

## House of Lords Debate 13 October 2011: *Impact of Government policy on universities* million+ Briefing

### About million+

1. million+ is a university think-tank which provides evidence and analysis on policy and funding regimes that impact on universities, students and the services that universities and other higher education institutions provide for business, the NHS, education and the not-for-profit sectors.
2. The landscape for higher education in England is changing rapidly with significant implications for universities, students and the higher education sector as a whole. Following Lord Browne's Review of Higher Education funding, Parliament voted in December 2010 to raise the cap on full-time fees to £9,000 per annum for new entrants to English Universities from 2012. Coupled with the 80% cut in university teaching funding the average fee for English universities from 2012 will be £8,161. A White Paper had been expected in March 2011. In the event, *Higher Education: Students at the Heart of the System* was not published until 28 June with a closing date for responses of 20 September. This briefing identifies:
  - i. Some of the broader issues arising from the funding changes to be introduced in 2012
  - ii. The issues arising from and the impact of the Higher Education White Paper

### The role of state funding & the new funding system

3. The Browne Review entered new territory in describing the public funding of university teaching activities as a 'subsidy' rather than an investment. This represented a step-change to the 'partnership approach' advocated in the Robbins and the Dearing Reports and the system introduced by the 2004 Higher Education Act which was based on the principle of 'additionality', whereby the extra income provided through tuition fees and graduate contributions was additional to the public funding provided by Government.
4. Previously, direct public funding has been regarded as an investment and significant to the success of universities not only in England but in the global higher education market. The Dearing Report recognised that there was a role for private and business investment and for graduates to contribute to their higher education but public funding of higher education teaching and research was also regarded as essential. While there have been debates about the level of investment made available by Government, there is no doubt that public funding has enabled English Universities to play multiple roles in social, economic and cultural life that have produced significant benefits to students, employers and to the UK. At national level universities generated more than £59 billion of output through direct and multiplier effects in 2007-8 and at least £5.3 billion in export earnings, supporting 668,500 full time equivalent jobs throughout the economy (2.6% of the UK's workforce)<sup>1</sup>. Moreover public investment in universities has generated significant spill-overs in other sectors: for every £1 million of output from the UK higher education sector, a further £1.38 million of output was generated in other sectors of the economy in 2007/8<sup>2</sup>.

<sup>1</sup> Universities UK (2010) The impact of universities on the UK economy. Fourth report

<sup>2</sup> ibid

5. The Government's funding reforms will transfer the responsibility for the future funding of university teaching to the individual. Annual teaching grant for universities in England will fall from £3.5bn to just £700m, and the student finance and student loan repayment systems will alter concurrently. million+ has been critical of these reforms on a number of grounds<sup>3</sup>. These included the potential impact on social mobility and participation<sup>4</sup>; the impact on graduates of loan and repayment regimes where student and graduate loans will increase by RPI plus a real interest rate of up to 3%; when combined with higher fee loans, this will mean that the majority of graduates are unlikely to repay their loans in the 30 year repayment period<sup>5</sup>. Moreover, the new system is unlikely to provide good value for taxpayers. The independent Office for Budget Responsibility have estimated that increasing tuition fees will require the Government to borrow £10.7 billion to fund student loans in 2015/16 compared to the £4.1 billion it borrowed in 2010/11, and that the higher cash requirements will cumulatively add £13 billion to public sector net debt by 2015/16<sup>6</sup>. Research by the House of Commons Library indicates that the taxpayer would have been better off if university teaching funding had been cut by less than 80% and the fee cap was commensurably lower<sup>7</sup>.
6. However, the Government's proposals to extend fee loans to part-time undergraduates studying at least 25% of a full time degree course are welcome and will rectify a historic imbalance in the provision of student support. The extension of fee loans must be balanced against the much higher pro-rata fee levels that will be charged and the fact that under current proposals, part-time students earning more than £21,000 will be liable to repay fee loans from the April three years after they commence study, even if they are still studying<sup>8</sup>.
7. In addition, the decision to impose a 75% cap on fee loans to part-time students based on the higher fee-cap of £9,000 is arbitrary and unhelpful. This cap will allow universities with courses below £9,000 to charge part-time students proportionately more for their courses than their full-time counterparts studying the same course. The cap pays no regard to the need to link part-time fee loans to the credits undertaken and the cap will add to the complexity of the new fees and loan regime and compromise the principle that full-time and part-time students should be treated equitably.<sup>9</sup> These issues remain the subject of debate in the Education Bill currently before the House of Lords. It is therefore surprising that Ministers tabled student support regulations in August which set the arbitrary fee cap for part-time students at 75% in advance of the primary legislation being agreed by Parliament.

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<sup>3</sup> million+ (2010) Fair, Progressive and Good Value? An assessment of the impact of the Coalition Government's proposals for the reform of Higher Education funding in England on graduates, the taxpayer and social mobility

<sup>4</sup> Ipsos MORI (2010) Young People's Omnibus 2010: A research study among 11-16 year olds on behalf of the Sutton Trust

<sup>5</sup> million+ (2010) Fair, Progressive and Good Value? An assessment of the impact of the Coalition Government's proposals for the reform of Higher Education funding in England on graduates, the taxpayer and social mobility

<sup>6</sup> Office for Budget Responsibility (2010) Economic and fiscal outlook – November 2010

<sup>7</sup> House of Commons Library (2011)

<sup>8</sup> BIS (2011) Details of new part-time package: <http://nds.coi.gov.uk/content/Detail.aspx?ReleaseID=417812&NewsAreaID=2>

<sup>9</sup> ibid

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### **The Higher Education White Paper *Students at the Heart of the System***

8. The HE White Paper is predicated on the assumption that incentivising competition and the entry of lower-cost providers into the higher education market will improve outcomes for students. It sets out three measures to increase competition:
- i. unrestricted recruitment of ‘high achieving’ students
  - ii. the creation of a price-based ‘flexible margin’ of places
  - iii. opening up the market to new providers of higher education

In addition, the HE White Paper sets out the Government’s intentions to amend the criteria for degree-awarding powers and the award of university title.<sup>10</sup> This includes a proposal that university title could be granted to organisations which do not provide any teaching or research.

9. In their current form, the Government’s HE reforms would change the whole basis and structure of the university system in England. The proposals open the door for the taxpayer funding associated with higher education to benefit shareholders to a much greater extent than at present. This is despite evidence from the United States that private for-profit providers do not always operate in the best interests of students. The White Paper’s proposals are also likely to undermine the Government’s aspirations for social mobility. Moreover, all universities in England compete on an international basis and are currently highly regarded throughout the world. The proposed changes to the criteria for degree-awarding powers will risk this reputation and the trans-national university partnerships which provide strategic benefits to the UK as well as foreign exchange earnings.
10. Many of the White Paper proposals do not require primary legislation and Ministers have indicated that they will make some early decisions, including on the proposed market in student numbers in the 2012-13 academic year. For example, following a letter from Ministers published on the same day as the White Paper (28 June), the Higher Education Funding Council for England (Hefce) commenced a consultation on how the student numbers market i.e. the unrestricted recruitment of ‘high achieving students’ and the transfer of 20,000 student places from universities charging in excess of £7,500 per annum to lower cost providers, could be implemented in the 2012-13 academic year in spite of the fact that University Boards and Councils had agreed their fees for 2012 in March and had their Access Agreements approved by OFFA.
11. Hefce also intends to invite bids for these 20,000 places on October 17<sup>th</sup> – notwithstanding the fact that Ministers have yet to respond to the White Paper consultation or the fact that Members of Parliament and the House of Lords have yet to have the opportunity to consider and scrutinise in detail the implications of the White Paper for universities and students. Bearing in mind the substantial changes to student and university funding there is a strong case to ‘pause’ these further changes for three reasons:

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<sup>10</sup> These intentions are outlined further in the BIS Technical Consultation published in August 2011 - *A new, fit-for-purpose regulatory framework for the Higher Education Sector* BIS (August 2011)

- i. First, to provide for Parliamentary scrutiny of the domestic and international implications of these further HE reforms
- ii. Second, to allow the 2012 'market' to operate without further intervention by Ministers: there is already substantial change in 2012 and the impact on demand, particularly among students from non-traditional backgrounds, remains uncertain; there is no case for Minister to interfere in the 2012 market retrospectively.
- iii. Third, the proposals to intervene in the student market based on unrestricted recruitment of high-achieving students who can be recruited at fees of £9000 while removing numbers and taxpayer funding from other students and universities will inevitably privilege a sub-section of the student market; in the short and long-run, the effect in funding terms will be to reduce the taxpayer-backed investment available via the student loan system from students from less advantaged backgrounds.

### **The role of universities**

12. The HE White Paper endorses the principle – originally set out in the 1963 Robbins Report - that “courses of higher education should be available for all those who are qualified by ability and attainment to pursue them who wish to do so”. This is welcome. However, in advocating the expansion of higher education Robbins also set out a definition of universities as “autonomous institutions, involved ...not only in teaching but also in research and the advancement of knowledge” and made clear that further investment in higher education was required, not only to ensure that graduate supply kept pace with the needs of the economy, but also to promote the advancement of knowledge and the need for social advancement.
13. In contrast the White Paper is silent on the role of universities in modern Britain but makes clear that Ministers are seeking to ensure that the system operates within a ‘constrained resource envelope’. Currently, universities with taught and research degree awarding powers deliver inter-related activities which encompass research-informed scholarship and teaching, research and innovation and knowledge exchange. Outcomes include a more professional, highly qualified and entrepreneurial workforce and a student experience which involves the development of subject-specific and professional and technical knowledge combined with graduate level skills of enquiry and research. Universities contribute to civic society and the economy; they have partnerships with schools and colleges, the NHS, local authorities and the private sector. Their undergraduate and postgraduate students add value and innovative capacity to employers through work placements and projects on a local, national and international scale. These combined activities add value to the economy and to society at national and local level.
14. The failure of the White Paper to define what Universities do and what they offer in terms of the student experience and the suggestion that criteria for degree-awarding powers and university title will be lowered to ‘remove barriers’ for new providers is a significant concern and suggests that new providers are effectively being invited to undercut the current role of universities.

### **The implications of the proposals to incentivise the student numbers market in 2012-13**

15. Universities are currently subject to a student number control and are fined if they recruit more students than their core allocation. The White Paper proposes that from 2012 no limit will be placed on the number of students achieving AAB+ grades at A-level (or some equivalents) that a university could recruit. Allowing unrestricted recruitment of one section of students (currently

estimated to be 65,000 or approximately one fifth of all available places in 2012-13) inevitably means that others will be losers.

16. In order to protect the BIS resource envelope, 20,000 places will be removed from universities charging an average fee in excess of £7,500. The Government's intervention in the market after universities have agreed investment strategies and set fees for full-time students will inevitably impact on the resources available for high quality teaching in the short and the long run.

### **Impact on universities with differing student profiles**

17. The current proposals would mean that AAB+ numbers are removed from core allocations, followed by a pro-rata reduction of the 20,000 'margin' places. Universities with fewer AAB+ students lose proportionately more of their core student numbers. The combined effect will be to remove more taxpayer funded investment via the student loan system from universities which, in general terms, have the most socially inclusive student profiles.

#### **University A**

Fee: £9,000

Total places: 2,200

AAB+ Students: 2000

University A has 2,200 UK students, of which 2,000 have grades of at least AAB+ and 200 have grades below AAB+ or equivalent. University A has set its full-time fee at £9,000. Once AAB+ students are removed University A has a core allocation of 200 but University A is allowed to freely compete for 2,000 (or more) AAB+ students and free to charge them its full-time fee of £9,000. This core allocation of 200 is reduced by 8% as a pro-rata contribution towards the 20,000 numbers which the Government wishes to remove and offer to lower cost providers. As a result University A loses 16 students from the core – a potential loss of £144,000 in year one (2012) rising to £432,000 by 2014/15. It is unlikely to lower its average fee price but can seek to recruit an additional 16 AAB+ grade students (or more) at full price.

#### **University B**

Fee: £9,000

Total places: 2,200

AAB+ Students: 200

University B has 2,200 UK students, of which 200 have grades of at least AAB+ and 2,000 have grades below AAB+ or equivalent. University B has set its full-time fee at £9,000. Once AAB+ students are removed University B has a core allocation of 2,000. This number is reduced by 8% as a pro-rata contribution to the 20,000 numbers for lower cost providers. As a result University B loses 160 students. Unless it reduces its average tuition fee to £7,500 or less, University B cannot compete for any of the 20,000 student numbers. Unless it also chases AAB+ students, University B stands to lose £1.44m in year one (2012) rising to £4.32m per annum by 2014/15. If Ministers remove even more numbers by price from the core in future years i.e. in 2013 and beyond, University B will incur a significant reduction in income from UK domiciled students. This is in spite of University B's long tradition of creating opportunities for older students and students from non-traditional backgrounds as well as investing in a high quality student experience.

18. Unrestricted recruitment of AAB+ students and the 20,000 'margin' places are described as a 'starting point'. The White Paper makes clear that more university places should be made contestable over time or transferred to lower cost providers. The AAB proposals and the price constraints imposed on other student places will inhibit the ability of universities to develop new areas and make long-term investment decisions to benefit current and future students. However, they also rig the market in favour of a small sub-section of the market.
19. A wealth of research has shown that students from more prosperous backgrounds and at private schools tend to perform better in standard examinations. Out of the 54,600 students in England aged 16-18 who achieved AAB in A-Levels and AVCEs in 2010, 16,100 (29%) were at private schools even though only around 6% of all pupils are at private schools. A further 5,420 (10%) of those achieving AAB were at selective state schools<sup>11</sup>. BIS suggests that unrestricted recruitment of AAB+ students "will create the opportunity for more students to go to their first choice institution". However all the evidence suggests that this proposal will advantage students from more prosperous backgrounds relatively more than students from more disadvantaged backgrounds.
20. Whilst privately educated pupils tend to outperform their state-educated counterparts at school, this situation is reversed at university. Students with lower A-level grades from state schools are likely to equal or out-perform students from private schools with high A-level grades once they are at university: a five-year study co-funded by BIS, the Sutton Trust, the National Foundation for Educational Research and the College Board that tracked 8,000 A-level candidates found that a comprehensive pupil with the grades BBB is likely to perform as well in at university as an independent or grammar school pupil with grades ABB or AAB<sup>12</sup>. High achievement in school exams is not necessarily a good predictor of achievement at university. The proposals will also compromise the use of contextual data in admissions decisions.
21. If the Government can no longer afford fee loans at £9000, rather than interfere in the market to reduce the taxpayer-investment available for some students and rig the market in favour of AAB students and those institutions which may be able to expand by recruiting them, it should re-set the fee cap at £7500 for all students and then allow universities to compete in a free market.

### **Impact on subject availability and student choice**

22. Pupils studying arts and humanities subjects at A-Level or equivalent tend to achieve higher grades than their counterparts studying science subjects and mathematics in preparation for degrees in STEM subjects which have lower grade or tariff requirements. Over time, the privileging of this AAB+ section of the student market will incentivise the expansion of arts and humanities courses at the expense of STEM subjects. Meanwhile the £7,500 price constraint for the 'flexible margin' will incentivise the provision of subjects that can be run at lower cost. Far from enhancing student choice, the Government's proposals may well lead to less choice for students and a reduction in both the availability and development of higher cost courses which are likely to be required to respond to emerging markets and contribute to economic growth.

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<sup>11</sup> House of Common Library (2011)

<sup>12</sup> Kirkup et al (2010) Use of an aptitude test in university entrance: a validity study: Final Report. National Foundation for Educational Research

### **Impact on social mobility**

23. The White Paper recognises that higher education is a powerful engine of social mobility. The commitment to fund elements of the Widening Participation Premium in 2012-13 in recognition of the additional costs not only of recruiting but also supporting students from non-traditional backgrounds while they are studying at university is welcome. However, this clear commitment to social mobility is likely to be undermined in other ways. Places will be removed from universities with long histories of creating opportunities for students from diverse backgrounds, who often enter university as older and mature students and are from families that have no prior history of studying at university. These students very often study at a university that is local and are unlikely to consider studying elsewhere.
24. Students from some minority ethnic backgrounds are more likely to live at home while they are studying at university. Many modern universities quite properly reflect in their student profiles the diversity of their local as well as the national and international populations that they serve. This is particularly the case in urban conurbations and in London. While the student support system takes into account the additional costs of studying in London, the £7,500 price cap set for the flexible margin is uniform across England, despite the higher costs associated with the provision of higher education in an inner or outer London location.
25. But this is not the whole story: students from white working class backgrounds are more likely to progress to university when they are older and to enter universities which offer opportunities to study on both a part-time and full-time basis. The current proposals to intervene in the student numbers market will inevitably transfer resources from universities which provide more opportunities for older students.

### **Fair access, free school meals and social mobility**

26. Moreover, the White Paper defines social mobility in higher education in very limited terms. The focus on fair access and increasing the number of high achievers from disadvantaged backgrounds who progress to a small number of traditional universities is a definition of social mobility which is both relative and restrictive. This restrictive definition of social mobility has also been reflected in the decision by Ministers to replace the main measure of social mobility in higher education with a Free School Meals based metric and to include a metric based on access to 'the most selective third of universities – a proposal which million+ opposed'<sup>13</sup>.

### **The National Scholarship Programme**

27. The White Paper's description of the National Scholarship Programme (NSP) as a measure that will help "improve access to higher education amongst the least well off young people and adults" is optimistic. The NSP is not a national programme but rather a 'postcode lottery' whereby students from identical socio-economic backgrounds will receive different types and levels of benefit depending on where they study. It favours institutions which benefit from historically high levels of endowment funding and admit very low numbers of students from less advantaged backgrounds. A series of million+ focus groups found widespread confusion about the NSP amongst both young and older prospective students. In order to succeed in its aspirations for

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<sup>13</sup> million+ submission BIS consultation on statistics that measure the progress of children from disadvantaged backgrounds to HE

the NSP, the Government should go back to the drawing board at the earliest opportunity to devise a national scheme with national eligibility criteria<sup>14</sup>.

### **A missed opportunity to promote flexible learning**

28. The White Paper states that there is no plan to introduce any further measures in 2012-13 to incentivise more flexible forms of undergraduate study. The new full-time fee regulations limit the fees that universities can charge for a two-year accelerated honours degree even though students have to be taught proportionately more each year than a 'standard' full-time student. For example, if a university offers a three year degree course at £9,000 per annum, the university will receive £27,000 in fee income (less any fee waiver or bursary support offered). However, if the three year course is taught under an accelerated programme in two years, the university will only be able to charge £9,000 per annum i.e. £18,000 for the whole course. Allowing universities to charge fees for accelerated degrees to cover the full-cost of teaching would still see the Exchequer benefit because students would only be eligible to claim two rather than three years of maintenance loans and grants.

### **University Title: a tradable commodity?**

29. The White Paper proposes to decouple the link between degree awarding powers and teaching students and to relax the criteria for obtaining degree-awarding powers are presented as a means of increasing competition and "enhancing the diversity of provision". This analysis raises fundamental questions as to whether university title is seen as little more than a tradable commodity. For example, the proposal to grant degree awarding powers to institutions that neither teach nor carry out research reflects a lack of understanding of the nature and purpose of higher education, a form of education that is at the cutting edge of an academic subject and which demands high levels of research-informed scholarship from staff and students.

### **Impact on the international agenda and the global competitiveness of English Universities**

30. University title in England and the UK has been a mark of quality and reputation which denotes adherence to the highest possible standards and commitment to rigorous academic governance to students, employers and other organisations both within the UK and internationally. The current system for granting university title and degree awarding powers has, as the White Paper acknowledges, been effective in maintaining standards within universities and delivering confidence in the quality of UK higher education and graduates of British universities. The primary reason why the UK remains second only to the United States in terms of the provision of higher education to foreign nationals – despite growing levels of competition for international students – is that the UK has developed a global reputation for higher education, with universities and graduates being highly regarded within the international community.

31. Lowering the criteria is likely to damage both the quality of the student experience and the strength of the UK higher education brand and reputation. Once lost or diluted, this reputation will not easily be regained: not only universities but their graduates could lose currency in the international market. There appears to be no clear advantages to lowering the criteria. The Westminster Government should also consider carefully the implications of its proposals on the UK as a whole since they will have an impact on Scotland, Wales and Northern Ireland.

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<sup>14</sup> The National Scholarship Programme: A national scheme or a postcode lottery? million+ (2011)

### **More information, student choice and high quality teaching**

32. The White Paper reflects the emphasis which Ministers have placed on the need for students to be well-informed so that they can better exercise choice in the new higher education market. Information needs to be based on data sets that are robust, take into account the diversity of the student profile at entry to university and the varying modes of study that universities offer. More information is not a proxy for teaching quality. Nor does it in itself militate against the implications for investment in a quality student experience and high quality teaching of a competitive market in which universities are expected to deliver ‘more opportunities’ in a constrained resource envelope.

### **Impact on Postgraduate Study**

33. Postgraduate study is crucial to the future of a highly skilled and qualified workforce in the UK. However, in the new system, teaching funding will be removed from postgraduate taught courses and undergraduate students will be required to take out much higher loans. The White Paper, fails to outline a strategy to sustain postgraduate study by UK students in the future.

### **Mixed messages for students**

34. It is worth noting that the proposals for a market in student numbers based on price run counter to the public communications strategy of BIS and the advice being given to prospective students. As Ministers and the BIS 2012 *Make Your Future Happen* campaign emphasise, students will not have to pay fees upfront and repayments of tuition and maintenance loans will be based on the earnings of graduates rather than the sum of their debt. As a result, there is no immediate financial advantage in studying at a provider where fees are £6,000 vis-à-vis a university with fees of £8,500 or £9,000 per annum. A graduate with a debt of £35,000 who is earning an annual salary of £24,000 will repay at the same rate as a graduate with a debt of £50,000 who is earning the same amount. Whilst it may be in the interests of the BIS and Treasury to incentivise low-cost provision and encourage the entry of low-cost providers into the higher education sector, this is not necessarily in the interests of students.

### **The White Paper and ‘micro-management’**

35. The White Paper makes a commitment to reducing the regulatory and administrative burden on universities. The announcement that HEFCE, HESA and HEBRG, in collaboration with the Information Standards Board for education and skills, will review the information landscape for higher education institutions and re-design the data collection system to reduce administration and duplication, is welcome. However, the White Paper’s proposals and the new fees and funding system will increase the administrative burden on universities and students will face a system of even greater complexity.

### **Conclusion**

36. The promise of the White Paper to place students at the heart of the system is unlikely to be fulfilled in practice on the basis of the proposals tabled. The Government should ‘pause’ the White Paper proposals and work with universities, the NUS and others to consider how its ambition to create more opportunities “for all those who are qualified by ability and attainment to pursue them” can be achieved.

**million+ recommends that Ministers should:**

- set out their vision for the role of universities in modern Britain
- re-think the proposals for a market in student numbers in the 2012-13 academic year
- provide an assessment of the implications of the White Paper's proposals on likely long-term levels of taxpayer-backed investment in universities which have the most socially inclusive student profiles
- provide a more detailed analysis of the impact of the proposals to apply price constraint on the investment and the student choices available to older students and students from black, Asian and minority ethnic backgrounds
- give a firm commitment to the future funding of the widening participation premium until the end of the comprehensive spending review period
- outline how the duty to "promote the student interest and effective competition" which is proposed for Hefce, is likely to work in practice bearing in mind that Ministers also retain powers to intervene in the market and in the allocation of teaching grant
- explain more fully how incentivising for-profit providers is likely to benefit the student and public interest in England
- amend the arbitrary 75% cap of the higher full-time fee loan on part-time fee loans, reconsider how flexible patterns of study could be incentivised and revise proposals to require part-time students to recommence repaying their fee loans prior to the completion of their studies
- review, with the Cabinet Office, the Government's current narrow definition of the drivers of social mobility in higher education and publish a more comprehensive vision which acknowledges and promotes the contribution of all universities
- outline proposals to ensure that the opportunity for UK students to study at postgraduate level are not undermined by the withdrawal of teaching funding from postgraduate taught courses and by the new undergraduate fees and student support system
- commit to retaining the current criteria for degree awarding powers
- provide a much more comprehensive assessment as to how the White Paper's proposals, when combined with the amendments to the funding and student loan system from 2012, will impact on the quality of the student experience, the higher education agenda in England and on the international activities of English Universities, including their future capacity to compete globally

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