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Parliamentary Briefing
Higher Education Funding
Backbench Business Debate: 8 January 2015

1. Assumptions behind the 2012 reforms

Both the recommendations of the Browne Review and the October 2010 Spending Review ended the partnership approach by which undergraduate teaching had been funded for more than a decade i.e. direct public investment in universities *alongside* a graduate contribution linked with a fee. In contrast to the pre-2012 system these Reviews and the funding system subsequently implemented by the Government assume that increased graduate contributions **replace** public investment for new entrants from 2012/13.

Accordingly, the government's assumption has been that the majority of undergraduate and postgraduate courses receive no direct public investment for teaching starting with students entering university for the first time in 2012. By the 2014/15 academic year there will be no direct grant available for arts, humanities, social sciences, computer science, design, architecture and economics – to name just a few of the disciplines affected.

2. Inequity in the public financing of the unit of resource for teaching

The 2012 system is also different in another way. Prior to its introduction, there was equity of the taxpayer funded resource according to the subject studied, wherever students studied. This was provided through a combination of public investment (the teaching grant, fee loans and means-tested maintenance support) and graduate contributions. In contrast the 2012 system is predicated on the idea that taxpayer funding can be provided to support higher fee loans for universities that can charge the highest fees on the basis of reputation rather than productivity - regardless of the fact that they may also have the most socially exclusive student profiles.

Overall undergraduate teaching numbers fell by 6.89% in 2012. This resulted in a cut in institutional income for all three / four years during which the 2012/13 cohort would have studied. Subsequently fluctuations in demand and other government policies e.g. changes to the visa regime, further reductions in direct grant and capital funding, and parental and student assumptions that headline price is linked with quality have ensured that the average fee has risen each year since 2012. It should also be noted that no inflationary increases have been applied to the fee cap since 2012.

3. The impact of the 2012 system

Part-time fee loans were introduced via the 2011 Education Act but the Government ignored the opportunity to introduce a more flexible loan and funding system. As a result, different criteria and repayment systems are still applied to part-time students making it more challenging and complex to switch mode. For their part universities are restricted to charging at the highest fee cap per annum even though they may wish to offer a 3 year course in 2 years. This means that the maximum that they can recoup in fee income for a two year course is £18,000 rather than £27,000 for the same course taught over three years.

The debate about the merits of the 2012 system has been focused on full-time study for a first degree. Much less attention has been paid to the impact on the diversity of the qualifications and the flexible modes of study which have been a traditional feature of many modern universities or on the impact on those who want to study for a degree or a postgraduate qualification later in life. One notable outcome of the 2012 reforms is that part-time UK and EU undergraduate entrants in 2013-14 were almost half of what they were in 2010-11.[1]

4. Research funding

In addition to the reform in funding for teaching, research funding has been ring-fenced and the capital funding available to the research councils reduced. However, the Treasury has funded capital projects 'outside of' the research funding system and there is concern that the Science and Innovation strategy (published December 2014) proposes a further transfer of funding into Treasury supported capital projects.

Following new BIS Ministerial guidance in 2010, research funding has been further concentrated. By 2012-13 approximately 25% of recurrent research funding in the UK was allocated to just 5 universities - over £500m in the year – while approximately 50% of the funding went to 30 universities. The remaining 131 universities and higher education institutions throughout the UK shared just 25% of recurrent research funding – amounting to some £490m pa. Much research of international and national standing no longer receives public investment. In addition the Higher Education Innovation Fund has been reduced to £150 million per year to 2015 (from an original budget of over £200 million). However, universities' postgraduate provision and capacity to trade internationally is linked with their research profile and research is now being supported by tuition fees. It is also worth noting that the greatest inequity in the unit of resource available to invest in the student experience arises from the inequity in research funding allocations.

5. Higher education funding and the deficit

Whilst not a criteria set out in the 2010 Coalition Agreement, the requirement to reduce the structural deficit debt has been put forward as a reason to justify the cut in direct grant for university teaching. However, on 29 November 2010, the Office of Budget Responsibility (OBR) published estimates which suggested that the Government's proposals to replace the direct funding of universities with higher fees would lead to an additional cumulative net public debt requirement of £13bn by the end of the Spending Review period based on an annual average fee of £7,500. The OBR also concluded that the additional debt requirement would level out any savings to the public borrowing requirement achieved as a result of the reduction in HEFCE teaching grant.

These calculations were made prior to the December 2010 parliamentary votes which increased the full-time fees cap and before last-minute concessions by Ministers. The latter agreed that they would extend part-time fee loans to students who study at 25% of a full-time course a year. Ministers also announced that in addition to uplifting the annual earnings threshold for graduate repayments to £21,000 pa, the threshold would be uprated on an annual basis from 2016.

6. The RAB charge

In parliamentary briefings prior to the 2010 votes, million+ warned that: '*Any gains made in reducing the deficit by withdrawing public funding for higher education will be cancelled out. In the long-term, taxpayers will pay much higher loan write-off costs than at present. As a result of these concessions and based on a fee of £9,000 per annum, London Economics have estimated that the Exchequer will not generate significant savings, will need to borrow more and further that the Government will create a more complex system with massive administrative burdens. Specifically, the Exchequer will need to borrow between £5.5bn and £6.5bn more* <u>*per annum*</u> *than is currently the case'…….'London Economics estimated that even without the concessions, the write-off costs are likely to rise to 42p in the pound from the current 27p in the pound. The write off costs (the RAB charge) will also impact on the future sale of the student loan book which Ministers want to undertake by 2016'.*

[1] Pressure from all sides – Economic and policy influences on part-time higher education, HEFCE 2014/08d, April 2014

These estimates of the RAB charge were subsequently confirmed in Parliamentary Answers in 2014 when the RAB charge was estimated to be 45p in the pound. While the RAB charge will vary to some extent according to wage growth and could be reduced by transferring some costs to the Annually Managed Expenditure account and amending the student support regime e.g. by increasing the repayment period, increasing interest rates or reducing the repayment earnings threshold, the impact of the system on students and graduates needs to be carefully considered. There are also questions about the efficiency of the 2012 system.

7. Impact on students

The smaller 2012/13 cohort of students and graduates will contribute a total of £1.872bn (in present value terms) to the cost of undertaking their degrees. This represents an increase of £1.463bn on the £409m contribution made by the larger 2010/11 cohort. The majority of women will never repay in full while the majority of men will take 11 years longer to repay.

In a further parliamentary briefing commenting on the Browne proposal to extend fee loans to part-time students, million+ stated that the extension of fee loans was welcome but *'the impact of much higher pro rata fees remains unknown. The impact (of higher fee levels) in terms of gender, ethnicity and disability deserve particular attention – for example, there is no assessment in relation to impact on participation by those who are not disposed for religious or other reasons to borrow or pay interest'.*[2]

BIS consulted on an undergraduate Sharia compliant scheme in 2014 but no progress has been made on its introduction which would require BIS to put funding up-front in the first instance.

8. Transaction costs: the need for a simplified system

One other objective of the Browne Review was to create a simpler system. However, there are inefficiencies in transferring all funding to students, then transferring funding to universities in the year in which students are studying, expecting universities to use some of this funding for widening participation activities, institutional bursaries and scholarships – and then collecting repayments back from graduates over 30 years assessed against a number of variables. The interest calculations to be applied to student loans and graduate repayments are complex. RPI is added to all loans. RPI plus up to 3% will be added to loans for graduate earnings over the repayment threshold with the latter uprated annually. Annual uprating is not a common practice in other countries and has the potential to cause further complications for employers, graduates, the Student Loan Company (SLC) and HMRC. Graduates are likely to find the system more complex and less transparent with more at stake in terms of the amount of loans outstanding.

9. Private Colleges

Unlike universities, private college numbers were deregulated with no overall cap on numbers from the 2012-13 admissions year – the year when SLC funding for fees was also increased from £3000 to £6000 per student. As noted by the Public Accounts and BIS Committees public interest tests in respect of private college funding, regulation and courses and qualifications offered have been weak. This has also worked to the disadvantage of students who signed up for courses in good faith.

10. Impact on university finances

Analysis from the Higher Education Funding Council for England (HEFCE) of the impact of the HE reforms on capital funding and institutional resource flows are provided in Appendix A. These illustrate the increasing reliance of institutions on borrowing and the reduction in liquidity.

[2] A detailed analysis of the changes to graduate repayment by gender by full-time cohort is published at pg. 11 *Are the changes to higher education funding in England cost-effective* million+ 2013

11. Return on Treasury investment

London Economics has estimated that the Treasury rate of return associated with the financing of undergraduate degrees is on average **10.8%** - **11.4%** for men and **9.5%** for women[3]. These rates of return are significantly above the government's long term interest rate or cost of borrowing. Given the very significant economic returns to higher education, the OECD has also concluded that "public investments in education, particularly at the tertiary level, are rational even in the face of running a deficit in public finances. Issuing government bonds to finance these investments will yield significant returns and improve public finances in the longer term" (OECD 2010)[4].

Decisions about the need for short-term savings in BIS need to be balanced against the long-term benefits of investment in higher education and science. While it can be argued that since BIS is not a 'protected' department, the indirect funding of higher education teaching via the Student Loan Company (SLC) has protected universities from even greater cuts. However, the current accounting system lacks transparency and the fact remains that the Government is currently borrowing to fund the SLC / 2012 system.

12. Teacher education

Universities with teacher education courses have been particularly exposed to changes in DfE policy with associated reductions in income. With effect from 2015-16, 17,000 initial teacher training numbers per annum will have been removed from universities and transferred to the School Direct programme.

13. Health education

Modern universities deliver health education professional courses and qualifications for nurses, midwives, physiotherapists, radiographers and other allied health professional staff both on campus and via clinical placements. However prices for commissioned numbers have been frozen until 2015/16 and 85% of the current Health Education England budget is focused on medical education and dentistry.

14. Funded student numbers

Half way through the admissions cycle for the 2012-13 academic year, BIS Ministers announced that in addition to increasing the fee cap, number controls for students with high pre-entry grades (AAB+) or their equivalence would be lifted in 2012-13. Since there was an overall cap on funded numbers, universities had their funded numbers top-sliced by HEFCE. The policy clearly favoured some universities more than others and was accompanied by new measures to assess the contribution of schools to social mobility based on the number of younger pupils who progress to the '30 most selective institutions'. This measure risks 'mis-describing' institutions (all universities have courses which recruit on high entry grades) and under-values the contribution of universities which have more diverse student profiles and recruit more students who reside and study in the region in which their institution is located.

In the Autumn Statement of 5 December 2013, the Chancellor announced that 30,000 additional student places would be available in 2014 and that student numbers would be completely de-regulated in 2015-16. The Chancellor suggested that this expansion would be fully funded and supported by the sale of the student loan book. Expansion of higher education is, in principle, to be welcomed but there are major questions as to whether the complete deregulation of student number controls is supported by Treasury assumptions that are both accurate and sustainable. In the event, only 15,000 additional students are likely to have been recruited in 2014.

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[3] million+ / London Economics *What's the value of a UK degree* pg. 8, 2013

[4] OECD Education at a Glance 2010.

15. International

Government investment and regulations impact on the perception and attractiveness of the UK Higher Education sector abroad and on the capacity to promote the UK education experience in the international market, in turn impacting on UK exports[5]. Universities have lost market share in some countries and regions as a result of Home Office policy and changes to visa regimes.

16. Conclusion

All parties have questions to answer about the future funding of higher education, science and innovation but the case to fund growth rather than minimise costs is strong. The UCAS 2014 End of Cycle Report revealed continuing disparity in higher education access across the UK, with 18 year old entry rates ranging from 26.7% in the South West region to 34.8% in the London region[6]. These regional figures mask even larger disparity at constituency level: some constituencies have fewer than 15% of 18 year olds entering higher education whilst in others progression stands at 50%.

- Higher education is a net contributor to the economy and delivers an 11% return on Treasury investment
- Only 34% of those aged 16-64 in the 39 LEP areas are educated to degree-level and where the figure exceeds 34%, 9 LEPs are in London while in 10 LEPs the rate of degree or equivalent qualified people is below 30%
- There is a link between graduate supply and regional growth but significant variation by region in HE applications from young people (30% in the SW compared to 43% in London) and HE 'cold spots' in coastal towns, some country and urban areas

Treasury investment should be used to

- fully fund a higher education system which offers a high level of opportunity for all those who can benefit whatever their age or background
- enhance the unit of resource across all universities, promote stability and a world-class system of universities rather than a two-tier system
- promote direct taxpayer investment in higher education, ensuring that that any contribution required from graduates is proportionate, transparent and fair
- increase the science budget and fund research in all universities
- end the system of hyper-concentration of research funding which has created inequity for students, limited research talent and innovation and undermined the role of universities in using translational research to boost regional growth
- support access by students who are older, from all cultural backgrounds and provide opportunities for those who want to study at undergraduate and postgraduate level when they are working, have caring responsibilities or want to study on a flexible basis
- support the engagement of universities in the international HE market recognising their contribution to export earnings and the UK's international and strategic objectives
- promote regional and industrial strategies which stimulate demand for high quality jobs including in the creative industries

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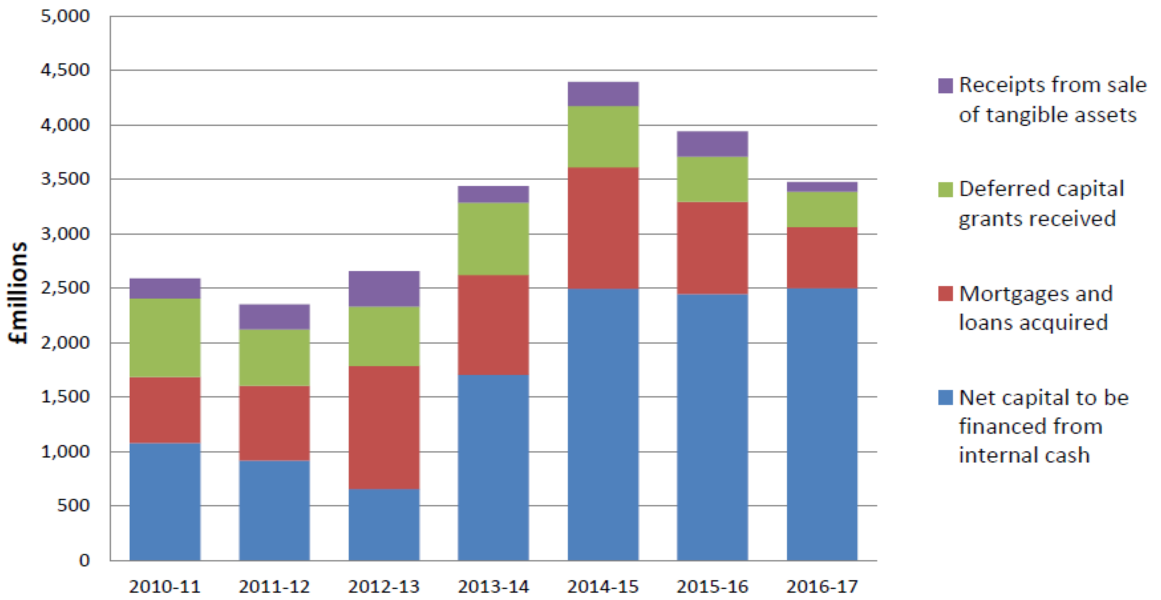
Alan Palmer, Head of Research and Policy, alanpalmer@millionplus.ac.uk 020 7717 1657

[5] Department for Business, Innovation and Skills RR46, *Estimating the value to the UK of educational exports*, June 2011

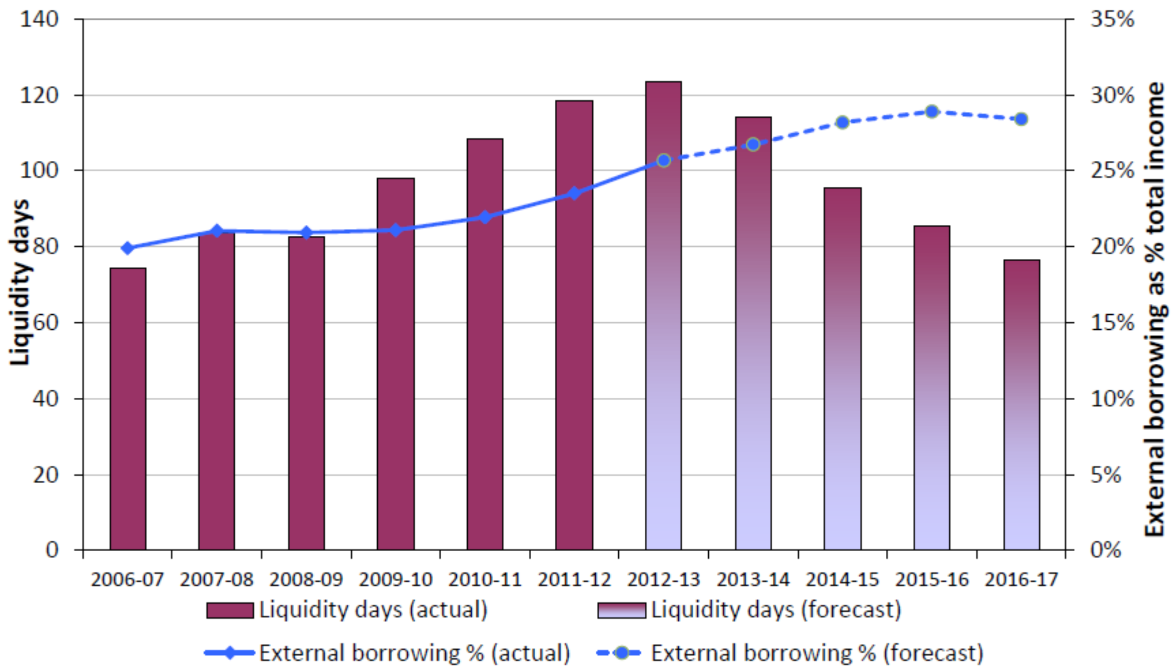
[6] Source: UCAS Undergraduate 2014 End of Cycle Report http://www.ucas.com/data-analysis/key-analysis

Appendix A

Funding breakdown of capital expenditure



Net liquidity and borrowings



Source:
http://www.hefce.ac.uk/media/hefce/content/news/events/2014/annualmeeting/NS_AM14.pdf