Reform of higher education funding in England

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Section Social Policy Section

The purpose of this note is to provide an overview of higher education funding in England and to highlight current debate on the wider issues of the funding and structure of higher education. On the 9th November 2009 the Independent Review of Higher Education Funding and Student Finance was launched under the chairmanship of Lord Browne. The primary task of the review is to make recommendations on the future of fees policy and financial support for full and part-time students, the review is due to publish a report in October 2010. This note flags up some of the issues possibly being considered by the Browne Review.

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1 Background

1.1 The higher education sector

The present structure of the higher education sector could be said to be the result of the *Further and Higher Education Act 1992*. This Act abolished the binary divide between universities and polytechnics and established a single unitary system of universities and higher education colleges and led to the creation of numerous 'new' universities. Following this Act changes to the criteria for the award of the title 'university' in 1999 led to the creation of a further wave of universities, so that currently there are 131 publicly funded higher education institutions in England.[1]

Degree courses may also be taught in partnerships between higher education institutions and further education colleges and via distance learning, so overall there is a wide diversity of higher education provision in the UK.

The number of students studying at universities and colleges has continually risen and the student profile has changed over the last decade. Figures released by UCAS in January 2010 stated that there were 481,854 accepted applicants for university entry in 2009, a 44 per cent increase from 1999. The statistics for 2009 entry also showed a 15 per cent rise in applicants aged 25 years and over.[2] There has also been a continual rise in the number of students studying part-time and in 2006/7 nearly half of all undergraduate students were studying on a part time basis.[3]

Universities have their own degree awarding powers and many offer a wide range of qualifications. There have been many developments in higher education courses such as the introduction of two year employment focused Foundation Degrees in 2003,[4] and fast track two year bachelors degrees.[5]

A publication by the Higher Education Funding Council for England (HEFCE) in 2009 called *A guide to UK higher education*[6] and a Universities UK (UUK) publication *Higher education in facts and figures Summer 2010* give an overview of the HE sector.

1.2 Overview higher education funding

The *Further and Higher Education Act 1992* created the regional higher education funding bodies: the Higher Education Funding Council for England (HEFCE), Scottish Funding Council for Further and Higher Education (SHEFCE), and Higher Education Funding Council for Wales (HEFCW). It is the duty of these funding councils to distribute Government money

[1] Universities UK *Higher education in facts and figures* Summer 2010 page 14 available at http://www.universitiesuk.ac.uk/Publications/Documents/HigherEducationInFactsAndFiguresSummer2010.pdf.

[2] UCAS News release "Decade ends with record student numbers" 21 January 2010 at http://www.ucasmedia.com/whatsnew/newsarchive/2010/21jan. .

[3] "Record increase in part time students" *The Guardian* 16 September 2009 at http://www.guardian.co.uk/education/2008/sep/16/universityfunding.students.

[4] Foundation Degrees at http://www.findfoundationdegree.co.uk/index.aspx?id=1.

[5] *BBC News* "Two-year honours degrees offered" 18 April 2006 at http://news.bbc.co.uk/1/hi/education/4918652.stm.

[6] HEFCE 2009/32 *A guide to UK higher education* at http://www.hefce.ac.uk/pubs/hefce/2009/09_32/.

to higher education institutions (HEIs) across the UK. These bodies allocate core funding to individual HEIs in the form of a 'block grant', which is calculated in part on the number of students attending an institution and the type of courses offered by the institution. Additional sums may be allocated to HEIs for specific purposes such as capital expenditure and staff development. Universities also receive income for research from HEFCE research grants and Research Councils grants; this arrangement is known as the 'dual support' system. The HEFCE publication *Guide to funding How HEFCE allocated its funds* (referred to from here on as *HEFCE 2010/24*)[7] explains in detail how higher education institutions are allocated funding.

Since 1998 HEIs have had their teaching grant supplemented by funding from tuition fees. Provisions in the *Teaching and Higher Education Act 1998* introduced an annual upfront tuition fee of £1,000 and subsequently the *Higher Education Act 2004* allowed HEIs to charge variable deferred fees of up to £3,000.[8] Universities charging the higher rate of fees must have access agreements in place which have been approved by the Office of Fair Access (OFFA).

Universities also have other private sources of income such as income from research contracts and endowments. Information on the Higher Education Statistics Agency (HESA) website[9] gives a breakdown of sources of income and expenditure for higher education institutions in 2007/08 and 2008/9:

Sources of income for UK HEIs 2007/08 and 2008/09 (£thousands)

	2007/08	2008/09	% change
Funding body grants	8486066	8819359	3.9%
Tuition fees and education contracts	6267029	7282639	16.2%
Research grants and contracts	3713077	4144582	11.6%
Other income	4440978	4769744	7.4%
Endowment and investment income	521780	356942	-31.6%
Total Income*	23428930	25373267	8.3%

Source: HESA HE Finance Plus 2008/09

* Includes income from joint ventures. Total income may not equal sum of rows - see note 3

Expenditure by type for UK HEIs 2007/08 and 2008/09 (£thousands)

	2007/08	2008/09	% change
Staff costs	13130490	14164715	7.9%
Other operating expenses	8268654	9097354	10.0%
Depreciation	1191349	1299748	9.1%
Interest and other finance costs	286947	382619	33.3%
Total Expenditure	22877440	24944436	9.0%

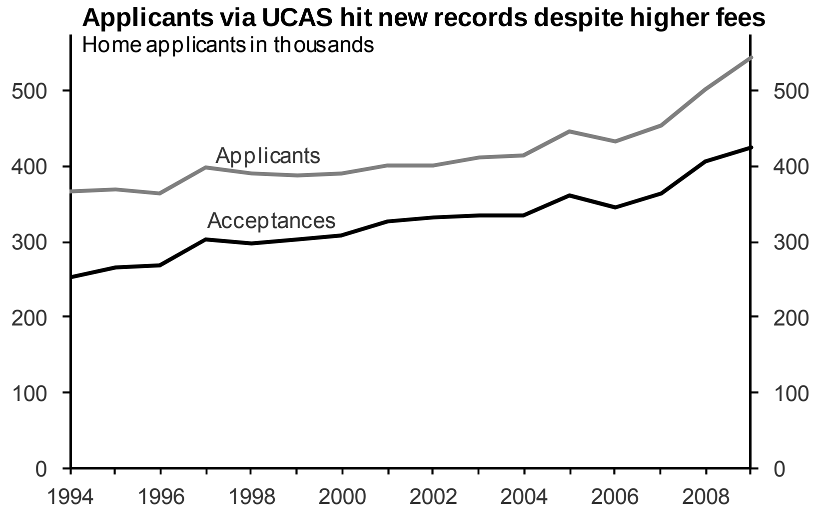
Source: HESA HE Finance Plus 2008/09

7 HEFCE 2010/24 *Guide to funding How HEFCE allocates its funds* at http://www.hefce.ac.uk/pubs/hefce/2010/10_24/.
8 Fees rise annually by an inflationary amount and are currently £3,290
9 Higher Education Statistics Agency (HESA) Press Release 145 Income of Higher Education Institutions http://www.hesa.ac.uk/index.php/content/view/1675/161/.

Further information on HE funding in available in library standard note SN/SG/5440 Higher education finance statistics 4 June 2010.

1.3 The HE funding problem

The public cost of higher education is high and is likely to increase as demand for university places continues to rise. Statistics from UCAS have shown a pattern of sustained growth in application rates for full time undergraduate courses since 2006/07 (with a steep rise in 2009/10). These figures suggest that increasing tuition fees has either not deterred students, or that any deterrent effect might have been offset by increased grants and bursaries for poorer students.



The £600 million budget cuts announced in March 2010 means that universities are currently facing their first period of reduced funding since 1997.[10] Many universities are therefore finding themselves subject to numerous pressures, simultaneously experiencing an increased demand, a cap on places and reduced funding. Also the international market for students has become more globally competitive with countries such as Australia attracting an increasing percentage of the overseas student market and more European universities offering courses taught in English. These factors coming together at a time of reduced private income from contracts and endowment funds due to the current economic climate, means that many universities could be facing severely constrained funding for the next few years, increasing the pressure on universities to raise fees.

2 Details of higher education funding

2.1 HEFCE funding

Recurrent funding – the 'block grant'

Funding for HE is allocated by the Government annually and announced in a Grant Letter from the Secretary of State for Business, Innovation and Skills to the chairman of HEFCE, this funding allocation is agreed by Parliament. HEFCE is responsible for distributing this money within broad policy guidelines provided by the Secretary of State.

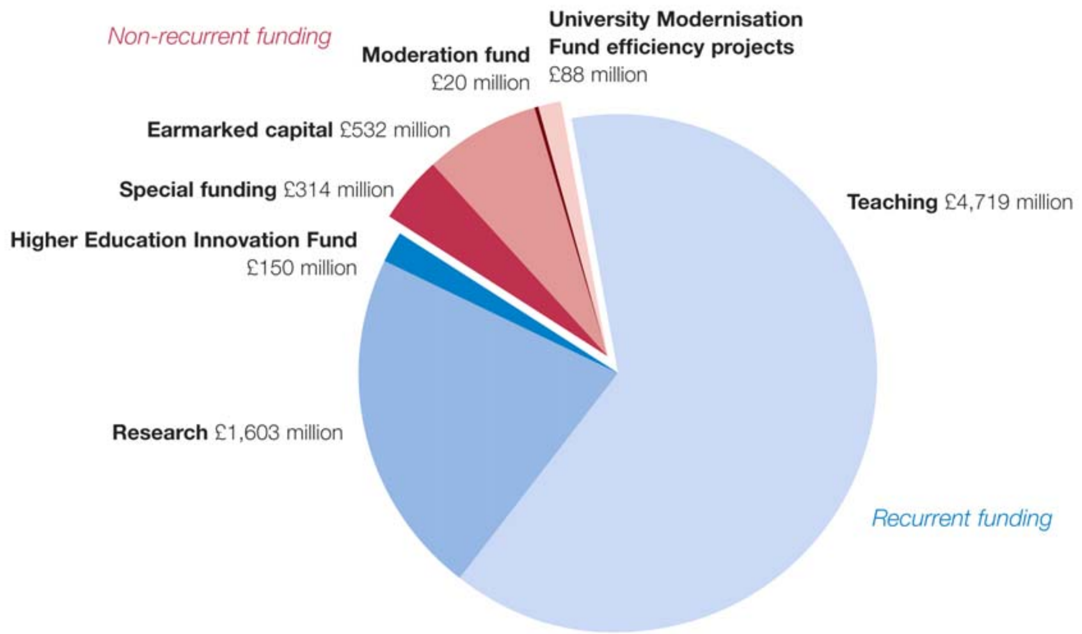
[10] "Universities facing first budget cuts in years" *BBC News* 18 March 2010 http://news.bbc.co.uk/1/hi/education/8573432.stm.

HEFCE 2010/24 states that HEFCE allocates funds to each HEI to support its teaching and research and to further particular national aims, to:

- increase opportunities for students from all types of backgrounds to benefit from higher education
- maintain and enhance the quality of teaching and research
- encourage universities and colleges to work with business and the community
- support diversity
- encourage efficiency in the use of public funding
- provide predictability in funding from year to year so that institutions may budget and plan effectively.[11]

HEIs are independent autonomous bodies and as such they are free to use their block grant funding according to their own priorities, within HEFCE guidelines. The HEFCE grant for 2010-11 will be £7,426 million, this represents less than 40 per cent of the total income of English HEIs.[12] The diagram below, taken from *HEFCE 2010/24* shows the 2010-11 funding allocation divided into funding type:

Figure 1 HEFCE grant 2010-11: total £7,426 million



Calculating HEIs individual grant

Each December, universities and colleges provide HEFCE with a breakdown of their student numbers, together with information on research activities. This data is used to monitor the teaching grant for the current year and to calculate teaching and research grants for the following year. The overall grant to be allocated to all HEIs by HEFCE is confirmed each winter and guidance is given to HEIs on spending priorities.

[11] HEFCE 2010/24 page 4
[12] *Ibid* page 4-5

The method used by HEFCE to calculate the grants to individual institutions was introduced in 1998-99, it is based on two broad principles:

1. similar teaching activities should be funded at similar rates
2. institutions seeking to increase their student numbers should do so through allocations agreed by HEFCE of additional funded places.

In March HEFCE announces provisional distribution of grants to individual HEIs and final allocations are announced in July.

Individual allocations are calculated using a formula, a description of the process is given in *HEFCE 2010/24* pages 22-23:

> **Calculating the mainstream grant**
>
> Similar resources for similar activities: standard and assumed resource
>
> Having determined which students we are counting, and how we are counting them, we can then calculate what level of grant is appropriate for the institution. There are four key concepts that explain how we support the principle of similar resources for similar teaching activities:
>
> - **standard resource**: this can be thought of as a notional benchmark of what an institution's share of the resources available for the sector should be, based on the students that they have
> - **assumed resource**: this is what institutions actually receive through our mainstream teaching grant, plus our assumptions about their fee income (at sector average rates)
> - the **tolerance band**: a margin of plus or minus (±)5 per cent around standard resource, within which we want an institution's assumed resource to fall. If it does, we consider the level of funding we provide to be broadly right for the amount of teaching activity the institution provides
> - **migration**: the process by which institutions that are outside the tolerance band are expected to move into it over time. This can be achieved either by us adjusting the amount of funding we provide, or by the institution changing the numbers of students it recruits.
>
> **How do we calculate standard resource?**
>
> Standard resource for each institution is calculated in proportion to their weighted student numbers, expressed in FTE terms. We explained in paragraphs 68 to 70 which students we count and how we count them. We weight them according to:
>
> a. **Their subject**. Different subjects require different levels of resource: some subjects need laboratories and workshops while others are taught wholly in lecture theatres and seminar rooms. We have defined four broad groups of subjects (price groups) for funding, and have set relative cost weights for each based on expenditure and student FTE data in different academic groupings known as 'cost centres'.
>
> b. **London weighting**. This is provided to recognise the higher costs of operating in London. It varies depending on the institution's location: in general, HEIs in inner London receive a weighting of 8 per cent, those in outer London 5 per cent. However, variations to this may apply for individual institutions to reflect the mix of their activity

that takes place across the inner, outer or outside London regions. In each case, this percentage is applied to the FTEs weighted by price group.

c. **The partial completion weighting**. (Formerly the flexible study measure) This is calculated to reflect the activity of students who are reported as non-completions (see paragraph 69), but who nevertheless complete at least one-sixth of a full-time year of study. This weighting factor therefore varies by institution and is calculated using their most recent HESA or ILR data (for 2008-09).[13]

Additional funding – 'targeted allocations'

HEFCE provides HEIs with additional funding to the block grant to support important or vulnerable activities such as widening participation and provision of support for extra costs associated with part-time students and the provision of foundation degrees.

Widening participation funding is allocated to cover the extra costs associated with recruiting and retaining students from disadvantaged backgrounds or with disabilities.

HEFCE 2010/24 gives details of amounts of targeted funding in 2010-11 on page 34:

Targeted allocations

	Total 2010-11 allocation (£ million)	Qualifying institutions
Variable		
Widening participation	142	HEIs and FECs
Teaching enhancement and student success	266	HEIs and FECs
Foundation degrees	12	HEIs and FECs
Part-time undergraduates	71	HEIs and FECs
Accelerated and intensive provision	44	HEIs and FECs
Fixed		
Institution-specific costs	52	HEIs only
Non-exempt students aiming for ELQs in strategically important and vulnerable subjects	30	HEIs and FECs
Very high-cost and vulnerable science	25	HEIs only

Funding 2010/11

In the annual Grant Letter published in December 2009 Lord Mandelson said that after ten years of increasing funding there would be 'challenging' times ahead for universities and that universities would have to 'control costs':

> The economic situation is extremely challenging, and across the public sector we are all facing difficult choices. As those choices are made, I look to HEFCE to continue to do all it can to maximise the economic, social and cultural impacts of higher education, for both the short and longer term. The "Economic Challenge Investment Fund"

[13] HEFCE 2010/24 page 23

demonstrated the ability of universities to respond speedily and effectively to meet important needs. In the period ahead, greater efficiency, improved collaboration and bearing down on costs will need to be combined with a commitment to protect quality and access. We will also need to focus on the long-term strategic goals set out in *Higher Ambitions: The future of universities in a knowledge economy*

[..]

Looking beyond 2010/11, it is clear that together we face a more challenging public spending climate. The strong increases in higher education funding over the past ten years have enabled universities to maintain, renew, and enhance their facilities; remove the pay gap that had opened between academic salaries and comparator professions; and invest in developing their capacity to attract funding from non-public sources. The challenge and opportunity now is for each higher education institution to focus on developing the areas where it can achieve excellence, to control costs, and to build new partnerships for the future.

The Grant Letter detailed funding cuts of nearly £600 million:

HEFCE Grant settlement

Financial Year: all figures are £million in cash terms except employer co-funded provision and growth in core funded students which are in thousands.

		2009-10	2010-11
a	Recurrent Grant for Teaching	5076	5027
b	Recurrent Resources for Research	1509	1618
	Total (a + b)	**6585**	**6645**
c	Total Capital Grants	938	404
	o/w Teaching and other capital	*572*	*237*
	o/w Research	*366*	*167*
d	Science and Research Funding	315	271
	o/w HEIF	*99*	*113*
	o/w RCIF and SRIF Transitional	*216*	*158*
e	Non-cash budgets	−29	−29
Total (a+b+c+d+e)		**7809**	**7291**

In March 2010 HEFCE announced the grant allocations for individual institutions in a publication *Recurrent grants for 2010-11*.[14] A HEFCE news release summarised the overall allocations:

> Although the total grant of £7,356 million for 2010-11 is a reduction in cash terms of £573 million compared to the budget for 2009-10 of £7,929, this is largely due to the bringing forward of £250 million of capital funding from 2010-11 into 2008-09 and 2009-10. Adjusting for this capital shift, the underlying reduction in grant from 2009-10 to 2010-11 is £123 million (1.6 per cent in cash terms).
>
> When compared with the 2009-10 academic year, the 2010-11 allocation represents:
>
> - a 0.9 per cent cash increase for recurrent grants (teaching, research and the Higher Education Innovation Fund)
> - a 0.4 per cent increase in recurrent teaching funding and a 2 per cent recurrent funding increase for research
> - a 14.9 per cent reduction in cash terms in capital funding after adjusting for the £250 million of capital funding that was brought forward from 2010-11 into 2008-09 and 2009-10
> - a 7 per cent reduction in cash terms in special funding[15]

Many universities will experience reduced funding in 2010/11 with the biggest reductions being at specialist institutions such as the Courtauld Institute of Art. Other HEIs such as the University of Reading and the London School of Economics also received reductions in funding of 7.7 and 6.3 percent respectively. However not all of the 130 higher education institutions in England have had their allocations reduced, 62 HEIs will see their grants increase in cash terms in 2010/11.[16]

The biggest reduction in funding comes in the cuts to funding for capital projects and historic buildings.

A revised Grant Letter in issued by the Coalition Government in July 2010 announced a further cut in teaching allocation of £50 million. The letter also announced funding for an extra 10,000 student places, however HEIs will continue to be fined £3,700 for every student that they recruit over their allocated quota.[17]

2.2 Tuition fees

Since September 2006 HEIs with approved access agreements have been able to charge undergraduate home and EU students variable deferred tuition fees of £3,000, fees increase annually in line with inflation so fees for 2010/11 are £3,290. Section 26 of the *Higher Education Act 2004* placed a cap on fees so that fees could not be raised before 1January 2010 and that increasing fees would require the approval of both House of Parliament. Library standard note SN/SP/4917 *Review of higher education tuition fees* discusses the cap on tuition fees.

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[14] HEFCE March 2010/08 *Recurrent grants for 2010-11* at http://www.hefce.ac.uk/pubs/hefce/2010/10_08/.

[15] HEFCE News *HEFCE announces funding of £7.3bn for universities and colleges in England* 18 March 2010 at http://www.hefce.ac.uk/news/hefce/2010/grant1011/announce.htm.

[16] "Teaching and research escape 9% grant cut" *Times Higher Education* 18 March 2010 at http://www.timeshighereducation.co.uk/story.asp?storycode=410879.

[17] HEFCE News *HEFCE publishes revised recurrent grant and student number allocation for 2010-11* 22 July 2010at http://www.hefce.ac.uk/news/hefce/2010/grant1011/briefing.htm.

Part - time students, post graduate students and overseas students pay unregulated fees; universities have discretion in the charging of these students and amounts charged in fees can be considerable higher than the regulated fees paid by UK/EU undergraduate students. HEIs in 2008/09 received around 27 per cent of their income from tuition fees.[18]

2.3 Endowment funding

One of the major funding differences between UK and US universities is the size of their endowment funds. US institutions have historically high levels of endowment funding and only the universities of Oxford and Cambridge come anywhere close to their levels of funding. In July 2008 Oxford University had endowment funds of £680 million and Cambridge had funds of £907 million compared to Harvard University's fund of $36.9 billion (£20 billion).[19] On average only one per cent of HEI's incomes come from endowment funds.[20]

In 2003 the *Future of Higher Education* white paper recommended that universities should build up their level of endowment funds and become less reliant on public funding. In the white paper the Government said that they would:

> Help universities build up endowment funds by promoting individual and corporate giving and creating a fund to give universities the incentive to raise their own endowment finance.[21]

To assist universities with building up their level of endowment funds the Government set up a task force to promote corporate and individual giving; and created a matched fund for endowments. The matched fund for voluntary giving was launched by HEFCE in August 2008, the scheme is to run for three years, the Government has committed £200 million to the scheme.

Information on the size of university endowment funds was given in answer to a parliamentary question on 5 November 2008:[22]

Higher Education: Gifts and Endowments

> Mr. Boswell: To ask the Secretary of State for Innovation, Universities and Skills what information he holds on the *(a)* value and *(b)* change in value of university endowments in each of the last five years, broken down by *(a)* donations, *(b)* surplus transfers, *(c)* match funding, *(d)* realised asset sales and *(e)* unrealised capital gains. [232614]
>
> Mr. Lammy: It is not possible to answer this question precisely from the data which are currently collected centrally. The following table sets out the information we hold on the overall income English higher education institutions have generated in each of the last five years from endowments. In August, we launched a £200 million matched funding scheme over three years to promote more philanthropic donations to higher education.
>
> We shall be working closely with institutions and discussing what data should be captured in future to enable us to quantify progress being made in diversifying the range of funding streams available to higher education providers.

[18] UUK *Higher education in facts and figures* Summer 2010 page 16
[1919] http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aT6_VuqjKtd0.
[20] UUK *Higher education in facts and figures* Summer 2010 page 16
[21] *Future of higher education* page 9
[22] HC Deb 5 November 2008 c567

Total level of income from endowments for English Higher Education Institutions	
	£ million
2002-03	192
2003-04	197
2004-05	254
2005-06	289
2007-08	326

Universities' income from endowments and investments fell by 32 per cent in the 2009-10 financial year, down from £521.8 million to £356.9 million[23]

2.4 Income from research contracts and other services

The annual Higher Education Business and Community Interaction (HE-BCI) Survey, measures a range of activities at HEIs such as the commercialisation of new knowledge, the delivery of professional training and consultancy services and activities intended to have direct social benefits. The 2008-09 HE – BCI Survey[24] showed that in that period universities received £2.96 billion for research contracts and training services:

> Data collected for academic year 2008-09 show an increase in the overall exchange of knowledge between UK HEIs and the public, private and third sectors despite the change and uncertainly in the economy recently. The growth rate – in cash terms – for the UK is around 5.5 per cent, from £2,812 million in 2007-08, to £2,966 million in 2008-09.
>
> Collaborative research income has risen by 5 per cent from around £700 million to £732 million. Contract research income has also risen by 12 per cent from £835 million to £937 million. This increase is common across partners although the majority of this rise is from non-commercial partners.
>
> In 2008-09 consultancy income fell by around 1 per cent to £332 million from £335 million in 2007-08. However, in this case, commercial activity has reduced slightly with non-commercial clients' spending almost making up for it – a trend that may reverse as the economy recovers.
>
> Income from use of facilities and equipment (for example particle accelerators or digital media suites) rose by around 7 per cent overall to £110 million; in this category, only income from small and medium-sized enterprises (SMEs) fell – by around 1 per cent, although the number of interactions increased.
>
> Income from continuing professional development and Continuing Education (CE) activity rose by around 4 per cent from £537 million in 2007-08 to £559 million in 2008-09 although, again, the increase was mainly from non-commercial and other partners. The SME and other commercial business groups spent around 9 per cent and 14 per cent less respectively. However, income from individuals rose by around 15 per cent, perhaps reflecting increased (re)training opted for during difficult employment periods. The total learner days delivered to all clients rose by 21 per cent to nearly 4 million during 2008-09.

[23] "British endowment slump outstrips US losses" *Times Higher Education* 13 April 2010 at http://www.timeshighereducation.co.uk/story.asp?storycode=411214.

[24] HEFCE 2010/14

Income from regeneration programmes has fallen from around £238 million in 2007-08 to £172 million in 2008-09. This fall is mostly accounted for by UK HEIs being awarded less from the European Community Structural Funds programmes (the European Social Fund and European Regional Development Fund) following the inclusion of accession states in the EU. UK central government funding for regeneration actually increased slightly, although Regional Development Agency funding – a larger proportion of the total – dropped.

Exploitation of intellectual property (IP) continues an upward trend in terms of both income and numbers of interactions:

- Disclosures, patent applications and new patents granted have all increased, leading to a modest 2 per cent increase in the cumulative patent portfolio of the UK HE sector. Total licence numbers, both software and non-software, have increased considerably; in fact it is likely that the change in reporting practice (via HESA) has provided more complete data in this area. SMEs, commercial business and non-commercial clients all increased the number of licences taken to use IP generated in UK HEIs.

- Income from IP (excluding sale of shares in spin-offs) has also increased – by 24 per cent – from £45 million in 2007-08 to £56 million in 2008-09.

- Spending on the protection of IP also rose by over 30 per cent from £21 million to £28 million.

- Particularly impressive is income from the sale of shares in spin-off companies, moving from £66 million in 2007-08 to £124 million in 2008-09, an increase of 188 per cent. Much of this increase is due to one HEI's sale of a long-established company, but this should not detract from the point that HEI spin-off companies can have a significant impact on the economy; indeed, income from sale of equity is likely to fluctuate, given that this area of activity may be characterised by long timescales and small numbers of large sales.[25]

3 Student Support

Under the system established by the *Higher Education Act 2004* students entering higher education in 2006 and later years are liable to pay deferred variable tuition fees. UK and EU students may take out tuition fee loans to cover the cost of the fees so no payment is necessary upfront. Loans are repayable by UK graduates through the PAYE system when they are earning over £15,000, repayments are made at 9 percent of gross annual income above the threshold.

Students are also eligible to take out maintenance loans to cover their living costs; loans vary depending on where the student is living and loans of up to £6,928 are available for students living in London. Maintenance loans are 75 per cent means tested.

Interest is payable on student loans, however the Government subsides loans and the interest rate payable is kept in line with inflation, so in effect loans have a zero real interest rate.

Information on the value of student loans is available in library standard note SN/SG/1079 Student Loan statistics 27 July 2010.

Additional funding is available for low income students in the form of grants and bursaries. Students may be eligible for grants of up to £2,906 if their household income is less than £50,020 per year. HEIs charging the higher rate of fees must also provide bursaries for low income students; bursaries vary at each HEI, the minimum amount payable is £329 but some

[25] *Ibid*

institutions provide up to £1,000 for eligible students. Students facing particular financial costs such as disabled students and student with dependents may be able to access extra help.

A publication by Student Finance England *A guide to financial support for higher education students 2010/11 – new full time students* provides further information on student support.

Information on the cost of student support in England was given in answer to a PQ on 5 February 2010:[26]

> Mr. Sanders: To ask the Minister of State, Department for Business, Innovation and Skills how many students in higher education have received payments in respect of (a) tuition fee loans, (b) maintenance loans, (c) grants for living costs, (d) bursaries and scholarships and (e) extra help for students with children or adult dependants from his Department in (i) Torbay constituency, (ii) the South West and (iii) England in each of the last three years; and what the total monetary value was of each such type of payment in each area in each such year.
>
> Mr. Lammy: The information is as follows:

Student support-England						
	Academic year					
	2006/07		*2007/08*		*2008/09*	
	Students (thousand)	*Value (£ million)*	*Students (thousand)*	*Value (£ million)*	*Students (thousand)*	*Value (£ million)*
Tuition Fee Loans	397.3	807.7	553.5	1,388.6	696.9	1,981.1
Maintenance Loans	728.1	2,613.4	746.2	2,630.7	771.5	2,717.0
HE Maintenance Grant	166.2	334.3	301.4	629.6	466.1	998.6
HE Grant	154.7	136.9	93.8	83.6	29.6	26.3
Extra help for students with children or adult dependents(1)	28.1	78.6	31.8	90.5	36.2	106.7
(1) Childcare Grant, Parental Learning Allowance and Adult Dependants Grant *Source:* Student Loans Company						

> The information requested on bursaries and scholarships is not available centrally as they are the responsibility of higher education institutions

It can be seem from the above table that the total amount paid out in 2008/09 in loans, grants and extra support was £4.8 billion.

4 The Independent Review of Higher Education Funding and Student Finance (Browne Review)

During the Commons stages of the *Higher Education Act 2004* the Government gave an undertaking to review the effects of variable tuition fees three years after they had come into

[26] HC Deb 5 February 2010 c597

operation. To fulfill this commitment the Government established The Independent Review of Higher Education Funding and Student Finance in November 2009. The Review is a cross party body and is being chaired by Lord Browne of Madingely. The terms of reference of the Review state that in compiling its report the body will be expected to take into account:

> **The goal of widening participation** to encompass all who can benefit; the avoidance of the creation of barriers to wider access; the impact of the system of bursary payments; promoting fair access to all institutions; facilitating choice and a diversity of access routes to higher education, including through links with further education colleges; and the scope for a greater diversity of models of learning, such as modular and part-time study and the availability of student support for such courses.
>
> **Affordability** for students and their families during their studies and afterwards; impact on public finances and value for money for the taxpayer;
>
> **The desirability of simplification of the system of support**[27].

The Review's website is available at: http://hereview.independent.gov.uk/hereview/

Library Standard Note SN/SP/5196, *Higher Education (HE) Review* (last updated October 2009) gives background to the Review and includes coverage of various reports from key organisations such as the CBI, Universities UK, select committee reports, and bodies such as the IPPR and the Higher Education Policy Institute.

Numerous HE bodies have submitted evidence to the Review and the body is due to publish its report in October 2010.

The Secretary of State for Education Vince Cable said in an article in the Telegraph on the 18 September "*Universities will get less and graduates will pay more*" that the Government is not obliged to accept the Review's conclusions

> While the Business Secretary has said that the Government is not obliged to accept Lord Browne's conclusions, he now makes clear that any deviation from the basic Cable plan will not be acceptable. It is "quite possible" that he might reject the Browne proposals.
>
> "We're not bound to accept the findings. That's clear. It's an independent report, and it was commissioned under the last government, not this one. He's a distinguished guy, and they've done a lot of work, and we'll obviously treat their findings with respect. But we're not bound by them.

5 HE funding options

5.1 Raising fees

When the *Higher Education Bill* was passing through Parliament it was envisaged that allowing universities to charge variable fees of up to £3,000 would create a market in fees. This did not occur as nearly all universities chose to charge the maximum amount. Some commentators said that £3,000 was too low to create a market in fees and that a higher rate would have been a more compatible figure. A poll conducted by the *Times Higher Education* in 2009[28] indicated that most university vice chancellors wanted the cap on fees lifted and a figure of £4,000 - £7,000 was suggested as an appropriate level for fees. Raising fees to

27 http://hereview.independent.gov.uk/hereview/press-release-9-november-2009/

28 "Review 'will keep hike in fees off the agenda until after the general election" *THE* 12 November 2009 http://www.timeshighereducation.co.uk/story.asp?storycode=409063.

these amounts would have a significant impact on public spending if subsidised loans for fees were to continue. Increasing fees to higher levels could therefore necessitate making changes to the student loan system.

An article in the *Times Higher Education* on 20 May[29] suggests that all HE mission groups wanted graduates to contribute more towards the cost of their education. It also stated that all of the groups contended that there was a case for a 'real' rate of interest on student loans or a higher repayment rate. However the groups were divided on the issue of the tuition fee cap. The table below sets out the positions of different mission groups on fees:

Group/University:	**Position**
Russell Group:	Fee cap should be removed incrementally
University of Cambridge	Fee cap should be increased or removed
1994 Group:	Fee cap should be raised in stages
University Alliance	Universities to decide graduate contributions for different courses, with a ceiling set by government
Universities UK:	Graduate contribution should increase over time up to a maximum level
GuildHE:	Against an entirely uncapped system for fees, but in favour of higher fees
Million+:	Bursaries removed and replaced with lower fees
University and College Union	Abolish tuition fees and charge a business education tax.

Whether the fee cap is raised or removed getting the right level for fees is essential. Universities UK have published a series of reports on the impact of variable fees in England, their most recent report from October 2009[30] concluded:

> Overall there is nothing in the available data that indicates that the introduction of variable fees in England has yet had any lasting impact on the level or pattern of demand for full-time undergraduate education.[31]

However a recent study by the Sutton Trust has suggested that raising fees to £7,000 would create a sharp drop in the number of students wanting to go to university.

> The Sutton Trust education charity has published research showing 80% of 2,700 youngsters asked in England and Wales expect to apply to university.

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[29] "Mission groups call for higher fees" *Times Higher Education* 20 May 2010 at http://www.timeshighereducation.co.uk/story.asp?storycode=411671.

[30] UUK *Variable tuition fees in England: assessing their impact on students and higher education institutions* A fourth report October 2009 at http://www.universitiesuk.ac.uk/Publications/Documents/VariableTuitionFees_FourthReport.pdf

[31] Ibid page 4

> But it warns a steep rise in fees could mean two-thirds changing their minds.
>
> […]
>
> The survey from the Sutton Trust suggests the demand for places is going to intensify even more.
>
> But it includes a strong warning that such ambitions could be punctured by much higher tuition fees.
>
> It identifies the crunch point for fees as being £7,000.
>
> If fees rise to £5,000 per year, the survey suggests a limited deterrent.
>
> But if fees were to be lifted to £7,000 per year, only 45% would want to apply.
>
> And if fees reached £10,000, the number of young people wanting to apply falls to 26%.
>
> The survey also found a low level of awareness among teenagers of the financial support that might be available for students.
>
> Trust chairman Sir Peter Lampl said it was important that young people from poorer backgrounds should not miss out because of a pressure on university places and increased fees.
>
> "The findings are also a warning that significantly higher fees may affect university participation.[32]

It has been suggested that the Review could recommend fees of up to £10,000.[33]

5.2 Graduate tax

Another possible funding option is a graduate tax, this idea is described briefly in a BBC News article:

> Under what has been described as a "pure graduate tax", a graduate would pay a percentage of his or her income, after graduating, which would go to the Treasury and then be allocated back to the university sector in some way - but not necessarily to the institution at which the student studied.[34]

A graduate tax has some supporters among academics. In July 2008 Baroness Blackstone (now Vice-Chancellor of Greenwich University) advocated a graduate tax; she argued that it should apply retrospectively to past graduates, as well as future students. An article in the *Times Higher Education* 3 July 2008, *Tax all graduates, says Blackstone,* details her position.

Also the provost of University College London, Malcolm Grant, has advocated a move to a graduate tax system to replace the current annual fee and loans system in an article in the *Guardian* on 9 September 2009, *Scrap fees and bring in university tax*

This option was considered by the Department for Education and Skills (DfES) during the passage of the *Higher Education Act 2004*. The DfES published a document at the time

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[32] *BBC News* "£7,000 is crunch point for university fees" 23 June 2010 at http://www.bbc.co.uk/news/10355042.
[33] "Top graduates 'should pay most' *Daily Telegraph* 7 October 2010
[34] BBC News *Q & A University funding* 6 October 2010 at http://www.bbc.co.uk/news/education-11483638.

called "*Why not a pure graduate tax*" which explained why the Government had chosen not to adopt this method of funding. The document outlined the pros and cons of a graduate tax:

Advantages of a graduate tax

• A graduate tax operates on the principle that the fairest way of raising additional income for higher education is from the beneficiaries of the system. High earning graduates subsidise lower earning graduates, so the higher the financial returns to your degree the more you pay. Under this specific model, all graduates pay at the same rate whatever degree they study.

• The repayment arrangements for a graduate tax mean that the student doesn't pay anything while they are studying. They pay after they have graduated when receiving the financial benefits of their qualifications. The repayments are made through the tax system and are linked to ability to pay.

• The graduate tax may not be perceived as debt in the same way as a student loan particularly if a student is worried that he or she may be a low earner after graduation.

Disadvantages of a graduate tax

• A disadvantage of a graduate tax is that there is no guarantee universities would receive the additional funding raised. The Government would therefore have to develop a credible and transparent mechanism by which extra revenue would be dedicated to Higher Education.

• Even if hypothecation were accepted in general terms for universities, it would be very difficult, but not impossible, to relate additional funding from the graduate income tax to specific courses at specific universities.

• There would be no direct relationship between what the student paid and the price, economic value, characteristics and quality of their course. It would therefore be more difficult for students to exert pressure on the value for money offered by HEIs by the choices they made at the time of their application to university.

• There could be no mechanism for paying early and so the financial benefits to Government of students opting to pay early are foregone.

• The graduate tax would not allow differentiation between a student from a lower income background and one from a high income background.

• For a significant minority, the amount they re-pay will be substantially greater than the full cost of their course.

• For the specific illustration of a graduate tax assumed for this note there are the following financial implications:

• for graduates with average real terms earnings in excess of £27,000 per year over the 25 years of the tax, the total amount re-paid under this illustration of a graduate tax model is over £15,000. Since that is the average level of debt that we expect under our Graduate Contribution Scheme, graduates earning above £27,000 will be paying more under the graduate tax;

• at the other end of the earnings scale, graduates earning less than £15,000 would still have to pay tax, but would have to make no payments at all under the Graduate Contribution Scheme, unless the threshold were raised with associated increases in length of payment or tax rate.

• But as noted above, these assumptions are dependent on the specific variation of a graduate tax that is chosen.

• There are also a number of policy and practical difficulties that would need to be overcome. These include how we define the 25 year cut off (elapsed time versus years in work) and the interface with the FE sector and unregulated courses.

The main disadvantage in this system as far as HEIs is concerned is that without hypothecation it cannot be guaranteed that the HEIs will receive the money from the tax. Not many university groups are in favour of this option and the Russell Group has spoken out against it.

This option could also be seen as unfair to graduates who take low paid jobs. This point is argued by the vice chancellor of Kingston University Sir Peter Scott in an article in The Guardian on 20 July 2010 "*A graduate tax is illogical – why not a tax on A – levels?*".

On 15 July 2010, the Secretary of State for Education Vince Cable made a speech on higher education in which he referred to a graduate tax:

> In reality of course most students meet these costs by taking a student loan, payable direct from income after graduation when earning a reasonable salary. In this sense, we already have a form of graduate tax. The problem is that it is a fixed sum – a poll tax – regardless of the income of the graduate. It surely can't be right that a teacher or care worker or research scientist is expected to pay the same graduate contribution as a top commercial lawyer or surgeon or City analyst whose graduate premium is so much bigger.
>
> The current system has the further disadvantage that it reinforces the idea that students carry an additional fixed burden of debt into their working lives. Yet, most of us don't think of our future tax obligations as 'debt'.
>
> I am interested in looking at the feasibility of changing the system of financing student tuition so that the repayment mechanism is variable graduate contributions tied to earnings. I have spoken to Lord Browne about this and he has assured me that he is looking at this issue as part of his review.
>
> By looking at the periods of time over which contributions are made, the level of thresholds that trigger the contribution, the rate at which contributions are paid, and the other key variables, it may be possible to levy graduate contributions so that low graduate earners pay no more (or less) and high earners pay more.

The Institute of Fiscal Studies published a statement *Graduate tax: remedy, reform or rebrand?* in response to Mr Cable's speech. The statement provides a critique of the graduate tax option:

> Introducing an alternative system of funding may be politically expedient, but it raises additional issues. Tuition fees provide a transparent source of income which follows the individual, giving universities an incentive to attract and retain students. Under a graduate tax, it is not clear how allocations to individual institutions would be determined, and whether this incentive would remain. There would also be no obvious, transparent way of allowing contributions to vary according to the university attended or course studied. Furthermore, fees enable students to make judgements about the effectiveness or value for money that universities offer; under a graduate tax, this not possible.

Finally, the tax would replace fee loans only - maintenance loans would continue to be repaid under the current arrangements. While this seems more sensible than using a graduate tax as the only method of repayment, operating two separate repayment systems in parallel would increase the complexity of a funding regime that is already poorly understood.

A graduate tax is the latest in a series of options under consideration by the Browne Review as it explores ways to reform university funding. Alternative possible measures include increasing tuition fees, introducing a real interest rate on student loans or tweaking some other aspects of the current funding system. An IFS Commentary, Future arrangements for funding higher education, published earlier this year, has considered such options in detail, examining their likely effects on graduates and the public finances.[35]

An article in *The Independent* on 15 July 2010, *Vince Cable announces 'graduate tax' plan* gives some of the main HE representative organisations' views on a graduate tax.

An article in the *Times Higher Education* on 23 September 2010 "Graduate tax ruled out as 'unworkable' states that Mr Cable has rejected the idea of a pure graduate tax.[36]

5.3 Graduate contribution scheme

In more recent speeches such as one given at the Liberal Democrat Conference, Mr Cable has advocated at graduate contribution scheme:

Paying for universities

But what do we do when there is less government money?

I realise that there are people in the hall who believe that education at all levels must be free and the taxpayer should pay up, regardless of the bill. In reality the only way to maintain high quality higher education with less government money is for the graduate beneficiaries to make a bigger contribution from the extra earnings they enjoy later in life.

I am doing everything I can to ensure that graduate contributions are linked to earnings. Why should low paid graduates - nurses, youth workers or science researchers - pay the same as corporate lawyers and investment bankers? We have to balance higher contributions with basic fairness.[37]

The DfES publication "Why not a pure graduate tax?" compared a graduate tax and a graduate contribution scheme:

Comparison with the Graduate Contribution Scheme

The Similarities…

• The Graduate Contribution System has some of the positive features of the graduate tax:

• students only pay once they have graduated and are earning;

[35] '*Graduate tax: remedy, reform or rebrand?',* (July 2010) Institute for Fiscal Studies, http://www.ifs.org.uk/publications/5204

[36] "Graduate tax ruled out as 'unworkable' *Times Higher Education* 23 September 2010 http://www.timeshighereducation.co.uk/story.asp?storycode=413594.

[37] The Guardian Liberal Democrat conference: Vince Cable speech in full 22 September 2010 at http://www.guardian.co.uk/politics/2010/sep/22/vince-cable-full-speech.

• repayments are made through the tax system;

• they would be linked to earnings;

• no real rate of interest would be charged for the deferral of payment;

• if you don't work, you don't pay.

The Differences…

• There are also some differences:

• money from a graduate tax would go straight to the exchequer – so a mechanism for hypothecating the revenue would have to be developed. Money from the Graduate Contribution Scheme would go direct to universities and gives them an independent source of income free of Government;

• with a graduate tax, repayments are not directly related to the costs incurred while studying. Under variable fees graduates would only pay back what they themselves had spent – it would be an "individualised graduate loan" based on their choices about what they studied and where;

• under the specific graduate tax model the Government would not recover the money for at least 20 years. Graduates would pay for 25 years. Under the Graduate Contribution Scheme the graduate's average payment period would be around13 years.

The graduate contribution scheme seems currently to be the most popular funding option among commentators. University Alliance have published a document advocating this option called *Proposal for a Graduate Contribution Scheme in England*.

Mr Cable has said that he prefers a progressive contribution system, where higher earners pay back more than low earners:

> But on one issue in particular, Mr Cable is not prepared to budge. While he favours higher education being paid for by a graduate contribution, he has previously declined to pre-empt Lord Browne's report on university funding, to be delivered next month. Now, disposing of that fig leaf, he says the Browne report will be ditched if it does not conform to his plans.
>
> Mr Cable maintains that "if you're an investment banker or doctor you pay more for your education than a youth worker or nurse" and that "contributions" will go back to universities. Some graduates, he confirms, will have to repay more than the cost of their education.
>
> "That is implied in the progressive contribution idea that people pay more than it costs. It's possible that high earners would pay back for somewhat longer, but we're not talking about people paying for a lifetime. It will be limited." Will leading universities be able to charge a rumoured £7,000 a year for their courses? "I don't know how different universities would deal with it. That's getting into the granular stuff.
>
> "But as a principle, universities will get less money from government for tuition, and graduates will pay more."
>
> [....]
>
> We're talking about a graduate contribution, paid for after graduation, which will reflect people's earnings. That's a basic principle." And it will stand irrespective of Lord

Browne's judgment? "Yes. We're not obliged to accept his results. We're hoping we converge, but we can't guarantee that."

5.4 NUS model

In July 2009 the NUS published *Funding our Future: Blueprint,* detailing their proposals for reforming the HE funding system, which revolved around the introduction of a variable rate tax to replace tuition fees. The money collected would be paid into a 'People's Trust'; revenue would be built up over time and would "eventually deliver considerable additional resources to universities in the future".[38] Below is an extract from a FAQs document that accompanies the *Blueprint* which explains the system*:*

> Former students would make contributions to the Trust for a fixed period of twenty years. Instead of paying fees fixed when they start their courses, they would pay back linked to the benefit they obtain from higher education over a longer period, but this would not be a simple 'graduate tax'.
>
> Full-time and part-time fees would be abolished; no upfront payment at all, for either full-time or part-time students.
>
> The actual proportion of earnings sought in contributions would be variable and progressive; rates of contribution would range from 0.3% for those with very low earnings, to 2% for average earners and 2.5% for very high earners.
>
> Payments would be spread over a longer period and would therefore be more affordable; for example, a person earning £30,000 would be £37 better off each month than under the current system and a lower threshold would be put in place to ensure no contribution is sought from very low earners. Additionally the payment time limit of twenty years would ensure people do not contribute for their whole working lives.
>
> Far more flexibility and support for lifelong learning through the use of academic credit-related structures, and a major boost of employer funding and support. People would be asked to make a contribution related to how much studying they have done. This will allow people to be able to go in and out education over time, meaning they can break up studying as appropriate for their own personal circumstances.
>
> There would be a voluntary scheme for employer contributions. This would operate in parallel with the main personal contribution system, supported through the tax system, additionally employers would be able to help their employees to study by paying for some of their credits up front, or by 'paying off' credits they have already taken.
>
> More funding for the higher education sector would be available, bringing long-term security and sustainability. After twenty years of operation, we estimate the total revenues from personal contributions would be £6.4bn each year, after thirty years it would be £7.9bn each year, and after forty years it would be £8.5bn each year. This is almost double the current amount that top-up fees raise.[39]

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[38] NUS (July 2009) *Blueprint: Funding our Future*, p 2, http://www.nus.org.uk/PageFiles/5816/Blueprint%20Full%20Report.doc

[39] NUS Blueprint FAQs: general at http://www.nus.org.uk/Campaigns/Funding-Our-Future-/Funding-Blueprint-launch-/

6 Debate

The debate on the funding of HE could be said to boil down to the question of who should pay for higher education. Despite the increasing numbers of students participating in higher education it has been estimated that a graduate still earns around £100,000 more over a life time than an individual who has not attended university.[40] Many commentators therefore feel that it is fair that graduates should pay an increased contribution towards their education. .

6.1 Political parties

Coalition Government

Mr Willetts expressed his views on higher education in a speech at the Universities UK Annual Conference in September 2010:

> Once again, I'm not going to pre-empt Browne. You all know that he is looking at a range of possibilities in terms of graduate contributions. But I do believe that it is better for the younger generation to have the chance of going to university and then pay for out of the higher earnings they achieve later on – rather than experiencing poorer-quality HE or being deprived of the opportunity altogether. This has to make sense for young people.
>
> What would not make sense would be to fail to increase the contribution from graduates, with the result that then we jeopardised the student experience or ended up having to make big cuts in student numbers. That would be to let our young people down.

Labour

In July 2009 the then Secretary of State for Business Innovation and Skills Lord Mandelson gave a speech[41] in which he said 'higher education is not cheap' and that the country 'had to face up to the challenge of paying for excellence'. Labour policy on higher education is set out on the Labour Party website.

In June 2010 Ed Miliband said in article in the *Guardian* that he was impressed with the case for a graduate tax:

> In my view, we must seek to avoid a market in higher education, where some universities charge more than others. This is an important matter of principle. The supremacy of the market has extended too far into areas that should not be defined by commodity and exchange. It is also a practical question. As fees rise further, less well-off as well as part-time students will be even less likely to apply to more expensive universities and so damage their opportunities.
>
> I have therefore come to the conclusion that we need a new settlement to secure our higher education sector without placing an ever higher, ever more unfair and ever more unsustainable burden through tuition fees on students and their families when they can least afford it. Like many others who believe in progressive politics, I have been impressed by the case made by those who argue for a graduate tax to secure university funding. Studies have shown that such a levy, which would abolish fees but ask graduates to pay between 0.25% and 2% of their income over a 20-year period, could raise substantially more for universities than the current system.

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[40] BIS David Willetts speech at Universities UK Annual Conference 9 September 2010 at http://www.bis.gov.uk/news/speeches/david-willetts-uuk-conference.

[41] "Mandelson hints tuition fees could rise" *Guardian* 27 July 2009 http://www.guardian.co.uk/education/2009/jul/27/mandelson-hints-tuition-fees-could-rise.

> Such a tax would allow us to avoid the debilitating cuts the coalition intends – starting with the 10,000 places it has already cut this year. It would prevent the burden being put unfairly on students and their families, and link to their ability to pay. And it could also serve to make our leading universities independent of the vagaries of government spending decisions, similar to the way the TV licence fee gives the BBC a greater degree of autonomy. In coming weeks I therefore intend to consult with those most affected by such a change, with students and their families, with vice-chancellors and the universities themselves, and the public.
>
> Based on their views I will in coming months produce a plan for replacing tuition fees with a new graduate tax to fund our universities, which I hope will be considered by parliament and by the public alongside Lord Browne's proposals for any change in tuition fees later this year.
>
> Difficult cuts are needed in public spending, but those who believe in the future of our economy and the future of our young people have a responsibility to come together and press for a fair and sustainable future for our universities. That is the Labour party I want to lead, offering real alternatives, and bringing together the forces of progressive politics.[42]

An article in the *Times Higher Education* on 30 September 2010 *"Clock ticking on Miliband the younger's graduate tax plans"*, discussed Mr Miliband's position on fees.

Liberal Democrats

The Liberal Democrats are against university tuition fees:

> Liberal Democrats are the only party which believes university education should be free and everyone who has the ability should be able to go to university and not be put off by the cost.[43]

Further detail is given in a booklet called *Liberal Democrat Pocket Guide to Policy*:

> **Scrap unfair University Tuition Fees** – To get a degree, young people are saddled with thousands of pounds of debt when it is already tough enough to get a job, get on the housing ladder and make ends meet. Liberal Democrats are the only party which believes university education should be free and admissions based on ability not bank balance. We will scrap unfair tuition fees for all students, full or part-time, taking their first degrees, saving them nearly £10,000 each. We have a financially responsible plan to phase fees out over six years, so that the change is affordable in these difficult economic times

HE mission groups

An article in the *Guardian* on 20 July 2010 "Good university funding guide" outlines the options for reform and gives the views of the different mission groups.

Views of the individual groups; the Russell Group,[44] 1994 Group[45], University Alliance[46], million +[47] and GuildHE[48] can be found in their submissions to the Browne Review which are available on their websites.

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[42] "Why I'd bin tuition fees" *The Guardian* 25 June 2010 at http://www.guardian.co.uk/commentisfree/2010/jun/25/tuition-fees-lib-dem-betrayal.

[43] Liberal Democrat website at http://www.libdems.org.uk/education.aspx.

[44] Russell Group at http://www.russellgroup.ac.uk/.

[45] 1994 Group at http://www.1994group.ac.uk/.

[46] University Alliance at http://www.university-alliance.ac.uk/.

Universities and Colleges Union (UCU)

The UCU opposes the charging of tuition fees and has suggested that employers should pay more towards higher education:

> University and College Union has consistently opposed the payment of tuition fees. Rather than charge students for their education, UCU would charge large employers who benefit from the plentiful supply of graduates through a new Business Education Tax (BET). This innovative, practical and radical approach produces more money for higher education than the current tuition fee scheme, and costs less to administer.
>
> UCU believes that while employers benefit enormously from the plentiful supply of graduates, they will not willingly contribute to the infrastructure that creates this supply. Further, with corporate taxation levels lower in the UK than in other comparable economies and a collection shortfall of £8 billion a year, we believe scope exists for a modest increase in their tax burden in order to directly support higher education.[49]

Other bodies

The Policy Exchange published a report which advocated higher fees

> There is no doubt that universities face a difficult and uncertain financial future.We are concerned that continued underinvestment could lead to a serious deterioration of quality in the sector. It is crucial that the Government does not see fees as a replacement for state funding and an excuse to continue to cut a sector that is of real importance to our economy and society.However, it is right that those who benefit from higher education – graduates – should have to contribute to its costs.We are convinced that fees will need to rise in the future if we are to protect and improve the student experience, and retain Britain's position as a global leader in higher education.
>
> We urge the Government to make its first move on fees a bold one. It is clear that if the cap is set at £5,000 or lower, once again the majority of institutions will charge the maximum fee and no market will be activated.We would argue that creating a real market in higher education is vital if we are to have a fair system in which institutions who serve students well are rewarded. [50]

The Association of Graduate Recruiters[51] in their manifesto has called for the cap on fees to be removed. The CBI published a report[52] in September 2009 which advocated the removal of the interest rate subsidy on student loans:

> To provide the support required to maintain the quality of teaching and research in HE, tough choices are required. Savings to make this possible can be made by providing tuition fee loans at the government's cost of capital and removing the interest rate subsidy on all loans; and by refocusing student support through maintenance grants, with support concentrated on those most in need. Because public sector finances are constrained, student contributions will have to increase.[53]

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[47] million + at http://www.millionplus.ac.uk/.
[48] GuildHE at http://www.guildhe.ac.uk/.
[49] UCU Policy Briefing *Tuition fees in higher education* May 2010 at http://www.ucu.org.uk/index.cfm?articleid=4626.
[50] *More Fees? The future of university fees for undergraduate students* Policy Exchange 2010 page 7 http://www.policyexchange.org.uk/images/publications/pdfs/PX_More_Fees_Please_WEB.pdf.
[51] AGR A manifesto for graduate recruitment *Talent Opportunity Prosperity* 9 March 2010
[52] CBI *Stronger together Businesses and universities in turbulent times* 16 October 2009 at http://highereducation.cbi.org.uk/uploaded/CBI_HE_taskforce_report.pdf.
[53] Ibid page 7

7 Other possible changes affecting the HE sector

7.1 Private universities

David Willetts the Minister for Universities has expressed the Coalition Government's views on the future structure of the higher education sector stating that he would like to see more private provision, increased use of distance learning and the separation of teaching and learning with more students taking more external degrees.[54]

On July 26 2010 BPP University College of Professional Studies was granted university college status making it the first private provider to gain university status in thirty years.[55] The announcement of its newly awarded status caused some HE bodies such as million +[56] to voice concerns about this issue.

> However, some private institutions are unhappy that Mr Willetts has not been more explicit since taking office about plans for opening up the sector.
>
> Aldwyn Cooper, principal of Regent's College in London, said: "One should not directly compare stump speeches before an election with the realities of office.
>
> "However, institutions in the private sector would now like some clear and consistent guidance on the role that David Willetts believes that we should play."
>
> Meanwhile, other groups said questions would be raised about the government's motives if it decided to open up the sector to private takeovers.
>
> Pam Tatlow, chief executive of Million+, which represents new universities, said: "I don't know why that would be preferable to mergers or other forms of collaboration.
>
> "I think questions would be asked about what the government's intentions were. Would the motive be to preserve an institution or give a private company a massive windfall?"[57]

On March 2010 Universities UK (UUK) published a research paper called *The growth of private and for - profit providers in the UK*. The report sets out the current position with regard to private HE providers and outlines some possible future scenarios in respect of private sector provision in the UK. The report draws the following conclusions:

> Common to all our options is a belief that the number of such providers will grow and that their operations will increase in scale. For some publicly-funded universities this will present a competitive challenge, although it can be argued that in relation to international students the ability of private providers to deliver degree provision at low cost will make the UK a more favourable destination for some.
>
> The main challenge will come when more of these providers acquire degree awarding powers, as some are sure to do. The acquisition of the only private for-profit provider with degree awarding powers by the Apollo Group has sent a signal to its large American counterparts that the UK market is worth watching. Given this scenario, it is all the more important that UK policymakers and regulators are alert to events and

[54] BIS Speeches David Willetts 'University challenge' 10 June 2010 at http://www.bis.gov.uk/news/speeches/david-willetts-oxford-brookes-university-challenge.

[55] "BPP wins university college status as David Willetts acts on pledge to boost private providers" *Times Higher Education* 26 July 2010 at http://www.timeshighereducation.co.uk/story.asp?storycode=412737.

[56] million + "million + warns against expansion of private universities" 26 July 2010 at http://www.millionplus.ac.uk/press/million-warns-against-expansion-of-private-universities.

[57] "Willetts signals boost for external providers" *Times Higher Education* 24-30 June 2010

recognise the need to review their regulatory policies and quality assurance mechanisms.[58]

It is possible that the Browne Review will look into the role of private providers in the HE sector. Increasing the use of private providers is controversial and could have an impact on HE funding particularly if students at private universities were given access to student support.

7.2 Closure of universities

It has been suggested that the Browne Review might recommend making changes that could make it easier to deal with troubled institutions.[59]

Mr Cable also referred to this issue in his interview in the *Daily Telegraph* on 18 September 2010:

> Might the Government close or merge badly performing universities? "We hope not, but we don't rule it out. We accept there has to be much better financial discipline and service to the customers, or students. Several universities have been badly run and got into difficulties, and we envisage that [closure or merger] might happen.
>
> "We don't directly control universities, but we can create a framework in which universities that don't deliver will be subject to financial discipline. They will be operating in a market." [60]

8 Possible timetable for HE reforms

Mr Willetts has said the Coalition Government hope to publish an HE white paper and introduce a Higher Education Bill in the Autumn 2011:

> These big questions will require thorough debate and consultation, with detailed government proposals to which experts from the sector can react – as it has done via the Browne process. We intend therefore to publish an HE White Paper, leading – we hope – to a Higher Education Bill in Autumn 2011. Subject to parliamentary time, we will legislate to allow the implementation of reforms from the start of the academic year 2012/13. Implementation of reforms should start in the 2012/13 academic year. So be assured that we will not drive through hastily-conceived policies or tear down effective existing structures where they work well.[61]

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[58] UUK *The growth of private and for - profit providers in the UK* March 2010 page 53
[59] "Universities fail to disclose final salary scheme liabilities" *Financial Times* 7 October 2010
[60] "Universities will get less and graduates will pay more" *Daily Telegraph* 18 September 2010
[61] BIS David Willetts speech at Universities UK Conference