MillionPlus

The Association for
Modern Universities

POLICY RESPONSE

Budget representation 2017

SUMMARY

1. Higher education contributes significant value to the UK economy. A 2013 report produced for the Department of Business, Innovation and Skills showed that education exports were £17.5bn per year.[1] Universities UK calculated that in 2011-12 the HE sector generated over £73bn of output – nearly 3% of total UK GDP – and accounted for nearly 3% of all UK employment.

2. In March 2017, Universities UK published analysis showing that on-and off-campus spending by international students and their visitors generated a knock-on impact of £25.8 billion in gross output in the UK. The spending of international students is additional to that of UK residents so provides an export boost to the UK. In 2014–15 they were responsible for £10.8 billion of UK export earnings.[2]

3. MillionPlus believes that the Budget Statement should be used to build on the strengths of the UK's higher education system, but also to mitigate against any risks that may occur during the process of exiting the European Union. The Budget Statement provides an opportunity to:

   - **Maintain investment in higher education at least at current levels and restore maintenance grants to support all students, including adult learners and part-time students**
   - **Support the industrial strategy through investing in the strengths of higher education in areas such as translational research and high-level skills development**
   - **Mitigate risks to the higher education sector from Brexit by involving universities in the development of the proposed Shared Prosperity Fund and providing further guarantees to EU students to access tuition fee loans in 2019/20**

FUNDING SUPPORT FOR HIGHER EDUCATION AND STUDENTS

Higher education

4. Changes in the funding system and in student numbers policy since 2012 have made a complex funding system even more complex, not only for universities, but also for students and employers. Universities have successfully managed significant changes in funding and policy regimes that have been introduced in a comparatively short period of time. The increase in tuition fee levels in 2012 enabled universities to maintain investment in higher education as the direct grant from government via HEFCE was significantly reduced, and in some cases withdrawn entirely.

5. There has been no direct grant available for university courses in the arts, humanities, social sciences, computer science, design, architecture and economics – to name just a few of the subjects affected - since 2014-15. This has meant that universities are now required to fund programmes that were

[1] The Wider Benefits of International Higher Education in the UK, BIS, 2013

[2] http://www.universitiesuk.ac.uk/news/Pages/International-students-now-worth-25-billion-to-UK-economy---new-research.aspx

previously supported by government. This is at the same time as dealing with a decline in capital investment and an 80% cut in the teaching grant.

6. Questions remain as to whether a system that presumes a declining direct investment in higher and further education, deregulated student numbers and an increase in private providers with probationary degree awarding powers (as enabled by the Higher Education and Research Act 2017) will meet the needs of the economy, be perceived by students as affordable and accessible and be sustainable in the long-term.

7. It is vital that universities are properly funded. Any reduction in the maximum tuition fee level would mean universities having less funding available to invest in high quality teaching and facilities for students – the unit of resource would be significantly reduced. However, this could be prevented if direct grant to universities was restored to make up the difference. This would enable the government to reduce the headline tuition fee payable by university students – a politically attractive policy – while also being able to maintain investment in higher education – an economically attractive policy. The Organisation for Economic Cooperation and Development in its latest look at education confirms that investment in higher education delivers significant benefits to individuals and the economy.[3]

8. Similarly, it would damage higher education if a variable tuition fee was introduced based on either TEF ratings or graduate earnings. All UK higher education is quality assured (and deemed to be excellent), and the TEF seeks to use a blunt instrument to differentiate fees and ultimately reduce the unit of student resource. Graduate earnings are also a blunt instrument, more about a return to the individual than to the qualification. Salaries earned by graduates after completing a degree are based on a variety of factors and decisions: job sector; region; prior attainment; existing social networks; choices about life and career paths. Basing university tuition fees on graduate earnings would risk lowering the amount of funding universities have to invest in students from a variety of backgrounds. This could lead towards a less socially inclusive student population.

   - **The government should at least maintain the current levels to investment allocated to higher education, restoring direct grant to mitigate against any reduction in headline tuition fee maximum limits.**
   - **The government should not link tuition fees with graduate earnings**

9. Since 2015 further changes to the student support regime have increased the loans and the costs of higher education for students, in particular from the most disadvantaged backgrounds. In the Summer Budget of July 2015, George Osborne, then still Chancellor of the Exchequer, referred to student maintenance grants for full-time students as being 'unaffordable' and announced that they would be replaced by maintenance loans from the 2016-17 academic year. This change affected nearly half the new undergraduate student population in England from 2016-17. Prior to this change, full-time students who progressed to higher education from families with an annual income of £25,000 or less were eligible for the full grant of £3,387 while students from households with an annual income of between £25,000 and £42,620 were eligible for a means-tested partial grant, which tapered in amount depending on household income.

10. The new maintenance loan increased the total amounts which students from low-income households could borrow to £8,200 for those living away from home (or £10,702 in London). As a minimum, the

[3] http://www.oecd.org/newsroom/benefits-of-university-education-remain-high-but-vary-widely-across-fields-of-study.htm

abolition of maintenance grants has increased debt on graduation from a three-year course by an extra £13,500 (before interest) if full entitlement to maintenance loans is taken up. The Institute of Fiscal Studies (IFS) estimated that students from the poorest 30% of households will repay an average of around £3,000 more overall (2016 prices) because of the switch from grants to loans.

11. MillionPlus commissioned *London Economics* to provide an estimate of the additional RAB (resource accounting costs) charge of increasing student maintenance loans to compensate for the abolition of all student grants. They estimated that of the additional maintenance loans to be provided, 64-66% of the value will be written off via the RAB charge. This is likely to be an under-estimate since the individuals who were most likely to qualify for the grant, and thus need the new loan, are much more likely to have an even higher RAB charge, thus saving even less money for the tax-payer.

12. As with the provision of direct teaching grant for higher education or further education courses for older learners, maintenance grants are accounted for in the departmental budget (previously BIS now DfE). In comparison, just a proportion of the write-off costs of student loans are booked as an impairment against departmental accounts. As with teaching grants, the abolition of maintenance grants therefore appears to reduce direct public expenditure on, and investment in, higher education. However, in the long-run the Treasury and the taxpayer will bear the costs of writing-off (i.e. the RAB charge), of any loans that are not repaid.

13. The funding scenario for higher education is complex. Overall undergraduate teaching numbers fell by 6.89% in 2012, resulting in a cut in institutional income for all three or four years during which the 2012/13 cohort would have studied. Subsequent fluctuations in demand include a 28% downturn in the participation of part-time students and a 19% drop in mature students in England (21 years and over) from 2011/12 to 2015/16; declines which show no sign of abating. This has impacted adversely on those, mainly modern, universities which have historically recruited a more inclusive student cohort by mode of study and age, and on individuals already in, or hoping to return to, the workforce with new skills and career options. The significant increase in part-time tuition fees after 2012 is also a potential disincentive for small employers who might otherwise have supported employee part-time study via tuition fee contributions or sponsored bespoke courses.

    - **The government should reintroduce maintenance grants for higher education students (full-time and part-time), targeted at those from the poorest backgrounds and tapered according to household income**
    - **The government should reintroduce direct investment to universities to enable them support part-time higher education. This could be targeted at learners already in the workplace looking to increase their skill levels**

14. To ensure that individuals have the necessary skills for the economy to be successful, it is essential to ensure that universities can provide innovative, flexible, digital support to learners. Support for part-time accelerated learning is one element of this flexibility. The government has confirmed a higher tuition fee limit for accelerated programmes, but this is likely to only enable limited increases in flexible provision. A better approach would be to consider wider changes to the fee and funding rules to allow universities to charge according to the amount of credit undertaken by a student rather than by the length of their course. This would improve the ability of universities to support employer-focused learning, upskilling of employees, and progression to higher education of older learners and students from poorer backgrounds.

- **The government should consider changes to the fee and funding structure to enable higher education providers to charge by the amount of credits undertaken by a student, rather than by the length of the course.**

Further education

15. Since 2011 direct investment in courses at level 3 and above has been replaced for older learners who, if they cannot pay fees upfront, now must take out an advanced learner loan. For courses starting before 1 August 2016 this funding regime applied to students who wanted to study for a level 3 or 4 course when they were 24 or older. For those who became 19 after 1 August 2016 advanced learner loans have replaced direct funding for qualifications at levels 3, 4, 5 and 6 e.g. A Levels, BTECs or graduate certificates.

16. Constraints have been placed by government on the number of loans available. For example, prior to 1 August 2016 students could not take out another loan to take the same level of a course, for the same level qualification e.g. if students had taken a loan out to study French they could not take out an advanced learner loan to study Italian at the same level. Students who have taken out one advanced learner loan e.g. for one level 3 course and then want to study for a further qualification at the same level, are still required to make repayments on their first loan if their earnings are in excess of £21,000 pa. The only exception is Access to HE courses where loans for these courses are written-off if the student successfully completes an undergraduate qualification.[4]

17. The same terms and conditions of repayment and addition of interest apply to advanced learner loans as for higher education courses with repayments required once earnings reach £21,000. Students who commence their journeys into higher education when they are 19 or over, including those whose ambition is to study professionally and technically focused degree courses, by participating in level 3, A-level or other pre-entry vocational courses, incur greater debts than those who enter university aged 18. Older students are more likely to come from a more disadvantaged demographic and it is difficult to see how this funding system will support the reskilling and updating of members of the adult workforce who did not obtain level 3 qualifications during their secondary education.

    - **The government should restore direct investment in courses at level 3 and reintroduce grants for learners who cannot pay fees upfront.**

INVESTING IN HIGHER EDUCATION TO SUPPORT THE INDUSTRIAL STRATEGY

Translational research

18. Many successful collaborations between university and business have drawn funding from European Union structural investment or European Union research funding. In England, European Union Structural and Investment Funds are allocated by the government, with Local Enterprise Partnerships tasked with developing a strategy for the use of the funds. It is intended that LEPs work with, and reflect the interests of, a broad range of economic, social and environmental partners. In many cases it is from these strategies that university-business collaborations have arisen. These collaborations often fall outside the traditional definitions of original (blue-skies) research or applied research, and as such the right

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[4] Part-time undergraduate students are also required to commence repaying their loans on the April after they have completed four years study if their earnings are £21,000 or more

investment route can be hard to identify, despite the benefits they bring to local areas. The loss of such funding will have the effect of reducing such collaborations, and their subsequent benefits to local areas.

19. A way of securing the future of these innovative collaborations would be for the government to create a new fund for applied and translational research to support innovation in businesses, SMEs and public services to boost economic growth in localities and regions. Supported by targeted regional funding for regional and local strategies that support collaboration between universities and businesses or public services, this has the potential to play a key role in filling the gap left by the loss of European Union funding while also increasing support for SMEs.

20. The Chancellor of the Exchequer, Philp Hammond MP used the 2016 Autumn Statement to announce new investment in infrastructure, including transport, housing and digital communications and an additional £2bn a year for research and development funding by 2020.[5] The Statement suggested that the additional expenditure would be distributed through two broad funding streams, the Industrial Strategy Challenge Fund (ISCF) and "funding to increase research capacity and business innovation". The Building our Industrial Strategy green paper confirms this approach. The government should use this funding to increase support for applied and translational research, particularly that taking place in modern universities working with SMEs.

21. Targeting translational research funding would reward and support innovation which is not well acknowledged in the present UK research funding mechanisms and would go some way to address the industrial strategy's commitment to place and rebalancing regional growth. This would link with the industrial strategy's focus on 'place' and Ministers' concerns about geographic research concentration.

22. A new fund for translational research could be allocated via Research England and Innovate UK and be open to those universities which have a track record of working with SMEs and companies in their areas / localities but which receive much less funding through REF or the dual support system. Allocation could be on a formulaic basis or by competitive bid and be evaluated in terms of what universities deliver against their allocations. £100m per year across the English sector would make a difference and help to promote innovation, growth and productivity in areas outside the golden triangle of institutions.

- **The new Industrial Strategy Challenge Fund should be focused on regional and local development in addition to the stated focus on technologies.**
- **As part of the industrial strategy's 'pillar' for investing in science, innovation and research, a new fund for applied and translational research (£100m annually) should be created to promote innovative collaborations between universities and business, SMEs and public services, underpinned by regional needs. This would be managed jointly by Research England and Innovate UK**

Degree apprenticeships, high-level skills and professional development

23. Investing in higher education, whether for school leavers and older learners, for people about to enter the employment market or for those already in it, makes economic sense and generates growth. A successful, innovative and competitive economy needs highly-skilled individuals with the resilience, flexibility and problem-solving attributes to cope with the demands of 21st century workplace.

[5] https://www.gov.uk/government/publications/autumn-statement-2016-documents

24. Since April 2017, the government has collected the apprenticeship levy as a tax from businesses with a payroll above £3m per year (at a rate of 0.5%). Since September 2017, employers have been able to use this levy to pay for apprenticeship training. Those businesses that do not pay the levy are supported by the government for 90% of the costs of apprenticeships. The policy has been implemented to boost apprenticeships take-up, with a target of 3 million starts by 2020 and a significant emphasis on higher-level and degree apprenticeships.

25. Modern universities have long traditions and expertise in delivering professional, vocational and technical education to meet employer needs. As such, they can play a key role in supporting the government's policy objectives for apprenticeships. However, many universities and sector representatives have voiced concerns about the implementation the policy. Two key areas of concern are in the delays experienced in the procurement process for new training providers and in the approval of apprenticeship standards. Both delays harm the ability of universities and other providers to work with employers to establish and deliver high quality apprenticeship training that gives individuals in the workplace the necessary skills and opportunities.

26. A competitive economy needs to harness the ability of universities to support businesses in developing their workforce. Modern universities have long-standing traditions of offering more flexible study routes, accrediting workplace learning and developing multi-disciplinary, vocational, professional courses. However, the 2012 tuition fee and funding reforms exacerbated a decline in the part-time enrolment that enabled people already in work to learn while earning, and improve their existing skills.

27. Opening up and promoting higher education to students of all ages, particularly to those already in the workplace, will benefit individuals and employers. Increasing skills and knowledge of employees will increase productivity and output, which in turn adds economic value to the UK as a whole and, because universities are dispersed around the country, contributes to more dynamic regional economies.

28. Building on the existing expertise of universities can achieve this, and should ensure that employers and employees are incentivised to take up opportunities for part-time, work-based professional development. This would enable employers to sponsor degrees and other learning opportunities to upskill their workforce. Successive governments have used tax credits to incentivise businesses, particularly SMEs, to invest in research. The same approach should be taken with continuous professional development, and the industrial strategy provides an opportunity to do that. There is also a strong case to provide new funding for those not in the workplace to update their skills.

- **The government should consider a more flexible approach to employer use of the apprenticeship levy to enable businesses to consider alternative ways to provide professional development to existing employees. For example, the levy could be reclaimed if the employer could demonstrate they were delivering professional development / qualifications in conjunction with a university / education provider.**
- **The government should provide tax breaks to employers to support them to invest in upskilling and professional development for their employees. These incentives would encourage part-time and work-based continuous development, including employer-sponsored degrees.**

HIGHER EDUCATION AND EUROPEAN FUNDING

29. The Conservative Party manifesto included a commitment to replace structural funding with a shared prosperity fund (SPF) – intended for allocation across the UK. This is intended to provide a guarantee for all European Structural and Investment Fund projects signed before the UK leaves the European Union (EU) if they provide good value for money and are in line with domestic strategic priorities. This includes

projects that continue beyond the UK's departure from the EU. Universities have been strategic / lead stakeholders in many projects and ESIF has been used in conjunction with other funds. Universities need to be part of the discussions about the infrastructure for the SPF as well as being able to offer a view about how it will work in practice and investment levels in the long-term.

30. In terms of trading with the EU, the risk post-Brexit is a reduction of income to the UK economy if EU students opt to study elsewhere. The government accepts continued collaboration /engagement in the European research programmes, and while Ministers have referenced Erasmus it should be noted that many more students study in the UK outside of Erasmus programmes. With this in mind, the government should consider extending the commitment to EU students to access tuition fee loans to the 2019/20 cohort.

- **The government should work with universities as well as other key stakeholders in mapping out the shape, operational detail and investment levels of the proposed Shared Prosperity Fund**
- **The government should extend the guarantee that EU students can access tuition fee loans to the 2019/20 cohort.**

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