a body like OFFA does encourage some helpful behaviour. While it is right that the Government or an independent regulator does not have prohibitive powers to intervene in the admissions policies of autonomous institutions, maintaining a broad regulatory oversight is useful to remind universities that ensuring needs-blind admissions is paramount to the system and the Government.

There is a very real need for an access regulator. This could either be OFFA, or a replacement organisation with a fresh slate and a clearer function. The idea of having

370 National Audit Office (2008), *Widening Participation in Higher Education*, Report By The Comptroller And Auditor General, HC 725 Session 2007-2008.

371 Ibid p7.

372 Ibid p10.

373 Palfreyman D (2004), *Does OFFA have teeth?*, OxCHEPS Occasional Paper No. 16.

374 Ibid

a body to monitor widening participation and put pressure on universities to make a sustained effort to raise aspirations for students less likely to attend university without adequate encouragement is a good thing. It is also important to maintain the principle that universities should be required to give something back in return for seeking significant private investment from students. However, it is essential that OFFA should be given teeth, so that it is taken seriously in the sector. If there is no real consequence to failing in your mission to widen access then universities can be forgiven for taking their eye off the ball and not bothering as much as they should. The Government should define clearly what will happen if an institution fails to meet its access requirements. One option is that the ability to charge higher fees could be linked much more directly to adherence to this agreement.

Recommendations

- The biggest failure of the bursaries scheme has been the failure to explain it adequately to students and parents. OFFA should take a lead on establishing vastly improved information, advice and guidance about bursaries. Universities must play a big role in this. It is not enough for institutions to offer bursaries, and to distribute marketing material outlining their scheme in an untargeted fashion. Instead they should be making much greater efforts to try to communicate with would-be students before they make their UCAS application - the stage at which information on bursaries is most likely to influence their decision-making. Universities must also try much harder to communicate with advisors in low university participation schools, particularly in their local area.
- We disagree with vice-chancellors who feel they should be allowed to charge higher fees and walk away from their bursary commitments. We feel strongly that it is right that universities should play a role in the student support system, and that as a direct result of earning additional income through higher tuition fees, universities should make a significant contribution to the financial support of students in financial need. As part of its review of fees the Government must review the structure of the bursary scheme. There are three options that they should consider:
 1. Maintain the current mandatory bursary system, with an understanding that those universities which charge higher fees will be expected to offer more generous support for those students most in need as they do now;
 2. Abolish the current mandatory bursary system and instead require each university to make a compact with the access regulator, outlining what financial aid they will offer, as part of their general access agreement. This would put the onus of responsibility to prove needs-blind admissions largely on universities;
 3. Introduce a national bursary scheme to radically simplify the process. This could be designed as a set tax on tuition fee income, the same for all universities, and would supplement the national maintenance grant scheme.
- The Government and institutions must engage with merit aid as a potential problem. In an aggressive higher education market where institutions are competing against others in their segment of the sector for the best students, the temptation to push more money into merit-based scholarships and away from needs-based aid will be strong. One option is that as part of the new deal on fees OFFA could

set a requirement for a certain proportion of institutional aid to be directed towards need rather than merit across the sector. For instance, institutions might be required to demonstrate that they are spending at least two-thirds of all institutional aid on needs-based bursaries. A lighter-touch alternative would be to expect universities to demonstrate that they are not significantly shifting money from needs-based aid into merit aid, as part of their access agreement, but not to set any rigid boundary as to what the proportions spent on each should be.

- In addition, to help simplify the system of institutional aid for understandably confused students, universities should refer to all needs-based awards as bursaries, and all merit-based awards as scholarships. At present the two terms are somewhat interchangeable and this is very unhelpful.
- Universities should be given the responsibility to charge the fees that they think appropriate (within the Government cap). In return they must demonstrate that they are offering truly needs-blind admissions, and working hard to reach out to potential students from poorer backgrounds. We should retain the system of compelling universities to sign an access agreement with OFFA in return for charging higher fees. In particular universities must make assurances that they fulfil the following four criteria:
 - First, each university must demonstrate that they offer truly needs-blind admissions. This means that they are completely impartial to the financial needs of students and assess applicants only on ability or potential ability in the application process;
 - Second, as part of their mission to offer needs-blind admissions universities must make a significant contribution to the cost of university attendance for the poorest students through bursaries.
 - Third, universities must show that they are running proactive and sustained widening participation programmes aimed at the most deprived neighbourhoods and schools. It is not enough for universities to offer needs-blind admissions to all who apply to them. They must also continue to make considerable efforts to reach out to students who are either qualified, or have the potential, to attend university but are deterred by low aspirations, poor advice or fear of debt.
 - Fourthly, as mentioned above, they must demonstrate that merit aid and needs-based aid are fairly balanced at the institution.
- There is a very real need for an access regulator. This could either be OFFA, or a replacement organisation with a fresh slate and a clearer function. The idea of having a body to monitor widening participation and put pressure on universities to make a sustained effort to raise aspirations for students less likely to attend university without adequate encouragement is a good thing. It is also important to maintain the principle that universities should be required to give something back in return for seeking significant private investment from students. However, it is essential that OFFA should be given teeth, so that it is taken seriously in the sector. If there is no real consequence to failing in your mission to widen access then universities can be forgiven for taking their eye off the ball and not bothering as much as they should. The Government should define clearly what will happen if an institution fails to meet its access requirements. One option is that the ability to charge higher fees could be linked much more directly to adherence to this agreement.

7

Making Fees Pay: Reforming the System of Student Support

The system of student support is in urgent need of reform. This is partly because the system as it stands is alarmingly unaffordable, partly because we should make some different assumptions about how support is structured and who receives it, and partly because the system as a whole (and in particular student loans) has been sold to the public so inadequately. It is time to look at the system with fresh eyes, to make some tough decisions about how to best support those most in need, and to repackage government and institutional financial aid more clearly and decisively. As a starting point, the Government should make it clear that the main purpose of student support is to help those who are unlikely to meet their educational goals without financial help. Furthermore, and in light of constraints on government expenditure, it must be understood that not all students can (nor should) be fully supported in the same way.

A fact that many in the sector seem to be ignoring, is that if the student support system remains as it is, the cap on top-up fees cannot be lifted following Lord Browne's review of HE funding because of the damaging effect it would have on the public finances. This must change. We should not deny universities a vital new stream of investment, nor students a sustainable and world-class university experience, simply because loans and grants were designed imperfectly and it appears too difficult to change them. This barrier is not based on need, nor on the negative impact of fees, but rather on clumsy planning and an insufficient understanding of the subsidies inherent in the current system.

The costs of the present system of student support are very considerable, but many will be unaware of them. Loans come with two major subsidies attached, a zero real rate of interest and debt forgiveness after 25 years. Maintenance grants are non-repayable, and the majority of students are eligible for at least a partial grant.³⁷⁵ The provisional total amount of student support awarded in the form of loans and grants in 2009/10, based on data at 15 November, was £6.2 billion, up 6.5% on the previous year. The final figure for 2008/09 was £5.8 billion which represents an 18% increase on 2007/08 (£4.9 billion).³⁷⁶

Looking at the current cost of grants and loans (i.e. not including lending that is expected to be repaid), in the first year alone the estimated cost of student support came to £1.1 billion.³⁷⁷ By 2010/11 the cost of providing maintenance grants and student loan subsidies is expected to amount to £2.6 billion for home and EU undergraduate students.³⁷⁸ Furthermore, the capital outlay of providing student loans (net of any money expected to be repaid to the SLC) is expected to

³⁷⁵ SLC (2009) p2.

³⁷⁶ Ibid

³⁷⁷ Dearden et al (2007) p29.

³⁷⁸ Callender and Heller (2009) p63.

be £5.7 billion in 2009/10 (up from £4.5 billion in 2008/09).^{379, 380} Professor Claire Callender argues that by 2010/11 over half of all of the university department's annual expenditure on HE will be devoted to funding student support in the form of loans and grants. By comparison, in 2003/04 this figure was around 37% of expenditure.³⁸¹ It must be questioned whether this is an efficient use of taxpayers' money, or simply a reflection of a badly run system. The current level of student support as a proportion of spending on HE is currently one of the most generous in the world, ranking seventh in the OECD, only behind Scandinavian countries, the Netherlands, Australia and New Zealand (who also have generous income-contingent loan schemes).³⁸²

In this chapter we will recommend a combination of different changes to the student support system which will make it more equitable and more acceptable as a use of taxpayers' money, as well as making it possible to raise the cap on fees without a considerable additional cost to the Treasury. We will suggest:

1. Introducing a targeted, regulated private loans scheme for selected students from higher income families, alongside the public loans scheme.
2. Discounts for students who choose to pay their fees early or upfront.
3. Selling off some of the public student loan book debt both now and in the future.
4. Removing the current ineffective and costly interest rate subsidy on the public loans scheme.
5. Repackaging and demystifying the entire system of student support.

1. Private loans

Size of the loan book

The current growth of the student loan book is unsustainable. As a matter of urgency the Government must investigate ways to reduce its burden of debt and exposure to long-term risk. Debt in the form of student loans is predicted to boom over coming years as more students enter higher education and less money is recovered due to the blanket interest rate and debt forgiveness subsidies built into the scheme. Particularly in a scenario where the cap on top-up fees is raised, the size of the loan book is set to spiral out of control. Table 7 overleaf charts the growth in the total size of the student loan book over the past three years, including details of subsidies, repayments and write-offs. Annual lending is now up to £4.2 billion and the size of total debt outstanding is over £25 billion.³⁸³

Predictions about the future size of the loan book are extremely worrying. In the short term, it is expected to rise to £34 billion by 2010/11.³⁸⁴ In the medium term, the Government expects student debt to increase in value to £55 billion by 2018.³⁸⁵ Universities UK carried out a series of modelling on possible fee and loan regimes in early 2009 and found that if fees (and tuition fee loans) were allowed to rise to £7,000 then the annual size of government lending to students could rise to £12 billion by 2016 (i.e. nearly three times the present figure).³⁸⁶ In the current financial climate, with Government debt around £2 trillion, it is fanciful to think that this exponential expansion of the student loan book is politically palatable.³⁸⁷ If the Government is serious about providing an affordable loans scheme for all students, then it must find viable ways to remove the burden of debt from the Treasury's books.

379 Ibid

380 HC Deb, 5 November 2009, c1244W, <http://www.theyworkforyou.com/wrans/?id=2009-11-05a.297675.h>.

381 Callender and Heller (2009) p63.

382 Wainer R et al (2009), *Stronger together: Businesses and universities in turbulent times*, Confederation of British Industry, p35.

383 HM Government (2009), 'Student Loans Portfolio', Operational Efficiency Programme: Asset Portfolio, p67.

384 Willetts (2009) Extra places.

385 Hoareau C (2009), *Student loans in the UK, equity and cost efficiency*, London School of Economics, p12.

386 Brown et al (2009), p34.

387 ONS (2009), November: £16.2bn current budget deficit, <http://www.statistics.gov.uk/cci/nugget.asp?id=206>.

Table 7: Financial information on the student loan book³⁸⁸

Financial years	2006-07	2007-08	2008-09
	Income Contingent Loans	Income Contingent Loans	Income Contingent Loans
Academic Year Interest Rate (APR)	2.4%	4.8%	1.5%
Total Amount Outstanding (beginning of year, incl. interest) (£ million)	14,101	17,046	20,982
Plus Amount Lent During Financial Year (£ million)	2,954	3,905	4,204
Minus Amount Repaid, Including Interest (£ million)	359	494	788
Minus Amount Cancelled in Respect of Repayment Teachers Loan Scheme (£ million)	15	18	15
Minus Amount Cancelled or Written Off (£ million)	2	1	19.7*
Plus Amount of Interest Added (£ million)	365	545	726
GIVES Total Amount Outstanding at the End of the Financial Year, including Loans Not Yet Due for Repayment. (£ million)	17,046	20,982	25,090

Source: Statistical First Release, SLC, 25 June 2009.

Student loan outlay and repayments – Publicly owned debt: financial years 2006-07 to 2008-09
English-domiciled students studying in the UK and EU students studying in England

* In 2008-09, the SLC put in place a process that enabled them to deal with outstanding write-offs from previous financial years. This means that a number of the write-offs that, under normal circumstances, would have been shown in other years than 2007-08 and 2008-09 are actually shown under these two years. Further detail can be found at – <http://www.slc.co.uk/pdf/slcsfr022009.pdf>.

Introducing private capital into the loans system

To address this we strongly recommend that the Government should consider introducing a targeted, regulated, private loans scheme in tandem with the current public loans scheme. This private loans scheme would be exclusively for students from the highest income backgrounds. However, as we will discuss later the Government should ensure that banks charge below the commercial rate of interest so that all students continue to have access to some sort of subsidised loan scheme. Creating a new private loans scheme for low risk borrowers would help to reduce the burden of Government student loan debt, and target Government financial aid at those who need it most.

There is no denying that the notion of introducing private money and private terms into the loans system will appear alarming to some people on first consideration. The experience of the US higher education system – which has a large and complicated private loans market – points to some glaring potential problems for

³⁸⁸ Ibid

students, such as unaffordable debt levels, interest rates and risk of default. The cost of tuition has risen sharply in the US while the level of financial aid for those who need it most has not kept pace. Loans, and in particular private loans, have quickly outpaced grants as the largest form of financial aid. While government subsidised loans retain the greatest share of the market, private loans have grown at a much faster rate in recent years. The toxic combination of soaring tuition rates, falling grant aid for those students most in need, and an increasing reliance on private loans, has allowed debt to reach alarming levels for many students. However, this scenario can be avoided in England for a number of reasons which we outline below.

1. England is starting from a very different position than the US. Unlike the US we do not have many different state systems of higher education, and there is already one unified national system of student support, with much simpler guidelines on loan and grant eligibility. Therefore, introducing a new, national, targeted and regulated private loans scheme is vastly different than proposing a replication of the numerous unregulated options which exist in the US.
2. It is possible (and desirable) to limit eligibility for private loans to those who can comfortably afford to service them. In the beginning, this could be based on a simple household income means-test, ensuring only those students from the wealthiest households – whose parents have often been paying for their children's education up until university level and can afford to support their university education – are cut out of the public loans scheme. Widespread lending to inappropriate loan candidates is one of the main roots of the default problem in the US, where careless lending to people who should not have had private loans was allowed to go unchecked.
3. Students in England do not currently face the same barriers in applying for financial aid as do students in the US. There a complicated application process has discouraged many students from poorer backgrounds from applying for financial assistance, meaning they never find the state support that they are entitled to and they are more likely to seek help from a private loans company. Our system still needs tightening up (as shown by the SLC's shocking delays in processing loan applications in 2009). But if the Government can continue to run a relatively uncomplicated loans and grants application process, then it can safely avoid the detrimental effects of confusion present in the US system.
4. The Government can successfully target financial aid in the form of grants and bursaries (both government and institutional) to those students who are most in need, which will ensure that only those students from wealthier backgrounds will be in a position to take on higher levels of debt.
5. In a government-regulated scheme it is much easier to require banks to be explicit and transparent about how their loans operate, what effect different interest rates will have, and what specific terms and conditions apply. We will explore this in more detail shortly. Again, with little regulation in the US, consumers were not adequately protected against some of the less well-known conditions of commercial loans.

Before we discuss some of the technicalities and finer points of introducing a regulated, targeted, private loans scheme, there are some basic principles we believe are integral to its operational and political success, and to its fairness.

- **Availability:** All students must have access to either the regulated, private loans scheme or the subsidised, public loans scheme. This ensures that everyone who wants to go to university can afford to, regardless of their financial background, and no one need take on an excessive workload during term-time (although we should assume that as fees go up so more students will choose to take on more paid work to support themselves, as they do in the US and Australia).
- **Eligibility:** The private loans scheme should only be available strictly to students from the wealthiest households. Students deemed to be part of this group will not have access to the public loans scheme. On the flipside, all other students will have access to the public loans scheme, and will not have access to the private loans scheme. The Government, in partnership with commercial banks, must try to make it as clear as possible to all students who is eligible for which scheme.³⁸⁹
- **Why eligibility matters:** There are a number of reasons why it is necessary to limit the amount of borrowers in this scheme, and why they should come from the wealthiest households:
 - First, it is in the interests of students because a) private loans should not be given to those who cannot afford them, and household income is a good proxy for ability to repay, especially if the loans have mortgage-style and not income-contingent repayments, and because b) these students have a lower risk of default, which enables banks to charge a lower interest rate;
 - Second, it is in the Government's interest because a) it will make the scheme politically viable, b) it will minimise the subsidy necessary to cover part of the risk of default, and c) it will keep the scheme to a manageable size in order to properly regulate it.
- **Cost:** Banks should charge an affordable interest rate. In other words, something between the Government's cost of borrowing (the rate at which students in the public scheme will be charged, as we will discuss later) and a normal commercial loan.
- **Risk:** There should be recognition that risk will be shared in some way between banks, the Government, the borrower, and certain stakeholders (such as universities). This risk-sharing arrangement will partly determine at what interest rate students will be charged.
- **Transparency:** There should be clear guidelines about how banks should market and operate loans. Keeping to these guidelines will be a strict condition of participating in the scheme. The Government must ensure there is a form of oversight to keep banks in check, and the Government should also act to maximise transparency and minimise confusion of loan terms and conditions.

Targeted loans

Cutting students from wealthy backgrounds out of the public loans scheme is sensible for a number of reasons. For a start it significantly reduces the Government's costs of providing student loans. Not only is government lending reduced, but current spending also falls as fewer students draw on the generous interest and debt forgiveness subsidies inherent in the current scheme. This sends an important signal

³⁸⁹ Policy Exchange is undertaking further modelling on household income thresholds to determine what would be an appropriate level to cut students out of the public scheme.

to the electorate: the Government is actively prioritising the needs of poorer students over wealthy students. Or more specifically, the Government is removing wealthy students from the public loan book in order to maintain a generous system of student support that subsidises the education of those who are less fortunate and are less likely to have received a good education at school.

Many upper and middle income families currently pay large sums of money to educate their children privately at nursery, primary or secondary school level (and often all three,) yet when they arrive at university they expect this part of their children's education – from which they will gain the most explicit financial benefit – to be 'free' or heavily subsidised by the state. This does not make sense. It is right that the Government makes a significant financial contribution to higher education as it contributes such powerful benefits to our economy and society. But this does not mean that parents should cease to invest in their children's education, nor that the Government should not target financial aid at those students who need it most. It seems out of place that at a time when pressures on public finances are increasing, and when we are trying to open higher education up to a much wider pool of students, that the wealthy should continue to demand an equal share of financial support. Parents of wealthy families know better than anyone that higher education remains one of the best investments one can make in life, in particular with regards to the hefty graduate premium most students command after finishing university, and they should be willing to invest accordingly.

“ It seems out of place that at a time when pressures on public finances are increasing, and when we are trying to open higher education up to a much wider pool of students, that the wealthy should continue to demand an equal share of financial support ”

Introducing a targeted, regulated, private loans scheme does shift one dynamic of the current public loans scheme. Currently, a student's ability to take out a tuition fee loan (as well as the vast majority of the maximum maintenance loan allowance) is considered independently of their family's household income. This is considered by many as a positive development. Firstly, we currently expect graduates to contribute to the costs of their higher education as they will benefit personally from that education in their future career. Thus judging their loan entitlement based upon their familial income years before they begin that career may seem strange. One response to this is that we already know from existing loans data that students from wealthier families are less likely to default on their loans – so background is not irrelevant. Less tangibly, many people like the fact that the current system reinforces the concept of students making their own choices about their higher education, separate from the influence of their parents. While not necessarily ideal, basing the loans system on household income is a pragmatic way of making the system fairer and more affordable. In a world of mass higher education, limited government resource, and a desire to maintain the cost of education at an affordable level, it is inevitable that the Government must find ways to target student support at those who need it most.

The arbitrage problem is another reason why it is sensible to cut wealthy students out of the public loans scheme. Even before top-up fees came on stream,

widespread anecdotal evidence suggested that a large number of upper and middle-income students were taking out maintenance loans not to help with livings costs but to invest in ISAs or other savings accounts. Due to the blanket interest rate subsidy, students could make easy money on the back of government lending. This is clearly a poor use of taxpayers' money, and policymakers must do all they can do to minimise opportunities for this sort of behaviour.

We do not underestimate the political considerations of cutting wealthy students out of the public loans scheme. There already exists serious scepticism among students and parents about the impact of the introduction of top-up fees. This exists in part because universities have failed to make the case for fees clearly or to explain what they have been spent on, and in many cases have failed to properly engage with public concerns about issues such as contact hours. Regardless of what happens to the student support system universities will need to tackle the public perception of fees if they want there to be any change in the future. This will become more imperative if we are to make loans more expensive for those students who can afford to service them.

Four further points are important politically when it comes to students from wealthier backgrounds. First, we understand that while wealthier households may have been paying school fees for years, this is something they will have been expecting to do, and they may not have money readily available to pay university fees. Unlike countries such as the US and Australia, we do not yet have a culture of saving for university (although we anticipate that this would change over time if the student support system were to change). For this reason it is crucial that all students have access to some form of government-regulated loans scheme, whether publicly or privately financed. Second, as we will discuss in more detail in the second section of this chapter, students from wealthier families who do not want to take out a private loan will have the option of paying their fees in advance and this will attract a generous discount. Third, a condition of the private loans scheme will be that these loans must cost less than the commercial rate of interest. Thus while these students will not be entitled to state-subsidised loans, they will still obtain a favourable rate that has been secured due to Government backing of the scheme. The scheme will also be carefully regulated by the Government to make it safe. Finally, there would also be some protection for these students in the case of default, as in the public scheme.

We do not attempt here to define exactly which students should be defined as 'wealthy' and included within this new private loans scheme, because this would need careful modelling to assess how the means test should operate and what proportion of students would fall within this particular bracket. This should be the subject of further work.

How a targeted, regulated, private loans scheme would work

Having interviewed student loan and financial aid experts in the US, it is clear that leaving loan provision up to the commercial market alone creates a number of problems for students. Consumer protection is often very lax, rates of interest are prohibitively expensive, students from poorer backgrounds are given loans that they cannot afford, and a plethora of different lenders and loan options makes the system very complicated and confusing.

We will now look in more detail at exactly how a targeted, regulated, private loans scheme could work in practice. To inform this research we spoke in depth to student loan experts in the US and the UK, as well as experts in the financial markets and senior figures in commercial and private banks. In summary, the three main ingredients of a workable scheme are cost, risk and regulation. The scheme will only be a success if loans are affordable to service. The less risk banks have to take on the less costly loans will be for students and the more the Government regulates who is eligible and how the scheme will function, the less incentive banks have to expand loans unsustainably.

Cost

The borrowers' perspective

There are two main ways to keep down the costs (i.e. interest rates and repayment conditions) of private loans for borrowers. These are to:

- Restrict the cohort of borrowers to those least likely to default on loans, keeping the loans scheme to a manageable size; and to
- Share risk so that banks, and hence borrowers, do not shoulder the entire burden of the risk of default. This can be achieved through measures including the use of a reserve fund, requiring students or another party to act as a guarantor on the loans, or requiring that students take out life insurance to minimise the impact of death or incapacity from severe illness or accident.

The bank's perspective

Banks must have an incentive to lend to students. Put simply, student loans will be competing on the balance sheet with a whole host of other credit products, so the scheme must be commercially viable. Unless subsidised in some way, their natural tendency will be to loan money at a standard commercial rate of interest. In fact one could understand how student loans could command an ever higher rate of interest, as some loans would have to be quite large to cover tuition fees and the cost of living, and unlike those in the workforce, students are not in a position to secure their loans against any significant assets, such as a house. To paraphrase one commercial lender we spoke to: "If banks are currently struggling to lend to normal people, why would they give out big unsecured loans to students, with little assurance that they can pay them back?"

It is true that one motivation for banks to participate in a student loans scheme without having to charge a commercial rate of interest is the potential profitability of securing a pool of long-term, low risk, high-earning graduates for future banking. Though potentially lucrative in the long-term, this incentive alone is unlikely to be great enough for banks to lend at a significantly reduced rate, such as their cost of borrowing, or the LIBOR (London Interbank Offered Rate). The major function of the cost at which banks decide to lend is risk, specifically the risk of students defaulting on their loans. Therefore, it is crucial to ensure that banks are not responsible for the full amount (or even majority) of risk, otherwise this cost will be passed on to the borrowers.

Risk

How do you reduce the bank's exposure to risk?

There are a number of ways to share the banks' (and hence borrowers') exposure to risk in a targeted, regulated, private loans scheme. We list some of the options below. It should be noted that we do not necessarily endorse all of these options (and in particular we are less sure about life insurance) and that it will be crucial to keep the scheme as simple as possible.

- 1. Establish a subsidised reserve fund** to cover at least part of the cost of default. This could be funded by a mixture of sources, such as the Government, private donors or even universities themselves. As a condition of raising the fees cap, for example, the Government could force universities who charge higher fees to contribute a fixed amount to the fund for each of their students that take part in the loans scheme.
- 2. Secure a guarantor** for the loans. In the current public student loans scheme the Government acts as guarantor, as all unpaid debt after 25 years is forgiven. In a regulated private loans scheme the Government could also act as guarantor, although this would have serious implications for Treasury accounting liabilities due to classification issues, particularly if there was not a reserve fund. Alternatively a third party, such as the student's parents, could be used to guarantee the value of the loan to a major asset, such as a house.
- 3. Design the repayment schedule** to encourage early repayment of loans. It is desirable to maintain the current income-contingent repayment mechanism as it does not place undue strain on graduates in times of low earnings, such as during and immediately following study. On the other hand, from the bank's point of view it would be much less risky to have a stable stream of income commencing as soon as possible, such as under a mortgage-style repayment system. As discussed, there has been a general decline in parental contributions across all households over time, however one can assume that this has happened (particularly at the upper end of the income spectrum) partly because the state student support system has filled the gap. Those graduates who have private debt are more likely to receive significant financial support from their parents as they come from wealthier households which can afford to contribute, and the terms of the loan will give them more of an incentive to help.
- 4. Require students to take out life insurance** to minimise the impact of death or incapacity from severe illness or accident.

How would a reserve fund work?

The purpose of a reserve fund is to share some of the risk of student default between the bank and other stakeholders, the two most obvious being the Government and universities. Alongside some form of state subsidy, the Government could either encourage or require universities to participate in the scheme as part of a deal to increase the cap on tuition fees. If the Government comes to the conclusion that the public loans scheme is unsustainable in its current form, universities have a vested interest in ensuring that all students, regardless of their ability to pay upfront tuition costs, participate in HE. One way to look at is to compare the arrangement to an insurance fund. If universities paid a set fee into

the fund for each of their students that took out a regulated private loan, and assuming that default rates varied between universities and within institutions for different courses, then it would be a similar arrangement to one where some people pay insurance premiums and never make a claim, effectively subsidising those who take out insurance and do make a claim. In this way universities could make insurance payments on behalf of their students, some of which will make claims and some of which will not.

It might be necessary to raise some form of government subsidy for this, otherwise it could be hard to raise cash or get buy-in from universities. It is worth noting that in the US in the early 1990s a similar risk share programme was in operation, and a pool of high quality universities agreed to participate, but they quickly began to disagree. Individual institutions argued that they had a lower default rate than others and should therefore shoulder a lower proportion of the risk. To avoid this problem, as well as encouraging or requiring universities to participate in a reserve fund, the Government must insist that all risk is pooled. This should not be an issue, given that the students in question will collectively be low risk, high quality debt candidates.

It could also be possible for private financiers to invest in the scheme. There is a precedent for this in New England in the US. In the mid-1950s a major fundraising campaign was undertaken to finance a reserve fund for a student loan programme, incorporated under the not-for-profit Massachusetts Higher Education Assistance Corporation. The Corporation sought private donations to create a guarantee pool which would be used to assure lenders that in the case of default they would be fully reimbursed.³⁹⁰ It could be argued that big business also have an incentive to participate in such a scheme, as it is vital that the best students (some of which come from the wealthiest backgrounds) continue into higher education, in particular in England and not overseas. This has implications for long-term recruitment and graduate employment.

Should there be a guarantor on regulated private loans?

A guarantor is an individual or organisation who takes on the ultimate responsibility of repaying a loan. In the current public loans scheme, with debt forgiveness after 25 years, the Government is the guarantor on all loans. In the long term, and on such a large scale, it is problematic for the Government to act in this way, as Treasury accounting liability rules mean that any debt that is guaranteed and controlled by the Government must be accounted for on the Treasury's balance sheet. Interestingly, the situation is very different in the US, where the Government is able to guarantee loans through commercial lenders without having to record their lending as a public liability.

Parents could also act as a guarantor on student loans, using a conventional asset such as a house as security. As a targeted, regulated, private loans scheme will only be available to the wealthiest households, it is likely this option will be available to nearly all participants in the scheme. One advantage of this arrangement is that there would be a clear incentive for students to stay on top of their loan repayments due to pressure from their parents. Similarly, if the Government is interested in finding ways to increase direct parental contributions for the costs of higher education, in particular for the wealthiest households, this is one way to it can be achieved.

390 Parker T (2009), *Challenges To The Financial Aid Profession—Making The Worldwide Expansion Of Higher Education Work For All*, Keynote address prepared for the Annual Meeting of the New York State Financial Aid Administrators Association, New York, 27 October 2009.

“ Requiring parents to act as a guarantor on student loans would help to reduce the bank’s exposure to risk of default, which in turn could help to reduce to the rate of interest charged ”

A mortgage option launched by Lloyds TSB in 2009 could offer some guidance in this area. Named the ‘Lend a Hand’ mortgage, it has been designed to help first-time buyers onto the property ladder by allowing parents or other close family and friends to vouch for the borrower’s security, in turn reducing the amount of upfront capital required. The mortgage requires first-time buyers to provide only 5% of the value of the property as a deposit (much lower than a standard mortgage offer), with a further 20% coming from friends or family (up to two people), which must be deposited in a savings account with the bank for a minimum of three and a half years.³⁹¹ Elements of this scheme could be adapted for regulated private loans.

The main disadvantage of parental guarantees is the risk and responsibility. Without additional help, such as a subsidised reserve fund, taking on the responsibility for tens of thousands of pounds of debt may seem an unreasonable demand to make of parents. Furthermore, this dynamic would further shift responsibility of HE decisions away from students to their parents, when ideally we want students to see themselves as independent adults in charge of their own learning decisions. Nonetheless, requiring parents to act as a guarantor on student loans would help to reduce the bank’s exposure to risk of default, which in turn could help to reduce to the rate of interest charged.

Repayment schedules

There are three main pillars of the current public loans scheme that are considered vital to protecting access: debt forgiveness after 25 years, income-contingent repayments, and repayments only above a certain threshold and at a minimum repayment rate. Combined, these three elements protect low current earners as well as low lifetime earners. However, this repayment structure does not marry neatly with what commercial banks want: regular, predictable loans with a steady and sizeable flow of loan repayments. Finding a balance between this trade-off – protecting access versus ensuring commercial viability – will be an integral part of any regulated private loans scheme.

Insurance and fraud

The main reasons for a graduate defaulting on their loan are death or incapacity as a result of illness or accident, fraud, or low earnings. One option to minimise the first risk is to require students to take out life insurance for the duration of a private loan. This would protect banks (and those who contribute to a subsidised reserve fund) and reduce the rate of repayment. An example of this working in practice is HSBC’s private loans scheme for MBA students, in partnership with the London Business School. In this case the loan can cover all tuition fees (plus some living costs) up to a maximum of £50,000, with no security or guarantee requirement. The bank has full discretion on approval of the loans based on the student’s salary before taking the MBA and their ability to repay after graduation. The variable interest rate charged is a competitive premium

³⁹¹ Simply Finance (20 May 2009), *Lloyds TSB Launches 95% LTV “Guarantor” Mortgage*, http://www.simplyfinance.co.uk/articles/Mortgage/Lloyds_announces_95_mortgage.html.

linked to the Bank of England's base rate, and repayments commence after graduation and are mortgage-style. Interestingly, the one binding condition of the loan is that all students must take out life cover, which costs between £10-15 per month for the duration of the loan (which must be repaid within seven years).³⁹²

Regulation

The Government could exert control over a number of important elements of the private loans scheme. First, it could judge how many (and which) commercial banks should participate in the scheme. Second, it could set clear boundaries determining which students are eligible to take part (in other words where the line would be drawn in any means testing). Third, it could determine how repayments will be made to ensure that graduates are not put in an unacceptable position. And fourth, assuming that an adequate system of risk-sharing can be established, it could decide what maximum rate of interest banks should be allowed to charge.

When introducing a commercial element into the student loans market there is always a risk that, if the scheme proves profitable, banks will have a natural tendency to be greedy and roll out loans to a more risky pool of students. This is what happened in the US with loans companies such as Sallie Mae. Initially they were using historical data on loan repayments to make judgements about exclusively high quality applicants, who would present a low risk of not repaying their debt. But over time they began making the same assumptions with much lower quality applicants, who were not in a strong position to afford a commercial loan, and were significantly more likely to have problems repaying. This sort of situation is avoidable. There is no reason that we cannot have a disciplined loan scheme which operates within clear boundaries – yet crucially there must be a regulator who can draw a line, who can tell banks that they cannot simply extend this scheme as far as they want to.

One option is that the Government could act as the regulator. However, it is worth remembering that if a private loans scheme proves successful, politicians will also have a strong incentive to expand the scheme to push more debt off their books and help shore up public finances. Due to this conflict of interest it may be necessary for some form of independent regulator to have ultimate responsibility for borrowing eligibility. Alternatively, if a reserve fund is established to cover at least some of the cost of default, it could be written into the contract of the fund that lenders will only be allowed to offer loans to a finite group of students based on a set criteria of risk.

Though a detailed discussion of eligibility criteria and means-test requirements is beyond the scope of this paper, we would urge the Government to adopt one recommendation of the 'Rethinking Student Aid Group' in the US. This group of leading access experts suggested that the Government should require the tax office, in partnership with the SLC, to use an average of the most recent three years of household income rather than a snapshot at the time of application.³⁹³ In this way the Government could reduce the ability of students and parents to 'game' the system, ensuring a more reliable picture of their finances is taken into consideration.

392 HSBC Bank Plc – London Business School Loan, [http://www.london.edu/assets/documents/programmes/HSBC_WEB_new\(2\).pdf](http://www.london.edu/assets/documents/programmes/HSBC_WEB_new(2).pdf); email correspondence.

393 College Board (2008) p11.

Classification

Depending on the control influenced by the Government in setting up a regulated private loans scheme, under international accounting guidelines the entire size of all loans could be counted as public lending. This would undermine the whole purpose of the scheme, which aims to reduce the public liability of providing student loans. This decision is made by the Office of National Statistics (ONS), which applies tests based on European accounting rules around classification.

Setting up a reserve fund to share at least part of the risk of default could address this classification issue. The fact that the Government provides some form of subsidy to the scheme is not the major issue. The important caveat is that their involvement does not come with substantial control. The public private partnership of London & Continental Railways (LCR), which built the cross-channel High Speed One line, was initially classified as a private scheme despite the Government guaranteeing up to £3.7 billion of privately raised debt funding in 1998.³⁹⁴ But as the scheme developed it was reclassified as a public sector company (in 2006) because the Government's 'powers of control' were deemed too great. As a 'Special Shareholder', the Government had the right to force the sale of LCR at any time and had approval rights to LCR's budget and cash flow, as well as other powers.³⁹⁵ This level of involvement must be avoided in a regulated, private loans scheme.

Bringing in some form of regulator, such as the Trustees of a reserve fund, who could write into the contract with banks some of the binding criteria of the scheme, could ensure the Government's involvement is not brought back on balance sheet. Involving the SLC and HMRC through the repayments process, as they currently are with public income-contingent loans, does not pose a major obstacle either, as banks could simply charge a fee for their collection services. It is important that Ministers, as much as they would like to, cannot have any discretionary control over conditions of the scheme, such as the repayment schedule, once it has been set. For instance, politicians may want to introduce an extra payment holiday as part of a package of other policy changes, to win PR points. This is something that the Labour Government announced in July 2007 for new students commencing in 2008/09 onwards, but later retracted as part of a deal to fund 10,000 extra student places in response to the 2009 clearing crisis.³⁹⁶ Once the contract between the reserve fund and the banks has been set in stone, then there should be no room for Ministers to tinker.

Professional and Career Development Loans (PCDL), which are available from a small number of commercial banks and are largely aimed at postgraduate students, are an example of a scheme which is privately financed, controlled by the Government, and subsequently counted as a public liability on the Treasury's balance sheet. Commercial banks do everything within their power to collect payments from students – in this case soon after a student finishes their course and in a similar way to a normal commercial loan – but the Government is committed to cover a portion of the loan in case of default. The Learning and Skills Council also pays the interest on the loan while the student is at university. These measures ensure that the scheme is viable for banks. In 2008/09 the public liability on PCDL's was around £25 million.³⁹⁷ A private loans scheme could avoid following this model.

³⁹⁴ House of Commons Research Paper, *Channel Tunnel Rail Link (Supplementary Provisions) Bill*, Bill 4 of 2007-08, p13.

³⁹⁵ National Statistics (2006), *Classification of London and Continental Railways*, News Release, p1.

³⁹⁶ BIS (2009), *10,000 extra higher education places to help more students go to university this year*, <http://nds.coi.gov.uk/clientmicrosite/content/detail.aspx?NewsAreaId=2&ReleaseId=404961&SubjectId=2&clientId=431>.

³⁹⁷ The LSC states that they have a "liability to cover a proportion of the default payments that occur under this programme. The majority of this provision reflects the probable outflow of funds in relation to this together with an element of the cost of covering interest-driven liabilities while the recipients of the loans complete their course". Learning and Skills Council (2008), *Making Skills Matter*, The Learning and Skills Council's Annual Report and Accounts for 2008-09, p86.

2. Discounts for Early Repayment

Wealthier parents who do not wish their children to take out a private loan should note that this would not be compulsory. Indeed we would strongly recommend that there should be an option for those who want to avoid taking out a loan altogether to pay upfront with a generous discount for doing so. In October 2009 David Willetts, Shadow Minister for Universities and Skills (with special responsibility for family policy) announced a 10% discount for those who chose to pay their fees upfront. In addition, those who made repayments early would also receive a discount of 10%.³⁹⁸ We strongly support this policy, which aims to reduce the burden of the student loan book and to use the money to create extra student places in the system, which are badly needed as demand is seriously outstripping supply. In 2009 nearly 140,000 applicants did not get a place at university, tens of thousands of whom were qualified to go to university.³⁹⁹

There are currently no estimates for how many students would be taken out of the loans scheme if a discount on upfront payments was offered, although there are some estimates on how much of the loan book would be expected to be repaid early as a result of a discount on repayments. A similar scheme is being introduced in New Zealand and they are projecting early repayments to rise by 35%, leading the Conservative Party to estimate that an additional 1% of the loan book is likely to be repaid early each year under their scheme.⁴⁰⁰ This system of discounts for early repayment has a precedent in the Australian system, which currently offers a 20% discount on upfront payments. In 2005/06, upfront payments represented roughly a third of the value of all revenue directly received from student and graduate contributions, or roughly 60% of the value of income-contingent payments made through the tax system.⁴⁰¹

3. Selling off the student loan book

Another option to reduce the burden of student debt is to sell off parts of the student loan book. This would help to reduce the Government's exposure to long-term risk, such as variations in real interest rates and other macroeconomic economic factors which determine the rate and timescale of loan repayments. Of course, the alternative is for the Government to hold onto student debt and collect the steady stream of loan repayments – currently running at £800 million a year.⁴⁰² One of the consequences of a debt sale is simply to bring forward that income stream. In a time of severe economic turmoil and heavy public debt, securing a shorter term return is attractive, even if it is just a slice of the loan book. As we discussed earlier it should not be underestimated just how much of a burden the size of the loan book has become for the Treasury. Reducing susceptibility to long-term risk is imperative, and maintaining a public image that the student loans scheme is affordable and sustainable must be a priority. For these reasons it is advisable for the Government to accelerate its current sale of student loans programme.

What debt sales have occurred in the past?

In 1998 and 1999 there were two sales of the old mortgage-style student loans for a total of around £2 billion under the Education (Student Loans) Act 1998.⁴⁰³ Regrettably, the Government had to sell this debt at a massive discount because of the interest rate subsidy built into the loans scheme. Barr found that in previous sales

398 Willetts D (2009), Extra places.

399 Shepherd J (21 October 2009), *Record number of students admitted to university despite cap*, The Guardian, <http://www.guardian.co.uk/education/2009/oct/21/record-student-numbers>.

400 Willetts D (2009), Extra places.

401 Chapman B and Tan M (2009), *The Australian University Student Financing System: The Rationale for, and Experience with, Income Contingent Loans*, report for Malaysia presentation, p53.

402 HM Government (2009) p66.

403 House of Commons Research Paper (2007), *Sale of Student Loans Bill*, Bill 6 of 2007-08, p14.

the net proceeds have been about half of the face value of the debt because of the cost of the subsidy.⁴⁰⁴ It should be noted that while it is possible to reform this subsidy in the long term (and charge a positive real rate of interest more closely linked to the Government's cost of borrowing), any debt sale in the near future will involve loans that still have this subsidy built-in.

Baroness Blackstone, Vice-Chancellor of Greenwich and former Minister of State for Education, estimated that the net present value of the subsidies of the two sales were broadly in the region of £395 million to £405 million respectively.⁴⁰⁵ This compares to Government estimates of £310 million in costs which would have been incurred had the loans remained publicly owned, meaning that the estimated cost of selling the loans was 25% to 30% above the cost of keeping the loans in the public sector.⁴⁰⁶ The second sale of student loans was sold to a consortium of the Nationwide Building Society and Deutsche Bank.

Why have there not been more sales of student debt?

There are a number of reasons why the Government might choose to delay further sales of student debt. First and foremost, these are still relatively uncharted waters, with little history of student loan sales in the UK, so it is understandable that the Government might wish to track the progress of early sales to inform future ventures. Second, debt sales are currently quite expensive due to the discounted sale price resulting from the current low interest rate and debt forgiveness subsidies built into the scheme. Third, market conditions may prevent a profitable sale of debt. While all of these reasons are valid, they do not account for the complete stalling of the sale of student loans programme.

In fact, experts on student loan securitisation told us that the main reason why the Government failed to execute any further sales of student debt after the late 1990s was that there was very little political will from the Department for Education and Skills to drive the scheme forward. Until the global financial crisis hit in 2007/2008, publicly funded capital was abundant and very few people were concerned about the expansion of credit. And as the debt was never on the Education Department's books, there was very little incentive for the Department to push forward any further debt sales. Hence, when the Treasury lost control of the sale programme to the Education Department in the 90s, including the ability to make value for money evaluations on future sales, debt sales were stopped in their tracks.

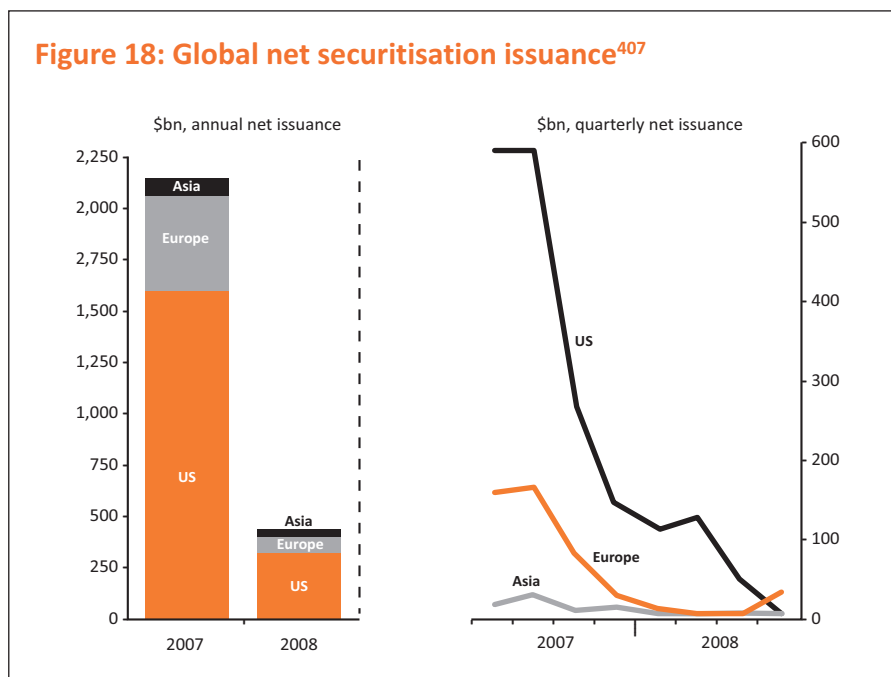
Looking at the situation in more recent years, in particular since the 2008 Sale of Student Loans Act was passed, market conditions have played some part in delaying further sales. The global financial crisis has crippled the worldwide market for securitisation (the process by which student loan debt is bundled into a sellable financial instrument), so selling debt in recent years would have represented poor value for money for the Government. Figure 18 opposite illustrates the dramatic fall in the value of the securitisation market once the global financial crisis took hold.

Nonetheless, it is imperative that the Government accelerates its programme of student debt sales now in order to build a track record in financial markets for the viability of even larger (and more important) sales down the line. As Barr notes, it is desirable to start as soon as possible, with initial sales of small tranches to make transaction more manageable and attractive.

404 Barr (2009) *Paying for higher education*, p41.

405 Ibid p15.

406 Ibid pp15-16.

Figure 18: Global net securitisation issuance⁴⁰⁷

What moves are already in place to sell off some of the student loan book?

As part of the Government's 2007 Budget, it was announced that a programme of sales of student loans would start in 2008-09 and continue indefinitely. The Sale of Student Loans Act 2008 came into force on 21 July 2008 and empowered the Government to sell tranches of the student loan book. Debt will be bundled into Special Purpose Vehicles (SPVs) and sold to financial markets, effectively allowing private financiers to purchase the income stream of student loans. In light of market conditions this programme was suspended in March 2009.⁴⁰⁸

The Department for Business, Innovation and Skills (BIS) is currently responsible for implementing the programme of sales, and has been asked to "be in a position to begin sales once an attractive monetisation option is identified".⁴⁰⁹ There has been a definite push to resume sales. In October 2009 Gordon Brown announced that the Government planned to sell around £3 billion worth of student debt by 2011 as part of a wider mission to sell off £16 billion worth of Government assets to reduce the total deficit.⁴¹⁰ This was a revision of a previous announcement the Prime Minister made in 2008 that the Government would sell £6 billion of student loan receipts by 2010/2011.⁴¹¹

This policy has come under criticism from the Liberal Democrats and others. Vince Cable, the chief spokesperson for economic affairs for the Liberal Democrats, argued that the student loan book is "a slightly easier thing [to sell off] because it's government backed, but they're going to get very distressed prices. This is not a good time to sell assets".⁴¹² In fact, student loan experts we spoke to in the city felt strongly that this would be a good time to sell. Real interest rates are very low, which means the interest rate subsidy is also very low. Loans normally accrue interest in line with the Retail Price Index but there is also a condition that the interest cannot exceed the Bank of England base rate plus 1%. At present the Bank's interest rate is 0.5%, which effectively means that the amount repaid on loans has the same value as the amount borrowed in real

407 IFSL Research (2009), *Securitisation 2009*, IFSL Research, p1.

408 HM Government (2009) p66.

409 Ibid

410 BBC Online (12 October 2009), *Student loan book sale assurances*, <http://news.bbc.co.uk/1/hi/education/8302389.stm>.

411 House of Commons Research Paper (2007), *Sale of Student Loans Bill Committee Stage Report*, Bill No 13 of 2007-08, summary.

412 BBC Online (12 October 2009).

terms.⁴¹³ This is an attractive deal for investors who should recover a greater proportion of student debt than under market conditions with higher interest rates.

While it is problematic that the Government has stalled on sales of student loan debt over the past decade, we are encouraged that sales are back on the agenda.

What conditions must be right for a sale of the student loan book to take place?

Speaking to financiers in the City, it is clear there are a number of conditions which need to take place for a successful sale of part of the student loan book.

The key issue is having sufficient data to make judgements about a tranche of debt. Those investors who might be interested in buying student loan debt would benefit greatly from having an assurance about the repayment profile of the borrowers in question. If investors know that they are buying the debt of ‘high quality’ students who will probably go on to have high-paying jobs (and relatively quickly after graduating), the potential risk of default on the loans is much lower, and the value of the debt sale is greater. The problem in the UK is that we have very little data about the repayment history of student debtors. This was much less of a problem in the US where the market for the securitisation of student loans has boomed over the past decade and companies involved had up to 15 years of strong historical data upon which to base their assumptions.

Due to the current fragility of the securitisation market, a number of financiers we spoke to⁴¹⁴ argued that it is important to start initially with a sale of the highest quality debt. One way to classify this debt is to cherry-pick those students at the most prestigious universities who on average would be expected to command a higher graduate premium. Indeed, if individual institutions held detailed records of the graduate outcomes of their own students then it could facilitate a more attractive sale of student debt, however this does not seem to be the case. One major downside of this policy is that it reduces the quality of the remaining pool of student debt, making it harder to command a competitive price for future debt sales. However, experts we spoke to were of the view that we have to start somewhere and we would be inclined to agree.

The securitisation programme does not have to be an all or nothing arrangement. While the ‘quality’ of some student debt (i.e. the likelihood and rate of repayment) is certainly poor, and there is an understandable nervousness that the Government will only be left with poor quality debt if it cherry-picks which debt to sell, it is in the interests of developing a market in securitisation that you should start by selling off the ‘best’ debt, and then over time move down the perceived spectrum of quality. One possibility is to start by selling off the debt of students at Russell Group universities, who on average command a much greater graduate premium than other universities. This could be seen as a pilot for future sales and an attempt to create a sustainable programme.

Secondly, if we are to have a successful student loans sales programme in the future it will certainly help to remove the blanket interest rate subsidy. This is currently very expensive for the Government – 29 pence of every pound given in maintenance loans and 42 pence of every pound given in tuition fee loans is not paid back – and significantly reduces the value of any sale. We will discuss the removal of the interest rate subsidy in the next section of this chapter.

413 HM Government (2009) p67.

414 In late 2009 we spoke to a wide range of student financial aid experts from the UK, US and Australia. This included representatives from commercial banks, consultants who had worked on previous student loans sales in the UK, securitisation and private loan experts in the US, as well as a range of other experts in this field.

A third condition is to choose a time when the market conditions are right. As we have discussed, now is a good time to sell off student debt because real interest rates are so low.

In addition it is important to manage the size of the sale: the smaller the size, the easier it is to manage. It is also likely that part of organising any potential new sale of debt will involve securing investors *before* the actual sale takes place, so that there is some idea of how attractive the sale will be in advance. It will never simply be a case of structuring the debt sale and then selling it to the highest bidder with no understanding of who would be interested in buying. In fact there may be very little bidding process at all. As long as there is a single buyer at a reasonable price then that can be enough to ensure a successful transaction. Dealing with one transaction and one portfolio is actually much easier than setting up a flow of payments to a number of different investors.

A fifth condition is to ensure that investors do not experience any material change to the terms and conditions agreed upon at the sale of student debt. In other words, as with private loans, it is crucial that Ministers should not have any ability to change the repayment conditions for loans once they have been set, as this would seriously undermine the ability of investors to forecast accurately repayment schedules and likely default rates. In previous debt sales students have continued to repay their loans through the SLC under the original loan conditions.

Another important consideration is that the rate of loan repayments, in particular those with an income-contingent function, is largely influenced by macroeconomic factors such as the rate of inflation, graduate unemployment levels, economic growth, and so on. This makes it harder for investors to forecast the stability of repayment flows.

The types of financial institutions that might be interested in buying part of the loan book will largely depend on the profile of the debt. Pension funds for example tend to prefer something very long-term and fixed. Banks, fund managers and money managers might look for something more short-term. So the sale of income-contingent loans, which generally take a long time to fully repay, might be more attractive to pension funds than other investors.

4. Removing the interest rate subsidy

One outcome of the first phase of top-up fees that now seems to be widely accepted across the sector is that the current income-contingent loans scheme was designed imperfectly. In particular, taxpayers pay for a very expensive interest rate subsidy that does little to promote access to higher education for students from poorer backgrounds, largely because most students and would-be students do not even realise it is there. In fact, economic modelling shows that it is high-earners in their mid-thirties who benefit most from the subsidy, representing poor value for money for the Government. The current subsidy ensures that a significant proportion of student loans will not be repaid (29% of maintenance loans and 42% of tuition fee loans), further exacerbating the already unsustainable size of the loan book.

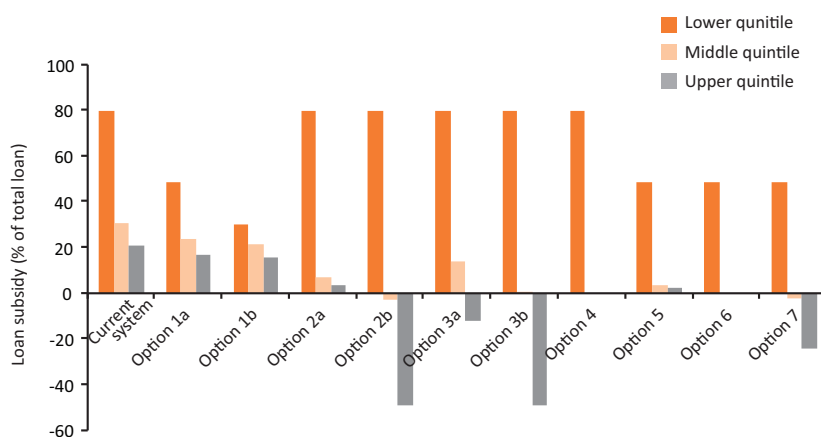
However, even if there is broad agreement that the interest rate subsidy has not achieved its aims, we should not underestimate the difficulty of trying to remove that subsidy. Many students may be unaware that the loan represents

such ‘cheap money’, yet the publicity surrounding its removal will inevitably raise awareness and convince them that they do not want to lose this deal. Therefore, inevitably some compromise will have to be struck. We feel that to avoid negative impact upon participation amongst poorer students (with some suddenly fearing that a student loan is prohibitively expensive) the Government will have to charge something below the rate of interest charged for commercial loans. A balance needs to be found, with a rate that is affordable to both students and the taxpayer.

From our discussion in the previous section we already know that graduates who are currently earning low wages are protected by the income-contingent element of the current loans scheme, which says that they only need to start repaying a portion of their income once it reaches £15,000. Meanwhile, low life-time earners are protected by the 25-year debt forgiveness policy. These are both equitable and desirable policies. Professor Nick Barr and economists at the IFS are the authorities on the distributional effects of different interest rate subsidies. They have shown that the current interest rate subsidy, which charges graduates a zero real rate of interest, does not protect either low current earners or low life-time earners, but instead largely benefits professionals in mid-career who pay off their loan marginally earlier than they otherwise would have if the subsidy did not exist. In other words, the current interest rate subsidy is not only very costly, but it also goes to those who need it the least.

Barr and Johnston have suggested a raft of possible reforms to the current interest rate subsidy. The graph below illustrates the different subsidies that could be carried over to one of these new systems. Option one models changes to the repayment threshold and repayment rate; option two models a real interest rate, freezing real debt for those with low current earnings; option three models a repayment extension which redistributes repayments from wealthier graduates to those less well off; and option four is the same as option two but allows real debt to rise in the first three years (i.e. while students are studying at university).

Figure 19: Loan subsidy as a per cent of total loan in the current system and alternatives⁴¹⁵



⁴¹⁵ Barr and Johnston (2009) p28. See chapter 3 for an explanation of different loan/subsidy options.

We believe a targeted, fair and sustainable interest rate subsidy for all public loans should take consideration of the following:

- **Cost of borrowing:** Instead of charging a zero real interest rate the Government should charge something closer to its own cost of borrowing. For example, the real rate of interest on long-run government bonds has been around 3% over the past 25-30 years.⁴¹⁶ Looking back even further, the interest rate in the post-war period has on average been lower, so we could approximate somewhere between a 2-3% real interest rate will accurately represent the Government's cost of borrowing.
- **Real debt write-off:** The main targeted interest rate subsidy should be for low current earners. One way to achieve this is to make sure that graduates' real debt never rises. At times when the graduate's salary is not high enough to cover the real interest payments, the Government could pay the difference themselves and adjust outstanding debt so the real debt balance does not rise. This policy has previously been trialled in New Zealand, and for simplicity's sake could known as the 'real interest write-off'.
- **Subsidies for middle and upper income earners:** Graduates in the middle and upper lifetime income brackets should not receive an interest rate subsidy. At the moment these two groups receive a 30% and 20% discount on their loans respectively, which is inefficient and costly.⁴¹⁷ To have loans charged at the Government's cost of borrowing, the security that no repayments will have to be made at times of low earnings (the real interest write-off), and debt forgiveness after 25 years, is generous enough. This should still be sufficient to encourage students to make a rational decision and take out a subsidised government loan.
- **Risk-sharing:** Students should contribute to cover at least some of the loss on a loans scheme that insures against people with low lifetime earnings (either from low income, death, or emigration/fraud). This could be shared with the Government. In New Zealand it was estimated that the risk premium was roughly 2% of the entire cost of the student loan book (i.e. roughly 2% of all loans given would not be repaid because of death/serious illness, emigration/fraud or low lifetime earnings), and in a scenario where the Government split the responsibility of default risk students were charged a 1% premium on top of the Government's cost of borrowing. This could be introduced in the UK to ensure the long-term viability and cost effectiveness of the scheme. It would be a form of social insurance where middle and upper lifetime income earners subsidised those who were unable to pay their loans. Low lifetime income earners would not be affected because they would still be protected by the debt forgiveness policy.
- **Threshold and repayment rate:** Removing the blanket interest rate subsidy and charging a higher rate of interest will do little to reduce the enormous subsidy that low lifetime earners currently receive. For the lowest lifetime income decile, up to 80% of their loans are not repaid as a result of the debt forgiveness and interest rate subsidy. Graduates should be charged at a higher monthly repayment rate and the repayment-free income threshold should be lowered. Barr and Johnston predict that if the threshold was reduced from £15,000 to £12,500, and the repayment rate was increased from 9% to 12%

416 Ibid

417 Ibid p20.

of income above this threshold, then the subsidy for low lifetime earners would be reduced from 80% of the total cost of their loan to around 50% of the cost of their loan. This is the most effective way to generate savings from the lowest quintile of borrowers, assuming that the debt forgiveness policy is maintained. While it is right that low lifetime earners are protected by an income-contingent loans scheme, one could argue that an 80% subsidy is unnecessarily high. Furthermore, this policy will also work to speed up repayments for middle and upper lifetime income earners as well, reducing their subsidies in turn.

- **Length of repayment:** The rate of interest charged does not directly affect the level of graduate's monthly repayments, so increasing the interest rate simply means graduates will take longer to repay their loans, but their monthly contribution will be completely unaffected. Holding the rate of repayment and the repayment threshold constant, graduates are still expected to make payments of the same proportion of their income each month. As noted earlier, for middle and upper lifetime income earners this simply means their repayments will stop one or two years later in middle age than they would have if the subsidy still existed.
- **Interest and repayment holidays:** It is inefficient for the Government to offer an interest or repayment holiday on student loans. At present students are offered a two-year repayment holiday, which can be used in either one continuous period or a combination of two single year periods. Furthermore, interest accrues on student loans from the date they are paid to students until they have been repaid in full.⁴¹⁸ This should be maintained on top of charging a real rate of interest – those graduates who will have low lifetime earnings will not have to pay for the rising real debt while at university (because they will still be protected by the debt forgiveness policy), while medium and upper lifetime income earners will simply pay back the full amount of their loans, rather than receiving an unnecessary leg-up while still at university. This of course assumes that students will not be deterred from taking out student loans by the knowledge that interest will be accumulating before they are able to start earning a proper wage. We think this can be avoided with proper information, advice and guidance. To put this scenario into context, if we take a student who borrows £10,000 a year for three years at a 3% real interest rate over a period with 3% inflation (so a 6% interest rate charge), then the original £30,000 debt will actually have grown to just over £34,000 after three years. Plus, repayment will only begin when a graduate starts to earn about the income repayment threshold.
- **Marketing the scheme:** It is imperative that the Government clearly explains how the system works, who it protects and how, and the logic of moving away from more generous but poorly targeted subsidies. Furthermore, the Government must continue to campaign for any revised scheme and fight against populist pressures to bring back more expensive and less equitable subsidies. This is what happened in New Zealand in 1999 after the Government introduced what many believe was the most efficient student loans scheme the world had ever seen, but failed to explain to the public why it was necessary to maintain the system as it was.

418 www.direct.gov.uk

With real interest rates at an all time low, now might be an opportune time to try to convince the public that loans charged at a real rate of interest are a viable alternative. Also, it is important to note that any new loans regime would apply only to new loans and would not be retrospective.

Overall, we advocate an option similar to one that Barr and Johnston propose as ‘option six’ in the previous graph: a real interest rate (equal to the Government’s cost of borrowing plus a small premium to cover part of the cost of default), with protection against rising real debt after three years (otherwise known as the New Zealand system), and a less generous repayment threshold, such as the one modelled which requires graduates to start paying back 12% of their earnings above a threshold of £12,500 income per annum.⁴¹⁹ In the example described, where the real interest rate around 3%, this should eliminate the interest rate subsidy for middle and upper income earners completely (from the current 30% and 20% subsidy respectively), and maintain just under a 50% subsidy for low lifetime income earners. It should be restated that low current earners are protected by the real interest rate write-off and the repayment threshold, while low lifetime earners are protected by the 25 year debt forgiveness policy.

Under this arrangement, Barr and Johnston estimate that the Government would save on average £5,575 for all students over the lifetime of their loan compared to the current loans system – broken down as £6,265 for the poorest quintile, £6,195 for the middle quintile and £4,260 for the highest quintile – based on an average outstanding loan balance on graduation of £20,235.⁴²⁰ The falling scale reflects the higher current subsidies that lower and middle income earners currently receive.

It should be noted that this does not mean that poorer students will receive less government financial support under these proposals, but rather that graduates who have low earnings over their lifetime will receive a reduced subsidy from the Government. Students from less-well off backgrounds will continue to receive non-repayable grants and some form of institutional bursaries.

Removing the blanket interest rate subsidy and charging a small risk premium on top of the Government’s cost of borrowing would help to save the vast majority of the £1.4 billion spent on student loan subsidies each year.⁴²¹ This reduction of the Resource Accounting Budget (RAB) charge, which is the Government’s reserve in public spending for loan subsidies, could be used to expand the loan system, or might free up funds in the future. With an income-contingent-loan scheme, savings arise only at the end of the repayment period, and the Department would need permission from the Treasury to use the future funds for spending on education. As Barr points out, “the Treasury keeps tight control of conversion of non-cash into near-cash spending at the best of times, and particularly so given impending public spending constraints”.⁴²²

Barr and Johnston also propose a reform to the student loans scheme whereby graduates could be forced to extend repayments on loans for a set number of years after the full cost of the loan has been repaid. While this may be attractive from a redistributive

“With real interest rates at an all time low, now might be an opportune time to try to convince the public that loans charged at a real rate of interest are a viable alternative”

419 There is no exact science as to what level the new repayment rate or threshold should be, although the option modelled of 12% (a rise in the repayment rate of a third) and £12,500 (a drop in the threshold of a sixth) does provide a good alternative to the current conditions of 9% and £15,000 respectively. Both thresholds are well below the average salary for a first degree graduate in full-time employment six months after graduating – in 2008 this was just under £20,000 [from www.prospects.ac.uk/]

420 Barr and Johnston (2009) p15.

421 In February 2008 the Government used a modified RAB charge of 21% for maintenance loans and 33% for tuition fee loans, not taking into account the Government’s repayment holiday. HC Deb, 4 February 2008, c936W, <http://www.theyworkforyou.com/wrans/?id=2008-02-04d.183947.h&s=rab+charge#g183947.r0>.

422 Barr and Johnston (2009) p43.

viewpoint, it is also incredibly unfair and we believe would be impossible to sell politically. Asking graduates to cover the full cost of their loans, plus a small social insurance premium for those who are unable to pay within 25 years is one thing, but asking them to pay the full cost of their loan and then continue to pay is much harder to imagine.

What about a graduate tax?

In 2009 the NUS became a major player in the fees debate after proposing a new version of the 'graduate tax' alternative which has been discussed in policy circles for some time.⁴²³ Under their proposals graduates would repay an indefinite contribution for up to 20 years after they leave university based on their earnings, with higher earners paying a greater premium on top of their income tax. Not only does this system create an unfair penalty for high-earners, and a lack of clarity for students about how much their higher education is likely to cost, it also has serious implications for a market in higher education and in the way universities are financed. Professor Barr provides a strong critique of the graduate tax proposal⁴²⁴ highlighting, most importantly, that although a graduate tax would bring in additional resources to universities (though in a much more complicated way,) it would also remove the potential for the variability in tuition fees which would activate a market and give universities more power over their finances. At a time when public funding is under severe pressure this is an important lever for universities to maintain investment and quality of provision. Serious doubts also remain about the work and savings disincentives of a variable graduate tax, problems with repayment collection for EU students, and the viability of a pooled stakeholder fund to distribute graduate contributions adequately.

Recommendations

We believe the Government should reform the interest rate subsidy to make it more affordable, cost-effective and progressive. The new scheme should have the following elements:

- As a starting point student's should be not be charged a commercial rate of interest which would be prohibitively high, but something closer to the Government's cost of borrowing, so that the student loans scheme is closer to being cost neutral.
- Low *current* earners should continue to be protected by the two main pillars of the current income-contingent scheme: a generous income threshold, and an affordable rate of monthly repayment about this threshold. Furthermore, to protect low *current* earners from the fear of rising real debt, the Government should write-off the difference between monthly real interest charges and monthly repayments.
- Low *lifetime* earners should continue to be protected by debt forgiveness after 25 years.
- The Government should lower the current income threshold and increase the current repayment rate to ensure that loans are repaid quicker.
- The Government should eliminate the interest holiday and charge a real rate of interest as soon as student's take out their loans. After three years, or when a student finishes their course, the Government will continue to charge a real interest rate, but real debt will never rise due to the 'real debt write-off'.

423 NUS (2009), *Funding our future: Blueprint for an alternative higher education funding system*, NUS Publishing.

424 Barr (2009) *Paying for higher education*, p47.

5. Repackage and de-mystify the system of student support

The introduction of the current top-up fee and student support system was handled poorly by the Government and the higher education sector as a whole. Students, parents and even many in the sector itself are still confused about exactly how fees, loans, grants and bursaries actually operate. The NUS has frequently played on this misunderstanding in arguing that one of the biggest advantages of introducing a graduate tax would be to abolish upfront fees. Yet no full-time home/EU undergraduate student in England has to pay any of their course fees directly to their university, as all are entitled to government loans up to the full amount of their fees.

We have argued that top-up fees have to date been a success story in England. Enrolments among all socio-economic groups have not only remained strong but have boomed for less traditional students. While debt and the fear of debt remain challenges there is little evidence to suggest that higher fees have been a barrier to attending university, even for students from poorer backgrounds. Universities, and subsequently students, have benefited from a significant inflow of new investment. And the beginnings of a 'consumer culture' suggest real potential for driving up quality in the system, if we improve the level of information available to students. Yet despite all of these positive developments, the argument for higher fees will only be politically plausible if the Government and universities explain much more clearly what fees and student support mean for students. Those looking for a simple guide to the student support system are directed to the You Gov site, which is lamentably unapproachable and hard to understand. As a result, the Government (and universities) have failed to ensure that all would-be students and parents can answer the following crucial and basic questions.

- What is the cost of tuition and does this differ between universities?
- Do fees have to be paid upfront?
- What are the eligibility criteria for government loans?
- How much money can students borrow?
- How does a student loan have to be repaid?
- How does student debt compare to other debt, such as credit cards and mortgages?
- Does student debt have any affect credit ratings or the ability to take out a mortgage?
- What extra financial support can students receive?
- What is the purpose of government grants? Who is eligible for them and why?
- What responsibilities do universities have to help students with the cost of their degree? How does this differ between universities?

It is of critical importance that the Government acts quickly to reform the system of student support to make it more efficient, more transparent and more understandable. Taking inspiration from the 'Rethinking Student Aid Study Group' in the US, we believe a successful system of student support should include a number of basic principles.⁴²⁵ First, the system should have as its main purpose to help those who are unlikely to meet their educational goals without financial help. In light of constraints on government expenditure it must be understood that not all students can be fully supported in the same way. Second,

425 For a further discussion see College Board (2008), *Fulfilling the commitment*, pp7-8.

financial aid eligibility should be predictable. Individuals and families in given economic circumstances should be able to anticipate confidently the resources that will be available to meet their needs so that they can accurately estimate the net cost of education. Third, Government and institutional financial aid should be provided as clearly, transparently, and simply as possible. Furthermore, communication with students and parents about university opportunity should be early, sustained and accurate. And fourth, Government and institutional grant/bursary aid, in combination with a reasonable amount of work and loans, should be adequate to make completion of an undergraduate degree financially possible for all qualified students.

We believe the Government should repack the student support system in the following way:

- **Tuition fees:** It is unhelpful that the current terminology used to describe personal contributions to higher education – commonly called top-up fees, or, less accurately, variable tuition fees – portrays a major upfront cost and does little to emphasise the significant financial contribution the Government makes for each student. Instead we should use the term ‘graduate contribution’, to underline the fact that it is graduates and not students who are expected to contribute to the cost of their education, and that they only contribute a portion of the full costs. We also recommend that the cap on top-up fees should be relabelled as the ‘maximum graduate contribution’ for the same reason.
- **Loans:** Similarly, the terminology for student loans needs to be more understandable, in particular if the Government is to introduce a second hybrid loans scheme run in partnership with the private sector. We recommend that the subsidised element of student loans should be emphasised, with a clear distinction between the two schemes. ‘Subsidised Government loans’ are those that are administered by the Government and contain an inherent interest rate and debt forgiveness subsidy. ‘Subsidised private loans’ are those that are administered by commercial banks, regulated by the Government and are supported by a subsidised reserve fund. In both schemes students pay less than a commercial rate of interest and are protected in some way by the risk of default.
- **Grants and bursaries:** At present we have a system of additional financial aid through bursaries and grants, however it is not clear to students how these two pots of funding interact or what they are there for. Maintenance grants are intended to reflect some basic financial support for students from poorer backgrounds for their *cost of living*, not as a contribution to tuition fees, but this is not clear. And as we have discussed, the bursaries system, which is supposed to support students with their *cost of tuition*, is extremely confusing and badly explained. The simple message we should be giving to students is that there is considerable support available to help you with the cost of your *education*. This support will come in part from the Government in the form of maintenance grants, and in part from your university, in the form of a bursary. There should be clear advice available about the income thresholds for receiving both of these forms of support (and we should aim for those thresholds to be the same for both).

- Furthermore, it is confusing that universities currently offer financial aid in the form of bursaries and scholarships, some of which is mandatory and some of which is discretionary. A number of universities currently describe financial aid that is purely based on financial need as scholarships, while some bursaries have been targeted at students other than those in the most financial need. We recommend that the terminology used to describe institutional aid should be strictly redefined as ‘bursaries’ for needs-based aid and ‘scholarships’ for merit and other forms of aid. This will also make the relationship between government and institutional needs-based grant aid much more clear.

On top of the measures listed above, the Government and universities could do a lot more to explain to students why they get the support they do. It is important for students and parents (as well as the media and general public) to understand why the Government cannot afford to offer limitless, heavily subsidised income-contingent loans to all students; why grants only go to those from the poorest households; why universities are expected to shoulder some of the burden of student financial support, and so on.

Furthermore, if the case for higher fees is to be made by the Government and universities, with a particular emphasis on access implications, it must be clear exactly what efforts are being made to reach those students least likely (but potentially able) to attend university.

Recommendations

- At present the cap on tuition fees will not be lifted above £3,225, not because of concerns over access or the effects of market forces in higher education, but rather because the cost of the student support system is prohibitively expensive, and allowing universities to charge more will counter-intuitively cost the Government more and not less money. This is unacceptable. Universities (and hence students) have a strong case to make for sustained investment in higher education, and reform of the generous and misunderstood system of student support is imperative for the future of quality, expansion and access in the sector.
- The size of the student loan book is rocketing out of control. As a matter of urgency the Government must use the range of policy options available to reduce the amount of loans outstanding, as well as minimising the current cost of providing public loans. We recommend the Government acts to:
 1. Introduce a targeted, regulated, private loans scheme that cuts the students from the wealthiest backgrounds out of the public loans scheme. All other students would remain eligible for income-contingent, public loans. It will be possible for the Government to regulate who is eligible to participate in this scheme, from the borrower and lender side, as well as what conditions loans should carry (such as how repayments are made). This can be achieved by establishing a reserve fund to offset part of the risk of default – funded through a combination of public and private money – whereby the Trustees of the scheme have the ability to impose lending limitations on participating banks.

2. Accelerate the sale of student loans programme, starting with small tranches of high quality debt, in order to build more market data and a better platform to sell large parts of the Government's debt liability in the future.
3. Implement the Conservative Party's proposal to offer a discount for upfront fee payments and early loan repayments. This will help to reduce the Government's burden of debt and bring in private money sooner.
4. Remove the blanket interest rate subsidy and charge something closer to the government's cost of borrowing on public loans. This should include a risk premium to ensure that middle and upper lifetime income earners shoulder some of the subsidies directed at low lifetime earners (a form of social insurance), as well as an assurance that real debt will never rise, in effect protecting low current earnings against periods of unemployment or poor earnings. The repayment threshold should be lowered and the repayment rate increased to ensure that graduates pay off their loans more quickly.
5. The Government must completely repackage and explain the system of student support to eliminate the mass confusion that currently exists around fees, loans, grants and bursaries.

8

Part-time Students

Until now this report has concentrated solely upon full-time students. However, part-time students now make up one third of undergraduates, and must not be ignored in any discussion of the future funding of higher education. One of the greatest and most glossed-over injustices in the English university system is the fact that part-time undergraduate students, who are typically older and from less traditional academic backgrounds, have a much worse deal than their full-time counterparts.⁴²⁶ Despite making up nearly a third of undergraduates, part-time students get a fraction of the financial support received by full-time students.⁴²⁷ They have to pay their fees up front, they cannot take out a Government-supported loan, and their chances of securing any financial support are slim. A staggering 90% of part-time students do not receive any financial help from the Government.⁴²⁸ In 2007-08 the Government provided just £40.2 million in tuition fee and course grants for part-time students.⁴²⁹ This is less than 5% of the £936.9 million spent on maintenance and tuition fee grants for full-time students, leaving aside the billions spent on student loans.⁴³⁰ If the Government is serious about encouraging people to continue to learn throughout their lives it must make it as easy as possible for people to go to university part-time.

The 2004 Higher Education Act was concerned primarily with introducing top-up fees for full-time undergraduates. Like fees for international students, fees for part-time students remained uncapped and up to the discretion of the university and the pace of the market. Historically, part-time fees have typically been based on a pro-rata basis of full-time fees. This presented the sector with something of a dilemma. There was a danger that if universities increased their part-time fees in line with the rise in variable full-time fees it would act as a disincentive to low-income students and those from less traditional backgrounds, particularly given the need to pay upfront and the poor levels of Government support. On the other hand, if universities did not increase their fees, part-time courses would be under-funded relative to full-time courses, which would not be sustainable and could lead to a reduction of provision. It is worth remembering that this relative difference will increase if full-time fees increase in the future.

Since 2006, when top-up fees came on stream for full-time students, part-time fees have increased but not in line with full-time fees. The average annual tuition fee charge for part-time students was £1,006 in 2007-08 compared to just over £3,000 for a standard undergraduate degree.⁴³¹ Over the same period, part-time undergraduate enrolments have fallen by 3% while full-time enrolments increased by 2%.⁴³² If part-time tuition fees continue to rise in the future and the Government continues to provide inadequate financial support for these students, there is a serious risk that part-time enrolments will fall even further.

426 In 2008/09 there were 511,805 part-time undergraduate students at English universities, compared to 1,044,720 students taking full-time courses. HESA, Table 3a - Student enrolments on HE courses by location of institution, mode of study, level of study and subject area 2008/09, http://www.hesa.ac.uk/dox/pres-office/sfr142/SFR142_Table3a.pdf.

427 For a further analysis of the unique issues faced by part-time undergraduate students in England, see the Policy Exchange report, *Educating Rita*, co-authored by Professor Claire Callender and David Wilkinson, (2009).

428 Hansard, HC 16 Jun 2008: Column 652W, <http://www.publications.parliament.uk/pa/cm200708/cmhansrd/cm080616/text/80616w0005.htm>.

429 Hansard, HC Deb, 6 July 2009, c600W, <http://www.theyworkforyou.com/wrans/?id=2009-07-06a.282967.h>.

430 Student Loans Company (27 November 2008), Student Support for Higher Education in England, Academic Year 2008-09 (Provisional).

431 DIUS (2009), Student Income and Expenditure Survey 2007-08, p.147.

432 Higher Education Statistics Agency (2009), Higher education student enrolments and qualifications obtained at higher education institutions in the United Kingdom for the academic year 2007-08, HESA SFR 130, www.hesa.ac.uk/dox/pressOffice/sfr130/sfr130r_table1.pdf.

Who are part-time students and why are they important to the economy and society?

Part-time undergraduate students are a diverse mix. The vast majority are over the age of 25 (82%), female (62%) and work in full-time jobs – estimates place the proportion in paid work as high as 80-90%.⁴³³ Well over a quarter of those aiming for an undergraduate qualification have only a GCSE or equivalent qualification, or lower.⁴³⁴ Whether they are mothers trying to return to work after a career break, or individuals who left school with no formal academic qualifications, part-time study often provides a ‘second chance’ that would otherwise not be available. Younger students also study part-time, and those under 21 now make up 10% of part-time first degree students in the UK.⁴³⁵

In spite of the unfair funding arrangements for part-time students a significant proportion come from poorer backgrounds. This suggests that focusing more financial support on part-time students would do much to widen access to university. Universities UK’s survey of undergraduate part-time students in UK universities found that 13% of students declared themselves as being “routine and manual [workers] or unemployed”, with a further 16% self-declaring as “intermediate”, which includes clerical, sales and service positions.⁴³⁶ The 2007/08 SIES found that part-time undergraduate students in England had an average total income of £13,511 in 2007-08.⁴³⁷

Much has been made in recent years about the importance of the UK’s knowledge economy and numerous projections highlight the need for more high-level skills in the years ahead.⁴³⁸ With the baby-boom generation heading towards retirement and fewer young people coming through to take their place, there will also be a short to medium-term demographic shift which will place even more strain on the workforce.⁴³⁹ With six million adults of working age currently possessing only A-Levels or equivalent qualifications, there exists a large pool of untapped talent in the workforce, many of whom could benefit from higher education.⁴⁴⁰ Furthermore, recent research indicates that around four million adults would actively consider going to university if it was more accessible and they could be provided with financial support.⁴⁴¹

The plight of part-time students was thrown sharply into the spotlight in 2009. A crisis in places for full-time undergraduate students was fuelled by a surge in applications from older learners, who now make up nearly a quarter of all enrolments. Figures from UCAS showed a rise in applications of 14.9% for students aged between 21 to 24 and an increase of 18.8% from applicants over the age of 25.⁴⁴² This prompts the question – if the funding arrangements for part-time students were more equal, would many of these applicants prefer to attend part-time and continue to earn while they study?

Are part-time students supported by their employers?

One justification that is often given for the low levels of state support for part-time students is that employers will pay. However in practice we know that only a minority of students get help from their employers, and those that do tend to come from higher paid jobs and wealthier households.⁴⁴³ Universities UK’s 2006 survey found that part-time undergraduate students with annual household incomes of between £35,000-£49,000 were three and a half times more likely to be financed

433 *Educating Rita*’s authors’ calculations from 2005-06 data available HESA; Callender C, Wilkinson D and Mackinnon K (2006), Part-time students and part-time study in higher education in the UK: Strand 3, A survey of students’ attitudes and experiences of part-time study and its costs 2005-06, Universities UK, p.14; Johnson C et al (2009), Student Income and Expenditure Survey 2007-08: English-domiciled Students, DIUS, p.70.

434 *Educating Rita*’s authors’ calculations from 2005-06 data available from the HESA (HESA).

435 Ramsden B and Brown N (2006), Part-time students and part-time study in higher education in the UK: Strand 1, A quantitative data analysis of 2003-04 HESA data, Universities UK, p.42,

436 Universities UK (2006), Part-time students: Strand 3, p.14. As UUK’s policy brief report notes, “there is less information about the social class origins of part-time students than there is for full-time, mainly because data collection is more difficult for such students who do not apply through UCAS.” From Universities UK (2006), Policy Briefing: Part-time students in higher education.

437 DIUS (2009), Student Income and Expenditure Survey 2007-08, p.256.

438 Some studies suggest that between now and 2020 the economy will need up to seven million new professionals. From Cabinet Office (2009), Unleashing Aspiration: The Final Report of the Panel on Fair Access to the Professions, p.5.

439 Leitch estimates that by 2020 around 30% of the working age population will be over 50. From Leitch (2006), Prosperity for all in the global economy – world class skills.

440 Denham J (22 May 2008), Denham urges workers to benefit from Higher Education, speech at the University of Southampton.

441 Denham J (22 May 2008), Denham urges workers to benefit from Higher Education, speech at the University of Southampton.

442 *Educating Rita*, p.1

443 Universities UK (2006), Part-time students: Strand 3, p.32.

by their employer than students with household incomes of £15,499 or less.⁴⁴⁴ Furthermore, the 2007/08 SIES found that the amount of support was on average higher for those under the age of 25 and those from managerial/professional backgrounds.⁴⁴⁵ In many respects employer support tends to go most to those who least need it. A banker doing a part-time professional certificate in management is likely to get cash from his employer while a single mother trying to climb up the career ladder is left to struggle on her own. It is worth noting that the two specialist part-time providers (Birkbeck and the OU) report very low levels of employer sponsorship of tuition fees.⁴⁴⁶ And such employer funding is especially at risk during an economic downturn, at the very time when employees need to re-skill and up-skill.

How can we better support part-time students?

State support for part-time undergraduate students is based upon arbitrary judgments such as the number of hours they will study. Part-time students often have complicated lives, juggling jobs and childcare alongside their course, and the current inflexible and unfair funding system provides a further barrier to university entry. In ‘Educating Rita?’ we proposed a short-term solution to the disparity of grant funding between full and part-time students.⁴⁴⁷ This new model would see more than double the current amount of part-time undergraduate students receiving some financial support from the Government, at a minimal annual cost of £33 million to the Exchequer. We have recommended that this money should be diverted from the ill-thought through ‘University Challenge’ scheme to create up to 20 new “university centres”, which has access to up to £150 million from HEFCE’s strategic development fund.

At present Government support is only available for part-time students who study at least half of the equivalent full-time course each year and complete the whole course in no more than twice the time it would take a full-time student. In other words if you are studying for an undergraduate degree which would typically take three years full-time you must take at least 50% of the modules that would be taken in the full-time course each year, and take no longer than six years to complete the course. This threshold is described as studying at “50% intensity”.

Consequently, access to support is not driven by financial need, but is determined initially by a student’s existing qualifications (due to the regrettable ELQ funding decision)⁴⁴⁸ and how many hours they study. The average fee grant received in 2007-08 for the three different thresholds for study intensity – namely 50-60%, 60-75%, and 75% or more – was £550, £750 and £930 respectively.⁴⁴⁹

Under our model students whose household income is up to £50,000 would be eligible for a partial tuition fee grant. This is line with the household income levels of maintenance grants for full-time students. Furthermore, those who study at least 30% of an equivalent full-time degree would be eligible. This removes the current unfair and arbitrary condition that students must study at least 50% of an equivalent full-time degree. We estimate that introducing these two measures would cost an additional £33 million per year. At present only 44,000 part-time students receive any assistance from the Government, and under our proposals this would rise to 104,000, an increase of roughly 60,000 students.

444 Universities UK (2006), Part-time students: Strand 3, p.32.

445 DIUS (2009), Student Income and Expenditure Survey 2007-08, p.62.

446 Boorman S, Brown N, Payne P and Ramsden B (2006), Part-time students and part-time study in higher education in the UK, Strand 2: A survey of the issues facing institutions, Universities UK, p.43,

447 *Educating Rita*, p.11

448 Part-time student funding took a massive hit at the start of the 2007-08 academic year when the Government decided to withdraw institutional funding for those students returning to university who were taking an equal or lower level qualification (ELQ). In simple terms the ELQ cut meant that many people who wanted to retrain would no longer be supported by the Government.

449 Hansard, HC Deb, 6 July 2009, c600W, <http://www.theyworkforyou.com/wrans/?id=2009-07-06a.282966.h>.

However, in the long-term our aim should be to go considerably further than this. It is encouraging that Lord Browne's review of higher education funding was clearly tasked with looking at part-time students.⁴⁵⁰ The Government, following the lead from this review, must make it a priority to bring the financial support available to part-time students more in line with full-time student support. Obviously, this would require an analysis of the potential costs of opening up the current loans scheme to part-time undergraduate students (and we would suggest that the wealthiest part-time students should not be included within this scheme, but should have access to a government-regulated private loans scheme instead). Any such analysis would also need to model the likely proportion of full-time students who would switch to part-time study (at considerably lower cost to the Government) if the financial support arrangements were equal. It is clear that equal access to loans for all undergraduate students should be the Government's long-term aspiration.

Recommendations

- In the short-term the Government should change the criteria for state support for part-time students to reflect the income thresholds for grants received by full-time students. The Government should also extend support to those who study less than 50% of the full-time course each year, which accounts for over half of all part-time undergraduate students. We estimate that introducing these two measures would cost an additional £33 million per year. At present only 44,000 part-time students receive any assistance from the Government, and under our proposals this would rise to 104,000, an increase of roughly 60,000 students.
- However, in the long-term the Government's aim should be to go considerably further than this. It is clear that equal access to loans for all undergraduate students should be the Government's long-term aspiration and this should be considered as part of Lord Browne's review of the funding of higher education.

450 BIS (2010), *Unleashing Aspiration: The Government Response to the Final Report of the Panel on Fair Access to the Professions*, p25.

9

Conclusion

Thus far the discussion around the future of top-up fees has been frustratingly thin. Many universities say that a rise in fees is essential if they are to keep their heads above water, and if the UK is to remain at the forefront of higher education globally. Yet they appear to be waiting for someone else to make the case publicly for them. The question of what the additional money from top-up fees has been spent on is a case in point. We understand that this income is not hypothecated, and that this makes it hard to pin down exactly how fees have been spent. We also understand that vice-chancellors have been nervous about revealing how much of this money has been spent on staff pay rises, lest this is seen by politicians and officials as extravagance. However, the resounding silence on this subject has done universities no favours.

Instead of hoping that the question would go away, vice-chancellors and mission groups should have been eager to explain to students, parents and politicians that they have been investing in the student experience. They should have been making the point loudly that pay is a very real part of that student experience, and that this was an essential and long overdue investment, without which they would surely have lost many of their best academic staff to other countries like the US. Instead of waiting for the independent review to demand this sort of information, universities should have seen it as their duty – and in their own interest – to take the initiative and be more transparent.

To date, Million Plus is the only one of the specialist university mission groups to have published a report looking at future options for fees and funding. Universities UK, the umbrella vice-chancellors group, is now focusing seriously on the issue of fees and embarking on new research, which is to be commended. But while powerful, this group will always be somewhat limited in what it can say in public as it represents a large and varied sector, and that sector of course has a range of different views on what should happen to fees. For this reason it is incredibly important that vice-chancellors and experts from a range of different universities also come out from the shadows and kick-start the discussion. When top-up fees were first debated in 2003 the arguments were dominated by emotion rather than evidence. Many universities now feel they were short-changed by fearful politicians. Our message to those universities is that if they

“ Instead of hoping that the question would go away, vice-chancellors and mission groups should have been eager to explain to students, parents and politicians that they have been investing in the student experience ”

imagine that politicians of any party will enter the fray and fight for higher fees without clear and frank support from the institutions they are trying to support, they are sadly misguided.

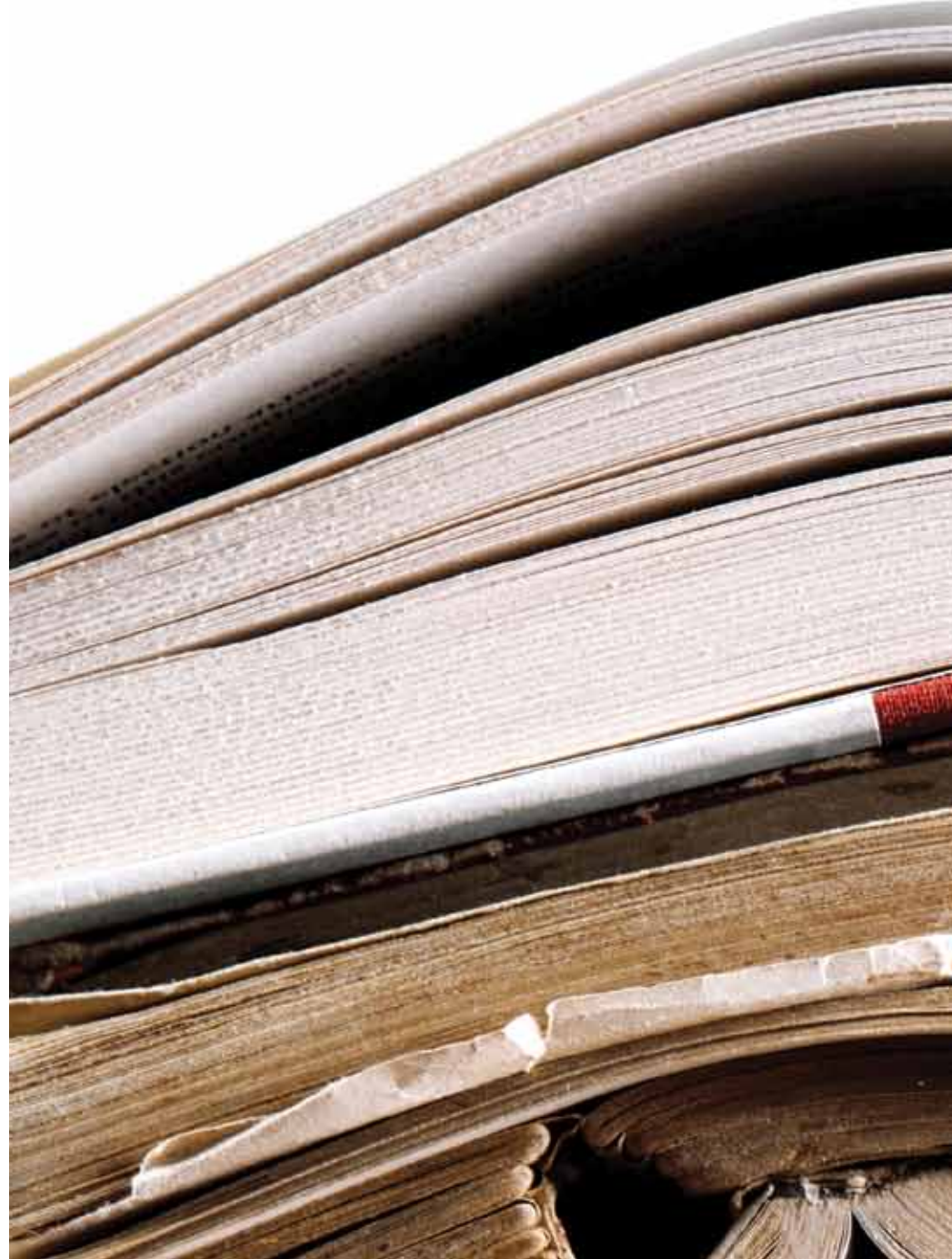
We are concerned that continued underinvestment could lead to a serious deterioration of quality in our universities, with universities cutting back on the maintenance of buildings, student: staff ratios rising, core subjects being axed, and an over-reliance on international students in many institutions. It is crucial that the Government does not see fees as a replacement for state funding and an excuse to continue to cut a sector that is of real importance to our economy and society. However, we believe that it is right that those who benefit from higher education – graduates – should have to contribute to its costs. We are convinced that fees will need to rise in the future if we are to protect and improve the student experience, and retain Britain's position as a global leader in higher education. Nonetheless, fees should only be allowed to rise if three basic principles have been met. First, there must be a clear investment in the student experience. Second, cost must not be an impediment to going to university. There must be a serious requirement for universities to focus on protecting the poorest students, and the Government must ensure a clear system of financial aid exists and that all potential students understand it.

Finally, there must be fundamental reform to the system of student support. In this report we have suggested a package of reforms which will make the system fairer and a more acceptable use of taxpayers' money, as well as making it possible to raise the cap on fees without a considerable additional cost to the Treasury. None of these changes will be easy or without contention. They will require a strong and easily comprehensible case from the Government, and that is something that we have not had in the past on student support. However, there is no doubt that radical reform is essential. The simple truth that is often conveniently ignored by universities speculating privately about what level of fees they need in the future, is that with the system of student support as it is any rise in fees would prove prohibitively expensive for the Treasury and is therefore simply not realistic.

It is time for an open and detailed discussion about what fees have meant thus far, and what should happen to them in the future. This should take into account what universities need and what the Government, students and parents expect them to deliver in return. We hope that this report will prove the catalyst that sparks that debate. It is in nobody's interest to delay.

Top-up fees for undergraduates made it onto the statute books in 2004, after a momentous political battle. They remain one of the most contentious and least understood areas of education policy. This report goes beyond the hyperbole to examine the real impact that these fees have had upon students and universities. We look at the state of university finances now, and ask what higher education will look like in the future if we fail to invest in it sufficiently.

We argue that fees will need to rise in the future if we are to protect and improve the student experience, and retain Britain's position as a global leader in higher education. We believe that it is right that those who benefit from higher education – graduates – should have to contribute to its costs. However, this report demonstrates that fees should only be allowed to rise if three basic principles have been met. First, there must be a clear investment in the student experience. Second, there must be a serious requirement for universities to focus on protecting the poorest students, and the Government must ensure a clear system of financial aid exists and that all potential students understand it. Finally, there must be major reform to the system of student support, or any rise in fees will prove prohibitively expensive for the Treasury. We put forward a radical but realistic plan for reform.



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