



Department
for Business
Innovation & Skills

IMPACT ASSESSMENT

Higher Education and Research
Bill

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Introduction

1. On 16 May 2016, the Government published its White Paper *Success as a Knowledge Economy: Teaching Excellence, Social Mobility and Student Choice*¹. The reforms it sets out will help ensure that everyone with the potential to succeed at university, irrespective of their background, will be able to choose from a wide range of high-quality universities, access relevant information to help them make the right choices, and benefit from excellent teaching that helps them succeed in the labour market.
2. By introducing more competition and choice into higher education through this Bill, we will deliver better value for students, employers and the taxpayers who underwrite the system. It will also strengthen our world class capabilities in research and innovation and, by supporting a strong graduate premium, boost productivity across the whole of the UK.

Summary of Impact of the Bill

3. This document covers the reforms set out in *Success as a Knowledge Economy* that will be taken forward through the 2016 Higher Education and Research Bill. While this document provides a short summary of those measures, those wishing for further detail should refer to the White Paper.
4. As a whole, the proposed reform measures are expected to have a significant deregulatory impact on Higher Education Providers (HEPs).
5. The ability of high-quality institutions to maintain their fees in line with inflation will be a significant benefit to the sector. We estimate that the value of awards for teaching excellence to the sector will be worth on average around £1 billion a year during the first ten years of the Teaching Excellence Framework's operation.
6. The current regulatory framework is highly complex and fragmented with some providers subject to more restrictive and burdensome regulation than others. Measures in this Bill will significantly reduce barriers to entry for new high-quality providers, while creating a level playing field across all institutions and making it easier for high quality providers to thrive and grow. A single market regulator, the Office for Students (OfS), will be established with competition, choice and the student's interest at its heart, and funded primarily through provider registration fees. Together, these measures will reduce the regulatory burdens on the sector.
7. A summary of the impacts from the key policies in the Bill on students, Higher Education Providers, taxpayers, and other parts of society are set out in the table below and in more detail later in this document.

¹ BIS (2016) *Success as a Knowledge Economy: Teaching Excellence, Social Mobility and Student Choice* <https://www.gov.uk/government/publications/higher-education-success-as-a-knowledge-economy-white-paper>

Table 1: Summary of costs and benefits of key policies on impacted groups in the Higher Education and Research Bill

	Students	Higher Education Providers	Government/ Taxpayers	Other
Greater Competition				
<p>Entry to the Sector and Single Gateway</p> <p>Creation of a single entry gateway, with consistent and risk-based regulatory system</p> <p>Level the playing-field to allow new high quality providers to enter the sector to offer their own degrees and call themselves a university</p>	<p>Benefits</p> <p>Increased choice and diversity in the sector able to support a wider set of needs</p> <p>Better value for money and outcomes from high-quality provision</p>	<p>Reduced barriers to entry and growth</p> <p>Reduced administrative costs and duplication</p>	<p>More competitive sector</p> <p>Improved sector results in greater confidence, more students and graduates and faster loan repayments</p>	
	<p>Costs</p>	<p>Costs associated with familiarisation of the new system</p>	<p>Increased student loan outlay</p> <p>Monitoring costs associated with more providers</p>	
<p>Student Protection</p> <p>Introduce a requirement for 'approved' or 'approved (fee cap)' providers to have a student protection plan in place.</p>	<p>Benefits</p> <p>Increased transparency</p> <p>Easier and less costly to continue study in the event of closure</p>		<p>Greater number of students able to continue study, supporting loan repayments.</p>	
	<p>Costs</p>	<p>Costs from developing and implementing a student protection plan</p>	<p>Cost to the Office for Students of monitoring</p>	
<p>Deregulation</p> <p>i) Deregulate the constitutional arrangements set down in legislation that govern HECs so that they are subject to similar requirements to other publicly funded HEPs.</p> <p>ii) Remove the requirement for publicly funded HEPs to submit any changes to their governing documents to the Privy Council for approval.</p>	<p>Benefits</p> <p>Flexible institutions responding more quickly to changing circumstances are more able to meet student needs</p>	<p>More level playing field</p> <p>Greater flexibility to respond to changing business environment and reduced legal costs</p>	<p>Reduced costs from streamlining the process and bringing it into the Office for Students</p> <p>More responsive sector</p>	
	<p>Costs</p>	<p>Small familiarisation costs</p>		

	Students	Higher Education Providers	Government/ Taxpayers	Other
	Improved Choice			
<p>Teaching Excellence Framework</p> <p>Create a framework that both informs students about the quality of teaching at different institutions and incentivises institutions to deliver excellent teaching by providing them with greater freedom to operate under an index-linked tuition fee cap.</p>	<p>Benefits</p> <p>Students will have more information on the quality of teaching at different institutions and courses, supporting more informed choices and better outcomes.</p> <p>Better informed choices as well as long-term improvements in teaching quality will lead to better graduate outcomes</p>	<p>Teaching excellence rewarded with a reputational boost, helping attract more students, as well as the ability to maintain fees to enable the maintenance of high standards.</p> <p>Overall reputation of the sector will be boosted, helping attract more international students</p>	<p>Lower drop-out rates and better graduate outcomes will mean greater and faster repayment of loans, as well as increased tax revenue.</p>	<p>Better signalling of quality of HE providers, and student/ graduate outcomes helping reduce search costs.</p> <p>HE providers better incentivised to tailor teaching to needs of employers.</p> <p>More productive graduates, increase employer profits</p>
	<p>Costs</p> <p>Students at high-quality providers will see tuition fees rise by up to inflation. Students will only repay this additional loan if they earn over the repayment threshold</p>	<p>Costs associated with familiarising and applying. TEF incentives expected to stimulate greater investment in teaching facilities, training and rewards.</p>	<p>Cost of TEF assessment panel</p> <p>Increase in student loan funding to ensure affordability of any fee rises², plus any increase in student numbers.</p>	<p>Potential increase in graduate salaries for employers met through revenues earned from graduates' greater productivity</p>

² The OBR forecasts on student lending assume fee cap increases by RPIX up to 2020, and earnings inflation thereafter.

	Students	Higher Education Providers	Government/ Taxpayers	Other
<p>Information Sharing</p> <p>Require providers to provide information to students and the Office for Students.</p> <p>Require providers to publish data on application, offer and retention rates through a Transparency Duty and require providers without Access Agreements to publish a Widening Participation statement alongside this information.</p>	<p>Benefits</p> <p>Better information to make more informed choices. Better value for money interventions and outcomes Widening of HE participation</p>	<p>Savings to providers and research organisations as no longer required to pay for the data</p>	<p>Assurance that information needed to regulate the sector and support wider policy objectives can be obtained, reduced costs for paying for data</p>	<p>Savings to researchers as no longer required to pay for the data</p>
<p>Require an admissions service, UCAS, (Undergraduate Courses at University and College) to share data with Government and accredited researchers to support policy development</p>	<p>Costs</p>	<p>Costs associated with publishing the Widening Participation statement and information relating to the Transparency Duty</p>	<p>Costs for data cleaning, processing and handling data requests from accredited researchers</p>	<p>Loss in UCAS revenue</p>
<p>Alternative Finance</p> <p>Allow for alternative student finance to be offered alongside equivalent student loans. It would be available to everyone, with no financial advantage or disadvantage relative to equivalent student loan.</p>	<p>Benefits</p> <p>Increase in number and diversity of applicants and graduates</p>	<p>More applications from students now able to find suitable finance product.</p>		
	<p>Costs</p>		<p>Delivery costs of new finance system</p>	

Case for Change

The importance of higher education

8. To ensure that it can succeed in an increasingly competitive global economy, the UK needs to ensure that it has access to a sufficient supply of high level, economically valuable skills. Universities are central to our success as a knowledge economy.
9. Higher education is a key source of productivity growth, equipping individuals with skills that enhance their productivity in the workplace and drive innovation by strengthening the economy's knowledge base. They also nurture the values that sustain our open democracy. Research indicates that a 1% increase in the share of the workforce with a university degree raises long-run productivity by between 0.2% and 0.5%³. For graduates, a degree leads to a better chance of being employed⁴, and an average net lifetime earnings premium comfortably over £100,000⁵.
10. Graduates also contribute to regional economies, with the majority of graduates in employment six months after graduation finding employment in the same region as they studied⁶. Higher education also plays a pivotal role in promoting social mobility by widening participation.
11. Maintaining a world class higher education sector is critical to delivering greater progress on the Government's key economic and social goals. While economic growth in the UK has recently outperformed many G7 economies, productivity continues to lag behind. The latest estimates for 2014 indicate that UK labour productivity (as measured by output per hour worked) was 18 percentage points below the average for the rest of the G7 economies: the widest productivity gap on an output per hour basis since comparable estimates began in 1991⁷. Employers are still experiencing skills shortages especially in high skilled STEM areas⁸, at the same time as 20% of graduates end up in non-graduate jobs⁹. While the graduate premium

³ BIS (2013) *BIS Research Paper No. 110: The Relationship Between graduates and Economic Growth Across Countries* https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/229492/bis-13-858-relationship-between-graduates-and-economic-growth-across-countries.pdf

⁴ The unemployment rate for graduates is 3.0%, compared to 6.7% for non-graduates across the working age population (Graduate Labour Market Statistics Q2 2015),

⁵ The most recent BIS commissioned research (Walker & Zhu (2013)) shows that, on average, a male graduate will earn £170,000 more and a female graduate will earn £250,000 more over their lifetimes, than someone without a degree but with 2 or more A-levels, net of tax and other costs (2012 prices).

<https://www.gov.uk/government/publications/university-degrees-impact-on-lifecycle-of-earnings>

⁶ Internal analysis of the Destinations of Leavers from HE survey, 2012/13

⁷ ONS, International Comparisons of Productivity -

<https://www.ons.gov.uk/economy/economicoutputandproductivity/productivitymeasures/bulletins/international-comparisonsofproductivityfinalestimates/2014>

⁸ For example, there is evidence of significant demand from employers for STEM graduates. 20% of respondents to the CBI Education and Skills survey reported difficulties in recruiting STEM graduates while the Royal Academy of Engineering claimed that there is a need for more than 100,000 STEM graduates per annum, well above the current level of 90,000.

⁹ The Destinations of Leavers from Higher Education longitudinal survey found that one in five employed graduates were not working in a professional job three and a half years after graduation.

has remained substantial even as student numbers have expanded rapidly in recent decades, there is significant variability in graduate outcomes¹⁰.

The importance of further reform in higher education

12. The higher education sector in England has changed significantly over the last twenty five years driven by a series of major legislative policy reforms which have transformed the structure and dynamics of the sector.
13. Since the 1992 Further and Higher Education Act there has been a marked rise in the number and diversity of providers as former polytechnics and colleges of higher education have been granted university status, and caps on student numbers have been relaxed leading to the emergence and growth of new, smaller and more specialist higher education institutions known as alternative providers. Today, there are over 300 providers who receive HEFCE funding directly and over 100 Alternative Providers offering higher education courses¹¹.
14. As part of this change, there has been a fundamental shift in the way the sector is funded away from grant support towards student fee income, funded through income-contingent loans, that have put more power in the hands of students and raised their expectations in relation to the quality of teaching and facilities they experience. In 2014/15, 90 out of 130 HEFCE-funded providers received 15% or less of their income as grant funding, compared to only 3 providers in 2010/11¹².
15. These legislative changes have had a significant impact on the higher education sector. On the supply-side the increase in the number and diversity of providers in the sector and the growth of competition between them has brought about greater choice in terms of where and how students can pursue higher learning. On the demand-side, more people than ever before have been able to benefit from higher education, as reflected in the participation rate which has more than doubled from 19% in 1990¹³ to 40% in 2013¹⁴, with more students than ever before coming from disadvantaged backgrounds.
16. While the reforms over the last twenty five years have laid the foundations for a strong, competitive, well-functioning higher education sector, UK competition authorities¹⁵ have recently noted that there are certain aspects of the current system

¹⁰ A recent IFS study found large variations in graduate earnings depending on choice of subject and institution, as well as background.

¹¹ HEFCE - <http://www.hefce.ac.uk/reg/register/search/Overview>

¹² BIS analysis of the HESA Finance Record 2014/15, includes all grant funding, both for teaching and research.

¹³ The number of UK domiciled young (aged under 21 years) initial entrants to full-time and sandwich undergraduate courses of higher education in Great Britain, <http://letr.org.uk/references/storage/CDXEEMIW/RR676.pdf>

¹⁴ Initial Participation Rate for 17-20 year olds (HEIPR20) for English domiciled first time participants in Higher Education Courses <https://www.gov.uk/government/statistics/participation-rates-in-higher-education-2006-to-2014>

¹⁵ Competition and Markets Authority (2015) *An effective regulatory framework for higher education: a policy paper* https://assets.digital.cabinet-office.gov.uk/media/550bf3c740f0b61404000001/Policy_paper_on_higher_education.pdf

which could be holding back greater competition and choice, limiting the potential benefits achievable to students, graduates, employers and the taxpayer.

17. The main areas for change centre around the complexity of the current regulatory framework which is creating barriers to entry and expansion, the lack of information on course quality which is hampering the ability of students to make informed choices, and the outdated focus of the regulatory system which provides insufficient protection to student interests.
18. Together, strong competition, informed choice and effective regulation play an important role in ensuring that students have access to a wide range of high quality courses and institutions and creating the right incentives for providers to develop and offer new, more innovative products.

Creating a more competitive market

19. Greater competition between high quality new and existing providers in the higher education sector should be encouraged. Recent research by LSE¹⁶ demonstrates the strong correlation between opening universities and significantly increased economic growth. Doubling the number of universities per capita is associated with over 4% higher future GDP per capita.
20. A review of competition in the sector, firstly by the Office for Fair Trading (OFT) in 2014 and then the Competition Markets Authority (CMA) in 2015 identified the key features of the current higher education regulatory framework which are creating barriers to entry and expansion, hampering competition between new and incumbent providers.
21. For example, a condition of entry into the sector is that new providers must rely on incumbents to validate their degrees who may be reluctant to do so, particularly if the new entrant would be a direct competitor. New providers must also go through a separate and time-consuming process to become eligible for government funding or to gain their own degree award powers, which puts them at a disadvantage compared to incumbents in terms of their ability to attract students.
22. The regulatory framework is also highly complex and fragmented with some providers subject to more restrictive and burdensome regulation than others. This has the effect of distorting competition, for example, because it can give some providers an advantage over others in terms of their ability to attract students or offer better or more innovative courses compared to other providers.
23. Finally, under the current system, not all providers have a plan in place to protect students in the event that a course closes or the provider chooses to exit the sector. In such instances, students can be exposed to the financial and non-financial costs associated with transferring to another course or institution.

¹⁶ Valero and Van Reenen (2016) *The Economic Impact of Universities: Evidence from across the globe*
<http://cep.lse.ac.uk/textonly/new/staff/ValeroMimeo2016.pdf>

Choice for Students

24. For competition in the HE sector to deliver the best possible outcomes, students must be able to make informed choices.
25. Students draw on a wide range of different sources of information and advice when considering which course and institution to attend. However, the information available may not always be published on a sufficiently clear, complete and consistent basis across courses and institutions^{17,18}. For example, 93% of applicants surveyed¹⁹ thought it was important to have ‘access to transparent and reliable information about teaching quality in universities when applying’, yet only 59% of applicants felt that they had access to this.
26. This makes it difficult for students to form a coherent picture of where teaching excellence can be found within and between different providers and ultimately which course and institution best meets their needs and career aspirations. As a result, students can end up making sub-optimal decisions, reducing the benefits they, their future employers and society as a whole receive from their investment in higher education. 20% of graduates surveyed²⁰ did not feel that the teaching and broader career support their university provided was enough to help them realise their career ambitions, while a further 26% were undecided.
27. This lack of information on teaching quality also weakens the effectiveness of student choice as a driver of competition since better providers are not necessarily rewarded through greater applications and recognition.²¹ Over one third (34%) of undergraduates paying higher fees in England believe their course represents very poor or poor value for money.
28. At the same time, this lack of information hampers progress on wider participation and social mobility²². Evidence indicates that young people from more disadvantaged backgrounds are judged to not have access to the same level of information, advice

¹⁷ This is supported by evidence in the Higher Education Funding Council for England (HEFCE)'s 2015 consultation “*Review of information about learning and teaching, and the student experience*”¹⁷ which showed that across a sample of HE provider websites, there were variations in terms of accessibility and how well the type of information matched students’ needs and priorities Review of information about learning and teaching, and the student experience: Consultation on changes to the National Student Survey, Unistats and information provided by institutions <http://www.hefce.ac.uk/pubs/year/2015/201524/>

¹⁸ The 2015 HEPI survey found that “A substantial minority of students continue to find the information they were given before they started their course vague (21%) or even misleading (10%), while one in three (34%) say that, knowing what they now know, they would have chosen a different course - HEPI academic experience survey 2015 http://www.hepi.ac.uk/wp-content/uploads/2015/06/AS-PRINTED-HEA_HEPI_report_print+4.pdf

¹⁹ Teaching Quality Survey of applicants and graduates” commissioned by BIS from Youthsight panel

²⁰ Ibid

²¹ HEPI Academic Experience Survey 2015 http://www.hepi.ac.uk/wp-content/uploads/2015/06/AS-PRINTED-HEA_HEPI_report_print4.pdf

²² The Government has made clear its ambition to widen participation in higher education, by setting two ambitious goals to be reached by 2020: firstly to double the proportion of people from disadvantaged backgrounds entering higher education relative to 2009 levels; and secondly, to increase the number of Black and Minority Ethnic students in Higher Education by 20% relative to 2014 levels.

and guidance as their peers from more advantaged backgrounds which can act as a disproportionate barrier to participation²³.

Updating the regulatory and funding architecture

29. As well as creating barriers to entry and expansion, the increasing complexity and fragmentation of the regulatory framework means that the costs to government of monitoring and regulating the sector are greater than they could be. Firstly, there may be some unnecessary duplication of existing regulatory functions across existing bodies. Secondly, high quality providers which are on a more sustainable financial footing and consequently at lower risk of exiting the market, may be subject to greater monitoring and scrutiny than is required.
30. Recent developments in the higher education sector have also caused the regulatory framework to become misaligned, weakening the effectiveness of the current system to deliver the best outcomes for students, employers and the taxpayer. As the funding providers receive has passed from government to the student, so the basis for regulation needs to move from protecting the public purse to protecting the student.
31. On the research side, the current research and innovation funding framework consists of nine different legal entities, each with an individual remit, and only able to fund research and innovation in the precise way set out by legislation. These limits in the current governance of research and innovation funding present challenges to the effective funding of the inter- and multi-disciplinary research needed to address many of the grand challenges facing the world both now, and in the future.

²³ Much of this is summarised in the Sutton Trust report for the National Council for Educational Excellence (October 2008). Other reports, including "Primed for Success" (Institute of Education/Sutton Trust, 2008) and "Knowing Where to Study? Fees Bursaries and Fair Access" (Staffs University/Sutton Trust, 2009)

Wider Impacts of the Bill

32. The Higher Education and Research Bill will deliver greater competition, choice and participation that will, in turn, promote social mobility, boost productivity in the economy and ensure students receive value for money from their investment in higher education. It will also strengthen the UK's world-class capabilities in research and innovation. The main impacts of the Bill are summarised below.

Boost to productivity

33. The Bill will support the Government's aims of improving productivity²⁴ by driving up the standards of teaching in higher education and expanding the number of students receiving high quality teaching. This will improve the value for money and return on investment for both students and the government. Research²⁵ indicates that a 1% increase in the share of the workforce with a university degree raises long-run productivity by between 0.2 and 0.5%, and around 20% of UK economic growth between 1982 and 2005 came as a direct result of increased graduate skills accumulation.
34. In addition, opening the higher education sector to more new entrants will stimulate competition and innovation, increase diversity of choice for students and deliver better value for money. Recent research²⁶ demonstrates the strong correlation between opening universities and significantly increased economic growth. Increases in university numbers significantly raises future GDP per person, and universities increase output not only in their own region but also in neighbouring areas. Doubling the universities in one region is estimated to increase that region's income by 4% and country-wide income by 0.5%.
35. Allowing institutions offering high quality teaching to maintain tuition fees with inflation will ensure that the higher education sector remains financially sustainable and can compete internationally.
36. In addition, the integration of research and innovation funding will give a strengthened, unified voice for the UK's research and innovation funding system, facilitating the dialogue with Government and partners on the global stage. It will also improve collaboration between the research base and the commercialisation of discoveries in the business community, ensuring that research outcomes can be fully exploited for the benefit of the UK. If these reforms resulted in a one percentage point increase in the rate of return achieved by just 10% of the research and innovation

²⁴HMT (2015) *Fixing the foundations: Creating a more prosperous nation*
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/443898/Productivity_Plan_web.pdf

²⁵ See footnote 3

²⁶ Valero and Van Reenen (2016) *The Economic Impact of Universities: Evidence from across the globe*
<http://cep.lse.ac.uk/textonly/new/staff/ValeroMimeo2016.pdf>

spend from 2020-21 onwards, the economic benefit would be around £250m over the next 10 years²⁷.

Greater Competition and Choice in the Sector

37. These reforms will make it easier and quicker for providers to enter the higher education system, so long as they can demonstrate that they have the potential to deliver high quality provision.
38. Our deregulatory proposals, alongside the introduction of risk-based regulation, will reduce burdens and mean that each year we will see new high quality providers encouraged to enter the sector. In addition, we expect a significant number of existing, unregulated, alternative providers will take the opportunity to be registered by the Office for Students.
39. With the costs, bureaucracy and timescales associated with entering and then growing within the HE system all reduced, we can expect to see greater entry of new providers to the Approved and Approved (Fee Cap) categories. This will include both brand new entrants to HE; those who have previously been put off from seeking regulatory approval and designation, and who have hence been outside the system; those seeking student support for postgraduate courses; and those fulfilling the requirements of their Tier 4 trusted sponsor status.
40. More degree-level providers, currently reliant on incumbent providers to validate their degrees, will be able to award their own degrees. It will also be easier and simpler for providers with full degree awarding powers to gain university title.
41. The Teaching Excellence Framework will also encourage increased competition in the sector by enabling students to make direct comparisons between the quality and value offered by different institutions and courses. Falling real tuition fee income could threaten the sector's ability to deliver the high quality of education needed to help students realise their career ambitions and meet the needs of the UK's economy and public services. Allowing institutions that demonstrate teaching excellence to maintain their fees by up to inflation should help those parts of the sector delivering excellence to maintain it and provide a strong incentive to institutions not currently at that level to improve.
42. It is also anticipated that the sector as a whole, through the expansion enabled by these reforms and an even stronger reputation for quality and value, will benefit from these reforms. While it is difficult to make a precise estimate, we expect student numbers to increase, primarily through widening participation and maintaining our share of the international student market.

Better Outcomes and Value for Money for Students

43. The greater competition and choice generated by reducing barriers to entry to the sector and removing unjustified regulation will bring significant benefits to students. It

²⁷ Refer to the forthcoming Impact Assessment on Research and Innovation Reform

will help drive more choice to meet the diverse needs of students; encourage innovation; and deliver greater value for money.

44. Students will also be better equipped to make more informed choices between institutions and courses in this more dynamic and inclusive sector. The focus on transparency, through the Transparency Duty, greater information sharing and better information about the quality of teaching at institutions through the Teaching Excellence Framework, will ensure that prospective students have the relevant information to help them make the right choices for their future. While the incentives in TEF mean that tuition fees will rise, this will be by some proportion of inflation and so will not mean an increase in real terms. The amount of student loan funding available will automatically adjust and repayments will continue to be on an income-contingent basis, meaning this will not affect the affordability or incentive to go on to higher education.
45. The requirement for providers to ensure that students are protected in the event of course or provider closure, alongside the fact that the Office for Students will be explicitly pro-student choice will further increase students' confidence in the sector.
46. Furthermore, increased competition between providers and a greater focus on teaching quality will drive up teaching standards across the sector as institutions compete for both financial and reputational rewards. This will improve the value for money of investments in higher education, while enhancing the outcomes of students.

Improved graduate outcomes

47. The Teaching Excellence Framework defines teaching broadly – including the teaching itself, the learning environments in which it takes places and the outcomes it delivers. This focus on educational and employment outcomes will incentivise institutions to focus on student employability. This could take the form of improved careers advice, teaching that is more relevant to employer needs through employer engagement or inclusion of employability skills in core learning.
48. Greater data transparency and the matching of higher education student records to HMRC data will result in students benefiting from increased amounts of information on the outcomes for graduates from different institutions and for different subjects. This should lead to more informed decision making, which over time should result in better matching between graduates and employer skills demands.

Employers get the skills they need

49. Higher standards of teaching, and greater focus on employability for students, will help raise graduates' productivity and enable them to secure better jobs and careers. The Teaching Excellence Framework will enable employers to make more informed choices about the graduates they recruit, providing better understanding of the range of skills and knowledge they bring from their course, and deliver graduates who are more work ready following an active engagement in their studies.

50. In addition, more graduates in the labour market will help to address the current mismatch between supply and demand across different subject areas. For example, there is evidence of significant demand from employers for STEM graduates. 20% of respondents to the CBI Education and Skills survey²⁸ reported difficulties in recruiting STEM graduates while the Royal Academy of Engineering have identified a need for more than 100,000 STEM graduates per annum²⁹, well above the current level of 90,000. Improved information for students regarding graduate outcomes should facilitate more informed student choices regarding the courses and sectors they seek to enter.
51. High quality new providers will enable us to meet the continued demand for more highly skilled employees, with over half of job vacancies between now and 2022 in occupations most likely to employ graduates³⁰.

Increased capacity to support higher demand from domestic students

52. The Government has no target for the “right” size of the higher education system, but believes it should evolve in response to demand from students and employers, reflecting the needs of the economy.
53. Evidence suggests that the demand for higher education will continue to increase over the next 10 years. Recent trends in UCAS data show young people becoming more likely to apply for higher education. Population forecasts anticipate that, despite an initial dip, by 2025/26 the number of young people will begin to increase. Even without these reforms, we anticipate that there will be around 1.2 million full-time UK domiciled students at HEIs and FECs by 2025/26 compared to 900,000 in 2014/15. Increased capacity in the sector will support an increase in demand from domestic students.

Wider Participation

54. We want to ensure that all individuals are able to access higher education if it is the right choice for them, and that those who do enter higher education receive high quality teaching and value for money. Measures to promote widening participation will increase the diversity of the student population, while the Office for Students’ focus on access and widening participation will ensure that a quality higher education experience is available for students from all backgrounds. This, together with the announcement of the Transparency Duty, greater information sharing and an increase in the number of providers signing access agreements and widening participation statements will continue to support the increased participation,

²⁸ CBI (2014) *Gateway to growth: CBI/Pearson education and skills survey*
<http://www.cbi.org.uk/media/2807987/gateway-to-growth.pdf>

²⁹ Royal Academy of Engineering (2012) *Jobs and growth: the importance of engineering skills to the UK economy* <http://www.raeng.org.uk/publications/reports/jobs-and-growth>

³⁰ UKCES (2014) *Working Futures 2012-2022 report*
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/298510/working-futures-2012-2022-main-report.pdf

particularly from disadvantaged backgrounds, which has been seen over recent years. The introduction of an alternative finance product will ensure that all students are able to access higher education, regardless of their religious beliefs.

55. Furthermore, changes to reduce the barriers to entry into the higher education market and create a level playing field should be disproportionately beneficial to students from low participation backgrounds. In particular, greater competition should lead to providers being more responsive to the different needs of prospective students, for example offering more flexible study routes. The growth in providers in the regulated part of the market should also provide greater assurance on the value of higher education to those from backgrounds where attendance is not the norm. It will also mean a greater range of course options that attract student finance, which is likely to be even more important for affordability for this group.
56. For more detail on the impact of these reforms on different student groups and existing trends in participation and outcomes, please refer to the Equalities Analysis the Government has published alongside the 2016 Higher Education and Research Bill³¹.

More international students

57. While demand for higher education in the UK is likely to remain strong in the long-term, the increase in overall global demand is likely to be even greater. The global tertiary international student market is growing rapidly and becoming increasingly competitive as countries invest more in education. Globally, the number of international students more than doubled from 2.1m in 2000 to over 4.5m in 2012³². The OECD has projected that, with demographic changes, international student mobility is likely to reach 8 million students per year by 2025³³.
58. The UK is in a strong position to take advantage of this growth as we have a strong reputation for quality with more universities in the “top 100” league tables than any other country other than the USA – the UK has four universities in the world’s top 10, and 18 in the world’s top 100³⁴. The UK’s success in attracting international students (both EU and non-EU) is reflected in its market share of the international student market. The UK continues to be the second most popular destination for international students, with 10% of the market share³⁵.
59. There has been significant growth in student numbers across the sector in recent years³⁶ and this is forecast to grow further. Institutions are already forecasting a 23%

³¹ BIS (2016) *Equality Analysis of the Higher Education and Research Bill*

<https://www.gov.uk/government/publications/higher-education-and-research-bill-equality-analysis>

³² OECD (2014) *Education at a Glance*

³³ OECD (2012) *Assessment of Higher Education Learning Outcomes* www.oecd.org/education/skills-beyond-school/AHELOFSReportVolume1.pdf, p. 26

³⁴ QS World University Rankings 2015/16

³⁵ OECD, *Education at a Glance*, 2015

³⁶ Latest HESA figures from 2014/15 show that students from outside the UK totalled nearly 470,000 – 19% of all enrolments. Around 312,000 of these enrolments were non-EU students. Non-EU students’ tuition fees provide a significant contribution of almost one eighth of the UK higher education sector’s income – a total of £4.2bn

increase in the number of non-EU students between 2015/16 and 2019/20³⁷ and a 10% increase in domestic and EU students over the same period. If the UK is to maintain its market share of 10% of the international student market over this period, we need a greater supply of student places from existing and new providers. New universities will serve the national economy by enabling us to continue to capture our share of international students who increasingly demand access to top quality education.

60. The combined impact of better quality teaching, more high quality providers and boosted reputation of the sector should help the UK, and in particular England, to gain a greater share of this growing global market.

Better Value for Money for the Taxpayer

61. The creation of the two new bodies – the Office for Students and UK Research and Innovation will result in efficiency savings from the merger of regulatory functions and reduced costs resulting from the reduction of the current duplication of functions and outputs across the funding bodies. The creation of a single entry gateway and the move towards a more flexible and risk-based regulation framework is likely to be a source of further savings to government (e.g. from reduced monitoring costs) and provide better safeguarding of public money.
62. It is proposed that part of the cost of regulation is borne by the sector rather than the taxpayer, given budget pressures and moving to a similar model to central regulators in other sectors (e.g. healthcare, school education, utilities). This funding model will result in savings for the taxpayer, while allocating costs fairly across providers and avoiding creating barriers to entry to the sector as a result of transferring the costs of regulating the sector onto providers.
63. More broadly, widening participation, increasing capacity and allowing institutions that demonstrate teaching excellence to maintain their fees up to inflation, will require additional student loan outlay. However, this could be offset by improved graduate outcomes – driven by greater competition, more informed choice and better incentives to increase teaching quality - leading to faster loan repayments and increased tax revenues in the longer-run.

³⁷ HMT (2015) *Spending Review and Autumn Statement 2015*
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479749/52229_Blue_Book_P_U1865_Web_Accessible.pdf

Annex A: Higher Education Providers

Provider types in the current system

Higher Education Institutions (HEIs)

Higher Education Institutions (HEIs) are defined by the Further and Higher Education Act 1992 as any provider which is one or more of the following: a UK university; a higher education corporation; or a designated institution. There are 131 HEIs in England³⁸, serving between 225 and 110,000 students³⁹ each.

HEIs receive direct public funding in the form of both grant and student support funding. The majority of their courses are at HE level. They are subject to a £9,000 tuition fee cap per year for undergraduate courses, subject to signing an access agreement with Office for Fair Access (OFFA)⁴⁰.

HEIs are the largest of the provider types in terms of student numbers and account for the largest proportion of higher education provision in England – in 2014/15 they taught 2.27 million HE students (over 80% of the HE student population).

All publicly-funded HEIs are not-for-profit. All 123 HEIs that offer full-time undergraduate courses currently have access agreements in place, and average full-time undergraduate fees for the 2015/16 academic year are estimated by the OFFA to be £8,830⁴¹.

Further education colleges (FECs) offering HE courses

A Further Education College is a body, which may provide both further and higher education for those over compulsory school age. HE courses at FECs are publicly funded by HEFCE and by the funding body for post-19 education and training, the Skills Funding Agency. There were 244 FECs offering HE courses in 2014/15; with 204 of them in receipt of HEFCE funding for HE provision⁴². Further Education Colleges may apply to the Privy Council to gain foundation degree awarding powers in their own right, although this is quite rare.

In addition to HEFCE funding, FECs may also access student support for designated HE courses, with the same tuition fee caps and conditions as HEIs (£9,000 per year for full-time, undergraduate courses with an access agreement in place, £6,000 without an agreement). According to OFFA, 49 out of 204 FECs offering full-time undergraduate

³⁸ HESA data for 2014/15. <https://hesa.ac.uk/component/content/article?id=2884&limit=&start=0>

³⁹ HESA - HE students by HE provider, level of study, mode of study and domicile 2014/15

⁴⁰ Access Agreements set out how institutions will sustain or improve access and student success, which includes retention, attainment and employability. See more at: <https://www.offa.org.uk/> HEIs without an access agreement are subject to a £6k tuition fee cap for undergraduate courses.

⁴¹ OFFA - <https://www.offa.org.uk/press/quick-facts/>

⁴² HEIFES - <https://data.gov.uk/dataset/higher-education-in-further-education-student-survey-heifes>

provision have access agreements in place in the current academic year. Average full-time undergraduate fee for those courses is estimated by OFFA to be £7,000.

BIS research in 2012⁴³ found that the majority of FECs in 2010 offered some kind of higher education, but that HE was a minor activity in the majority of such colleges. The number of HE students at FECs ranges between fewer than ten and over 3,000⁴⁴. In total, there were around 75,000 higher education students studying at 204 HEFCE-funded FECs in 2014/15.

Alternative Providers (APs)

Alternative providers are those providers which do not receive grant funding from HEFCE or any other kind of recurrent public funding⁴⁵ and are not Further Education Colleges. APs are able to apply to have HE courses designated for student support funding. Students enrolled at APs on specifically designated courses can receive tuition loans of up to £6,000 per year as well as maintenance loans. They are not subject to a tuition fee cap. 110 APs (including those with Degree-Awarding Powers) had courses designated for student support for academic year 2015/16.

They tend to be small and specialised — research for BIS⁴⁶ identified 690 alternative providers in England in 2014, 47% of which had 100 or fewer higher education students. APs are generally younger than their HEI and FEC counterparts, but the same BIS study found that the alternative provider market appeared “fairly established, with more than three fifths operating for more than 10 years”.⁴⁷ Two-thirds of APs were estimated to operate on a for-profit basis.

The share of provision by alternative providers has been growing in recent years, but still represents a fairly small part of the sector – there were estimated to be between 245,000 and 295,000 students at APs in 2014⁴⁸ studying higher education courses, which would represent around 9% - 11% of total HE students. However, higher education course status was determined through self-reporting by APs, rather than official recognition of some kind. Only around 38,400 AP students were estimated to be on designated higher education courses in 2014/15⁴⁹.

⁴³ BIS Research Paper no.69 (June 2012): Understanding Higher Education in Further Education Colleges, p65 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/32425/12-905-understanding-higher-education-in-further-education-colleges.pdf

⁴⁴ HEFES14, refers to 204 FECs in receipt of HEFCE funding

⁴⁵ For example, from a local authority or the Secretary of State for Education

⁴⁶ BIS Research Paper no.227 (2016): *Understanding the market of alternative providers of higher education and their students in 2014* <https://www.gov.uk/government/publications/alternative-providers-of-higher-education-the-market-and-students-in-2014>

⁴⁷ Note that this was the number of years the organisation has been in existence, which was not necessarily the same as the number of years they had offered higher education.

⁴⁸ See footnote 46

⁴⁹ SLC (2016) 'Student Support for Higher Education in England' <http://www.slc.co.uk/official-statistics/financial-support-awarded/england-higher-education.aspx>

Figure 1 and Figure 2 below show the breakdown of higher education sector between different types of provider, based on most recent data available⁵⁰.

Figure 1. Number of providers in each category, 2014/15

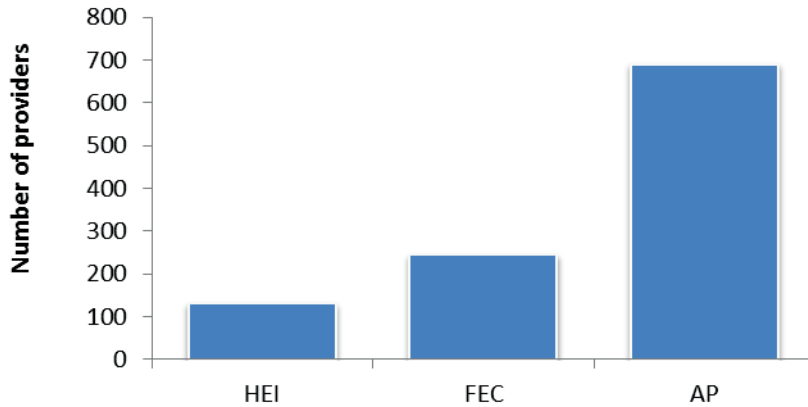
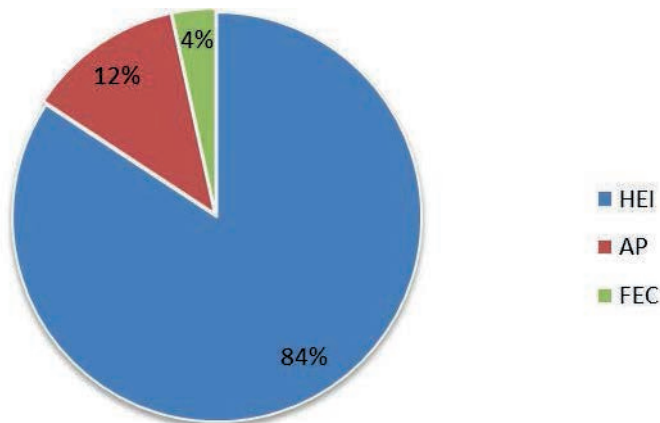


Figure 2. Breakdown of higher education students in 2014/15, by type of provider



Provider types in the new system

The new system will create a level playing field between all providers, with a single gateway to enter the sector and risk-based regulatory system. Providers wishing to be a part of the recognised sector will be able to choose from one of three operating models:

Registered - Basic

“Registered - Basic” status will offer HE providers a chance to become officially recognised, but does not mean that their students will be able to access student support loans or public funding. Their courses must match the academic standards as they are described in the Framework for Higher Education Qualifications (FHEQ) at least Level 4 or

⁵⁰ HEFCE HE provider register, OFFA and BIS internal data and BIS Research Paper no 227

higher, and they must subscribe to the independent student complaints body, the Office of the Independent Adjudicator (OIA).

This model is expected to attract APs that are currently not formally recognised by the government, as well as FECs that do not teach courses eligible for student support.

All providers wishing to access public funding for their courses, attract students funded through the student finance system, or wishing to be able to make an application to the Home Office for a Tier 4 licence, would be able to choose between the two following **approved** models:

Approved

Students at Approved providers will be able to access up to £6,000 per year tuition fee loans for undergraduate courses or, if the institution does well in TEF, the inflation-adjusted annual cap. Approved providers will be able to set their fees at any level. Approved providers must meet the requirements on quality assurance (QAA review; and new QA framework from 2018/19), financial sustainability, management and governance (FSMG). They would also need to meet the CMA requirements regarding students' rights as consumers; and adhere to the OIA's good practice framework.

This operating model is expected to be attractive to the majority of the APs, who currently operate under similar regulatory requirements (£6,000 fee loan cap, no cap on undergraduate tuition fees).

Approved (fee cap)

Approved (fee cap) providers will be subject to a tuition fee cap for undergraduate courses. There will continue to be a basic cap of £6,000 per year and a higher cap of £9,000. In each case, if the institution does well in TEF, the inflation-adjusted annual cap would apply. As is currently the case, these providers will be required to agree an Access Agreement with the Office for Students if they want to charge fees above the basic cap. Eligible students at these institutions will be able to access loans to cover all of their fees. Approved (fee cap) providers will also be eligible to receive teaching grant funding from the Office for Students and research funding from UK Research and Innovation. In addition to the requirements for the Approved model, providers that enter as Approved (fee cap) providers will have to comply with more stringent FSMG requirements, comparable to those currently required of HEFCE-funded providers; and operate within the HE Code of Governance.

Existing HEIs and FECs are all expected to move to this model – as they currently operate under a similar model. Many APs are also expected to move to this to take advantage of higher tuition fee loans for their students and access to teaching grants.

Past developments in HE sector

The Higher Education sector in England has undergone a rapid and significant transformation over the last thirty years. Since the 1992 Further and Higher Education Act, there has been a significant rise in the number of providers as the definition of university

has been extended to include firstly former polytechnics and then many colleges and smaller more specialist providers of higher education.

1992 Further and Higher Education Act - The passage of the Further and Higher Education Act in 1992 allowed all 35 former polytechnics⁵¹ to become universities and award their own degrees. This led to a growth in the number of providers and an expansion in the range of courses offered.

Further growth in the number of universities - Following the 2004 Higher Education Act, the requirements for obtaining degree-awarding powers and gaining university title were further relaxed. 48 new universities have been created (including those created by mergers of existing universities). There are now 106 universities in England, and 131 HEFCE-funded providers.

Growth in the number of Alternative Providers - Due to a series of reforms in the last Parliament, the higher education system is now more open than ever to different types of provider. The reforms of the 2011 Higher Education White Paper reduced the income that public providers received from teaching grants and increased the tuition fee loans available to students at APs to £6,000 per year. This improved APs ability to compete. The table below looks at the increase in the number of designated alternative providers.

Table A1 APs with designation for student support, 2006/07 to 2014/15⁵²

Academic Year	Number of designated APs	Students accessing support	Total student support (£m)
2006/07	64	3,280	19.1
2007/08	60	2,820	18.5
2008/09	65	3,270	22.7
2009/10	82	4,230	29.2
2010/11	94	5,860	42.2
2011/12	110	12,240	100.3
2012/13	120	30,160	267.7
2013/14	148	52,516	724.8
2014/15	138	44,685	609.8
2015/16 ⁵³	110	-	-

Degree Awarding Powers. Following the Higher Education Act 2004, APs were first allowed to obtain the power to award their own degrees. Subsequent reforms have further relaxed the criteria for obtaining DAPs. There are currently 9 APs with the power to award their own degrees.

⁵¹ A polytechnic was a higher education teaching institution offering HE degrees that were governed and administered at the national level. Upon graduating, students would be awarded degrees governed by the Council for National Academic Awards.

⁵² Source: Student Loans Company Management Information

⁵³ Complete data on number of students and amount of support provided is not currently available for 2015/16

Current number of HE providers. The following table shows the current number of providers in the HE sector in England, based on the most recent available data⁵⁴.

Table A2: Current breakdown of providers in HE sector

Category	Number of HE providers
APs	690
Not in the system	580
Have access to student loans	110
<i>of which with DAPs</i>	9
Higher Education Institutions	131
Further Education Colleges	244
Without access agreements	150
With access agreements ⁵⁵	94
TOTAL HE providers	1065

Forecast number of providers following the reforms

The following shows the forecast impact of proposed Higher Education and Research Bill reforms on the number of providers in the sector. This is summarised in Table A3 below. It looks at the current structure of the HE sector, and recent trends and applies a set of assumptions about how individual HE providers will respond to the reforms. It is important to stress that these estimates are subject to considerable uncertainty, and should be regarded as illustrative of the broad changes we expect. Overall, as a result of the reforms, it is expected that:

- a. **We will give HE providers the opportunity to become ‘Registered’ with the Office for Students; and remove the unnecessary bureaucracy from the system.** As a result, we expect the number of providers recognised (in one of the three Registered categories) by the government, to increase: with 580 in 2018/19, rising up to 806 by 2027/28. Consequently; the number of providers outside the system would decrease from 553 in 2018/19 to 314 by 2027/28.

⁵⁴ Department for Business, Innovation and Skills (2016) “*Understanding the market of alternative providers of higher education and their students in 2014*”, HEFCE HE provider register, OFFA and BIS internal data

⁵⁵ Only providers with access agreements with Office for Fair Access are allowed to charge more than £6,000 (and up to £9,000) for undergraduate degrees.

- b. **A large proportion of providers will become Registered - Basic – which will mean improved oversight of the sector and student protection.** It is expected that 62 providers will enter that category in 2018/19; with total number in this category rising to 121 in 2027/28.
- c. **With the costs, bureaucracy and timescales associated with entering the HE system all reduced, we can expect to see significant entry of alternative providers to the Approved and Approved (Fee Cap) categories** with 145 in 2018/19 and 311 in 2027/28. The increase will include both brand new entrants to HE; those who have previously been put off from seeking regulatory approval and designation, and who have hence been outside the system; those seeking student support for postgraduate courses; and those fulfilling the requirements of their Tier 4 trusted sponsor status.
- d. **We will also promote competition by offering more flexible options for providers to obtain their own Degree Awarding Powers. As a result, we expect far more degree-level providers, currently reliant on incumbent providers to validate their degrees, will choose to award their own degrees.** The number of APs with DAPs is expected to increase from 9 in 2014/15 to 51 in 2018/19; and to 118 by 2027/28, particularly as existing institutions gain their own DAPs and no longer rely on validation arrangements.
- e. **The number of FECs offering HE courses is expected to remain stable throughout – changes to the system will not have very significant effects on them, and majority of FECs already offer HE courses.**

All providers, currently receiving public funding from HEFCE, are expected to remain in the sector, as they are large and financially stable.

Table A3: Forecast number of Higher Education providers, 2018/19-2027/28

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Outside the system	553	531	500	470	439	408	380	355	333	314
Recognised as in the system	580	601	624	649	676	705	733	759	783	806
Registered - Basic	102	106	111	116	122	128	134	138	143	147
APs	62	68	75	82	89	97	104	110	116	121
<i>with DAPs</i>	0	0	0	0	0	0	0	0	0	0
<i>without DAPs</i>	62	68	75	82	89	97	104	110	116	121
FECs	40	38	36	34	33	31	29	28	27	25
HEIs	0	0	0	0	0	0	0	0	0	0
Approved	88	98	110	122	135	149	162	174	186	197
APs	88	98	110	122	135	149	162	174	186	197
<i>with DAPs</i>	30	31	32	34	37	40	44	47	51	54
<i>without DAPs</i>	58	68	78	88	98	108	118	127	135	143
FECs	0	0	0	0	0	0	0	0	0	0
HEIs	0	0	0	0	0	0	0	0	0	0
Approved (fee cap)	390	397	403	411	419	428	437	446	454	462
APs	57	62	67	72	79	86	94	101	108	114
<i>with DAPs</i>	21	24	28	33	38	43	48	54	59	64
<i>without DAPs</i>	36	37	38	40	41	43	45	47	49	50
FECs	204	206	208	210	211	213	215	216	217	219
HEIs	129	129	129	129	129	129	129	129	129	129

Annex B: Specific Impact Tests

Competition Assessment

The proposed measures are expected to enhance competition in the sector by reducing barriers to entry and expansion, thereby increasing the number and range of higher education providers operating within the regulated part of the sector (while ensuring appropriate safeguards for students are in place). Competition in the sector is also expected to be enhanced through price differentiation and greater availability of information about the standards at each institution. This will increase the incentives for providers to compete on both the price and quality of their provision.

The number and range of providers of HE are expected to increase

Overall, the proposed measures will enable more high-quality universities to enter the sector by reducing various regulatory barriers to entry. In particular, it is expected that:

- a) There will be a marked increase in the number of Higher Education Providers meeting the quality standards necessary to ensure their students are eligible to receive student loan funding (Approved or Approved (fee cap)) – something essential to many students participation in higher education.
- b) The number of providers recognised by the government will increase, while the number of providers outside the system would decrease.

The ability of providers to compete will be increased

In addition to reducing barriers to entry, the proposed reforms will increase the ability of providers in the sector to expand and compete. In particular:

- a) Through the single entry gateway, providers will experience reduced barriers to entry, expansion and operation. The reforms will reduce costs for new providers and increase these providers' ability to gain access to student support. This will level the playing field between providers, increasing their ability to attract students. This will improve competition in the sector and motivate all institutions to drive up their standards.
- b) Increased provider flexibility associated with streamlining the governing document approval process (deregulatory measures) will allow Higher Education Providers to move more quickly to respond to changes in the market and take advantage of business opportunities. This will mean that institutions will face the same regulatory costs, making them more efficient, competitive and able to deliver greater value for money; therefore increasing their attractiveness to students.
- c) While a system of price controls (in the form of tuition fee caps) remains, the Teaching Excellence Framework will provide a mechanism through which high-quality providers may attain greater pricing flexibility. Prices should therefore reflect the quality of provision at institutions. Furthermore, the TEF will put demand-side

pressure on institutions to increase their standards, as more information will be available to prospective students about the quality of teaching at institutions, impacting their institutional choice making. Overall, the TEF will encourage providers to compete on price and quality.

Suppliers' incentives to compete vigorously will be increased

The proposed reforms will increase incentives for competition in a number of ways:

- a) One of the barriers to further competition in the sector identified by the CMA (2015) report was that student choice may not be a sufficient driver for quality; owing to higher education's nature as an experience good whose value/quality is difficult to appraise. The information sharing measures and the creation of the Office for Students are expected to address this by improving the information available to students. With more relevant, comparable and accessible information about providers, courses, and prospects on graduation, students' capacity for making informed decisions will improve, and pressure on providers to actively ensure that they are offering and delivering what students demand will increase.
- b) The Teaching Excellence Framework will strengthen providers' financial and non-financial incentives to make improvements in teaching quality. By granting formal recognition to the best performers in teaching standards, there will be increased reputational pressure on other providers to keep raising their own teaching quality.

Small and Micro Business Assessment

In the higher education sector, the size of a provider is usually based on the size of its student population, as it is considered more relevant than employee numbers. For example, institutions with the same number of employees may have significantly different student populations, and therefore could greatly vary in size. However, for the purposes for the Small and Micro Business Assessment, we look at the number of employees at each institution.

2014/15 HESA data shows that HEIs have on average 2,489 employees and that the smallest number of employees at a single HEI is 80. Analysis of the Further Education workforce data for England Report⁵⁶ shows that the average FTE staff per college is 383 for England. Therefore, we do not believe any HEI or FEC to be classified as a small business for this assessment.

However, we believe the average size of Alternative Providers is smaller: 95% (out of a sample of 160 APs) had 50 employees or fewer.⁵⁷ This includes all such providers,

⁵⁶ Frontier Economics (2014) *Further Education workforce data for England* <http://www.et-foundation.co.uk/wp-content/uploads/2014/09/SIR-Report.pdf>

⁵⁷ BIS Research Paper no 111 (2013) *Privately funded providers of higher education in the UK* https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/207128/bis-13-900-privately-funded-providers-of-higher-education-in-the-UK.pdf

whether or not they offer courses eligible for student support. The most recent data suggests that APs account for 12% of all providers in the sector.⁵⁸

We have estimated that the Bill will have an overall deregulatory impact to all institutions. However, it may be the case that some larger institutions will benefit disproportionately more than smaller institutions (typically Alternative Providers in the current system).

Smaller institutions will benefit significantly from the single entry gateway. With the costs, bureaucracy and timescales associated with entering the HE system all reduced, we can expect to see greater entry of new providers to the Approved and Approved (Fee Cap) categories. This will include both brand new entrants to HE; those who have previously been put off from seeking regulatory approval and designation and who have hence been outside the regulated system; those seeking student support for postgraduate courses; and those fulfilling the requirements of their Tier 4 trusted sponsor status.

More degree-level providers, currently reliant on incumbent providers to validate their degrees, will be able to award their own degrees. Where providers can demonstrate that they fully meet the standards for degree awarding powers, they will also have the opportunity to gain university title, recognising the contribution they make to the English HE sector. Thus, small institutions will benefit disproportionately more than larger institutions as a result of the single entry gateway, as it will create a level playing field for all providers in the sector; allowing smaller institutions in particular to compete more effectively for students.

The creation of the Office for Students is not expected to have a disproportionate impact on smaller providers, as the subscription costs to all providers will be based on the size of the institution. Other measures such as Alternative Finance and Power to Enter and Inspect are also not expected to have a disproportionate impact on smaller providers; nor the Research proposals to bring together nine regulatory bodies into one.

However, some of the proposals in the Bill will not differentiate by size of provider. This is to ensure the benefits of the Bill apply uniformly to all students; regardless of the type of provider they attend. All HE providers will have the opportunity to apply to the Teaching Excellence Framework in order to have the quality of their teaching recognised. It is expected that the cost of applying for TEF will be similar across all providers and therefore proportionately greater for smaller providers. As TEF is voluntary we only expect institutions to apply if they believe the benefits will outweigh the costs to them. In its early years, it is expected that many Alternative Providers will not have sufficient data to demonstrate their track record to achieve higher TEF awards. Where this is the case, in order to minimise any competitive disadvantage, the TEF assessment panel will flag that this is the reason for their award. This may have reputational impacts on these providers, and reduce their ability to compete for students. Furthermore, depending on whether which part of the sector they belong to, they will not be able to increase their tuition fees by the full amount of inflation or maximise the amount of student loan funding their students will be able to borrow to set against of their fees.

⁵⁸ BIS Research Paper no.227 (2016): *Understanding the market of alternative providers of higher education and their students in 2014*

The reforms in relation to the Information Sharing and Transparency duty will apply to all providers, irrespective of their number of employees. While the cost to providers will vary according to the number of students they teach, and hence be correlated with the size of their workforce, there will also be some fixed costs (e.g. in terms of publishing or transferring data) and hence smaller providers will face proportionately greater costs. However, the Government believes it is essential that this duty applies to all providers to ensure students can make informed choices across all providers. Institutional-level information for all providers will aid student decision making, whilst greater transparency will incentivise institutions to act to ensure they have a representative student body, leading to improvements in social mobility.

The requirement to put in place a student protection plan will also apply to all providers and, while having some relation to the size of the student population, is likely to be proportionately greater for smaller providers. Despite this, the Government believes that it is important all students can be assured that measures are in place to support them in completing their studies in the event of course closure. As historically, Alternative Providers have exited the sector the most frequently - although it has not occurred very often, and are usually the smaller providers, it is particularly important that their students have this assurance.

Overall, we believe that the reforms contained within the Higher Education White Paper and Bill will provide a net benefit to small institutions and will allow them to compete more easily for students, prosper and grow.



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