Higher education in England

Impact of the 2012 reforms

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Introduction

1. Higher education in England is undergoing a period of fundamental change. In 2012, a significant shift in the way universities and colleges are funded took place. From this academic year, students starting university are meeting much of the cost of their education themselves, with access to publicly funded loans, and universities can charge up to £9,000 a year for their courses. Changes to the rules on how many students a university can recruit are designed to meet the Government's aims of increased dynamism and student choice.

2. This report by the Higher Education Funding Council for England (HEFCE) looks at the impact of the reforms on students and higher education institutions. Have higher fees discouraged students from going to university? What choices are students making? How are universities and colleges affected? Is the system more dynamic?

3. It will, of course, be some time before we have full answers to these questions. At this early stage, it is impossible to separate short-term volatility from longer-term trends. That said, a number of important issues are already emerging which require immediate attention.

4. Higher education provision for part-time learners is one such issue. There has been a dramatic decline in the numbers of entrants to part-time courses over the past couple of years. We need to understand why, and to support action where necessary.

5. HEFCE will also be monitoring take-up of postgraduate courses. We want to find out as soon as possible whether the 2012-13 undergraduate intake – the first cohort of students to pay higher fees – is likely to be put off postgraduate study because of their undergraduate debt. We will also be looking carefully at the impact of the changes on students from disadvantaged backgrounds and other groups.

6. There is greater focus on HEFCE-funded higher education institutions and further education colleges in the report simply because we have more information and data in this area. In future we will broaden our knowledge and experience of other higher education providers in England.

7. Higher education is one of the nation's most valuable assets. It enriches and inspires. It transforms people's lives. It brings huge economic, social and cultural benefits. Many of our universities and colleges are world-class, and the research, science and innovation they generate are central to the Government's growth strategy. We suggest that if the sector is to maintain and increase its competitive edge, it will be important to keep the balance of public and private investment under constant review.

8. The funding reforms are a means to an end. Ultimately, they must be judged on the quality of learning and teaching and of the student experience; the capacity to undertake speculative, ground-breaking research; and the ability to build on an enviable record of knowledge exchange, tackling societal problems and promoting economic growth.

9. HEFCE, working closely with others, will continue to monitor the issues in this report, leading the oversight of higher education in England, and promoting the public and the collective student interest. This is the first of an annual series of reports which we hope will stimulate thought, discussion and positive action to further enhance higher education in England.

Key findings

Section 1: Demand for higher education in England

Full-time undergraduate applications are up in 2013-14 after a fall in enrolments in 2012-13.

In 2012-13, there was a significant drop in the number of people starting full-time undergraduate courses – 47,000 fewer students compared with 2011-12. However, UK and European Union (EU) applications have risen in 2013-14, with 13,000 additional applicants to English institutions at the January UCAS deadline. There are indications that fee changes are not the only cause of shifts in applications and enrolments.

Recruitment to full-time postgraduate provision has held up in 2012-13.

This follows a trend of rising demand for postgraduate study over the past decade. The first students to have paid higher undergraduate fees will not generally enter postgraduate study until 2015, so we do not yet know what impact the reforms will have in this area and therefore we cannot assume that this steady position will continue in future.

There has been a significant decline in part-time entrants at both undergraduate and postgraduate levels.

Since 2010-11, part-time undergraduate entrants have fallen by 105,000 (40 per cent), while on postgraduate programmes the fall was 25,000 (27 per cent).

Study in England continues to be a popular choice for students from the other UK countries.

There are different tuition fee and student support arrangements in the four countries of the UK. This could affect students' choices. However, recruitment from other parts of the UK and other countries in the EU accounts for only 7.5 per cent of all UCAS applicants accepted at English institutions, so fluctuations in cross-border flows are unlikely to have a significant impact in England.

Numbers of international students applying to UK universities and colleges are continuing to grow in 2013-14.

The latest UCAS figures, which include around half of the international students applying to study in England, show a 9 per cent increase in the numbers of applicants from outside the EU to English universities and colleges in 2013-14 compared to the previous year. This continues a growing trend in applications and enrolments. However, increased competition from universities in other countries and changes to immigration policies may ultimately have a much greater impact on international recruitment than the student finance reforms.

Section 2: Impacts on different groups of students

While current evidence suggests that the reforms have not made young people from disadvantaged areas less likely to study full-time, there continue to be significant gaps in participation between different groups of students.

According to UCAS data, 18-year-olds from the most advantaged areas are still three times more likely to apply to higher education than those from the most disadvantaged areas, and entry rates to institutions that require high grades are typically six to nine times greater for applicants from advantaged areas. The impacts of the reforms on widening participation may only emerge in the medium to long term, and this issue needs to be closely monitored.

Decreases in the part-time student population, which includes larger numbers of non-traditional students, are likely to have implications for equality and diversity.

We will examine this closely when we receive more complete data on the part-time student population later in 2013. There may be a need to develop innovative models of flexible and more affordable learning.

Mature students have been affected much more than younger people.

While acceptances of applicants aged 18 and younger from the UK fell by 1.7 per cent between 2011-12 and 2012-13, for those aged 20 and over there was a drop of 7.1 per cent.

There continues to be a significant gap between the sexes, with 18-year-old females a third more likely to apply to higher education than males.

The differences are largest in the most disadvantaged areas of England, where 18-year-old females are 50 per cent more likely to apply than males.

Section 3: Impact on the higher education sector

Shifts in entries to particular groups of subjects mainly follow longer-term trends.

Clinical subjects and science, technology, engineering and mathematics (STEM) have generally fared better than the arts, humanities and social sciences. Modern foreign languages saw the greatest proportional drop in entrants in 2012-13, of 14 per cent. There are, however, variations within these broad subject categories. Applications for 2013-14 suggest some continuing trends, with take-up of languages decreasing still further.

There appears to be no particular approach adopted by universities and colleges that has led to some doing better or worse than others.

However, it is likely that institutions' responses to the changes in their own particular circumstances – for example, in their educational programmes, approaches to marketing, and offer and admissions strategies – have contributed to different recruitment outcomes. Further education colleges appear to be offering more of their own places than places franchised from higher education institutions.

Since 2006, there has been a 70 per cent increase (from 64 to 109) in the number of alternative providers whose students are accessing student support.

However, financial support for students studying with alternative providers still only makes up less than 1 per cent of the overall student support budget.

Section 4: Funding and financial sustainability

Lower than anticipated recruitment in 2012-13 will ease pressure on the Government's student support budget.

This could change in future years, depending on how many students are recruited, how many take up loans, and whether institutions increase their fees – for example, we are already seeing average fee levels and numbers of applications rise for 2013-14.

There is no immediate risk to the overall financial health of higher education institutions in England.

However, the funding reforms, coupled with recruitment shortfalls in 2012-13, have meant there is wide variation in the financial performance and health of different institutions. The increased volatility of income and greater uncertainty over student demand in future may present medium-term challenges to universities and colleges, including their ability to invest adequately in buildings and equipment.

Context

10. To assess the impact of the reforms we need to understand the wider context for institutions and students. Higher education is shaped by a number of factors, although their range and complexity mean that it is difficult to ascribe an effect or trend to a particular cause. These factors include the following.

Secondary and further education

11. Changes relating to GCSEs and A-levels, vocational qualifications, and school and college accountability arrangements may affect how many students go on to higher education and the courses they will be qualified to take. There may also be effects on progression from Level 3 to Level 4 study stemming from the replacement of the Education Maintenance Allowance with the 16-19 Bursary Fund, and changes to the provision of careers advice and guidance in schools and colleges.

The labour market

12. The availability of jobs and other educational opportunities for young people is likely to affect take-up of higher education courses. A challenging employment market may encourage young people to consider higher education as a short-term alternative to competing for limited job opportunities, and as a way of enhancing their employment prospects. How people assess the value of a university degree – for example, whether they believe it will eventually enable them to increase their earnings to offset the higher fees they will be paying – may also influence their choices about their education. In the medium term, the fees and finance changes might encourage the growth of alternatives to higher education, and new ways of learning. The number of students whose employers make contributions to their tuition fees has been decreasing since the early 2000s, and higher fees could magnify this trend.

The wider population

13. The number of 18- to 20-year-olds is set to fall by more than 14 per cent between 2010 and 2020[1]. Other factors will also affect participation in higher education. Immigration levels will have an impact. The proportion of births in higher socio-economic groups, which have the highest rates of participation relative to the whole population, has continued to rise in recent years, and if this continues, enrolments in higher education may remain more buoyant than the overall population figures would suggest. Similarly, if efforts to widen participation among under-represented groups continue to make progress, and male participation rates increase, there will be proportionally more people from these groups going to university or college.

International trends

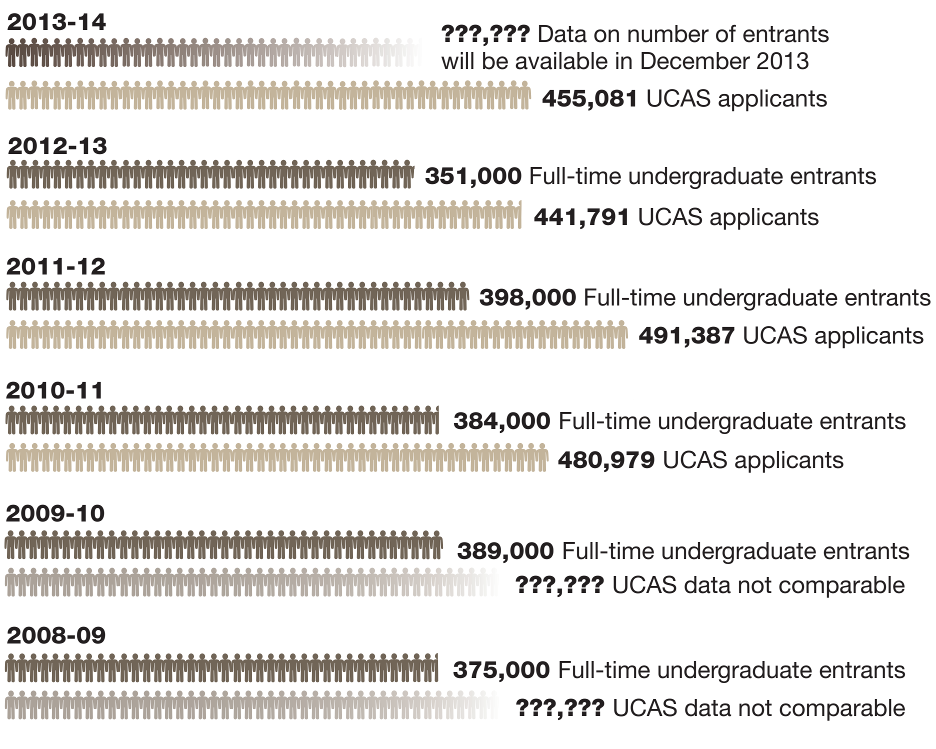
14. The reforms have not blunted the international ambitions of universities – if anything, their determination to face the challenges of international competition and seize the opportunities for international collaboration is greater than ever. The mobility of students[2] and academic staff, the continuing trend towards research partnerships and the interconnectedness of higher education institutions worldwide have been driving new initiatives in curriculum development, wider research horizons and the creation of overseas campuses. These trends are expected to continue.

Section 1: Demand for higher education in England

What has happened to full-time undergraduate recruitment?

15. In 2012-13, there were approximately 351,000 UK and EU full-time undergraduate entrants to universities and colleges in England: a decline of 12 per cent, or 47,000 students, compared with 2011-12. However, 2011-12 was not a typical year, as there were about 14,000 more undergraduate starters in that year than in 2010-11. Recruitment figures for 2010-11 provide a more valid comparison and show a much smaller decline of 9 per cent (33,000 students). This is illustrated in Figure 1.

Figure 1 **UK and EU applicants and entrants for full-time undergraduate courses in England**



Source: HESES/HEIFES surveys and UCAS applicant data. HESES/HEIFES figures are a headcount of full-time undergraduate entrants for academic years 2008-09 to 2012-13. It is important to note that as HESES/HEIFES data are collected part-way through the admission cycle, and include forecasts of any further recruitment which may take place after the census date in December 2012, we will not know the final picture on recruitment in 2012-13 until we receive the Higher Education Statistics Agency (HESA) and the Individualised Learner Record (ILR) data in December 2013. UCAS figures are numbers of applicants at the January deadline from 2010-11 to 2013-14 as data from earlier years are not comparable.

60%

more students chose not to take a gap year in 2011-12 compared with the previous year

Reasons for the decline

16. Much of the decline in 2012-13 entries is as the result of fewer students deferring entry in the 2011 UCAS application cycle[3]. The number of accepted candidates choosing to wait until the next academic year – in this case, 2012-13 – to start their course fell by nearly 60 per cent (around 14,000 students) in 2011-12.

17. A potential explanation for this is that students who could enter in 2011-12 chose to do so in order to avoid higher tuition fees in 2012. If the deferral rate returns to normal – and early indications from UCAS suggest that this will be the case – we would expect the number of entrants in 2013-14 to be closer to 2010-11 figures[4].

18. Other countries can provide a useful comparison. We know that despite very different fee levels, the other UK countries have seen similar entry patterns in recent years. As in England, applications in Scotland grew strongly from 2002 onwards. However, the number of entrants levelled off in Scotland in 2011-12, suggesting that there might have been a levelling-off in England even if fees had not risen[5]. Broader demographic changes in the 18- to 20-year-old population are likely to have contributed to the levelling-off of entrants, since a significant decline of numbers in this age group is expected in both England and Scotland. A similar pattern of growth in applications across all of the UK countries except Wales in 2013, also suggests that the changes to tuition fees in England are not the only factor influencing choices about whether to apply.

19. Both 2011-12 and 2012-13 were unusual years for recruitment in England because of the effects of the rise in fees. Fluctuations in the numbers of entrants may, however, continue over the medium term for a range of reasons, including demographic changes and economic conditions. This makes it difficult to distinguish between transient and more permanent effects of the reforms, and therefore to determine exactly how demand for higher education has been affected by the new fee arrangements.

Applications to full-time higher education in 2013-14

20. Numbers of UK and EU students applying through UCAS to begin full-time courses in England in 2013-14 are up by 3.0 per cent (13,000 additional applicants) in comparison with the same point in 2012. This followed a dip in 2012-13 of 10.0 per cent, which is likely to be a temporary impact of the move to the new fee levels. This is also illustrated in Figure 1. The latest increase suggests that previous patterns of applications may be returning – the total number of applicants in 2013-

14 is 5.4 per cent less than in 2010-11, the year before the new fee regime was announced. However, at this early stage in the cycle, we should be cautious about drawing hasty conclusions.

Numbers of 18-year-old applicants to full-time undergraduate courses since 2010-11

Broadly stable

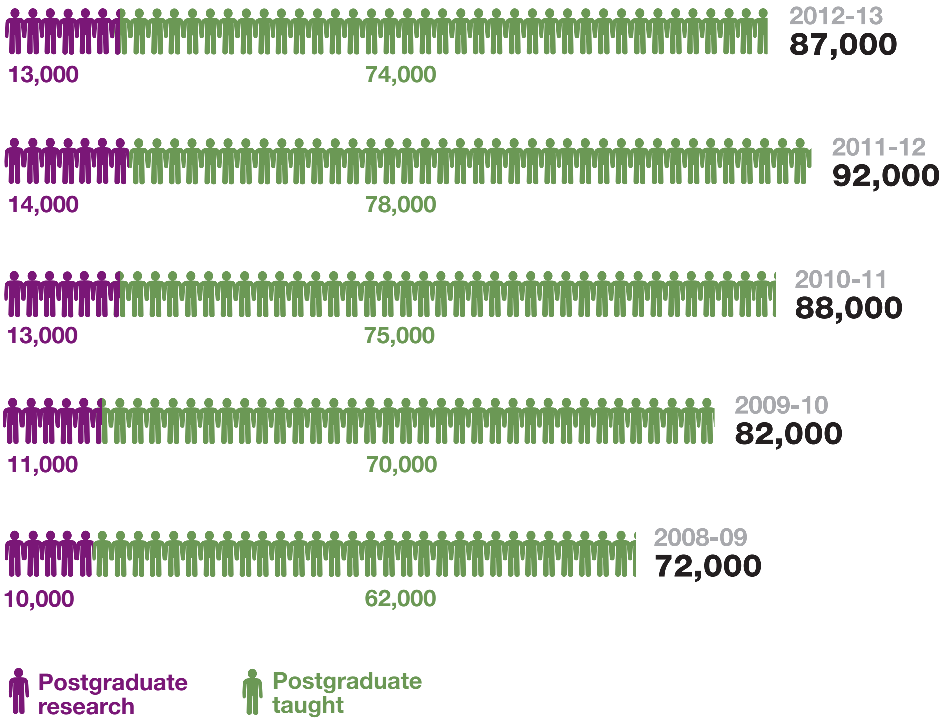
21. The number of 18-year-olds applying to go to university or college in the UK has remained broadly stable since 2010, despite a 7 to 8 per cent decline in the size of this age group. This suggests that school and college leavers still want to study at a higher level despite the increase in tuition fees. However, we cannot be sure at the moment what the longer-term impact will be and whether the increase in the number of students which we have seen since 2002 has reached its peak.

22. There has been a significant increase – of over 10 per cent – in the number of 19-year-old applicants to UK institutions between 2012-13 and 2013-14. However, it is likely that we are observing another transient effect of the introduction of the new fee regime: there were reduced numbers of 19-year-old applicants in 2012-13, as more had accepted places to enter in 2011-12 as 18-year-olds. A breakdown of the 19-year-old applicants by domicile and country of institution is not published by UCAS. It is also possible that students who chose not to apply in 2012-13 are now reconsidering, which may be as a result of a number of factors including the impact of a difficult economic climate and challenging job market.

23. The number of applicants is an indication of the level of active interest in studying a higher education course. While other factors, such as the availability of jobs for 18-year-olds, can affect the numbers choosing to study, it is a reasonable indication of whether increased fees have had a significant deterrent effect. It does not, however, show the numbers that are qualified and motivated enough to be eventually offered a place, accept it, and then enrol. The relationship between applications and enrolments varies from year to year, making it difficult to predict eventual enrolments. Furthermore, UCAS data do not include part-time and postgraduate applicants, and around 10 per cent of full-time undergraduates apply direct to universities and colleges. Around 40 per cent of applicants to further education colleges do not go through UCAS (the UCAS data received by the 15 January UCAS deadline typically include only about 85 per cent of applicants).

Are students undertaking postgraduate study?

Figure 2 **Full-time students entering postgraduate study**



Source: HESES/HEIFES surveys. Figures are a headcount of full-time postgraduate taught and postgraduate research entrants for academic years 2008-09 to 2012-13.

Numbers of students recruited to full-time postgraduate courses since 2010-11

Little change

Increase in numbers of full-time postgraduate students over the last decade

25%

24. Recruitment to full-time postgraduate courses at English institutions held up in 2012-13. There was just a 2 per cent decrease in UK and other EU entrants to taught postgraduate courses compared with 2010-11, and a 3 per cent increase in entrants to postgraduate research degrees as illustrated in Figure 2. This follows a period of growth in demand for postgraduate study – there were 25 per cent more students in 2010-11 compared with 2002-03, with postgraduate taught courses showing the biggest increase.

25. The picture is very different for part-time postgraduate courses. The number of UK and other EU students entering part-time postgraduate taught courses fell by 27 per cent – equivalent to 25,000 fewer students – between 2010-11 and 2012-13. The already much smaller number of entrants to part-time postgraduate research courses also fell during the same period by 7 per cent, to around 4,000.

What has caused changes in postgraduate recruitment?

26. The decline in entrants to taught postgraduate courses may be as a result of a reduction in the funding of, and demand for, vocational training programmes, as fewer employers support staff development and many people find it difficult to afford or take breaks for studies. A more challenging economic climate is also likely to have an impact on graduates' decisions whether to progress to postgraduate study. The changes in 2012-13 may also be a levelling-off following a period of significant growth over the last decade.

Implications for the future

27. A vibrant and diverse postgraduate taught, PhD and postdoctoral community is vital to the overall health of higher education in England and to our broader economy and society. However, the impact of the Government's reforms on take-up of postgraduate education will not be known until 2015 at the earliest, when the first students who have paid higher fees begin to apply. We should not, therefore, assume that the modest reductions in full-time entrants to taught postgraduate courses in 2012-13 indicate a steady position that will continue. It is possible that, from 2015, students with limited access to finance and concerns about adding to their undergraduate debts will be more reluctant to go on to postgraduate study.

28. A continuing issue is that students from areas where many people go to university or college as undergraduates are more likely than those from low-participation areas to go on to study taught masters, MPhil and PhD courses within one year of graduation. Students from less advantaged socio-economic groups tend to be more averse to debt and therefore may be deterred from progressing onto postgraduate study. This risks widening the gap between the groups of students that gain most benefit from postgraduate courses in future, and the increased wages these qualifications can bring[6].

29. Some institutions believe that it may be difficult to keep fee levels for postgraduate courses lower than those for undergraduate courses. However, a survey by Universities UK in summer 2012 showed that while the base level fee for taught postgraduate courses was rising faster than inflation, it was still not at the level of undergraduate fees, instead averaging around £6,500 for 2012-13. Fees for postgraduate research courses still appear to be based on the levels set by Research Councils UK, at around £3,800. Some institutions have argued that this is not sufficient to meet the costs of these higher-level programmes, and requires subsidies from other sources of income.

30. EU and international students make up around 40 per cent of all taught masters and postgraduate research students. Their numbers have

Average tuition fee for full-time postgraduates is lower than for undergraduates

£6,500 for taught masters

£3,800 for research degrees

Proportion of all students registered on postgraduate programmes at English institutions who are from outside UK

Around 40%

grown rapidly in the past 10 years: international student numbers have almost doubled since 2002, a reflection of the international reputation of higher education in England. However, a reliance on international students carries risks, as recruitment is subject to a number of factors beyond institutions' control, including the effects of visa restrictions. Increased international competition will present new challenges, although a growing world market in higher education also presents opportunities for institutions in England.

31. Some institutions are closing postgraduate courses that have problems with recruitment. Others are adopting more competitive marketing strategies and offering fee waivers or bursaries to encourage their undergraduates to move on to postgraduate study, and to recruit postgraduate students more generally. Institutions are also looking at more varied ways to fund postgraduate provision through industrial sponsorship and employer support.

HEFCE action

Postgraduate students

HEFCE is seeking early information about how students' views of postgraduate study might change in future. For example, as a pilot in 2013, a survey of students' intentions after graduation will be attached to the National Student Survey. This will enable us to compare the attitudes towards postgraduate study of those students entering undergraduate education prior to the 2012 reforms with those of students entering since the reforms.

In 2013-14 we are providing around £130 million for students undertaking postgraduate taught programmes, and £240 million for postgraduate research students through the research degree programme supervision fund.

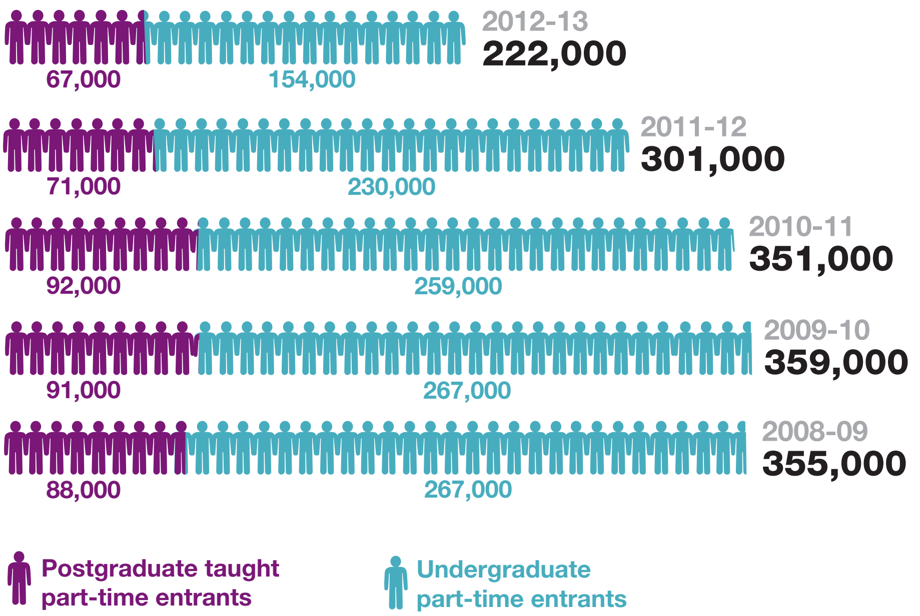
We are currently analysing progression rates to postgraduate study of students from different backgrounds and equality groups, and by different types of institution. We aim to publish this research alongside a comprehensive overview of the evidence later in 2013.

We will consider postgraduate issues in our national strategy for access and student success, for example working to identify further postgraduate widening participation indicators to inform future strategy and funding approaches.

We have commissioned a research project to investigate what information prospective taught postgraduate students might need to help them make decisions about studying.

Are people taking up part-time courses?

Figure 3 **People beginning a part-time higher education course in England**



Source: HESES/HEIFES surveys. Figures are a headcount of part-time entrants for academic years 2008-09 to 2012-13. Entrants to part-time postgraduate research courses are not included here but comprise around 4,000 students in each year.

32. Enrolment figures for part-time study show significant falls in entrants in 2011-12 and 2012-13 at undergraduate and postgraduate levels as illustrated in Figure 3. Numbers of part-time undergraduate entrants have fallen by 40 per cent since 2010 – equivalent to 105,000 fewer students. Part-time entrants to taught postgraduate courses fell by 27 per cent. A large proportion of part-time provision at undergraduate and postgraduate level is concentrated in a small number of institutions, which offer distinctive forms of part-time provision. While falls in recruitment at these universities account for a significant proportion of the overall decline, they do not explain the scale of reductions across the sector.

Numbers of students recruited to part-time courses since 2010-11

Fell by 40% for undergraduate courses

Fell by 27% for postgraduate courses

Potential influences on part-time take-up

33. Following the fee changes in 2012, part-time undergraduate students have access to fee loans of up to £6,750 per year. However, feedback from universities and colleges suggests that many students and employers may not fully understand the new system, or are concerned

Part-time undergraduates now have access to fee loans of up to

£6,750 per year

Undergraduate part-time learners in employment

Around 80%

about whether they will obtain sufficient value from the higher investment. There is emerging evidence from a number of sources, including HEFCE's interactions with institutions and research for the Higher Education Careers Service Unit[7], that part-time fees increased in 2012. Students who might have found the money to pay the previous lower levels of fees may simply be unwilling to pay higher fees, despite the fact that loans are offered on the same terms as for full-time students. In a survey of further education colleges by HEFCE between November 2012 and January 2013, 21 colleges reported a drop in demand for part-time courses because of a reluctance to take on student loans, particularly among mature students. It is also possible that students who are studying a qualification equivalent or lower than one they already hold, and are therefore not eligible to access tuition fee loans for part-time study, would find the increases in fees in 2012-13 a particular deterrent.

34. Some institutions have withdrawn courses which in the past attracted mainly part-time students. Early indications are that the recent trend for institutions to withdraw from short courses and continuing education may also have accelerated in 2012.

35. The general state of the economy and fluctuations of the labour market are likely to affect the take-up of part-time study. Part-time provision plays an important role in enabling people to develop their skills and abilities through studying for a higher level qualification, or through doing shorter courses, while in employment. It therefore is an important factor in enabling the adaptability of individuals in the labour market, and improving flexibility in the wider economy. However, at a time of economic challenge, there is the risk of lower investment in learning.

"The change in funding and the focus on loans has led the university to shift its offer from stand-alone modules to qualifications. A higher proportion of students than expected have opted for a named qualification rather than modules and more are studying at a higher intensity."

Large part-time provider

36. Around 80 per cent of undergraduate part-time learners are in employment[8]. Employer funding is important for this group, particularly for taught postgraduate qualifications and for other provision offered at further education colleges, such as foundation degrees. Employer contributions to these have remained static in recent years, but there are indications that the proportion of undergraduates whose tuition fees are paid by their employer has been decreasing since the early 2000s[9]. Increased fee levels and availability of loans may accelerate this trend.

37. Part-time students are more likely to be non-traditional learners and more likely to be mature. Therefore a reduction in part-time students may have a disproportionate effect on certain groups of students. This is discussed further in section 2.

Developments in part-time learning

38. More traditional part-time provision will have to continue to respond to new, innovative forms of higher education, such as the continuing development of online learning, which is already a key element in the delivery of many part-time courses. Lower-cost models of higher education and increasing flexibility in where and when learning happens may be attractive to both students and employers. They may also be attractive to students for whom more traditional part-time study is not an option. Any response to part-time decline will need to take account of the need to support a diverse range of students, including providing more responsive financial support, and to encourage beneficial innovation in course delivery.

HEFCE action

Part-time students

We need to develop a deeper understanding of the risks of large and swift declines in part-time numbers as well as the opportunities for broadening learning in flexible and innovative provision. Key actions include:

- Continued funding for part-time learning on the same basis as for full-time provision, including for high-cost subjects, widening participation and improving retention, and to support flexible learning including accelerated and intensive courses.
- Developing a more detailed evidence base on issues affecting part-time provision, including in particular the impact on mature students, and supporting the Universities UK review of how part-time provision can be better developed to meet the needs of students, the UK's future skills needs and enhancing social mobility in the UK.
- Joint work with the Office for Fair Access (OFFA) to develop a national strategy for promoting access and student success, including maintaining and if possible enhancing a focus on equality and diversity in higher education. This will include a focus on particular issues for part-time students.
- Continuing to allow part-time provision to operate outside student number controls, providing flexibility for universities and colleges to increase provision in this area.

Have there been changes in flows of students to institutions in England from the other UK countries?

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Flows of students between the UK nations

39. Lower fees for students living in Scotland and Northern Ireland who study in their country of domicile led to a sharp decline (19 per cent) in the number of students from Scotland entering institutions in England between 2010 and 2012, and a decline of 6 per cent from Northern Ireland. However, recruitment from other parts of the UK and other countries in the EU represents only 7.5 per cent of all UCAS applicants accepted at institutions in England, so fluctuations in cross-border flows are unlikely to have a significant impact. Figure 4 shows that England was a net exporter of students to Scotland and Wales, and a net importer of students from Northern Ireland.

40. The latest UCAS data for the 2013 application cycle show that overall growth in applications between 2012 and 2013 has been more significant for institutions in Northern Ireland (+6.9 per cent), Scotland (+7.1 per cent) and Wales (+7.3 per cent) than for institutions in England (+3.5 per cent).

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Increase in full-time international students since 2010-11

10% for undergraduates

13% for taught postgraduate masters

23% for research degrees

Number of international students at UK higher education institutions in 2011

302,680

increase in the numbers of international students applying to institutions in England between 2012 and 2013. This continues a growing trend in applications and enrolments, apart from a temporary dip in 2011.

43. Figure 5 shows the most significant changes in the number of international students from outside the EU entering higher education in England in 2011-12. This shows significant fluctuations in some of the major exporters of students to English higher education, including an 18 per cent increase in students from China since 2010-11 and a 29 per cent decrease in students from India. As the latest data we have available is for 2011, the year before the reforms were introduced, it will be important to keep a close eye to how the reforms may impact on the international reputation of our universities and colleges, and whether study in England continues to be an attractive option for students from across the world.

More than a third of all international students at English higher education institutions in 2011 were from **China and India**

44. Students from other EU countries (excluding the UK) are affected by the new fee arrangements. However, they represent only 4 to 5 per cent of new places accepted via UCAS, so small changes are unlikely to impact significantly on higher education in England. Numbers of these accepted applicants have remained relatively stable since 2004: a dip of 9 per cent in 2012 compared with 2010 (equivalent to 2,400 fewer students) has been followed by numbers of applicants picking up in 2013. However, the figures may hide important local effects, such as where a single university is highly dependent on recruitment from particular countries.

England is the **2nd most preferred destination** for all foreign students after the US

HEFCE action

International students

Maintaining the reputation of UK higher education, both at home and internationally, is critical to its future success. It is important to be aware of the way in which the reforms in England are presented internationally and the impact this may have on, for example, perceptions of quality, as this may in turn impact on whether students come to the UK.

Institutions wishing to recruit students from outside the EU must secure approval from the UK Border Agency, while overseas academic staff are subject to immigration controls. Both may lead to perceptions of the UK putting up barriers to its higher education system. For example, recent reports have suggested that Canada has increasingly become a preferred destination of choice for Indian students, due to the perception that it is cheaper to study there than in the UK and that the visa regime is more liberal for overseas students. These issues may have a much greater impact on international recruitment than the student finance reforms.

Despite these challenges, higher education in the UK continues to be a popular destination for international students, second only to the US.

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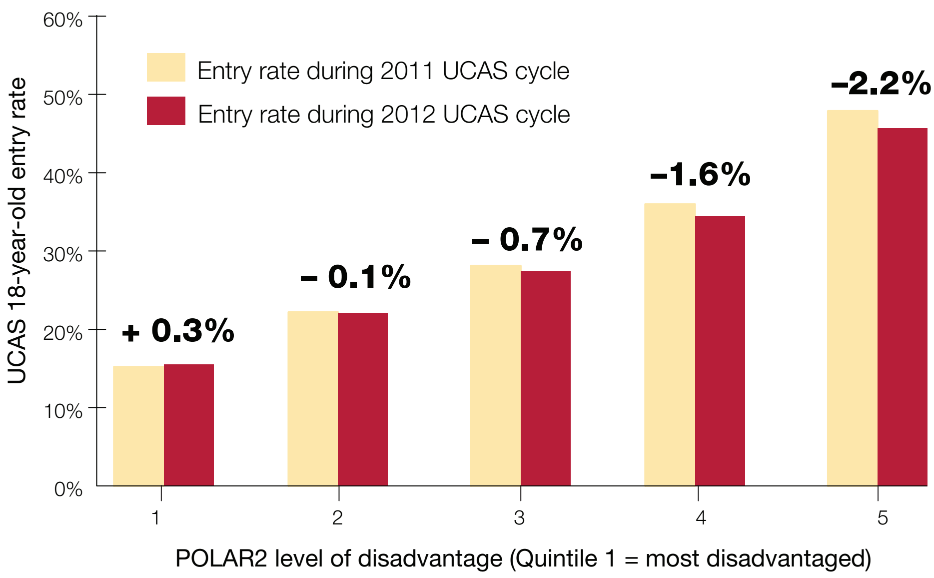
Section 2: Impacts on different groups of students

Are disadvantaged students being deterred from higher education?

Young entrants

45. Recent positive trends in widening participation for students from less advantaged groups appear to have held up in 2012. The UCAS end-of-cycle report for 2012 sets out changes in the entry rates of 18-year-olds from England to full-time undergraduate courses, and shows that those in the most disadvantaged areas (quintile 1) increased by 0.3 percentage points between 2011 and 2012, while the entry rate for those in the most advantaged areas (quintile 5) decreased by 2.2 percentage points as indicated at Figure 6.

Figure 6 **Entry rates of English 18-year-olds**[10]



Source: UCAS 2012 end-of-cycle report on English 18-year-old entry rates to UK institutions by POLAR2 quintile – a UK-wide classification of areas based on the rate of participation of young people in those areas[11].

46. It is possible, however, that factors associated with the shift to higher fees may be distorting how we see the impact of the reforms on different groups. For example, a large proportion of young people who defer entry are from more advantaged backgrounds. As there was a decrease in deferrals in 2011, this could mean that more 18-year-olds than usual from more advantaged backgrounds entered higher education

Young people from the **most advantaged** areas are

3 times more likely

to enter higher education than those from the **most disadvantaged** areas

in 2011-12 rather than 2012-13. This would lead to the appearance of a greater decline in 2012 entry rates from those from advantaged backgrounds compared with others.

47. We should also not allow these figures to mask the large gaps in entry rates between those from more and less advantaged areas. Young people from the most advantaged areas are still three times more likely to enter higher education than those from the least advantaged areas. The UCAS end-of-cycle report also highlights that students from different backgrounds tend to go to different types of universities and colleges. Those 18-year-olds living in advantaged areas are typically between six and nine times more likely to go to institutions that have higher entry requirements than those in disadvantaged areas.

Applications in 2013

Young people living in advantaged areas are

6 to 9 times more likely

to go to more selective institutions

48. In the UCAS figures from the January 2013 applications deadline, application rates from the most disadvantaged neighbourhoods have grown from 18.4 to 19.5 per cent – the highest level recorded – while in the most advantaged areas they have grown from 53.4 to 53.6 per cent. We can again see here the large gaps between application rates in different areas.

Mature and part-time students

49. The drop in undergraduate applications and acceptances from mature students is much greater than that for young students. While acceptances among UK applicants aged 18 and under fell by 1.7 per cent between 2011 and 2012, acceptances among those aged 20 and over fell by 7.1 per cent. This was despite increases in the total numbers of people in their twenties and thirties in the general population.

Fall in the number of mature students accepting a place on a full-time undergraduate course via UCAS in 2012

Around 7%

50. The January 2013 UCAS data provide the most recent indication of demand for undergraduate higher education from mature students. However, some caution is required as a lower proportion of total applicants in older age groups apply by the January deadline, making these figures a less complete measure than for younger applicants. In England, overall application rates from most people applying in their twenties have increased from 2012. Although slightly lower than 2010 and 2011, they are higher than all previous years. Among applicants aged over 30 there has been a further fall in application rates in 2013, and the greatest decline has been among applicants aged 40 or over.

51. The analysis above relates to full-time undergraduate applicants through UCAS. Part-time students are more likely to be non-traditional learners and are more likely to be mature. In 2010, 79 per cent of students enrolling on part-time undergraduate courses were over 25, compared

with 13 per cent for full-timers. Given the large declines in part-time study which have accelerated over the past two years, there are therefore likely to be issues in this area. In addition, one in four of these students studying at undergraduate level had no qualifications above GCSE or equivalent, or no qualifications at all. The latest data from HESA and the ILR also show that, in 2011, young students from the most disadvantaged backgrounds were twice as likely as the most advantaged young students to choose to study part-time rather than full-time. We also know that a higher proportion of part-time students are likely to have caring responsibilities – two-thirds of part-time students have family commitments. A reduction in part-time numbers will therefore have a disproportionate effect on certain groups of students, with non-traditional learners likely to be most affected.

52. Some universities and colleges have much larger numbers of part-time and mature students. They will be affected most by falling applications from these groups. We will have a more complete picture of part-time and mature entry when we receive more data later in 2013.

In the UK, **disadvantaged** young students are

twice as likely

to study part-time compared to the **most advantaged** young students

Proportion of part-time students with family commitments

Two-thirds

Progress in widening participation

53. Despite the large gaps in participation between different groups, progress in widening participation has been made over the past decade. According to UCAS, 18-year-olds from the most disadvantaged areas are 80 per cent more likely to apply to higher education in 2013 than they were in 2004. HEFCE's own analysis shows a rapid and significant increase in the participation rate of students from the lowest-participation areas, with the chances of such students entering higher education increasing by around 30 per cent since the mid-2000s. This improvement came at a time of large-scale investment in schools, colleges and universities, growth in the number of students in higher education, and significant widening participation activity. Despite the considerable progress which has been made, the gap in participation rates between the most and least disadvantaged remains very wide.

54. Analysis of the 2013-14 access agreements shows that institutions have estimated that a total of £610.7 million of fee income above the basic fee in 2013-14 will be spent on access measures. Of this, 71 per cent (£433.9 million) will be delivered direct to students in the form of bursaries, scholarships and fee waivers. This means that the amount delivered to activity to widen participation totals £176 million (£95.9 million to outreach activity and £81 million to retention and student success).

18-year-olds from the most disadvantaged areas are nearly

twice as likely

to apply to higher education in 2013 than ten years ago

HEFCE action

Widening participation

In addition to the funding that institutions themselves provide for access measures, HEFCE will continue to fund institutions for widening participation through its student opportunity allocation, which in 2013-14 will total £332 million. This funding will underpin all aspects of providers' work to deliver their widening participation aims and activities, enabling them to support activities across the student lifecycle, from raising attainment and aspirations in schools to helping students to reach their full potential. Most of the funding is associated with the additional costs of supporting students through to successful completion of their courses. The funding continues to be very important to protecting students' interests.

55. The Government also provides additional support to students from low-income backgrounds through the National Scholarship Programme (NSP). The funding from the Government for the NSP will total £100 million in 2013-14. Institutions are required to provide a level of matched funding to the NSP, so the total amount that will actually be delivered through the NSP will be greater than £100 million.

56. While institutions, HEFCE and the Government are continuing to invest in widening participation, the challenges to continued national progress in this area should not be underestimated. There is a concern that the decline in collaborative activity to deliver outreach, coupled with significant changes in the schools and further education systems, will result in gaps in the provision of effective information, advice and guidance on higher education to young people and adults.

57. In the interim report on the national strategy for access and student success, HEFCE and OFFA concluded the following from our overview of some of the existing research and evaluation studies:

- outreach is most effective when delivered as a progressive, sustained programme of activity and engagement over time
- outreach programmes need to reach young people at different stages of their educational career and begin at primary level
- effective outreach requires the full, adequately resourced involvement and engagement of universities, colleges and schools
- outreach to mature learners requires good links with further education colleges, employers and the community

- collaborative outreach leads to improved impact
- ways for learners with non-traditional or vocational qualifications to progress to higher education need to be clearly set out
- levels of retention and success once students have entered higher education are strengthened by fostering a sense of belonging.

58. Potential impacts on widening participation are also likely to emerge only in the medium to long term. Young students who entered higher education in 2012-13 had been looking at routes into higher education since before the 2012 changes were announced, when they made their choices on what to do after the age of 16. Many of them would also have been exposed to programmes such as Aimhigher. We will therefore not see the full effects of changes for some years, which suggests a need for caution in assuming that recent trends in participation will continue.

Changes to the secondary and further education systems that may impact on widening participation include:

- changes to the provision of careers guidance
- the growth of different organisational forms for schools
- changes to GCSEs, A-levels and vocational qualifications
- changes to accountability arrangements for schools
- replacement of Education Maintenance Allowance with the 16-19 Bursary Fund
- the introduction of fee loans for learners over the age of 24 studying for Level 3 qualifications.

Do the reforms affect equal opportunities?

59. The Equality Act 2010 requires HEFCE and universities and colleges to eliminate discrimination as a result of age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex, and sexual orientation.

60. Early analysis of 2012-13 UCAS data raises particular equality and diversity issues in relation to gender. For example, 18-year-old females were a third more likely to apply and to be accepted for entry to higher

18-year-old females are **one-third more likely** to enter higher education than males of that age education than males of that age. This means that even if the acceptance rate for men was 100 per cent, the resulting entry rate would still be below that of women. This continues a longer-term trend.

In the most disadvantaged areas, 18-year-old females are

50% more likely

than males of that age to apply to higher education

61. The differences in application rates between the sexes overlap with social mobility considerations. Differences are largest in the most disadvantaged areas, where 18-year-old females are 50 per cent more likely than males of that age to apply to higher education. In advantaged areas, they are 20 per cent more likely to apply.

62. When taken as a group, black and minority ethnic (BME) representation is higher among students in English institutions than the UK population (as measured by the UK census 2011) and BME participation has risen slightly from 19.8 per cent in 2009-10 to 20.7 per cent in 2011-12. Headline data, however, mask a decrease in participation by specific ethnic groups, such as Black Caribbean and Other Black Background. The situation will need careful monitoring and analysis to ascertain whether data are reflecting a disproportionate disadvantage to specific ethnic groups as a result of the higher education reforms.

63. The number of students entering higher education who have declared disability status has been increasing since 2009-10[12]. The latest figures from UCAS on accepted applicants indicate that this trend is continuing in 2012-13.

64. Data on religion or belief, sexual orientation, gender identity and (for Northern Ireland only) marital status will be collected by HESA for the first time for the academic year 2012-13. Providing this data will not be compulsory and therefore coverage may be variable.

HEFCE action

Equality and diversity

The Higher Education White Paper determined that HEFCE should develop its role to promote and protect the collective student interest. In this capacity, HEFCE is undertaking further work to improve its and the sector's understanding of equality and diversity, including how certain groups of students may be particularly affected by the reforms. We are also continuing to contribute funding to the Equality Challenge Unit and to implement our equality and diversity scheme.

Other potential risks to equality

There are a range of emerging risks to equality in higher education. As examples:

- Evidence of graduate debt levels prior to the reforms suggests that disabled students and those with dependent children, as well as some other groups, finished their studies with relatively higher levels of debt. This effect could be exacerbated with higher fees.
- As the increase in fees requires students to take out much higher loans, it could create an unfair barrier to participation by particular religious groups. For example, the Islamic faith does not permit the paying or charging of interest on any loan.
- Reduced undergraduate diversity has a knock-on effect on postgraduate diversity and ultimately for academic and professional staff in higher education (which are already less diverse than the student population).

How do students make choices about their studies?

65. A wide range of factors can influence students' choices. These range from entry requirements, the availability of particular courses and the feasibility of studying away from home to fee levels, student support such as bursaries, and contact hours. Non-academic factors including location, accommodation options and other facilities such as sports provision are important to many applicants, as are the reputation of an institution and the employment prospects of its graduates. Recent research by the Sutton Trust[13] found that course and course content are the most important factors influencing the decisions of prospective students.

66. A survey carried out by the National Union of Students (NUS) in late 2011 and early 2012 found that financial considerations played a part in students' decisions, but the extent of this influence varied between types of student[14]. Financial issues were particularly important for students who were also parents, more than half of whom said that their decision to enrol had been greatly affected by finances. Emerging evidence suggests that higher fee levels are acting as a deterrent to some younger prospective students. A recent survey of pupils in Years 10-13 found that the cost of going to university was the most common deterring factor reported by those who said they were unlikely to go on to higher education[15].

HEFCE action
High-quality information

It is vital that applicants have good information to inform their choices. In September 2012, we re-launched the Unistats web-site, including Key Information Sets (KIS), to enable some features of courses at different institutions to be compared more easily. KIS information was also included on universities' and colleges' own web-sites. The items of information in the KIS were informed by research on what prospective students would find useful.

An early evaluation of Unistats – including a look at the perspective of universities and colleges and a user experience survey – is due to be published in April 2013. It shows that Unistats is well used and recognised as a source of reliable and usable comparisons. The work has identified a range of potentially helpful changes to the design and usability of the site, which will be made. It also provides other recommendations which are being taken forward within the wider review of public information in higher education.

The provision of high-quality information, advice and guidance is also critical at a much earlier age to help pupils at school and college to make important choices about their future careers. Recent changes to this provision now mean that independent and impartial careers guidance no longer extends to post-16 provision, the point at which students most need formal careers guidance support. It will be important that these changes, in combination with changes to the delivery of outreach activity, do not put at risk the availability and quality of advice and guidance that young people receive.

67. Fear of debt can affect student choice, even if the response is still to go to university[16]. For example, students from low-income households, who are generally more debt-averse, are more likely to choose a university which allows them to live near home and work during term time. This could lead them to make other compromises, such as on the course that would be best for them. In addition, although a certain amount of paid work can be beneficial, students undertaking a significant amount of part-time work are more at risk of lower achievement within higher education.

68. UCAS undertakes follow-up surveys of those who decline an offer of a place, which provide some insight into student choices. The most common reasons given for turning down a place are course content and

the distance from home. In the 2011 and 2012 UCAS cycles, the issue of institutional reputation became more important, as did the employment prospects offered by the course.

69. Research published by OFFA in 2010[17] found that bursaries did not affect students' decisions on where to study. Given the more recent increases to fees, financial support may now be a greater influence on those looking to go to university. It may also affect retention and the extent to which students succeed in their studies. OFFA is doing further research to investigate these potential impacts.

Graduate employment

70. We will have no clear data for some years on the impact of the reforms on graduate employability and salaries. For first-degree graduates, early-career salaries have risen only slightly over the last six years. Any changes in graduate salaries will have an impact on the attractiveness of higher education to future generations and the repayment rates of tuition fee loans.

71. The reforms could have created a potential disincentive for students wishing to take four-year courses that include a sandwich year out, as they might have had to pay four years of higher fees. The Government has announced that tuition fees for those taking a sandwich year from 2014-15 will be capped at 20 per cent of the maximum for a full-time undergraduate[18]. Fees for those taking a whole year abroad for Erasmus or other study will be capped at 15 per cent of the maximum for a full-time undergraduate.

72. Some universities are building employability more firmly into their strategies, and others are intending to do so. Analysis of Higher Education Innovation Funding (HEIF) strategies from universities shows a particular emphasis on enhancing student employability and enterprise. This appears to be a response to changes in the student finance system and challenges in graduate employment. The expansion of work experience opportunities is central to this, although universities and colleges may find it difficult to realise the growth in opportunities they wish to see here.

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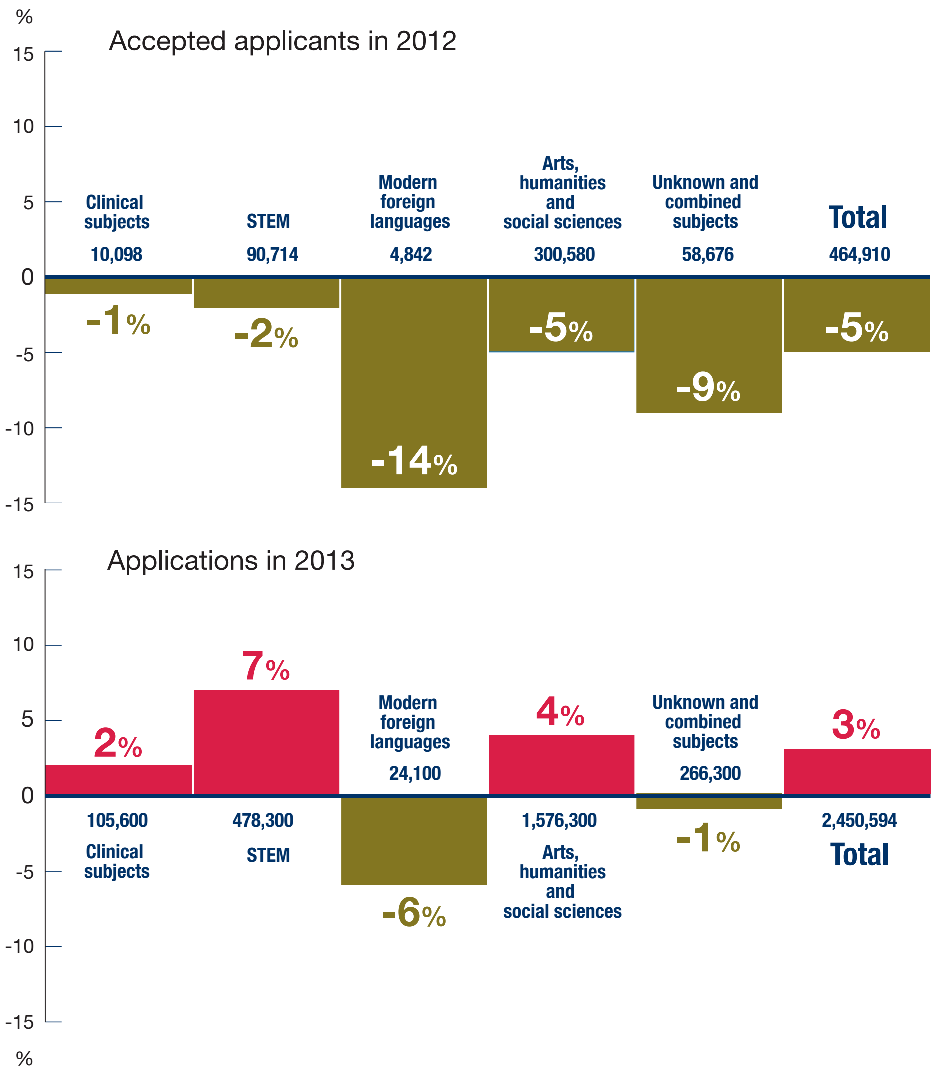
Section 3: Impact on the higher education sector

Which subjects are students choosing to study?

73. Regular analysis by HEFCE of the health of subjects shows frequent fluctuation in the number of students in different academic disciplines. These changes often turn out not to be significant in the longer term. That said, some of the shifts in 2012 entries chime with longer-term trends across different subject areas[19].

Figure 7 **Applicants (via UCAS) by subject group**



Source: UK, EU and international accepted applicants at UK institutions defined by UCAS's 'Subjects' annual dataset[20]. Figures given on applications are as at the January deadline.

74. UCAS data illustrated in Figure 7 show that STEM and clinical subjects held up well in 2012-13 in comparison with other areas such as modern foreign languages, and arts, humanities and social sciences. This follows eight years of rising A-level entries in STEM subjects, and six years of the same at undergraduate level. There is, however, significant variation within the STEM subject grouping – physics has seen a 19 per cent increase in accepted applicants while computer sciences has seen a 9 per cent decrease. Engineering presents a mixed picture, with chemical, process and energy engineering seeing acceptances rise by 20 per cent, while civil engineering acceptances decreased by 14 per cent and electronic and electrical engineering by 10 per cent.

Number of applicants accepted to STEM and clinical subjects in 2012-13

held up well overall

Of the subjects with more than 3,000 students accepted, the four seeing the **greatest increases** between 2010 and 2012 were…

molecular biology, biophysics and biochemistry

physics

anatomy, physiology and pathology

biology

Of the subjects with more than 3,000 students accepted, the four seeing the **greatest decreases** between 2010 and 2012 were…

civil engineering

nursing

hospitality, leisure, sport, tourism and transport

fine art

Fall in number of applicants accepted to courses in 2012-13:

8% in creative arts and design

14% in modern foreign languages

75. As a broad subject area, creative arts and design have seen UCAS acceptances drop by 8 per cent. While total numbers in these subjects are still large, this drop is nevertheless significant, particularly in comparison to STEM subjects. Aside from a dip in 2010-11, numbers entering creative arts and design have been growing since 2006-07, perhaps reflecting the UK's thriving creative industry which is the largest in Europe, contributing nearly £25 billion to Britain's economy in 2010. Therefore it is possible that this is a one-year anomaly in a general trajectory of growth. It is also possible that applicants are more influenced by the perceived lower levels of financial return for some creative arts and design subjects in an era of higher fees.

76. A decline in acceptances to nursing has followed several years of sharply rising applications and acceptances, reflecting changes in the profession. In civil engineering, the decline may reflect students' perceptions of current career prospects: the latest Office for National Statistics growth figures show the construction sector as having the largest contraction of all sectors.

Continuing positive trends in applications to STEM subjects in 2013-14

computer science up 12%

engineering up 8%

77. European and non-European languages also show significant decreases in numbers of acceptances, with a drop of around 14 per cent, or 750 students. These subject areas involve relatively small volumes of students overall (around 5,000). A-level entries in modern foreign languages have been falling since 2007-08, so the decreases are consistent with what seems to be a longer-term trend of decline in language study.

Patterns in applications for 2013-14

78. Applications for 2013-14 suggest that some of the trends identified in the 2012 cycle are continuing. In particular, languages have seen a greater decline between the 2012 and 2013 UCAS cycles than any other broad subject group[21]. However, the positive long-term trends across STEM disciplines appear to be continuing, including signs of potential recovery from falls in 2012 with the two largest increases in applications in computer sciences (up by 12 per cent) and engineering (up 8 per cent). Other subject areas with significant increases in applications are animal science, music, anthropology and law. Nursing is also experiencing renewed growth. Again, though, we do not know how many of these applications will translate into enrolments.

Continuing fall in applications to modern foreign languages in 2013-14

Over 6%

79. Year 11 pupils may have started to become aware of the changes to the fee regime during 2010-11. They began A-levels in autumn 2011 and will complete them in summer 2013. This year will be the first evidence we have of the potential impact of the new fees on subject choices at earlier stages of education. The effects may be indicative of changes in future years: for example, it is likely that the message that fees are not paid upfront is still not universally understood.

HEFCE action

Vulnerable subjects

Subjects may become vulnerable as a result of changes in demand from students or employers, or through changes in institutions' course offers. The availability of subjects may also be affected by research funding and quality, and by flows of international students. We will monitor the extent to which the reforms and other factors have an impact on the availability of specific courses and subjects.

We continue to support subjects previously designated as strategically important and vulnerable (maths, physics, chemistry, engineering, modern foreign languages and quantitative social science), and we will publish data on the health of all subjects in collaboration with partner organisations such as the Research Councils and the National Academies[22].

Our current approach focuses on risks to the continued availability of subjects. For example, we will be monitoring levels of demand for four-year courses, such as language degrees which include a year abroad, and integrated masters degrees such as the MEng, to see whether the additional costs discourage students from applying. The Government has taken measures to keep tuition fees for students on years abroad to a minimum, and we are contributing to the costs of student participation in year-abroad exchange programmes.

More broadly, the new fee levels could discourage institutions from continuing to offer higher-cost subjects when they could achieve higher returns from lower-cost subjects. We have introduced a significant supplement for subjects that cost more to deliver. We also protected chemistry, maths, physics, engineering and modern foreign languages when we reduced the numbers of controlled places to redistribute to institutions charging lower fees in 2012-13. In return we have required institutions to sustain teaching and study in these subjects.

80. Students are influenced by a wide range of factors when making choices about what subject to study. The following case studies explore some of the issues at play in three particular subject areas, and the effect that these choices have at a national level.

Case study

Royal Academy of Engineering

‘Mechanical, chemical, process and energy engineering have all seen sharp increases in applications in 2012-13, reflecting increases in the number of students studying chemistry and physics at A-level.

‘The demands of the labour market can have a direct impact on the relative popularity of different engineering degrees – increasing applications to mechanical engineering may be due, in part, to a returning confidence in the automotive sector and in advanced manufacturing. Decreasing applications to study civil engineering are likely to be caused by the sharp contractions in construction output that have been widely reported in the UK and around the world.

‘Of most concern in the engineering profession, decreasing applications to electrical and electronic engineering represent the continuation of a generally downward trend for more than a decade.’

Case study
Institute of Physics

'Over the last six years, admissions to physics degree courses have increased by an impressive 50 per cent; this follows a steep decline in the discipline over a 25-year period marked by falling A-level entries, a deficit of specialist physics teachers in schools, and the closure of university physics departments.

'The number of specialist physics teachers is now gradually increasing following several positive government interventions. A renewed vigour in physics teaching – helped by the success of the Stimulating Physics Network – has led to a recovery in A-level numbers over the last six years. Higher education capacity has been maintained by keeping many university departments afloat using the extra funding provided by HEFCE via its SIVS [strategically important and vulnerable subjects] initiative.

'The upturn in the popularity of physics in recent years can be attributed to a variety of factors, including a number of high-profile TV presenters and the reinforcement of the message that there are jobs in these areas.'

Case study
University Council of Modern Languages

'The 14 per cent decline in MFL [modern foreign languages] student numbers studying higher education in 2012-13 is reflected in declining MFL A-level entries. This trend has resulted in cuts in provision and staffing, especially of vocational and applied language programmes and single honours, and the closure of many MFL departments, particularly in new universities. Provision is increasingly concentrated in older, more traditional institutions, resulting in a narrower choice of curricula and concerns about wider access to tertiary language study. Applications for 2013 entry are down a further 6 per cent.

'The picture for 2012 entry is uneven, with some departments in both old and new universities meeting their targets and others up to 50 per cent below target. At least four new universities are considering withdrawing entirely from specialist programmes. A few have even closed their institution-wide provision. The current funding regime no longer distinguishes languages from other arts and humanities disciplines (MFL was formerly in Band C [and attracted a higher rate of funding]), leading to concerns that departments are further challenged by unfavourable comparison within their institutions.'

Where are students choosing to study?

By region

81. The number of full-time undergraduate entrants has dropped most in the North West, Greater London, Yorkshire and the Humber, and the East Midlands, as illustrated in Figure 8. The East of England has fared better than any other region, with numbers of students in 2012-13 remaining broadly similar to 2010-11. There also continues to be a strong correlation between the propensity of students to apply for higher

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[redacted]

Source: HESES/HEIFES surveys. Figures given are the percentage change in the headcount of full-time undergraduate entrants between 2010-11 and 2012-13.

By type of institution

82. Analysing recruitment performance by average entry tariff presents a mixed picture, as set out in Figure 9. Specialist institutions and further education colleges were the only groups to maintain similar numbers of full-time undergraduates between 2010-11 and 2012-13. Universities with lower entry tariffs have, on average, recruited fewer students compared with 2010-11. However, there is considerable variation even between similar types of institution. For example, only 13 per cent of those universities with the highest entry tariffs saw their numbers of full-time undergraduate entrants increase compared with a third of the institutions with the lowest entry tariff. Some institutions with the lowest entry tariffs saw as much as a 15 per cent increase. However, there has been greater fluctuation in recruitment for institutions with lower entry tariffs, with around half of these institutions seeing numbers decrease by 10 per cent or more.

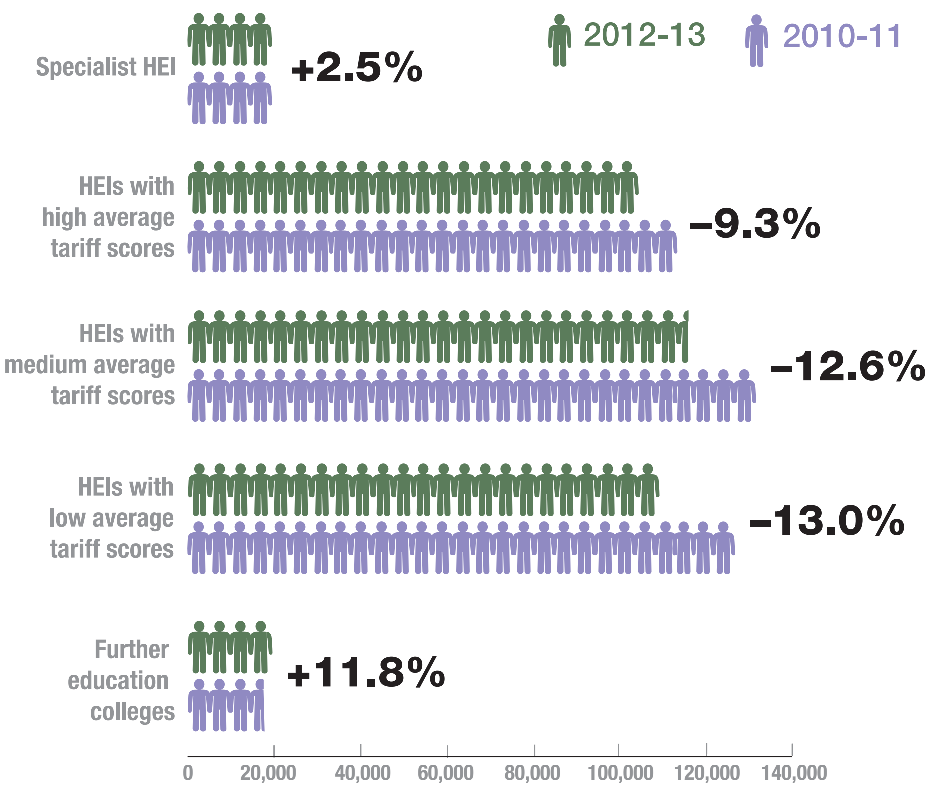
Recruitment in 2012-13 varied widely across the sector: some institutions experienced a

30% increase

others a

40% decrease

Figure 9 **Full-time undergraduate entrants by institutions grouped by 2011-12 average tariff scores**



HEI = higher education institution

Source: HESES/HEIFES surveys.

83. Figure 10 sets out the number of full-time undergraduates entering higher education in 2012-13 by the average fee charged after waivers. This shows that the group of institutions that charged fees lower than £6,000 in 2012-13 appeared to see numbers growing by 46 per cent compared with 2010-11, supported by the allocation of additional student places through the core and margin policy. The group of institutions charging above £7,500 saw, on average, fewer enrolments. However, care needs to be taken in assuming that this means the headline fee is influencing students' decision-making, as the way students are counted means that this does not equate to significant growth in the actual number of students studying at these institutions. Many of these places were previously funded through franchise arrangements with universities, whereas now they are being offered as these universities' own places. Figure 10 does not include the further education colleges HEFCE began to fund as a result of the core and margin policy in 2012. Franchising issues, core and margin, and student number controls are explored further below.

Figure 10 **Full-time undergraduate entrants by institutions grouped by average tuition fee after waivers**

Institutions grouped by 2012-13 estimated average tuition fee after waivers

Source: HESES/HEIFES surveys.

84. On the basis of the data and information available, we cannot detect any clear pattern of approaches that have led to particular types of universities and colleges doing better or worse than others. However, it is likely that institutions' responses to the changes in their own particular circumstances – for example, in their educational programmes, approaches to marketing, and offer and admissions strategies – have contributed to different recruitment outcomes.

How have changes to student number control policies affected institutions?

85. Changes to the student number control policy for 2012 were designed to make progress towards the Government's aim of making the allocation of student places more responsive to student choice, while controlling student finance costs. The new arrangements were as follows.

a. The 'high grades' policy: students with certain entry qualifications equivalent to, or higher than, grades AAB at A-level were excluded from the student number control. This meant that universities and colleges were free to recruit as many of these students as they wanted and were able to.

b. The 'core and margin' policy: a 'margin' of up to 20,000 places was created by reducing the numbers that were left after removing the expected number of AAB+ equivalent students. These places were redistributed to institutions who wanted them and who charged an average annual tuition fee, after fee waivers, of £7,500 or less. These institutions also had to show that enough students wanted to study their courses and that they were of adequate quality.

c. Student number control limit: universities and colleges continue to be subject to a student number control limit for their remaining, 'core', places. As in previous years, recruiting above this limit will lead to reductions in funding from HEFCE.

86. Earlier in this report we look at factors which influence student choices and at movements of students between institutions. Student choices and recruitment choices by institutions are closely related, and their interaction determines whether students' choices are satisfied. For example, the high grades policy has provided institutions with greater flexibility in how they make offers to the most qualified students, which could lead to increased choice for prospective students. There may be value in seeking to tease out further the implications of these interactions and to explore how they are influenced by policy. What can be said at present is that institutions felt the need to respond in various ways to the policy changes, and, as is noted throughout this report, students are influenced by a wide range of factors in making their choices.

Recruitment to student number control limits

Recruitment in 2012-13 fell below planned numbers by around

9%

87. Recruitment in 2012-13 fell below planned numbers by around 9 per cent (about 28,000 places). We had expected that most universities and colleges would recruit slightly below their student number control limit to avoid any reductions in HEFCE grant, but the fall was greater than anticipated. However, recruitment varied across the sector – for example, 11 higher education institutions and 14 further education colleges exceeded their limit.

88. A number of universities and colleges (particularly those without a centralised admissions process) have reported that their departments, concerned not to breach the limit, were cautious in making offers, perhaps over-cautious, thus having a downward impact on the number of offers. Although the issue of managing overall numbers within the student number control limit has been challenging in previous years, feedback from the 2012-13 admissions cycle suggests that the introduction of the high grades policy made the process even more difficult.

Impact of high grades policy

89. The overall number of reported AAB+ entrants (including medical and dental students) was 5,000 lower than estimated for government planning purposes. Of this overestimate, some 4,000 appear to be the result of fewer deferrals of AAB+ students from the 2011-12 application cycle[23]. While there was a drop in the proportion of A-level entrants who

> “The university considers that it underestimated the impact of increased competition for high-grade applicants – with these applicants having more choice through an increased and different offer mix – and the impact of this on conversion rates. In retrospect it considers it made too few offers in the high-grade market. Opportunities to address this shortfall were limited as, in line with previous cycles, there were limited high-grade applicants available in clearing.”

Large research-intensive provider

achieved grades AAB or above between summer 2011 and 2012, the absolute numbers of students in England aged 16 to 18 holding AAB grades or higher at A-level have not differed substantially. The drop will therefore not have a significant bearing on estimates for student number control purposes. We are aware of changes in both the number of students taking other equivalent Level 3 qualifications and levels of attainment, which may also have a bearing on demand for higher education in future. For example, we understand that numbers taking BTEC extended diplomas have increased since 2010-11 with more students achieving the highest grades[24]. As comparable data is less readily available, including the latest position for students taking these qualifications in summer 2012, we will have to wait for further information before we can start to understand what impact these changes at Level 3 may be having on the number of students entering higher education.

90. The lower-than-expected number may also be the result of data limitations. Institutions were required to respond quickly to the request for qualifications information, and this may have led to reporting inaccuracies. They were also warned that if they fell significantly short of their recruitment target, this might lead to reductions in their future recruitment limits. This gave them little incentive to identify students as being in the AAB+ group, rather than counting them as part of their student number control. Actual numbers of AAB+ entrants are therefore likely to be higher than reported.

91. There is evidence of movement of student numbers between providers in response to the high grades policy. As indicated above, entry requirements appear to have had some influence on recruitment performance, with institutions with lower entry tariffs seeing larger reductions and greater fluctuation in their student numbers. This might suggest that the reputation and perceived quality of a university or college continue to play a strong, but not fully conclusive, part in how many students make their decisions about where to study.

> "We made much more precise offers so that rather than UCAS tariff alone, offers incorporated the requirement for specified grades and subjects to give us flexibility to manage the intake at confirmation time, whilst not deterring applicants from accepting our offers."
>
> Specialist provider

92. Reapplication rates (among English 18-year-olds unplaced in the previous cycle) were generally increasing between the 2009 and 2011 cycles. UCAS data on the 2013 14 cycle show that the reapplication rates for those with the highest grades (AAA) have increased further since 2011. Reapplication rates will be affected by a number of factors, in particular the acceptance rate of the previous application cycle, but part of this might be an impact of the high grades policy.

HEFCE action

Implementing the high grades policy

HEFCE has established a working group to advise on the future implementation of the high grades policy. The group has raised a number of issues that we intend to explore further: for example, whether there have been any increases in appeals against A-level grades as a result of the policy, or changes in decision-making by prospective students about post-16 qualifications. We will take into account as far as possible the interactions between policy changes in secondary, further and higher education (for example, changes to secondary school accountability measures will also be influencing the subjects chosen in schools).

Institutions have expressed concerns that the high grades policy gives them less discretion in offer-making, and some schools and parents are worried that the policy is not fair to students who are taking combinations of qualifications (for example, combinations of A-levels with BTEC or Pre-U qualifications), and who not therefore exempted from the student number control.

We believe, however, that there is sufficient flexibility in the system for universities and colleges to make fair offers. We have made sure that the institutions that recruit the most AAB+ students have a protected ‘core’ of places from which they can make offers to appropriately qualified applicants who do not fall within the high grades grouping (including those with combinations of qualifications, EU qualifications and those for whom the use of contextual data may be appropriate), and many institutions had places to spare. We also provide enough flexibility to protect institutions’ autonomy in their admissions processes.

Nonetheless, we continue to take seriously concerns about the fairness of the implementation of the high grades policy and we will consult in early summer 2013 on whether and how we might develop ways of considering combinations of qualifications in the future. This will aim to ensure that there are continuing, and potentially increasing, opportunities for institutions to apply flexibility in recruitment.

Impact of core and margin policy

93. The core and margin policy led to the redistribution of 20,000 student places in 2012. 9,643 of these places were allocated to 35 higher education institutions, while 155 further education colleges took 10,354. At present, it appears that 35 per cent of these margin places (around 7,000) remain unfilled.

35%

of margin places remain unfilled

94. More than 4,000 of the unfilled places are at higher education institutions. Around 26 per cent of institutions filled all of their margin places – 20 per cent filled none. There does not appear to be any pattern relating to either the size of the institution or the size of its margin allocation.

95. Further education colleges with margin places have collectively fallen short of their allocation by around 2,700. Again, recruitment patterns varied – 26 per cent filled all their margin places and 17 per cent filled none. Colleges with fewer margin places appear to have been more likely to struggle to fill them[25].

96. Most institutions were notified informally of successful bids for margin places in January 2012, but did not receive final notice of allocations until March 2012. As this was after the January deadline for UCAS applications, some may have found it difficult to recruit in the more limited time available. As we have not lowered the number control limit in 2013-14 for under-recruitment in 2012, however, institutions will have a second chance to recruit margin places in 2013-14.

> "As the indicators for both the high-grade and controlled populations only emerged late in the cycle, and given the institution's devolved recruitment arrangements and historically cautious culture, an in-cycle response was very difficult."

Large research-intensive provider

97. For 2013-14, we are allocating 5,000 margin places. A majority of these have been allocated to institutions with which we already have a funding agreement, and which have an average fee after waivers of £7,500 or below. A minority of the places are available for institutions charging between £7,500 and £8,250, and some numbers are set aside so that further education colleges which we do not currently fund can bid. Allocations of margin places for 2013-14 are to be announced in March 2013.

How have further education colleges which offer higher education been affected?

Fall in number of full-time undergraduates taught at a further education college as part of a franchise partnership

15%

98. The numbers of full-time undergraduates who were taught at a further education college as part of a franchise arrangement with a university fell by slightly more than 4,000 (almost 15 per cent) between 2011-12 and 2012-13. The number of places that were directly funded by HEFCE – and so were classed as the college's own places – increased by 7,500 (or 26 per cent). Overall, the increase in the number of full-time undergraduates in further education colleges who were counted for HEFCE funding – either as the college's own students or under a franchise arrangement – was around 3,500 (almost 6 per cent). Some colleges which gained places through the margin will be replacing places that were previously franchised from a university.

99. Part-time recruitment to undergraduate courses at further education colleges that are funded directly through HEFCE shows a 19 per cent fall between 2010 and 2012 when new providers are included. When they are excluded to allow for comparison with previous years, there has been a 27 per cent drop (around 3,000 fewer students). These figures do not include changes in franchised part-time places. The falls continue and intensify a longer-term trend.

"Over the summer there was much discussion with further education colleges, particularly those who had bid for new numbers of their own through the core and margin model, to ensure a fair balance between the colleges' student number control and that of the university. The university made a strategic decision to refocus and strengthen further education college relationships in the two counties nearest to the institution, as students from these areas are more likely to go on to study at the university – hence creating a more robust learning pathway."

Large teaching-focused provider

100. HEFCE also has indications from higher education institutions that further education colleges are filling their own places first, before filling any remaining places that are franchised from a university. This would be a contributing factor to under-recruitment at universities, whose franchised numbers form part of their student number control. These and other issues are causing some universities to review their franchise provision, leading in some cases to withdrawals from these partnerships.

Survey of further education colleges

101. HEFCE surveyed further education colleges to gauge the impact of the reforms on them and their students. We asked about opportunities and challenges for further education colleges and for their students. We received 98 responses, mostly from colleges with which we have a funding agreement. Key trends and findings from this survey are summarised in the following table.

Opportunities for further education colleges

A large majority said that the main opportunity was the potential for increased autonomy from universities, as this gave them greater control of their own decision-making, management of the courses they offer, fee levels, and recruitment. Some colleges also welcomed the increase in negotiating power with universities that they gained from having larger allocations of their own places.

Almost two-thirds identified opportunities for growth in their higher education.

A third of colleges identified widening participation as significant. This was due to the offer of bursaries and of student loans, the provision of local higher education opportunities, and the stimulus afforded to innovation in teaching and learning.

Six per cent saw no opportunities in the new system.

Opportunities for students

Further education colleges identified a greater choice of courses and providers as a benefit for students, particularly citing local access to higher education at lower cost, without the significant additional cost of a move away from home.

Challenges for further education colleges

Almost all colleges reported challenges in recruitment, which included:

- reluctance from students to take on loans
- managing recruitment against student number control limits
- difficulties in communicating the distinctiveness of higher education in a further education setting
- setting fee levels to balance attractiveness of price with the risk that prospective students might perceive cheaper courses to be of lower quality.

More than a third said their partnership arrangements had become more challenging because they had to manage directly and indirectly funded student numbers, secure validation of their courses, and access to resources from higher education institutions, in a more competitive environment.

Challenges for students

Fees and financial support were seen as the major challenge for students, with many colleges mentioning aversion to debt as a primary deterrent for prospective students.

Nearly half of all colleges were finding difficulties with the viability of some courses because employers were less willing to fund part-time students following the increase in fees.

Almost a quarter of colleges reported that students struggled to make an informed choice of course at a further education college because they found it difficult to navigate the large and dispersed amount of information available. It was noted that some of this information had limited representation in the KIS.

What about alternative providers?

Increase since 2006-07 in the number of alternative providers with students accessing financial support from the Student Loans Company

70%

(from 64 to 109)

102. There are currently over 150 alternative providers with active designations to offer a higher education course or courses for which students can obtain financial support from the Student Loans Company (SLC). Of these, 109 providers had students that accessed student support during the 2011-12 academic year. This is a 70 per cent increase since 2006-07. The total value of financial support for students with alternative providers has grown from £19 million in 2006-07 to £100 million in 2011-12. This still makes up a very small proportion of the total student support budget – less than 1 per cent – but we expect the growth in alternative providers seeking designation to continue[26].

Have the reforms encouraged innovation in higher education?

103. Increased competition for students between universities and colleges, and increased direct pressure from students, is intended to prompt greater responsiveness in higher education.

104. There are some potential barriers to innovation in the student finance arrangements, which may impact on the choices available to students. For example, the development of two-year compressed degrees may be less attractive as institutions will still only be able to charge fees of up to £9,000 a year for such provision. This gives a maximum course fee of £18,000 compared with £27,000 for a three-year course. There is also a potential disincentive to lower prices through innovative approaches since most institutions are able to charge high fees, at least for full-time undergraduates, with little effect on whether students apply or not. This may not be the case for part-time students, where low recruitment in 2012-13 may spur new forms of provision. There is also some evidence from universities and colleges that high fees are seen as an indicator of high quality, which would again lead to reluctance to reduce fees.

105. Innovative responses to the reforms may take some time to emerge as universities and colleges seek to develop offers that will attract students. We will look to identify specific examples of emerging innovative higher education in future reports.

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Section 4: Funding and financial sustainability

How has public finance for higher education been affected?

106. The higher education reforms create a system which distributes significant public support for higher education in the form of tuition fee loans. Where this money ends up depends to a greater extent than previously on the choices of individual students. While the aim is to increase choice for students, such a system is inevitably more unpredictable and there is a need to manage the overall student support budget. Spending from the student support budget is affected by two main factors – the levels of fees that are paid out, and the numbers of students taking up loans and grants.

Numbers of students

107. Lower than anticipated recruitment in 2012-13 will reduce pressure on the student support budget for this year. Provisional data published by the SLC[27] show that the number of English students provisionally awarded tuition fee loans decreased from 916,600 in 2011-12 to 907,600 in 2012-13. This reverses previous rises. However, the number of students provisionally awarded maintenance loans continued to increase. The provisional SLC data also show that around 30,000 students from elsewhere in the EU were also awarded loans.

108. Applications for 2013-14 are showing an increase, and this picture may change in future years.

Fee levels

109. According to early figures from the SLC, the average tuition fee loan awarded to English students in 2012-13 was £8,040.

110. In 2012-13, all 124 higher education institutions and 25 further education colleges held access agreements that enabled them to charge above the basic fee of £6,000. Of these, 42 higher education institutions and one further education college charged new system full-time students the maximum fee limit of £9,000 across all of their undergraduate courses[28].

111. Access agreements give an early indication of fee levels for future years. Those for 2013-14 show a similar picture to 2012-13.

a. The estimated sector average fee is £8,507.

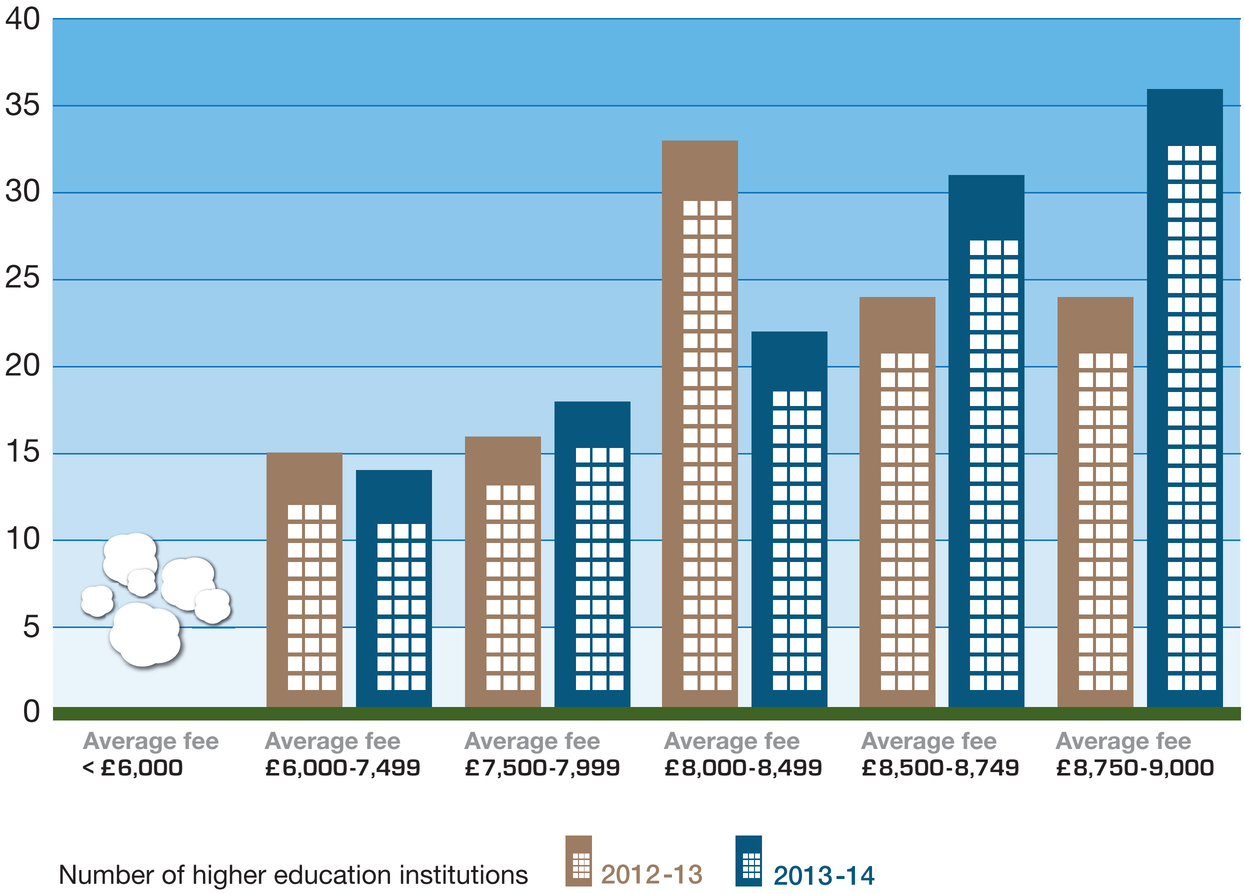
b. This reduces to £8,263 when fee waivers are included.

c. When all financial support from universities and colleges is taken into account, the estimated average fee for students is £7,898.

112. It should be noted that the OFFA average fee after waivers differs from the SLC figure of £8,040 for a number of reasons relating to the different coverage and definition of these calculations[29].

113. Figure 11 is based on access agreement data, and shows that around 60 per cent of higher education institutions expect to see a rise in their average fees (after waivers) for undergraduate courses in 2013[30]. One in every five higher education institutions expect their average fees after waivers to decrease, and one in five anticipate no change. The average increase is likely to be around £250. This will lead to an increase in the number of students being charged the maximum fee, or close to the maximum fee, by their institution in 2013-14. There are no higher education institutions charging less than £6,000.

Figure 11 **Changes in estimated average fee (after waivers) between 2012 and 2013**



Source: 2013-14 access agreements: institutional expenditure and fee levels (OFFA 2012/07), and Access agreements 2012-13: final data including initial teacher training (OFFA 2012/06)[31]. It should be noted that this figure does not include further education colleges, many of which do have an average fee after waivers of less than £6,000.

Role of core and margin policy in reducing fees

114. Following the announcement of the core and margin policy, OFFA approved revised access agreements for 2012-13 for 25 institutions that wanted to reduce their net average fee. This brought them within the criteria to bid for additional student numbers. In total, these institutions are charging £16.3 million less than they originally planned in their headline fees.

HEFCE action

Supporting the management of the student support budget

The main way of managing student finance is through the controls on student numbers, backed by the potential for HEFCE to withhold grant from institutions that have over-recruited. However, as HEFCE grant reduces over the next few years there will be less scope for grant reductions for certain institutions.

We are working with partners within the current legislative framework to develop a new operating framework for higher education. This will set out the roles, responsibilities, relationships and accountabilities of the various organisations involved in regulating higher education in England. We are also working with others to develop a replacement for our current financial memorandum to institutions that we fund. This will reflect the changing landscape of higher education funding and accountabilities.

Students at higher education institutions and further education colleges are automatically able to apply for student support. Other providers have to seek approval for students to apply for access to student support on a course-by-course basis. A new system of designation is currently being explored. Continued designation would be dependent on an institution complying with student number controls.

Is higher education in England financially healthy?

Financial health of the higher education sector

There is
no immediate risk
to the overall financial health of higher education

115. The higher education sector in England is currently in reasonable financial health. Positive cash generation and healthy cash-backed reserves mean that no institutions are likely to face insolvency in the short term. However, there is wide variation in the financial performance and health of different institutions within the sector, and some institutions will face difficulties if they experience repeated falls in student recruitment. Financial forecasts for 2012-13 show a significant increase in fee income from home and EU students, though this is offset by a large fall in public funding through the HEFCE teaching grant. Previously, 2011-12 saw the first real-terms fall in total income since financial information was first collected across the whole sector in 1994-95.

116. Lower than anticipated recruitment in 2012-13 increases the chances that some institutions' finances may not be as good as they had planned. Total income is now forecast to rise by 2.8 per cent (not adjusted for inflation) in 2012-13, compared with an earlier prediction of 4.1 per cent in June 2012. Despite the positive signs of increased applications for 2013-14, the reduced numbers entering higher education in 2012-13 will continue to have an impact as students in this year group proceed through their courses. The sector continues to operate without making significant surpluses, which means that even small changes in income can have a material impact on its financial position. Revised forecast data for 2013-14 and 2014-15 are expected in July 2013.

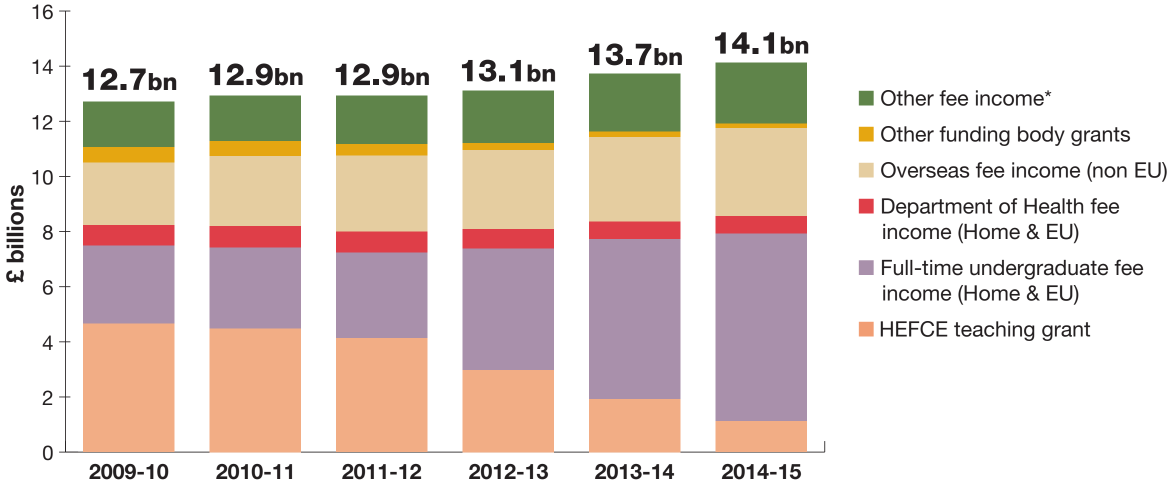
Some institutions' finances may be worse than forecast because of
lower than anticipated recruitment
in 2012-13

117. Increased volatility in income may occur because of the increased uncertainties relating to student recruitment. Institutions are also anticipating potential risks to achieving growth in fee income from non-EU students as a result of increasing competition from other countries. Many institutions have already taken effective action to deal with these challenges, including making efficiency savings. However, uncertainty about the shape and timing of changes to the student number control has made it difficult for them to plan as effectively as they might have done. Figure 12 shows the cumulative real-terms changes in actual and projected teaching income since 2010-11. This illustrates the sharp fall in funding council grants over this period, which is countered by significant growth in fee income from home and EU students. It also shows that total teaching related income is forecast to rise from 2011-12 by 9 percent (or £1.2 million) in real terms by 2014-15; however, future projections are dependent on student numbers not showing significant declines.

118. The Government's 2012 Autumn Statement provided a clear indication that future public funding will be under significant pressure.

If this leads to a reduction in funding for higher education, it could prompt a significant change in the sector's financial position. Financial challenges at institutions risk a negative impact on their ability to deliver a high-quality student experience and to invest for the future.

Figure 12 **Cumulative real-terms actual and projected changes in teaching income since 2010-11**



Source: Data are based on institutional financial forecasts and include actual income for the period up to and including 2011-12, and forecast income for 2012-13 to 2014-15.

*'Other fee income' includes part-time fee income (Home and EU), full-time postgraduate fee income (Home and EU) and other fees and support grants.

Borrowing

119. The higher education sector has in the past been able to obtain long-term financing at very good rates of interest. As a result of changing economic conditions, it is now much harder for universities and colleges to obtain long-term loans, and banks are applying more restrictive terms and higher rates of interest. This has led to an increased attractiveness of other financing options – particularly bonds – for the sector and its investors. The University of Cambridge and De Montfort University have issued public bonds recently and there are likely to be more in future.

120. Investors remain attracted to the higher education sector due to its strong performance in the past and the regulatory framework. Changes to either of these could impact on the ability of the sector to attract investment.

Infrastructure and estates

121. Universities and colleges have spent around £24 billion since 2001 on improving their physical infrastructure, not including spending on day-to-day maintenance. Despite this, estate management statistics show that in July 2011 some institutions still had large amounts of non-residential space in

poor condition, with the sector reporting a backlog of under-investment of around £2.7 billion. Despite reductions in public funding for infrastructure, financial forecasts received from institutions in December 2012 show that the sector is planning to invest over £3.1 billion in infrastructure projects in 2012-13 (an increase of 33.5 per cent compared with 2011-12). This spending will not deal with all the backlog of previous under-investment.

122. In an increasingly competitive environment, and with significant reductions in public funding for infrastructure, institutions will need to increase surpluses to finance future investment and maintain their long-term sustainability. The latest sector forecasts show that cash from operating activities for 2012-13 and 2013-14 will be insufficient to fund such expenditure unless they are already financed by capital grants or borrowings. In the short term, the planned level of infrastructure investment is affordable due to the cash reserves held by the sector. However, investment in infrastructure will not be able to continue at this level unless institutions generate larger surpluses. If institutions are unable to do this, there is a risk that the quality of the infrastructure will decline, harming the sector's long-term sustainability.

Sustainable development

123. Some institutions indicate that finding the resources to move further towards sustainable development is more difficult in the current financial climate, and that they would like to see clearer leadership from the Government. By 2020 the sector has committed to reducing its carbon emissions by 43 per cent against a 2005 baseline. This is a significant challenge. By 2011 the sector had achieved a reduction of only 1 per cent, although this was achieved while increasing the volume of teaching and research.

HEFCE action

Sustainable development

It is our ambition that the higher education sector should be a major contributor to society's efforts to achieve sustainability – through the skills and knowledge that its graduates learn and put into practice, its research and exchange of knowledge, and its own strategies and operations.

HEFCE has launched the third round of its Revolving Green Fund, which supports projects that achieve cost savings and reduce carbon emissions.

We will be developing a new sustainable development framework in 2013 that will assess the sector's ability to build on its recent successes in this area, and in particular to deliver on its carbon reduction targets.

Excellence in teaching, research and knowledge exchange – supporting the public interest

124. Financial benefits from higher education for the average student over their lifetime have been shown to be significant. Higher education provides much more than individual financial returns. It transforms lives, is vital to social mobility, generates economic growth, enriches our social and cultural life, and contributes significantly to the UK's international standing. The reputation of higher education in England will continue to rest on its success in providing high-quality teaching, research and knowledge exchange.

Benefits of higher education

Some of the wider benefits of higher education are hard to measure, but the examples below show just a few ways in which higher education has positive and significant impact in the UK and beyond:

- The UK continues to be a preferred destination for international students, attracting 302,680 international students in 2011-12 and with export earnings, including tuition fees and spending by non-UK students, estimated at £7.9 billion in 2009.

  [2011 HESA data]

- With 1 per cent of the world's population, the UK achieves 10.9 per cent of the world's citations of research. The UK has 13.8 per cent of the most highly cited papers – the second highest in the G8 group – and also the highest number of citations per pound spent on research in the G8. This makes the UK the G8's most efficient research system.

  [Report by Elsevier for the Department for Business, Innovation and Skills, International competitive performance of the UK research base – 2011]

- According to the 2012-13 World Economic Forum Global Competitiveness Rankings, the UK was ranked second for university-industry collaboration in research and development, third for the quality of scientific research institutions, and first for the quality of business schools.

- Evidence suggests that higher education provides broader contributions worth £1.3 billion a year to UK society over and above direct economic benefits.

  [Report by New Economics Foundation, on behalf of Universities UK, 2011]

Learning and teaching

Proportion of final year students in the UK who reported that they were satisfied with their course in 2012

85%

125. In teaching, universities and colleges are in a generally strong position, with positive quality reviews and continuing improvements in student satisfaction. For example, in the 2012 NSS 85 per cent of final year students studying in the UK reported that they were satisfied with their course, an increase of 3 per cent from 2009. As the new funding arrangements continue, it will be important to build on the international reputation of higher education in England for excellence and diversity.

HEFCE action

Building on success in learning and teaching

With the gradual transfer of responsibility for the funding of learning and teaching to the student loan system, HEFCE funds will be targeted increasingly on public interest objectives. These include support for:

- widening participation and retention of students
- specialist institutions
- high-cost subjects
- vulnerable disciplines.

Working with the Quality Assurance Agency for Higher Education, we are introducing a more risk-based approach to quality assurance. We will look to ensure that this approach builds on existing good practice to help protect and enhance the student experience. Students will continue to play a key role as partners in the process.

126. The Higher Education Academy is focusing its research and policy work on the impact of the reforms to higher education for the coming academic year (including international comparisons). This programme of work is wide-ranging but will include initial qualitative research into perceptions of the impact of the reforms on learning, teaching and the student experience across the UK.

127. Higher education makes a major contribution to public policy and services. There are significant direct dependencies on higher education across the public sector, particularly in healthcare and in initial teacher education.

a. Higher education is a critical and central part of training for professional healthcare. Universities and colleges train our doctors, dentists, nurses and many other healthcare professionals.

b. In initial teacher education, the Government has decided to shift away from university-based training (with typically high tuition fees) towards an emphasis on school-based training (where the trainee may be paid a salary to train). This may mean that some higher education providers will consider discontinuing their teacher education provision.

128. The depth of these dependencies creates a high degree of potential impact if supply or demand fluctuates. In 2012, healthcare subjects such as nursing and social work have seen some of the most significant fluctuations, in numbers of both applications and acceptances. Early signals show that the number of applications to social work are down again in 2013, by around 7 per cent (although a high proportion of these students are likely to be mature and will typically apply later in the admissions cycle). As more data become available, it will be important to understand the financial impact which a decline in these subjects may have on institutions, as well as the broader impact on the sustainability of the health professions.

Research and knowledge exchange

129. Research and knowledge exchange in higher education are being affected by a combination of the effects of the global recession, changes in economic policy in the English regions, and higher education reforms. All these forces are likely to create greater uncertainty and volatility – but they also present opportunities for universities and colleges. Given the importance of research to economic growth, it would be a false economy to neglect investment in this area.

130. Because of the recession, some sources to which institutions would look for funding may have less to spend. In this context the four-year protection of public research funding from 2011 to 2015 provides some stability.

131. The vitality of research depends on there being enough highly qualified researchers, so it is important that research through PhD and beyond remains an attractive option to the best students. There has been an upward trend in full-time PhD entrants from the UK between 1996-97 and 2009-10[32]. Non-EU international students account for some 30 per cent of entrants – a very significant proportion – but their numbers have been levelling off since 2007-08. This is possibly as a result of growing competition for these students from other countries.

132. The proportion of UK students starting a full-time PhD who took a taught postgraduate masters (or higher) has been growing for some years and is now around 40 per cent[33]. Any change in the profile of students undertaking taught postgraduate courses could ultimately have an impact on the number and diversity of students starting a full-time PhD.

UK students starting a full-time PhD who had previously taken a taught postgraduate masters

Around 40%

HEFCE action

Research and knowledge exchange

The Government and HEFCE, together with the Research Councils, are committed to ensuring research in England remains at the leading edge globally, and are taking a number of actions in this area. These include continuing to distribute quality-related research funding and running the Research Excellence Framework, which will inform research funding allocations from 2015.

The £300 million UK Research Partnership Investment Fund has enabled us to invest in areas that business has identified as promising and where there is a strong, economically significant research base on which to build.

HEFCE invests in knowledge exchange in the expectation of a return for the public good. To stimulate economic growth, the Government has provided an additional £6 million in 2012-13 to the highest performing universities in this area. We will also be allocating an additional £10 million in 2013-15 through HEIF, enabling existing knowledge exchange strategies to be enhanced where there is evidence that the current cap on funding is a constraint to institutions' support of economic growth.

133. The Government's ring-fencing of HEFCE's knowledge exchange funding stream, HEIF, until 2015 has provided some stability in uncertain times. A report on HEIF strategies for HEFCE[34] notes that knowledge exchange 'now finally looks to be permanently embedded within many higher education institutions and has become a strategic activity working to support and enhance research and teaching'.

134. The 2012 Autumn Statement reinforced the Government's commitment to support Local Enterprise Partnerships. These will play an enhanced role in skills provision in their areas, including working in closer partnership with further education colleges. This connects to the important role of universities and colleges in contributing to economic growth and development in their localities.

HEFCE action

Catalysing change

HEFCE has set up a Catalyst Fund to help deliver our aims for higher education across research, teaching and knowledge exchange in the new fees and funding system. It will enable us to invest to sustain important activities and will help us address vulnerabilities in institutions if needed. Funding will be directed with the aim of protecting the collective student and public interest.

Conclusion and next steps

135. This report provides a snapshot of higher education in England. It shows a mixed picture of the impact of the reforms. The sector has had to adapt to change, and different institutions and groups of students have been affected in different ways.

136. It is difficult to draw firm conclusions at this early stage of the change process, but a number of key issues have surfaced. Part-time recruitment of undergraduate and postgraduate students, the related decline in mature entrants, reduced levels of interest in some subjects and the recruitment and retention of students by social background, gender and ethnicity are all issues that require attention and possible action.

137. In three years' time, most undergraduate teaching will be funded through the student loan system, and students who entered higher education after the introduction of the tuition fee reforms will be seeking employment or embarking on further study. The 2014 Research Excellence Framework will have been completed, and new research funding allocations set. We will have a better understanding of the impact of international developments in higher education, innovations in online learning and open access to research. The first students to have been influenced in subject choices by changes to secondary and further education will be entering higher education. Change is endemic in higher education, and institutions will be constantly refining their strategies and academic provision to respond to changing circumstances and to secure financial sustainability.

138. Rapid changes in policy can lead to unpredictable outcomes. With an unstable policy and regulatory framework, universities and colleges may be reluctant to be too bold in their strategies for fear that further change could undermine their approach: on the other hand, universities and colleges need to be bold if they are to compete nationally and internationally. In these circumstances, we will aim to set a framework in which both students and institutions are well-informed, confident about the opportunities and challenges presented to them, and able to make well-founded decisions. The autonomy of institutions, and the spurs to innovation and quality that a student-centred funding system creates, can be a powerful combination.

139. The sector, the Government and higher education regulatory and funding agencies must continue to work closely together to maintain and build upon the success of higher education in England. If we do this well, we will continue to have an internationally respected higher education system which advances and shares knowledge and which is open and responsive to students, businesses, the public sector and the wider community.

140. HEFCE stands ready to play its part. A new HEFCE observatory, to be established later this year, will continue to monitor the impacts of the Government's policy and funding reforms. This will allow us to draw on our experience of intervention, anticipate change, inform evidence-based policy responses, and prompt action where necessary. We will continue to promote and protect the public and collective student interest in everything we do, and to uphold the principles of opportunity, choice and excellence in higher education.

141. We are interested in your views on any of the issues raised in this report. If you are a student, parent, teacher, academic, or other member of staff working in a university or college, or if you are someone who simply has an interest in higher education, we would like to hear from you, via the web-site at www.hefce.ac.uk/impact/. We hope that the report will provide a useful forum for an open, constructive discussion for everyone interested in the success of higher education in England.

Abbreviations and glossary

Acceptance or accepted applicant	UCAS defines an acceptance or accepted applicant as someone who at the end of the admissions cycle has been placed for entry into higher education
Acceptance rate	UCAS defines acceptance rate as the number of acceptances divided by the number of applicants
Applicant	UCAS defines an applicant as a person who has made an application in the UCAS system
Application	The submission of information to the UCAS system by a prospective student that is intended for securing a place in higher education
Application rate	The number of applicants divided by the estimated base population (in this UCAS definition the estimated base population is based on ONS Mid-Year Population Estimates and National Population Projections, and defined further in UCAS' End of Cycle report 2012)
Alternative provider	A provider of higher education courses which is not in direct receipt of recurrent public funding and is not a further education college
BTEC	A work-related qualification designed to accommodate the needs of employers and allow progression to university
Economic Challenge Investment Fund	A fund was set up by HEFCE to help the higher education sector address some of the economic challenges during the recession in 2009
Enrolment	A student who registers as an entrant at a higher education institution or further education college in England and remains on that course for at least two weeks
Entrant	As for Enrolment above
Entry rate	UCAS defines entry rate as the number of acceptances from a UCAS application cycle divided by the estimated base population
EU	European Union
Franchise	Under a franchise arrangement, a student undertakes provision that is delivered by one provider on behalf of another; these arrangements mostly involve a further education college delivering provision on behalf of a higher education institution
Further education college	An establishment mainly offering courses at further education level, but some also offer higher education courses
Headline fee	The full tuition fee a student may be charged for a given course of higher education; many students will pay a lower amount
HEFCE	The Higher Education Funding Council for England distributes public money for higher education to universities and colleges in England

Higher education institution	A university or college of higher education; HEFCE provides funds to 128 higher education institutions
HEIF	Higher Education Innovation Funding is provided by HEFCE to universities to support knowledge exchange activity
HEIFES	Higher Education in Further Education: Students Survey; an annual survey of students on recognised higher education courses at further education colleges
HESA	The Higher Education Statistics Agency collects student, staff and finance data from UK higher education institutions
HESES	Higher Education Students Early Statistics Survey; an annual survey of students on recognised higher education courses at higher education institutions
ILR	Individualised Learner Record, a collection of data about learners and their learning that is requested from providers in the further education sector
KIS	Key Information Sets are comparable sets of information about full- or part-time undergraduate courses and are designed to meet the information needs of prospective students
Knowledge exchange	Knowledge exchange is the range of interactions between higher education and business, the public and third sectors and wider society, by which knowledge, expertise and assets are put to use to achieve economic and social impact
Level 3	Study or a qualification equivalent to A-level
Level 4	Study or a qualification equivalent to BTEC Professional Diploma level
Local Enterprise Partnerships	Partnerships between local authorities and businesses, which decide what the priorities should be for investment in roads, buildings and facilities in the area
MFL	Modern foreign languages
NSP	The National Scholarship Programme began in autumn 2012, and provides funds to individual students from disadvantaged backgrounds as they enter higher education
NSS	National Student Survey
NUS	National Union of Students
OFFA	The Office for Fair Access is an independent public body that helps safeguard and promote fair access to higher education
Participation	Participation is literally 'taking part' in the activity of higher education; it is usually expressed as a participation rate which indicates what proportion of a group enter or 'take part' in higher education
POLAR	Participation of Local Areas is a classification of geographical areas which is based on rates of participation in higher education by young people; areas are ranked by a measure of young participation and then divided into five equal sized groups – quintiles

Pre-U	Also known as the Cambridge pre-U, a post-16 qualification designed to prepare learners with skills and knowledge ready for subsequent study at university
Provision	In the context of this report ‘provision’ generally refers to higher education offered by a university or college
Quintile	A quintile is any one of five equal groups into which a population has been divided according to the distribution of values of a particular variable. In the context of this report, quintiles have been defined based on the distribution of the values of the measure of young participation
Research Excellence Framework	The new system for assessing the quality of research in UK higher education institutions; the first of these will be completed in 2014
SIVS	Strategically important and vulnerable subject(s). The Government has instructed HEFCE to consider what support is necessary for subjects considered to be both strategically important and vulnerable. The health of subjects is monitored using quantitative and qualitative data; intervention may be necessary where the future of a subject or discipline is at risk and the subject is considered strategically important
SLC	The Student Loans Company administers the student loans system, part of the Government's financial support package for students
Specialist institution	A higher education institution that has 60 per cent or more of its provision concentrated in one or two subjects (cost centres) only; examples include music or art colleges
Starter	As for Enrolment above
STEM	Science, technology, engineering and mathematics
UCAS	UCAS is the central organisation that processes applications for full-time undergraduate courses at UK universities and colleges
Unistats	The official web-site for comparing UK higher education course data
Widening participation	Widening participation is when an organisation implements policies and engages in activities designed to ensure that all those with the potential to benefit from successful participation in higher education have the opportunity to do so. This can be at any stage: from pre-entry, through admission, study support and successful completion at undergraduate level, to progression to further study or employment

References

[1] Source: Mid-year population estimates based on data from ONS, age groups aligned by school cohort.

[2] Data from the British Council on outgoing UK Erasmus student mobility by host country, www.britishcouncil.org/erasmus_student_mobility_dest1112.pdf

[3] The UCAS application cycle is set out in further detail on the UCAS web-site. This covers the process of applications, offer-making and acceptances. At the end of the UCAS application cycle, the accepted applicant would typically then register/enrol at their university or college during September/October. For further information see: www.ucas.ac.uk/documents/ucasguides/appflow2013.pdf

[4] Latest indications suggest the return to more normal deferral rates is likely to result in an additional 10,000 students in 2013-14 not accounted for in these UCAS figures. Taking into account the deferral effect and assuming that the acceptance rate remains constant, we estimate growth of 15,000 to 25,000 over and above the 2012-13 recruitment figures.

[5] 'The impact on demand of the Government's reforms of higher education', 2012, Thompson, J., and Bekhradnia, B., Higher Education Policy Institute, www.hepi.ac.uk/478-2110/HEPI--publishes-analysis-of-the-impact-on-demand-of-the-Government's-HE-reforms.html

[6] Research by the Sutton Trust indicates that a graduate with a masters can on average expect to earn £5,500 more a year – or £200,000 over a 40-year working life – than someone holding only a bachelors degree.

[7] 'Futuretrack: Part-time Higher Education Students – the benefits of part-time education after three years of study', 2012, Callender, C. and Wilkinson, B. for the Higher Education Careers Service Unit, www.hecsu.ac.uk/assets/assets/documents/futuretrack_part_time_students_report_oct2012.pdf

[8] 'The impact of higher education for part-time students', UK Commission for Employment and Skills, www.ukces.org.uk/assets/ukces/docs/publications/evidence-report-36-impact-of-he-for-pt-students.pdf

[9] Source: HESA.

[10] Source data: UCAS End of Cycle Report 2012, 13 December 2012, www.ucas.com/about_us/media_enquiries/media_releases/2012/2012endofcycle

[11] Participation of Local Areas (POLAR) classifies areas into five groups, known as quintiles, ordered such that quintile 1 contains areas with the lowest rates of young participation and quintile 5 contains area with the highest rates of young participation. UCAS also looked into the pattern of applications across POLAR2 quintiles in July 2012 – see its report at: www.ucas.com/documents/ucas_how_have_applications_changed_in_2012.pdf

[12] www.hefce.ac.uk/media/hefce/content/whatwedo/leadershipgovernanceandmanagement/equalityanddiversity/equalities_summary_student.pdf

13 Source: 'Tracking the decision-making of high-achieving higher education applicants' was jointly commissioned by the Sutton Trust and the Department for Business, Innovation and Skills from UCAS. The full report is available at www.bis.gov.uk/policies/higher-education/research-analysis

14 NUS 'The pound in your pocket: Survey results' 2012, www.nus.org.uk/PageFiles/12238/2012_NUS_PIYP_Interim_Survey_Results.pdf

15 The factors most frequently cited were the reputation of a university (55 per cent), the overall cost of studying there (38 per cent) and the subjects offered (34 per cent). Source: www.independentcommissionfees.org.uk/wordpress/wp-content/uploads/2012/08/NFER-student-survey-summary_FINAL.docx

16 'Mapping the evidence – a review of the literature: Student financial support in further and higher education', University of Bristol Personal Finance Research Centre, JH Research, National Union of Students, 2012.

17 'Have bursaries influenced choices between universities?' (OFFA 2010/06), www.offa.org.uk/wp-content/uploads/2010/09/Have-bursaries-influenced-choices-between-universities-.pdf

18 'Student finance arrangements for the 2014 to 2015 academic year', Announcement by the Department for Business, Innovation and Skills, https://www.gov.uk/government/news/student-finance-arrangements-for-the-2014-to-2015-academic-year.

19 HEFCE Strategically Important and Vulnerable Subjects (SIVS) Advisory Group reports have monitored trends in the supply of SIVS graduates since 1999-2000. The most recent version of the evidence base is available at www.hefce.ac.uk/whatwedo/crosscutting/sivs/data/

20 Subject groups have been defined by broad Joint Academic Coding System subject grouping and published at www.ucas.ac.uk under Statistical services. For further information see www.hefce.ac.uk/data/year/2012/dataondemandandsupplyinhighereducationsubjects/

21 Table 6 of UCAS publication of 2013 cycle shows applicant figures at the January deadline – www.ucas.ac.uk/about_us/media_enquiries/media_releases/2013/jan13applicantfigures

22 For the latest datasets see www.hefce.ac.uk/whatwedo/crosscutting/sivs/data/

23 Data on deferrals were not available to HEFCE in sufficient time to allow for any robust analysis to feed into the assumptions made on student number controls.

24 Data on 2012 relate to results gained between 1 June 2011 and 31 May 2012 and between 1 June 2010 and 31 May 2011 for the 2011 figures and can be found at www.edexcel.com/btec/news-and-policy/btec-results-day/Pages/default.aspx (PowerPoint presentation, slide 59).

25 The further education colleges with 50 per cent or more margin places unfilled all had relatively small allocations (75 or fewer). Seven of the eight further education colleges with the largest margin allocations (180 or more) had filled 80 per cent or more of their allocation.

26 Figures based on Student Loans Company data, with input from the Department for Business, Innovation and Skills.

27 Data are taken from statistical first releases published annually by the SLC on its web-site at www.slc.co.uk/statistics/national-statistics.aspx

28 Access agreements 2012-13: Final data including initial teacher training' (OFFA 2012/06) www.offa.org.uk/wp-content/uploads/2012/07/OFFA-2012.06-PDF.pdf

29 The OFFA average fee (after waivers) calculation includes an assumption relating to student numbers at further education colleges without access agreements. Additionally, this includes both UK and EU students who pay the fee by a tuition fee loan from the SLC and those who pay the fee by other means. All of these factors contribute to an OFFA average fee (after waivers) that is higher than the average tuition fee loan awarded to English students who have applied for student support via the SLC.

30 OFFA's institution level average fee calculations involve weighting an undergraduate course's fee by the number of students expected on that course. It follows that an institution's average fee can change in two ways: the institution actively altering the fee levels of its undergraduate courses, or a change in the distribution of student numbers across courses with differing fee levels.

31 Source: www.offa.org.uk/publications/

32 Source: 'PhD study: Trends and profiles 1996-97 to 2009-10' (HEFCE 2011/33).

33 This varies considerably by discipline (12 per cent in chemistry, 75 per cent in humanities), partly reflecting the prevalence of the four-year enhanced first degree qualifications in some sciences which negate the need for entry to PhD via the taught postgraduate masters route.

34 'Strengthening the contribution of English higher education institutions to the innovation system: Knowledge exchange and HEIF funding', Public and Corporate Economic Consultants, 2012, https://secure.pacec.co.uk/documents/HEIF11-15-FullReport.pdf

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