

**million+ calls on Government to take a loan from Europe  
to tackle the crisis in funding of university places****22 June 2009****Crisis in Funding University Places**

Application and admissions to university are not a perfect market - supply and demand are not always easily matched – but there is now a very real and serious risk that many individuals who have been at the heart of the drive to uplift aspirations, will be the students most at risk of not getting university places in 2009.

These individuals are not the applicants who will be able to trawl from one university and one part of the country to another to obtain a place to study They are the very students whom this Government and all political parties now say they want to encourage to go to university.

**What is the extent of the problem?**

A comparison of 2008 applications and admissions against the figures for applications published in March 2009 by UCAS, the University Admissions Service provides strong evidence that demand will outstrip supply in 2009. If the same patterns of admission as in previous years are factored in, it is possible to estimate where individuals and universities are likely to end up in terms of the availability of places in August and September 2009.

By the end of the last admissions cycle in 2008, there were 590,000 full-time applicants to university. The March 2009 UCAS figures – only part of the way through the 2009 applications cycle - confirm an overall 8% increase on the number of applications received by the same point last year.

In England by March 2009, applications had increased compared to those at the same time in 2008 by

- 6.5% for applicants aged 20 and under
- 15.4% for applicants aged 21-24 and
- 17.4% increase for applicants aged 24 and over

**An equality assessment**

The figures reveal some underlying improvements in equality measures which would normally be very welcome. In March 2009, there was

- 10.1% increase in young male applicants
- 19.6% increase in black male applicants
- 21.5% increase in applications from those aged 40 and over
- 12.2% increase from applicants from lower supervisory and technical family backgrounds

This is a buy-in to universities as a route out of the recession that any Government should welcome. Ministers should be doing their very best to promote and fund this demand. Instead,

the response from the former Department of Innovation, Universities and Skills was to cut the original allocation of funded student numbers. Universities and the Higher Education Funding Council for England (Hefce) have been threatened with financial penalties if they over-recruit in 2009.

Ministers should have expected the rise in applications for two reasons:

- First, it is well known that there is a direct relationship between recession, industrial restructuring and a tightening youth jobs market and enhanced interest in higher education
- Second, the cohort of 16-24 year olds in the population has been growing since 2000 and peaks in 2009 and 2010 / 11.

If the same patterns of applications and admission as have been evident in previous years are applied to the March 2009 UCAS figures, the scale of the potential shortfall in the supply of places becomes apparent.

By the end of the 2009 cycle there could be as many as 643,000 full-time applicants compared to the 590,000 in 2008. 70% of applicants are usually placed before clearing. Applying the same 70% percentage, roughly 450,000 applicants could be expected to find places at university prior to the August 2009 clearing period.

But – and this is the problem - the total intake in 2009 has been restricted by the former DIUS to the 2008 total of 456,000 + 10,000 additional funded places. This allows for only about 466,000 places in 2009.

If these estimates prove correct, there would be at best 16,000 places available in clearing in 2009. This compares very unfavourably to the 43,000 places which were available and filled by students through clearing in 2008.

### **Part-time students and late applicants**

The UCAS figures only capture the applications of full-time students. Part-time students apply direct to the university and it is well known that many non-traditional students apply later in the process and approach universities for places after clearing.

### **Raising aspirations**

In the last decade everyone has raised their aspirations: the Government has been a key driver in recognising the link between promoting aspirations, qualifications, attainment and employment. Universities, schools, colleges, employers and the National Union of Students which has a long history of arguing that access for university should be an entitlement and not a privilege, have all played their part.

Young people and those with no family tradition of going to university have all responded. But in 2008, 2009 and 2010 the stark reality of today's labour market has had a major impact. This has been and will continue to be a key motivator in encouraging younger and older people to apply to university in unprecedented numbers in 2009 and 2010. Individuals do understand the link between personal and career opportunities and higher level graduate, Level 4 qualifications and we cannot afford as a society or as an economy to let them down.

### **Government response to the recession: cut in planned numbers**

In spite of this, DIUS cut by 5000 the number of additional student places which it had originally planned to fund in 2009. The Government has capped participation in higher education at 44% when it has a unique opportunity to boost levels of participation to that achieved in other OECD countries. This cut in planned numbers has been made at the very time when the number of 18 year olds peaks in 2009 and 2010 and at the same time as the recession requires a pro-active approach. It runs directly counter to the policy advocated by Professor David (Danny) Blanchflower the former member of the Monetary Policy Committee of the Bank of England who 'called' the recession, and has called for the creation of far more additional places in further and higher education<sup>1</sup>.

Young people who might have gone to university, those in their early twenties whom we always wanted to go to university and those in their 30s and 40s who have never been to university, face the real prospect of being relegated to the ranks of the long-term unemployed with all the personal, family and health and societal consequences which this brings - and with very obvious consequences for the already burgeoning call on the Job Seekers Allowance and Income Support budgets of the Department of Work and Pensions

### **Increasing numbers – the costs**

million+ has undertaken detailed work with London Economics<sup>2</sup> on the cost of increasing student numbers for every 5000 full-time students based on current (2009) prices and taking into account the different teaching cost bands<sup>3</sup>, the call on full-time student support of students from different family backgrounds, completion rates and working on the assumption that students would be entering standard 3 year programmes.

We calculate that the current total Hefce teaching costs over three years (in present value terms and at 2009 prices) for 5000 students stands at £49.59 million. This may be an over-estimate. There are reductions being applied by the Funding Council and there is potential for robust discussion as to whether allowances for the upkeep of old and historic buildings, institution specific costs and the maintenance of vulnerable subjects – to name a few examples – should be retained.

There may also be other variables within the cost structures that would convince the Government that universities saw the funding of additional capacity in 2009 and 2010 as a joint problem which it was in the national interest to tackle - and not one that universities simply expect the new Department of Business, Innovation and Skills and the Treasury to resolve.

million+ has also costed the student support arrangements which will apply in terms of maintenance grant and separately, the costs of maintenance and fee loans. We calculate that the costs of student support for every 5000 students admitted in 2009 in respect of Maintenance Grant stands at £18.62 million in present value terms. We calculate that the costs of maintenance and fee loans for every 5000 students would stand at £22.43 million.

million+ estimates that the additional total cost associated with the funding of every additional 5,000 full time undergraduate students for three years of study is £90.06 million. Of this amount, £49.5 million is linked to the allocation of resources by Hefce; £22.4 million is

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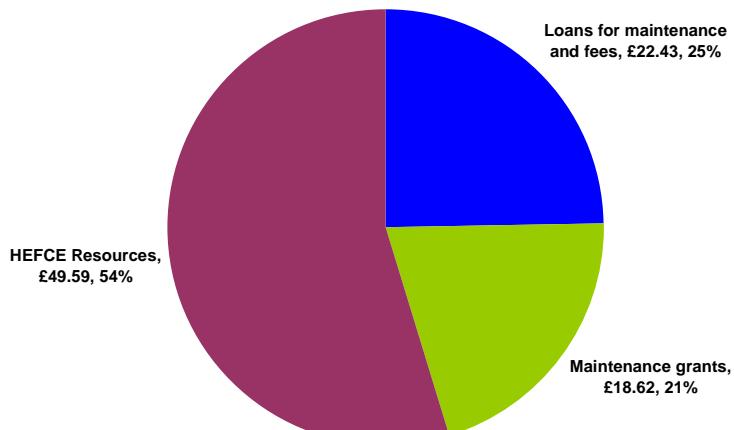
<sup>1</sup> Radio Four News at Ten 15 June 2009

<sup>2</sup> London Economics is a leading European economic consultancy firm with extensive experience in the education sector

<sup>3</sup> Numbers for medical students are capped and they fall into the top (most expensive) band in terms of teaching costs and were excluded from the analysis

associated with the cost of loans and £18.6 million is linked to maintenance grants. This is presented in Table 1.

**Figure 1: Present value of the costs associated with funding an additional 5,000 full time undergraduates**



*Source: London Economics analysis*

■ Loans for maintenance and fees ■ Maintenance grants ■ HEFCE Resources

These costs are a worse case scenario. They are for full-time students. If some students studied part-time, student support costs would fall although some caution needs to be exercised as to how far it is possible to impose a mode of study and a product on individuals that they either do not want or which would impact adversely on their prospects of success.

However, these are costs. They are not a costs-benefits analysis. If the latter was applied the scenario becomes potentially more favourable.

### The benefits of expanding capacity in 2009 and 2010

There have been significant volumes of research undertaken investigating the economic returns to traditional, academic and vocational qualifications, highlighting the enhanced earnings and likelihood of employment associated with increasing qualification attainment. For instance, previous findings have indicated that possession of an undergraduate degree adds approximately 23.5% to average earnings<sup>4</sup>; enhances the probability of being employed by between 4 and 6 percentage points<sup>5</sup>; and increases the labour market resilience of individuals in possession of those qualifications during periods of economic uncertainty<sup>6</sup>.

<sup>4</sup> Blundell, R., Dearden, L. and Sianesi, B. (2003) Estimating the Returns to Education: Models, Methods and Results, IFS Working Paper No. WP03/20.

<sup>5</sup> Royal Society of Chemistry (2005) "The economic benefits of Higher Education", report prepared by PricewaterhouseCoopers, January 2005.

<sup>6</sup> Conlon, G. (2000) "The Marginal effect of Vocational Qualifications on Labour Market Performance and Earnings", D.Phil. Thesis, Nuffield College, University of Oxford

In March 2009, million+ published *Enrol for Free*<sup>7</sup> – a policy paper which proposed that individuals in receipt of Jobseekers Allowance or on short-hours contracts should be provided with an opportunity to study at university part-time and without having to pay part-time fees. In this analysis, we calculated the lifetime earnings premium between the ages of 35 and 64 in the case of men and 35 and 59 in the case of women of such a policy.

The analysis indicated that the average lifetime economic benefit in today's money terms associated with attaining an undergraduate degree for those men stood at £95,521 and £55,204 for women (assuming the individuals were already in possession of Level 3 qualifications). For individuals in possession of Level 2 qualifications, the lifetime benefit associated with attaining an undergraduate degree stood at £152,563 for men and £88,898 for women.

There is, in addition, expected enhanced taxation revenue over a working lifetime of a graduate qualification. The average lifetime enhanced Exchequer revenue in today's money terms associated with attaining an undergraduate degree for the same cohort of men stood at £33,438 and £25,436 for women if there were in possession of Level 3 qualifications. For individuals in possession of Level 2 qualifications, the lifetime benefit associated with attaining an undergraduate degree was £54,706 for men and £38,448 for women.

Combining all the information, the aggregate economic benefits to aggregate economic costs of the policy were calculated. Specifically, the ratio of the benefits to costs for the individual if the *Enrol for free* proposals had been adopted stood at **3.51:1**, while the ratio of benefits to costs for the Exchequer stood at **1.30:1**.

There is very reason to suppose that a ratio of benefits to costs would be accrued by individuals and the Exchequer if the Government adopted a policy of meeting the demand for university places in 2009 and 2010.

### **The solution: short-term funding for 2009 and 2010**

2009 and 2010 will be a critical period. Unemployment is likely to rise to 3 million. There are particular risks in terms of youth unemployment. Approximately 800,000 people attain the age 18 in the UK as the expansion in the 18-24 year old cohort peaks.

Unless there was a special student support package created, there is now no easy way around full-time student support costs until the Fees Review required by the 2004 HE Act is set-up and reports (probably to the next) Parliament. In any case, we know from experience and the 2007 research published by million+ on the UK's student finance system<sup>8</sup> that piecemeal reform is highly ineffective and creates huge complexity for students, the Students Loans Company and institutions.

The only real way forward to create capacity in 2009 and 2010 is a short-term and temporary boost to spending to ensure that supply of university places meets demand.

It is perhaps worth putting this into context. The Secretary of State for Children Schools and Families, Ed Balls MP, has announced that an additional £655m will be deployed to support

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<sup>7</sup> Enrol for Free – million+ / London Economics (March 2009) – see policy [www.millionplus.ac.uk](http://www.millionplus.ac.uk)

<sup>8</sup> Reality Check: student finance regimes (Nov 2007) million+ / London Economics

additional places for 16-19 year olds in school, colleges and in training. This should be, and has been, warmly welcomed.

What would happen if a similar package was applied to higher education? Without taking into account any of the potential areas for cost reduction – for example in relation to part-time study and without taking into account any cost-benefit analysis for the individual, the Exchequer or the Department of Work and Pensions if applicants for university become or stay unemployed, the allocation of a similar sum of £655m for additional places in universities for 2009 would deliver over 30,000 additional student places for three years of study.

### **European Investment Bank**

In other key sectors of the economy such as the car industry, the Government has used the services and loans provided by the European Investment Bank (EIB). If the real problem in meeting the demand for university places is the cost of student support, as has been suggested by previous Ministers and officials, then the Government need look no further than the EIB. The Bank is already providing a loan to the Government in Hungary to introduce a partial fee loan system. In the long run, reliance on an EIB loan to provide short-term funding to meet demand for university places may prove more expensive for the taxpayer. However, the new Department of Business, Innovation and Skills and the Treasury should leave no stone unturned to identify the funding and fiscal stimulus for higher education needed to keep potential students out of the dole queue and to support them to enter the better qualified workforce which will be required in the future.

### **Conclusion**

There should now be a serious conversation and agreement between universities, the NUS and the Government to deliver a short-term funding package – a temporary measure - to ensure that universities can offer the capacity and meet the aspirations, in particular of those students whose life chances are most likely to be compromised and whose chances of unemployment are most likely to be increased, if they lose the opportunity to study at university in 2009 and 2010.

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