

EDUCATION AND EMPLOYMENT
COMMITTEE

Third Report

THE DEARING REPORT: SOME FUNDING ISSUES

VOLUME II

Minutes of Evidence and Appendices

*Ordered by The House of Commons to be printed
2 December 1997*

LONDON: THE STATIONERY OFFICE

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The Education and Employment Committee is appointed under Standing Order No 152 to examine the expenditure, administration and policy of the Department for Education and Employment and associated public bodies.

The Committee consists of 17 Members. It has a quorum of five. Unless the House otherwise orders, all members nominated to the Committee continue to be members of it for the remainder of the Parliament.

The Committee has power:

- (a) to send for persons, papers and records, to sit notwithstanding any adjournment of the House, to adjourn from place to place, and to report from time to time;
- (b) to appoint specialist advisers either to supply information which is not readily available or to elucidate matters of complexity within the Committee's order of reference;
- (c) to communicate to any other committee appointed under the same Standing Order, to the Committee of Public Accounts and to the Deregulation Committee its evidence and any other documents relating to matters of common interest;
- (d) to meet concurrently with any other committee appointed under the same Standing Order for the purposes of deliberating, taking evidence, or considering draft reports.

The Committee has power to appoint two sub-committees and to report from time to time the minutes of evidence taken before them and their minutes of proceedings. The sub-committees have power to send for persons, papers and records, to sit notwithstanding any adjournment of the House, to adjourn from place to place to report from time to time their minutes of proceedings and to meet concurrently with any committee appointed under the same Standing Order or any sub-committee thereof for the purposes of deliberating or taking evidence. Each sub-committee has a quorum of three.

The membership of the Committee since its nomination on 14 July 1997 has been as follows:

Ms Candy Atherton
Charlotte Atkins
Mr Joe Benton
Mr Graham Brady
Yvette Cooper
Mr Cynog Dafis
Valerie Davey
Caroline Flint
Rt Hon Derek Foster

Mr Don Foster
Mr John Healey
Ms Margaret Hodge
Mrs Eleanor Laing
Judy Mallaber
Mrs Theresa May
Mr Nick St. Aubyn
Mr Gerry Steinberg

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1. Mr M J Alexander
2. Skill National Bureau for Students with Disabilities
3. NATFHE
4. Association of University Teachers
5. Mr Keith Turner
6. British Dental Association
7. Coalition of Modern Universities
8. The Open University
9. The School of the Science of Acting
10. The Royal Society

MINUTES OF EVIDENCE

TAKEN BEFORE THE EDUCATION AND EMPLOYMENT COMMITTEE

THURSDAY 31 JULY 1997

Members present:

Ms Margaret Hodge, in the Chair

Ms Candy Atherton
Charlotte Atkins
Mr Joe Benton
Mr Graham Brady
Yvette Cooper
Mr Cynog Dafis
Valerie Davey

Mr Derek Foster
Caroline Flint
Mr John Healey
Judy Mallaber
Mrs Theresa May
Mr Nick St Aubyn
Mr Gerry Steinberg

Examination of Witnesses

SIR RON DEARING, Chairman, and MRS SHIRLEY TRUNDLE, Secretary, National Committee of Inquiry into Higher Education, examined.

Chairman

1. Can I welcome you, Sir Ron, to the first meeting of the Education and Employment Select Committee in considering your review, and congratulate you on producing such a massive quantity of paper in a year, which I think most of us are still digesting. What we have decided to do in relation to the review is have a series of meetings where we talk to people who are relevant to the issue rather than attempt to replicate in any way the very detailed and thorough job that you have done. Because you have covered such a massive field, 25 years on from Robbins—and being a child of Robbins myself my children are going to be children of Dearing—I thought we would focus on the issue which seemed most important and relevant and that was the issue of the funding of higher education and particularly how that related to access and increased participation in higher education. I wanted to start you off on that. Whether it is your preferred option or indeed the option that the Government are talking about, they are not that wide apart. Do you think that will inhibit or encourage increased participation in higher education particularly from people in the socio-economic groupings that are currently enjoying the advantages that higher education has to offer? It is a very broad question.

(*Sir Ron Dearing*) May I introduce my colleague Shirley Trundle who is Secretary to the Committee. Our purpose was to contribute to the creation of the learning society and that meant two things: one, widened participation and we devote a whole chapter, chapter 7, to wider participation; and the second was to extend the experience through working life. So any approach to funding that was contrary to those two objectives would not be in our minds. At the same time one has to recognise that if the graduate in work is to be regarded as a source of funding it has an effect on people's perceptions. We were very concerned that the contribution should come from people in work according to their ability to pay. We hoped that would minimise the effect on

participation. However, we did make a number of particular proposals which would have a countervailing effect and hopefully a valuable countervailing effect. The first of these was to recommend a resumption of growth for the evidence is that growth does foster wider participation. It is very good to note that the average level of participation by the ethnic minority groups exceeds that of the indigenous population. Secondly, we said that priority in allocating funding for extra places should go to institutions that had a record in and a policy for broadening participation, and we propose as a condition of funding that institutions' governing bodies should review their performance on a regular basis and one of the practices that had to be included in that review was participation. So we built into the whole expansion that we have in mind of higher education a priority for institutions that had effective policies for widening participation. Then we were concerned that poverty might inhibit continuation in or even entering higher education and therefore the Committee recommended a doubling of access funds and their extension to part-time students. We were also concerned about participation by those who had disabilities of one kind or another and we recommended that the allowances for people with disabilities should no longer be subject to means testing; that they should apply to part-time as well as full-time, post-graduate as well as under-graduate students and those who were re-entrants to higher education. We recommended that part-timers who were receiving Jobseeker's Allowance or analogous benefits should be excused from paying the tuition fees they at present have to pay. We went on to recommend that in the review of Social Security attention should be given to some aspects of social security provision for students including in particular those students with children of 16 or more and those who became ill during courses. Finally, we recommended that when reviewing maintenance, in addition to considering the movement in the RPI, consideration should also be given to the way

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SIR RON DEARING AND MRS SHIRLEY TRUNDLE

[Continued

[Chairman Cont]

earnings were changing. That has not been done for a long time. Thus we made a number of proposals which were designed to remove barriers to participation and, indeed, to encourage its breadth.

2. Can I just come back to you on two issues. The first is you started by saying growth increases through participation. We have been through a period of massive growth and it has not increased the socio-economic—

(*Sir Ron Dearing*) That bothers us.

3. Do you think the other measures you propose are sufficient to tackle that?

(*Sir Ron Dearing*) That remains to be seen. Our objective in making those proposals was to deal with that problem. We were so concerned about it that we did commission a special report by Professor Robertson which is with the great collection of papers which constitutes our Report and he does indicate figures which concerned us which showed the close correlation between social class and participation. That was influential with us and we were very concerned to see that dealt with. We also suggested, Chairman, if I may give you a fuller catalogue than I have already given, that we saw that institutions could face extra costs in taking young people from backgrounds where there had been no experience, no facilities for continued education and we noticed that in Wales, for example, extra funding had been provided by the Further Education Funding Council to institutions which enrolled students from disadvantaged localities and we thought that was desirable. We also commended to both higher and further education funding councils the consideration of pilot projects to encourage participation by programmes of out-reach and in-reach such as are practised by various institutions together. This is a major issue with us.

4. One other issue on that. You talk about targeting government funds to encourage those institutions that develop policies to ensure increased participation but, equally, the introduction of fees means that a lot of power will rest with the student. There seems to me to be somewhat of a contradiction in that and therefore the capacity of government to use its targeting of funds to succeed in the objective.

(*Sir Ron Dearing*) We again thought about that quite a bit and we took a decision that a substantial proportion of funding should remain with central institutions as an instrument of government policy. In that context we were concerned (although we saw a desirably greater role for informed student choice in expanding higher education) that the state should be in a position to intervene to influence events, in particular to make sure that participation levels in the United Kingdom matched those of our competitors. Members of the Committee will recall how far we had drifted behind a decade ago and how well higher education responded to achieve a 30 per cent participation rate. They achieved it four or five years early. We do see a need for that, but at the same time we were attracted by the idea of students having a more influential role and feeling that this would be enhanced to the extent the money came directly with them, whether it came from future commitments of

theirs to funding after graduation or whether it was through some of the existing funding coming through them.

Mr Derek Foster

5. Sir Ron, I think this is the area of greatest unease within your Report. I am very impressed with what you have done to try and ensure that nothing is done which would damage widening access, particularly in the groups that you have mentioned, but there is great unease, which I think you yourself have just touched upon, about some of the reasons why certain groups do not take part in higher education which actually lie beyond the higher education system itself and are deeper within society. There seems to me to have been a move in society to try and deal with that, to widen participation, because as a nation we are required to use all our skills and talents and we have not hitherto done so. Would you care to comment on that?

(*Sir Ron Dearing*) I agree very much with you, Sir, that there is a great national need to widen participation in education at all levels and in training throughout life. Higher education is one element of that. We see this as an objective. One has to remember the terms of reference of the Committee and the job we were given to do. We were directed in our terms of reference to seek expansion of higher education but to have regard to what could be afforded and on that matter we had statements by all three main political parties. If I may remind members of the Committee of them. The Liberal Party proposed a penny in the pound increase in tax to raise £2 billion a year for education, but made clear that very little of that was to be earmarked for higher education. If I may turn to the then Government party. They wrote a letter to the Committee which said, "Do not assume any increase in the proportion of funding for education coming to higher education. Indeed, it may decrease." The present Government in its Manifesto made clear that there was to be no expectation of money from the taxpayer to fund the expansion or improvement of higher education. The Committee had, therefore, if it believed in the national interest that there should be expansion, to look for an additional source of funding. There is no point in looking at the student. The student has nothing to contribute except hard work. We looked to industry. We concluded that in this very serious business of lifelong learning the major contribution by industry should come from investing in the training and further education of its own employees. We therefore had to look to the graduate in work and in our preferred solution (and we looked at eight different approaches in coming to our preferred solution because we were so concerned about that) on balance we felt that we should advise retention of the maintenance grants and evenhandedly introduce tuition fees. The Government has gone for a variant of that, but that variant is also mindful of the possible effects on attitudes: you only pay if you are earning the money. That is why, when the Government moves ahead with this decision, these other proposals we have made to foster wider participation should be accepted alongside it because without that we would

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[Continued

[Mr Derek Foster Cont]

be concerned it could have damaging effects. I am entirely with Derek Foster on this point and with the whole Committee.

6. Perhaps I could press you on the question of maintenance grants. You obviously considered it and you decided not to recommend the abolition of maintenance grants. Can you tell us why you reached that conclusion?

(Sir Ron Dearing) We had only two things to look at, tuition fees or maintenance, and we thought that it was a fair balancing of the books to look to graduates to fund about half the cost of expansion and that could be obtained from a £1,000 tuition fee across the board. That enabled us to leave the maintenance grants in place and that was because we were concerned not to discourage participation by people from backgrounds where money was scarce and there was no tradition of being involved in higher education.

7. Are you saying, therefore, that the abolition of maintenance grants could well be a disincentive for students from poorer families?

(Sir Ron Dearing) If it is counter-balanced by other measures such as we have recommended to require institutions positively to seek out students from such backgrounds as we do, through our recommendation on the priority for the allocation of funds, and all these other measures. I am not here to represent the Government's point of view, but the Government compared with, dare I say it, the Labour Party Manifesto has moved to a position which is more responsive to that concern. As I understand that Manifesto, the grants were to be translated into loans and, for reasons that I perfectly well understand, all students were to be put into the same position in terms of access to loan funds, but the proposals have been moderated so that the resources are used more economically and the tuition fees are not extended to students from poorer homes. So to some very considerable extent, if I may say so, the Government moved from the original Labour Party thinking to a position much nearer to that that had been taken by the Committee.

Mr Cynog Dafis

8. Have you made any recommendations since the publication of your Report and since the announcement of the Government as to whether your proposals or the Government's proposals are more likely to encourage or, on the other hand, to inhibit access to education?

(Sir Ron Dearing) When we presented our Report we were finished and we have not done any work since or any calculations. I have noted what the Government's statements are and I have noted that the Government has decided to do something which we thought would be too expensive. We said we would have liked to have proposed an increase in the maintenance grant of £250 a year, but we said that would cost £175 million a year. Given the acute pressures on public financing we moved away from that to a raft of other proposals that would cost about half of that in terms of grants. The Government has said that it is going to make this extra money available. I understand that the

conversion of the grants into loans is going to be phased so that it does not become a single sharp step and there is an opportunity to assess what has been the response to those things. I do believe, if I may say so, Chairman, that there is much to be learnt from the experience of Australia and New Zealand in moving in these ways. Their communication packages to schools and would-be students are immensely impressive—and it is not just a bit of paper, it is a video too. We need that very professional proactive approach to redress any possibility that there would be some discouragement of young people from going into higher education.

9. So you would not regard it as part of your responsibility now to have a look at the likely outcome of the Government's policies as compared to yours?

(Sir Ron Dearing) No, when we finished our Report our existence as far as Her Majesty's Government is concerned was finished.

Mr Gerry Steinberg

10. I have to be quite honest with you, I was rather disappointed with the Report that you have produced regarding tuition fees and the funding of higher education because eight years ago when I served on the Education Student Loans Bill I said: "Removing students from the benefits system coupled with the new loans scheme will mean that many working class youngsters will be deterred from entering higher education." In the 1990s—this is in the booklet *Higher Education Spending in the 21st Century*—we are told the increase in participation in the 1990s amongst socio-economic groups A-C has been double that amongst groups D-E. In the late 1980s/early 1990s I was predicting that working class kids were not going to come into higher education. That has been proved right. What you have done is not improve the situation at all. You may well have increased access to higher education for middle-class kids but I think that minority groups are no better off under your suggestions and probably even worse off under the Government's suggestions because introducing student tuition fees plus the Government saying they are going to get rid of the grant altogether it seems to me is going to deter youngsters specifically from working class backgrounds coming into higher education.

(Sir Ron Dearing) I think the Government has a duty through other measures such as we have proposed to countervail that possibility. May I say, Sir, that in thinking about the tuition fees we did look at the way other citizens fared and we tended to have a view that all citizens had equal rights for support from society and, if I may say so, higher education did seem, so far as the full-time student is concerned, to have a different position and a more advantageous position than other citizens. If I may be particular, the funding for further education of comparable full-time students is based upon 25 per cent of the cost of tuition being provided by the individual.

11. But, Sir Ron, it is okay saying that but I have a village in my constituency of about 2,000 people where last night in talking about this the local councillor from that area said he was over the moon

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[Continued

[Mr Gerry Steinberg Cont]

because two kids had actually gone into higher education. There must be 30 per cent of those kids who could have gone into higher education. Your proposals and the Government proposals are got going to help those kids get into higher education.

(*Sir Ron Dearing*) May I finish what I was saying, then I would be very glad to respond to you. If we turn to part-time students we are not talking about a few, we are talking about many hundreds of thousands, and it is a hard life being a part-time student. We care about them. It is all to do with where the money is coming from. There is no free lunch in this. We were talking about equity between one class of society and another in terms of higher education, across the population. If we may turn to the number in the community you serve, Sir, we all know that the fundamental problem does not lie in higher education; it lies long before they get to the stage of taking decisions. That is why, if I may say so, although I was stating plainly the case of higher education for funding, I fully accept the judgement by all three political parties that the greatest need lies elsewhere. If we are ever going to crack the problem of more equal participation then we need to deal with it at five and six and seven and 13 and 14 and so on, because that is where the battle is fought and lost and where attitudes are formed.

12. There is a cultural problem certainly but at the end of the day you have still got to make it attractive. It is no good offering people less money to go to university than they can get on the dole.

(*Sir Ron Dearing*) With greatest respect, the dole leads nowhere. Going into higher education leads to a new life, new opportunities and we did our sums on the returns—or rather we did not, we got clever people to do them for us—to personal investment in higher education. The average return is a very high one: 11 to 14 per cent from personal investment, more for women than for men. So anybody looking at this rationally will realise that you only contribute if you get the benefits in tangible terms rather than saying, "Oh no, I will end up with an income contingent loan", which is misguided.

Mr Steinberg: Several people want to get in here.

Chairman

13. I am going to bring in Theresa but in passing I am going to ask you this: do you therefore think that the new system of paying as you earn ought to be extended to part-time mature students and FE students?

(*Sir Ron Dearing*) I would like a moment of thought, ma'am, before answering that! Already, as I said, part-timers are contributing and I have to be a little bit mindful of the public purse. We did think hard about the part-timers and the desirability of equality of treatment but we are mindful that 90 per cent of those in part-time education are in employment and in many cases their fees are paid by employers¹ and any employer who sees the opportunity of transferring a cost from its own P&L

account to Her Majesty would not be slow to make the transition and therefore, we held back. Our better instincts were held in reserve.

Mrs Theresa May

14. Can I continue on the impact of the Government's proposals, Sir Ron, but widen it out slightly. You said in your Report that you had recommended a coherent package of proposals and that those to whom they were addressed should not pick and choose those that they were going to implement. We have already seen the Government get away from that. It is proposing it in a different way from the way you recommended. Two questions follow out of that. The first is what is your core package of recommendations, given the reality that there will be picking and choosing? Slightly adjacent to that question, you have talked given the Government's response about the need for other measures to be put into place if we are to see both an increase and a widening in participation. Those are measures you had in your Report anyway on the proposals you were making on the issue of tuition and maintenance grants. Are those sufficient to ensure wider participation given that the Government has, it would appear, put a further stumbling block in the way?

(*Sir Ron Dearing*) My minimum shopping list. If you are not careful, ma'am, I shall go through the whole 90 recommendations because I love them all! If I start on the funding, it would be an abomination if the money went to Her Majesty's Treasury and not back to support higher education and, as the Government said, further education. We said the money should be all for higher education. Since the Government is going for proposals that will bring a bigger graduate contribution perhaps some can be well used in further education. Secondly, in the interests of maintaining quality of education and gaining access the Government should make more money available next year and the year after. I know that means anticipating the cash flows but I and the Committee believe that we may damage the long term by forcing down further the unit of resource so that in a period of 25 years the unit of funding will have been halved. We think that is going too fast and will impair the quality of the education experience of young people. That is on the money side but we attach a lot of importance to recommendations on safeguarding standards and the quality of experience. I have said more than once on public occasions that the funding problem is the easy one because it is inescapable. There are lots of others which can be left on the shelf. They are not crises but they are needed for the health of higher education. I therefore attach a lot of importance to this whole area of quality and standards and I think changes will happen. There is one other thing—and I will limit myself to three wishes—and that is the fact that there should be this change in the culture of higher education which we see as imperative. Our thinking is that the only way our young people will earn a decent standard of living is by the whole economy going up-market and that means investing in people throughout life. That in turn means we need to be world-class in this business of managing learning and

¹ Note by witness: Figures are from the Committee's survey of part-time students, which did not include the Open University or Birkbeck College where the proportions are lower.

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[Continued

[Mrs Theresa May Cont]

teaching. It also means that instead of self-esteem and the promotion of staff being based on success in research in our higher education institutions, it must be equally based on standards and achievement in teaching. Therefore, we make strong recommendations that full-time academic staff in future should, as a condition of completion of probation, achieve a national standard. We propose the creation of an institute for learning and teaching offered with associate membership, membership and fellowship to provide a ladder of esteem and achievement in teaching. We want very much for that to happen.

15. In terms of the increase in participation, you have got some figures in the document where you talk about the UK being in the forefront in the EU in terms of numbers of students graduating. You then compare us with some other countries in terms of numbers of students participating. I wonder if you could just talk about this issue of the difference between participation and graduation. It is very much tied in with the quality. What do you actually do for the student when they are there? Are we simply going to encourage people into higher education only to see a significant number of them dropping out and being disaffected as a result?

(Sir Ron Dearing) We do not want that at all. The OECD have sent some assessors round making an evaluation of higher education throughout Member States. They described our higher education as "highly efficient" and it has a lot to do with what I might call, in industrial terms, conversion rates, the ratio of entry to successful exit. We are very good. Many other countries have practices which I would deplore as an emerging trend if they were ever adopted in this country because I do not think it serves young people well to come in in great numbers and exit disappointed after a year or 18 months. We have this excellent record. I think we must maintain it. I do not know whether we use these words in the Report but I certainly thought them and I suspect they are somewhere in there if one is very diligent: you can have a cheap higher education system but that is not necessarily an effective higher education system. What we want is a cost-effective system of higher education based on quality. The OECD said ours was highly efficient. It is highly efficient for the reasons I have given and we must maintain that character.

(Mrs Trundle) I would like to add one other thing which I think was very important to the Committee's strand of thinking and an essential counterpart to the idea that they should make a commitment to contribute once they are graduates in work and that is that they need much better information to enable them to take decisions rationally about whether or not to enter higher education. When we spoke to organisations representing schools we got a very clear message. They said that at the moment they did not have the sort of information that they needed in order to advise students about making sensible choices. In addition there needs to be good advice for people who are thinking about entering higher education later in life. We need a careers guidance service that really supports lifelong learning.

Chairman

16. It is an interesting area. You are really talking about careers advice rather than the information on universities, are you not?

(Mrs Trundle) Yes.

Ms Candy Atherton

17. Sir Ron, many students face long periods of study, far longer than others. Vets and doctors are the obvious examples. What effects do you think the Government's proposals will have perhaps in deterring young people from entering those professions?

(Sir Ron Dearing) I hope they will not be significant. We envisage, for example, for doctors, nurses or teachers that the Government will pick up the tab for the extra period that is required. It is a matter, as we saw it, of Government bookkeeping. We did not want people deterred from entering those professions. Some would say what about, if it is not the public sector, the private sector picking up the tab. We cannot govern that. I am conscious—and I have heard this from employers—that young people as part of their package are seeking from the employer an obligation to pick up accumulated obligations to repay during their period of employment.

18. So if the Government fail to pick up then we could expect to see perhaps more middle-class white men going forward seeking to become a doctor rather than a wider participation from among the community?

(Sir Ron Dearing) I do not see why that should be differentiated by sex or social class because the contribution is from the graduate in terms of the ability to pay: it is nothing to do with parental income or the student's ability to pay. One of the fundamental rocks of the whole approach is the fact that it is not the student or the parent, it is the graduate in work. If they are not getting the money they do not pay. That is the Australian principle and when it was introduced, so far as I was able to tell, it did not deter participation.

Mr Joe Benton

19. Sir Ron, the Committee appreciates the magnitude of the charge that was put on your Committee and I for one have got to say openly that I admire its scholarship—I do not agree with it—and the rationale that is spelt out quite clearly is quite understandable. Two of my colleagues, Gerry Steinberg and Derek Foster, have covered some of the main areas that concern me, i.e. fees. I represent a constituency called Bootle which is on Merseyside and I think from your post office background you will know it quite well. Can I emphasise my areas of concern because I see a cut-off point of £16,000 which is mentioned by you in parts of the Report. My concern is, getting down to the real pragmatics of the issue and why I regard it as very much a disincentive, the fact that what has been suggested in terms of fees is that £16,000 is not a lot of money. Where I can see it acting as a disincentive is quite simply in my situation where you have two children going to

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[Continued

[Mr Joe Benton Cont]

university or further education at the same time because £16,000 as a residual income is nothing. In a constituency like mine, and there are many others like it, which I am sure your Committee appreciated, the take-up of going on to further education is not very high at all. Historically it has not been very high. Given that one of the things you were charged to do was to expand, surely there must be a huge potential out there in constituencies like mine and the rest of Merseyside and other places to create this expansion. I am not sure whether, in answer to my colleagues earlier, you were saying that the actual fees aspect of it is a disincentive or not. I would like you to clarify whether you would say it is a disincentive. I note that there was reference made to the effect of what it would cost in terms of taxation, so on and so forth. Although the Committee were charged not to take that into account, have you got a view on that in terms of what you were charged to do overall? If your Committee had been charged to consider it, what would you have been saying about the possibility of using the taxation system to provide funding, because my understanding is that you were charged not to even consider that point of view? The philosophy behind your Report seems to suggest that there is only one beneficiary in terms of a graduate. This put me back on my heels in horror because I look at the whole national scene and I see young doctors, I see young nurses, I see young teachers, who are getting paid, in my view, a pittance, to be quite honest with you, and they are there working for the benefit of society. I would strongly suggest to you that people like that are not the single beneficiaries. In other words the state, our nation is benefiting from it.

(*Sir Ron Dearing*) We are digging deep now as to who should pay for things. In our Report we did look back to the great Robbins days and it is a judgment for society to make not the Committee as to the extent to which things should be paid for by the state or paid for by individuals. The proportion of national income spent by the state is very considerably greater than in the times of Robbins. From memory, and we will get it right in the minutes if we may, it is now 43 per cent and it was 36 per cent² and it seems to me the political parties are expressing a judgement on behalf of society that they did not envisage if they came into government that society as a whole should increase its contribution to higher education and the Committee was directed to have regard to what could be afforded. All three parties made absolutely explicit what their position was. Second, if you feel as passionately as we do about the whole issue of lifelong learning, then it means the costs of higher education are going to go up year on year because it is not just a one-off injection. It is a repeated experience and not necessarily just in higher education, but also in further education because our concern is with all citizens of the state—responding to their needs. The logic, if you believe in that, is that a new source of funding has to be identified. It seems reasonable to the extent that the individual benefits (and there is clear evidence on the whole they do) and only if they do, they should make a contribution over

a number of years. That is a matter for society to judge rather than the Committee. It does seem to me inescapable that society has to face that problem and the three political parties were interpreting its wishes in that way. I doubt that there is an alternative. Now tuition fees: you know it is not a unique idea. In the United States where participation is much higher than it is here there are tuition fees. In Japan where participation is much higher than it is here they have a huge private sector of higher education. People expect to contribute, if not to pay. In mainland Europe the mood is beginning to change. We went across to the Netherlands. They are introducing tuition fees of just a little less than we are proposing. In Germany, Baden Wurttenburg have just decided to introduce enrolment fees. We went to have a look at Australia and New Zealand because we wanted to see how they did it because they have this idea of an income contingent contribution. The initial rate which started at 23 per cent as far as we could see had not deterred participation. We were concerned about a level playing field between further education and higher education. If, as my son-in-law did, you were in a job and wanted to get training as an artic driver it would cost you quite a lot of hundreds of pounds out of your own pocket to pay for it. The state does not pay. Thus we are concerned about a level playing field and we are also concerned about developing an approach where the money obtained could be seen as belonging to education. We did not see maintenance that way but tuition fees could be corralled for higher education as in Australia. As far as the students are concerned I suspect it is all about money. It is not so much a question as to whether it is the contribution towards tuition fees or as a graduate to previous costs of maintenance; it is a question of money and a question of how much and over what period and what relation to income the contribution should be. So the Committee received guidance from the three political parties. It had no better hole to go to but it did care passionately that the money should be there from somewhere to enable more people to benefit from higher quality education. Without that there is no basis for proceeding.

Mr Nick St Aubyn

20. In the body of your Report you make a clear examination by economic group as to how well off students are at the end of typical year in terms of money in the bank or for those who come from less well-off families what is very often the case of a rising bank overdraft. It would seem that there is a very close correlation between that end of year result for students and participation rates. Is there not a risk if the costs of tuition go up for those from relatively well-off backgrounds that you will have the same deterrent effect and is not this risk of deterrence going to be ratcheted up the higher you raise contributions from students, as the Government is proposing to do?

(*Sir Ron Dearing*) Yes. We were concerned that once the principle of tuition fees had been adopted a government under pressure, and all governments are under pressure on finance, would increase the fees and this would have a damaging effect on participation by any social group. We therefore

² Note by witness: In 1961, general government expenditure as a percentage of gross domestic product was about 35 per cent. Today it is 43 per cent.

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[Continued

[Mr Nick St Aubyn Cont]

made it difficult for government to do that and we have made the following proposals: firstly, that there should be no increase without an independent committee of inquiry to examine the case and publish a report; we further further proposed that action should be dependent on an affirmative order in both Houses of Parliament. That would be a stiff hurdle, we believe. So we recognise that Parliament is sovereign but we wanted it to exercise sovereignty with great care after much deliberation and independent advice. In other words, we sought to make it difficult.

21. If as a result of following along the line of your proposals we are to achieve participation rates of up to 45 per cent but because of higher drop-out rates we ended up being not much further ahead than we are at the moment, would you agree that would not have achieved a great deal?

(Sir Ron Dearing) I think that would be damaging rather than achieving.

22. If that is the experience of other countries who have got higher tuition fees, is that not a risk you are going to be taking?

(Sir Ron Dearing) It is not a causal relationship at all. It is due to policies towards entering. For example, in France if you have a *bac* you will have automatic entitlement to go into higher education. The French government many years ago tried to end that and they will never do that again, they told us, because there were riots on a massive scale. There is a policy of right of access. We by contrast have not given people the right of access, we have left the decision with the institutions. I believe the system is working very well and I do not think this is anything to do with tuition fees. On the achievement of 45 per cent, fear not about its achievement. The Scots are already achieving it. Northern Ireland are very close too. It is not a target. We did not think a target was very helpful. It is a modest horizon of expectations, particularly as we saw much of the expansion taking place at sub-degree level, at least initially, in colleges of further education. This helps access because these young people from such communities are more likely to go to somewhere familiar, such as a community college, of which there are 400, than a more distant university.

Yvette Cooper

23. The figures that you quote about the private rate of return of higher education are clearly very substantial and one important way to increase access would be to convey those rates of return to people currently not staying on. It is also clear from your Report that the state is as a result subsidising benefits to individuals as well as to society. Some individuals will benefit more than others so the city banker can convert his/her subsidy from higher education into a greater return than a teacher.

(Sir Ron Dearing) Sure.

24. It is also a subsidy to individuals coming disproportionately from better off backgrounds and as a result in a cash-strapped world you make a strong case for asking graduates to make a contribution. What I am interested in is the particular repayment method you chose. Given that

you are absolutely right to be concerned about access, and not trading off access and given the points you made about making a contribution in proportion to the benefit you gain, you quite quickly dismiss the deferred contribution proposal, and I am interested in why and on what grounds you did so and, similarly, for the graduate tax and whether that was on the basis of practical considerations or whether you brought access into account when considering which mode of repayment would be best.

(Sir Ron Dearing) We did look at a graduate tax. I think it is the first of the options we addressed in our Report. The advantage is that it would pull in money more quickly than anything else because you do not have to wait for people to graduate. All the people sitting in this room could be contributors now. That does have attractions to us as a source of quick income. But we doubted whether society would accept an open-ended tax liability. There was an issue of equity in it too. For our evaluation of the return to higher education those who did the work discounted from the return that which was not due to higher education. Graduate tax is difficult. Another argument is that, certainly so far as those who graduated in the past are concerned, it would be very difficult to get people to say, "Yes, I am a graduate, I would like to pay" and there is the question, what is a graduate and so on. So we moved to a halfway house which we found attractive as a concept—and we had variants on this—involving a capped graduate tax so that there was a tax linked to earnings, but when you paid a pre-determined amount you had done your bit. We came across that idea quite late on and it had not been publicly debated at all. We felt it was an idea that needed to be publicly debated, but there was a very practical problem and it is that higher education needs money now and this proposal would not produce money now. I had said we have got to regard as a "bygone" those who had already graduated. The Government has decided that in order to raise money now it is going to sell the Loan Book, it is going to raise a lot of money, but for something like a graduate tax where there is not a particularly defined sum over a particularly defined period I do not know what there would be to sell. So there is a big problem in that it does not produce the money now. But we firmly flagged it up as an idea to be pursued for the medium term. I did not fully answer Mr Benton's question. It is not only the student who benefits, it is society. It is absolutely right that the benefit to the student is very clear and considerable, and to society it is much more diffuse. Students benefit as citizens but they get an extra benefit because of their income-generating capability. We had clever people looking at the social return and they were not able to advise us as to a quantifiable sum that they could identify as the distinct bit for society. People have spent 30 years of their academic lives trying to do these sums and we had them round a table and our published material drew upon their advice.

25. Did you do any qualitative research on attitudes towards these different types of repayment mechanisms, either whether it would affect access or, alternatively, whether people would prefer the idea of a finite loan?

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[Yvette Cooper Cont]

(*Sir Ron Dearing*) No, we did not do any research of that kind. We did meet students and they had a very clear view, i.e. they do not fancy debt whether it is for maintenance or for tuition fees. Few of us do. Chairman, there is a major cultural issue. We are, and have been for many years, used to full-time higher education being free even if further education is not, even if part-time is not, even if post-graduate is not. It is nice if society feels it can afford it, but the political parties are saying no and we had to look for an alternative source of funding. In equity I think there is a good case for asking young people when they graduate and they are in work to contribute, if their income enables them to do so.

Mr Derek Foster

26. Sir Ron, I am glad that you came back to answer Joe Benton's question because it seemed to me as though you were accepting the Government's terms of reference and saying, therefore, the main beneficiaries are students. You have now made it clear that you are not saying that. You admit that society, too, is a main beneficiary, although you say you cannot readily quantify that rate of return.

(*Sir Ron Dearing*) Beyond the money that is generated through the graduates.

27. Would you accept that the fact that we cannot properly quantify the rate of return does not diminish the argument that society benefits and therefore perhaps ought to be willing to invest more? You do not even attempt to quantify the benefit, for example, to the private sector of higher education and there is no suggestion that the private sector should contribute more in view of that investment, although you do argue that it should make different kinds of investment.

(*Sir Ron Dearing*) Let me respond by reminding the Committee that we are proposing that society should continue to invest on a massive scale. We were proposing that 75 per cent of the cost of tuition should continue to be borne by society. I believe on the Government's proposals, envisaged through these measures, £1.7 billion³ could come from graduates to higher education. That is only a very modest proportion of the cost of higher education. The cost of higher education is £10 billion. I could work out a higher figure if you pushed me to do it! Second, we did propose, contrary to what might have been inferred from the Labour Party Manifesto that there was no more money from the Exchequer, that there should be more money from the Exchequer. We proposed in our preferred option that £1.1 billion eventually, eighteen years out, should come from graduate contributions. We proposed that there should be at least equal additional sums coming from the Exchequer. We do see society bearing by far the highest part of the cost of higher education. So it is, dare I say, modest. On the second thing, the private sector, let us recognise that the employers are beneficiaries. Rightly or wrongly we took a view that their contributions best came in other ways. We see them having the primary responsibility of funding

³ Note by witness: This would only be so on the basis of the scale of calculations used by the Committee in the main calculations.

learning when people leave their full-time higher education or any full-time education, and become employees, by investing in their future development through training and through part-time courses. The cost, as I know full well, can be very heavy because I benefited from one in my mid-thirties. I had a year and I guess that cost in today's money, about £40,000. To release somebody in mid-career is an expensive business if you are going to pay their wages. Also, we recommend that the Government should enter into talks with industry to secure a widening, and we would wish great widening, in the provision of sandwich courses and other work experience by employers, which are not cheap because if they are good value the institution has got to work out with the employer a programme and that has to be monitored and evaluated. I have been going around to employers asking for £100 million through cheap loans to fund the renewal of our research infrastructure. We have urged more employers to do like Shell does through STEP type programmes. So we are looking for major contributions from employers to fund lifelong learning.

Charlotte Atkins

28. Sir Ron, there has been an increase in participation from women in the higher education sector. What lessons has your Committee drawn from this increased participation, especially as women tend to come more often from the less traditional route into higher education or in greater proportions than men?

(*Sir Ron Dearing*) I have not studied that. I am conscious that compared with the time of Robbins that the participation of women has been one of the triumphs, and now the participation ratio is 51 per cent women so they are in majority. The problems are in the balance of that participation between disciplines. We all know there are some disciplines in which women are poorly represented, for example the physical sciences, and some where they are strongly represented, for example, the humanities. This goes back to the schools period because whether you can do physical sciences at university depends on whether you have got A-levels and whether you can do the A-levels depends on what you decide to do at 16. That is where that battle is to be fought. There is a particular problem in one of the ethnic minority groups where Bangladeshi women are under-represented. It has always caused me very great concern that there are far too few Asian school teachers. That really is an issue that needs to be tackled for the well-being of society. Children need role models and they do not see many Asian women school teachers. Generally speaking, at degree level the record is good; it deteriorates after that.

(*Mrs Trundle*) The other area where the Committee was concerned was in higher education staff and again this perhaps comes back to role models where women students will see very few women higher education teachers and certainly very few women vice chancellors.

(*Sir Ron Dearing*) We do comment on that.

29. Is it the case that more women come in as part-time students and therefore are paying fees?

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[Continued

[Charlotte Atkins Cont]

(*Sir Ron Dearing*) I do not think that is so. I would have to look up the facts and figures.

(*Mrs Trundle*) Certainly among full-time students the ratio—

(*Sir Ron Dearing*)—Is 51 per cent women. I do not have the figures for part time with me. I suspect they are somewhere within this great book or the appendices.⁴

Judy Mallaber

30. Sir Ron, in one of your very early answers, you said that to the extent there might be a disincentive from introducing fees, your view was that this related to perception rather than the actual figures—because you paid as you earned. Also, all the figures emphasised the facts about how much extra you are likely to earn as a graduate. With this mass of figures I have been a bit lost as to what has been in the press, what is in the exemplifications and what you actually believe. Obviously the devil is in the figures! What we keep seeing is that you are saying it would be reasonable to start paying back at an income threshold of £5,000. If that is true, it does not square at all with the argument that we should expect people to pay back because they earn more.

(*Sir Ron Dearing*) I am grateful to you for raising that. We do not make a recommendation on the threshold level at which payment should start. We give an exemplification of two levels. The first is £5,000 and the exemplification there is that above £5,000 there will be a contribution of five per cent of the marginal income so there will be a contribution of £1 a week between £5,000 and £6,000. That model derives from the suggestion by some commentators that graduate contributions to higher education should be linked to when you begin paying national insurance contributions although we looked at a figure somewhat above the National Insurance threshold. The alternative model we give is a threshold of £10,500 for the beginning and that is very similar to the Australian threshold level. We did not make a recommendation on those two. We did use the £5,000 one for exemplification purposes because you have got to cost various models. We are always conscious of how desperate the need for money in higher education is. The £5,000 threshold does produce more money as our table shows, but I can say, although it is not written down in the great book, when we discussed this in the Committee the Committee did not wish to see contributions beginning at £5,000. It merely used it as an exemplification.

31. Obviously there are two arguments, firstly whether you can square that with the moral argument as to whether it is reasonable to pay; secondly, whether it is a disincentive. Can we press you on what is a reasonable level? (*Sir Ron Dearing*) Since it was my idea to have £10,500 I will start on

that. I think that is the average starting level of pay for graduates entering employment. We are only proposing contributions on income above the margin, not on the first £10,500. I remember doing some quick sums. The Australians initially did three per cent on the whole income and we said 12.5 per cent on the marginal income and it works out to be very similar at £15,000, £20,000 and £25,000 and we suggested a cap on contributions of about £2,000 a year.

32. Obviously the length of pay-back period is determined by the rate at which payment increases with income and the speed at which your income increases. You are not saying what period is reasonable.

(*Sir Ron Dearing*) I think this is a very deep area for the policy makers. We, as I say, did not make a recommendation. We gave exemplifications. Why I say it is a deep area for Government is this: fundamental to our thinking is the belief that interest rates should be highly subsidised. It should not be a commercial rate of eight or ten per cent. We suggested the rate of inflation, say 2.5 per cent. That means that if there is a long period of pay back the opportunity cost of the loan rises very greatly and you soon get opportunity costs mounting up to hundreds of millions of pounds a year. Indeed, if you look at our option one, which I characterise as our interpretation of the Labour manifesto option, although the nominal income in year 18 is £800 million after deducting the interest rate subsidy, astonishingly and I did not believe it at first and challenged it, it is only £100 million. So those who have the task of balancing what is reasonable for the young person against the need for an extra source of funding have a difficult equation. I am sure this will be subject to very much debate.

33. May I ask one other brief question of clarification. If you do not graduate how does that work?

(*Sir Ron Dearing*) You pay. You have had the benefit, Madam, you contribute—if you earn.

Mr Graham Brady

34. Sir Ron, I think, if I heard correctly, you said it is a fundamental rock of your Report that the payments should be linked to subsequent earnings not to parental income. In the light of that, what is your view of the Government's proposal that tuition fees should be linked to parental income?

(*Sir Ron Dearing*) The repayment is not linked. I think the Government must have been concerned, as we were concerned, about the perception problem and since the Government had decided to remove the grants for maintenance, which we did not, there could be a double whammy in terms of an extra £5,000 maintenance loan and an extra £3,000 for tuition. I was not party to the Government's decision but their thinking process would have been the same as ours. So we left the maintenance grant in place but introduced a flat tuition fee. I am sure it was for the same reasons. Maybe logic is one thing but perceptions do matter and I imagine it was the perception which would influence the Government's decision.

⁴ Note by witness: Figures are given in paragraph 2.1 of Report 5 published with the Committee's report. Women no longer predominantly enrol on part-time courses. In 1995-96 just over half of students on part-time first degree courses were women and these women constituted 17 per cent of all women in higher education. At that time 16 per cent of all men in higher education were studying part-time for a first degree.

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[Continued

[Mr Graham Brady Cont]

35. One further brief question if I may. I think it was Mrs Trundle's reference to the importance of information about what the opportunities are in order to ensure that people are not deterred by the repayments. It occurs to me that one of the inevitable features is they do need informed choice and surely it would influence the choice of subjects?

(*Sir Ron Dearing*) This was very much an issue in our minds and we took the conscious decision that the tuition fees should not be related in any way to the cost of a year's tuition in a specific subject. We did not want to deter people from doing medicine or engineering and turn out an entire nation of lawyers. Admirable as they are, we do need other talents!

36. If you graduate with debts of £10,000 or £15,000 I venture to suggest they are more worrying if you are a sociologist than if you are a lawyer.

(*Sir Ron Dearing*) Perhaps, but if it is income contingent the worry is eased. I will give you some information on Australian practice. After starting off at an equal figure, as we have proposed, they have introduced the concept of differential fees in which even though law is the cheapest subject it carries the highest fee. We were not attracted. Maybe the Minister in Australia, being a lawyer herself, shared your view that they can afford it. Maybe she thought there was too much competition for jobs!

Chairman

37. The CBI had that proposal. They talked about differential markets and things.

(*Sir Ron Dearing*) I remember the CBI having a proposal. I cannot remember the differential fees. What distinguished it was that there should be a fee but institutions should be free to charge more or less according to how their strategy was to play the market and if they under charged then the student would have more money in his or her pocket towards maintenance costs. We did not go down that route.

Caroline Flint

38. I think you have indicated that tuition fees or student maintenance of itself is not the only reason that puts people off. Speaking as one of three children that went on to further and higher education, there are a lot of other issues along the way and one of the things you point to in your Report is the fact that in the United States of America, Japan, they have higher participation because there is a significant proportion that are the sub-degree level and you also say later in your Report that an area that should be prioritised is further education playing a large role there. I would agree that there are stepping stones to try to increase the number of young people that come from those backgrounds not traditionally in higher education through that route. Would you be saying then that in terms of funding that further education—I know that is not your remit and if we are going to see an expansion in the opportunities for higher education and further education has a role to play in those sub-degree levels that ultimately we should target that increase in that area and not necessarily see an increase in the degrees in the university sector?

(*Sir Ron Dearing*) We do not go quite as far as that. What we say is, first, that we think informed student choice should be the prime determinant of what happens, but we think it is likely, learning from Scottish experience, and learning from America and Japan, that much of the expansion will be at sub-degree level and we say that much of that should be in FE colleges. We chose our words carefully in relation to Wales, but, yes, we do see merit in that. We relate that to our views on a framework of qualifications with built-in progression. We do not like a society which views higher education as being only concerned with the degree, or you are not playing. We very much want a framework of qualifications in which there is progression, i.e. HNC, HND, degree and so on. This is so important in relation to lifetime learning with people, as we see it, coming in and out of education. We are very much committed to the idea of credit accumulation and transfer within this framework. There really is a whole coherence in our approach, a real feeling that FE and HE are part of the same service to society and to people, and that people should have similar opportunities and rights to public support. At the moment it is highly differentiated and we could not see good grounds for differentiating so acutely between part-time and full-time. I do not know what the logic is for the present situation. It has happened and perhaps it did not matter when participation in higher education was three per cent, but now it is more like 33 per cent and expanding and there are more mature people in higher education. I think we have to face up to the implications of the dramatic change that has taken place in the structure of education.

39. You mention in the Report that standards at least should be maintained and assured and then you go on to say, "the effectiveness of teaching and learning should be enhanced". Is that not a bit of a contradiction in terms?

(*Sir Ron Dearing*) Absolutely not.

40. You are saying that standards should be maintained but you are acknowledging the teaching should be better.

(*Sir Ron Dearing*) If the teaching is better it helps—

41. But surely standards should be improved then?

(*Sir Ron Dearing*) You may wish to argue that standards should be improved.

42. I am not sure, I am just asking for clarification of the Report.

(*Sir Ron Dearing*) Our position was, as I said earlier, that we needed to be world-class—and that is not just fancy words, we really mean it—in the business of managing learning and teaching and therefore we need to assure and improve the quality of teaching across the board so that all who are practising academics in higher education are qualified in this professionalism. We are not messing about. I have said many times publicly that I think it most extraordinary that this is the one profession that does not accept its own professionalism. It is time it did and became very professional and proud of its professionalism. But that is not inconsistent with saying that in making awards we should safeguard the standards. It is part of consumer protection. If Mary or Fred go to higher education

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[Continued

[Caroline Flint Cont]

and work for a degree and enter into obligations to make contributions, not to say debt, then they are entitled, when they have got their awards, to be assured that they have some standing in the market places in the world. That is why we talk about safeguarding standards.

43. Is there any reason why a degree course could not be structured so that people can complete their degree in two years and therefore only have two years to pay instead of three?

(*Sir Ron Dearing*) We were not in the business of saying, "Let's go for an intense two year period" because there is such a thing as maturation, which is rather important. We are not saying however it should not happen. In fact, at the University of Buckingham this is the practice. We wanted to get away from the idea of identifying qualifications with periods of time. It does not fit with the concept of lifelong learning. Therefore, one of our important proposals is that the content of programmes should be written down and specified formally—this is part of Shirley's point about better information, informed student choice and that the outcomes required should be specified. This is part of assurance to the students and safeguarding standards and better information.

Mr John Healey

44. I would like to bring us back briefly to the question of participation and targets or, as you put it, horizons of expectation. I have been very pleased this afternoon that you have given a lot of stress to widening participation as well as increasing participation. For me one of the most striking parts of your Report was the paragraphs which made clear that although rates of participation have gone up in the last ten years or so the ratio of participation between socio-economic groups has really barely changed. You chose to use as a yardstick a target horizon of expectation of 45 per cent as a national average to illustrate the challenge of increasing participation in higher education yet there is no indication of any similar target on widening participation. I assume the Committee must have examined the arguments for talking about such targets or yardsticks and I wondered if you could just explain to us what you see as the main pros and cons of such yardsticks in this area?

(*Sir Ron Dearing*) I cannot remember a paper on targets and I tell you why I would not have wanted it. I only believe in targets when you can deliver and really this great battle that has got to be fought and won for broadening participation so that participation in higher education is not so closely correlated with social class has got to be fought in the schools. Higher education can help: it has an obligation to help and we say priority for funding should go to those institutions that have worked out participation policies with arrangements for monitoring progress but higher education alone cannot deliver it.

45. But you clearly believe that it is deliverable because you have set out a range of measures just so.

(*Sir Ron Dearing*) It is a qualified target. We can set policies and required practices as a condition of funding but I do not think we were in a position to say that the universities should be accountable for delivering a certain target. It is really a target for society covering the whole of the educational process. It is like saying one is responsible for the whole of the condition of Parliament when one is only empowered to deal with the lighting systems. We have only got part of the game in our hand. I would be delighted if individual institutions in relation to their own individual circumstances are saying we will get down to talking with the schools and colleges in our community and with the local authorities and we will together agree on a target in which we will accept these distinctive roles and we will meet together and accept mutual accountability for delivery. I do not see how higher education by itself delivers.

46. The rates you are talking about for an increase in participation are an aggregate of what is going on in individual institutions. Surely the same logic must apply for the idea that you can set similar overall targets for broadening?

(*Sir Ron Dearing*) I am very tempted to say that I wish we had gone your way but I do not think it would be a valid process. The 45 per cent is not a target. It is what we thought to be a sensible indication as a basis for thinking ahead and as a basis for considering how much extra money was required for higher education. We have got to have a view of how much money would be required in the longer term. Looking around we thought that 45 per cent was a sensible, perhaps rather cautious, figure. I would not see it as a desirable target. The outcome may well be considerably higher because the economics of the market place will drive us to higher figures.

Valerie Davey

47. Sir Ron, can I say how delighted I am to hear your praise of the FE sector and its contribution. I think colleagues need to understand that people in FE also make a very valuable contribution to the community which seems to be undermined by saying you have to have a higher education degree to contribute to society. I think that is an important factor that comes out. I am tempted to say that if your priorities are to institutions which extend access that should mean that we do actually give the money to FE.

(*Sir Ron Dearing*) We have proposed that much of the expansion will be in FE colleges.

48. I think that is very important. Maybe the ideas that have been floated about one or two years of a degree being within FE—

(*Sir Ron Dearing*) An HNC and an HND, yes indeed.

49. Exactly. I want to encourage that and I am very pleased to hear that from your Report. I have not read the detail of it yet but I shall home in on that section. Given your quite clear statement of the importance of state funding, that is not just to individuals but the institutions, then, going back to

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[Continued

[Valerie Davey Cont]

John's question and the determination of who they give access to in higher education, do you think they have a right to ask for top-up fees individually?

(Sir Ron Dearing) Can I just deal with the first point and then the second. In recommendation 67 we recommend to the government and funding bodies that in the medium term "priority in growth in sub-degree provision should be accorded to further education colleges".

50. Thank you.

(Sir Ron Dearing) Somebody has got to know the recommendations!

51. FE colleges should not—

(Sir Ron Dearing) Should not expand their degree level. We say that. I will not forget your question. We see excellence in good working relationships. We do back franchising providing it is done properly. We have had a lot to say about that. But we do think there is a distinctness about further and higher education and it should be maintained and cherished and we could discuss that if you wish. Coming back to top-up fees, a word which I believe does not appear in the Report—

52. Indeed.

(Sir Ron Dearing) We do in one chapter start off with the CBI, and their thinking. Then we progress to say we are conscious there are a number of institutions that have raised the issue of top-up fees because of their concern with the levels of funding as currently planned, and because they are planned to go down they will not be able to maintain the quality they think is right for their students. We say that is not a problem that is specific to a small number of institutions; it applies to the whole of higher education. The issue is not with a few institutions but the adequacy of provision, and addressing the planned further reduction of six and a half per cent in unit funding over the next two years, which we think is ill-judged. We then go on to say for the longer term we do not rule out the possibility of differential fees but we set out five criteria which we think are relevant. Given time I could identify them and recite them. There are formidable criteria which have to be met before we would think it is justified as a long-term possibility. The Government has, of course, since it came to government and before it came to government made clear that differential fees will not be accepted.

(Mrs Trundle) It is in paragraph 51 in chapter 19.

Mr Gerry Steinberg

53. Two points. I take slight umbrage with your point about universities not having a responsibility in terms of looking for mixed socio-groupings. It is quite clear that top universities do not do that. They much prefer to take kids from middle class backgrounds than they do from working class backgrounds. You only have to look at the university in my town to see that, apart from one college in Durham which goes for mature students in the local area. I suspect that the top universities have a responsibility. The point I want to make (I may be totally unjustified in having this worry) is have you made it clear regarding the tuition fees as to whether they go directly to the university or are collected

centrally? If they go directly to the university would there not be a worry that the university would then choose to take those students that pay the £1,000 tuition fees per year rather than the students who do not?

(Sir Ron Dearing) That would be monstrous if that were to happen.

54. It would be but what have you suggested?

(Sir Ron Dearing) If you recall, Sir, in our proposals all graduates pay the tuition fees. It is your Government that has made the different proposal. I could not resist that! But I am absolutely clear that it would be totally alien to your Government's thinking to have a situation in which there was a financial advantage to an university because that student was paying the £1,000. But we would see the money not being handed over by the student. We would see it coming through a reformed student loan company as the mechanism. It would be rather like a mortgage company; the students would authorise payment. Sir, this is very much a matter which I am sure in Committee after the second reading you will be going into in greater detail, assuming legislation is required. I am totally with you on this matter. There must be no differentiation or second-class fee paying and first-class students. On the distinguished university you referred to and its recruitment, that university will have no priority for additional funding for expansion unless it has a participation policy and unless it monitors performance against that participation policy and publishes the results.

55. I want to press you on where these tuition fees actually go to. You seem a bit flimsy on that.

(Sir Ron Dearing) You are quite right. We are talking about a Government decision rather a Committee proposal. My response was flimsy.

56. I assumed it would be collected directly by the university. The student when he went to university would hand over the £1,000 tuition fee.

(Sir Ron Dearing) Mrs Trundle's last job was to do this and she understands these things. She may have the job of administering it.

(Mrs Trundle) The Committee's proposal was that the student would become liable to make a payment at the time of enrolment. They would have a choice. If they had the resources they could make the fee payment direct to the university. If they did not have the resources to make the payment (which would be true of a large number of them) they would be entitled to receive a government-backed loan from the student support agency and would authorise the student support agency to pass the money to the university or college on their behalf.

57. It would not be centrally collected?

(Sir Ron Dearing) That comes later when we have recommended the tax authority as an agency for collection.

Mr Cynog Dafis

58. Have you carried out any calculation, Sir Ron, of the effects of your proposals, which of course will place an additional financial burden on students, on universities in rural areas which depend for success on the ability to attract students from far away being residential at the university? Do you perceive a

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[Continued

[Mr Cynog Dafis Cont]

danger that students will increasingly tend to live at home and pursue their course and could that put some higher education institutions into a kind of spiralling decline, especially if you combine that factor with your advocacy of the funding following the students?

(*Sir Ron Dearing*) Can I just say again, it is not the students who are going to find the money, they are going to contribute after they have graduated. The approach we adopted in this particular matter was different from the Government's intentions. We thought in the medium term grants for living away from home should be converted into loans. It is a lot of money. With the great problems about funding, and all the calls on the public purse, we thought this was not such high priority that it should be grant aided but it should be loan supported. We said that there should be transition from grants to loans when there was a more equal distribution of the availability of places. One had in mind, for example, Northern Ireland where 40 per cent of the students have to come across to the mainland. The Government have decided to make the change more quickly than we had envisaged. There may be institutions, and I can think of one in central Wales—

59. I have two in my constituency, Aberystwyth and Lampeter.

(*Sir Ron Dearing*) I was thinking of Lampeter at first, but I was thinking of Aberystwyth and one a little bit further north, which are highly dependent on students coming from distant parts. The loans will be available to students, additional money for living away from home and they will only have to repay after graduation to the extent they are earning the money. It is an issue which is explicitly considered in the Committee's Report. We went to Lampeter and had discussions.

60. Were representations made to you in regard to this issue by universities in Wales, for example?

(*Sir Ron Dearing*) I cannot remember specific written representation, but we had evidence from every university and I did go to Lampeter when I met the head of that college and I had some discussions with him about his concerns and that did have an influence on what we wrote.

Chairman

61. The reality is there is a culture in the UK that you go away to university and if we now change the method of payment that culture is bound to change as it has done elsewhere, is it not?

(*Sir Ron Dearing*) England, Wales and Northern Ireland have a distinctive culture which is rare in the world—it does not apply so much in Scotland—of students going away from home. It has been something that parents have liked and young people have liked. The question is should the taxpayer pay for it or should it be that if they want to go away from home, yes, they should be able to do so, but on borrowed money and on advantageous terms rather than on a grant? And that is the judgment.

62. The culture is bound to change if they are suddenly asked to pay. (*Sir Ron Dearing*) Probably. I think many many will still wish to go away from home and not just those from well-heeled

backgrounds but also those where there is poverty because they need and want an opportunity to experience a different kind of environment. It can be a very valuable part of their learning.

Ms Candy Atherton

63. I represent a constituency, Cornwall, where the whole county does not have a university. Do you not think that there is also the danger that in areas where there is not a university close to a student's home that would be a disincentive for young people and their families to pursue?

(*Sir Ron Dearing*) I did go on the radio to advocate the case of a university college in your part of the world—

64. It is a matter of some debate, Sir.

(*Sir Ron Dearing*)—because of participation and equality of access. I think that the present criteria for deciding when and where there should be a new university or university college needs reconsideration. We say in this Report that the decision should be much more purposeful rather than derive from the ability of a group of people in an institution to satisfy certain criteria which entitle them to be called this or that. I think one of the desirable criteria obviously is provision in relation to community need and there are parts of the country, yours is one, Cumbria is another, that comes to mind, and Northern Ireland, where there are distinct shortages of provision in relation to the demand.

(*Mrs Trundle*) You talked about the problem of young people going away from home and the Committee was also very conscious that more mature students, who are perhaps in work, may find it even harder to travel out of the home area and that is part of the reason for the emphasis on expansion in further education colleges which are more widely spread and more accessible. But the Report also has a lot to say about the potential of new communication and information technologies to bring higher education closer to the workplace and to people's homes.

Mrs Theresa May

65. I accept the point about new technology and communications and so forth. I accept the point about mature students. Can I just press you: you hinted at the end of your previous answer, Sir Ron, if I may, that actually being away from home was for everybody a valuable part of the education process because it is not simply about learning, it is actually about the rounding of the person as well. You indicated that for students coming from poor homes where there is not the encouragement at home naturally it may be to their advantage to be living away. Do you not think that there is a prospect that if the proposals on maintenance grants were to lead to more students looking to go closer to home in order to reduce the possible burden that they would have at a later stage that could be to the disadvantage of our higher education system rather than to the advantage of it?

(*Sir Ron Dearing*) I would like to say a simple yes, but it is a question of balancing. If that is costing £300 million a year, let us say, I do not recall what the

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[Mrs Theresa May Cont]

figure is, what is the alternative way of spending that to the benefit of young people in higher education? It is a very very difficult judgment. What the Government has decided to do is facilitate it by provision of income contingent loans at highly preferential rates of interest and not to pay for it outright. These are the difficult decisions one has in society when there is such competition for scarce resources.

Mr Derek Foster

66. Can you please tell us why you concluded that selling off the Student Loan Book was not good value? Also, with regard to the short-term funding problem where you say that the system cannot live with 6.5 per cent reduction over the next two years, it must have £350 million next year and £565 million the year after that, how crucial is that if quality is to be maintained?

(Sir Ron Dearing) To take the first bit, which I am totally accountable for because it is a bit I wrote myself on the second page, I did it with malice aforethought in putting it there because I wanted to draw attention to it. The concern I had was that I knew that the previous Government had been considering and entering into discussions about selling the Loan Book and I formed the impression that since this was a form of security with which the market was totally unfamiliar the risk involved for the buyer would have to be quite heavily discounted in the price paid and also there is a profit margin to be got. I thought it was better business for Her Majesty's Government in the long term not to sell it, to act as a collection agency itself, as has happened in Australia. But sometimes a business has no choice if the cash flow is bad—and I am not saying who is to blame for that—and a government can be forced to expedient courses. I regard the Government's position with compassion and understanding. That is a good Civil Service answer, Sir! The short-term funding reduction of six and a half per cent is an issue that unites the university community and there are few things that do. They are going to face very

considerable further redundancies if this six and half per cent reduction in the unit of resource is carried through. That is painful especially for those concerned but we are more concerned about the students and the experience of learning and there comes a point where that is damaged. We do not deny that there is scope, in fact we think there is scope for further reductions in the unit cost through increased efficiency but through the application of mind rather than the application of blunt bludgeon. We think if the economy has to be achieved at this stage it will be at the cost of staff/student ratios, and it is going to have an effect on students and the problem of overcrowded libraries and books which you can borrow for only an hour, is going to continue. From our partial point of view, with a duty to higher education and those entering into it, we think that this is not at all desirable. If I had to give a priority—this is me now not the whole Committee but I think many on the Committee would share the view—the priority for extra resources is to ease this withdrawal of funding down to one per cent a year. There are other high priorities but that is the one we put at the top of the list.

Chairman

67. Sir Ron, I am very conscious that you have got to go but we have only touched on three or four chapters in the whole tome. We are extremely grateful for the very full and clear and I think very convincing evidence you have given us. I hope you will allow us, if we are so minded, to call you back again at a later date to discuss those issues we have not been able to today.

(Sir Ron Dearing) You are very kind to give me the prospect of appearing again.

68. Thank you very much indeed.

(Sir Ron Dearing) Thank you, Chairman, thank you all.

WEDNESDAY 24 SEPTEMBER 1997

Members present:

Ms Margaret Hodge, in the Chair

Ms Candy Atherton
Charlotte Atkins
Mr Graham Brady
Yvette Cooper
Mr Cynog Dafis
Valerie Davey

Caroline Flint
Mr Derek Foster
Mrs Eleanor Laing
Judy Mallaber
Mr Nick St Aubyn

Examination of Witnesses

PROFESSOR MARTIN HARRIS, CVCP Chair and Vice-Chancellor of the University of Manchester, PROFESSOR JOHN TARRANT, Vice-Chancellor of the University of Huddersfield, PROFESSOR CHRISTINE KING, Vice-Chancellor of Staffordshire University, and PROFESSOR JANET FINCH, Vice-Chancellor of Keele University, examined.

Chairman

69. I welcome you to the Committee this morning. We are working in the Recess because of the importance of the issue. I am sure you agree that it is appropriate for us to do so. Clearly, yesterday's announcement by David Blunkett has rather changed our views and attitudes. Perhaps we can start with that and move on to the longer-term implications of the introduction of a new system for the funding of higher education. I have seen in the press that the CVCP welcomes the announcement. Can you begin by saying whether you now believe that the short-term funding crisis at least next year has been addressed? What problems do you see in the following two or three years, and what are your general views on the matter?

(*Professor Harris*) Chairman, we thank you and your colleagues for inviting us to come. We welcome this opportunity to be with you this morning. To put the question in context, we saw the Dearing Committee very much as an opportunity to develop our compact with students. We welcome the recommendations in respect of the Institute of Learning and Teaching which will help us to improve quality. We welcome the Quality Assurance Agency and its new work on standards. Above all, we welcome the determination to increase access particularly to groups of students who currently do not get their fair share of university opportunities. Although all of those are welcome they are contingent upon an appropriate funding base. We broadly welcome the Government's statement of 23 July for reasons of which you will be aware. That brings me directly to your question about yesterday. Yesterday was a step in the right direction, and we welcome it on that basis. One important point at the outset is that it is a statement about England. There is as yet no comparable statement about Scotland, Wales and Northern Ireland. My colleagues would expect me to say that, and I do so. We believe that yesterday's statement by the Government goes some way, but only some way, to addressing the immediate needs of the university sector. As we can best understand the figures, we believe that they meet Dearing's minimum requirement that the reduction

should be limited to 1 per cent maximum. We believe that it meets that condition but only for one year. You will be aware that the Government has explicitly not yet made a comparable commitment for year two when bigger cuts were anticipated in the previous Government's spending plans. We are anxious about that. Year two is as important as year one. Finally by way of introduction, the area that it will not begin to address significantly is the under-investment in infrastructure that has been going on for a very long time. I believe that it will probably prevent further deterioration. That was a base line statement which was a core part of Dearing, but you will remember that the Dearing Report also spoke at some considerable length about needs in respect of laboratories, libraries and—perhaps most important of all—IT investment to take advantage of teaching technologies to enable much bigger staff student ratios to teaching effectively. We will never be able to return to the very favourable staff student ratios of 20 years ago, so we need that investment. The Government's statement is that a small part of this money is available for a start to be made on infrastructure repairs. It will be very limited, and our anxieties are focused above all on that element. It is a welcome start but there is a long way to go.

70. Clearly, there is a problem in years two and three. Have you thought about that? I should have said at the outset that the Committee is not trying to re-do Dearing, which would be absurd. The Committee is focusing on the funding issues and access which seem to be relevant. Clearly, the topical issue today is funding. What sort of proposals do you have for years two and three, given the public expenditure constraints under which we all operate, to alleviate the problem? The Government said yesterday that some of the additional moneys to be found would go to FE. I have seen statements made by the CVCP which suggest that it should all be recycled into HE rather than FE. Would you comment on years two and three and whether or not some of the additional resources should be distributed across the tertiary sector, particularly as students in FE often must pay for themselves? There is also the issue of part-time mature students.

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[Continued

[Chairman Cont]

(*Professor Harris*) I believe that the crucial elements in respect of years two and three are precisely predicated on the Government's current plans that there will be substantially rising fee income. The CVCP has always argued that there must be a clear commitment to that funding to higher education. By "rising" I mean that eventually there will be three years of students paying fees as opposed to one. There will be three cohorts instead of one. In the context of constrained public expenditure it seems to us that that is likely to be the principal source of additional funding.

71. We have some figures, including those given in Answers to Parliamentary Questions. For example, in an Answer given by David Blunkett to Stephen Dorrell it was said that the net savings expected for the year 2002 to 2003 were £250 million.

(*Professor Harris*) That is the net saving when it is taken out of the additional expenditure on loans. One must separate revenue from fees. We strongly argue—we have taken this position consistently since day one—that that revenue must come into the higher education sector. If there is additional expenditure on loans that is for the Government to solve within its total public expenditure framework.

72. The fee income will not go to the universities but to the DfEE?

(*Professor Harris*) If the fee income does not come to the universities I believe that there will be a significant political difficulty. Our understanding from the beginning has been that the fee income is designed to enhance the quality of education that is provided to students.

(*Professor Tarrant*) One of the difficulties about rolling together the fee question with the loan question is how the latter is accounted for in public accounting terms. Dearing makes some observations on this which we support. It seems to us that in the field of public expenditure it is illogical to count loans in the same way as grants. None of us do it in our own accounts. Debtors on my books are assets, not liabilities—although some of them become liabilities! The liability arises on the debts that we do not expect to be repaid. We recognise that there is a cash flow question. However, in terms of long-term borrowing requirements surely we should be showing the net effect of the loans on public accounts rather than the total effect. If one did that and it was convincing then, as other witnesses before you would say, it would free up resources which otherwise would appear to be in the PSBR.

(*Professor Harris*) I believe that that explains the apparent difference of approach. You were talking about fees and loans together, whereas I was dealing specifically with fees. Revenue from students must go into the enhancement of the quality of the experience of students.

73. What about FE?

(*Professor King*) Our position within universities is that we are very keen that the diversity of provision in universities is recognised. Many of us would be devastated if we were set on a path that took us away from that current mission. Having said that, clearly for the majority of us—for some extensively—partnerships with FE are fundamental to our mission and daily work. Therefore, it is appropriate that

where FE can best provide what is called a sub-degree—although we wonder about the appropriateness of that title—that happens and partnership allows progression. We find students want, and have the right to, progression, but in other circumstances it is much more appropriate that that happens in a different kind of partnership. Our FE partners are the first to say that. Many FE colleges are able, willing and ready to work in their own right on progression but many are not and would rather use the work that goes on in universities. It is really a matter of recognising diversity. We do not want universities to be seen entirely as undergraduate and postgraduate institutions, recognising that partnerships already exist and there is a desire to make them much stronger and that the absolute driving force must be opportunities for students. Whatever is best for them, that is where the opportunity should lie.

74. That is the theory. The practice is that there is one pot of money in the tertiary sector at which we are looking. Should some of that be redistributed down to FE? From what I have read, you appear to be saying that it must all stay in HE.

(*Professor King*) No, we are not saying that.

(*Professor Finch*) We fully recognise the needs of the further education sector. There is no division of commitment in that sense. However, the Dearing Report, which we support, sees tuition fees as part of a broader package involving a compact between students, government and the higher education sector. The logic of that compact is that students who are within the higher education sector are asked to pay for what they gain. If one begins to say that the money is available for other purposes within government one is changing the nature of tuition fees. Students are no longer paying tuition fees because they gain something; it is part of general taxation.

Mr Derek Foster

75. I want to pursue a little further the present funding crisis. I think you almost said that that had been solved by yesterday's statement.

(*Professor Harris*) I did not.

76. That makes a bit more sense! The figure for England is £165 million. It is hoped that there will be further statements for Scotland, Wales and Northern Ireland. But that figure falls far short of the £350 million that Dearing said was immediately required next year and the £600 million—or £625 million—for the following year. The CVCP said that following the July Budget the 6.5 per cent reduction had been increased to an 8 per cent reduction. I know that we are all trying to come to terms with yesterday's statement, but can you give any further details of how the figures—the £165 million with the £350 million and the 8 per cent reduction—square with your statement that it meets the minimum Dearing requirement of 1 per cent?

(*Professor Harris*) Perhaps I may repeat that it meets the minimum Dearing requirement of a cut reduced to 1 per cent. It makes almost no contribution to the access and infrastructure repair agendas. Those were crucial to Dearing's larger

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[Continued

[Mr Derek Foster Cont]

figures. I can help the Committee to understand the figures. Of the £165 million, essentially £40 million is for students. We welcome that. Many of the things that it will do are valuable, but it is important to understand that that is not for universities. Therefore, one is talking of £125 million. Of that, at least four-fifths is required to meet the Dearing minimum requirement to reduce the reduction to just 1 per cent. It is a bit complicated arithmetically because government years run from April to April and ours run from August to August. You probably do not want to get into the technicalities of that, and I am not sure that you can ask the Secretary of State about that this afternoon. We believe that for two-thirds of the academic year 1998/99 which fall within the Government's financial year there will be a cut of just 1 per cent, but it is absolutely clear that that leaves very little money indeed to pay for the Dearing agenda.

77. What you are saying is that although it helps you to increase and widen access it will not help you to drive up quality as Dearing was set up to recommend and we all thought he would deal with?

(*Professor Harris*) It should prevent a further reduction in quality. There is almost no money available for the major investment in IT that is necessary to raise quality. I am trying to give a balanced response, and I believe that that is about right.

Mr Dafis

78. As to Wales, you will be aware of the concerns of the Principals of Higher Education Institutes in Wales that the cuts proposed last year by Secretary of State William Hague put higher education institutions in Wales at a disadvantage compared with those in England and that average expenditure per pupil in Wales would be lower, leading to a spiral of decline for higher education institutions in Wales. First, do you agree that the cuts in Wales taken over a number of years have been more severe than elsewhere? Is there a danger of that disadvantage emerging? Secondly, if you agree with that, what is the implication of that in relation to the announcement that should come from the Welsh Office corresponding with that just made by Mr Blunkett?

(*Professor Harris*) We must all acknowledge that universities are now funded by four different routes: England, Scotland, Wales and Northern Ireland. Presumably, the only purpose of that was to allow for the settlements to be different from time to time in the four regions. It is not always to the disadvantage of a region not to be England. Perhaps I should not use the word "region".

79. "Country"?

(*Professor Harris*) Yes. In answer to the specific question, Wales obtained a particularly unfavourable settlement for the year that is about to begin. Therefore, if Welsh universities were to do as relatively well -I choose my words carefully—in 1998/99 as English universities they would need a somewhat better pro rata settlement than has been announced for England. That is an arithmetical fact.

80. Your case is that any additional resources coming from fees and/or loans should be earmarked for higher education. Of course, there are others who would challenge that. For example, there are others in the continuing adult education sector who claim that higher education institutions are getting a bigger slice of the cake than people who provide for unemployed people who seek lifelong learning. There is concern about people who leave secondary education without qualifications or with inadequate literacy skills, which carry over to performance in further education. There is also the general conviction of people that investment in pre-school education is probably the best way of raising education standards generally as well as economic performance. Looking at all of that, are you sure that you can maintain your claim that any additional resources coming from Dearing should be earmarked for higher education?

(*Professor Harris*) On the key issue of fees, it is important to understand that the Government has taken the clear view that they are sums payable by students to universities. We must be extremely careful that they do not just become a tax. The moment they become a tax a whole set of different political issues will have to be addressed by this or any other government. At the moment, they are not presented as a tax but as a charge to students to go to university because in general they will do better in subsequent earnings; if they reach an appropriate threshold they will begin to pay them back. It is important that we do not confuse fees with the other issues that we are talking about.

Chairman

81. However, one could cut the grant element and use some of that. You are getting the charge. The grant element could be cut and redistributed to other areas in the tertiary sector which have been underfunded and where in the past students have had to pay for tuition.

(*Professor Tarrant*) One must go back to the Dearing Report and its reluctant argument for the introduction of fees. In his view—which we share—there is no other way of solving the funding crisis in higher education. That is not to underestimate the funding crisis in other sectors of education. Here we have a specific solution to a specific problem. I agree with those who have said that it is indefensible to use that solution to solve other problems, but that is not in any way to underestimate those other problems.

(*Professor King*) I use the example of my own university which is replicated in many ways throughout the sector. My university is located in an area where there is a very low rate of staying on post-16, low expectations and so on. Our student composition, student body and aims are exactly in line with widening participation that we are talking about. That is where we are continuing to work. One of the many reasons why I desperately need proper funding is that I must carry out more effectively the present links with schools, FE and the adult education sector which serve the whole community. I passionately believe that universities have a major role to play in this. I want to be able to play that role properly. I do not deny what has been said. One

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[Continued

[Chairman Cont]

could equally argue for all of those other issues if the money was there. But my job is to make sure that I have the money so that I can get my students from local schools and get kids who have never been anywhere near an FE college, let alone a university, into my university and many others. If we are to do that and not abandon that vital role to help our partners we must have the money; otherwise, those potential students are being ill-served.

Mr Brady

82. You make a powerful case for the revenue to go to universities. You also endorsed Dearing's view that students should pay for the benefit that they receive. Do you go a stage further and say that therefore those fees should be paid to the institutions that they attend?

(*Professor Harris*) It is the intention of Government that the fee once means-tested should be paid directly to institutions. Currently, we are working with the department on mechanisms, which are quite complex, under which a student will know on his or her arrival at university that he or she owes any sum between nought and £1,000. As we already invoice a huge number of our overseas, postgraduate and part-time students—there are universities in Britain where two-thirds of students already pay fees—we must keep this in proportion. Yes, it is the intention of government to do that. It takes us back to the earlier point that it is an invoice from a university to a student.

83. Do you believe that it should be possible for the university to charge less than £1,000 if it chooses to do so?

(*Professor Harris*) I think that some universities will contemplate bursaries for some students in certain circumstances. Remember that a third of students will not pay anything anyway; one third will pay between £1 and £999—let us call that £500—and a third will pay £1,000. I read in the papers yesterday of a Welsh university that had already launched a scheme under which certain students would be exempt from whatever fees they would otherwise have to pay. It is for each university to decide within its total resources how many such bursaries it can make available.

84. Do you envisage at any point fees in excess of £1,000 being charged by universities?

(*Professor Harris*) I think that that is most unlikely in current circumstances.

85. What about the future?

(*Professor Harris*) It is very hard to predict what will happen in three or five years' time. At the moment the CVCP is clear that there is a need to make this system work effectively.

Caroline Flint

86. I want to return to the issue of further education. Dealing with your submission about the expansion of higher education and partnership, it appears to me that the university sector wants to absorb some of the best HE sub-degree courses and take them away from the FE colleges. In terms of the expansion of FE colleges within the local

community, I believe that part of our task is to see how the quality of those courses can be developed. In one paragraph you say that the CVCP has strong reservations about the recommendation that priority for growth in sub-degrees should be focused on further education colleges. We may end up with a situation where you want everything. I know that some of that has been confused by the merger of polytechnics and universities. We may end up by not having redistribution of the money back into FE and tertiary education because you cream off most of those courses, leaving the FE sector with City and Guilds and those kinds of things.

(*Professor Harris*) That is absolutely not our intention. To take my university as an example, in the Borough of Oldham within Greater Manchester there is currently no HE at all in any institution. An Oldham sixth form college has approached my university to work in partnership so that it can deliver the beginnings of HE provision in that area. However, to do that it must be validated and quality guaranteed by the university. That is not in any sense taking it over; on the contrary, I see it as empowering or facilitating an institution that wishes to do so to deliver HE in an environment where currently there is no such provision.

(*Professor King*) I understand the drive behind the question. Talking to principals and others in FE partnership colleagues, it is clear that one of their concerns is that FE colleges that currently do not teach in this area but may want to do so ultimately may end up, if there is a sudden move of activity that already happens in some universities into FE, with that kind of mission drift where they do not have to worry about being unable to put resources into basic literacy or whatever. But for others clearly that is something that they can appropriately do. It is hard to demonstrate, except with hard examples, how good those partnerships are and whether they are genuinely two-way. Largely, we are working regionally on students who will not be coming to our university, because it works for both of us. We do not want to say, please, do not take everything out of the old polytechnic or new university sector, because for many students that is an appropriate route. For many others increasingly it will become FE, but let us not make an artificial divide. Let us develop the partnerships that are working very well. Martin has given examples. There are many other geographical examples. Some FE colleges can and do this work and can probably expand; some cannot. In some areas there is neither provision. We must not offer something on the cheap with ceilings for our widening participation of students where you can do an HNC and HND but stop. There is no simple solution. We are certainly not saying that that should be kept out of FE and all of it should be brought into universities. Let us retain diversity and use it where it works best.

Ms Candy Atherton

87. I was interested in the discussions about FE delivering HE. I represent an area where there is no HE. I come from Cornwall. One of the areas of concern is what happens to young people who currently want to move up country (as it is described)

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in order to obtain degrees and who say that they will not do it because they are taking on an extra burden which forms a major barrier to the pursuit of further education and higher education. Bursaries have been mentioned. Will you and your colleagues look at geography as a barrier to participation? What is your overall reaction to the issue of geography in terms of fees?

(*Professor Harris*) As a Plymouth man, I very well understand the point made about Devon and Cornwall. However, the University of Plymouth is very much like Chris's university. It sees working in partnership with FE colleges and other institutions right across the county as one of the ways forward; in other words, the delivery of HE in campuses that do not belong to the University of Plymouth but are in partnership with that university. I return to quality. That is very important if HE is to be spread into a wider range of institutions. I have no problem with that at all. It is right that the quality assurance mechanism that is so important to all of us should be there, together with access to appropriate libraries, laboratories and so on. It is not just a matter of access but access to quality.

88. But that has funding implications?

(*Professor Harris*) Yes. Many of us have been anxious about geography, in the sense that clearly in almost all the big conurbations there is a vast array of opportunities and those are not necessarily replicated in the Highlands and Islands, Cornwall and so on. It may well be that we have to address that more carefully. In particular, if more students tend to stay at home then what is near at home becomes a bigger variable.

(*Professor King*) I absolutely agree that geography is critical. I go back to the issue of the best venue for the student: HE or FE. I take my own university as an example. We are opening a new campus in Staffordshire which is jointly owned by two FE colleges and the university. With very strong IT support, students will be able to do everything from basic literacy to ultimately an MBA. Part of the immediate geographical issue is to build on partnerships and IT infrastructure, but clearly there will be settling around the system, depending on whether the trend is for students to go towards their home universities. At the moment, universities move into areas where there are opportunities. We do a lot of work in Shropshire and move out to communities. We work in partnership because together we can offer everything that a student wants. It is not a solution that largely requires new infrastructure, but it means working in partnership on whatever the possibilities are.

89. What you are talking about is some way down the road, possibly years ahead. These will not develop overnight.

(*Professor King*) Mine began in January. You are absolutely right that we need to push harder.

Charlotte Atkins

90. If the tuition fee goes to the institution or university will it not discourage universities that face a funding crisis from taking those students who are not paying fees? Obviously, it will make much more

sense for them to take fee-paying students than non-fee-paying students. Obviously, that is a particular worry facing Staffordshire and Keele, both of whom are represented here.

(*Professor Tarrant*) One of our very early concerns was that there would be huge differences between universities. I can think of some universities—perhaps I should not name them—where all students would come in on the basis of their parents being responsible for paying the whole of the £1,000. There are others where only a very small fraction of parents would have that liability. We have been assured—it is well known—that the income to the university will remain the same. The source of the money will be different according to the type of student. At one end of the spectrum the source of money—the £1,000—will be entirely the students' families and parents. There is a question as to when a student is independent of his or her family, but that is a detail. There are other students for whom the £1,000 will come entirely from the local authority in the first instance and probably the Single Student Support Agency in the longer term, that is, perhaps the year after. However, as far as the university is concerned the money is the same. There is no incentive on me to go out and say that I want to concentrate my admissions on rich parents because they will stump up the money. I believe that if there is any pressure it will be the other way round. It is probably easier to get the money out of the Single Student Support Agency than out of some parents.

(*Professor Harris*) The students who owe us nothing will be a big advantage.

Mr Derek Foster

91. I am glad that you have covered that point. Dearing's original proposal was that a £1,000 flat fee would be levied on all students and that would go directly to universities. The Government by means-testing intended that the money which came directly from students would be significantly reduced. We were all rather worried that that would provide the Government with an excuse for not giving you the full return that Dearing intended. Do I take it that you have now received an assurance that you will be in receipt of the full return intended by Dearing, that is, £1,000 per student, whatever its source may be?

(*Professor Harris*) I think that your question has two parts. On the first more technical question, it is absolutely right that universities will receive an income stream that takes account of their particular distribution of fee income and will mean, for example, that more money goes to Staffordshire and less to Manchester. We understand that and are perfectly reassured on that point. It will avoid the disadvantages. What none of us can be reassured about—and most people in the room clearly share the anxiety—is the underlying question, that is, even if Government—any government—guarantees the fee income to universities it has the biggest possible manipulable tool in the form of the rest of the grant to the funding councils. There are no guarantees about that.

(*Professor Finch*) Of course, it is right that universities must pay great attention to the funding streams and how they make best use of them. On the

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other hand, it must be said that we are genuinely and strongly committed to the importance of widening participation as such. We do have an educational as well as a financial agenda. We are as concerned as anybody that there is a real wastage of talent among young people who historically have not entered universities. I believe that the leadership of universities can be relied upon to try to deliver that and not simply respond mechanically to funding its decisions.

92. My question was almost a preamble. Professor Harris said that they were really two questions. The third question goes back to yesterday's statement in which the Secretary of State appeared to claim that he had found a way of giving you all of the fee income in the first year. You will be the beneficiaries of that. That was the point of yesterday's statement. Do you understand that in the Dearing sense that will apply to all students, or is it related to the actual fees that will be paid with no allowance being made for the means-testing gap?

(Professor Harris) What government means is that there is an assumption about the average fee collected. The Government does not assume that every student will pay £1,000 but that a third will pay nothing and so on. The Government has an assumption about fee income based on the range of fees. You will be able to ask the Secretary of State this afternoon whether he believes that all of that money will go to higher education.

Chairman

93. Are you happy with the Government's longer-term proposals?

(Professor Harris) What do you mean by "longer-term proposals"?

94. Forget about short-term funding. What is your view about their long-term approach?

(Professor Harris) I believe there is a possibility of a real partnership based on Dearing in all the areas that I touched on briefly right at the beginning between the Government, universities and their staff and students and employers. But the funding elements are crucial. The extra educational goals that you and we rightly focus on require funding. Yesterday's statement stopped the slide. It does not provide the extra resources to do those things. We want to get on with them, especially access.

Valerie Davey

95. Dealing specifically with the charging of tuition fees, it has been claimed that it is morally indefensible because it will discourage students from poorer families. As I understand it, what you have said today is that a third of those students will not pay. Therefore, I think that there are two psychological barriers. First, there is a psychological barrier faced by families who have never intended that young people should get into debt in any way. Therefore, the long-term commitment—maintenance—is something that they find difficult to contemplate and work towards. It is a large amount of money which the young person will pay back as he or she earns. In the comments made it is apparent that there is also

the psychological barrier—dare I say it?—faced by some of your colleagues who perhaps have not fully understood that in the short term poorer families will be better off than under the existing system of loans, even though there is no fee element. Is the tuition fee as proposed by the Government at the moment a new barrier to access to youngsters coming from poorer families, or not?

(Professor Harris) My belief and that of the overwhelming majority of vice-chancellors is that because the Government has agreed that the fee will be means-tested it is not likely to be a deterrent, once it has been properly explained and understood. That is crucial. I believe that as we speak the DfEE is producing a very detailed set of leaflets. The fact is that the 30 per cent will not pay this fee. I believe that if there had been a full fee it might well have been a deterrent, but the increased loan required for maintenance—which is a real issue—is repayable only on an income-contingent basis. The threshold is important. But if one is really anxious about the fact that one may not have a good salary later then one will never pay back the loan. The Government has taken steps to minimise the disincentives. The only empirical evidence that we have is that the original Australian scheme, which is closely analogous to this, did not deter entry or access by the least advantaged groups.

(Professor King) The problem is a psychological one; it is about communication. Currently, students are being deterred. The barriers are financial and others and we have a terrific responsibility to explain the situation. This is a media communication issue. It is a matter of valuing the achievements of those students in a value added context, in the sense that they go in with very little and come out with wonderful results.

96. We must recognise that we do not have sufficient numbers of youngsters from that background at the moment. Therefore, we start from a low base. We have to encourage them. Having read through the detail, I do not think that this is a further deterrent. We still have to overcome these psychological hurdles.

(Professor Tarrant) It is a perception rather than a reality. We all know that in practice the perception may be more important than the reality. Dearing made the point that students do not pay at all. It is paid by either parents or graduates, if they reach a particular level of income. But we talk constantly about student contributions. If you like, we are adding to that perception, mistakenly. It is important constantly to remind ourselves that parents or families will pay if they are over a certain threshold income, and graduates will pay if and when they reach a particular threshold of income. One of our difficulties is that a lot of the details of the scheme have not yet been worked out. We are working with the DfEE to try to resolve some of these issues quite quickly, but once critical issues like threshold income for repayment are sorted out we can start a hard-hitting publicity campaign among our local schools—all of us, including parent groups—to try to explain the situation. You are absolutely right to say that in terms of perception the key difficulty will not be the fees, because one third of student families will not pay them, but the increased maintenance loan.

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That is the biggest psychological hurdle to surmount. We must constantly explain that, yes, the debt is increasing but the liability to repay that debt is income contingent. If one earns a lot of money one will pay it back; if not, one does not have to pay it back.

(*Professor Harris*) To add one technical point, fees are assessed on the basis of parental income. One crucial point that is not yet settled—which the Committee may wish to raise this afternoon—is the age at which that ceases. For an 18 year-old to be dependent on parental income is one thing; for a 35 year-old to be so dependent is clearly another. That is not yet settled and ought to be. It is clear what the answer should be. Under the current grant regulations once one has been independent of one's parents for three years one is no longer dependent on them. The Committee may wish to make that suggestion this afternoon.

Mr St Aubyn

97. We have already seen considerable evidence that means-testing is not infallible. Many students will regard themselves as being personally liable for the costs that they incur. We have seen that a debt of £5,000 may be raised to between £10,000 and £12,000. In this situation is it not incumbent on universities to provide as many opportunities to students as possible to mitigate that debt by providing opportunities to work on campuses? What work have you done to look at the proportion of university support staff that comes from students and how far you can increase that proportion? What is the attitude of others who work on campuses to that proposal?

(*Professor Harris*) That presents us with a genuinely interesting social dilemma. The jobs that students would do on a campus would be done in lieu of people who currently do them. Many of our universities are situated in the centres of great cities where there are employment opportunities for relatively unskilled people. Universities are typically some of the biggest providers of such jobs. The dilemma is: what is in the interests of universities and their students on the one hand against the interests of the communities in which those universities are situated? It is a very complex question.

(*Professor Tarrant*) Large numbers of our students work now. There is no point in putting our heads in the sand and ignoring that fact. They work for money rather than academically. I believe that we have a duty to help them in that employment market. I recognise the difficulty that Martin has already mentioned. That is certainly true for a good deal of on-campus work. For example, my university along with a number of others has just set up a job shop which is about getting students into part-time employment in the evenings and perhaps weekends in order to help them financially. I am quite sure that there will be a great deal more of this. I have considerable experience of the North American system. I have worked in North American universities on a number of occasions. There it is the norm that the majority of work on the campus is done by students. We are a long way from that. There are obstacles, but we have to get better about

recognising that some students, not all, already face considerable difficulties. We are trying to do something about that.

Caroline Flint

98. Are students working just to maintain their standard of living rather than reducing their debt burden?

(*Professor Tarrant*) There is as big a spectrum as you can imagine, from those who are working because they must work to students who work because they want to. There is a great range.

(*Professor King*) This focuses incredibly hard on the long-term employment prospects of students, and it focuses universities on ensuring that students have the skills not only for flexible employment but communication and other skills that allow them to get jobs when they leave. They have to believe that they will get jobs in order to pay back the debt, and that is good news for us because that is what we are about.

Mr Dafis

99. It seems that you are perfectly confident that the Government's proposals are preferable to Dearing's proposals in relation to enabling students from low income backgrounds to enter university.

(*Professor Harris*) I do not think that we are saying that. We are saying that the Government has made a set of decisions which we feel we can live with and are prepared to support.

100. Are you prepared to make a judgment on the question that I have asked? Are the Government's proposals more progressively redistributive than Dearing's original proposals? This is an absolutely crucial matter. We need to discover what the Government's motivation is in varying from the Dearing proposals.

(*Professor Tarrant*) I believe that that is a question that you should put to the responsible Ministers. I would not presume to attempt to answer the last question. Whether it is a socially better or worse solution is beyond my competence to judge, because there are swings and roundabouts within both proposals. The introduction of the means-tested fee should be more socially equitable, but the maintenance element, even if it is income contingent, is perhaps less socially equitable. How those two stack up in practice I do not know.

101. But, surely, it is absolutely crucial that somebody should study very carefully the redistributive effect of these two proposals?

(*Professor Tarrant*) I certainly agree with that. I do not think that any of us can really answer your question.

102. But those working in the universities are in quite a happy position to carry out that task. Do you know whether or not the Government is commissioning that kind of study?

(*Professor Tarrant*) I do not know.

103. I want to ask about top-up fees. Supposing that top-up fees begin to be implemented, is it understood that the Government would or would

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not vary its contribution at the £1,000 level? If not, do you agree there is a danger that universities that charge higher fees will encourage the growth of an intellectual elite and also a social elite?

(Professor Harris) I think that the best answer I can give is to repeat what I said earlier. The CVCP does not have top-up fees on its agenda and is not likely to in any timescale that we can talk about today. I hope that legislation will not be necessary because universities will listen to what is being said. That is the CVCP position. If the Government were to legislate the legislation would be extraordinarily complex.

Chairman

104. Are you confident about the position on top-up fees?

(Professor Harris) We had our annual meeting last week and no one dissented from what I have just said.

Mr Dafis

105. Do you recognise the danger that I have just mentioned, if it began to happen?

(Professor Harris) One can envisage that if universities charged radically different amounts it could lead in the very differentiated direction that has been identified.

Yvette Cooper

106. I take you back to two issues: wider participation and, if extra resources are raised, where that money should go. You touched briefly on wider participation. I draw your attention to figures that show that participation has gone up along the lower socio-economic groups and people on lower incomes. As I understand it, although it has gone up in every socio-economic group it has not increased by a greater extent in those groups with the lowest participation. There has not been a growth in the relative rate of participation by people from lower income groups. How do you defend higher education from the charge that over the past 20 years there has been a lot of talk about wider participation but higher education has not been successful in achieving it? Why do you believe that higher education will now be suddenly successful in widening participation? Instead, should we not believe that further education is a better place to make the leap—whether it be perception or whatever—because higher education has failed in the past?

(Professor Finch) These are very deep questions which relate to the whole education system. It is not complacent to say that universities can only work as part of that system. Where there are problems at an earlier age within the system universities to some extent will inherit those. That is not to say that we do not sincerely believe that there are things that we can do. We are doing them. What we have in place now, given the way that the system has developed over the past few years, is a range of very strong partnerships with schools, FE colleges and sometimes down to primary school level. We have structures in place that will enable us to do something which the system as a whole has patently failed to do so far. In that sense

we are already well placed to deliver on widening participation, but it must be done in collaboration with other parts of the education system. We cannot do it on our own.

107. Is this something new and different that you have in place now which was not in place five years ago?

(Professor Finch) The links have been very much consolidated over a five-year period—perhaps longer than that.

(Professor King) There is also a new era and language that is all about slowly increasing the number of people who come from privileged backgrounds but accepting the right of everybody who is able to benefit from higher education to do so. I would put that at a very high percentage. There are loads of existing schemes which need a lot more money, time and attention. We are working in primary schools. It will take years for that to come through. It is not a choice between FE and HE; for some it will be FE and for some it will be FE and then HE; for some it will be HE and then back to FE. We are genuinely talking about lifelong learning for everybody. The position is different across the sector which is very diverse. Speaking of my own university, the social composition has changed by an increase in lower achievement social class 4 but also social class 5 of about 45 per cent over the past three years. We have radically turned round expectations. We are dealing with the cost of educating people who need extra support. They must be given that support because it matters desperately that those people do not get a cheap deal. They are entitled to the same as anybody gets and they must have the best. We are working on schemes with our partners. It is not a choice; we must do it together. It needs to happen on a much wider scale, with much wider public recognition that it is the future of this country. Often, my students come in with very poor or no A levels whatever. They are the ones who are achieving and getting the jobs; they are the value added people. I see them as tomorrow's leaders. To get us there we must use a warp factor.

108. If it should prove the case that further education is better at getting more people to stay on and get additional qualifications that they need—it might be to do with cultural barriers, greater flexibility in that sector or whatever—do you accept that there would be a case for putting a greater proportion of new resources raised as a result of these proposals into the FE sector rather than to say that all the resources from tuition fees should go into the higher education sector? Is there a case for putting some of those resources into the FE sector if it turns out to be better at it?

(Professor King) Perhaps I may ask: better at what? It is quite clear that the students that I deal with want a degree. Many go on to do postgraduate work. Others will want to do HNC and HND and perhaps other appropriate training courses. Our concern is that the doors are open to those who want to enter higher education. The path may well be through FE, and perhaps FE is the stopping point for many at that time in their lives. But we are talking about lifelong learning. Those people may well come back. It is not a choice or conflict but a series of pathways.

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Mr Derek Foster

109. I am delighted to hear of the commitment to widening participation and the achievements that have been mentioned. Recently I have had a close association with both Northumbria and Sunderland whose experience is very similar to your own. That brings me back to the abolition of grants. I am quite comfortable with the means-testing of fees. I believe that the Government has dealt with the possible disincentive in that area. But I am very uneasy about the abolition of grants in that it may prove to be a deterrent to students from low income families. The prospect of ending up with a debt of, say, £10,000 or £11,000 at the end of a three-year course is not one with which many of those families will be comfortable. The other day I heard of a building society that on the basis of a £2,000 or £3,000 debt would be very reluctant to grant mortgages to graduates. That effect may at the moment be unforeseeable. With a debt of £10,000 or £11,000 it is much more difficult for a graduate to get a mortgage for his or her first house. That makes me feel very uneasy that we are stumbling into a problem here. David Blunkett's answer appears to be that when the Government brought in a less generous scheme in 1990 or 1991 there was no effect on participation. Do we really know whether or not that is so? Are all of these arguments self-serving? Do we really know that this scheme will not be a deterrent to wider participation?

(*Professor Harris*) I think that we must remember that the grant scheme which is in place at the moment is not the grant scheme which some of the older members, including myself in this room knew and loved. It is a very inadequate scheme, and the repayment of the loan through the student loan scheme is in a very short period at a very low threshold. I think the crucial thing is the kind of schemes which Christine King has been talking about, which you have seen in Sunderland and Teesside, which are replicated in every major city, maybe elsewhere in the country. These are things that have not been put off. I think the crucial thing is for the thresholds for repayments to be set at a sufficient level and then a major propaganda campaign by all of us—we are all going to be on the same side—to make sure that students are not deterred by fears that may not be justified. I accept exactly what you are saying, there could be fears, and it is up to us, Government, all of us in the sector, to stress that this is an income-contingent repayment scheme.

Judy Mallaber

110. Touching on the question of parental attitudes to contributing towards student finance, and the interesting MORI survey which you commissioned, obviously there are problems for students whose parents are meant to contribute to their maintenance and do not, and there may be problems for those who are meant to contribute to fees and do not. So the question of whether parents are prepared to pay is important. I have a couple of questions on that. The survey you did showed that 83 per cent of parents who expressed an opinion said they would be prepared to pay towards their child's higher education tuition costs. Did they actually

make a distinction between paying for tuition and paying for living costs in the survey? Secondly, it is 83 per cent of those who expressed an opinion. Was it a self-selecting group of those who had decided and knew anyway their children were going to go on to education and they would get there anyhow, and actually there were a lot of people whom it had never occurred to and so did not express an opinion?

(*Professor Harris*) Can I work backwards on that. This goes back to Mr Foster's question. The interesting thing is that in terms of contribution to maintenance, no parent will in future be expected to contribute, because every student will have access to the loan which is then repaid on the income-contingent basis. In respect of the fees, it is true the parents will have to make a contribution, but notice that it is only the better-off parents who will be expected to make a contribution. There clearly is a problem there. If a better-off parent refuses to make a contribution to a better-off student's fees, that is true. It is probably less serious than non-contribution to grants under the existing scheme.

111. Was it a self-selecting group who replied to the question?

(*Professor Harris*) I am sorry, I do not know the answer to that. It was a MORI representative group.

Caroline Flint

112. You keep talking about the income-contingent point. Would it not be the case that if you are a student from a background where your family have assets and funds and everything else, the student from the more middle-class or upper middle-class background is likely to end up with a lower loan because their parents will subsidise it, so the student from the family that has the pay-as-you-earn type lifestyle is going to end up with a higher proportion to be paid back?

(*Professor Harris*) I know of no way in which you can stop better-off parents helping their sons and daughters. What you say must be true.

(*Professor King*) What then happens is that a student from a poorer background has access to money to allow them a decent living standard, and most of my students now do not have that.

Chairman

113. Can I ask a final question about the implementation of the scheme. Are there any issues there which are causing you concern? There is the issue of the timetable of implementation. I know we are all waiting for lots of the detail, and it may be that the devil is in the detail, but are there any issues that you wish to raise with us which are of particular concern to you there?

(*Professor Harris*) I think I had two. John may wish to raise one or two.

(*Professor Tarrant*) We mentioned one or two, if I can summarise them. I think there is this question of when students are independent from their parents. There is the role of the spouse or partner in this whole question of means testing for fees. I think there are difficult areas to be resolved there. We are worried about the administrative costs of the scheme. £1,000 as a unit of money is worth chasing, but if you split

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that as an income stream to university between a local authority on the one hand or the Single Student Support Agency and the student family I should say, then that it is not £1,000 we are dealing with, it may be anything from £1 to £1,000. There are debt collection questions that arise, of course, about chasing around after lots of small amounts of money from families that have been means tested and their contribution is expected to be very small. So there are administrative issues about that. There are administrative issues about European students, the means-testing of European student families by local authorities who this week—the equivalent next year—have a student arriving from any European country and are expected to means-test the family. There are issues about that and the implications for that.

114. What proportions across the whole university sector are European non-United Kingdom, do we know?

(Professor Finch) Large numbers.

(Professor Harris) They are all classed together.

115. Is it ten per cent, 15 per cent?

(Professor Harris) It would not be that high, but it is a non-trivial number. A British local authority will have to assess the income of a Greek parent. It is going to be quite interesting.

(Professor Tarrant) That is always used as a bit of light relief. Perhaps I could complete the list, if I may. There are students on longer courses. The Government, we understand, have addressed the medical student question and I believe are going to address the question of teachers, but there are lots of other students on longer courses. I will mention one category, which is students with sandwich periods in industry, who will probably be expected to pay a half fee during the time that they are in industry. This is going to be a disincentive to that very dimension of Dearing which we would support: the need for work experience within the Dearing programme. There are, I think, problems about the whole range of longer courses—language courses with a year abroad, for example, with a year in France, a year in Germany, a year in Italy and so on. These are issues which we hope will be resolved quite quickly. There is critically the question of the threshold for repayment of these loans, the income threshold for the income-contingent repayment.

116. That was announced yesterday.

(Professor Tarrant) Was it? Forgive me.

117. £10,000. I do not have the note here. £10,000 you start paying, £17,000 you repay £52 per month compared to the £129 per month under present arrangements.

(Professor Tarrant) So it is better, I think, than the present loan scheme, which we are very relieved to see.

(Professor Harris) That is good news.

(Professor Tarrant) There is the phasing over various income categories, but that may well have been covered as well. At what point is the loan forgiven? If we get during-lifetime learning a 64-year-old student, what is the situation there? What about the 50-year-old student? There are boundaries to be drawn. We need to know really what those boundaries are. There is a special complication of the transition year in 1998-99 where the local authorities are involved in this, and then possibly a whole new ballgame with the Single Student Support Agency. It looks as if we are all going to be involved in quite considerable costs for a one-year transition period which is messy and costly, which we are worried about. All of that, of course, impacts upon what is the net figure, of that £1,000, which comes to the student after the cost of collection, the cost of administration and so on. There is no doubt that the splitting of the £1,000 into two income streams—the LEA and the student/parent or student/family—is likely to add to the administration costs and therefore diminish the impact of the £1,000. Finally, we are all concerned about the impact on postgraduate entry of the introduction of larger loans, income-contingent though they may be, for students particularly, especially part-time postgraduates. There are implications here about the possible ending of the European Social Fund, the education part of which is used extensively to fund bursaries for part-time postgraduate students re-skilling, upgrading their technical skills and experience. So there is a link there to lifetime learning. If we have students—which we will have—with substantially larger debts, income-contingent notwithstanding, then I suspect the disincentive effect is likely to be greater on the postgraduate and the lifetime learning end of the spectrum than it is in the long term on the undergraduate end. Forgive me for going on at such length, but that is the list. There are other items as well.

(Professor Harris) Can I add just one more—I know you want to move on—and that is that the universities will be greatly helped if the highest possible proportion of students know on the day they enrol for their first year whether they owe £1, or £97 or £1,000. What will be extremely difficult is if there is a large proportion of students who come not knowing, it will not be clear to us how to treat them. I know the Department is working on that, but if you can press on that it would be very helpful.

Chairman: Thank you very much indeed for that comprehensive evidence which you have given us. I have no doubt that we shall be putting some of the issues which you have raised to the Secretary of State this afternoon. I am delighted personally that you have come up against top-up fees. Thank you.

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[Continued

Examination of Witnesses

MR DOUGLAS TRAINER, President, MR LUKE BRUCE, Public Affairs Officer and MR LEE FINDELL, Vice President for Education, National Union of Students, examined.

Chairman

118. Welcome to our Committee and thank you for submitting to us comprehensive written evidence. I should have said at the beginning to the CVCP and did not, so I will say it here that we are not re-doing Dearing, we would not dream of doing that. What we are doing is focusing, it seems to me, on the two key issues which it is appropriate for the Committee to look at, and that is the funding implications of both the review of higher education and the Government's proposals, and issues relating to access. It is on those two issues that we will be concentrating. As a start, do you want to talk a little bit about anything that the previous witnesses said and any comments you might have on evidence which they gave to us?

(*Mr Trainer*) I think we will pick up, Chairman, much of what has been said by previous speakers in the questions as we go through. We welcome the opportunity to come in front of the Committee today and give evidence, as we have been part of the entire Dearing consultation process and have welcomed many of the issues that Dearing has taken on in the narrow issues of access and funding but also in the wider issues. We would want to state at this stage that we will concentrate our evidence today on the issues that you have outlined, but we believe that it is important that the Dearing baby is not thrown out with the bathwater essentially, and that many of the other positive parts of Dearing—the institute of learning and teaching, student representation, a quality assurance agency, the concentration on research and many other issues—are not lost there. The thrust of our evidence will concentrate on the funding and how we perceive that will affect access. Very clearly, the National Union of Students and the student movement rejects the notion of fees of any sort for the future funding of higher education. We want to see them not only abandoned as a government proposal for full-time education, but addressed in part-time education as well.

119. Apart from asking you whether you think it is realistic that you will be able to reverse the Government's policy on that, would you like to say a little bit more on why, having agreed that income-contingent repayments on grants are acceptable, you resist a concept of income-contingent repayments and a means-tested basis on fees?

(*Mr Trainer*) Of course. I think what was said in some of the previous evidence focused on the proposals as currently put forward by the Government. We do not believe that the proposals for a £1,000 means-tested tuition fee gives the real picture. We believe the breaching of the principle of free tuition opens the door to charges of a much higher level in future years. The evidence is very clear internationally with Australia, where a system of fee contribution was introduced which was abused by a successor government. A Labour government introduced a fee contribution scheme in Australia and then the successive government has massively increased that. Our opposition to fees, the reason we are so viciously opposed, is because it is the thin end

of the wedge to other charges. The National Union of Students does not take lightly the idea of coming before bodies such as this and arguing that grants should go. We do that because of the real gravity of the situation. We realise that the situation means that we have to get money into higher education, we have to think radically, but we believe that we should not sleepwalk into abandoning one of the last great principles of a higher education system, which is that if you are a full-time undergraduate the state pays for your tuition and you make a contribution to your maintenance. Students are making a contribution, and we would certainly disagree with previous evidence which suggested that up until now students do not make a contribution to their education. They clearly do in the repayments they make on the maintenance package at the moment—they would clearly make a higher contribution under the Government's proposed scheme—and they make contributions in the time they invest in education and the part-time employment and other ways in which they fund themselves through the system.

120. You have not really answered it. Given the NUS's change of heart on the grants, which is the biggest bit of the debt for most students, £1,000 in relation to the annual living expenses of a student is not the highest proportion. If you can make the argument for income-contingent repayments on grants, why can you not make it on fees and see that as a mechanism for ensuring a greater number of students into higher education, improved access and proper funding, therefore quality assurance in that sector?

(*Mr Trainer*) With respect, I think I did make some semblance of an answer to the question, in so far as once you breach the principle of free tuition you open the door to increasing the contribution. If we can box out the student contribution on maintenance, then other forms of funding can be found to fund the tuition fee. We believe, for example, that it is a scandal that business and industry is not going to be expected to increase its contributions to higher education as we approach the millennium, and that any new money has to come from students as graduates.

Caroline Flint

121. To pick you up on the principle of free tuition, for many people in Britain that is a principle to which they have not had access. I had someone who came to my surgery the other week who out of his own pocket has paid almost £1,000 in tuition fees to enhance his skills in electrical engineering; he has done it through City and Guilds. So the principle of free tuition is something that has been particularly open to a very small number of people—as we have already seen this morning from your own evidence, to a very elite group of people from certain sections of society. Bearing in mind your opening remarks, in that you recognise the crisis in funding in both further and higher education, should not there be a

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[Continued

[Caroline Flint Cont]

bit of leeway from the university section of students who for a long time have had free tuition, to try to share the load amongst many people who are already paying tuition fees?

(*Mr Trainer*) I think that what we are arguing is that full-time undergraduates should accept the idea of repayment for maintenance costs. We argue, as the National Union of Students, that students should graduate with debts of £12,000 or something in that region. That clearly is a contribution to higher education. We do not believe that contributions to maintenance are somehow some sort of generous contribution that students make on a whimsical basis; it is very necessary to get them through higher education. You are right to raise the issue of part-time students, City and Guilds, Open University students and all sort of other students, which desperately needs to be addressed. We regret the fact that Dearing had, frankly, a rather narrow focus in not looking at further and higher education and how you can build a seamless tertiary education system.

122. On that very point, are you suggesting therefore that there should be free tuition fees for everybody? How do you pay for it?

(*Mr Trainer*) We believe that can be done. We believe that Dearing's evidence itself suggested that a fairly significant proportion of part-time students get their fees paid by their employers. Employers do make a contribution to further and higher education. We believe there should be a national scheme to ensure that the contribution is part of a wider learning bank and part of lifelong learning. We believe that if the core key stakeholders took on the responsibility, then students should not be expected, and would not be expected, to pay the whole bill.

Charlotte Atkins

123. Do you think that higher education should expand in numbers and quality?

(*Mr Trainer*) We certainly do believe that higher education should expand. I would pick up on one of the points that was made by a Committee member earlier on, that the expansion in higher education should be welcomed, but the changes in the access profile into higher education have not been sufficiently impacted upon. There are more working-class students going into higher education, but the proportion of working-class students as a part of the whole sector has not improved. The Government should target money. Tuesday's announcement is particularly welcome because it was beginning to target money into access and ensuring that we redress some of the balance in higher education. We set a target which is in line with the CBI and other organisations who want to see expansion reintroduced. The stop/start policy of the previous Government did not allow institutions or individuals to plan their participation in further and higher education.

124. How will that expansion be paid for?

(*Mr Trainer*) We clearly believe that the Government has a role in putting more money into higher education. We believe the money can be found, and Tuesday's announcement would seem to suggest that. Again, I repeat the point that Dearing

failed to take on the issue of contributions from business and industry. We believe that institutions can make savings by becoming more efficient. We should look again at trimesterisation and other issues which would enable institutions to deliver high-quality education in a more efficient way, and we believe that the state can benefit from a highly-motivated, highly-educated workforce.

125. So you welcome Tuesday's announcement and, as far as you are concerned, that meets your requirements, does it?

(*Mr Trainer*) No, it certainly does not meet our requirements. I think the CVCP said it was a step in the right direction. We would concur on that. The £120 million for capital projects should surely now stop the vice-chancellors and principals complaining arguing that top-up fees are a way forward. We would take issue with previous evidence that it is not part of the agenda of the Committee of Vice-Chancellors and Principals. That may be so, but there are vice-chancellors and principals who have a passionate desire to introduce top-up fees in this country. We believe the Government's announcement of £120 million should rule that out. The money for access is only £40 million or so. That is very welcome, but there are many, many other questions of access which have not yet been addressed. Let us not believe that what the NUS is arguing is that simply putting money into higher education will improve the issue of access. We accept that schools and further education have to be invested in and access has to be encouraged from the lowest possible level. The latest statistics I have suggest that 8 per cent of the bottom socio-economic group achieve two A levels or more—the necessary qualifications to get into higher education—but 50 per cent of that cohort actually go in. So it is not the issue of whether or not they go in, it is the issue of whether or not they are qualified and stay on long enough to get themselves into higher education that needs to be addressed.

Mr Derek Foster

126. Can I be absolutely clear on the fees issue. I think you have made it clear that what you are against is the principle, you think that the principle has now been breached, it is the thin end of the wedge, and in future years universities, governments, whoever, will find an excuse for substantially increasing the fee charge. Do you dismiss, or do you not have any worries about, the disincentive aspects of fees? Then can I go on to link that with the abolition of grants which you, I understand, have now accepted. Are you not worried that there will not be some deterrence to low-income families from all of that, as you heard in the previous question, landing up with substantial debts, and also the prospect of graduate unemployment which may recur in two or three years' time, we do not know?

(*Mr Trainer*) We would have to welcome the Government's move to ensure that the introduction of fees will be means-tested. That does not make it easier, contrary to reports in *The Times Higher Education Supplement*. It was not our idea and it does not placate us. We welcome the idea that a third of students from the bottom socio-economic groups

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[Continued

[Mr Derek Foster Cont]

will not have to contribute, that a further third will be on some form of sliding scale of contributions. If we were to believe that two-thirds of the student population were going to pay less than £1,000 a year, that the problems of quality would be sorted, that there would be availability of money at a local level through access funds, bursaries and other initiatives to ensure that access was happening, then I think we would have to go back and look very seriously at the proposals. We do not believe that that will be the be-all and end-all of the situation. We believe that the introduction of fees and the breaching of principle would allow that to continue and would allow that to be expanded in other parts of the higher education experience. We want to box out maintenance. You asked about the disincentive effect of maintenance. The National Union of Students does not believe that enough has been done on the issue of the psychology of debt. How are we going to treat the idea of £12,000 or £14,000 worth of debt upon graduation? What impact will that have on different socio-economic groups? How will parents and others plan for those issues? We do not have answers to that. I do not believe the Government has answers to that. We are concerned clearly that students are turning to other sources of income which are part of the other debt burden that they have. The idea now that people are able to take £1,500 worth of overdraft facilities as a fresher going into higher education simply compounds the amount of debt that people accumulate. There are hidden costs in higher education, there are hidden debts in higher education, and the whole holistic package has to be looked at. It deserves better review than it was given by Dearing, it deserves better review from others.

Yvette Cooper

127. Following on from Derek's question, your main objection, therefore, is the idea of its being a slippery slope, it is what it will slip into, but you do not actually seem to be providing a heavy objection to where it is we are likely to be standing on the slope right now, is that right? You said that you would take it back, you would be prepared to look further at it, if you believed that it was simply this £1,000 means-tested loan, one-third would not pay it at all—the proposal that we are talking about at the moment. Do you have deep objections to that proposal as it stands, or is it merely where you think you will slip down to?

(*Mr Trainer*) Clearly we have a principled objection to the charging of fees. What I was trying to suggest to the Committee was that we would be prepared to take that back and look at it. That in no way suggests that the National Union of Students and the student movement would accept the idea of fees. What seems to be being suggested is that we could be getting a good deal from it, that the problems of access and the problems of quality could be sorted. We would look at that, but I do not believe that the student movement would accept it. I believe that we will continue to object to the principle of fees which we believe is wrong. We believe the money can be found elsewhere. We would challenge again the Committee and others to look at the issue of business and industry and why they are to make no

contribution, apart from corporation tax. We believe maintenance is a way of boxing out contributions. We believe that people going into higher education should be able to answer all the questions about what happens upon their graduation. The gap-year situation that we saw of the Government getting into a twist on earlier this year suggests that it has not been thought out yet. We believe that the implementation is being too rushed. We believe that students will apply for higher education unclear on what exactly they will be expecting to accrue as debt and how they will repay it.

Judy Mallaber

128. In section 6 of your memorandum you talk about the Government committing itself generally to increased investment in further and higher education. There are three suggestions of some other ways in which money could come in. Have you any more detail on your thoughts on the business education tax which you have just mentioned? The second point is that you talk in 6.6 about institutions giving up the right to charge top-up fees, etcetera. You say that "Additional funding would be dependent on institutions increasing access". Could you explain how that would work? Thirdly, you are talking about graduates on an income-contingent basis contributing to an investment in education scheme. Again, I am not quite clear exactly how that differs from the Dearing proposals. Do you have any more detailed thoughts on any of those areas, on how that income would be provided and go into education?

(*Mr Trainer*) We submitted a fairly substantial document to Dearing on the issue of contributions from business and industry. We would say that we are severely dismayed at the lack of a debate about where business and industry can be going to on this issue. It has essentially been ruled out. Dearing has said to us that he asked business and industry, they said they were not prepared to pay, and so he is having to look at alternative methods of funding. When he said that we said, "Yes, but we say we are not prepared to pay fees. Why don't you believe us and only take the side of business and industry?" Perhaps there was a need for more student representatives on the committee to balance up the business and industry contribution that was there. In terms of the institutions and the idea of them giving up the right to charge top-up fees and hidden costs, we believe that the Secretary of State's statements whilst in Opposition and now in Government are very welcome on the issue of top-up fees.

129. It was more in that paragraph where you talk about getting additional funding through increasing access. Can you explain in more detail how you would see that working and the investment in education scheme which you talked about?

(*Mr Bruce*) Perhaps I can come in on the increase in money from access. Dearing has argued that money should follow those institutions which give more money and give more support for access. We welcome that, and it is something that we would like to see the Government put into practice. Clearly, for those students who take up more work, get into institutions, then the money should follow them into

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getting into the institutions to support them there. That is in terms of their tuition and increasing access to those groups. As for the business education tax—

130. The investment in education scheme is the one I wanted to cover.

(Mr Bruce) We believe that once students leave higher education it is not for them just to leave education. We are in favour of lifelong learning, and we understand some of the Government's proposals for lifelong learning schemes and for learning banks. We would like the Government to develop those, and it is those areas that we would like people to look at.

Caroline Flint

131. If they are already paying their loan back, why are they going to want to pay to an investment into education scheme?

(Mr Trainer) I think that is a euphemism we use for paying the loan back. It is the payment of the investment in education scheme. It is not meant to sound high-falluting; what it is meant to suggest is that the other stakeholders will be paying in as well, that business and industry should be paying in.

132. Are you saying the money that comes back from there should be earmarked, so that is another issue?

(Mr Trainer) Absolutely. Any money raised in higher education through the introduction of fees or other means of funding higher education should stay in higher education. If the idea is that it be diverted anywhere else, etcetera, and that you have an issue that it should go to further education, then it is a tax on the graduates of this country.

Chairman

133. If Dearing is right and you are wrong that your option of a business education tax will not work, would you then accept these?

(Mr Trainer) No, not at all. What I would say to you is that the National Union of Students has become a lot more rational and a lot more reasonable in some of the things it has been saying in recent years. That might be some part of the reason why five ex-presidents came in as MPs in the last draft of 1997. What I would say to you is that that still does not make us responsible enough to go to the CBI and argue the case for a business education tax, when Dearing could not do it. We believe it should be government-led and that the issue of business and industry should be revisited. I am sorry to continue to harp on at this point, but we believe it has not been looked at properly. As regards taking back the issue of fees and getting the student movement to accept it, or us as the National Union of Students dropping our opposition, that will not happen under any circumstances. We will not accept that the principle is right and we will not accept that it can be done practically.

Valerie Davey

134. I was going to come on to the business education tax, so I am glad you have at least made some progress on that. There are two small points I would make. First of all, I am pleased you have mentioned the psychology of debt. I think we all have to work on that. We are now accepting the pay contingency element for maintenance. That, I think, is something that all of us, whatever role we play, have to talk about and explain, and we have to help that process, given that it is the perception not the reality which is what we are facing. So thank you for raising it. We have all got to work on it. Lastly, you commented about students paying tax. My understanding is that the National Union of Students represents all students post-16, therefore let us not forget that FE students have to pay tax. I happen to have identical twin daughters one of whom was in HE and one of whom did her work through FE. The FE student not only paid her fees but paid tax, as she will tell her sister, towards her activity in higher university. So there is a differentiation which I think you should not make between students paying tax. You are still, in the comment you made earlier, prioritising higher education students, which I think is not acceptable.

(Mr Trainer) I am sorry if I gave anyone that impression. We believe that the further education sector as part of further and higher education is the poor relative. People keep describing it as "the Cinderella sector". I find that language unacceptable, but it is the poor relative in terms of the further and higher education package. We have been asked to concentrate on Dearing and concentrate on higher education. We argued when the terms of reference were being agreed that tertiary education needed one single review, that further and higher education was intrinsically linked in terms of inputs and outputs, in terms of funding, in terms of modes of delivery, and should be reviewed as one body. I would love to take on the issues of Kennedy here today and the fact that Kennedy has had to conclude in her report that the way to fund further education in the future is to use the money currently earmarked for millennium projects in the National Lottery. We think further education already is a lottery, and the last thing we want to do is actually link the funding to it as well. So let me absolutely dispel the suggestion that we are ignoring further education. In terms of the perception and the reality, I think you have put your finger absolutely on the point. If we go out and attempt to say to pupils from low socio-economic groups, "Go into higher education, it will not have a disincentive effect, it's income-contingent repayments you'll be making on your £14,000 loan, and it's all right, it's 9 per cent variable"—as has been suggested from the Government in its announcement yesterday—then I think the message will not be understood. I do not think we can easily expect that to happen. What should happen is that the Government should seize the initiative, launch a national scheme of access in higher education and target schools which are not currently meeting the kind of access targets that we as a civilised society should be seeing into higher education.

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[Continued

Mr Dafis

135. Concerning your business education tax, are you suggesting that the proceeds from that ought to be hypothecated because that is what it amounts to—for higher and further education?

(*Mr Trainer*) We think that business and industry have a contribution to make at all levels in the learning bank proposals of the Government. We believe that if the Government surrenders the principle that business and industry should make a contribution to higher education, then surely it must surrender the principle for further education and other methods of teaching and learning. We have great concerns and would want to see money brought into higher education from business and industry, but we do believe it should be a pot. We believe that higher education has the ability to attract more business and industry funding than further education or other parts of teaching and learning, therefore it has to be centrally administered.

136. All right, higher education has the ability to attract money from business. I would not quibble about that. Certainly it is able to do so currently. However, if you are proposing a business education tax, surely the claim, say, of primary education and pre-school education is as strong in relation to the resources which that tax would generate as higher and further education?

(*Mr Trainer*) What the Chancellor's budget seemed to suggest to me—and I am certainly no economist, never mind a graduate—was that money is available and can be found for schools. What is being suggested in the Dearing terms of reference is that no new money can be found for higher education, and that the money released in Tuesday's statement was found inside those budgets. We have to find ways of creating money for higher education. Schools and other areas can attract additional funding.

137. The crucial issue surely is how much public resource or public funding ought to be made available to education, and then the subsidiary question is what are the priorities within that education system to which those resources ought to be applied? If there is to be hypothecation in the taxation system—which is what you are proposing actually, is it not, and I have big doubts about that—I really cannot see on what grounds a hypothecated tax ought to be earmarked for higher and further education rather than for pre-school education or for primary education; I cannot see what justification there can be for that.

(*Mr Trainer*) I do not think we are arguing for hypothecation of general taxation for further and higher education. We are arguing for a contribution from business and industry to higher education. It is not our role—thankfully, at times—to map out the future of pre-school/school education and other modes of teaching.

138. No, but it is our role to consider all of those things.

(*Mr Trainer*) Yes, I see that, but I am acting as an interest group when I say to you that business and industry should contribute some money to further and higher education. How we sort out schools and the other problems is thankfully not my role.

139. Thank you. It is useful to have that on the record, I think, that you are an interest group here. As an interest group, there is a crucial question here. By the way, there is a common metaphor—which I had better not quote here—which is used for trying to oppose the inevitable. You know what I mean. There is a great danger that you might find yourself in that position of trying to oppose the inevitable. Surely the crucial issue for you ought to be this. What is the amount of money that a student needs over the period of his or her course in order to survive in a decent way? We know that there are students in very severe hardship categories, which is generating in some cases psychological illness and that kind of thing, which is a very serious situation. Surely you should be asking what is the amount of money that ought to be available from loan—because the consensus seems to be that grant is going to go in any case—and then how that level of income for the student ought to be provided. Have you a got a figure that you reckon a student would need in order to survive in a decent way? Then what is your response on the Dearing and the Government's proposals in relation to that figure?

(*Mr Trainer*) We have continually created figures of this nature, in an attempt to convince the previous Government of our case, but the previous Government's position was that student hardship did not exist, and that where it did exist it could be dealt with by access funds which were introduced for that sort of thing.

140. That is not true.

(*Mr Trainer*) You could say that. I could not possibly comment. Well, I could certainly comment; I could say to you that you are blooming right. What I would say to you is that our evidence was dismissed as anecdotal. What should happen is that the income expenditure surveys of the DfEE are used accurately to predict the amount of money a student does need to attract. That should be a central part of one of these details where the devil may or may not be when the actual legislation comes to the fore. We are not arguing that students should have access to the kind of maintenance loans that leave them in hardship. We are arguing that students should have a decent amount of money.

141. That counts as public spending.

(*Mr Trainer*) I welcome the opportunity to enter into the PSBR arguments, but I understand that you have other experts who will be only too pleased to get into that with the Government. Clearly what is needed is for some form of realignment which recognises that if student loans are going to be repaid then it is not all just government spending. It seems absolutely logical, but I cannot argue it in the kind of economic language you will hear later on.

Charlotte Atkins

142. With regard to those students who are presently paying fees, have you evidence to show that they are facing greater hardship than other students? Could you also indicate what campaigns, and when, have been NUS run on their behalf against fee paying?

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[Charlotte Atkins Cont]

(*Mr Trainer*) You asked for evidence. The evidence should have been done by Dearing. It has not been supplied by ourselves.

143. You are the ones who are opposing on fees.

(*Mr Trainer*) We do not have the resources to enter into the kind of research that would be necessary. Dearing should have looked at the psychology of debt, the implementation of fees internationally and in this country where they exist, and come up with conclusions on that. Sadly, the conclusions there were inadequate. You asked what campaigns we enter into for people who already make a contribution in fees or other ways. We run high-profile campaigns on the issue of hidden course costs, the idea that students now are more and more expected to contribute to materials, to field trips and to other issues. We believe, in a press campaign that we ran earlier this year, that £125 million a year is contributed by students to higher education through hidden costs.

144. But are you thinking of, and concentrating on, fees?

(*Mr Trainer*) We have not taken on the issue of fees properly, and I would welcome support on that issue.

145. But students have been paying fees in further education, and part-time students—one-third of students—have been paying fees, and you, the body, the NUS, who are supposed to be representing all those students, have not conducted surveys on this particular issue until Dearing introduced the idea that other students—full-time undergraduate students—should pay fees.

(*Mr Trainer*) For 18 years we ran a defensive campaign against the Government which refused to listen to us. For 18 years we were saying, "Stop cutting the grants, stop doing away with benefits, stop cutting again and again the kind of allowances that were being given". In further education we were focussed on trying to retain bursaries for students. We accept that there were other issues that we did not campaign on as vigorously as we could have done, but what we were trying to do was instead of exempt people from the kind of charges that were already in, stop the levels of debt, stop the levels of hardship and stop the levels of informal contributions that people were being expected to make. We would hope that a new government would look afresh at the issues and would give us a chance to be involved in raising all those issues that you referred to.

146. But you see the principle of fee paying as a slippery slope. Clearly it is not a principle, because students already pay fees. If it was such a principle, why did you not oppose fee paying by a third of students who are part-time, and by those students in FE, who are likely to come from poorer backgrounds than those going into higher education?

(*Mr Trainer*) We do oppose those charges.

147. What campaigns have you come up with?

(*Mr Trainer*) We do oppose those charges. In the last 18 months of my presidency the focus has been on top-up fees and the impact that that would have. We would welcome any support that you or others would give to our campaign to free other people from the charges of fees. We have been running defensive campaigns against attacks of the previous

Government. We would not want this Government to launch further attacks by breaching the principle of free tuition in university for undergraduates.

148. So you do not know from your own anecdotal evidence whether those students who are presently paying fees are actually worse off than those who presently do not pay fees at the moment?

(*Mr Trainer*) I can see no logic which suggests that those who make a payment which others do not make are somehow better off.

149. No, I did not say that. I said are those who presently pay fees worse off than those students who presently do not pay fees?

(*Mr Trainer*) What I am saying to you is that I cannot foresee a situation whereby if you do not pay fees you are not better off than those who do pay fees, because if you had something and you give it away, you no longer have it, it would seem to me.

Mrs Laing

150. I would like to return briefly to the business education tax. Cynog made some very good points which I will not reiterate. Do you accept—because there is an implication in the wording of your document—that business and industry do not contribute to education? I would entirely agree with you that business and industry derive considerable benefits from a well-educated workforce, and that therefore a contribution should of course be made, but would you agree that companies who pay tax in this country already contribute considerably to education, because most of education at all stages is paid for by the taxpayer which is the individual taxpayer and the corporate taxpayer?

(*Mr Trainer*) The argument of the CBI, as I can see it, is that they make contributions through corporation tax, and that therefore that is sufficient, but they additionally argue that what they are having to do is significant training on the job or indeed establishing their own in-house academies, as we see more and more of the larger graduate recruiters doing, because higher education graduates currently do not produce the transferrable skills or the kind of mobile talents that are needed for a workforce for the 21st Century. It would seem to us that what is needed is a reappraisal of the kind of transferrable skills that people are going through higher education and attaining. For example, we would say that the degree classification in this country does not work and should be replaced with a record of achievement, so that people can be clearer about what they have actually studied, what they have achieved and what areas of training they still need to undergo. If business and industry were getting a better deal from higher education, then the case could be made for them contributing more money. We believe that business and industry should be more involved in setting the curriculum, in setting targets for higher education, and we believe that they should be asked to put their money where their mouth is.

151. That is partly what I was going to suggest you might agree with me on, but you got there first. Could I suggest to you that rather than go into the complications of a hypothecated tax which has all sorts of implications which we have already assessed

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for the rest of the tax system and which would be difficult to implement, would it not be better and also get more instant results to encourage the participation of business and industry in practical ways, using sponsorship, expertise, experience, etcetera, and create links with the higher education system and, I would suggest—though it is outwith what we are talking about at the moment—the whole education system, but certainly the higher education system?

(*Mr Trainer*) I think your point is well made, in that business and industry have a role to contribute, but we would have severe concerns that a voluntary contribution scheme would lead to business and industry contributing in areas which were almost direct-impact areas, in which business and industry already contributes to higher education in terms of research funding. I struggle to find an area of business and industry which would say, "Oh yes, we'll invest in some voluntary schemes in nursing, or in teaching" or in many of the other areas in higher education where we need to do some concentration before we lose people going into those sectors. So to argue that it should be a voluntary scheme means that the contributions we received would be for the areas where research funding has already a holistic benefit.

Mr Derek Foster

152. I can well understand your dilemma, which was the one which Dearing faced too, because they faced the political situation—and he was quite open about this when he appeared before the Committee—that the political parties were saying, "The taxpayer doesn't want to pay any more or not that much more, and Government and business don't want to pay that much more. Where else do we get the money? Ah, the students." I have a great deal of sympathy with business contributing more, as I have some sympathy with the taxpayer contributing more, I must say. I do not like the idea of the hypothecation that you put forward, but I think you ought to be congratulated that at least you have sought an extra way of funding higher education, you recognise the crisis. You as an interest group bear distinct similarities to the people who left those chairs; they were an interest group too, and I rather suspect that most people who come to give evidence are interest groups. As an interest group, continue to advocate students' causes, please, and continue to advocate that the taxpayer ought to pay more and that business ought to pay more. That argument ought to be advanced more and more over the next decade. I hope you do not feel this morning that we are entirely unsympathetic to your cause; it is just that we—or at least the Government—has an immediate problem to deal with. Dearing was set up to deal with that immediate problem, and we are going along with the general thrust of their solution to the immediate problem. However, I do urge you to give even more thought than you have done already to how business can constructively contribute more along the lines that Eleanor has been discussing with you.

(*Mr Findell*) One thing we would like to say is that in our paper that we produced on this business education tax we made absolutely clear that the key to it lay in local co-operation, in businesses in a locality feeling as though they were part of the regional education system, particularly for further and higher education. That meant much closer links on a local basis between the universities and further education colleges and at the same time with the industry in that area. We are not trying to say business must contribute and that is it, final. We are trying to say that business should be encouraged to invest in further and higher education more than it does at the moment and it should be encouraged to take more of an active role in the provision of higher education, because business, just like the individual, gains from having higher education graduates, from having graduates who can then use those talents within their industry which are there. Therefore, business as a beneficiary and as a partner within further and higher education should contribute, but it should be seen as an investment and not as some form of taxation of which there is an extra bit they have to pay on and which they begrudge forever.

Mr St Aubyn

153. I wanted to go back on the question of the distinction you draw between charges for maintenance and students supporting those and charges for tuition fees. Is one of the reasons for saying that maintenance costs being paid by students are more justifiable that it is a cost which is more within the control of the students as to how much they are spending? Moving on a bit, if the control and management of the debts they are running up is an issue for students, how important do you think it is to your members that if they are going to have to find more money they have more opportunities to mitigate that cost through employment opportunities on campus?

(*Mr Trainer*) In terms of employment opportunities on the campus, we believe that students should be given employment opportunities, but we have grave concerns, as have academics, according to surveys in *The Times Higher Education Supplement* and others, as to the impact that that has on the learning experience that students have. We have experience of people supposedly in full-time education also full-time employed doing the equivalent of 40 hours or more simply to get themselves through university and college. You are right in the suggestion you make about maintenance, that as long as there is a core level of funding which is available which ensures a decent standard of living for students whilst at university or college, one can make a decision to get into more debt based on how one wishes to lead one's lifestyle. On the issue of fees, we believe that once that principle is breached it will inevitably change. I repeat that we are not looking at the idea of fees being set at £1,000, being means-tested a third, a third, a third in terms of contributions, as the be-all and end-all. Frankly, if that is what the Government is intending to do—a third, a third, a third, establish a means-tested system which has to take in Europe and all sorts of other issues, run centrally and limited to £1,000, linked to

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an income-contingent repayment scheme—then it is not worth doing. The only logic of doing it is actually to increase the contributions at a later stage. I would like to link to the point which was made earlier on. The Government's funding proposals, as I understand it and as other experts who will provide evidence for this Committee understand it, will not produce new money for higher education. There will be no new money through the introduction of a fee contribution from students. If that is the case, then quality will not significantly improve, and all we will have done is added to the debt of individual students. So the fees should be boxed out. People should not be expected to contribute to that. Maintenance is an answer that people can give themselves before they go into higher education. "How much it will cost me?" can be answered, but what will happen with the introduction of fees is that different institutions and different courses will set different fee levels in the future.

Chairman

154. I hate to smother your rhetoric with the facts, but I would like to refer to David Blunkett's letter to Stephen Dorrell. It is the short-term funding crisis over the long term. The figure for 2016 at today's prices is £1.1 billion net savings—that is net savings. That is $\frac{1}{2}$ p on income tax. I do not think that is insubstantial over time.

(Mr Trainer) So we are assuming that that money is coming into higher education now?

Chairman: Not necessarily. You are saying it is not worth it. You can argue other things about PSBRs, but I think that when the scheme is up and running £1.1 billion is not an insubstantial figure to put into education somewhere.

Mr Brady

155. You might argue that with this system of income-contingent loans business will already be contributing through graduate salaries, the difference being that what they will be contributing to is the cost of educating only those graduates whom they want to employ. This leads me on to the point that I wanted to focus on, which is the question of the number of people going into higher education, the percentage of the population, and whether that is really the right percentage of the population, whether the 45 per cent under Dearing would actually benefit. I am not convinced that they would. I think there are implications for resources. Certainly I think the current attempts to address the finances originate with the increase in student numbers over the last ten years. That has put enormous pressure on resources, with no new money coming in. This is a way of approaching it. If we go up to 45 per cent going in, there will be a need for more resources still. Might not this lead to pressure for higher fee contributions? I am also concerned about the implications for quality if we go up to those numbers. I am a little bit concerned as well about a couple of the things you said which are shattering my long-standing faith in the NUS, talking about not only becoming rational—which is concerning—but the reference to a record of achievement being introduced instead of

a degree. You also talked about efficient delivery of higher education. I do not dispute that there are ways in which you can have more efficiency in the delivery of higher education, but I am very concerned if that becomes the principal aim in higher education, and there could be a conflict between efficient delivery and quality in higher education.

(Mr Trainer) A longer question than some of my answers, I suspect. The National Union of Students has become more rational and would look to any Member to encourage student groups of whatever political grouping, once they find their feet after the general election, to re-enter into the fray of the National Union of Students and the debate that we have there. We talked as an interest group. There are other interest groups with an eye to higher education. One of them is the CBI, and they talk of the need to get 40 per cent of graduates completing higher education which is, frankly, at times a more ambitious target than even we would set. So if you cannot take it from us, even though we are rational, then maybe it is worth taking it from the CBI. In terms of quality, there are concerns for us about the quality process as it currently stands. We welcome Dearing's suggestion of student representation on a quality assurance agency, but questions will be asked. If fees are introduced then students will have graver concerns and will be more actively involved in the quality process than they currently are, because they will know what they are paying for and they will have bigger questions to ask about it, but that will still be the same if it is simply maintenance; if you are getting into a £12,000 or £14,000 debt because of what you are experiencing, you will ask bigger questions than if it was relatively easy to be in that education system. The kind of targets that we would set are internationally backed up, they are not only backed up by business and industry in this country but backed up by international comparisons. The figures are outlined in the Dearing Report about our European competitors and their international competitors and the need for higher education to be reappraised in this country. We need to break down the barriers of what is and is not a graduate recruitment-type job and where higher education can be going to. One way of doing that will be to improve the qualification people get so that it more accurately reflects what work has been done, what has been achieved, and we should sweep away the current classification system which does not work. One other point I would make is that part of the legacy of the previous Government was a 17 per cent drop-out rate in higher education. One in six of the freshers I talk to when I do fresher talks round the country, being rational as I am, will not make it through the higher education experience. That is a tremendous waste of talent, a tremendous waste of resources, a tremendous waste of taxpayers' money. Hardship is the number one reason for that, but quality is there as well. If it is not up to scratch people will not stick at it.

156. One of the reasons was the expansion in numbers.

(Mr Trainer) You would have to ask the previous Government if their expansion was wrongly worked. I would say it was wrongly worked. The expansion was welcome, but the fact that they had no plan, that

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they did not back it with resources in terms of the quality of the courses, and that they drove people into unprecedented levels of hardship were the reasons for the kind of drop-out rate that we saw.

157. Do you think that the current proposals will save that happening again?

(*Mr Trainer*) I think that the current proposals, if they give students enough money to study on while they are at university or college, and end the scandal of student hardship, should be welcomed. We believe that the issue of fees opens up another avenue which should be blocked off by the Government because it may have a detrimental effect on access and it may lead to people dropping out.

158. So you broadly welcome the current proposals?

(*Mr Trainer*) We welcome any proposals to get us out of the crisis that we are into in higher education, but we reserve the right to criticise. We criticise very viciously the proposal on fees, but we welcome the idea of giving students more money while they are at university or college.

Ms Atherton

159. You said in your evidence that graduates from lower socio-economic groups are twice as likely to have a lower starting rate of salary. Can you give us some background on this research, when it was done, and some more details?

(*Mr Bruce*) It was done in Dearing Report 5 or 6, and it is referenced within the report. I would strongly argue that the Committee should read the report on widening participation which looks at all the cultural issues.

160. It is not your research then?

(*Mr Bruce*) No, it is not our research.

161. It is Dearing research?

(*Mr Bruce*) Yes. I cannot remember exactly, but I think it was David Robinson from Liverpool who put it together. It is on "Widening participation in higher education for students from lower socio-economic groups and students with disability". It is Dearing Report 6.

162. It read as though it was your research, that is all.

(*Mr Trainer*) We would refer the Committee to point 5.11 which prefaces it with the text which we have used.

Chairman

163. Can I ask you a final question, because I think we have been round most of the issues. If you can just for the moment set aside your in-principle opposition to the fees, given that the devil may be in the detail, what are the detailed issues that cause you concern or that you have thought about which you think we ought to consider?

(*Mr Trainer*) I have said to the significant interest groups inside the student movement who are looking for me either temporarily or for some period of time to set aside our principled argument on the issue of fees and discussing the detail—

164. I thought Peter Mandelson might welcome it. Anyway, can you take us through the detailed issues?

(*Mr Trainer*) We are involved in the politics of opposition-itis, just as other groups are at the moment. We believe that there are problems with the implementation. We believe the implementation has been rushed; that people will be applying to Oxbridge later this month and early next month and in UCAS applications in December, not knowing who will pay the fees, not knowing what kind of maintenance package they can expect to get and not understanding the kind of repayment schedule that people will be expected to repay under. Even the announcement on Tuesday which provided some level of detail does not explain the funding methodology for the repayment schedule. The idea of £10,000 for this is to be welcomed as a threshold. We believe the threshold should be lowered. We believe that interest rates have to remain constant and we believe the repayment schedule should be over a longer period of time. The 9 per cent variable, which is the reality of yesterday's announcement, is something we would want to look at again. So in terms of our initial reaction, our initial reaction is that fees are being introduced too quickly, and that the problem means that people will be uncertain in the applications they make, and we will lose a significant number of students who otherwise would have applied to higher education. I would refer the Committee to the further evidence which we gave which is anecdotal—and I would accept that, but ask the Committee if they would wish to look at it more—which is the issue of people already giving up the opportunity to go into access courses. I think it is point 5.16: "City and Islington College who run access courses for higher education have reported that up to the week beginning 15 September they still had 80 places free on their courses. This time last year all the course places had been filled." That is merely anecdotal evidence from Islington, I accept. However, the issue is that we believe that access is already being impinged by the confusion which is being caused by rushing into fees. That is the basis for our call for the Government to take another year to look at the issue of fees again. My colleagues may want to come in on other issues about the implementation of fees, but we have concerns about the whole repayment schedule for maintenance and fees together, which I have outlined in saying that Tuesday's statement is welcomed, but there is much detail still to be revealed. Once we can get our heads round it as interest groups, that will be welcome, but the problem is how to get that message out to potential students.

(*Mr Findell*) I think the biggest issue that is facing us is the one we already have come across with the gap-year students, the fact that there is going to be a rush for places, because people are unaware what is going to happen and people just see a huge debt sitting in front of them, without really thinking through what income contingency means, what loan threshold means or relating it to earnings means, increasing the maintenance package itself, or all the other aspects of it which are to be welcomed and will increase access and make it easier. Those are all beneficial things, but they have not been solved yet. All we have got so far is this debt hanging over us, this issue of charging of fees, the ending of the grant

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system. When students are at this stage now of thinking, "What do I do next year? When I've done my A levels, my GNVQs, what do I go on to, where do I go on to?" it is the stage where the applications are starting to come through. If you are not going to have legislation in place until May at the earliest, then those applications are through, they are getting offers back, they are past their mock A levels or whatever else, and they are through into revision for their actual A levels themselves. This is too far down the line, too far down the stage. We would ask that Government go back and say, "We will not implement it for 1998. Whatever package we come up with, we'll implement it for 1999." In that way a full discussion can take place with all the representative bodies, and the case then will be that whatever package comes up it will be better known and better sold to prospective students into higher education.

(Mr Bruce) The CVCP ran through a wish list and a list of different issues in terms of implementation. Many of those issues have come up just now. One of the problems is that because we are faced with such a short timescale on this particular issue of the gap-trap, we are still learning and we are still getting telephone calls from parents. I do not think any of us who were working within the National Union of Students over the period of time of the gap-trap and the period of time that tuition fees came up, underestimates the concerns and the worries that students and their parents had at that time. We were answering dozens of calls an hour on that issue, and we were bringing in staff from other areas to have a look at that. There are obviously the courses that people who are starting higher education in 1998 will already have embarked on—access courses and foundation courses are an example. The CVCP, the NUS and other groups have talked about trying to get in exactly those kinds of people. They have already embarked on their pathway into higher education, they have already started that process and they are now being faced with finding a tuition fee at the end of it. We ask the Government to have a look at that. Foundation courses, particularly in terms of arts students, are in a similar position. We have yet to see what the papers will be for Scotland and Northern Ireland. The announcement yesterday only referred to England, but obviously there are issues in Northern Ireland with the declaration—and

Wales—and we need to look at some of the issues around the Northern Ireland peace process in terms of the Downing Street declaration. So there are all of these issues, and we welcome as many meetings as possible with the DfEE to go through our research and come up with those issues. We are still finding them. That is part of the problem, that the Government have started this process without looking into these issues.

(Mr Trainer) For the benefit of leaflets that will inevitably arrive at our conference season when it comes around, I would have to say that we will get involved in discussing with Government the implementation of fees if Government is minded to go ahead with the process, but we will continue to oppose it in principle and continue to oppose it very vigorously. We will be organising demonstrations in cities around the country on 1 November, because we believe it is an issue which should be taken up locally and not simply at Westminster. We reiterate the point made by the CVCP about the impact on graduate courses with a low income potential and the possible disincentive effects it can have there. The Government's move on teaching is welcome, but there are other areas that should be looked at. We believe that there are sections of the higher education experience which are effectively excluded by Dearing and therefore excluded by the Government's response. We would pick out nursing students as a particular example of a whole sector which appears to be slipping through the net. Nobody has looked at how properly to integrate nursing students in the whole funding proposal of Dearing. The Open University has not been properly considered, I do not believe, in terms of the considerations of Dearing or the Government. Our principled objection continues to drive a policy position. It is fortunate for Dearing at least that he was able to change his mind and the minds of members of his committee on a fairly regular basis, if you believe the newspapers. It would appear that Government has the luxury of being able to change its mind. The National Union of Students creates its policy once a year in March, and we are not minded to change the policy before then.

Chairman: Thank you very much indeed. I think we have had a thorough going round. Thank you very much indeed for putting together some very full and comprehensive evidence for us this morning.

WEDNESDAY 24 SEPTEMBER 1997

Members present:

Ms Margaret Hodge, in the Chair

Ms Candy Atherton
Charlotte Atkins
Mr Graham Brady
Yvette Cooper
Mr Cynog Dafis
Valerie Davey

Caroline Flint
Mr Derek Foster
Mrs Eleanor Laing
Judy Mallaber
Mr Nick St Aubyn

Examination of Witnesses

DR NICHOLAS BARR and MR IAIN CRAWFORD, London School of Economics and Political Science, examined.

Chairman

165. First of all, can I welcome you both to the Committee this afternoon. I would like to declare an interest which is that I am a Governor of your institution but, as will become clear during the questions, I do not agree with absolutely everything—perhaps the top-up fees bit you put in your statement. Clearly we are not trying to reinvent Dearing here. We have decided in our two days that we have been taking evidence to focus on the key issue of funding and its relationship to access. Can I start by thanking you very much for that very comprehensive document you sent to us. You have produced brilliantly—better than us and better than the press—a paper on your response to the Secretary of State's announcement yesterday which I should say to members of the public we are going to get photocopied and available to you if you need it. I think the obvious way to start is for you to take us through that paper and talk a little bit, before we get on to the longer term issues, about how you see yesterday's issue assisting or otherwise, particularly the short-term funding crisis.

(*Dr Barr*) Thank you very much, Madam Chairman. It is a pleasure to be here. The Secretary of State yesterday, in what *The Guardian* described as a reshuffle of its departmental budget, announced an extra £165 million. Of course we welcome the additional resources, but we have three concerns. One that we are not entirely sure about is we have been arguing since 1988 that it is critical that student loan repayments are fully income contingent, in other words three per cent of a graduate's subsequent earnings based on a graduate's income this week or this month rather than a year in arrears. We are not sure from what the Secretary of State said whether that is what the arrangements he is proposing mean or not. So there we have got more of a question. On the money our two concerns are, first, that the resources are rather few relative to the needs of Higher Education, and I will come back to that briefly in a minute and, secondly, that it is a one-off hit. It is a good way to find a bit more money but it will not run again next year. I will not belabour the point about the importance of income contingency, we have gone on about it at length in our main submission. I just want to reiterate that it is critical. On the point that the £165 million is small relative to

the needs of Higher Education there are three reasons why it is smaller than it appears. First of all, all departmental amounts in the budget are based on the assumption that inflation will be 2½ per cent, which is the Bank of England's target, but the expert view is that the outturn for headline inflation is going to be slighter higher, probably about three per cent. That means that about £35 million is going to be needed to restore the Higher Education budget to the purchasing power that is envisaged in the budget. So that is £35 million you need to knock off the £165 million just to keep Higher Education standing still in the face of inflation. Secondly, there are about 15,000 more students in the system than were envisaged. The Secretary of State said that one of the purposes of this additional money was to maintain and improve standards. It costs on average about £4,000 per student and 15,000 extra students is another £60 million. So another £60 million off £165 million goes simply to keep the system standing still in the face of those additional student numbers. The third reason why it is not a lot of money is that the Secretary of State announced yesterday that the starting threshold for fee contributions and parental contributions is going to be raised. That means that some families will be better off under the proposed arrangements than they are under the current arrangements. That means some parents are paying less. So that is less money coming in to Higher Education from the private sector, ie parents' pockets, therefore an unknown amount is needed to replace those resources. That is a third tax, if you like, on the £165 million. For all these reasons our view is that the £165 million stops the system deteriorating further but there is very little in it that would actually improve quality. That is our second concern. The final concern I think I can be more brief about it. It is simply that the source of additional funds cannot be repeated more than once. As we understand, as of this October students will not be able to take out the whole of their loan for the next academic year but only the first term's loan and then the second term's loan in January and the third term's loan in April. That means that loans for next summer term, summer term starting April 1998, will not be needed in the current tax year so the Department can grab the money and give it to universities, but, come the next financial year, universities are going to say "Where is our £165 million, gov?" and students are

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[Continued

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going to say "we want our summer term's loans". It is a solution that addresses a short run crisis for this year but it does nothing to address the underlying funding issues that we highlight in our main submission. I think the only observation we would want to make apart from that, is that whilst the move towards termly distribution is almost certainly a good idea in educational terms, this does seem to have been done in rather a hurry rather late in the year. Students are already turning up at universities wanting their money. One thing we do not know is whether the Student Loans Company can actually do it this quickly. Presumably Scotland is being left out because the Scottish students are already there and have already grabbed their loan cheques for the entire year. We hope it can be implemented in England but we do not know.

166. We want to get on to the main meat of this but can I just ask you two questions arising out of that. You said on income contingency that a graduate earning should pay three per cent. The NUS this morning said to us, and I have not had a chance to look at the figures, that the figures announced yesterday presumed a nine per cent pay back. I think that is the figure we got out of the NUS. Graduates earning £17,000 a year will pay that. Is that right or is that three per cent? I just do not know the answer. The second thing I want to say to you is the short-term funding gap, I know it is a lot of money—£350 million if you talk Dearing—but in relation to the overall expenditure of Higher Education of nearly £11 billion, that puts it slightly more into perspective. Does not yesterday's announcement actually mean that the efficiency gains which we are now looking at, I accept for one year only, out of the HE sector are actually attainable?

(*Dr Barr*) The three per cent versus the nine per cent—ask any academic a question and he will always say "it depends". One of the things it depends on is the starting threshold. It may well be that the Government's proposals imply a nine per cent rate of repayment per pound of earnings. We have not had time to look into those. Where our three per cent figure comes from is our own simulations, where we have added three per cent to National Insurance contributions using the National Insurance threshold (which is much lower than the Government is proposing) to have the starting threshold. With the lower threshold three per cent is possible. The higher you raise the threshold the longer it takes to repay, or the higher the repayment rate you need to stop repayments spiralling off into infinity. So it is because the Secretary of State's proposal has such a high threshold, in our view a higher threshold than we think is appropriate, that you have to have the nine per cent or thereabouts repayment rate to make the thing financially sustainable.

(*Mr Crawford*) That also highlights the importance of coming up with a perfectly income contingent model. If you operate with a series of threshold steps then clearly at certain points you are paying a higher percentage of your net income. But if you have it perfectly related in so many pence to the pound—I think our main concern about that is if you look at yesterday's press statement they specifically said that they would be reducing the amount of payment from, I think, £129 per month

under the current scheme to £52 per month under the new scheme. The problem with that is it entrenches this impression of a debt, a mortgage style debt. What we always advocated in income contingency was that you did not inherit a debt of x thousand pounds or a mortgage repayment model of x pounds per month, you inherited an entitlement to repay, an obligation to repay, so many pence in the pound. I am sure that the students and vice-chancellors have been making the same point to you. The problem of access is a cultural one and it is down to debt aversion. Whenever you hear students being interviewed on this they are concerned about the prospect of going to university if they are going to leave with a debt of x thousand. It is the headline debt figure that causes the problem. Equally I think there is that substantial mortgage style repayment problem of so much per month. I think the Department missed a trick yesterday in the sense that if it had gone for a perfect income contingent model they could have said "Instead of paying £129 a month under the existing system, you will be asked to pay x pence in the pound out of your income". The effect of that in the access issue, which I think is what the Committee is extremely concerned about, seems to me to be profound.

167. What about my first point, the short-term shortfall in funding?

(*Dr Barr*) If you say £11 billion currently on Higher Education, the Dearing figure is £350 million, that is, let us say, at the prudent end of estimates of what the shortfall actually is. Estimates much higher than that are not without credibility. If you say £1 billion then you are getting close to ten per cent of universities' operating expenditure. That is significant, coming on top of nearly 20 years of cuts. There was a figure that appalled me in the vice chancellors' submission to Dearing—that I, as a typical academic, have 40 per cent more students to look after now than in 1989. I can see it, I have less time for my students than I used to and it is a source of deep regret, but clearly that cannot be fixed without more resources.

Mr Derek Foster

168. I find your arguments about complete income contingency entirely persuasive, if I may say so, because the thing that does worry me about apportioning grant, for example, is that this will lumber a number of students from poor income families with a very substantial debt and indeed more debt than those coming from families who are richer. My instincts tell me, I have no evidence for this and it seems no-one else has any evidence, and at least people we have spoken to hitherto feel that the dearth of evidence on this effect ought to be rectified and perhaps the Committee can help in that. If I can pursue you more on your very useful paper which, as the Chairman has said, we congratulate you upon. As I understand it, you are saying that £165 million does not really amount to that much for three reasons: one, inflation is not entirely taken into account, you should deflate it by £35 million for that; there are already 15,000 additional students in the system even though in theory the system is still capped—correct me if I am wrong—and that you

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[Continued

[Mr Derek Foster Cont]

should deflate by a further £60 million; and then there is hitherto an unquantifiable amount for reduction in some parental contributions. The vice principals told us this morning that they thought the Secretary of State's statement actually fulfilled the minimum Dearing requirement of getting it down to one per cent. Would you concur with that judgment?

(Dr Barr) Formally on paper arithmetically, yes, of course it does.

169. Yes.

(Dr Barr) But in terms of the Secretary of State's two stated objectives, which we totally share—improved access and restoration of quality—we do not think, like so much else of the Government's proposals, that it will achieve the objectives about which we all agree.

(Mr Crawford) It is probably fair to say that the best it will do is prevent any further serious deterioration in this academic year. Whether it actually reverses that is highly questionable. The Chairman made the point about the size of the amount in relation to the overall budget and any effect it is going to have is going to be very marginal anyway. I think it will probably underpin the situation and stop the deterioration getting any worse but I cannot see it doing much more than that.

170. Is it too strong, therefore, to say that what you are pointing to is almost an entire frustration of the very reason as to why Dearing was set up? If it was to deliver the additional money for Higher Education, both in the short-term and in the longer term, and if Dearing was to drive up quality then what we are faced with this year actually does not deal with either of those two problems, does it?

(Dr Barr) As we have said, both Dearing and the Secretary of State are entirely strait jacketed by the current Treasury accounting rules. If you say that all loans are treated as public expenditure this year as point one and as point two that there is not going to be any more public expenditure because the Government is committed to inherited spending limits, then an implication of those two is where do you get more resources from? We are absolutely not criticising the Secretary of State, he is in an impossible position we feel, but that is the reason for our emphasis on these arcane accounting rules.

Mr Foster: You would love to liberate him and I think some of us would too!

Chairman: We are going to come on to that.

Mr St Aubyn

171. I want to come back to this three pence in the pound which sounds a positively low figure, if you like, compared to some of the other figures you have put forward. Just looking at your estimates on an average graduate's wage of nearly £500 a week, even on that basis my calculations are that a student who leaves university with an income contingent obligation of, say, £10,000 to £12,000 will be paying that back for a period of 15 years or so. I just question how realistic it is to say that if it is income contingent if it is over such a long period, and of course the loan throughout that period is going to be subsidised, how realistic is it to argue with the Treasury that this really is a loan that is due? How do you assess how

much of that in today's terms is generally money that can be spent and how much actually is indirect subsidy to the length of that loan and the time it takes to repay?

(Dr Barr) You have put your finger right on one very important point which is the interest subsidy. In our submission to Dearing we argued that there should not be an interest subsidy, that it should be close to a market interest rate, that the way you protect access is by having full income contingency and that then takes care of the worry that the longer the repayment period the more money you are paying in interest subsidy to students whose repayments take a long time. There is an appalling tension there because on the one hand you want the repayment period to be as long as possible to protect people from brutal monthly repayments because that is important for access but, on the other hand, if they are getting a whopping great interest subsidy then the longer you stretch it out the higher the cost to the taxpayer and the less you are getting back. We argue—I realise this is getting off your point—it is actually market interest rates that assist access because it makes it easier to give longer repayment terms to students who thereby have lower monthly repayments.

172. If you take that approach surely on that basis three pence in the pound is a woefully unrealistic figure, woefully low. If you are honest about it it is going to be a lot more than three pence in the pound.

(Dr Barr) No. We have done the sums and we have done them very carefully. One of the odd things about income contingent repayments which it took me a long time to understand is that if somebody gets a degree and goes into a job, what happens? She starts off on low earnings, earnings rise over time. If you have got mortgage type repayments of £100 a month they stay flat, but if you have got repayments of three per cent a month then, as earnings go up, the repayments go up. So the repayment trajectory of someone making income contingent repayments is such that in the early days on low earnings they may not even be repaying enough to pay the interest, the real debt might be rising. If you make very modest assumptions about how fast earnings grow, then in the later years with higher earnings three per cent of much higher earnings is a huge amount and they are repaying like crazy. We have done these figures as carefully as we can.

173. Are you not going to create a new sort of debt trap? If somebody leaving university chooses to go into a relatively low paid job compared to other graduates and if they choose later to step into a higher paid job then they will find that these payments start chasing them all the way through their lives because in the lower paid job they are never going to be able to catch up with the accumulated interest on this debt.

(Dr Barr) There are several responses to that. First of all, if it is three per cent then if you get a higher paying job it is still only three per cent. Secondly, if you wish to protect people from escalating debt we have already got within our National Insurance system home responsibility protection whereby the contribution rights of people working at home, looking after young children or elderly relatives, are protected. It would be perfectly possible to have a

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[Continued

[Mr St Aubyn Cont]

taxpayer subsidy to stop the clock on loans for people whose earnings were low or zero for reasons that we would all regard as socially useful and approve of. There are ways of dealing with this that avoid the debt trap. I might just say I have been in heavy e-mail traffic with New Zealand. They have market interest rates and they do protect people from debts rising to infinity. It does work.

(*Mr Crawford*) I think, though, you have actually put your finger on one of the fundamental flaws of the existing system where you do not have income contingency but you have a repayment mechanism which starts at a level of earnings—85 per cent national average earnings—and a write-off period if you have not paid within a certain period. You can easily see the additional incentive effects of that for, say, a married woman who takes time off work and comes back. Getting towards the end of the period of debt forgiveness there is a very strong incentive to stay in part-time employment, because to go into full-time employment you immediately trigger off the whole repayment schedule. That is one of the greatest advantages of perfect income contingency. One of the points you have made is solved by income contingency but exists in any other method.

Yvette Cooper

174. I apologise for missing your presentation, and I only hope I will not ask you a question you have already answered. Dearing talks about a deferred contribution, a ceiling being placed on the maximum level of contribution so it was not open-ended like the graduate tax, but nevertheless you pay back effectively 3 per cent over 30 years. When he came and talked to us I asked him about that option, why he had not concluded that that was the best option. He said that it was a medium-term option which would require an awful lot of work, and that they had only had it suggested to them as a possibility quite late in the inquiry. Would you concur with that? Do you think these kinds of ideas do need a lot of working up, or is it all pretty clear-cut that you could do these sorts of things and Dearing just did not look into it fully?

(*Dr Barr*) What is the proposal?

175. He talks about a deferred contribution option. It is on page 311. He looks at a graduate tax, a loan and a deferred contribution option, where the deferred contribution is paid back through national insurance, as I understand it, and it is effectively, as he puts it, a mix of the graduate tax and the loan scheme, so it is not open-ended like the graduate tax, but you do not pay back £10,000, you pay back, say, 3 per cent of your income for 20 years, and if you earn a lot you pay back more than if you earn a little. Would you reject that kind of a deferred contribution option?

(*Mr Crawford*) It is a hybrid of a graduate tax and a loan. When we started work in this area back in the 1980s, we came to the rapid conclusion that whilst there were strong arguments for a graduate tax, the fundamental argument against a graduate tax was that ministers do not like standing up and announcing a new tax, it is not politically popular. Also on equity grounds, it seemed reasonable that you put in a repayment cap, and the cap was

whatever you chose. You could have the cap slightly raised. There are many ways you could do it. You could get a little bit more from each graduate in repayments to cover some of the interest or indeed to cover the part of their cohort which never repaid, so that the system itself would be completely unsubsidised. At the end of the day we came out with an option that the state would probably have to make up the balance of the people who, for various reasons—for career movements, premature death or whatever—did not make the repayments. But it is a policy option. We did not attempt to come up with a model which would be absolutely prescriptive; rather, we attempted to come up with a mechanism which could have policy variants added as economic circumstances changed or as governments changed, and depending on what approach you want you can make it more equitable or more efficient, you can tweak it, you can say that all graduates should pay more than they actually borrowed, to make up for the ones who cannot afford to pay at all, or you can cap everybody's loan repayments at the amount they borrowed. So yes, that was a hybrid model. I think we would both certainly prefer to stick to a repayment model that was switched off when you had made your repayments, but yes, that is a policy option which could be explored.

(*Dr Barr*) I think the one thing which we both go to the barricades for is full income contingency. Do you then switch off on the day that you pay off your loan plus interest, or three years later (which is the hybrid option), or when you retire (which is the graduate tax option)? Our preference is for something that is specifically related to the amount you have borrowed, so either when you have repaid 100 per cent or maybe when you have repaid 110 per cent to cover losses on the cohort. But that is a preference. All three are options. Full income contingency is the only thing that we regard as utterly fundamental. The rest are policy options.

176. You think that by having the income contingency, despite the fact that actually it is still a long-term debt that has to be repaid, you would get over some of the psychological barriers, because it is income contingent and you would not need to wipe out the notion of the debt?

(*Mr Crawford*) Yes.

(*Dr Barr*) If you say to a young person, "What do you think of a £15,000 debt?", she is going to say, "Not a lot." If you say, "How do you feel about going to university? You've got enough to live off, you don't have to pay a penny upfront, you get your degree, you go out and get a job and when you are earning above a certain amount you start making a contribution to the costs of your education", the two are logically equivalent, but the second is seen in a way which is totally different. All the evidence from Australia and New Zealand bears that out.

Chairman

177. I think we should find a new name. This is one of the conclusions I have come to about this contingency loan. Can I move to what I think is the meat of your criticism of the Government's proposals and also the meat of your own proposals, and that is the classification issue. It seems terribly

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[Continued

[Chairman Cont]

logical and sensible, so why has there been resistance to it? Why has it not happened before? Perhaps as an ancillary question to that I could ask, if we do not achieve it, given the conservatism of the Treasury, are we going down the wrong route with the Government's proposals of moving to fee contributions and loans rather than this current mixture of grants?

(*Mr Crawford*) To answer the second bit first—the first part of the question is the one that everybody always asks—I think the answer to the second part is that the Government are going down the right route, but they will not get there for about 20 years because of the time-lag in getting a repayment stream fast enough to be able to put the money back into the system. So the time-lag is the problem with the Government's proposals. Broadly, what the Government is proposing to do is entirely sensible. It is the classification issue which creates the time-lag problem. Why do the Treasury behave like that? I think it is because of the history of what the Treasury fondly referred to as the Ryrrie rules. The Ryrrie rules said that in the event that the state bore any part of a risk, it had to write off the entire debt in that year's classification. The Ryrrie rules were formally suspended by the then Chief Secretary of the Treasury, John Major, I think at the time of the Dartford Crossing when, as an early version of the PFI, they brought the private sector in to build the crossing. Under the Ryrrie rules, if they had stuck rigidly at that time to them, they would have had to have written off the entire cost of that bridge in one year's public accounts, thus making a nonsense of the idea; of the whole PFI philosophy. In modern terms, though, I think the Treasury still has a tendency to think from that starting point, and I think Nick and I can give you two separate examples of two separate conversations. As you know, we have been trying to persuade them of this for the best part of a decade. I was at a meeting one day with a number of civil servants and academics. A certain frustration was creeping in. I said, "Look, we have put up umpteen detailed schemes. Every time we do that we go and see the Treasury from time to time and we're told that the Office of National Statistics will not have it, it doesn't fulfil their criteria." So I asked, "Would it be possible to get the Office of National Statistics to write down on a side of A4 precisely the criteria which we are meant to match? If you do that, I'm confident that we can go away and work on that and come up with a scheme." I was told this could not be done because the Office of National Statistics sees itself as, or is deemed to be, a quasi-judicial authority and does not take part in a dialogue, but when schemes arrive they sit in judgement on them and the Treasury then tells you that you have failed the test. When Nick was in Australia, which was the same week as the Dearing Report was published, we agreed that it would be very useful when he went there if he managed to get access to the Australian equivalent of the Office of National Statistics (more than we had ever managed here).

(*Dr Barr*) So I went to this marvellous meeting at the Australian Bureau of Statistics, was given the Australian budget to show how they have solved their classification problem in a way which conforms with international criteria. The Australian Bureau of Statistics sat round a table with the Treasury and

their education department, worked out what the issue was, worked out what the policy objective was and then worked out how to do it in a way which conformed with international criteria. As I walked out with the official who had been talking us through this he said, "What we like to do at the ABS is sit down with the policy-makers and work out what the objectives of the policy are and then see how we can come up with a better policy." I thought, "Wow, this doesn't sound terribly familiar."

(*Mr Crawford*) I think that is part of the answer.

178. What have the Australians done?

(*Dr Barr*) I have the detail of this in Appendix 2 of our main submission. Essentially what they have done, if I translate it into British terms, is that in the budget, the total of government spending, central and local spending is called "general government expenditure", GGE. There is another variable which government actually bases policy on, GGE(X), which is general government expenditure minus certain things like spending out of lottery proceeds. Apparently the Treasury are having to be very fast on their feet to make sure that expenditure out of the Princess Diana Memorial Fund is not going to fall foul of the classification that would count it as public expenditure. So the question is, what goes into the X in GGE(X)? The answer is, it is a national variable. The Treasury decides what goes in. The Treasury can decide tomorrow that a sensible fraction of lending to students could be added to the X of GGE(X). So you simply have an international measure—in this case general government expenditure—on which you impose a national adjustment. That essentially is what Australia does. New Zealand, whose budget I also have, has an even more sophisticated way of dealing with it, whereby most student lending never hits the budget at all, so it never has to be taken out and adjusted—it never goes in in the first place.

179. What you are saying to us really is that on the Princess Diana Memorial Fund they are finding a way around the rules?

(*Dr Barr*) They are indeed.

(*Mr Crawford*) As they did with the lottery expenditure.

180. The second thing, which is my real concern, is that if you have a system of loans introduced without a reclassification, and they increase the loans of individual students, because of student poverty, you are actually going to make the funding of higher education worse?

(*Mr Crawford*) Yes.

(*Dr Barr*) This is the straitjacket. We say that one way of improving access is to make loans more generous, because students do not have enough to live off and that in itself is an impediment to access, particularly for students whose parents cannot help them. Then you need to extend loans to part-timers, postgraduates, the disenfranchised under the current system. As you say, if all that hits public spending, it cannot be done. We are sure that is why neither Dearing nor the Secretary of State have made that proposal, precisely for that reason.

(*Mr Crawford*) Somebody was making the point that Dearing came across one or two obstacles towards the end of the report. I think it is fairly clear that he had, I believe, some meetings with the

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[Continued

[Chairman Cont]

Treasury. Whether or not he got as far as the ONS, I do not know. Talking to his officials, he had some meetings with the Treasury, and it was clear that they were not going to budge quickly on the classification point. I think that once he recognised that, a number of things were thrown out that I am sure he would have adopted. I think that loans could have been extended to part-time students, which virtually everybody had urged. The Harris Report which preceded Dearing had urged that some sort of loans were extended to postgraduate students. I think we were all agreed, and I believe the CVCP accepted the NUS submission that the current total student maintenance package was about 25 per cent under what they really needed, but there was no point in doing any of these things, because if any more loan money had been given out it had to come out of the higher education budget, so effectively if you were going to give students 25 per cent more to live on you were going to have to take the money away from the money that went to giving them the educational experience in the first place. So Dearing was in a complete bind. I think he approached the Treasury problem quite late on, and probably decided that it was too late to fight that battle, he had a report deadline. I am confident, however, that had he been able to cure that problem you would have had a very different report.

181. Is it your understanding that under the Government's current proposals the student loan—which we used to know as grant—is not going up?

(Mr Crawford) That is my understanding.

182. So poverty will continue?

(Mr Crawford) They cannot afford to put the student loan up in real terms, it is index linked. Every pound of student lending this year is classified as if it were a grant, therefore nothing much can change.

Mr Dafis

183. My question is whether it is not probably the case that the Treasury are terrified that if they yielded on this issue then other issues on the PSBR would arise as well? For example, the Institute of Housing have been arguing that it is crucial to change the rules of PSBR before you can even begin to tackle the matter of housing maintenance and investment in that area. If this could be done, it would be very important. Do you think this could lead to progress in the whole area of public investment?

(Mr Crawford) Not least London Underground. I think it has been a problem in that area that was recognised by other research colleagues at the LSE some time ago. The Treasury are very reluctant to deal with this issue, but in as much as they brief anybody on it their current line seems to be that the City would not like it. Now there is no doubt about it that the headline PSBR figure matters a lot, it is one of these icon figures. Our view of that is that if it were explained carefully to the City, if the Bank of England were consulted—and I think we probably have reason to believe that the Bank of England would not drop dead in horror if we used these kinds of expenditure classification rules—I cannot see any reason why the City would get upset about the state adopting an accounting practice which, after all,

every commercial organisation has been running for years. No commercial organisation would be allowed by the Revenue to write off all its outstanding debts in year one. The tax authorities would climb all over them if they attempted to do that. However, that is what we are doing. We are assuming that every pound we lend to a student is written off; that all students are going to be struck down with some form of plague the day they graduate. If that is the risk which the Treasury is concerned about, and that is how they are accounting for it, then if we lose all of our students like that the economy is in an even greater mess than non-repayment of student loans will amount to.

(Dr Barr) If I can follow on from that, the Treasury may be worried that this is the thin end of the wedge, but presumably rational economic policy in Government ought to count for something. If a good case can be made in other areas, it should apply in other areas too. We know that a lot of them could work. How many PFI initiatives do not bear close scrutiny, let us put it that way. I can see why the Treasury might be worried. We might as well say that people drink too much, drive cars and kill other people, and that is dangerous, so we should ban cars. Of course expenditure classifications can be abused, but it seems to me rather obstructionist to say that that means there should be no change.

184. So you are suggesting that the cases can be taken one at a time?

(Dr Barr) Yes, they have to be.

185. Without opening up a whole can of worms?

(Dr Barr) Yes.

Chairman

186. As indeed is happening on the proposal to operate the Princess Diana Memorial Fund.

(Dr Barr) I would like to read you an e-mail message from an education department official in New Zealand. "By the way," he writes, "our Treasury guru on the subject points to normal bank practice for mortgage or other lending as a good analogy for why we consider student loan advances to be a financial asset and why only bad debt provision should be considered expenditure." So the case for the Treasury can be extended. This is what commercial private organisations do.

(Mr Crawford) This year the student loans company will lend approximately £1 billion which is all written off in this year's expenditure, so it only comes back into the expenditure further down the line when it is repaid. The problem you have got if you expand the loans system and you are expanding the loans system as a result of these changes, is that next year's students will start borrowing it, they will stay students for three years, they will only start to repay a tiny trickle in the first tax year after they graduate, so there is absolutely zero coming back for the first three years and a little trickle thereafter. No one is suggesting that we take the entire £1 billion and get it all back—although it would appear that New Zealand is getting 89 per cent back—but you would expect the Treasury to get a very severe actuarial vetting. If the Treasury said, "We're going to take a very bleak view and assume that we'll only get 50 per

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cent back." All of our calculations have been about the basis of 80 per cent, but if you calculate that you are only going to get 50 per cent back you would save £½ billion this year from this year's lending.

(*Dr Barr*) And every year thereafter.

Yvette Cooper

187. The critical question, as I understand it, from the City point of view or the economists' point of view, is the amount of money that the Government probably has to guarantee, is it not?

(*Mr Crawford*) Yes.

188. So the question for altering the rules is whether it is credible that the money will come back in, or whether in fact the City believes that the Government will have to guarantee these student loans, this huge borrowing, is that right?

(*Mr Crawford*) Yes. Do not forget the history of this. The previous Government, it must be said, did not do anybody any favours, because they had several attempts to get the private sector involved in actually providing the capital. The first attempt was back in the late 1980s under Kenneth Baker and Robert Jackson, which was a disaster. They approached it very badly and to some extent they fouled the water for some time. We went through various schemes and the House legislated on a twin-track loan scheme just before the end of the last Government. Although they put it into legislation, it was badly thought out and was never going to work. How much comes back is dependent on a number of things, not least on the rate of repayment, on the level of repayment and on the repayment mechanism. One of the reasons we always argued that you use the National Insurance or Inland Revenue to collect the money is the very low default rates and high confidence that you will get most of the money back. It is fair enough to say that you should not assume you will get 100 per cent of the money back, you will not, but we are currently assuming you will get none back for accounting purposes. That seems to me to be completely absurd. As I say, no company would be allowed to do that in its books, yet that is how we are running the national accounts.

189. Do you think there is a credibility problem as far as the private sector or the City is concerned, in terms of that loan package being seen as something the Government must guarantee because of what has happened?

(*Mr Crawford*) There could be a credibility problem if it were not properly explained. I think that if the Government decided to proceed this way, if they consulted widely with the City and they brought, for example, the Bank of England into those discussions, everybody could reach a view on what percentage provision for non-repayment should be made in the national accounts, and I do not think it would be impossible to come to a figure above zero which everybody would agree was sensible.

Chairman

190. What do other EU countries do, if you can comment on that?

(*Mr Crawford*) That is one we are interested in. Holland is referred to specifically by Dearing in his recommendation 80. As far as we can tell, they seem to be broadly similar to the Australian and New Zealand governments. The vice-chancellors have asked Nick and me to go and have a look to see precisely what Holland does, because Holland also has to fulfil not just the IMF criteria that everyone else has to fulfil, but appears to manage to do something very similar and also come well within the Maastricht criteria constraints. We believe it would be extremely useful to get some more detail on the precise Dutch model and perhaps put that up to the Treasury and the ONS and see if that will make any difference to the way they are thinking. We are keen to do that.

191. What about France, Germany, Italy, any of the other EU countries?

(*Mr Crawford*) Not to our knowledge. I think the Dutch have been the nearest thing to the Australian and New Zealand reforms so far.

(*Dr Barr*) Perhaps I could explain one thing. There are two ways of fixing this. You could adopt a method of classifying these things which conforms with EU criteria, Maastricht and all that, as adjudicated by Eurostat, or you could do what Australia does and what we do with GGE(X), which is to account entirely within Maastricht criteria, but then to apply a national adjustment to it. PSBR, for instance, is not a Maastricht-defined measure of the deficit, it is a national measure. So we have got the Maastricht-defined deficit, but it is not the one the Government uses for policy, the Government chooses to use a different measure. So you have the choice: you can have something which conforms with Maastricht or you can have a national measure. We were arguing that the national measure the Treasury could do tomorrow, but it would be very interesting, I agree, to find out how the Dutch do it and to find out whether it is a Dutch national measure or whether it is something that is entirely compatible with the Maastricht criteria.

Judy Mallaber

192. But you do not know which of those models France and Germany use at the moment?

(*Dr Barr*) I do not even know what loan systems they have, to my shame.

Ms Atherton

193. You talked about the Treasury's perceptions of jitters in the City. What was the experience of changes in Australia and New Zealand?

(*Dr Barr*) It just happened. The Australian Bureau of Statistics simply announced that there would be this adjustment in the way the accounts were presented, just as the Government adjusted GGE(X) here when the lottery started. It was presumably explained to business people and City people in Australia in such a way that it was a non-event.

194. They just made a cup of tea and carried on?

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[Ms Atherton Cont]*(Dr Barr)* That is right.

(Mr Crawford) It was also the case, of course, that the Australian Revenue Service was responsible for the collection, so there was an inbuilt mechanism which would have given everybody confidence that the maximum amount would come back anyway and the defaults would be kept to a minimum.

Caroline Flint

195. So you reckon that was part of the confidence boost?

(Mr Crawford) There is a confidence boost in that. In particular, I think defaults on social security contributions are even lower than tax, but as long as there is a state mechanism which broadly the financial institutions trust, then there is not a problem in confidence in collecting the money. After all, if they are incapable of collecting tax there will be a lot more problems than just shortfalls on student loans.

(Dr Barr) I think the general point in terms of the City is that if the entire £1 billion lending to students was knocked off public spending, then the City would rightly throw a wobbly. The question is how much do you start off knocking out the measure of the deficit? Presumably you start off with a conservative figure and sees how events unfold, give the City, the Government and higher education time to get used to it and adjust it over time.

Mr Derek Foster

196. Is not the Government being forced to sell off the student loan book to get money back, and did not Dearing say that that was bad value for money? Is it not true that the Government can get back only half of the investment?

(Mr Crawford) This Government inherited that package from its predecessors. My understanding is that the success of that sale is included in this year's budget. If—it is not impossible—that sale fails to get through by the end of this tax year my suspicion is that you will have a hole in the education budget approaching £1 billion. If that happens somebody at the Treasury will have to do some rapid rethinking. I believe that what they will do is sell the debt at face value but to give the purchasers—if there are any—very substantial guarantees to cover any shortfall in repayment down the line. My understanding of the sale is that the tender gives the option to the purchaser to collect the debt. That could lead to a purchaser saying that he would be very lucky to get 50p in the pound for that debt. Broadly, in the very early years of student loans they are comparatively small amounts with huge numbers of people involved. At that stage of their career those people are moving about all over the place. Simply to track them down would be a very difficult task for a private sector organisation. This throws up a very interesting contrast. Assuming one said to the Treasury that whatever happened one would definitely get back 50p in the pound on student loans by collecting in the way proposed, in the public accounts one could write off half of it in the year the loan was made. But to the extent that one got back more than that it would come back to the Treasury. As to the debt sale, one

would have to negotiate terms which one suspects would not be much better than 50p in the pound, but if more than that was recovered it would not come back into education but to whoever had bought in that kind of "forced" way. I suspect that negotiations on the terms could not be very protracted. One would have to conclude the sale to get in the money in the current financial year. That presents a big worry to the education budget. If that debt sale fails the hole in the education budget will be massive and not flexible by just moving bits of money from next year's loan to this year's.

Chairman

197. A good part of the presumption behind your thinking is that it is possible to ring fence this money for education?

(Mr Crawford) Not at all. If one has a graduate tax and the money comes back in the form of taxation ring fencing is necessary. If it is a loan repayment the Student Loan Company continues to lend the money but one assumes that not all of the money that is lending is written off. One makes one's education spending decision each and every year as one does now. The vice-chancellors have always argued that they want some kind of hypothecated taxation to protect universities. Not only do I think that that is unnecessary but I believe that it is a bad idea. In a democracy any body that is spending large amounts of public money is entitled to renew the case for the provision of that money. We have never argued for hypothecation. What we have said is that there is a pot of gold there which can be released by different accounting mechanisms. That would give Ministers a huge number of options, but we have never been prepared to go along with the argument of the vice-chancellors that it should be hypothecated.

(Dr Barr) One should keep the loans in the public sector and reclassify them for most of the debt but sell off a small amount of debt to give the market experience. When you sell off the first tranche of debt the market will not pay a very high price for it because it is a new asset. If one sells off a small amount the loss that the state suffers is small in absolute terms. One builds up experience with the new asset and the state can then sell subsequent tranches at a higher price. The sale of the debt to the private sector should be a small-scale operation to begin with to establish a track record, not a hurried large-scale move to get back the money for cash flow reasons.

Mr St Aubyn

198. In your example taken from Australia and New Zealand where public funding was reorganised very significantly the interest rates on those debts were relatively market levels?

(Dr Barr) New Zealand, not Australia.

199. By how much do you think interest rates on student debts would have to be adjusted to make your proposals acceptable to the City?

(Mr Crawford) If one asks the City to lend the money one must go for market interest rates. If the state were to lend the money then one would agree with the Treasury's value for money rules, which

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[Continued

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clearly they would have to break if they were to sell the existing student loan debt book on the planned sale terms. But the Government can borrow money cheaper than an individual. For that reason, on the basis of the value for money criteria it makes sense for the Treasury to borrow the money and lend it on to students. If the Treasury's position is to be neutral on this it will merely have to charge the same interest rate as the government borrowing rate. If one is to get the private sector to provide the loan capital then the state will have to make up the difference between that and the commercial interest rate; in other words, one can have as much or as little interest subsidy as one wants. But if one is to have a system that is fiscally neutral to the Treasury then one passes on the Treasury borrowing rate to students.

200. But that would be highly significant if the capital amount was uplifted?

(Mr Crawford) Currently, the debt is uplifted annually.

201. Over the life of the loan would it add 10, 20 per cent or what to the amount to be repaid?

(Mr Crawford) It would depend on an extraordinary series of guesses. I am not sure that anybody would be prepared to guess on the interest rate at Christmas, let alone over the period of a 20-year loan.

(Dr Barr) The Government's interest rate is typically 3 per cent or thereabouts above the rate of inflation. One is talking about an extra 3 to 3.5 per cent or something of that order.

202. Per year?

(Dr Barr) Yes.

203. If it was compounded it would amount to an extra 30 per cent?

(Mr Crawford) It would depend on the rate of repayment and the life of the debt. There is one interesting point of which perhaps the Committee is unaware. It took a long time for us to work it out. The Treasury does two strange things. First, it charges every loan as if it were a grant and writes it off in the budget year when it is made. Secondly, and conversely, it does not show the interest subsidy on the current student loan system against the education budget. If one is wearing one's education policy hat frankly one does not get involved in the interest argument at all. The Treasury somehow absorbs that in the Government's cost of borrowing figure. While it writes off the entire student lending as if it were grant that would not come back, in terms of the education budget it does not do anything about the interest subsidy. I suspect that one of the reasons why the Treasury was quite enthusiastic about backing the department's wheeze on the £165 million was that by holding back those loans and not making them until the next financial year the Treasury saved the interest subsidy on that chunk of money. That was probably why the Treasury was enthusiastic about letting the department adjust the figures.

Chairman

204. I want to deal briefly with top-up fees. You say in your written submission that price does not vary with quality and it is unfair to expect parents to pay the same flat fee for a degree from Oxford as for

a degree from Balls Pond Road Technical College. Is it not a somewhat snobbish view that some courses and universities are better than others? The CVCP told us this morning that it was against top-up fees. Do you believe it?

(Dr Barr) It is very difficult to fight one's own emotions here. I think that most people here intensely dislike the idea of excessive market forces in health care. I would go to the barricades to defend the health service. On the other hand, it is wrong to say that if it is a right it must be free. We are all quite happy to pay market prices for food. What is more, we are quite happy to pay more for smoked salmon than for baked beans. That is always taken for granted. The question is whether higher education is more like the National Health Service or more like food. To my mind, what matters is access—that people can get access to higher education whatever their background. But different universities have different costs. Some cost more because they are inefficient and others because they are higher quality. How can you sort it out? The answer is that no bureaucrat can do that; it is a matter of market testing. One could generously fund a 5 per cent system. If it were a small system there would be some wastage but because of its size it would not matter. One cannot fund a 30 per cent system at the level to allow one's internationally competitive institutions to remain competitive. On the other hand, if one funds it at an average level one kills off the top quality places. It is too complicated a problem for the central planner. I would have no difficulty about allowing the central planner to do it if he was capable of that task. However, with a 30 per cent system which is diverse, it is too complex. That diversity is one of the great joys of the 30 per cent system, and one of the sources of the great progress that has been made over the past 30 years. Our view is not that top-up fees are wonderful and we love the idea, but we are blown if we can think of a way that is remotely as effective at dealing with differential costs across institutions.

205. And the CVCP?

(Mr Crawford) I suspect that the CVCP is too large an organisation to be able accurately to reflect the collective views of all its individual members. My feeling is that in the event nothing happens, ie there is no fixing of the PSBR problems and nobody else can dream up a way of getting that kind of additional resources into the system, effectively we will face flat rate fees for which we do not get any extra money. It is a rechurning of the money in a different way. Parents will not pay any more in total; the state will not pay any more in total. The loan company will eat up anything that is brought in on one hand by lending it out to the other. The net result of the changes in the short term is that there is no more money. Once the vice-chancellors individually go back to their own institutions and start to realise the pressures on their own governing bodies I would be very surprised if some did not begin to break ranks quite rapidly. The Government has been saying for some months that it has been seeking legal advice on how to prevent it happening. My feeling is that that may be difficult. They have been seeking it for some months. There has been no announcement that they intend to legislate. A week or so ago at a conference one vice-chancellor said that once fees were overtly

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charged the question of flat rate versus differential pricing would be a genie let out of the bottle. The only way to stop serious upward pressure on the fees charged by the institution itself is to crack the classification problem and bring into the system a lot of extra money. That would at least delay the fight for a decade. If there is no money coming in the short run it will be a political football in the very near future.

Chairman: Thank you very much for your extremely useful evidence.

Examination of Witnesses

RT HON DAVID BLUNKETT, a Member of the House, Secretary of State for Education and Employment and MR TONY CLARK, Director of Higher Education, examined.

Chairman

206. We welcome the Secretary of State to his first visit to the Select Committee. We are grateful to him for coming here during the Recess, which we know is no holiday for him. Let us begin with the announcement yesterday which is welcome to many of us. I think it is sensible to give you the opportunity to explain the background to it and the way in which you think it will assist. We would not presume to try to re-do Dearing. Our task is to focus on what appear to us to be the key issues of funding and see how the scheme proposed by Dearing and the Government's scheme work, and also the relationship of funding to access.

(*Mr Blunkett*) Madam Chairman, you will be aware that the Dearing Committee recommended that there should not be more than a 1 per cent reduction in unit costs. Yesterday's announcement achieves that by putting in the additional £100 million that that entails plus £65 million which includes extra money for investment in capital and equipment. That includes doubling the access funds while commencing the process of entitling part-timers who are not in full-time work to have a fee contribution paid. It allows us in total to be able to make a start while protecting both medical and teacher training students.

207. This morning we saw the CVCP who said that the announcement would see it through another year. This afternoon we have received evidence from two academics at the LSE, Nick Barr and Iain Crawford. They have submitted a paper in which they say that the extra moneys are not as generous as might be thought. Their argument is that of the £165 million £35 million is eaten up by inflation. Another £60 million is accounted for because there are 15,000 more students in the system, so in some way the cap has been broken. An additional amount has been lost because there will be a reduced parental contribution because of your welcome announcement to this Committee that poorer families will not have to pay the fees. Totting that up, they believe that the additional funds are not as sustainable as intended.

(*Mr Blunkett*) To take the three points in reverse order, the last one is entirely wrong. All of the calculations have been based on the exemption of the known likely cohort of students who come from lower income backgrounds. Approximately 30 per cent would receive full remission. Another third would receive partial remission where their parents' gross annual income is under about £35,000. The

remainder would pay the £1,000. All the calculations in yesterday's announcement are based on that presumption. As far as the 15,000 students are concerned, we are still awaiting final details from UCAS in terms of outcome. We know that this year there are additional students in the system. There has been a 2 per cent leeway which represents approximately 7,000 students. Of course, that is taken account of in the normal system of entry. That leaves us with the presumption, if figures produced by Crawford and Barr are right, of 8,000 students. The system works as follows. If universities and colleges of higher education take in more students than have been allocated under the formula and with the agreement of HEFC then they stand the cost. Therefore, the money is clawed back. As far as inflation is concerned, we have made the normal presumption. At any one period of time that is the only way in which one can proceed. What I can say this afternoon is that their figure of £35 million is wrong; it is just cloud cuckoo land.

208. But the inflation figure is in the £165 million?
(*Mr Blunkett*) Yes.

Mr Derek Foster

209. I think they were arguing that the figure which you had included for inflation was 2.5 per cent. They argued that there was a good deal of evidence that it was more likely to be 3 per cent rather than 2.5 per cent. You claim that their figure is wrong?

(*Mr Blunkett*) Their £35 million is definitely wrong. They have expertise in other areas. I should bow to others in relation to the projected level of inflation next autumn.

210. What they were saying rather more bluntly than the CVCP said this morning—it amounted to the same thing—was that you had managed to meet the minimum Dearing requirement, which was to reduce it to 1 per cent rather than the much more substantial reduction within the current expenditure plans, but within that reduction there was no room for widening access or improving quality; in other words, even on the basis of yesterday's statement, there is no room to fulfil any of the reasons why Dearing was set up.

(*Mr Blunkett*) I fully admit that we are not meeting the £350 million that Dearing would have liked us to do. I began from a financial position with a forward budget that would have resulted in major cuts. The

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£25 million available for investment in equipment and capital, and therefore to assist research, is additional money over and above the £100 million which will reduce the unit cost cuts to 1 per cent. Therefore, we have achieved the 1 per cent that Dearing said was the absolute minimum to avoid major cuts in higher education next year. We have another £25 million—which I accept is not as much as people wish—as a contribution to the improvement in infrastructure. We also have a doubling of the access funds. I strongly believe that our task in the next year is to ensure that not only in financial year 1998/99 but in the years to come the investment of the Dearing income, as it were, brings about dramatic changes in the way we open up access to those groups and geographic areas that have been grossly under-represented in the higher education system.

211. The other point that they put to us was that this was a wonderful wheeze. We are all delighted that you have managed to persuade the Treasury to go along with it, but it will work for only one year. You cannot do this again next year. Of course, Dearing was saying that only £350 million was immediately required next year but the following year something like £650 million would be required. What will you do for an encore?

(*Mr Blunkett*) The follow-through from the £165 million will carry into subsequent years, so we have secured that and the full year implications. I accept that from April of the financial year 1999/2000 we will have to negotiate with the Treasury in a situation where the expenditure cap of the first two years of this Government will have reached its end. We will then be talking of the balance between future fee income and immediate needs as from April 1999. That is a debate still to be had.

Chairman

212. That brings us neatly to the longer term. The evidence that we have received in particular from Barr and Crawford is concerned with what is included within the definition of public borrowing. Their basic written case is that if there is not a redefinition of the loans based on the presumption that some of the money will be repaid, rather than that all of it needs to be written off, the Government's proposals will not bring into higher education any additional resources. We will not be able to do anything about access or take students out of poverty. The position may even get worse because more people will take loans and less will be able to invest in higher education. This seems to us to be the kernel to the proposals before us. Their analysis makes for deeply depressing reading. Would you like to comment on that?

(*Mr Blunkett*) I would hate to be deeply depressed. I have some time for the work that Crawford and Barr have done, and I did so when in opposition. I think that they are wrong about the gloom and doom. First, there is a difference in current accounting terms in the short term compared with resource accounting. If you want to go into that further I am very happy to discuss it. As to resource accounting, the figures are dramatic five years ahead in terms of yield, less so in terms of the current way

of calculating which assumes that loans are grants. However, on the basis of both resource and current accounting in 20 years the sums to be gained will be enormous for lifelong learning for post-16 education. Even on the current accounting basis, by the year 2015 the sum would be well in excess of £1 billion.

Caroline Flint

213. In the meantime, they suggested that if a reclassification took place there would be a pot of gold of £1.5 billion in every year. Is that not helpful?

(*Mr Blunkett*) Sums of that sort are always helpful! They have two sorts of reclassification. The first is resource accounting in terms of counting loans as that rather than the provision of grants. In five years' time in 2002 we estimate that on the basis of resource accounting that would amount to something like £1,050 million. They have a second presumption, which is that you can then put off balance sheet the student debt. That takes us into a discussion with the Office of National Statistics which operates under the auspices of my right honourable friends in the Treasury in terms of what counts as a secured, as opposed to an unsecured, basis of calculation. As to the first, there is a very important debate to be had about how we compare with other OECD countries and how they calculate the basis of loans. That interesting discussion is going on between me and the Chancellor and Chief Secretary. As to the second, I do not believe that there is an immediate pot of gold. There are some differences in calculation, which it would be interesting to debate with Crawford and Barr, about just how much would be yielded in the extra or second pot of gold. I remember all the stories about attempts to create gold out of base metal. I am a little wary about believing that there can be two pots as opposed to one. Suffice it to say that when we discussed this about a year ago we thought that there was at least a debate to be had about this area. Historically, the Office of National Statistics in this country has taken the view that if it is secure and you can get it back then it must be counted in the public sector; if it is at risk and nobody wants it, it is in the private sector. That is an interesting way of looking at it.

Chairman

214. It all looks pretty rosy. You are optimistic five years on and they are optimistic over a longer period, but you are left with an unsurmountable problem in the short term if the classification problem cannot be resolved.

(*Mr Blunkett*) In five years we would be talking of £250 to £300 million rather than £1 billion if we do not have the first calculation on resource accounting. I leave aside the second Barr and Crawford question on that matter. Suffice it to say that if we were not going ahead with the scheme the position would be dramatically worse. Without the fee income, by 2000 or 2003 we would be losing £400 million of the projected income.

215. That still means that in 1999/2000, unless there is a huge dollop of additional public money, if you do not resolve the reclassification you will be in trouble?

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(*Mr Blunkett*) The presumption that we have made all along is that this is a partnership between the individual making a contribution to his future from which he gains and the Government on behalf of the nation who also gains from a competitive economy driven by a knowledge-based society on which the graduation at the higher education levels of its population make an enormous difference. Therefore, in putting forward these proposals I accept that that responsibility will have to be shared. We will have to discuss with Treasury colleagues the issue of at what point the yield will be sufficient to enable us to put more of that burden on the new programme.

Mr St Aubyn

216. I think that one of the concerns about classification is how much money will filter down to universities. What assurance can you give that the money raised outside the loan scheme will go directly to universities and how much of that—which depends on the money coming from additional loans—will go straight away? We have heard evidence from Sir Ron and others, including the CVCP, on how concerned they are about this point.

(*Mr Blunkett*) I am very clear about the importance of investing in further and higher education from the resources being released, which is why we use the term “universities and colleges”. There is a clear overlap, which is greater in Scotland than England. I carry responsibility for England and the overlap in Wales for this particular policy. Dearing recommended that there be an acceleration of the move at sub-degree level in the further education sector. I accept that in post-16 lifelong learning—ie, further and higher education—the resources from the yield of the new programme should be reinvested. Clearly, a greater proportion has to go into higher education—hence the announcement yesterday—to meet the immediate crisis and invest in competence, research capacity, better quality and, above all, to open up new access. Without these extra resources the opening up of access will be nil.

217. Do you agree with the concern of the Vice-Chancellor of the University of Surrey that as a result of these proposals specific universities will be worse off? They will face the burden of collecting all the tuition fees but the benefits of those fees may go to other colleges and not themselves?

(*Mr Blunkett*) There must be a fair and acceptable redistribution system through the Higher Education Funding Council. We have responsibility for ensuring that that is done. The question of collection is an interesting one. I have not heard that argument used by those universities that want to impose top-up fees. Presumably, they would have a very much more difficult task in gaining the money before students actually entered higher education than they would during the course of their first year.

218. Perhaps the more direct concern is that the normal types of courses, if you like, that students enter and the very best education will suffer slightly as a result. If in the redistribution all of the extra money raised goes back to your department and not

to the institutions themselves the very best institutions in this country may suffer as a result of the proposals?

(*Mr Blunkett*) I would have thought that the best institutions were the ones that students wanted to go to and the ones that generated additional income from all sorts of sources, and that the Higher Education Funding Council under our direction would ensure that the existing demand for particular places at particular high quality institutions was met. That must be in the interests of all of us, rather than putting money into institutions where students do not wish to be on courses that they do not wish to take.

219. So, by and large the allocation of the money will be dictated by where students choose to go?

(*Mr Blunkett*) The Dearing Committee had some very interesting and, I understand, lengthy debates about the marketisation of the planning process for university investment. I do not think that this changes the debate one iota in terms of trying to ensure that resources are available and demand exists within the parameters of the debate about whether everybody should be taking media studies.

Mr Dererk Foster

220. I take you back to the PSBR. We were advised that the Treasury would be prepared to bend the rules for the Diana Memorial Fund and also the lottery. It was put to us that some of the PFI shenanigans were creative, to say the least. It was also put to us that Australia and New Zealand went about these negotiations in a rather more open and transparent way than the UK. The attitude there was that the equivalent of the Office of National Statistics met with the department concerned, recognised the problem and tried to find a solution. We get the impression here that whatever the problem is the Treasury is inclined to say “no”. I understand that our regulations are the most restrictive in Europe and go way beyond the Maastricht criteria and what is required by the IMF.

(*Mr Blunkett*) Are you asking me to comment on that?

221. In so far as you can, yes.

(*Mr Blunkett*) I am aware of the position in Australia, New Zealand and the Netherlands. I believe that it is critically important to have an independent statistical body. At this moment I am not party to the discussions that my right honourable friends are having about those areas which are rooted in our history and culture and precedents set by others.

Judy Mallaber

222. I want to clarify exactly how and when fees are paid. When I arrived this morning I thought that it was just I who was muddled but commentators and others here appear to be confused. I am concerned with the statement that an additional maintenance loan equivalent to the tuition fee will be available to students. For that section of students whose parental income is such that they are liable to pay a proportion of their fees, is there an expectation that

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fees are paid upfront when they begin university? Is it assumed that the parents pay it? If they do not pay it, is the student entitled to get a loan to cover the tuition fees as well as maintenance? I have been telling people not to worry because they do not have to pay it back until they reach a certain level of income. I may or may not have been right.

(Mr Blunkett) The loan that is provided at whatever level will not have to be paid back until the student is earning under the contribution scheme. I spelt out yesterday that a student earning £17,000 would be paying back £52 a month compared with up to £129 under the present loans scheme. However, to answer the question directly, the calculation is based on the combination of the maintenance and tuition. Therefore, the parental contribution is based on that combined aggregate. The parents will pay no more than under the existing system, but they will be expected to contribute it, and to have it collected by the university, during the first year that the student is at university.

223. If as has happened in the past in relation to maintenance grants the parents do not pay, what is the position? Is the student expected to pay? If so, can he or she take out a loan to cover it?

(Mr Blunkett) The same position applies at the moment in terms of pressure on parents to make their contribution. The loans scheme was brought in to substitute for the grant scheme, not to cover parental contributions that had not been made by parents. Therefore, in 1994 to 1996 the grant was cut in real terms by 10 per cent each year, it having been frozen since 1991, and the loans were provided on the basis of filling that gap. Therefore, people are in no worse situation than they are now, except that they have the advantage of the higher education institutions approaching their parents and negotiating with them rather than the students negotiating with parents.

224. But if the parents do not pay the fee is the student expected to find it in some way?

(Mr Blunkett) We are combining it. That £1,000 prevents us from having to pay out for non-EU students who would otherwise be entitled to it. There is a reason for doing it that way. Obviously, the university would have to pursue the parent and student.

Chairman

225. You are saying that they have to pay the fee for a three-year course in the first year?

(Mr Blunkett) No. If gross parental income is over £35,000 a year on average they are expected to pay £1,000 each year. The parental contribution towards that—I stress it is no greater than it is now—would be expected to be paid.

226. One issue raised by the CVCP was how you would get LEAs and the Students Support Agency to means-test Greek, Dutch or French students?

(Mr Blunkett) That is a very interesting question. There are 73,000 EU students—a number larger than I imagined—all of whom comply with the existing process of applying for fee support. Of course, in the end the pursuit of overseas and EU students who fall within the new programme outlined is in one sense made easier. They have a choice, do they not? Either

they want to come into our higher education system or they do not. If they do not they will not be returning in the second or subsequent years.

Mr Brady

227. The CVCP this morning appeared to be under the impression that tuition fees would be paid to the institution at which the student was studying. From what you have said I understand that that is not the case. The student may be paying towards somebody else's tuition.

(Mr Blunkett) No. The calculations of the Further and Higher Education Funding Council will take into account that the university or institution will be collecting that money and it will go directly into its coffers.

228. The benefit will go to the institution?

(Mr Blunkett) Yes.

229. As I understand it, students studying for HNC and HND qualifications would also pay £1,000 tuition fees at sub-degree level?

(Mr Blunkett) HND students who are full-time higher education students will not pay it¹, but OND further education students already pay fees.

230. Has the department looked at evidence regarding higher salaries for graduates of HND courses? Is there any evidence that they, like degree graduates, attract higher salaries when they graduate?

(Mr Blunkett) I have no immediate evidence to give the Committee. The calculations of the one-off improvement within the timespan of graduate earnings apply across the higher education field.

Caroline Flint

231. One of the issues raised this morning by the National Union of Students was that, on the one hand, it was in principle against fees but, on the other hand, this seemed to be a slippery slope for increased fee charges. The booklet *Students in Higher Education* says: "Will the tuition fee contribution be increased after 1998?" The answer is: "The Government intends to introduce safeguards to ensure that increases above the rate of inflation cannot be introduced without Parliament's consent", which leaves the door open to increased fees. Would it be a better option that students should be expected to pay a percentage of their fees but it should be based on discussions about a flat rate of fee across the higher education sector?

(Mr Blunkett) I believe that for the longer term there is a debate to be had about whether we simply fix it at a percentage of the average, which is what the £1,000 is intended to do, and whether an affirmative order of the House is sufficient to safeguard the interests of students in future. There is a balance between the responsibility of the individual and the responsibility of the nation. I am sure that the Committee will want to deliberate and make

¹ Note by witness: HND students transferring directly to a degree course in 1998 will not pay fees. Students starting new HND courses from September 1998 onwards will be required to pay fees, subject to parental income.

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recommendations upon that. I am open to persuasion as to whether additional safeguards can be built in.

Mr Dafis

232. As to access, does the Government have a view on the total amount that should be available to students for the purposes of maintenance? Will it be possible to have a sufficient loan to provide maintenance at that level?

(Mr Blunkett) We are doubling access funds. I do not think that people should under-estimate the importance of this. I understand from recent conversations with the students themselves that some people receive very substantial access funding which is as much as £3,000. In addition to the new programme, we are putting an extra £250 per student per year into the progressive contribution system for students in hardship. I hope that that will help in what is undoubtedly a very tight situation. I have a son at university at the moment and another one who aspires to go next year, so I am very mindful of the position they face.

233. There is no doubt at all that poverty exists and it is causing real hardship.

(Mr Blunkett) I agree.

234. Do you have a calculation which enables you to say that a specific sum, say, £5,000 a year, would be available in the form of loan to enable students to avoid hardship and poverty and would not oblige them to go in search of other loans which could put them in a very difficult position in future?

(Mr Blunkett) No, I have not. But I stress that the progressive contribution system is based on a real nil rate of interest and therefore is very different from a situation where people are borrowing commercially. If I were not the Secretary of State responsible for seeing through this policy I would love to be able to give answers that projected for the future a much rosier situation in terms of the income of students. But I believe that they face the same sort of dilemma as many others on fixed incomes.

235. I want to ask about the difference between the Government's proposals and Dearing's proposals. Has the Government carried out a proper calculation of the difference between the two sets of proposals in relation to the distributional effects; in other words, are students from low income backgrounds going to find it more challenging to enter higher education under the Government's proposals than they would under Dearing? Has there been a proper investigation made of the comparative effects of the two proposals?

(Mr Blunkett) During the course of the past 15 months as Dearing was undertaking its deliberations obviously a great deal of discussion and work took place both inside and outside government on the likely impact. We have no evidence whatever—as was said by the Vice-Chancellor of Canberra University on 9 September at a conference organised by *The Independent*—that a programme that charges and recoups the sums loaned at a future date discourages students from entering the system. It would do so if the top-up fees for which some universities press were implemented. But our

proposals are based on future prosperity and a progressive contribution at the time that the graduate can afford to pay, not on the income or circumstances of the individual at the time. Therefore, it is a commitment knowing that higher education will yield fruit in terms of higher income. If so, the person will pay back on the basis of ability to pay; if not, the individual will pay either at a much lower rate—which is the advantage of a progressive contribution scheme—or, if he is below the £10,000 level, not at all. That seems to us to be perfectly reasonable and fair; and it is the same position for adult further education students, of whom there are two million, and the 400,000-plus part-time students who also contribute. Therefore, if further education students whose prospects are less rosy further down the ladder are not discouraged from taking up that opportunity, we do not believe that higher education students will be either. Even under the existing loan scheme, albeit that students from low income households only form 17 per cent of the total—it is an issue that we must address vigorously—the evidence is that socio-economic groups D and E are now represented at double the rate of 10 years ago.

236. Therefore, do you suggest that the introduction of requirements to make payments at a later stage by borrowing is not a disincentive to students from low income backgrounds?

(Mr Blunkett) I do not pretend that in this scheme or in what we are able to do through public policy we can wipe out the disparity that exists between extremely wealthy families who can afford under whatever programme to subsidise their children through higher education and other families not in that position. This situation was the same before 1962, complicated by the fact that contributions had to be made to fees through to 1977. We have been through all this before.

237. But when the Government decided to vary its proposals from those suggested by Dearing by releasing students of families whose income was less than £15,000 from paying fees what did the Government have in mind? Was it to redistribute resources in the direction of low income families or otherwise?

(Mr Blunkett) It was directly to ensure that we could ameliorate the fee for those on low income, because we believed that given the background in this country, despite the fact that full remission of fees was only 20 years old, the perception was that fees for very low income families might form a disincentive. It seemed to us that on psychological grounds we needed to proceed on the basis of ameliorating the impact of fees rather than the impact of living funds, on which we had a manifesto commitment. I point out that that results in those who are currently concerned about and campaigning against our proposal defending the better off. Having accepted, bravely in my view, that maintenance should be based on progressive contributions, that we have protected the worst off from paying any fee, have ensured that middle income families pay only some of the fee and that full fees should be levied only on the better off, one has the strange juxtaposition that people have to defend the better off from paying fees.

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[Mr Dafis Cont]

238. I want to get at whether the department has carried out a study of the distributional effects of implementing its proposals as opposed to Dearing's? (Mr Blunkett) No.

Chairman

239. How many full-time students are there in the higher education sector who have come out of private education which has been paid for by school fees?

(Mr Blunkett) I do not have the exact statistical figure, but I have a figure for the amount of money we would save if they did not. I stress that I do not propose any change in that direction.

240. Perhaps you would give the Committee that figure?

(Mr Blunkett) It is £300 million a year. It varies so enormously. The reason it is difficult to make a per head calculation is that, for instance, at Oxford and Cambridge less than half the students come from state schools, but at those institutions there is some double counting between the universities and colleges.

Ms Atherton

241. I am anxious that geography may prove to be a bar to access. I speak as someone who represents a constituency in Cornwall where HE is delivered to a certain extent by FE colleges, but there is no university. In September and October every year there is a mass exodus of young people across the Tamar bridge in order to further their education. I am concerned that the debt burden that they might possibly face at the end of their education will deter particularly women students from proceeding with their education. What are your thoughts on that?

(Mr Blunkett) There is a key issue in areas where traditionally there have not been higher education institutions, not merely in terms of immediate access but the expectation that is created by the proximity of a university, and where there is outreach work being undertaken by universities to open up access. I strongly welcome that. I hope that future funding arrangements that pick up the Dearing recommendations will foster that. I gave my support to the Vice-Chancellor of Exeter, Sir Geoffrey Holland, in wanting to extend the concept of the university of Cornwall. I am very keen that we should be able to do that. Clearly, if we are to open up access and extend the present range of opportunities we must have the resources to do so. While the cap remains and restrictions exist that is very much more difficult.

Mr Derek Foster

242. Many Members of the Committee are enthusiastic about your objective and Dearing's to widen access. If I may say so, I think that you have dealt very well with the possible disincentive that student fees may provide. In my judgment, means-testing deals with that completely. But I am very uneasy about the abolition of grants. Dearing rejected that. When the Committee questioned him

about it he said that he had rejected it specifically because he thought that there would be a disincentive to widening access. He said that there would be a disincentive if all the rest of his recommendations on widening access were put in hand. I was a little disturbed by your response to Cynog. He specifically asked whether you had any evidence available to you when you varied the recommendations. You said "no". Is the department doing any research on the problems of debt aversion and the disincentive effect inherent in that debate? This is an important issue which is concerning a wide group of people who otherwise would be great ambassadors for both Dearing and what you have done.

(Mr Blunkett) I understand that very well. As someone who in the late 'sixties received grant—I was fortunate to be born in 1947 and, as a mature student, qualified for the grant introduced in 1962—I appreciate that there is a barrier in our own minds about whether or not grant should stay. As a *quid pro quo* Dearing recommended fees. To keep grants and to have a blanket fee would in our view be a problem, as I spelt out a minute or two ago. To decide to ameliorate fees means that we will lose substantial amounts of income and therefore overturn the objective of the exercise, which is to share that responsibility and gain that income. In the lead-up to the general election we debated at some length the issue of whether maintenance should be put on a progressive contributory basis. We decided with some reluctance that it was the only way forward. I believe that the population as a whole well understands the importance of students making a substantial contribution when they are able to their living costs—to beer and sandwiches, if I dare put it like that in terms of what my son will do to me when I see him next weekend. I do not believe that there is immediate and definable evidence on which we can draw, but I believe that we should monitor and research the impact of what we are doing. We have the Australian experience and some evidence from New Zealand. The Netherlands are just moving into this situation. All I can say is that there is no difference from the situation immediately post-1962. The expansion of the past 15 years has resulted in the dramatic change in terms of entry levels from lower income backgrounds. Therefore, there is no definable evidence from the decades immediately behind us of a change in patterns of entry determined by grant or by fee.

243. You said that your motivation was to release the money saved by abolishing grants. Are you able today to guarantee that that money will go into higher and further education?

(Mr Blunkett) That was the commitment that I gave on 23 July. I believe that the resources should be allocated back into lifelong learning.

Valerie Davey

244. I want to return to access. I am sure that the logic of what you have said today is impeccable and that everyone in this room now understands the situation for those students from low income backgrounds. However, the perception outside this room is different. Is there any way in which we can overcome this psychological barrier? It was put to us

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by the vice-chancellors that you, we and everyone had a role to play in ensuring that there was greater access which everybody wanted and to overcome the psychological barrier. You above everyone have thought about this. Have you any ideas that you can share with us? Is there any way in which we can motivate people and ensure that facts as opposed to perceptions are put forward?

(*Mr Blunkett*) I believe that the Committee has a very helpful role and its deliberations and conclusions will make a big difference to people's understanding. I entirely accept what you say. The mass media, particularly television, have not helped by presenting soundbites which suggest that free education has suddenly been abolished, as though it had existed for adults up to the present time—never mind the suggestion that it had always existed. I am not sure that yesterday the report of a court case about whether somebody receives £45,000 for allegedly not having been diagnosed as having dyslexia, with which I have a lot of sympathy—two of my sons have dyslexia—avoids the necessity to provide an additional explanation through the media. We have an uphill struggle to stop people speaking in soundbites. I fear that even the deliberations of the Committee will not be able to override that tendency. We must try to get to people where they are. We have material going out this week to all student unions, all further education colleges and all schools with sixth forms. We are engaging with those who have an immediate interest in the school sector. We will have to think through more radically how we manage to present our policies in a way that can be understood by the general public. The indication from the detailed opinion polls that have been conducted is that there has been a signal shift in understanding at least about the principle that the investment should be shared. The latest opinion polls show that it is now 69 per cent compared with only 38 per cent seven years ago. I do not place much stock in every opinion poll—except that these days they are getting the issues right—but it is worth reflecting that the difficulty which I discovered when I picked it up on 2 May is that people understand it when they have had a chance to deliberate and reflect upon it. They do not understand it simply by seeing people on television, perhaps for two or three minutes, putting forward an adversarial point of view. I welcome the opportunity to present the case in this way. I think that we ought to try to find ways of deliberating within the House itself. I am very encouraged that some people in all political parties are prepared to do so in this manner.

Mrs Laing

245. In view of what Valerie Davey has just said, perhaps I may put the other side of the coin. I hope that this may provide the encouragement that you have just asked for. One well remembers that in 1989 when student maintenance loans were first introduced one heard the kind of soundbite and adversarial point of view just described emanating from all political parties and the education establishment. They very much overstated the case. They feared that if loans were introduced at all access would be severely restricted, whereas the expansion

in higher education since 1989 could not have taken place without the introduction of loans for maintenance because there would otherwise not have been enough money from public funds to deal with that expansion. Do you believe that we can extrapolate the fact that loans have not so far restricted access, and that we must not overstate the perception of potential students about having a debt as soon as they begin their higher education and they should have confidence in the future?

(*Mr Blunkett*) As to the first point, I have never known an opposition that has knowingly understated its case. However, when in opposition I was very careful to draw a distinction between an off-balance sheet approach and a contribution system that was progressive and based on the ability to pay and a system under which a loan had to be repaid over five years at up to £129 a month. There is a distinction. I did not say that the previous loan system had itself been responsible for the expansion because it was not additional to but was a substitute for the grant system. Therefore, it was not extra money provided to the universities, which was the intention. However, I said that there was no evidence that the introduction of that scheme had dampened or reduced the entry of students from low income households.

246. That was my main point of concern.

(*Mr Blunkett*) But that is slightly different from the issue of loans in the past having fostered it and provided the money. It is very important that we are not substituting this for existing funds. We are seeking to raise additional funds that allow us from normal Treasury revenue to invest in nursery and childcare provision, the standards and achievements in schools, the disrepair of school buildings and to contribute to the immediate post-16 further education programme.

Yvette Cooper

247. Nick Barr and Iain Crawford presented a paper in which they strongly advocated strictly income-contingent payments so that one would, say, repay 3 per cent of current income. They were not clear whether the announcement made yesterday about repayment meant that, for example, it could be presented on the basis of, "Okay, from now on you repay 3 per cent a year every year", or whether the repayment would be a percentage of the outstanding loan. Further, Dearing suggests a deferred contribution option as one alternative, alongside a graduate tax and strict loans. Under the deferred contribution option the student would pay, say, 3 per cent a year for 20 years rather than 3 per cent a year until the amount was repaid. Did the Government consider the deferred contribution option? Dearing said that it would be a long-term project that would have to be looked at over time.

(*Mr Blunkett*) The repayment system in which I understand Crawford and Barr are interested is one involving the attachment to National Insurance. One of the reasons we have not stressed that is that the National Insurance system starts at £3,700 and finishes at £24,000, whereas our programme is contingent on the income of the individual from £10,000. Therefore, at £17,000 they would pay £52 a

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month and at £18,000 they would pay £60 a month. Under the existing loan system it comes out at up to £129, depending on the size of the loan. The two go together. The income-related element and size of loan determine the amount paid and the repayment period under our scheme, with an average repayment period of around 11 years but with an extended repayment period of up to 23 years or more. As to a deferred contribution option, given the difficulty that we all have—I include myself—of de-mystifying this, we have tried to make it as clear as possible so that people can see the relationship between the income they earn and the amount that they pay back from the loan. There are all kinds of attractions in what may come close to a graduate tax. That is not something which is allowed to pass my lips.

Chairman

248. You said that repayments would also depend on the size of the loan. Therefore, at £17,000 you pay £52 a month. What sort of loan does that assume?

(Mr Blunkett) It depends entirely on the individual. Referring to the £27,200 which results in a repayment of up to £129, the assumption is that the person has taken out the maximum. That includes London students who receive an additional loan. That is true under the existing system and would apply under ours.

Charlotte Atkins

249. You are taking on board some of the problems faced by students who do four-year courses and the whole issue of teacher training. But I am concerned about those people who take sandwich courses and spend a year in industry. Obviously, they will have higher fees if they do four years. Has the Government considered what can be done to help such students?

(Mr Blunkett) We have looked at the amelioration of the fee to £500 rather than £1,000. We are prepared to examine further the question of sandwich courses. I must say that the complication here is that some students actually get paid on sandwich placements and others do not, just to make life difficult. The same applies to students spending time abroad. We are trying to address the two together: the question of an amelioration to take account of that difficulty and the question of whether or not they are in employment.

250. Another issue that would deter low income students is that, once they have been saddled with a debt that they pay over a number of years, there is evidence that under the present system they find it difficult to obtain mortgages. Have you considered that? If so, what advice have you been given?

(Mr Blunkett) It is an issue that has been forcibly drawn to my attention. We need to discuss this with mortgage institutions and our own officials to ensure that the taking out of career development loans and the repayment programme under the new scheme does not disadvantage anyone. I will if necessary look at legislating on the point.

Judy Mallaber

251. I return to the presentation argument. I think that there are ways in which we could very clearly explain the purpose, such as the access package. I am very pleased about the proposals for unemployed students on part-time courses which will be welcome to some of the people I see. One of the points made earlier by Barr and Crawford was that if it was presented simply on the basis that people would be paying £52 a month instead of £129 it would sound like a mortgage payment. The presentation to a student that he will pay *this* amount per month, or that *this* would be his overall debt, would sound scary, whereas a presentation based on the payment of a certain number of pennies in the pound once the individual was earning would not be such a great disincentive. How do you think that presentation might be made? In part it ties in with exactly how you determine what level of income people have, if it is not being done by the tax system or the National Insurance system.

(Mr Blunkett) Without treading into deep water, I have not ruled out the collection process being attached to the Inland Revenue. My right honourable friends in the Treasury are examining that possibility which has enormous advantages. That would eventually help people in terms of their repayments because they would see it as part of the normal process of contributing, as well as it being secure and administratively simpler than other schemes. I do not know how to get over the problem in presentation terms that people add up the maximum that they expect to pay over a substantial period. Their instinct is to add it up and to say that a sum of £6,000, £7,000, £8,000 or £9,000 is a terrible thing to have round their necks. I understand that the comparison is not a fair one, but what is surprising is that young people in their twenties do not see the same problem in taking out a loan on a car, for instance, which immediately depreciates rather than appreciates in value.

Mr Brady

252. Dearing suggested that 45 per cent would be a good threshold. What do you think the maximum should be?

(Mr Blunkett) We have indicated that we wish to lift the present cap gradually. We agree with Dearing that we should make a start next year on sub-degree higher education and that we should look at how perhaps over the next five years we can ease the position to around 35 per cent. We need to do so on the basis of the demand and capability of students to take up the places. The achievement of high standards in schools and the return to adult learning by mature students will make an enormous difference. Given that virtually half the students in higher education are now mature students and that entry part-time is growing enormously—about one third of students are in part-time courses—I hope to encourage it through those mechanisms.

253. Do you see 45 per cent as being the ultimate ceiling?

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(Mr Blunkett) Dearing set out a long-term goal having consulted widely. The CBI put forward the goal of 40 per cent. I do not have a goal. My aim is to raise achievement levels to the point where young and mature students with the capability have access and ability to take up those options. I think that those who say that the country needs to have only a certain percentage of the population educated to first degree level, reflecting on the economy of the past, do us a great disservice. I want to equip our population with the tools to be able to survive in a new century where human capital and the knowledge-based economy will be paramount. We need to be preparing for that now as many South East Asian countries are doing.

Chairman

254. Perhaps I may conclude with a somewhat cheeky question. You mentioned earlier the Oxford and Cambridge colleges that appeared to get double funding. Are you suggesting that you may be tackling that in future?

(Mr Blunkett) The Higher Education Funding Council has been asked to undertake a review. I hope that it reports before Christmas. As it is a cheeky question, there are two issues here. One is how to ensure that in any change those colleges that do not have historic funds or legacies on which to draw are not disadvantaged. The other is how to maintain the quality of the best education in the world that exists in many of the colleges in Oxford and Cambridge. From someone who went to a red brick university, that is as generous as I can be! Given that other universities are expected to work on the margin of a 1 per cent increase in the coming year, we have said that we should not expect Oxford and Cambridge to demand a much higher level. That seems to us to be fair.

Chairman: We look forward to the outcome of the further study. Thank you very much.

 WEDNESDAY 15 OCTOBER 1997

Members present:

Ms Margaret Hodge, in the Chair

 Mr Graham Brady
 Yvette Cooper
 Caroline Flint
 Mr Derek Foster
 Mr Don Foster

 Mrs Eleanor Laing
 Judy Mallaber
 Mrs Theresa May
 Mr Nick St Aubyn

Examination of Witnesses

DR BILL ROBINSON, Director, London Economics, examined.

Chairman

255. Can I welcome you, Dr Robinson, to our Committee and thank you for agreeing at such short notice to attend. We took some initial evidence on the issue of the Dearing Review and have really homed in on one specific issue, on which we would like to focus the evidence session this morning, that is, the issue of how you classify the new system of student loans in public expenditure terms. It seemed to us that unless the Government tackled that issue they would be left with financial difficulties in dealing with the under-funding of universities, student poverty and an expansion of student numbers, both in higher education and further education, given that the Government wish to remain within student totals. I will quote to you a bit from the Dearing Report. Dearing himself did say this: "A fundamental problem with the Government providing loans for students is their treatment in the national accounts. Under conventional Government Accounting a loan is treated exactly like a grant in the year in which it is made"—and counts against the public sector borrowing requirement. Dearing recommends that the Government "looks urgently at alternative and internationally accepted approaches to national accounting which do not treat the repayable part of loans ... as grants to students." We also had evidence from two academics at LSE which suggested that this issue needs to be fixed and fixed fast (I think were the words they used to us). From your experience in the Treasury and elsewhere, can you tell us whether this issue has come up before, and if so, in what context, what views were taken, why it has been rejected previously and why should we reject it again?

(*Dr Robinson*) Thank you, Madam Chairman. First of all, may I say I am very honoured to have been invited. I have given some thought to this and have prepared some remarks. I am not going to read a statement but I have prepared some remarks which I think might be a good starting point and then you can, as it were, fire questions at me and I will try to answer the questions that you raise. We start from the fact that there is a crisis in higher education, which is why there is the Dearing Report. They need more money. In a sense Dearing found a solution and we all know what the solution is: borrowing by students of money which they then hand to the institutions of higher education. It is a clever solution because it taps an interesting new, long-term source

of income, which is the income of graduates. Students may be poor but graduates are not; they are in the top third of the income distribution. So in a sense you might think that the general recommendation that there is more borrowing by students which pays for either higher maintenance, thus releasing money to go to higher education, or pays for fees, which go directly to higher education, solves the problem. But, as the Committee has heard, the money borrowed by students is first borrowed by Government and then lent on to the students. So we face this problem that more money for higher education does increase the PSBR. The Government has targets for the PSBR, just like the previous government. It has targets for public spending and the problem—and I think there is a problem—is that giving immediate help, throwing more money at higher education, could increase the PSBR and conflict with, if not breach, those targets. So you have, if you like, a conflict between two policy objectives, one of which is to help higher education and the other of which is that you have a PSBR target. Why do we have a PSBR target and does it matter if more help for higher education results in breaching that target? Certainly in formal terms the answer is pretty clear. The PSBR is a cash target, money lent to students is a cash outgoing, and so I think there certainly would have been those in the Treasury in my day who would have argued that you cannot do it, that the City would take fright if you breached the PSBR target, and I can hear the sort of advice which might be given to Gordon Brown, that the new Labour Government is very anxious to establish its credibility with the City as a responsible Government with a responsible fiscal policy, and that this breach would be the first step down a slippery slope. But I think there will be plenty of others in the Treasury—I never knew it to be monolithic on any issue—who would point out, first of all, that lending is not spending, who would say that you could ring-fence this issue. It is different from most other public spending issues, and in a sense you might ask a fundamental question: why does the government borrow? Why does anybody borrow? Typically, because you have a short-term need to spend and you need to get over the hump and so you borrow it for a bit and when you are over the hump you pay it back. My basic view is that this could very well be a case in point and I think if I were in charge, which fortunately I am not, that is the view I would take.

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DR BILL ROBINSON

[Continued

[Chairman Cont]

Now it is not quite as simple as that because I think you have to reckon with one very important factor about student loans, which is that they are on incredibly easy terms at the moment, and even under the Dearing proposals, and so in a sense some of this lending is spending. These loans are very heavily subsidised and so I do not think you can be cavalier with student loans on very easy terms. I am going to finish with a couple of thoughts as to how one should approach, think about, how to deal with the problem. In a sense I think the problem I am addressing has nothing to do with accounting because we can solve that if we choose to, but there is a serious political problem which is, how can you reconcile a very laudable desire to throw more money at higher education—you might say invest in higher education—with an equally laudable desire to appear, and indeed be, fiscally responsible. One solution, in my view, would be actually to charge a market rate of interest on those loans. If you did that then I think there would be a very strong line that Treasury ministers could take, which would say, this borrowing is at market interest rates. Students have borrowed or they have taken on that borrowing willingly. They are investing in their own future and, if you like, the extra borrowing is justified by the extra income they expect to get in later life because of their enhanced capabilities as a result of the higher education. So in that world the PSBR could be, I think, demand-led and an extra billion or so would not, or should not, frighten anybody, not even the City. The second way out, which I suspect may be more palatable, lies in this magic new device known as resource accounting. What resource accounting does is to look at the net present value of any policy rather than its cash implications, and in this instance the important point about resource accounting is that it would score as spending only that part of the loan which was, if you like, the subsidy element in the spending. So it would recognise that there is lending which is not spending but there is some spending and it is that bit that it would count. Again my advice, for what it is worth, is that if we move to a resource accounting system, this is a very good test, it seems to me, of such a system, that you would score the subsidy element as spending and be pretty strict about that but allow the borrowing element that you knew was going to be repaid without worrying too much if it took you above some PSBR target. Let me conclude with just one reason why I think that is sensible. I think the issue here is what this policy might do in the long run to either borrowing or to taxes, and to the extent that you invest some more money in higher education, if you can show that there is no long-run implication for tax rates because a substantial chunk of that money will be paid back and that will give the Government a future flow of revenue so that taxes will not have to be increased, then it seems to me that you can safely indulge in this bit of borrowing to get you over the hump. You did ask a question about accounting devices and conventions and how this is all scored. As I say, my view on all that is that those are technical arguments. There are very good technicians in the Treasury. If the political decision is taken, for good economic reasons, to do this bit of extra borrowing, then I am sure the accounting devices can be found.

256. That is very interesting and I think the Committee would agree with you. I find that phrase rather useful, that lending is not spending, and I think we would all concur as well that some of the lending is spending but not all and at the moment the way it is accounted for is that all is presumed to be spending and even if you were not to charge proper market interest rates, which is something we are examining, nevertheless some of the lending would still not be spending. I think probably the first question I would ask you is, if we can make that argument, surely the City would not take fright? Even assuming 10 per cent. is not spending it is better than assuming nought is spending, but the City would only take fright if we assumed that 100 per cent. was spending?

(*Dr Robinson*) In a sense it is a matter of fact how much of the loans are lending and how much are spending, because it is a matter of fact what a proper market rate of interest is and so, if you like, the difference between the proper market rate of interest and the actual rate of interest is a subsidy element which you must count as spending.

257. Can I put this to you, that the problem facing the Government is that resource accounting is coming in 2001-2002 and the problem facing higher education is now. I think we are particularly concerned about the year 1999-2000, so I think one has to look at other mechanisms to take us through those two or three years, whatever it will be. You said it is the PSBR but can you explain to me, if we look at GGE and GGE(X) and then what they take off from GGE(X) to define it, what they just remove from the national accounts, their adjustments, to look at the total, is it not completely arbitrary that they should exclude privatisation proceeds, Lottery finance spending and, indeed, what absolutely astounded me from looking at the public expenditure control total, spending on grant maintained schools; and if it is arbitrary, what is wrong with adding in something which seems to me a far less arbitrary category, which is investment in students, knowing that you will get the money back?

(*Dr Robinson*) I do not think it is arbitrary. I think I would defend my former colleagues from that charge. In each and every one of these cases (which we do not need to go into in this Committee) there are quite good economic arguments for excluding them from the public expenditure spending total which you want to target, and I have just said at some length that I think there are quite good arguments, equally good arguments, I would say, why you might want to take the same view on this issue.

258. Can you take me through the arguments. I do not know if you are in the Treasury whether you are bound not to tell us but what is the argument about grant maintained schools? What is the logical argument for keeping them out?

(*Dr Robinson*) I pass. I was not there.

Mrs Theresa May: I think it is not correct to say that grant maintained schools are excluded from the public expenditure control total. They are out of central government figures but they are added back in local authorities.

Yvette Cooper: That is right.

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DR BILL ROBINSON

[Continued

Mr Derek Foster

259. Dr Robinson, I was interested that you said we could solve this problem if we wanted to and we may want to go into that a little bit more carefully later on, but from the evidence that was put to us I suppose I could say we are all fiscally responsible now, or if I do not say it somebody will say it sooner or later, I am sure. We are certainly not exploring an argument to be fiscally irresponsible. We take it that however you define PSBR then that figure is an important figure and will be an icon figure with the City, however defined. I think what we are perhaps arguing about is how you actually define the PSBR and how you account for student loans within public accounting, and the advice that was given to us, or the arguments that were put to us, were that if you excluded bad debt, which is clearly a spend, and if you excluded the subsidy on the loan, which is clearly a spend, why do we then count all that as borrowing in the year in which it occurs? I do not think you are arguing against that but it does seem to us unreasonable that if you exclude those two items then we still treat what is left as a borrowing which has to be counted against public sector borrowing in the first year in which it occurs?

(Dr Robinson) I think it is borrowing and the point is that most of it will be repaid in some sense. So I do not think you can get round the fact that if you want to invest more money in higher education there will be a higher PSBR. What I am arguing is that you can produce very good reasons why no-one should be frightened about that and, indeed, what occurs to me is that one of the new Government's new principles, a very good principle, is the so-called "golden rule", i.e. you can borrow in order to invest, and if you are prepared to regard higher education as investment then borrowing for higher education is consistent with that rule. There are caveats because lending money to irresponsible students may not strike everyone as the best investment you could make but if we have taken account of all that by stripping out bad debts, by stripping out the subsidy element of the loan, then that is an argument that you can make. How persuasive the City will find it is up to them but I think it is a respectable argument.

260. If we treated loans in that fashion, that would be both within the Maastricht criteria and within the criteria required under IMF regulations, and the criterion that the Government here applies is, in fact, a national criterion which is not required by either Maastricht or IMF.

(Dr Robinson) I think that every nation must adopt the conventions that it chooses for its own purposes and keep its eyes firmly on what it is trying to do, why it has these targets. I am not an expert on these definitional issues of what is in and out of the PSBR, what is not in Maastricht. I am afraid I do not think it is very important. I think the important issue is the one that we are focusing on, which is, yes, there has to be some more borrowing, is that a problem, to which my answer is no, it need not be a problem.

261. Can I pursue that a little further because I think clearly what is important is, do you think that if the Government took the Bank of England into its

confidence and the City into its confidence in implementing such a change, there would be shock horror within the City at such a change?

(Dr Robinson) This is a difficult judgement. If it were well presented, carefully presented, if the numbers were not too big, provided there were not any other things that slipped by at the same time, with lots of caveats I think it is do-able.

Mr St Aubyn

262. Could we understand how we get here. Perhaps it would help to go back to the beginning of all this. Would you say that when the last Government introduced student loans they actually anticipated that they would be able to privatise the whole process and, therefore, get the cash value in of the loans and, therefore, this whole issue of accounting would not have arisen at this stage?

(Dr Robinson) I do not know what they did or did not anticipate but is that particularly relevant to the present problem?

263. I think it is because, following on from that, when they could not get the private sector to take on the student loan book they set it up themselves as a publicly run operation and then again tried, once they had a student loan portfolio, to sell it to the private sector. Do you have any knowledge of how successful those attempts were?

(Dr Robinson) There is another attempt going on and it is proving quite difficult. Certainly my own view of all this is that it would be a much better world if the Government were not involved at all in this transaction.

264. What do you think is the key reason why they are having difficulty selling this?

(Dr Robinson) Because it is new, I think. Bankers are quite conservative, quite conventional. This is a new sort of debt.

265. What is new about it?

(Dr Robinson) It has no collateral; you can lend to all comers really, anyone with a university place. I think we would all want it to be the case that if you get the university place you are entitled to the loan, but banks take a rather different view when they are lending. They look very hard at the person and his ability to repay, and wish to select.

266. Would you say that one of the problems commercially is that even if you can form a view, as a possible buyer of this debt, of how likely you are to get your money back based on the performance of students with credit rating agencies and the percentage who get into higher paid jobs when loans get triggered—one of your problems is that you do not know how long that process is going to take and, meanwhile, the longer it takes the more it is costing you because, as you said, the loans are very generously subsidised? Would you say that might be a key factor here?

(Dr Robinson) I think it is a key factor. The current sale of student debt, the terms on which it is being offered, make that an extremely key factor. You need to know what is going to be the average length of time for which this debt would be outstanding, and while that is, I think, a tractable problem, it is a new problem and quite a difficult problem and it requires

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[Continued

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the services of expensive economic consultants, I am pleased to say, to solve it, but it is a problem to which there is not, as yet, a generally agreed answer or a body of wisdom and so the lenders will build in a large risk premium.

267. So by analogy, if you are going to go to resource accounting without upsetting the City or suggesting you are becoming financially improvident, you would have to make a very large allowance for the subsidy element and put a very low value on the inherent value of the debt because you know you are virtually certain to get it back?

(*Dr Robinson*) This is a very good line of questioning and I am glad you picked it up. I made a remark and as I said it I thought it was not quite right and I think it exposed the point very well. I said that what is the commercial cost of the loan is a well-known factor, and when I said that I had in mind something like the government's gilt rate, but you are absolutely right, it is not a well-known fact because it should be the Government's gilt rate plus an appropriate risk premium. That is something which, as I say, some very expensive consultants in the City are even now trying to work out.

268. Would it be fair to say that if the previous Government had devised a loan system that was, as it were, marketable—we have seen evidence of the New Zealand loan system where the government regularly gets nearly 90 per cent. of what it loans—perhaps some of the problems of financing higher education might not have arisen because the cash value of this loan book could have been realised and perhaps been put to good use in higher education?

(*Dr Robinson*) Yes. As I say, I am very open to the suggestion that if this were all done in a much more market-led fashion, some of the problems we are talking about would not be there, but equally it has to be said that this was looked at very hard by the Committee and in the time available the problems that they faced of getting the private sector to get involved, the price was just very high and in a way it seemed more sensible for the public sector to bear the risk and not to pay the huge insurance premium.

269. That prompts one last question. Would it not perhaps at this stage be better to look at the burden on students of charging a real rate of interest under the current loan scheme, how much cash that would generate, rather than introducing tuition fees and other costs on students and burdening them in that way, that they might perhaps get a better deal by simply charging a real rate of interest under the current loan scheme and actual money coming into the Treasury because it was bankable and all sides would win under that scenario?

(*Dr Robinson*) I am personally very attracted to the idea of charging a much higher rate on these loans. I think it will make people value them and value their education and be very determined to work hard and get a good job in order to repay the high loan rates. So I do think that line of argument is attractive but I do not think it solves our particular problem. We did a lot of simulations, among other things, of higher rates of interest and what was rather striking about them was that they did not really seem to make a huge difference to the public finances, and so in that sense I think it does not solve our problem.

Chairman

270. Can you explain that?

(*Dr Robinson*) Only at some length with lots of charts and numbers, but I think the basic intuition is that the amount of extra money that you get from charging a higher rate of interest is just not very great, that is all.

Mr St Aubyn

271. If it means you can unlock the value of the loans because the values, certainly on the New Zealand model, are beneficial.

(*Dr Robinson*) If you could charge a higher rate of interest and then sell the loans, that does start to begin a very interesting line of enquiry, yes.

272. Did you look at that?

(*Dr Robinson*) We did, yes. Certainly London Economics did. My own view is that the Committee never really had time to get to grips with what is actually a very complex set of financial issues. This was a Committee concerned rightly with education. We only got to these rather arcane points about what might be the best way of financing the whole thing quite late in the day. We just ran out of time.

Yvette Cooper

273. The argument perceived that we are testing, or that we are pushing against, is the idea that if you could change the accounts somehow that would liberate resources to do something about higher education in the short term. You are clearly saying that changing the accounts does not create more money. It does not put more money into the system. Simply, if we want to spend more money on higher education we have to borrow it.

(*Dr Robinson*) Yes.

274. But the argument about changing the accounts is that somehow that will allow us to borrow more. As a country, that will somehow allow us to borrow more today, that we will pay back tomorrow.

(*Dr Robinson*) If we want to borrow, we can borrow. If the Government wants to borrow, it can borrow tomorrow. What changing accounts does—and it may be important to do so—is to say that there are certain categories of spending which are, if you like, not so bad. In the sense that spending might be bad because it has got to be financed, there are some forms of spending which are not so bad, more respectable, should not be worried about, as much as other sorts of spending. That is what all these gaps are between every bit of spending you can think of; and the controls which exclude this and that, and now perhaps the other, are all about.

275. In other words, one way to fund certain kinds of spending is not as bad as other kinds of spending, even if we are in the end talking about increasing the PSBR here.

(*Dr Robinson*) I think that is right. In a sense, there are two arguments which lie behind that. If the spending is on investment, which in this case arguably it is, and if the spending is not really spending because it comes back—

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[Continued

[Yvette Cooper Cont]

276. Either way it is somebody borrowing. Even if it comes back we are borrowing. Then it will come back later which will allow the Government to pay back more borrowing. Is that right?

(Dr Robinson) That is right.

277. So there are two reasons why people would worry about increasing the amount of borrowing: one being the sustainability of the Government position; and the other being the fiscal position, the level of fiscal policy. If I understand it, the arguments about the sustainability of the Government position are the ones that we have been focusing on. Basically we are saying that borrowing in order to fund certain kinds of spending—in other words, spending on student loans which will come back to us in future days—is not as bad as borrowing to just spend it when we know it will never come back. Therefore, that kind of borrowing does not make the Government's position more unsustainable. It does not make the Government's financial position in the long term more unsustainable.

(Dr Robinson) Subject always to the caveat about the loan, I agree with what you have said, yes.

278. So whilst sticking with this first point, the sustainability of the Government position, this is the reason why we ought to be able to borrow more without putting the Government in a more dodgy financial position. The reason we cannot is because the City misunderstands the book. Because of the way the books are presented, the City misunderstands or does not realise that the Government is actually in a perfectly sustainable financial position.

(Dr Robinson) We are now entering the realms of speculation. I imagine in different bits of advice going to the Treasury and the Chancellor—

279. But that is the nature of the argument, just for me to get the argument clear. That is the nature of the argument. The crux of the argument turns on whether the City misunderstands the current nature of the Government's financial position because of the way the accounts are presented.

(Dr Robinson) I think that would be fair.

280. So the counter-argument would be that people who argue that the City does understand—no matter where you put the borrowing, no matter what column you put it in—the City does understand; would say that we cannot change this PSBR. All we are doing is making the position more unsustainable in the market perception because the market does understand.

(Dr Robinson) I am not and never have advocated changing the definition of the PSBR. This is borrowing. The City will see it as such. Borrowing goes up for all sorts of reasons. The City looks at long-run spending. It worries about tax rates because that has an effect on incentives and ability to earn and all those things. From all those long run points of view, a good case can be made for saying that this is a good case for extra borrowing and is not damaging to the nation's financial position.

281. To follow on to the second reason for focusing on the PSBR: this is fiscal policy, the fiscal position. Suppose you could magically change the accounts, and suppose you did borrow more to put into higher

education today, what impact do you think that would have on the fiscal position? It looks to me as if you would still be putting more cash into the economy today and the Treasury would want to take some kind of judgment that they would be. By doing this, by amending the accounts in this way, would the Treasury be endorsing a looser fiscal position?

(Dr Robinson) That is a very good question. I am glad you have raised it as this is something which I want to touch on. There might be a perfectly respectable argument against everything which I have been saying, which is that if and when the position comes to be taken, if it becomes totally apparent to everybody that we are in the middle of a very rapid consumer boom, for example, (and we are not far from that position), then to do something which gratuitously adds another million to demand is going to seem something at least not to be undertaken lightly. I am glad you teased out that point. That is something we should take into account.

282. Which would mean that if the Government decided to take a very strict view of the fiscal position, even if you change the accounts in this way there would be no resources liberated?

(Dr Robinson) No. I have said all along that this is about balancing educational policy against other objectives; mainly the sort of things that the Treasury worries about. My opening remarks really were all about the long-term position. What you are now focusing the Committee's attention on is that there could be rather good short-run fiscal reasons for not doing what we would all like to do. Again, that is a very interesting and difficult policy decision the Government have to take. I repeat for the nth time that we are arguing about what definition we use, which should not be the issue. That is the issue.

Mr Derek Foster

283. As I understood the Barr-Crawford position, they were not advocating more borrowing. What they were saying was that if we change the accounting procedure, we would actually release more money more quickly into the system. It is the same money but it would come in earlier because at the moment the money would only begin to come back into the system, into the revenue, once the student had begun to repay their loans in year 3 following. But if we change the procedure you could actually release this money immediately for spending on higher education. Perhaps I have misunderstood but I thought that was the argument.

(Dr Robinson) I do not understand that. It seems to me you cannot get round the fact that the universities want more money next year or in 1999 and that money will have to come from somewhere. I am saying I see no reason why it should not be borrowed, although as has been pointed out that might be a bad moment; but in the longer term I do not think it will be damaging to the nation's health. That is all there is to it. There is no way you can manufacture money out of thin air.

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[Continued

Mrs Theresa May

284. I am trying to sort out in my own mind Mr Micawber's approach to this line of argument, because you seem to have presented this wonderful world where you can borrow, but it is not borrowing and it really does not matter.

(*Dr Robinson*) No, it is borrowing but you repay it.

285. But we can say to people that it is good borrowing as opposed to bad borrowing.

(*Dr Robinson*) Yes.

286. Just to follow up on that approach, and the issues on the City's response and this question as to whether the City understands, would it not be fair to say that the City understands the situation all too well? That is precisely why the City has been reluctant to buy the loan book.

(*Dr Robinson*) The City's reluctance to buy the loan book is all to do with the price which you place on this risk. Once again you are teasing out a very important point which is—and it really comes also from the point that Nick St Aubyn was teasing out—to the extent that you do have loans provided by the public sector at some fixed rate of interest (it may be nought or it may be some sensible number like eight or nine) there is still a risk out there which we all find difficult to quantify. That is quite true. So in a sense another very important thing that we are discovering in this discussion is that the real resource cost, the genuine public spending element, which the public sector in the end has to pick up by default, (and it has to pick up the cost of legitimate non-repayment), that is something which is not actually terribly easy to quantify. I suppose the question then comes in: how much of this lending really is spending? There is room for legitimate cynicism. I think that with resource accounting and a careful discussion of the appropriate rate of interest and the appropriate risk premium, you can solve those problems and hopefully you can even reassure the City. However, again, you have pointed out an important story here, which is that this policy does have public spending costs. It is very important if one is going to embark on this course of saying, "Let us borrow freely that which is not really spending," then we have to be correspondingly very, very careful that we have properly quantified what *is* really spending. That is an important point.

287. So if the Government were to go down this route, your advice would be that they should be almost over-cautious in that sense, initially, in order to ensure that the support was there from the financial sector, rather than erring on the other side where it could actually all go wrong?

(*Dr Robinson*) That would be very good advice.

288. Could I just slightly widen it as well. I accept your point. It is borrowing and it would add to the PSBR; but somehow one can section off the PSBR into bits that people should worry about and bits that people should not worry about. I just wonder whether if we were to do this with student loans, are there any other areas of Government borrowing which in fact these arguments could equally be applied to? Where would the end come?

(*Dr Robinson*) I am sure there will be many in the Treasury who will think up all those examples. They do not immediately leap to my mind.

289. But do you accept that they could, because another of the issues as to whether this is understood by the City is the question of whether this is the thin end of the edge.

(*Dr Robinson*) Is this the first step down the slippery slope? is a very genuine question. I have tried to give reasons why you could, as it were, draw a line in the sand and say, "This far and certainly no further." The quantum is not very large actually. The purpose is very clear. It is in line with Government policy. I happen to believe that investing in higher education brings in a return in the long term.

290. Could I sum it up by saying that at the end of the day, obviously it is the politicians who decide that balance of policy and will decide whether or not to go to this line in the sand or indeed to go any further. However, once this step was taken the pressure could be there to go further in other areas.

(*Dr Robinson*) I cannot immediately think of other areas where the argument could be used that this is lending, not spending, but doubtless someone will come up with something to prove me wrong.

Chairman

291. While we are on the loan debt issue, selling the debt, the loan book portfolio, surely there is a difference between the saleability of the previous Government's scheme and the potential saleability of this Government's scheme?

(*Dr Robinson*) I believe that to be the case, yes. The Dearing Committee was very influenced by the writings and speakings of Barr-Crawford, and in particular unanimously accepted the idea that an income contingent repayment scheme was very attractive. It provides repayment over a long period of time and it means you can have more generous loans and not place an undue burden on the current income. For those reasons you would hope that students would be able to afford to service and repay the debt. It would therefore become quite a good prospect, quite a good risk. I have also thought that in a world in which this becomes much more widespread and much more the norm than it has been, you are talking about people here who will, as I have said, be in the top third of the income distribution. They will almost certainly in their lives be in the market for a house and will not be, therefore, the sort of people who would visibly want to besmirch their credit record by renegeing on their student loans. My own view is that the City has placed too high a risk premium on this portfolio. Only time will tell.

Mr Don Foster

292. One of the ways presently of making the debt sale go ahead successfully is to do things which will make the risk less. One of the ways of doing that is to have a relatively secure form of repayment. One of the ways in which you can do that is presumably to have it collected through income tax or national insurance. Just purely from your experience in the Treasury, is there a definitional problem with that, which means that if it is collected in that way it will still have to count as a public sector debt?

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[Mr Don Foster Cont]

(Dr Robinson) I have heard this and I have found it very astonishing, annoying, not a problem I really wanted to waste too much time on; but apparently it is some sort of a problem, yes.

293. Is that just an internal Treasury problem as opposed to a real problem?

(Dr Robinson) I suppose like all definitional problems—and this is rather a different slippery slope we may be on, which is why I should perhaps not be so cavalier about it—certainly my own view is that I am one hundred per cent behind Barr-Crawford here. If you could get this debt repaid through the national insurance or income tax mechanisms, it makes it that much more secure a stream and therefore much easier to sell. There is a very obvious benefit to the public finances from doing it. I think it should be done.

294. That is very helpful and we will perhaps remind the Treasury you said that in a few minutes' time when we talk to them as well. May I take you one step further. You have said on a number of occasions now that there is real difficulty in selling off the debt. You have given a number of reasons. You have said it is new; there is no collateral; that the requirements lean towards all-comers; that there is concern about the length of repayments and so on. You have used phrases which indicate that there is a reluctance in the City to buy the book and so on. Clearly you are fairly pessimistic, at the present time, about the ability to get good value for money from the sale. Presumably one of the reasons why it is going to be very difficult is because the new Government has got itself in a bit of a pickle in discovering at very short notice that they have to flog it just to make the books balance anyway; and the City out there is well aware that they have got to flog it and they know how much they need to get for it. That is presumably not going to help us ensure value for money. But for the future sales, as has been pointed out, this would be a different book anyway with different arrangements, so how can we ensure that we are going to get value for money for it from such a new venture?

(Dr Robinson) I think this is something which the passage of time, quite a lot of thought and research will slowly sort out. There has already been a lot of progress. There was an attempt to sell under so-called twin-track negotiations, to sell Government debt. This proved abortive because the price the City placed on it, the price demanded was so high that Government decided not to proceed. Lessons were learnt from that experience and the terms on which the next tranche is now being put up to tender address a lot of the problems which scuppered twin-track. There are some very big players actually interested and competing to buy this loan book, so I am not pessimistic. A much better price will be achieved than the price which caused the previous negotiations to break down and the offer to be withdrawn.

295. The only check on value for money that we will have is, in fact, just through the competitive market place?

(Dr Robinson) Yes.

296. So there is nothing against which we can independently assess the value of the book?

(Dr Robinson) No, other than wading through some quite difficult research as to the probable cash-flow from this book of debt, which depends on some quite difficult demographic problems, one of the most difficult being: what happens to women who have children? We simply do not know—and nor does the City—how they behave; if they go back into high-paid jobs which keep them above the repayment threshold or not.

297. My final point following from that is that if there is nothing against which we can independently check the value for money, other than merely the price we actually get in the market, then how do we test out alternative models? For instance, raising the interest rate would, of course, make the book more attractive and may be more beneficial to Government as well. How do we compare that with the current plans for a lower rate of interest? Until we put it out to the market we do not know what we are going to get for it; that is what you are saying.

(Dr Robinson) Putting it out to market would tell you, in some sense, what the market rate of interest is. I suspect one would find that this is quite a high rate. I am pretty persuaded that the long-term way forward on this is that students should be allowed to borrow from the Government at the rate at which the Government can borrow from the public. That the lenders are paid a risk premium, which I think and hope and believe will tend to fall over time as we get to know this market better.

Mrs Eleanor Laing

298. I am aware that time is going on and probably most of my points have been covered by now. However, would it be right to say that the present way in which loans are valued as part of the PSBR contribution could be improved upon by reaching a compromise—not by causing a looser fiscal position or by magically changing the accounting practice, as we have been discussing this morning—but simply by recognising the fact that it is certain that a significant proportion of the amount which has been lent will come back? However we evaluate that, there must be some historic evidence now of students paying back because the scheme has been going for a number of years. Also, by apportioning the amount which is actually subsidy and is therefore borrowing and spending rather than pure lending; at least, rather than counting loans as 100 per cent block in the PSBR, there could be a reasonable apportionment made as a compromise more-or-less immediately without changing the accounting rules, even before resource accounting is introduced.

(Dr Robinson) I do not think you can get away from the fact that borrowing is borrowing. I do think that you can recognise that some sorts of borrowing will generate a pretty certain future return flow. To that extent we should not worry about it.

Caroline Flint

299. Just a very brief question. Some of the issues you have raised are concerns from lots of different parties about the impact of the measure which has been suggested to us. Bearing in mind the discussion we have had this morning, and the discussion we

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[Continued

[Caroline Flint Cont]

have had previously in relation to this with other witnesses, who have raised concerns about the City and other bodies in making these changes in this area, do you feel that there are lessons to be learned about how we formulate policy in a much more transparent way? For example, I understand in Australia that the public accounting of student loans was as a result of joint meetings between the Treasury, the Department of Education and Employment, Youth Affairs and the Australian Bureau of Statistics. Presumably, in amongst all those discussions there were issues about how it would affect their own City interests and private interests as well. Do you think there are lessons to be learned from this about how we develop policy?

(Dr Robinson) I have to say that my experience as an advisor to Dearing has been a happy one, in the sense that I thought this was a very important issue which was being very intelligently discussed. A lot of advice was taken from a lot of very bright people who thought about the issues. The Committee listened. The Government has had an open response. We are having this debate. I can think of many, many worse instances of important policy decisions being taken without consultation. I think this is one of the better examples actually.

300. But it is coming to the debate because the Select Committee has raised it as an issue arising from the Dearing Report. It has not been something which has been an area of interest in discussion, probably prior to this, in the public arena.

(Dr Robinson) There has been a huge amount of speculation in the press before Dearing and a lot of interest in the report itself.

301. I think in the general report, but in terms of this issue about how our public accounts are formed and issues around the public expenditure.

(Dr Robinson) The Committee is doing a very great service by raising the profile of this issue.

302. But would it have been raised if our system had been more transparent or these issues had been more to the fore? Is there anything to be done in that area rather than waiting for the Select Committee to do it?

(Dr Robinson) I do not think so. It happens sometimes that apparently rather more technical points become the focus; they turn out to be the crunch point. When you unravel it, it turns out that it is not all about definitions. It is the fact that you do have two conflicting policy objectives. I think this Committee have brought that out. Our Parliamentary procedures sometimes do and sometimes do not. This is one of the occasions on which it has.

Chairman

303. I am going to thank you very much. We have kept you for an hour. However, before I do so, I would like to ask you three brief questions, if I may, in my capacity as Chair. You have said consistently and in answer to Yvette that borrowing is borrowing. We all accept that. That is obviously clear. But how it counts in the various control systems does matter in terms of fiscal policy, confidence of the City, and how we meet the various international criteria. So it

is not a completely mad point to worry about, how it counts. If we accept that the loan should be part of the PSBR but should be out of the control total, do you think that would assist in giving confidence to the City in relation to how we treated it? It does not count against public expenditure total.

(Dr Robinson) That would be my advice if I was still at the Treasury.

304. I talked earlier about the arbitrary nature and another example has been put to me. If a GM school borrows it does not count as capital spending although ironically the repayment of that capital investment comes out of public spending. I am right about that, am I not?

(Dr Robinson) It is not something I know about.

305. I think I am right. I put it to you I am correct on that! So if we have a system like that for GM schools, or the Treasury has accepted in the past a system where GM schools' capital borrowing is outside the PSBR although the repayment to it is very, very clearly funded through public spending, why is there any justification at all for treating this particular bit of spending as part of the PSBR? That demonstrates to me the arbitrary nature of our current definitions.

(Dr Robinson) There may be an important difference. I simply do not know who underwrites the borrowing of the grant maintained schools.

306. It does not count in any of the public spending totals, as I understand it. Somebody can correct me if I am wrong.

(Dr Robinson) That may be because if they fail to repay it, the directors go to jail or something. I just do not know.

307. The final thing I want to ask you which is just a commonsense thing really, if one is a private company and you did what the Government wants to do and lend people money, there is no way, is there, the Inland Revenue would allow you to write that off in the first year as a debt?

(Dr Robinson) Sorry? I am not quite sure what I am being asked.

308. In a sense, because we count it all as spending in year one we are writing it off in the public sector. If we were to transfer it to the private sector—I lend you £5,000 or a company lends it which it knows it would recoup—there is no way you could write that off as a debt in one year, for the purposes of the Inland Revenue. They would not let you do that.

(Dr Robinson) If a company borrows it would go on to the balance sheet as borrowing, it would be scored as a loan.

309. Quite. So the Inland Revenue, one arm of the Government, treats things differently in the public accounts in relation to a similar sort of form of investment/spending?

(Dr Robinson) I do not think so. I do not think you can or should get round the fact this is borrowing, and if a company did it this would also be borrowing and be on the balance sheet as borrowing.

310. But it would not be written off.

(Dr Robinson) We are not talking about writing it off, we are just saying it is borrowing.

Chairman: But it counts as spending.

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[Continued

Caroline Flint

311. What we are saying is that because there is money coming back in there is a case to be made—
(*Dr Robinson*) I am saying—

312. You were saying you would either raise interest rates or make a calculation on what you would get in return.

(*Dr Robinson*) I am saying it is good borrowing, it is perfectly okay borrowing. It is borrowing, if I was a hard-headed lender I would lend.

Chairman

313. All right, we will leave it at that. Thank you very much, Dr Robinson. I think you have been extremely helpful to us this morning in focusing our minds around how we might take the issue forward.

(*Dr Robinson*) If I may return the compliment, I did for many years act as adviser to the Treasury Committee and they never did their homework anywhere near as thoroughly as you have done!

314. We will now see how the Treasury officials feel about that!

(*Dr Robinson*) I was talking about the MPs!

Examination of Witnesses

MR ALLEN RITCHIE, Head of General Expenditure Statistics, MR PETER KANE, Education, Training and Employment Team, HM Treasury, and MR JEFF GOLLAND, Head of Public Sector Branch, National Expenditure and Income Division, Office for National Statistics, examined.

Chairman

315. Welcome to you and can I thank the Treasury team very much indeed for preparing a note which took some of us, who are not Treasury experts, a bit of time to understand but did lay out in a comprehensive way the various definitions we are trying to deal with at the moment. I think it would be most helpful if you would all introduce yourselves to start with. You have all had the opportunity to hear the previous witness.

(*Mr Ritchie*) I am Allen Ritchie, as you can see from my name plate, and I am Head of General Expenditure Statistics in the Treasury, and I suppose I am the author of the memorandum.

(*Mr Kane*) I am Peter Kane, I am in the Education Policy team within the Treasury, and I deal with Dearing and student loans.

(*Mr Golland*) I am Jeff Golland and I am in the Office of National Statistics and I look after the general government and PSBR in national accounts within the ONS.

316. Before we move to the detailed questioning, I do not know whether you want to give us a statement? Some witnesses do.

(*Mr Ritchie*) No, we have not got a statement.

317. Is there anything you would like to say on what the previous witness said to us?

(*Mr Ritchie*) No, I thought what Dr Robinson said was very helpful to you and I have no particular quarrels with anything he said. There is certainly nothing wrong with it, Dr Robinson did work in the Treasury—

318. There is nothing wrong but—?

(*Mr Ritchie*) No “but”.

319. You have also seen the evidence we have had from Dr Barr and Mr Crawford which was critical of the Treasury and the ONS. Do you wish to defend yourselves against that?

(*Mr Ritchie*) Could I make two points? There were two areas on the evidence from Dr Barr and Mr Crawford I wanted to raise. The first is to pick up their accusation, I suppose you could call it, that we

treat grants in exactly the same way as loans. I think this is just not true. The accounting treatment for grants and loans is different in the national accounts, on which Mr Golland is the expert. The national accounts distinguish between grants as current expenditure and loans as financial transactions, and indeed the presentation of the fiscal position and prospects in the Red Book, as it is called—the Financial Statement and Budget Report—is consistent with the national accounts. I would draw your attention particularly to table 4.1 which is our key presentation of the fiscal position.

320. We have not got that, I am afraid.

(*Mr Ritchie*) You have not got it in front of you but I would invite you to go away and look at it.

321. It is a bit difficult when we are taking evidence.

(*Mr Ritchie*) It actually shows three measures of the Government's deficit—the current balance, the financial deficit and the borrowing requirement. Our presentation of spending in what we call PESA, “Public Expenditure Statistical Analyses”, again breaks down public spending into current, capital and financial transactions which are essentially lending and also privatisation proceeds. It is true both grants and loans count to the PSBR and to the GGBR, and that is, as I think Dr Robinson said many times, because the PSBR measures the public sector's requirement to borrow in that particular year; that is, its requirement to raise finance through, for example, the issue of new gilts. There is no difference in the impact on the borrowing requirement between a billion of grants to students and a billion of new loans because that lending is in the borrowing requirement and still has to be financed. The other point I would like to make is about the accounting definitions and particularly the idea that you could redefine public spending, the control total, GGE(X), to exclude loans and that would suddenly free up £1 billion a year extra resources. You do not change reality by changing accounting definitions. If the Government were to change the control total definition, or the GGE(X) definition, to exclude student loans, as I think Dr

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Robinson was suggesting we might consider, that would not mean that the amount of loans we make would be completely ignored in the planning of public spending. The loans would still need to be financed and again more lending, other things being equal, just means higher borrowing and a higher level of public debt. I could say more if you want.

322. The point we got to with Dr Robinson is of course you have always in the real world to borrow to fund this but how it is defined in the control total, where it is defined in your control total, whether it comes into your total control or not and how it is defined, affects fiscal policy, affects confidence in the City and affects our position in our international dealings. As I understand it, student loans do not score in the financial deficit and therefore they are irrelevant in the Maastricht criteria. Am I right about that?

(*Mr Ritchie*) You are right they do not score in the financial deficit, I think you are wrong to say they are irrelevant to the Maastricht fiscal criteria.

323. Why?

(*Mr Ritchie*) Because there are two fiscal criteria in the Maastricht Treaty. There is the deficit criterion, which is the national accounts financial deficit, there is also a general government gross debt criterion. The two criteria are that the general government financial deficit be 3 per cent of GDP or lower and that general government gross debt be 60 per cent of GDP or lower. What is relevant to the stock of debt is the borrowing requirement because the general government borrowing requirement is a measure of the increase in government debt in that particular year, so if we were to increase the borrowing requirement by, say, 1 billion to fund extra student loans, the national debt, general government debt, would increase by 1 billion, and so therefore would that particular Maastricht criterion—I think what I am saying is that the borrowing requirement is relevant to the Maastricht debt criterion and this is recognised in the Government's fiscal objectives. They have the two objectives of the golden rule and also the objective of a stable debt ratio. The borrowing requirement does directly impact on the stock of debt.

324. So the way we choose to define puts it into one and takes it out of the other?

(*Mr Ritchie*) Yes.

325. In a pretty arbitrary way?

(*Mr Ritchie*) Well, these definitions are internationally agreed, they are national accounts definitions. Arbitrary, yes, you can say they are arbitrary, but we are not making these up. These are international.

326. I had a meeting last week with the Dutch Education Ministers who actually, interestingly enough, have a scheme very much like the one which we are talking about in the Select Committee, and they said to me quite clearly (unfortunately I had not got the documentation in time for today's meeting) although they choose not to define it as part of the control total that is absolutely acceptable for the Maastricht criteria. I do not know what they are working to but they were absolutely clear on that point.

(*Mr Ritchie*) I assume they are talking about the deficit criterion and not the debt criterion.

327. "Student loans do not count against PSBR"—there we are, it is actually in Dearing.

(*Mr Ritchie*) Do not count against their national measure of the borrowing requirement but they still have to finance this.

328. Can you check it for all countries?

(*Mr Ritchie*) Could I?

329. Would it be possible for you to check this for all countries and let us know?

(*Mr Ritchie*) All countries?

330. In the EU.

(*Mr Ritchie*) What I can tell you is that all EU countries have to follow the excessive deficits procedure which means, since 1994, they have to provide to the European Commission twice a year data and forecasts a year ahead for the deficit and for debt. Now as part of that all countries have to provide a reconciliation between the two. Basically they have to provide numbers that show their borrowing requirement on something like our definition—I think the Commission call it "the balance to be financed".

331. So you could provide the most recent?

(*Mr Ritchie*) We can provide them for the UK. We do in fact deposit this in the House of Commons Library every time we send it off. I do not think we can provide it for other countries.

Yvette Cooper

332. Accepting that any of these accounting changes does not create money, it does not magic it out of thin air, you still need to finance the same amount of outgoings in the current year, and that even if you could change it there may be other reasons why you would not be able spend more money in the current year, whatever, there still may be two good reasons for changing the accounts and taking these loans outside of the control total, for example, or treating it more clearly, in a different way from the way in which spending is treated. You said grants and loans are not treated in the same way but can I ask you whether "financial transactions" includes only the loans which are going to be paid back or is it other kinds of financial outgoings as well?

(*Mr Ritchie*) Financial transactions here are essentially lending and repayments of loans and the net acquisition of company securities, which is a negative number—privatisation proceeds. I think that is right—I am looking at the ONS.

(*Mr Golland*) That is right, yes. It is the acquisition of financial assets and that includes lending. Net lending is policy lending by Government to students, public corporations, the private sector, and it also includes the transactions in company securities better known as privatisation proceeds, so that comes into this component of net lending and other financial transactions.

333. So if one of the aims of the presentation of the national accounts has to be transparency, making clear to people what the sustainable long-term financial position of the Government actually is,

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what is really involved in this borrowing, whether or not this is money that is going to be repaid in the future, whether or not actually we are running down our assets, all those kinds of things, do you think the current way of presenting the accounts is as transparent as it ought to be in terms of communicating those important things about sustainability to the City and to anybody else who might be interested?

(*Mr Ritchie*) Is that for me or the ONS?

334. To any of you.

(*Mr Ritchie*) I think we try. As I said, I draw your attention to Chapter 4 of the Financial Statement and Budget Report and the first table there which only shows the PSBR as one of three measures of the financial deficit. We explain there what these three measures are. In fact the financial deficit, to quote from the FSBR, is "the difference between receipts and total government current capital expenditure" and that does measure the increase—and I think this is what you are getting at—in the public sector's net financial indebtedness. Clearly a loan is not an increase in net financial indebtedness but the borrowing requirement does measure, as we have said and Dr Robinson was saying before, the amount of money that the Government has to go out and raise to finance its expenditure in the widest sense, including its lending.

335. Clearly that is important and I accept that; there has to be a measure of how much the Government has to raise this year to finance outgoings, that clearly has to be present.

(*Mr Ritchie*) Yes.

336. But do you think that the accounts clearly communicate sufficiently to anybody who is interested the long-term situation, not just how much we have to get in this year but how much we are likely to have to get in over the next five, ten years? Do you think that is presented clearly enough so anybody who is interested, anybody who is thinking, "Will the Government be able to repay its debt to me in five years' time", can clearly understand the situation?

(*Mr Ritchie*) I think we could probably do better, certainly to emphasise the longer term. In particular the focus of public expenditure planning is three years and the focus of the Financial Statement and Budget Report has always been five years ahead—

337. Three and five years is clearly useless for something like student loans.

(*Mr Ritchie*) Resource accounting and budgeting has been mentioned before. The intention is to introduce for public spending planning from 2000 onwards and for the accounts from 2001 onwards resource accounting and budgeting. Resource accounting and budgeting will make these kind of things clearer. One of the problems we have at the moment is that we do not have the data. Resource accounting and budgeting will provide the information to answer the kinds of questions on presentation you are interested in but at the moment we do not have that information. There are numbers for the public sector's net wealth which have been used by various financial journalists in articles and made something of, but frankly they are not very good data—I hope the ONS do not mind me saying this. There are various traditions in this, the whole

tradition of cash accounting and the way we present things to Parliament, the way Parliament has wanted these numbers, but we have not had the information. The whole exercise of resource accounting and budgeting means, and that is why it will take a few years to get all this up and running, that we have to go out and get this data.

338. We do not have the data so it is possible then that the City's assessment of the long-term sustainability of the Government's financial position—borrowing, assets and that sort of thing—is incorrect? Because we do not have the information available to us we could all be incorrect?

(*Mr Ritchie*) It is possible the City's assessment is incorrect anyway. There are different parts of the City. We talk about the City as one but there is a difference between the financial journalists, the City scribblers, and the people in the gilt-edged markets, for instance.

339. The Government's reputation in the City, the credibility of the Government's financial decisions in the City, does matter, clearly. Two things tend to be focused on, the control total and the current PSBR, how much we need to bring in and finance this year and also the control total, which is seen as a symbol of the Government's toughness on public spending. We have cut out the cyclical public spending from that because we say that is not a symbol of the Government's toughness, the Government's commitment to constrain public spending and not let it get out of control. Is there not an argument for taking out other things from the control total which is a symbol of Government toughness? To take out something from the control total which is not about Government toughness but purely about something which is going to be refinanced in future years? I do not want to take it out of the PSBR in any way at all, but is there an argument for taking it out of the control total on that basis?

(*Mr Ritchie*) There clearly is an argument because this argument has been made by the Committee.

340. What is the counter-argument then?

(*Mr Ritchie*) The control total—and we tried to explain this a little in the memorandum although obviously we could have written a small book on this—was deliberately defined in 1992 (and we have had lots of these totals, we had the planning total before that, and they are all a bit different) as a wide aggregate. The objective was to deliver a target for public spending as a proportion of GDP which was defined in terms of GGE, general government expenditure, which is as I said a wide concept. Essentially, cyclical spending—part of social security, not the bulk of social security but the cyclical part—has been excluded, debt interest spending has also been excluded, essentially because they are cyclical. I think the idea when the control total was first introduced was to focus on a number which could grow steadily at the same rate, or at least the Government could focus on. The objective was to get it to grow slower than GDP so we did not want things included that jumped around depending on the path of the cycle. So the original exclusion of debt interest and cyclical social security was because we did not want to distort the trend if you like. The exclusion of the Lottery from the control total was

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because of its exclusion from GGE(X), and that was entirely a decision, following the introduction of the Lottery, because the Government at the time was focused on reducing the proportion of public spending as a proportion of GDP, but did not want to count—

Chairman

341. It was an arbitrary decision?

(*Mr Ritchie*) It was a political decision, I think one can say that. But the rationale for it was because the Government was focused on the objective to reduce public spending as a proportion of GDP, and the Lottery spending in that sense could be ring-fenced. You may call it arbitrary.

Yvette Cooper

342. Could you ring-fence student loans in the same way as the Lottery?

(*Mr Ritchie*) The Lottery is entirely different. How much is spent on good causes from Lottery funds depends entirely on how much is raised by the Lottery. The Lottery is self-financing. Student loans are an entirely different case.

343. Because there is no government risk?

(*Mr Ritchie*) Yes.

Chairman: You could ring-fence some of it.

Caroline Flint

344. You could assess the risk on student loans, which is what Dr Robinson was saying before.

(*Mr Ritchie*) The definition of the control total is something for Treasury Ministers. I mean definitions of substance; I will take the decisions as regards the treatment of the odd receipts, whether they should be negative public spending or not, following the rules we get from the ONS, but any decisions of substance as to what should be in the control total is a Minister's decision.

Mr St Aubyn

345. Just to understand the framework within which you make this decision—

(*Mr Ritchie*) I make this decision?

346. Well, the Department makes the decision. Could we just look at the case of Government guarantees? If the Government guarantees a private sector loan, how is that treated in the PSBR?

(*Mr Ritchie*) In answer to your first question, the framework is essentially that set by the national accounts. As I remember, Government guarantees do not score in the national accounts, or in any of these measures, until that guarantee is called on. I think that is right and again I look at the ONS to correct me.

(*Mr Golland*) That is right.

(*Mr Ritchie*) The framework is set by the national accounts.

347. Clearly if the Government issues a guarantee it is at risk.

(*Mr Ritchie*) Yes.

348. And there must be an element in those guarantees which gets called?

(*Mr Ritchie*) Yes, and when they are called they would be counted as public—

349. That has not been accounted for in the PSBR?
(*Mr Ritchie*) No, it has not been accounted for in the national accounts.

350. Do you think that is a prudent way to proceed?

(*Mr Ritchie*) I will ask the ONS.

(*Mr Golland*) The national accounts follow international guidelines, so the national accounts as produced in the UK and the annual ONS publications follow international guidelines. We are not making up the definitions, these international guidelines are established by a committee comprising representatives from the UN, the World Bank, the OECD, EuroStat and IMF. In those international guidelines the convention is that contingent liabilities are not scored in national accounts until the Government actually spends the money. That is the harmonised convention that is used.

351. So the stories which went around that the early PFI initiatives failed because the Government said although it was private sector money there was a contingent risk to the Government and it had to count as PSBR, were misinformed?

(*Mr Ritchie*) I am not aware of those stories.

352. Moving on from that, you said the loan book was running at the rate of about £1 billion a year?

(*Mr Ritchie*) No, I did not. I was merely quoting figures I think from the evidence given by Dr Barr and Mr Crawford where they talked about releasing an extra billion, and I was just using that billion as an illustrative number.

353. If there was a way to release that money by hiving it off to the private sector, you would not have a problem, would you? It would not count as part of the PSBR?

(*Mr Ritchie*) If the lending is done by the private sector, clearly that would not be public expenditure, that would be private sector expenditure. As Dr Robinson was saying earlier, the lending is done on very easy subsidised terms and the truth of the matter is that you are not going to get the private sector banks to make loans to students on the terms the Government does.

354. We have seen evidence of the New Zealand system and you are familiar with that system?

(*Mr Ritchie*) Well, I have seen it.

355. Where a full commercial rate of interest is charged. Do you accept that sort of system could succeed in attracting private sector money if required?

(*Mr Ritchie*) When I said I was familiar with the New Zealand system I thought you were talking about the accounting. I think I will pass that to Peter Kane.

(*Mr Kane*) We are aware of the New Zealand position but the question of whether you were to charge a commercial rate is very much a question for Ministers. As I understand it, they have considered the full range of the terms of these loans as part of their response to the Dearing Committee and decided they wished to stick with the current zero real rate of

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interest, one of the reasons being they were concerned about the implications of moving towards a commercial rate which would increase quite significantly the subsequent repayments.

356. There might be less burden on the students than having to start paying tuition fees. If there was a more commercial arrangement, I wondered whether you would feel more justified in the national accounts in treating the student loan book differently?

(Mr Golland) If Government were making the loans to the students, that would score in the national accounts as an acquisition of a financial asset by Government; the Government acquires this debt which the student owes to Government. That would appear in the financial accounts, in national accounts, irrespective of what the rate of interest was. I think this issue might be relevant to resource accounting and budgeting which does not affect national accounts, but as I understand it under resource accounting and budgeting you would score, if you like, this idea of what the real resource cost to the Government is when you make the loan. So if you were to make loans which paid a higher rate of interest, that would be clearly a more valuable asset than one with a low rate of interest. So in resource accounting and budgeting you would see a smaller cost to Government from that sort of loan than from a low interest rate one.

357. What if under the current system the loan book was hived off from Government, that the funding came from the private sector? We know there are problems getting funding from the private sector so in order to persuade the private sector to get involved the Government simply issues a guarantee. From what you have said earlier the guarantee would not count towards the PSBR and the funding would not count towards the PSBR because it is coming from the private sector?

(Mr Ritchie) I think that is right. The kind of model I was more thinking of is one whereby the private sector made the loan but the Government paid them a subsidy, so that the loans could be on subsidised terms. That subsidy would count as public expenditure, yes. It is true that at present contingent liabilities only score in the national accounts—and also clearly in the PSBR because the PSBR is a cash concept—at the point when that liability is met.

358. So in selling off—

(Mr Ritchie) Let me say one more thing. I think that is okay when we are talking about the kind of loan guarantees that the Government does at present, which is really export credit and not much else. If we move to where the Government was considering the kind of arrangements whereby the commercial banks made the loans to students and the Government guaranteed them, we may have to consider the accounting presentation—consider our accounting is I suppose what I am saying, our way of presenting them—because we are moving into a rather different world then of guarantees.

359. Let's see where this world takes us. If the amount of the guarantee was only what under resource accounting and other commercial assessments was regarded as the safe element of the debt, the Government guarantee would nevertheless enhance what was being marketed in the private

sector but it should not in normal circumstances involve any long-term contingent costs to the Government, should it?

(Mr Ritchie) Under resource accounting the details are not sorted out, only the general principles. Under resource accounting what is likely to score in what we call the resource control total is not lending for a new loan but the provision that the Government or the Department of Education would need to put on to its balance sheet for likely default. I think also, but I am not sure about this, we would want to capitalise any future subsidy but that I think is not clear.

360. One of the points that Barr and Crawford make in their papers is that some of the difficulties encountered with selling this student debt could be alleviated if a base value was underpinned if you like by Government guarantees. If you are saying such a guarantee would not count in the PSBR, it would help both with the current sale of debt and it might help with the future realisation of the value of the student loan book?

(Mr Ritchie) When these guarantees were called—and I am not sure how it would operate—if the Government then had to pay out to compensate for default to a private lender, then that expenditure clearly would score in the PSBR.

361. That would only happen if the current fairly cautious assumptions about repayment performance were not met.

(Mr Ritchie) Whose current assumptions?

362. The ones which would underpin the guarantee. No one is suggesting they should guarantee 100 per cent because clearly less than 100 is going to come back.

(Mr Ritchie) I am not sure what is being suggested.

(Mr Kane) One further point I would like to add on the debt side, and it is rather to correct the impression that somehow there are difficulties with the current debt sale. That is far from the case, there has been a very competitive response so far to the debt sale. There are a lot of big players interested and we are progressing towards the conclusion of that sale and we hope to see a competitive outcome early in the New Year.

Mr Don Foster

363. Just very quickly to pick up the same question I asked Dr Robinson. I am sure we are all delighted that there is stiff competition and so on but how do we know at the end of the day whether or not we got value for money from the sell-off when it eventually takes place?

(Mr Kane) I think it is essentially the point you made earlier which is that the competitive process should ensure that there is a competitive price at the end of the day. There are some very big players who are very keen to do the business and we hope that will be reflected in the ultimate price.

364. How do I know that there is not a cartel amongst these big players? How do I know that they have not all discussed the fact that the Government has got to sell it off very quickly otherwise it is in deep difficulty? How do I know that we have really got value for money?

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(*Mr Kane*) I do not think you can ever be certain that it is not a cartel, but I think it is similar to much of the securitisation business within the City in which there is a very competitive interest in getting the business for themselves. So I see no reason why they would have an interest in forming a cartel.

Mr Derek Foster

365. I do not know whether, Chairman, you feel the same as I do; my head is reeling with the confusion that we have got ourselves into. Can I just confirm the earlier impressions that we got. Dr Robinson said we could solve this problem if we wanted to. You yourself, Mr Ritchie, referred to the previous government making a political decision as to whether something was within the PSBR. I use that as a shorthand. I do not want to get too technical about that. New Zealand and Australia deal with these matters in a different way than we do and they remain within the IMF criteria. Holland deals with these matters in a different way than we do and they remain within the Maastricht criteria, which we have to remain within too, as I understand it. So my simple logic suggests that it is open to us to deal with this in the same way as Holland, as we have to remain within the same Maastricht criteria, if we choose to. This is not a matter for you to choose, I accept that, it is a matter for ministers within Government to choose to alter that if they so wish. Is that correct?

(*Mr Golland*) The United Kingdom follows international conventions in compiling national accounts and we must assume that other countries do as well. I have looked at some information on what Australia do and I have found that they do the same as us: in other words, lending by government to students is always recorded as a financial transaction so it does not affect the Maastricht measure, the general government financial deficit. That is calculated in the same way with respect to government-made student loans right across Europe and as far as I can tell right across the world if countries are following the system of national accounts. Similarly, the measure of general government expenditure follows international guidelines. The measure includes current and capital expenditure by government and adds to it policy lending. This is lending by governments and transactions by governments in company securities. That is defined by the IMF in their government finance statistics manual and we adopt that definition in the UK in national accounts in saying what general government expenditure is. The Australians for their financial deficit have a figure which excludes these financial transactions, the policy lending, and they have another statistical measure which includes it. They say in their statistical publication, "Here are a variety of indicators of the fiscal position of the Australian commonwealth which serve different purposes", and they explain them. In our National Accounting Blue Book we do the same. We have the number of measures, the current balance, the financial surplus deficit, PSBR, GGE and so on and the City has that information available together with balance sheet information to form a judgement on the overall strength of the Government's fiscal position. It is all there in the national accounts. For

the Financial Statement and Budget Report the Treasury use a lot of that information and the Government choose to target particular indicators to implement their economic policies. To come back to your question, which I have forgotten now—

366. Really the thrust of it was that we could change this if we wanted to as long as we remain within the IMF and Maastricht criteria.

(*Mr Golland*) The point I was making is that the X bit of GGE(X) and the definition of control total are matters for the Treasury. It is not that the national accounts are inconsistent with international conventions. It is the X bit of GGE(X) and the control total which are domestic measures outside national accounts and that is where there might be some variations in the treatment internationally. We do not know but it might be that, in some countries, students loans are treated differently in the control measure for government departments.

367. If I can pursue this a bit further. We got evidence from Barr and Crawford that from their experience I think it was in New Zealand (where they were invited to almost become a part of the process) that the ONS or the equivalent met with Treasury officials and met with those from the Department of Education and they said, "We have a problem here. How do we solve it?" It seems as though the way we go about it in this country is that you put all kinds of solutions up to the ONS without any kind of guidance from them as to what solutions might succeed and they have the luxury of rejecting them all the time. Would it not seem to be a better way of developing policy to deal in that more cooperative fashion that they do there rather than the adversarial fashion challenging people to find solutions which are acceptable to us according to criteria which we do not ever reveal. You obviously do not recognise my description.

(*Mr Ritchie*) I do not recognise your description of our relations with the Office for National Statistics as "adversarial". In my job I have a lot of day-to-day relations with the Office of National Statistics and I certainly do not regard them as my adversaries or enemies. We tried to make it clear in our memorandum as to what the Government decides and what the Government does not. All these various accounting definitions, certainly in my view the PSBR, are really statistical—they are economic concepts—but they are areas in which we follow the guidelines. The guidelines are given to us and the Maastricht guidelines are given internationally. What the Government decides is two things. The Government decides its public expenditure planning and control regime. That is clearly up to the Government. The Government also decides out of all this plethora of various concepts of fiscal deficit what its fiscal policy objectives are. In the Financial Statement Budget Report in the July Budget this Government set out two objectives of fiscal policy, one of which is the "golden rule" and the other of which is a stable debt ratio. My point earlier about the PSBR is that the PSBR is not directly relevant to the golden rule but it is very relevant to the stable debt ratio because it measures the net increase in government debt in a year.

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Chairman

368. You are making it all seem so logical. Why in this logical world is capital borrowing by GM schools defined as being outside PSBR?

(*Mr Golland*) Grant-maintained schools in the national accounts are in the private non-profit sector so if a grant-maintained school were to borrow money from a bank that would have nothing to do with the public sector.

369. What about TECs? TECs are in.

(*Mr Golland*) I will just finish on grant-maintained schools.

370. You try and build a logic for one and then it is illogical against another. TECs are in. TECs are private companies. Why are they not out?

(*Mr Golland*) What I was going to finish saying about grant-maintained schools is this: if your argument is that they must finance this borrowing out of the grants they get from central government then yes, the cost of financing the loans undertaken taken by the grant-maintained schools does indeed score in general government expenditure and in the PSBR.

371. I understand that. What I am getting at is you pick example upon example and you choose to put GM schools' capital borrowing outside. I accept that the repayment is in. TECs, similar organisations, are not in. It is completely arbitrary. You pretend there is somehow these golden rule guidelines that are open to interpretation and what we are putting to you is that there is constant room for manoeuvre and room for interpretation.

(*Mr Ritchie*) There are international guidelines on what is in the government sector and what is not and these have actually become the focus of quite a few of these various disputes about the Maastricht criteria. Various countries have been accused of creative accounting and these guidelines matter in that sense.

372. They are open to interpretation. They can be arbitrary.

(*Mr Ritchie*) There are bound to be borderline cases and they are open to interpretation and these decisions are for the Office of National Statistics and not for us. I think that fits in with government policy—the government also has a commitment to statistical independence, to an independent National Statistical Service—that these are not political decisions. That was the distinction I made. They are the experts.

Mrs Theresa May

373. Just again for clarification because a number of references have been made as to whether how you treat student loans affects the Maastricht criteria. Can I be clear that what you are saying is those countries within the European Union are operating to an agreed set of definitions in defining where they stand in relation to the two criteria relating to deficit so that everybody will be treating this issue the same way in terms of those definitions?

(*Mr Ritchie*) Yes.

374. If the Government wished to depart from that treatment for the purposes of those definitions, am I right in saying that would have to be agreed by EuroStat?

(*Mr Ritchie*) In terms of those definitions, yes. We do not depart from those. Our definition of the general government financial deficit is exactly the Maastricht definition of this deficit and yes, lending to students is not included in that. Our definition of general government debt is exactly that defined in the Maastricht criteria and, as I was saying earlier, lending to students does count towards that because it increases your debt.¹

375. If there were to be a change in the treatment of student loans which was a departure from those definitions that would have to be agreed in Brussels at Eurostat as they agreed the way the French government is choosing to treat pensions in France Telecom?

(*Mr Ritchie*) The kinds of definitional changes that this Committee was talking about with Dr Robinson earlier are not changes to the internationally agreed definitions. They are changes to the definitions that are under our national control.

376. In answer to the Chairman earlier when she said these do not affect the Maastricht criteria you said that it does not for the financial deficit but it could do for the debt.

(*Mr Ritchie*) It does for the debt.

377. What you are saying is there is no definition issue but if you chose to use a different treatment that would still be within the definitions set down but the figures which come out of it could affect the figures that come out of the Maastricht criteria.

(*Mr Ritchie*) If we choose to change the definition of "control total" or if the government decides to have a different definition for a public expenditure objective from the previous government's (GGE(X)) then this has no effect at all on accounting for Maastricht. This is a different set of accounts, if you like.²

Mr St Aubyn

378. You can change the rules internally but the way Maastricht and the outside world exists is going to be the same and more to the point perhaps the cash situation does not change. At the end of the day you still have to borrow this cash in the market-place and that affects your debt ceiling under Maastricht?

¹Note by Jeff Golland: Lending to students increases government debt under the Maastricht measure if the government finances the lending by borrowing more itself rather than through, say, increased taxation.

²Note by Jeff Golland: Government lending to students, and to anybody else, is excluded from the calculation of general government deficit under the Maastricht criteria. This rule applies to all EU member states, and is implemented by all member states including the UK. It is not a borderline case subject to interpretation. Government lending is clearly a financial transaction. There is no possibility that Eurostat would decide to change this since it is so clear cut. The measurement of government expenditure for domestic purposes has no impact on the figures reported under the Maastricht criteria.

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[Continued

[Mr St Aubyn Cont]

(Mr Ritchie) Yes. Changing the definition of PSBR is irrelevant here. It would not be the borrowing requirement if you took lending out. It would not be what it says it is. As I said earlier, what we are talking about are the Government's fiscal policy objectives, which are clearly for the government, for ministers, and the expenditure planning and control regime, particularly within that the definition which we have at present of the control total. We had the planning total before that. Those are again clearly decisions for ministers.

Caroline Flint

379. Has the Treasury, Mr Kane, any ideas about how we are going to fund 500,000 extra students by 2002?

(Mr Kane) That is an interesting question. I think we are awaiting proposals. It is the Department of Education's responsibility obviously to consider the funding of that and we will be in discussion with them as to how they think they can best fund that in the most cost-effective way. It is obviously relevant to the wider comprehensive spending review which the Government is doing in which the Government will have to decide how to plan its priorities.

380. Do you ever make suggestions to them?

(Mr Kane) We have constructive discussions!

381. I am absolutely serious. Do you make suggestions to them about how they can fund this problem? We have sat here for now nearly an hour and it is very clear what this Committee is interested in achieving and it would have been really helpful (and I suspect a significant change) if we could have had from you some information as to how we might achieve what we are trying to do. Have you said to the DfEE how they might find the money to fund those extra students?

(Mr Kane) The answer is not meant to be flippant in any way. We do engage in very serious discussions with them. If I can relate it to the point you made about the contrast with the Australian system. I have to say I was a little disappointed about the presentation of the discussions that we have had with Dr Barr and Mr Crawford because they have been to the Treasury several times and we have had some quite open and constructive discussions. We have attempted to explain the factors which would determine whether something would score on or off balance sheet and we have made it clear that we are more than happy and willing to discuss any further proposals that may come forward. The fact that what we said might not have been to their liking is obviously a difficulty but I do not think that reflects a lack of willingness on the Treasury's part to engage in those kind of discussions. More generally, the nature of the discussions inevitably is to bring forward ideas but we simply talk with the Department about priorities in their overall budget. Ultimately, it is for ministers to decide how they prioritise higher education versus further education versus schools and I think that is a very important issue to be considered. I think it is significant that you focused on the accounting issues today but one point I did want to stress is that there would be no hypothecation of any funding resulting from any

accounting changes. It is a separate issue how those funds could be used. I think we would probably have views about that in terms of the priority between lifelong learning and what proportion should go into higher education.

382. Some of us, certainly myself, have come away with the impression, rightly or wrongly, that some of the issues we have been trying to raise in this Committee have not been tackled collectively by the different departments. When student loans were first brought on board by the last government were these options looked at at that stage?

(Mr Kane) The options?

383. The options of where the loans would sit in relation to PSBR.

(Mr Kane) I think treatment of loans is something as with all areas of expenditure control, which is regularly kept under review. We go on to add that obviously Dearing has made a specific recommendation in his report, recommendation 80, suggesting that this should be looked at and we are in the process of reviewing the position in relation to student loans. We will reflect on a lot of the issues you have been discussing and draw on evidence from overseas. We do not have a closed mind on any issue.

384. Is the answer to my question then this is not an area that was looked into in any depth when student loans were first discussed?

(Mr Kane) That goes back seven or eight years to the introduction of student loans and I am not familiar with the detail of discussions at that stage but I am sure subsequently the general treatment of loans in the control total has been kept regularly under review.

Yvette Cooper

385. To conclude, the reason we got into looking at this whole issue in the first place was because the argument that was raised was that because of the way the accounts are set up there is misinformation and people do not understand what the real situation is. There is misinformation in the markets, in the City, or in the Treasury or amongst government ministers who make the decisions and as a result they are not making economically sensible decisions. In other words, the argument is that there could be more money going into higher education this year, next year, whatever, economically it would be sensible to do so, but the accounts are providing misinformation or there is misunderstanding because of the way the accounts are presented that is stopping us making economically sensible decisions that fit with both political and economic objectives. That is why we got into this whole process of examining whether accounts were a barrier, not challenging the economic objectives, but whether the accounts themselves were distorting the process. It seems to me it is perfectly possible that that misinformation is not taking place and although it is irritating for those of us who do not understand it, sufficient accurate information about the overall level of borrowing and the sustainability of borrowing and the fiscal position is being communicated to Treasury officials and to ministers and to the markets for them to be making the correct decisions. That seems to me to be

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[Yvette Cooper Cont]

perfectly possible. However, it may not be the case. It may be the case that the markets are misunderstanding them and we could sustainably borrow more for education. It may also be the case that it is sensible to make it more transparent anyway, if only to avoid this whole discussion. Even if we do not liberate any more resources into education, it may be sensible to make it more transparent. If that is the argument and that was where you ended up, where would you go forward from this? Is the introduction of resource accounting going to solve all this? Are we wasting our time because we are preempting the resource accounting that is going to take place or is this something the ONS could do with its discretion (because you are telling me the ONS is making separate decisions from Treasury officials)? Therefore, is this actually an area where the ONS should have a big shake-up and change its approach or should there be some other direction we should be exploring which is not covered by both of those?

(*Mr Ritchie*) The answer on resource accounting is that it should provide better information and it should provide the information set with which to see these things more clearly. I do not think this is for the ONS. The ONS has a job in producing national accounts. Although we have talked about various grey areas and borderline cases there clearly are very good reasons—Maastricht may be one of them—for us wanting to stick to international guidelines in terms of our general fiscal credibility. You get more credibility for sticking to internationally agreed definitions than you would for making up your own as you go along. As far as presentation is concerned I think I said at the beginning that we do try to emphasise in the Financial Statement and Budget Report that the PSBR is not the be all and end all of what fiscal policy is all about. Fiscal policy is as much about the golden rule as about debt and the PSBR. I

certainly would not say that we could not do this better. That is a double negative but we have made substantial changes in the presentation of the documents over the last few years when I have been involved in this and we can no doubt get better. I am not really sure. I think that is maybe the lesson we take away.

Chairman: I think we will reflect on that because I am not sure I entirely take Yvette's analysis of this. I will put to you finally, having reflected on what you said earlier, that you could go for a redefinition. We could, for example, get universities to set up trusts and say, "Let's just do this like the GM schools"—I am sorry for banging on about the GM schools—"and they can do the borrowing for the students." So that will then count entirely outside your control totals because the point of the definitions is that they will come within the control totals and therefore do affect our ability to manoeuvre; all that the public sector is concerned about is its impact on the repayment in the same way as with GM schools we are concerned with the repayment that the public sector has to pay back, the capital borrowing. I do not believe this is entirely a question of you doing your best. I think we have a problem here. In 1999/2000 the financial crisis hitting higher education will be dire. We have found a very short-term solution. It is extremely short-term and one-off and if we do not go for something more sensible, we cannot wait for resource accounting, there is going to be a crisis in 1999. I do not think it is simply a matter of us interpreting existing structures. I leave that thought with you. No doubt you do not agree. Thank you very much. I know it has been a difficult session for you with some challenging questions and I think you have been extremely helpful and we have got to decide what to do with it.

APPENDICES TO THE MINUTES OF EVIDENCE

SUBMITTED TO THE EDUCATION AND EMPLOYMENT COMMITTEE

APPENDIX 1

Memorandum by the NASUWT

NASUWT represents 45,041 students in addition to its 165,501 strong membership of serving teachers. It is the only teachers' trade union which draws its membership from the whole of the United Kingdom and represents teachers in every sector of the education service from nursery schools to further education colleges.

The Association wishes to comment on the proposed changes to the funding of Higher Education with regard to their possible effects on the teaching profession.

It has become commonplace to talk of a crisis of teacher supply. Figures from the Teacher Training Agency show that there is an increasing reluctance on the part of students to embark on courses leading to teaching qualifications and Sir Stewart Sutherland refers to this problem, together with that of the high level of wastage from the profession, in his contribution to the Dearing Report (Report 10). NASUWT has drawn attention to the reasons for this situation—excessive workload, pupil indiscipline, poor working conditions, the constant vilification of the profession and, by no means the least important, the low level of remuneration.

Projected salary levels must be a major factor in career choice, and any increase in the burden of debt with which students are encumbered when they make their choices will add to its importance. Unless students perceive teaching as a worthwhile career and one which will allow them to make loan repayments while simultaneously taking on other commitments e.g., mortgages then the shortage of teachers will be exacerbated. It must therefore be the case that any further shifting of the costs of Higher Education to the student, particularly that of tuition fees, must be accompanied by a commensurate improvement in teacher salaries if the profession is to attract sufficient numbers of high quality entrants.

NASUWT is committed to equality of opportunity within the teaching profession and to its logical corollary: that there should be no bar to entry other than ability. The Association is interested in the suggestions made in Reports 5 and 6 relating to widening participation in Higher Education and believes that if these ideas proved successful they could have a beneficial effect in broadening the base of graduates from which the profession draws its members.

It is to be deeply regretted that Report 2 wasted the opportunity to ask current under-graduates how funding decisions have already affected them and what would have been their decision about embarking on a course if they had been required to contribute to the tuition fees. Nor does it ask to what extent their career plans have been determined or changed by the requirement to repay loans. Evidence from other countries such as USA may be indicative but does not necessarily relate to British conditions.

In the light of these comments NASUWT believes that it is rash to make predictions as to the effect of changes in funding on the levels of participation in Higher Education by the disabled, members of ethnic minorities and those from poor families. It may be that the majority will see education as a costly but worthwhile means of improving their life chances. However, if these people are to be drawn into the teaching profession then it must be able to demonstrate that it will provide the necessary level of recompense.

The Association is concerned by the arguments on means testing. If the justification for making graduates pay for a greater proportion of their education's costs is that they receive higher salary levels then there can be no logical reason for means testing before graduation. Rather it is the ability of the graduate to repay which should be assessed. NASUWT fully understands the emotive and/or ideological arguments concerning the retention of means tested grants for students from poor families but insists that future members of the teaching profession should not be encumbered with larger loan repayments simply because their parents were more affluent than those of other graduates who may have entered a more highly remunerated career.

APPENDIX 2

Memorandum by the Chartered Society of Physiotherapy

THE DEARING REPORT: FUNDING, ACCESS AND PARTICIPATION

To assist the Select Committee on Education and Employment's inquiry into the Dearing Report on Higher Education, the Chartered Society of Physiotherapy would like to draw Members' attention to the potential impact of some of the report's recommendations, in particular the proposals in respect of student funding.

The Chartered Society of Physiotherapy is the professional, educational and trade union body for the UK's 32,000 chartered physiotherapists, physiotherapy students and assistants. 98-99 per cent of all registered physiotherapists are members of the CSP.

The CSP's educational role is to maintain and enhance high standards of physiotherapy education and practice, thereby improving patient care. The CSP recognises and approves undergraduate degree programmes which lead to qualification as a chartered physiotherapist, and additionally it supports continuing professional development and research within the profession.

THE CSP IS CONCERNED THAT MAKING STUDENTS PAY TUITION FEES WILL HAVE THE KNOCK-ON EFFECT OF DEEPENING THE STAFF RECRUITMENT AND RETENTION CRISIS IN THE NHS

The CSP believes that the introduction of tuition fees for students will lead to serious problems for those studying physiotherapy and other health care qualifications. The requirement to repay these fees will add substantially to the personal cost of gaining a qualification, and the increasing indebtedness will further exacerbate an acute recruitment and retention crisis within the NHS. Newly qualified staff will increasingly seek alternative employment, at home or abroad, in an attempt to cope with the repayment schedules. This recruitment and retention crisis is already impacting on health care provision as trusts struggle to retain skilled and experienced staff.

The problem of recruitment and retention in physiotherapy is one of the worst facing the NHS. A report earlier this year by the Audit Commission, "Finders Keepers", found the average turnover of physiotherapists in NHS acute hospital trusts was a disturbingly high 30 per cent. The CSP's own survey of 78 trusts found that 72 were experiencing difficulties in recruiting physiotherapy staff. We have received a number of reports of trusts rationing services in response to staffing shortages. It costs the NHS over £50,000 to train a physiotherapist and as much as £5,000 to recruit a new one when there is a vacancy. Clearly the NHS cannot afford to keep replacing or losing staff on this scale. The CSP believes that the Dearing Report has not adequately considered the impact of its recommendations on public services such as the NHS.

While the turnover in physiotherapy and other health care professions remains high, there continues to be a growing demand for physiotherapy services. This is caused by a range of factors such as the ageing population, rising expectations of patients, the moves towards community and primary care, as well as an increasing awareness of the benefits of physiotherapy interventions.

The NHS is not a monopoly employer of physiotherapists, who can seek alternative employment in private practices, leisure centres, industry, retirement homes, GP practices and independent health care. If public sector pay continues to lag behind the private sector, then larger student debts will make it harder for the NHS to recruit and retain staff it needs to give the British people the high standards of health care they deserve.

The distinct nature of physiotherapy courses reinforces our belief that the repayment of tuition fees by the newly qualified will worsen the staff retention problem in the NHS. Physiotherapy students undertake longer periods of study than most other higher education students, including substantive periods of clinical placement. This means they have less opportunity to find part-time or seasonal work to help fund their studies, and they are hence likely to incur higher levels of personal debt during their time as undergraduates.

Physiotherapy students undergo an equally rigorous academic and clinical training as doctors or dentists, but when they graduate they can expect a starting salary approximately half of that found within the medical or dental professions. While it is argued that students should pay tuition fees because their degree qualification is the gateway to substantial salaries in the future, this argument cannot be applied to physiotherapists, or indeed a number of other health care professions working in the NHS.

The Income Data Services (IDS) Management Pay Review gives a yearly indication of long-term salary prospects of graduates recruited in 1991 and 1993. The survey revealed that in 1996, those recruited in 1993 could expect a salary of £20,247, and 1991 recruits an average salary of £23,447. By comparison, the salary expectations of health care graduates such as physiotherapists, occupational therapists, radiographers, dieticians were that in 1996, those recruited in 1993 could expect a salary of £14,220, and 1991 recruits could expect a salary of £15,355. The survey reveals that the average graduate reaches a salary level in five years that is well beyond the top clinical grade for a physiotherapist (Senior 1 £18,000).

Members may additionally be interested to learn that female physiotherapists, whether on a starter grade or a Senior 1, who are single parents working full time and paying a childminder for after-school care and during school holidays, qualify for welfare benefits.

The CSP would therefore ask committee Members not to endorse the introduction of tuition fees as they will mean a new financial burden on those who wish to serve their communities.

A recent CSP survey of newly qualified physiotherapists found that while only 3.4 per cent of respondents took their first posts outside the NHS, 46.2 per cent saw themselves doing so in the next two or three years. If debts of £10,000 are to become the price of going through higher education, then we believe an early exit from the NHS for better paid positions in North America or the private sector will be the chosen path of many graduates in the health professions.

In terms of health care education, the impact of the measures recommended in the Dearing Report will partly depend on the position of the NHS Executive decides to take. The majority of health care education in England and Wales is funded by the NHS on a "full-cost" basis. This means that everything, including tuition fees, is paid for by contracts agreed between the NHS and higher education bodies. One option for the NHS Executive is to decide to maintain free tuition on the programmes it funds. If this or any other measures are proposed to alleviate the potential impact on the NHS recruitment and retention crisis, the CSP believes it would be wrong for the DfEE or the Treasury to stand in the way.

If committee Members would like to receive more information the CSP would be delighted to oblige.

Alan Walker

Director of Education

APPENDIX 3

Memorandum by The Biochemical Society on the Report

REVIEW OF THE REPORT OF THE DEARING INQUIRY BY THE COMMONS EDUCATION AND EMPLOYMENT SELECT COMMITTEE

INTRODUCTION

The Biochemical Society, with some 9,500 members in academic institutions, public authority bodies and industry, promotes the advancement of the science of biochemistry (which includes disciplines such as molecular biology and biotechnology), in active collaboration with other learned societies representing cellular and molecular life sciences. The Society concerns itself with all aspects of education and training, including curriculum development and teaching technology. It is in contact with other societies in the cellular and molecular life sciences area through the newly formed UK Life Sciences Committee, and considers the views expressed below to be representative of biological sciences as a whole.

PURPOSES OF HIGHER EDUCATION (HE)

1. The Biochemical Society is pleased to note the emphasis in the report that Higher Education is for life. HE aims to produce educated, informed, thinking, mature citizens, and is not merely a training for employment. The Society endorses the report's view that Further, or Higher, Education should be available to all who can benefit from it. Because this will cover a wide range of abilities there needs to be a corresponding breadth and diversity of programmes available.

2. The rapid advances in areas of science such as molecular genetics are likely to have a major impact on our daily lives through health-care treatments (diagnostic genetic testing) and food production (genetically modified crops), for example. It will become increasingly important to have citizens in all strata of society who have an appreciation of science and are prepared to accept the benefits of such developments, whilst also being able to engage in debate on moral and ethical issues that arise from this work. The UK must also continue to produce research scientists and entrepreneurs of the highest quality if it is to maintain its world-competitive pharmaceutical industry, and its lead position in Europe in small to medium sized biotechnology companies.

QUALITY AND STANDARDS IN THE EXPANDED HE SECTOR

3. The expansion of the sector has resulted in degrees being offered to students with a very broad range of abilities by a very heterogeneous set of HE institutions. This has led to a lack of clarity of what the possession of a degree signifies, and a poor outcome for some students. The Society considers it essential to maintain qualifications of international standing.

4. The Society therefore endorses the recommendation that much of the further expansion in HE should be at sub-degree level [Rec 1], which is more appropriate for many students, and more particularly the recommendation that all courses in Further and HE should fit within a new framework of qualifications [Summary, paragraphs 42, 43]. It will be a difficult, but essential, task to define the features characterising awards at the different levels.

5. The Society has no particular view on the recommendation that more sub-degree provision should take place in Further Education colleges [Rec 67], but would emphasise that this must not place cheapness of provision (e.g., teaching in large groups) before maintenance of quality. The Society considers that some of the current HE institutions would benefit if their remit included a greater focus on sub-degree provision, recognising the need for a diversity in courses to cater for students of different abilities. There is a serious question about the acceptance of credit accumulation and transfer between institutions on a national scale, but this will be aided if all courses have to fit within the qualifications framework, and all have a "programme specification" [Rec 21] indicating clearly the intended outcome of the course.

6. The Society supports strongly the recommendation that the new Quality Assurance Agency should establish a code of practice concerning quality assurance, standards verification, and the maintenance of the qualifications framework, which all institutions must follow as a requirement for funding [Rec 24]. However, the Society would hope that with this code of practice in place the Agency could then have a lighter, and less intrusive, touch so as to ease the burden of bureaucracy currently falling on institutions.

7. The Society is aware of the finding of the HEQC Graduate Standards Programme that standards are not comparable across the HE sector. Its own recent research has confirmed that Biological Sciences Departments rely almost exclusively on external examiners as guarantors of standards. The Society can therefore appreciate the recommendation of the report that external examiners should have to be drawn from a pool of trained,

approved staff [Rec 25]. However, the requirement that external examiners in this pool would have to be released for up to 60 working days a year is difficult for science subjects since it is unlikely that the current group of examiners—research active professors and heads of department—will be able to give this amount of time. This could lead to the external examiner pool becoming a semi-professional sub-group of staff who lack the standing and acceptance of current examiners, resulting in a serious loss of faith in the system. The Biochemical Society is addressing the problems of external examining and standards in seminars for heads of teaching and external examiners to be held over the winter, and would welcome interest and participation by staff in related disciplines.

VOCATIONAL QUALIFICATIONS

8. The pharmaceutical industry, and other types of bio-industry, have pointed out on a number of occasions the recent difficulties experienced in recruiting good quality, technically trained, staff who have had access to modern biochemical equipment. The low esteem of vocational qualifications results in failure to attract good students. Many institutions formerly offering vocational qualifications have tended to switch to more academic degree courses. It should be noted that both vocational and academic courses in a technical discipline such as biochemistry need to be supported by intensive, high quality practical tuition, and this is expensive to provide.

9. The incorporation of vocational and academic awards into a single framework for HE should benefit the esteem of vocational awards, as should the opportunity for individuals to progress to higher levels of vocational awards in a series of clearly defined stages throughout a career [Summary, paragraphs 42 and 43]. The recommendation that institutions develop a programme specification that states clearly the intended outcome for each qualification [Rec 21], and that each course must meet a recognised standard, should go some way to answering the criticism that vocational courses lack rigour. Ultimately, the esteem of vocational awards depends on their acceptance by good quality students, universities and employers.

10. The question of esteem of vocational awards needs to be addressed at the level of secondary education also. Professor Smithers (Brunel University) pointed out recently that advanced GNVQs are not establishing themselves well in subjects such as science where there is an A-level alternative.

11. The strong message to the Dearing Inquiry from employers that they would welcome work experience in graduate applicants [Summary, paragraph 39] is ironic in view of the difficulty that institutions currently experience in placing sandwich students. Economic pressures make it difficult for businesses to devote the time and effort to training and supervising these students, and this must be particularly so for the small to medium sized businesses that made the strongest call for work experience. It perhaps needs some centrally co-ordinated scheme, coupled with some form of tax relief for training, to encourage businesses to participate.

DIFFICULTY IN TRAINING TO A RESEARCH STANDARD IN A THREE YEAR DEGREE

12. It has become increasingly difficult to train students in biological sciences to a research standard in the conventional three year degree course, due chiefly to the more varied background of student entrants and the inability to provide practical instruction using modern equipment. The drive to broaden 16–19 years education, coupled with the recommendation of the report that all degree courses should include training in numeracy, literacy, communication and IT skills [Summary, paragraph 38] is likely to increase this difficulty. But the report clearly envisages that the normal degree length will remain at three years.

13. Biological Sciences Departments are faced with the dual challenge of being able to provide in-depth, quality practical training for students intending a research career, and broader courses, perhaps containing less practical work, for students not intending to specialise. The present degree system, whereby both groups receive the same training, is inefficient and expensive in terms of the cost of practical instruction. The Society's own surveys of employment of biochemistry graduates show that about 50 per cent of first degree graduates and at least 70 per cent of PhDs remain within biochemistry.

14. The recommendations that institutions develop programmes that vary in breadth and depth [Rec 15], and programme specifications that identify potential stepping-off points [Rec 21] are thus welcomed as offering more flexibility to non-subject specialists. They may also free more resource for supplying quality practical training to students continuing in research careers. This strategy will only succeed if parity of esteem for the varied programmes is achieved, and if appropriate students are encouraged nationally to take the broader, less research-focused degrees that are envisaged.

15. This will not, however, resolve the problem of training to a research standard in three years, and the Society emphasises that it must become accepted that from university entrance to completion of PhD will normally take seven years, with the consequential implication for funding.

FUNDING ISSUES

16. Members of the Select Committee will be aware of the funding deficits identified by the Dearing report and by recent papers from the Committee of Vice Chancellors and Principals, so they are not repeated here. Shortage of funding has reduced the ability of biological sciences departments to provide quality practical instruction for students, and training on modern equipment at both undergraduate and postgraduate levels. The

latter deficiency was noted in evidence from the Association of the British Pharmaceutical Industry to the Lords Select Committee on Science and Technology investigation into The Innovation-Exploitation Barrier. The Society would stress the importance of measures to put right past under-investment in research infrastructure in order to maintain the vitality of the university sector.

17. The report contained a number of proposals to increase efficiency and reduce costs, particularly for research. The Society welcomes the way that these were identified, but prescriptive solutions not applied. The expected concentration of research facilities in particular places [Main report, paragraph 11.95], and the call for joint and collaborative activities between institutions, and for inter-disciplinary work [Summary, paragraph 58] are best left to the sector for action in consultation with funding bodies. Likewise, the Research Assessment Exercise is an effective instrument for achieving selectivity in research funding [Rec 34], but will need to be modified in order to remove some of the well-recognised inequalities of treatment. The recommendations made to improve the stature of teaching, and overcome the disproportionate funding reward for research, may also reduce the pressure on institutions to engage in research. However, the Society is concerned that further more prescriptive measures should not be applied centrally to achieve greater focusing of research without considering the longer-term effects on the underpinning research base.

18. It is not the place of the Society to comment on the introduction of student loans to cover maintenance and part of tuition fees. The Society is concerned, however, that the burden of debt should not deter graduates from continuing to research training since this would hinder the future success of bio-industry. Further attention also needs to be given to improving career prospects for scientists continuing in university research. As the report made clear, income from charging tuition fees will be insufficient to bridge the funding gap. Furthermore, the Society is concerned by reports that the money saved by the government introducing student loans is unlikely to feed back into HE for at least a number of years, whereas the funding crisis is acute.

19. The recommendation to government to establish a fund of £400-500 million to support infrastructure, financed jointly by government and industry [Rec 34], is fine in principle. However, industry made clear its objection to paying into a general fund over which it had no control, and from which it received no individual benefit, both during the sitting of the Dearing Inquiry, and since the publication of the report. It is therefore clear that substantial funding from industry and charities will require government incentives, and that the government will need contingency plans to make more public funding available.

APPENDIX 4

Submission from Scottish University Students

INTRODUCTION

This is a joint submission containing our agreed response to the report of the National Committee of Inquiry into Higher Education. We ask you to consider its contents as part of your deliberations arising out of the report of the National Committee of Inquiry into Higher Education.

References are to the report of the National Committee unless the number is prefixed with G, in which case it refers to the report of the Scottish Committee, chaired by Sir Ron Garrick.

EXECUTIVE SUMMARY

Page 2—Governance of Higher Education Institutions

Responses to various recommendations, focusing on the management practice adopted by universities, with specific submissions regarding student representation on governing bodies and the role of Rector on University Court in ancient Scottish universities.

Page 4—Higher Education Funding and Student Support

A response to the recommendation to charge students a proportion of their tuition fees repaid by graduate contributions. Also, observations on the level of financial support given to students, with reference to the Social Security system, and on the effect of new funding arrangements on Scottish degree qualifications.

Page 7—Higher Education and Business

Observations on the relationship between Higher Education and the business community, with implications for funding. Also, a submission regarding the emphasis on work experience contained in the report of the National Committee.

Page 8—Information Technology in Higher Education

A number of observations on the increasing role of IT in Higher Education, envisaged by the National Committee, and the implications for staff/student contact time.

Page 9—Scottish Higher Education Qualifications

Submissions regarding proposed change to the Scottish degree system, including the proposed 360-point Bachelor's degree, and connected matters.

Page 10—Teaching Quality and Standards

Responses to various recommendations, and submissions regarding research and financial support for postgraduate students.

GOVERNANCE OF HIGHER EDUCATION INSTITUTIONS

Recommendation 12

We endorse this recommendation.

Recommendation 54

We note that this recommendation does not refer directly to the governance of the ancient Scottish Universities, where Court is an unambiguous governing body. For this reason, this recommendation cannot effectively be applied to such institutions.

Court is the ultimate decision-making body in the ancient Scottish Universities, and is for the most part effective.

Recommendation 55

We endorse this recommendation and make the following supplementary points:

- Student representation on the governing body is central to the fair and effective management of a university. Consequently we endorse wholeheartedly the recommendation that representation of students and staff on governing bodies be a requirement. However, for student and staff representation to be meaningful and effective, students and staff must be represented on all the main policy-making bodies of their institution, and not only on the governing body.
- A majority of lay members on the governing body aids the impartiality of meetings and ensures that the views of the disparate parts of a university community are heard. Consequently we endorse this recommendation also.
- The arrangements regarding the chairmanship of University Court are different in ancient Scottish Universities, where the Rector holds the chairmanship as a matter of right. We strongly suggest that these arrangements should not be changed (see submission relating to Recommendation 20 of the Scottish Report).

Recommendation 57

We endorse this recommendation. Regular self-review is one of the touchstones of good management practice. In the course of self-review, institutions should evaluate not only the effectiveness of their governance, but also its fairness, paying particular regard to the mechanisms by which student opinion is expressed, and acted upon.

Recommendation 59

We agree that public funding requires accountability. We agree also that the publication of annual report is one means of achieving this accountability, and therefore endorse this recommendation.

Recommendation 60

We endorse this recommendation wholeheartedly.

Recommendation G19

We agree that business should be responsive to the needs of Higher Education Institutions for high quality lay members.

We suggest, however, that high quality lay members of governing bodies can also be found outwith the business community. We suggest that the implications of this recommendation should be extended to include the voluntary sector, the public sector and any other groups in society which are equally capable of producing high quality lay members.

Recommendation G20

We absolutely oppose this recommendation, and urge the government to omit it from legislation and to take whatever steps are necessary to ensure that the link between the office of Rector and the chairmanship of University Court is retained. We welcome the statement by the Minister for the Scottish Education and Industry Department, Brian Wilson MP, to this effect. In support of this, we make the following points:

- The Rector's role as chair of Court is essential to the impartial and inclusive governance of the ancient Scottish Universities.
- The election of the Rector by students (and staff in the case of the University of Edinburgh) gives the Rector a unique democratic mandate to frame the business of Universities' governing bodies.
- The removal of the link between the office of Rector and the chairmanship of the University Court, would seriously diminish the effectiveness of that office to the detriment of the governance of those universities concerned.
- While in practice the Rector will often support student viewpoints, the Rector is someone who can take a holistic and detached view of the affairs of the University; this role is best fulfilled from the chair of the governing body.

We advise the government most earnestly that implementation of this recommendation would render the governance of ancient Scottish universities less inclusive, and less fair. We further recommend that the current arrangements with regard to the position of Rector should be extended to other Scottish universities.

Recommendation G21

We agree that university staff should be involved in finding ways in which universities can improve their performance, and consequently endorse this recommendation.

Recommendation G22

We endorse this recommendation, provided that it is given a practical meaning. We would suggest that any meaningful attempt to foster a spirit of stakeholding amongst university staff would involve improving their pay and conditions. This is an opportunity that should be embraced. However, efficiency and effectiveness should be viewed in the wider context of the principal aims of Higher Education; that is excellence in teaching and research.

HIGHER EDUCATION FUNDING AND STUDENT SUPPORT

Overview

The most immediate concerns of the students we represent relate to the recommendations of the National Committee regarding Higher Education Funding. We believe that these recommendations shift a large part of the financial burden for Higher Education on to students. This is a premise which we are unable to accept at a time when the participation rate in Higher Education has increased significantly, with the government gaining greater tax income as a result.

We believe that government expenditure on both Higher Education and student support should be viewed as an investment to be embraced readily.

It has always been the view of students that the most equitable and efficient way of funding student maintenance costs is through a system of means-tested grants. This system advances the aims set out in note 20.2 of the report of the National Committee.

We are disappointed that, at a time of major review, and despite the thorough work of the National Committee, the government pre-emptively rejected the option of retaining any level of grant to support those who most need it. We ask the government to reconsider this question

Recommendation 4

We welcome the proposal to double access funds. Nevertheless, we suggest that simply to allocate funds on the basis of the locality from which students come, is an unsophisticated response. Many potential students with disadvantaged backgrounds do not come from disadvantaged localities. To exclude such students from any access funds would constitute a basic unfairness. We ask the government to consider the availability of access funds carefully.

Recommendation 5

We strongly support this recommendation regarding Social Security. We would like to see this recommendation extended to include students who have to withdraw temporarily from their courses due to extenuating circumstances, at the discretion of the institution.

We ask the government to consider the position of students who are ill during the vacations and unable to work, or have other valid reasons for not doing so, and have no recourse to benefits.

We ask the government to address the problem faced by disabled students, who are currently entitled to claim Social Security, but are denied entitlement to Housing Benefit if they rent University-owned accommodation.

Recommendation 6

We endorse this recommendation strongly, and reiterate the points noted under recommendation 5, above, with regard to disabled students.

Recommendation 76

We agree that part-time students in receipt of Jobseeker's Allowance or certain family benefits, should not be charged tuition fees.

The various definitions of a full-time student for the purposes of entitlement to Jobseeker's Allowance, Housing Benefit, Income Support, Council Tax Benefit and Council Tax exemption, are confusing and contradictory. We urge the government to review these.

We also endorse the extension of access funds to part-time students.

Recommendation 79

We absolutely reject the proposal that students should pay 25 per cent of their tuition fees through graduate contributions. In support of this objection, we make the following points:

- Students already suffer meaningful financial difficulties because of their decision to undertake a course of study. We argue that to burden students with further debt will act as a disincentive to potential students from poorer backgrounds, and those whose parents are unable or unwilling to provide financial support.
- We are not convinced that the new funding arrangements advocated by the National Committee, including this recommendation, actually increase the overall level of student support. This must be one of the key aims of any review of Higher Education funding.
- We are very concerned that yearly tuition fees will act as a disincentive to study the four-year Honours degree in Scotland, or study for a professional or intercalated degree, which can take five years or more.
- While we note that approval of both Houses of Parliament would be necessary to change the percentage of tuition paid by students, we are concerned that there is no meaningful guarantee to protect students from being asked to make further contributions. We believe that the Australian example should act as a salient reminder of the difficulties in both protecting students from changes in the contributions they should make, and in reserving the money raised from tuition fees to meet the funding shortfall in Higher Education.
- We are very concerned that the government has not yet given an unequivocal commitment to reserve the money raised from tuition fees for Higher Education.
- We are also concerned that institutions may reserve the right to charge top-up fees, and we ask the government to legislate against this.

We urge the government to consider alternative sources of finance for Higher Education. In particular, we would argue that greater contributions should be sought from business, which benefits directly from a world-class Higher Education system (see submission regarding Recommendation 30 of the national Committee, below). Also, we argue that the UK should alter its accounting system so as not to treat student loans as part of the Public Sector Borrowing Requirement, and that the money saved in this way be fed directly into Higher Education.

Recommendation 80

We endorse this recommendation.

We agree in particular that the UK should not count student loans as part of the Public Sector Borrowing Requirement (note 20.89). We believe that the National Committee was right to be concerned that the value lost by the UK's current wide definition of the PSBR will be met by graduate contributions. It is an untenable position to argue that students should meet the cost of the UK adopting a wider definition of the PSBR that it is required to.

Also, to treat loans in the same way as grants for accounting purposes is, we believe, misleading. It gives the impression that the government offers greater financial support to students than is, in fact, the case.

Recommendation 81

While we welcome any restriction on the imposition of tuition fees, we reiterate our opposition in principle to students having to contribute towards the cost of their degrees, and make the following supplementary points:

- We believe that this recommendation will act as a disincentive for students to undertake a sixth year of schooling, and force them into Higher Education earlier than they would have liked. We dispute that all 16-year-olds have the confidence and maturity necessary to study at university, often away from home.
- This recommendation discriminates against English students wishing to study in Scotland, since the A-levels system does not allow early entry into university.
- This recommendation discriminates also against Scottish students who wish to study for their Certificate of Sixth Year Studies, or are required by the university of their choice to do so.
- The above adds a basic practical unfairness to what would already be an inequitable way of funding Higher Education.

Therefore, while repeating our opposition in principle to tuition fees, we urge the government that, if fees must be charged, students at Scottish universities should pay for three years at the most, regardless of when they leave school.

Recommendation 82

We endorse this recommendation.

Recommendation 83

We endorse this recommendation, provided that the workings of a unified student support agency are transparent. We urge also that the agency should have transparent discretionary powers to award support to students who would not normally receive support under a rigid means-testing system, on the grounds that there are extenuating circumstances which rule out parental contribution, for example a breakdown in family relations. We recommend that the unification should be Scotland-wide, and that the SAAS is a useful foundation for such an organisation.

HIGHER EDUCATION AND BUSINESS

Recommendation 30

We welcome the proposal that companies should take a strategic view of their relationship with Higher Education. Ideally, a new compact between Higher Education and business should be founded, which will strengthen ties between the two sectors. We hope that this would achieve the following aims:

- A graduate's skills being better attuned to the needs of business, and a concomitant enhancement of a graduate's employability.
- A new funding arrangement, which realises that business, as one of the main beneficiaries of Higher Education, should make some contribution to the costs of a world-class Higher Education system.

Nevertheless, students who choose less vocational courses should not suffer due to reduced choice of course, or suffer a shortfall in funding.

Recommendation G16

We endorse this recommendation subject to the caveat that non-vocational students should not suffer a funding shortfall, nor should vocational courses suffer a shortfall in state funding as a result.

Recommendation G17

We endorse this recommendation in principle, but reserve judgement regarding the practicability of meaningful work experience in some less vocational courses of study.

INFORMATION TECHNOLOGY IN HIGHER EDUCATION

Recommendation 9

We endorse this recommendation, but emphasise that strategic use of Communication and Information Technology in teaching must be complementary to, and not a replacement for, adequate staff contact time for students. We do not believe that improved use of Information Technology should lead to less staff contact time.

Recommendation 44

We endorse this recommendation.

Recommendation 45

Given that access to Information Technology is becoming increasingly central to the provision of Higher Education, it is imperative that students be shielded from the costs of this. Consequently we endorse this recommendation.

Recommendation 46

We applaud the optimism of this recommendation, but emphasise that students who are financially unable to purchase their own portable computer should not have to receive a diminished education.

The expectation that all students will own a portable computer is the equivalent of the introduction of a top-up fee and therefore will favour only wealthy students, or those whose parents are willing to subsidise them. We would urge that Government recognises that there needs to be adequate I.T. facilities centrally within institutions for those students unable to provide their own equipment.

SCOTTISH HIGHER EDUCATION QUALIFICATIONS

Recommendation 16

We agree entirely that Higher Education Institutions should review the programmes they offer, placing emphasis on the importance of securing a balance between breadth and depth, so that specialist may understand their specialism within its context.

We suggest that these aims are already well served by the four-year Scottish Honours degree as it currently exists. Of course, such review is an ongoing process, but we suggest that the Scottish Honours degree is an excellent foundation to achieve these aims.

Recommendation G2

The four-year Honours degree is part of the success of the Scottish Higher Education system, and we oppose any threat to its standing. We applaud in principle the purported increase in choice contained in this recommendation, but make the following points:

- Any decision by a student to study for a three-year Bachelor's degree rather than a four-year Honours degree, must be made on purely academic and/or vocational grounds; that is to say that the decision must be unencumbered by financial considerations.
- The four-year Honours degree remains the normal course of university study in Scotland.
- The three-year Scottish degree must be meaningfully repackaged to make it marketable to employers.
- Student choice as to whether to study for three or four years must not be limited directly by quotas, either set within the institution or by Government.

Recommendation G3

We welcome the flexibility proposed in this recommendation, especially the suggestion that the availability of funding should reflect this flexibility, thereby applying a more consistent approach to students whether they study, for example, medicine for five years after obtaining entry to, or progress through, education by a less traditional route.

Recommendation G4

We believe this recommendation is sensible, and consequently endorse it.

TEACHING QUALITY AND STANDARDS

Recommendations 13–15

We strongly endorse these recommendations, especially:

- Investment in staff training and development in order to keep UK institutions to the forefront of world practice;
- Development of nationally recognised accreditation and recognition of levels of expertise;
- Compulsory participation by new staff;
- Recognition of the need for support and training of postgraduate tutors; and
- Research into the effectiveness of innovative methods.

However, we urge the Government to recognise that to achieve the above, additional funding will be necessary, or else contact time between staff and students will be eroded even further than it has been over the last ten years, a situation students would be unable to tolerate.

Recommendations 22–26

We welcome the recognition of the need for, and benefits of, a national framework of qualifications as outlined. However, we would urge the Government to ensure that:

- The diversity of institutions is accounted for;
- When standards are identified and procedures satisfactory, that institutional autonomy is encouraged and only subject to periodic review;
- The level of bureaucracy is as low as possible, in order not to deflect staff resources from central activities such as teaching and research;
- The idea of a pool of external examiners is practicable at research level when expertise has to be sought from a very small number of experts from an international context; and
- Appropriate external examiners are chosen to suit the type of course in question.

Recommendations 31–34

We welcome the proposals to enhance postgraduate research methods and other skills, to investigate how to improve inter-disciplinarity, and that research councils cover full indirect costs to institutions.

We are concerned, however, that this should come from additional resources from the Government and not at the expense of research grants to students.

We are disappointed that the National Committee did not recommend the availability of loans to postgraduate students for whom maintenance funding is a major issue, as well as fees. This effectively means that postgraduate education is limited to those fortunate enough to obtain research council funding, the few students studying on the few courses of which career development loans are available, and wealthy students. We ask the Government to redress this omission.

We recommend that further evidence be considered and a further document published with regard specifically to postgraduate funding and maintenance, since the National Committee has so little scope to address these issues.

Recommendations 47–50

We welcome the staff development proposals and the recommendations relating to teaching skills. The idea that the Government should ensure that high quality staff are attracted to Higher Education by the provision of adequate resources for appropriate salaries, strongly suggests that the National Committee's recommendation for a pay review should be adopted.

APPENDIX 5**Submission to the House of Commons Select Committee Inquiry on the funding of Higher education by Richard Pearson, Institute for Employment Studies****AS THE COST RISES, SO DOES THE NEED FOR STUDENTS TO HAVE BETTER INFORMATION TO MAKE BETTER CHOICES****INTRODUCTION**

This paper focuses on the implication of the introduction of fees for students and the further reduction in maintenance grants on student participation and choice in relation to higher education. It does not argue the case for or against the introduction of fees. Rather we will argue that students are not well-informed about the costs and benefits of higher education, and that the implication of the introduction of fees and reduction of maintenance costs will not always be considered objectively. The consequences of ill-informed choices will be higher than necessary drop out rates, and unsatisfactory outcomes for the student and for society. If future students are to make well-informed decisions and achieve better outcomes, then they need improved information and careers advice about the relative costs, availability and benefits of higher education.

This paper is based on the results of IES and other research relating to student choice and outcomes of higher education.

BACKGROUND

The last decade has seen rapid expansion and widening participation in higher education; the rate of growth has far exceeded all expectations. This expansion has been driven by a combination of factors including:

- the changing social composition of society, with social and family background being the key influence on all stages of educational development and performance;

- rising demand amongst the young, the traditional entry group, and women (who now account for half the student population, although the relative distribution of men and women across subjects is very skewed). This growth has been driven by rising attainment levels in secondary education;
- rising demand by non-traditional groups such as mature entrants who now account for one in three students, and those from ethnic minorities;
- government encouragement, which has funded, albeit at a reducing unit of resource, university expansion;
- increased marketing, and the introduction of access programmes by higher education institutions seeking to increase their student numbers;
- employment trends and market signals which highlight the relative economic advantage to individuals with graduate qualifications (e.g., lower unemployment rates and higher average earnings); and encouragement by employers that they need more graduates, although employers' actions in terms of recruitment do not always support this assertion.¹

The still low level of participation among certain groups, most notably those from lower socio economic groups, is mainly due to their low participation and achievement rates in primary and secondary education, with relatively fewer reaching the A level threshold that gives the opportunity to participate in HE.

This expansion has taken place in a context where the cost of higher education to students has been rising, as the value of maintenance grants has been successively reduced, as a matter of government policy. While there has been concern about the rising levels of debt incurred by many students, rising cost has not yet been seen as a significant barrier to participation. Some concern has however been expressed that the increased level of indebtedness is leading students to "take any job" to pay off their debts, and neglecting longer term job search and career aspirations. (Pearson, *et al.*, 1997). The introduction of student fees and the final abolition of maintenance grants are another shift in the cost/benefit equation. Before we consider the potential impact of fees *etc.* we first examine why students go into higher education.

WHY DO THEY PARTICIPATE?

There are many inter-related factors that determine participation in higher education; these include innate ability, educational provision and achievement; and perceptions of the longer term costs and benefits of further study. More specifically the factors affecting participation include:

- The number of places available and the apparent "ease of entry" to different types of courses.
- The decision to study for A levels, or equivalent qualifications with the majority of those expected to achieve appropriate A level grades, or equivalent qualifications, now applying for higher education. These achievements depend on innate ability, previous experience in the education system and the perceived costs and benefits of higher levels of study.
- The latter factors are in turn greatly influenced by the parental background of the student, with those whose parents received higher levels of education being far more likely to on to further levels of study. The higher participation rates among Scottish students are believed to stem in part from the fact that 75 per cent of them have a family member who had attended university compared with just over 50 per cent of English and Welsh students.
- The intrinsic interest of the subject and attractions of further study and university life.
- The perceived costs, which can also impact on choice between courses and universities.
- Domestic circumstances, which may limit study to the geographical area of the home; this is especially important for mature students and those from low income families.
- The perceived returns to further investment in education, with some students choosing subjects where they believe their earnings potential will be highest.

See, e.g., Pearson, *et al.*, 1997.

HOW DO THEY DECIDE WHETHER, WHAT AND WHERE TO STUDY; AND HOW WELL-INFORMED ARE THEIR DECISIONS?

The growth in higher education in the UK means that students have an ever widening range of choices, with nearly 200 universities and other institutions offering several thousand first degree courses. Choice is, in theory, now becoming too large to handle in a rational way. To help students, an increasingly diverse range and volume of information is being made available, ranging from the comprehensive and independent official publications by, e.g., UCAS to more focused marketing material published by particular universities and professions.

The individual's age, family background, interests, relationship with the labour market, and location all affect the amount of advice sought and received, and how it is used. Students are seen as becoming more rigorous in asking questions about courses and universities and the outcomes of such study. The main influences on

¹ See e.g., Connor *et al.*, 1996a.

university choice are family and friends, the family being particularly important in the case of those with parents in professional and higher level occupations and who are likely to have the most experience and knowledge of higher education. Teachers are the most important influence on subject choices, though relatively unimportant in the choice of university. Careers advisors were not found to be important in the choice of university and subject. (La Valle *et al.*, 1997 and Roberts, Allen, 1997).

While potential students believe that they stand a better chance in the job market with a degree rather than without, labour market information and long term outcomes do not seem to feature greatly in students' choices and have minimal influence on their choice of courses, compared with such factors as qualifications and family background. Students now appear to accept the cost of study as a fact of life; in a recent survey of young people half said the cost might put them off higher education, but 80 per cent of them thought that it would be worth it (Meikle, 1997). The issue of cost is most likely to impact on, and reduce participation by students from less well-off families. While some individual employers sponsor students (i.e., provide bursaries to cover living and study costs, and in some cases pay a full salary) in engineering and other vocational, shortage subjects as a way of boosting the number of potential recruits, the numbers involved are small in relation to overall student numbers.

There is, however, little reliable information to help students make informed judgments as to the costs and benefits of different types of study. Much of the information relating to employment outcomes relates to previous years, inevitably appears a year or more in arrears and can be difficult to read and interpret, especially as a guide to future trends. For example, recent research showing high economic rates of return to university study received widespread publicity, however few commentators pointed out that the analyses related to the situation graduates found in the 1980s and that circumstances in the late 1990s and beyond are likely to be very different when graduate numbers have doubled and economic conditions are different (Blundell, 1997).

WHAT WILL BE THE CONSEQUENCES

The rise in cost will also be taking place at a time when the relative economic benefits of higher education are expected to continue to fall as the expansion in graduations has exceeded the growth in the number of jobs requiring a degree level education. This growing imbalance between supply and demand has led to growing levels of graduate unemployment and underemployment, reducing the economic advantage of a first degree (Pearson, Perryman, 1997; Connor *et al.*, 1996b).

Many students are not, however, well informed as to the real costs and benefits of higher education (see, e.g., Roberts, Allen, 1997); hence the impact of the changes will depend as much, if not more, on perceptions as on the reality. Given that we are talking about a future change, it is not possible to be definitive about the impact. It will also be difficult to assess and isolate the impact of fees, as their introduction will take place at the same time as a further reduction in maintenance support and when the return to graduate study is also falling. In considering the impact there is an extensive research literature on the impact of costs on participation in the United States which may be of relevance.

Using the evidence we have for the UK, we would expect, however, that the introduction of fees combined with the abolition of the maintenance grant would lead to:

- some reduction in overall participation, especially in the short term, due to the "headline" effects. While this would have social consequences, there is not clear evidence that a reduction in graduate supply, as long as it is not a major reduction, will be disadvantageous to the economy in terms of magnifying the extent of employers' graduate recruitment difficulties (Connor *et al.*, 1996 Pearson, Perryman, 1997);
- a reduction in the relative inflow to longer first degree course and postgraduate courses such as those in engineering, teaching and medicine which may be more significant;
- more students opting for shorter, sub-degree courses as recommended by the Dearing Inquiry, although there is little evidence of employer demand for students from such courses;
- greater proportions of students "living at home", which may dilute the university experience, while others will choose universities in areas of lower living costs; both these factors will reinforce social segregation (Connor, Pearson, *et al* 1996a);
- students becoming more demanding "consumers" within higher education, expecting higher quality teaching and more attention being given to subsequent outcomes; as a result this may
- be a stimulus for better management, strategy and marketing by individual universities; with
- universities becoming more responsive to the needs of students (their consumers) in terms of improving the quality of teaching and university life, and giving more attention to the outcomes after a degree; and
- potentially lower drop out rates and more "satisfied" students and graduates as they make more informed choices, receive a better education and achieve more appropriate outcomes.

MAKING MORE INFORMED CHOICES

If students are to make well-informed decisions relating to the costs and benefits of higher education they need more focused, up to date information, and advice and guidance in managing their search for and use of such information. This could come about through:

- Improving, simplifying and providing independently validated information about courses and universities;
- Improving information about employment and related outcomes of different types of study;
- Publishing regular forward looks as to employment prospects for students in different subjects and with different types of qualifications, suitably designed and with suitable caveats;
- Improving careers advice at earlier, and all stages of education; including introducing “one stop” sources of information and advice and greater use of interactive, “intelligent” IT based advice packages as, e.g., the recently announced UCAS development to help students in their choice of course.

IN CONCLUSION

If would-be students are to make informed decisions about participation and choice in higher education then they need better, and more focused careers information and advice at all stages of the education system. The introduction of fees, and further increases in living costs, should lead to more attention being given to the choice process, and improved decisions if careers information and advice is improved, and in due course a better relationship between the expectations of students and higher education outcomes. In the process overall participation rates may fall. Such a fall is not likely to be significant in the long term and the consequences are likely to be more social than economic. However, what would be of more concern is if there were to be a significant fall in entrants to longer and hence more expensive courses, such as some areas of engineering and medicine, and those staying on to postgraduate study for professions such as teaching, where a strong flow of good candidates needs to be maintained. Any such reductions could be limited by offering scholarships and sponsorship programmes which cover the cost of fees in those disciplines where the supply of suitable candidates is seen to be affected, and also by ensuring there is improved provision of careers advice at all stages of the education system. The long standing low representation in higher education of students from families among lower socio economic groups will only be reversed by greater attention being given to their circumstances and needs much earlier in the education system.

References see for example

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APPENDIX 6

Memorandum by the Joint Education and Training Policy Committee (JETPC) response to the House of Commons Education and Employment Committee's request for Written Evidence to The Dearing Report: Funding, Access and Participation

INTRODUCTION

1. The JETPC (Joint Education and Training Policy Committee) is a committee made up of engineering employers representing a range of engineering sectors, small and large companies, federated and non-federated. The committee's main remit is to make recommendations to the Councils of EEF (Engineering Employers' Federation) and the Engineering and Marine Training Authority (EMTA) on policies and priorities for improving the quality and availability of human resources for engineering manufacture.

2. The EEF encompasses over 5,300 companies of all sizes, from every sector of the industry. It is a federation of 13 regional associations and a national association for engineering construction. On behalf of its members the EEF seeks to influence the decisions of the UK Government and the European Union institutions to create a favourable environment for engineering and technology based industries.

3. EMTA is the National Training Organisation for engineering manufacture, including shipbuilding, mechanical engineering, electrical engineering, electronics, motor vehicles and aerospace. The industry employs some 1.6 million people in around 20,000 establishments.

4. Together EEF and EMTA seek to improve the competitive performance of British engineering by fostering higher standards of education, training and people development.

KEY POINT

5. The engineering sector has a need for an increased supply of high-calibre graduates and higher level technicians where there is a real shortage. Our industry has recognised this and has instigated the "Training Challenge" to encourage engineering employers to increase the level and quality of training. It is to aid this area that we look to the Dearing recommendations for support.

THE DEARING REPORT IN GENERAL

6. The EEF and EMTA welcome the vision expressed in the *Higher Education in the Learning Society* report and broadly endorse the pragmatic, wide ranging and challenging recommendations set out in it. The EEF and EMTA are committed to supporting those recommendations that are directed at employers and in turn will be representing the views of employers to Government Ministers on the implementation of the recommendations.

7. We agree that in the future, competitive advantage will lie in the quality, effectiveness and relevance of the provision for education and training, and the extent of the commitment to lifelong learning. In order to improve standards and maintain competitiveness it is essential that we have a supply of well educated and appropriately qualified personnel coming into the engineering industry.

FUNDING

8. The funding of the higher education system is a complex and difficult subject and it is very easy to just say that there should be more money found to provide the necessary support. A factor in the debate is that the public wishes to ensure that they are receiving "value for money" for their tax contributions. Since many of those contributing are parents, they do not wish to have the amount of money they have to pay out to support their child(ren) increased.

9. However it is obvious that the UK cannot sustain the higher education system we require on the current level of funding and therefore additional funds must be found. Employers already contribute funding to FE and HE with many companies paying for part-time students (HNC), for HND courses and part-time/work based degrees, as well as the cost of continuing education and training for their employees. Therefore in the loan approach with students, as major beneficiaries, paying back a "loan" once they graduate and are earning a set amount of money would seem to be fair solution. In this model, employers could choose to assist with the re-payment of the loan if they so wished, either in a higher starting salary or as an incentive to join their company.

10. That said, EEF and EMTA do not believe they can make a major contribution to the funding debate except with regard to the Dearing suggestion of the need for a government bursary of scholarship arrangements for courses such as medicine or teacher education where courses are longer than three years. The trend in recent years has been to extend the engineering degree course to four years and therefore we suggest that engineering would need to be included in any special case considerations, particularly as the Top Flight bursaries scheme has been withdrawn.

11. The then Department for Education (DFE) introduced the Top Flight scheme in 1994 as a mechanism to attract highly talented people to a career in engineering. The bursary scheme provided financial support of £500 per year for each year of their course for high calibre young people, i.e., those who had achieved AAB in GCE A level or equivalent, who chose to study engineering. The introduction of the scheme sent out a singularly important message, namely that the UK needs the best qualified young people to take engineering courses. It was extremely helpful therefore to HE institutions in recruiting the higher calibre people on engineering courses and especially where that course was for four years. This resource is now no longer available and was withdrawn without any real consultation. Our objections, and that of the Engineering Professors' Council, are well documented.

DEMAND FOR HIGHER EDUCATION/PARTICIPATION/ACCESS

12. In January of this year, the EEF (with major contributions from EMTA and JETPC) published a strategy document called, "*A New Millennium of Learning for Engineering*", a copy is enclosed.¹ It sets out the vision for engineering in the year 2010. By this date, we believe that the engineering industry will be more highly skilled requiring a far greater proportion of graduates and technicians and a lower proportion of unskilled and semi-skilled labour. Indeed we estimate that about 50 per cent of people joining the industry will have received higher education.

13. For economic reasons therefore, if the UK is not to be left behind in this complex, fast-changing world we live in, the freeze on expansion of higher education should be lifted. It is extremely difficult for the UK to compete in world markets on price. Instead we have to rely on intellectual input, creative innovation and knowledge of practical implementation methods for the products and services we sell. Well-planned Further and Higher education widens the viewpoint, develops the cognitive (reasoning/analytical) skills and abilities of the individuals who experience it and is essential to support the "value added" approach to world markets.

14. We therefore support the specific recommendations that the cap on full-time sub degree (e.g., HNDs) places be lifted immediately and the cap on full-time undergraduate places be removed over the next 2-3 years. We also agree that, where possible, more sub-degree provision should take place at further education colleges.

15. A number of Dearing's recommendations regarding quality assurance will ensure that poor performing faculties in some universities will either withdraw the course or bring it up to standard. These include the establishment of threshold standards, the strengthening of the external examiner system and the necessity to specify degree programme outputs in terms of knowledge, understanding and skills. These measures should prevent poor engineering courses from being delivered and ensure the quality of the graduates.

16. The recommendations mentioned and commented upon in paragraphs 14 and 15 should help the engineering sector's need for an increased supply of high-calibre graduates and higher level technicians where there is a real shortage.

17. The engineering industry is conscious that we do not have sufficient females or ethnic minorities entering the profession.

18. Since the mid 1970s the engineering community has put a great deal of effort into trying to attract young women into engineering careers. In particular, EMTA and its predecessor bodies have run a number of initiatives aimed at attracting women into graduate and technician level occupations.

19. The annual Insight programme, run in conjunction with universities since 1979, has each year given 500 girls studying Maths and Science "A" levels the opportunity to spend a week at a university finding out about engineering degrees and engineering occupations to help them make up their mind, on an informed basis, whether engineering is the right choice for them. Evaluation studies estimate that about 20 per cent of those attending programmes, i.e., 100 young women each year, opt for an engineering degree when they would not have otherwise done so.

20. The Engineering Council and the Equal Opportunities Commission launched the WISE (Women into Science and Engineering) programme in 1984. This has acted as an umbrella for many initiatives, the most recent of which is WISE Outlook, run jointly by the Engineering Council, the EEF and EMTA. These programmes provide a "three day hands-on" engineering experience for 13-14 year old girls working in an FE college. They also visit engineering companies, receive talks from young, practising engineers and learn presentation skills. The numbers of women studying engineering and entering the engineering profession has increased over the last 20 years, but from a very low starting point and there is still a long way to go.

21. The picture is very different however for ethnic minorities; here the numbers are quite small. Working with the Commission for Racial Equality (CRE), the EEF and EMTA will be undertaking activities to address this deficiency, including the need to influence parents and teachers at the primary school stage, as we believe that much can be achieved by targeting these people at this stage.

22. EEF and EMTA would support additional funding for HE institutions that support the recruitment of ethnic minorities and/or females into an engineering environment, particularly those with higher level capabilities.

23. We would wish that all recruitment to courses is at the level befitting the individual's abilities and that the advice and guidance given to the individual on which course to undertake or how to achieve their ambition should be realistic and appropriate, and include an explanation of the new qualifications framework.

CONCLUSION

24. EEF and EMTA accept that in the main, the Dearing Report's recommendations are excellent. They are imaginative and yet practical, encourage collaboration, and provide a consolidated base for the future of higher education. If they are implemented they will help to ensure that, in the future, both employers and students will

¹ Available from Committee staff.

have increased confidence in the content and standard of degree courses. We are sure that if the recommendations are accepted, the implementation will not be easy or have a smooth passage, but the Government and higher education can be assured of the engineering industry's support in the fulfilment of the proposals of the Dearing report, particularly those on teaching, quality and standards.

APPENDIX 7

Memorandum by De Montfort University

RESPONSE TO THE REPORT OF THE NATIONAL COMMITTEE OF INQUIRY INTO HIGHER EDUCATION CHAIRED BY SIR RON DEARING

1. De Montfort University welcomes the Report and congratulates the Committee on its research and production within the short time span given.

2. De Montfort University notes, however, that within such a short time span the Committee could not have been expected to solve the many problems facing British Higher Education. The Report is valuable in its empiricism and pragmatism but a little disappointing in its lack of imagination and vision.

3. De Montfort University regrets that the Government appears to have rejected the financial basis on which the recommendations of the report are made. The University does not believe that the proposals for:

- (i) increased rates of 40 per cent of 18 year olds
- (ii) life long learning
- (iii) improvements in quality, the benchmarking of standards and the proposed new role for external examiners
- (iv) developments in research
- (v) the introduction of an Institute for Learning and Teaching
- (vi) the encouragement of economic social classes III-V to participate in higher education
- (vii) involvement in the infrastructure for I.T. comms

can be achieved without the financial recommendations being accepted and implemented.

4. In the main the University accepts each of the above proposals (3i-vii) as being essential:

- (i) for the health of the University system in England and Wales
- (ii) for promoting social equality and stability
- (iii) for the future economic growth of the regions and the nation.

5. The recommendations made in the Report relating to staffing, including the transfer of the pension scheme to U.S.S., appears to be ill conceived. Recommendations on such particularities appear to be inappropriate to a Report dedicated to long term strategic views.

6. The University is concerned:

- (i) that the policy on regionalisation proposed might result, not in regional co-operation but destructive regional competition
- (ii) that there is insufficient emphasis placed on what is the appropriate pedagogy for the next century
- (iii) that there is an apparent parochialism in relation to the developments, particularly in I.T. to be found elsewhere in the world
- (iv) that there is a failure to articulate a post-16 national framework for education and an understanding of a capability spectra for young as well as adult learners
- (v) that there is no overt realisation of the effect a University presence has on the development of the local or national economy, nor on such issues as inner-city improvement and development
- (vi) that the compact with industry is concerned largely with postgraduate, rather than undergraduate education
- (vii) that the Committee has not considered a system of financial incentives and taxation to involve business more closely with the wide range of universities
- (viii) that there is an apparent failure to comprehend the necessity for a new product mix in higher education
- (ix) that the Committee assumes that demand for higher education is not related to price and may have a particularly deleterious effect on recruitment from economic-social classes III-V

- (x) that the Report is somewhat naïve in some assumptions being made, for example, over details of how IiP could be introduced

7. De Montfort University welcomes the Report's aim to promote a higher education system, excellent in its diversity and dependable in its standard, but fears that because of

- (i) its lack of clarity over the function and purpose of University education
- (ii) its failure, in the time available, to realise or articulate fully the detail of its recommendations
- (iii) its apparent rejection by Government of its most substantial recommendations

the Report can do little more than point in some useful directions.

8. The University thereby asks the Government

- (i) to realise a more equitable funding of higher education, especially in encouraging participation from economic-social classes III–V
- (ii) to support the Dearing recommendations, particularly on Research and on the introduction of an Institute for Learning and Teaching in Higher Education
- (iii) to introduce a national scheme of industrial and commercial investment into the diverse system of higher education
- (iv) to introduce a post-16 framework of education which acknowledges, respects and builds on the capability spectra of students
- (v) to support the Dearing Recommendations in relation to the enhanced role for the Quality Assurance Agency, including the review of overseas activities
- (vi) to consider, with urgency, the international developments, particularly in I.T., occurring in global higher education and promote an investment strategy at least to match and preferably to lead such interactive developments from the UK.

APPENDIX 8

Memorandum by Dr Nicholas Barr and Mr Iain Crawford^{1,2}

THE DEARING REPORT, THE GOVERNMENT'S RESPONSE AND A VIEW AHEAD

EXECUTIVE SUMMARY

The Dearing Committee's overarching objectives were twofold: to extend access, particularly to under represented groups, and to propose a mechanism which yields the resources to finance the mass higher education system which Britain now has. Those are also the Government's objectives. We endorse them enthusiastically.

The central fact of British higher education is the move from an élite 5 per cent system to a mass 30 per cent system. An unavoidable implication is that taxpayer resources must be supplemented by private resources on a significant scale. Student loans will bring in those private resources eventually, when the loan system matures; a key challenge for policy is to bring in resources *now*.

The major impediment to doing so is the fact that the Treasury currently classifies *all* lending to students in the public accounts as if they were grants, taking no account of the fact that a large fraction will be repaid. This expenditure classification procedure is a strait jacket which constrained what the Dearing Committee could recommend and, equally, restricts the Secretary of State's freedom of action. If not resolved, the problem is terminal.

The Dearing Report was utterly right in three of its core recommendations: the need for income-contingent loan repayments (Rec. 78); the need to solve the expenditure classification problem (Rec. 80), and the desirability of students making a fee contribution (Rec. 79).

However, neither the Dearing preferred option nor the Government's response, achieves the two core objectives. As explained in section 3.2, the Government's response, if resolution of the classification problem prevents any change, will:

- produce no more resources for students or universities;
- put access at risk;
- create inequities in other ways;
- not be implemented within the proposed time frame.

To avoid these problems, the first and overriding step, is for Government to resolve the classification problem. Its resolution yields a "pot of gold" of over £1 billion per year, opening a range of policies which simultaneously increase resources for higher education and make it possible to improve access. Such policies include:

- Expanding loan entitlement through loans sufficiently generous to cover all living expenses, available without an income test; and by extending loans to part-time and postgraduate students.
- Promoting access through targeted scholarships at university level.
- Actively promoting policies directed at 16 to 18-year-olds.

On fees, a more promising way forward is by:

- Introducing a £1,000 tuition contribution for all students, covered by a loan available without income test.
- Permitting variations about this fee level, determined by individual universities, subject to a regulatory régime, with income-contingent loans to cover such fees.

THE DEARING REPORT, THE GOVERNMENT'S RESPONSE AND A VIEW AHEAD

1. THE BACKDROP

1. Since 1988 we have been arguing for major reform of the finance of higher education, and in particular of student support. Our objective at the time was to free resources for a substantial expansion of higher education in order to improve access.

2. In 1989 we argued that the top-up loan scheme (implemented in 1990) was seriously flawed (see articles in *The Times* and *Financial Times* in Annex 5, and for fuller discussion Barr, 1989, Ch. 4): it would yield no real resources for up to 100 years; and repayments were organised on a mortgage-type basis.

3. Because the loan arrangements did not free the necessary resources, the expansion which took place between 1990 and 1996,³ predictably, plunged the higher education system into financial crisis (see article from the *Times Higher Education Supplement* in Annex 5). That was the problem that Sir Ron Dearing was charged with solving.

4. OBJECTIVES. The Dearing Committee's overarching objectives were twofold:

- to extend access, particularly to under represented groups;
- to propose a mechanism which yields the resources necessary to finance the mass higher education system which Britain now has.

We enthusiastically endorse those objectives. Before turning to discussion of the Dearing recommendations and the Secretary of State's response, it is worth amplifying them.

5. *Improved access.* Access depends on three factors:

- having the qualifications to enter higher education;
- enough places in higher education;
- adequate resources to support students during their studies.

Current impediments to access exist under all three heads: staying on rates post-16 for young people from poorer backgrounds are very low; over-rapid expansion and inadequate funding have led to declining quality, itself a deterrent to access; and the current maintenance package is too small, particularly for students who depend on a parental or spouse contribution which is often not forthcoming.

6. The central fact of British higher education is the move from an élite 5 per cent system to a mass 30 per cent system. That expansion represents a major increase in access; but it carries with it the unavoidable implication that taxpayer resources need to be supplemented by private resources on a significant scale. The question is how to bring in those private resources without deterring the very students whose participation we wish to encourage. This brings us to the second core objective.

7. *More resources* are needed to repair the damage to universities caused by an underfunded expansion; to finance expansion; and to support existing and additional measures to improve access. Additional private resources can come from four potential sources:

- *Family resources.* Excessive reliance on family resources—i.e., parental/spouse contributions—can and does harm access (see Annex 3).
- *Student earnings while a student.* If a student finds a job, earning activities compete with study time and can harm academic progress. But nowadays it is often difficult to find a job. That, in turn, may force students to drop out.
- *Employer contributions* to education and training as a whole should be reassessed. However, they are unlikely to release sufficient resources to solve the long-run, let alone the short-run funding problems of higher education. In addition, if badly-designed they risk becoming a tax on graduate employment.

- *Students' future earnings.* It follows that in a mass system the *only* potential funding source which is (a) large and (b) not grossly inequitable is a system of loans which allows students to borrow against their future earnings.

8. A LOAN SCHEME TO PROMOTE ACCESS has two essential features:

- loans must be universally available;
- repayments must be fully income-contingent.

9. Income contingency is central to achieving the access objective, as Australian experience amply demonstrates (Chapman, 1997). In the UK context, as in Australia, it is important to understand the extent to which people are averse to debt for things like education which were previously free, a point which applies with particular force to lower socio-economic groups and to people from certain ethnic backgrounds. Income contingency deals with this problem, first, because it is rooted in ability to pay: it tailors repayments week by week to what people can afford, thus protecting individuals from risk. It means that those who can afford to repay do so, and those who cannot are protected from debt. It does so, second, by focusing attention not on the stock of debt but on the flow of repayments: what students face is not a debt of (say) £12,000, but a potential liability to pay a fraction of their future earnings, provided those earnings are sufficient. This is a key presentational issue. With income contingent repayments, it is possible to say to students (and their parents): "You go to university; you have enough to live on; it is all free at the time.; you get your degree and then you go out and start earning. Only when your earnings are high enough you pay an extra 3p per pound of earnings, which helps to pay for the education of the next generation".

10. Income contingency has additional equity advantages. It is fair for people to contribute not on the basis of where they start but on where they end. It is the student, not her parents, who benefits directly from higher education. Thus it is the student who should contribute from her future (generally enhanced) earnings rather than from her family's current income.

11. In what follows, we assess the Dearing proposals (UK National Committee of Inquiry into Higher Education, 1997a, b) and the Secretary of State's response relative to the two core objectives discussed in para. 4.

2. THE DEARING PREFERRED FUNDING OPTION

2.1 *Overview of the Report's content*

12. The range of the main Dearing Report reflected the Committee's broad remit. In many ways, however, it can be argued that three elements were central: quality, access and funding.

- A whole series of recommendations concerned the quality of teaching and facilities, including the establishment of a professional Institute for Learning and Teaching in Higher Education (Recommendation 14). Recommendations 23–26 strengthen the powers and broaden the remit of the Quality Assurance Agency. We shall not discuss the quality issue further except in the context of fees.
- Alongside specific recommendations about measures to improve access there were a series of Reports about widening participation by ethnic minorities, women and alternative students (Report 5) and students from lower social classes and students with disabilities (Report 6), and about individual learning accounts and a learning bank (Report 13).
- Quality and access both depend significantly on funding, and Report 12 presents the results of a sophisticated modelling exercise. In what follows we shall at times be critical both of the Dearing funding recommendations and the Secretary of State's response. We are clear, however, that both sets of recommendations are shaped by a binding assumption that there will be few, if any, extra resources for higher education in the short run. As discussed later, a key constraint is the way the Treasury classifies student debt in the national accounts (the subject of Recommendation 80). As Sir Ron said explicitly at the Select Committee's meeting on 31 July, he felt it unlikely that there would be significant additional taxpayer resources. It is our view that, in compiling the Report, the Dearing Committee felt it would be unsafe to assume an immediate change in public accounting practice, not least because resolution of that problem lies outside the power of the Committee's sponsoring Department. If the Committee had felt able to relax that assumption, we firmly believe that the shape of its recommendations would have been significantly different.

13. A separate Report discussed the situation in Scotland, which differs in important respects from the rest of the UK. It has different school leaving qualifications, historically high participation rates (currently 45 per cent), a preponderance of four-year degrees, and now the potential for different funding arrangements as a result of constitutional change. We shall not discuss the Scottish dimension further here.

2.2 *Emphatically right*

14. Two of Dearing's recommendations are utterly essential and stand out as by far the most important in the Report: the centrality of income contingency, and the urgent need to sort out the expenditure classification problem.

15. **INCOME CONTINGENCY.** “We recommend to the Government that it introduces, by 1998–99, income contingent terms for the payment of any contribution towards living costs or tuition costs sought from graduates in work” (Recommendation 78). Having campaigned for this reform for nearly 10 years, we applaud loudly—it is crucial for access. This recommendation represents an essential reform of the present mortgage-type loan scheme. Full income contingency means that people make repayments of (say) 3 per cent of their weekly or monthly income (for fuller discussion, see Annex 1).

16. **THE CLASSIFICATION PROBLEM.** The Treasury currently takes the view that *all* student loans count as public expenditure just as if they were grants, taking no account of the fact that a large fraction will be repaid. Thus student loans bring in little extra money until the system is mature. The Report rightly stresses that it is vital to solve this problem.

“We have noted that the UK adopts a broader definition of PSBR [Public Sector Borrowing Requirement] than a number of other countries and a broader one than it is required to adopt under the Maastricht criteria” (paragraph 20.89).

“[W]e see no merit in the present practice of treating loans in the same way as grants. It misleads rather than informs” (paragraph 20.90).

The Treasury takes this view even if student debt is sold to the private sector. Here, the Report argues (paragraph 20.97) that

“to classify loans as public expenditure because the repayments are collected on an agency basis through the Inland Revenue, even though much of the risk of non-payment is borne by the private sector owners of the repayment rights, seems to be at variance with the substance of the matter” (paragraph 20.97).

Thus:

Recommendation 80: “We recommend to the Government that it looks urgently at alternative and internationally accepted approaches to national accounting which do not treat the repayable part of loans in the same way as grants to students”.

17. Any change must conform with a range of IMF and EU criteria.⁴ There are two potential ways forward:
- Continue with publicly-funded loans, but adjust the way in which they enter the public accounts. This approach can be implemented rapidly and in ways compatible with international statistical criteria. Australia has just such an adjustment (see Annex 2).
 - Sell student debt to the private sector so as to bring in private funding. For this approach to be compatible with international criteria both finance and administration must be largely private.

Both approaches are discussed in Annex 2 and, in more detail, in Barr (1997).

18. The Report is spot on in saying that this problem needs to be fixed—and fixed fast. If not resolved, the problem is terminal. It is true that loans will bring in additional resources from around 2020—but you cannot revive a corpse. Resolution, in contrast, will release a “pot of gold” of over £1 billion *immediately and every year*.⁵

2.3 Potentially problematical

19. The Report’s preferred option (Option B in Table 2.2) has three elements:

- (a) fifty per cent of student living costs from an income-contingent loan;
- (b) fifty per cent of living costs from a mixture of grant and parental contribution;
- (c) a tuition contribution of 25 per cent of average tuition costs.

Taking these in turn, (a) has already been widely welcomed; (b) and (c) require discussion.

Keeping the maintenance grant

20. The Dearing Report argued for the retention of the grant because it is targeted on the poorest students. It is our view that the same resources, used differently, could do more to promote access.

21. **THE CASE AGAINST GRANTS.** There are several counterarguments against the Report’s position.

22. *Wastes a ready-made political consensus.* The principle of income-contingent loans to cover *all* living costs was endorsed in submissions to Dearing by the CVCP (the suppliers), the NUS (the consumers) and others, including ourselves (Barr and Crawford, 1996).

23. *Wastes the chance to abolish parental contributions.* We believe that parental contributions create problems more serious than are generally appreciated: they aggravate student poverty, reduce student freedom and have a pernicious gender gradient, particularly for certain ethnic groups (see Annex 3 for fuller discussion).

24. *Unnecessary with universally available income-contingent loans.* Resources are scarce. Thus it is necessary to target them on those who need help most. One way of doing so is through an income test. The right income to test is the student's future income, not her parent's or husband's current income (see Annex 3). That is exactly what income-contingent repayments do—by basing repayment on where people end up rather than on where they start, they get the income test right, and hence increase the progressivity of the system in comparison with means-tested grants.

25. *Wastes resources which could do more for access if used differently.* If after due consideration, the Treasury accepts Recommendation 80, the replacement of maintenance grants by loans will release significant resources in the short as well as the long run. These resources can do more to improve access if used in other ways, of which the following are examples.

26. A BETTER WAY FORWARD. Access is a core objective. Actions to improve it include:

- Expanding loan entitlement through loans high enough to cover all living expenses, available without a test of parental/spouse income; by establishing a goal of increasing loan entitlement to 120 per cent of the current maintenance package; and by extending loans to part-time and postgraduate students who are currently disenfranchised.
- Promoting access through targeted scholarships at university level. The Report recommends improved links between universities and their localities. We both have personal experience of such outreach activities. Such initiatives often fail for lack of resources. Channelling scholarship money through universities is one way to help.
- Actively promoting policies directed at 16 to 18-year-olds.

27. The last point bears amplification. If policy makers are serious about access, the real push needs to come earlier in the system. University places have largely caught up with the number of qualified school leavers. Thus widening access means increasing the number of qualified school leavers. The Report (Table 7.2) shows that only 16 per cent of 18-year-olds from the lowest socioeconomic groups qualify for university entrance by gaining two "A" levels or equivalent; of that total, however, *nearly half* go on to higher education. The implication is clear: if a student from a poor background can get two "A" levels, she has a very good chance of going to university—the trick is to help her to get those "A" levels. Thus there is a significant role for targeted interventions to encourage people from poorer backgrounds to stay at school or further education until age 18. The Select Committee will be aware of clear linkages with the Kennedy Report (Further Education Funding Council, 1997).

Flat Fees

28. Recommendation 79 states:

"On a balance of considerations, we recommend to the Government that it introduces arrangements for graduates in work to make a flat-rate contribution of around 25 per cent of the average cost of higher education tuition, through an income contingent mechanism The contributions made by graduates in work in this way should be reserved for meeting the needs of higher education."

In practice, the recommendation is to impose on students a flat fee of about £1,000 per student per year, irrespective of subject studied or university attended—broadly along the lines of reform introduced in Australia in 1989.

29. We agree with Dearing that it is right that students should make a contribution to the costs of their tuition; we also agree strongly with Dearing that there are also broader benefits to society (Report XX), so that it is right that the state continues to make a significant contribution.

30. DIFFERENT VIEWS. There are very different views about the rightness, or otherwise, of the issue of charging fees to students.

31. *View 1: the wrong way—there should be no fees at all.* The counterarguments can be expressed simply.

- Free tuition is unaffordable in the mass system of higher education which we now have.
- Graduates, because of their degrees, generally earn more than nongraduates. In 1996–97 the gross weekly earnings of the average graduate were £457 per week; the comparable figure for nongraduates was £237.⁶ Thus it is both efficient and fair that graduates make a contribution.
- Charges are levied for most postcompulsory education and training. It is thus unfair that only full-time undergraduate students—in many ways tomorrow's best off citizens—are completely exempt.
- Free tuition is unnecessary if universal income-contingent loans are available.
- Free tuition, like maintenance grants, wastes resources which could do more for access if used differently.

32. *View 2: an important stepping stone.* It can be argued that the flat-fee approach worked well in Australia, and is a model from which we can learn. It is also argued that Dearing has made an important gain by establishing the principle of a student contribution to fees. A move from no fees to variable fees is too big a jump, according to this view, and establishing flat fees therefore an important stepping stone.

33. *View 3: unhelpful to the long-run inevitability of variable fees.* This depends on the nature of the Government's response, and is therefore taken up below.

34. **WHY DID DEARING TAKE THIS ROUTE ON MAINTENANCE AND FEES?** Dearing was well aware of the arguments about variable fees and the replacement of grant by loan. They were included in our first submission to the Committee, and we discussed them at length with his secretariat. Why, then, did the Committee retain the grant and go for flat-rate fees? The answer is simple: the classification problem discussed earlier left them with nowhere else to go. If loans count as public spending, then making them more generous—for example extending loans to replace parental contributions—and extending them to larger numbers of students adds to public spending, as does intervention to encourage staying on in school. Thus there was no way to give students more money. Yet there is a funding crisis; not only students but also universities need money. The only way to get money for universities was to impose a fee and hope that the Treasury would not claw it back, at least immediately.

3. THE GOVERNMENT'S RESPONSE

3.1 *The response*

35. **RESPONDED ALREADY.** Given the potentially unpopular and controversial nature of some of the main Dearing recommendations, the Secretary of State clearly felt that there were advantages in outlining at an early stage the direction of the Government's response. He did so in a Statement to the House on publication day (*Hansard* (Commons), 23 July 1997, cols. 949–51), both to reduce uncertainty in the minds of students and their parents and, given the timetable on which he had decided, because he needed to inform Parliament of his intentions before the summer recess.

36. The Secretary of State's response had five key elements, discussed in turn.

37. *Endorsement of the principle of income contingency.* This announcement has been welcomed by virtually everybody in higher education.

38. *A flat-rate, means-tested fee of up to £1,000.* Though not much detail has yet been formally announced, some features are apparent. The most glaring is that the fee will be paid out of the parental contribution, i.e., the fee will be *upfront and not supported by a loan entitlement* (see Table 1 in Annex 4).

39. *Replacement of the grant by an income-tested loan entitlement.* The state grant will be abolished, and replaced by a loan entitlement *minus* any remaining parental contribution (see Table 1 in Annex 4).

40. *A lack of enthusiasm for top-up fees.* The Secretary of State's reluctance to countenance additional fees raises serious problems. As we argued in our first submission to Dearing (paras. 9–11) or, more recently in the third of our articles in the *Guardian* in Annex 5, a mass system of higher education is too complex for central price control to be compatible with quality and diversity. One of the desirable features of a mass system should be greater diversity of activities and hence greater diversity of costs. In theory differential costs could be accommodated by differential allocations by an all-knowing central planner. In practice the task is far too complex. The worry, in short, is that state-ordained flat-rate fees impose a strait jacket on the finance of higher education; their introduction would create an economic and political dynamic which would make it politically difficult and time-consuming to escape; and, as discussed below, the lack of differential pricing potentially harms access for British students. It is not yet clear if the Government will move legislation to prohibit differential pricing. It is understood that the Department is taking legal advice.

41. *A timetable.* The Secretary of State announced the intention to bring in the fee contribution for all students entering university at the start of the 1998–99 academic year. We discuss below our concerns—shared with others—about the feasibility of this timetable.

42. **STILL TO RESPOND.** Government is consulting on a wide range of matters and will act in due course. A number of unanswered questions, however, stand out:

- addressing the expenditure classification issue;
- setting out the details of how income-contingency will work, such as the threshold for repayments, the rate of repayment and the collection mechanism;
- establishing the nature of the new Student Support Agency which will take over the role of the LEAs and incorporate the Student Loans Company;

- details of how income testing will work for home *and* EU students;
- arrangements, if any, for enforcing unpaid parental contributions;
- arrangements for Scotland under a devolved Parliament.

3.2 Comments

43. What follows is intended not as alarmist, but is our analysis of the consequences of proceeding with the reforms on the basis of what is currently known, and in particular of the policy contortions necessitated by the current public expenditure classification of student loans.

44. The Government's proposals raise four sets of serious problems, discussed in turn:

- they produce no more resources for students or universities;
- they put access at risk;
- they create inequities in other ways;
- they cannot be implemented effectively within the proposed time frame.

45. NO MORE RESOURCES. The logic is distressingly compelling.

- Public spending on higher education will not go up (the budget said so).
- Parental contributions (i.e., private spending) will not go up (the Secretary of State said so).⁷
- Loans to students (the other potential source of private spending) count in their entirety as public spending.

If *public* spending is unchanged and there is no extra *private* spending, there is nothing extra for higher education. Both Dearing and the Government propose a brave and genuine resolution of long-run funding problems but, as things stand, do not produce a brass farthing in the short run.

46. Two potential counterarguments do not fly. First, it is argued that loans will bring in private resources. This is true, but the time scale is medium term at best. Official figures (*Hansard*, 24 July 1998, WA col. 441) show that the current scheme will make no cumulative saving until 2015 (i.e., 25 years after its introduction). That figure, however, ignores the interest subsidy. On realistic assumptions, the scheme will not make a net saving to the taxpayer for 100 years (see *Financial Times* article in Annex 5). The new scheme will be better designed; but any scheme which lends to large numbers of students and allows extended repayment periods (both of which are desirable for access) will lend large amounts from day one, but will only begin to receive its first trickle of repayments in the fifth year.⁸

47. Second, it can be argued that the Government will raise resources through its planned sale of the existing stock of student debt. This, again, is true, but those revenues are already included in the higher education budget. If the sale fails in any way, there will be a huge hole in the higher education budget. Moreover, as the Dearing Report points out (para. 20.97), the proposed debt sale fails to meet the Treasury's value for money criteria: the taxpayer will continue to pay the interest subsidy plus default protection, imposing heavy costs on future taxpayers. The arrangement has been described as a firesale and—after allowing for the cost of guarantees and continuing interest subsidies to the buyers—is unlikely to yield more than 50 per cent of the face value of the debt.

48. The Government's proposals might actually make things worse by *increasing* public spending. If students have to cover fees as well as maintenance, the take-up of loans will increase. Currently about 63 per cent of students take up their loan entitlement, borrowing a total of £879 million. If take-up increases to 90 per cent, total lending would increase by about £375 million. Thus the changes have an overall *negative* effect. This outcome is plausible for two reasons. First, with no grant and a charge for fees, students will *need* to borrow more. Second, income-contingent repayments *reduce the inhibition* to borrowing. Since income-contingency is critical to protect access, this is the whole *point* of income contingency.

49. There is one partial offset. Suppose a parent voluntarily pays more than the assessed parental contribution and, in consequence, the student takes out a smaller loan. This substitutes parental contributions (private) for loans (public), on the face of it improving matters. These private resources, however, are unquantifiable in advance, hence cannot be allocated to the higher education budget, and hence will probably revert to the Treasury.

50. None of this precludes a small increase in resources from administrative or other savings, or from some extra money in the next public spending round. But given the Government's spending commitments and stated priorities in other areas, the scale of any such resources is nowhere near commensurate with the needs of the current financial crisis.

51. In short, the current proposals produce no additional resources, hence do nothing to restore quality, to finance continued expansions, or to improve access. Students remain poor; universities remain poor.

52. POTENTIAL ADVERSE EFFECTS ON ACCESS. The Government's fee proposals pursue an equity objective through a *price* subsidy (i.e., reduced fees for poorer students) rather than an *income* subsidy through

income-contingent loans. The problems with this approach is that it can frequently hurt the very people it is intended to help, for example excessive rent subsidies, which have led over the years to waiting lists and labour immobility. It is therefore not surprising that the proposed arrangements, notwithstanding the Government's strong commitment to improve access, are profoundly unhelpful.

53. *Inadequate living standards while a student.* Access is harmed because student living standards are inadequate. Even if a student receives all assessed parental contributions or, in the case of a poor student, a loan to cover all living costs, the level of payment is 20 per cent too low. In this matter we are wholly in agreement with the NUS position.

54. *Strengthened reliance on parental contributions.* Loans are income-tested, so that there is continued reliance on parental contributions. As mentioned earlier and discussed in detail in Annex 3, parental contributions are profoundly regressive social policy: many parents do not pay in full, contributing to student poverty, and others do so only on the basis of conditions about choice of subject or university.

55. *Upfront fees.* The Government's proposals do not offer a loan to pay the fee contribution, which is deemed to be paid through the parental contribution. The proposals thus include up-front fees (which is what parental contributions amount to). No government committed to access should contemplate such a policy. Though the Government has said that parental contributions will not increase, the effect of a fee charge unsupported by loans does just that—not by increasing the *total* parental contribution but by making it much more an *up-front* contribution. It is already the case that many bills (e.g., hall fees) have to be paid on day 1, at a time when students have not yet received their loans. In a very standard case, a parent has to make up to half of the annual parental contribution up-front (see Annex 3 for details), rather than as monthly payments, which most parents prefer. From 1998, the bill on day 1 will also include fees, greatly increasing the pressure on parental contributions and, in consequence, on students where that contribution is not paid.

56. *Gender aspects.* Parental contributions and upfront fees are regressive with respect to gender. Women are likely to be harder hit by the poverty issue. They are also likely to suffer greater curtailment of freedom, since parents are more likely to seek to impose conditions on daughters than sons, and husbands are more likely to lean on wives than vice versa. Such disempowerment is likely to be particularly acute for women from ethnic backgrounds with weaker traditions of educating daughters.

57. *Potential discrimination against British students.* A flat fee will continue the erosion of quality at the best universities, which face the biggest shortfalls. If this policy continues, the result will be to deprive British students of the chance of an internationally cutting-edge undergraduate degree in one of two ways. The quality of the best institutions might fall; British students could still get places, but the quality of the degree would be less. Alternatively, the best institutions will largely stop teaching British undergraduates (for whom they receive on average £4,000 per year) and will use the fees from foreign undergraduates (around £8,000 per year) to preserve their excellence. The Government is considering trying to prevent British universities from charging additional fees to UK/EU students. Again, this is done for equity reasons; again, it ends up harming the very people it is aimed at helping, in this case by creating a situation where British students will find it harder and harder to get places at the best universities.

58. In short, *no* student is any better off than currently; many are worse off; and women are likely particularly to be affected.

59. OTHER INEQUITIES. Impediments to access are one source of inequity. There are other ways in which the proposals are inherently unfair.

60. *Focus on starting points rather than outcomes.* Lucky the shopworker's son who becomes a successful barrister, who pays no fees, unlucky the managing director's daughter who becomes a social worker. What matters is not where people start but where they end. The Secretary of State has said (*Times*, 24 July 1997, p. 20): "Our solution reflects the graduate's earnings of the future, not the circumstances of today's student". Alas, the Government's proposal, by retaining an income test on parental/spouse income, does exactly the opposite.

61. *Price does not vary with quality.* It is unfair (and will soon be seen to be unfair and hence politically unpopular) to expect parents to pay the same flat fee for a degree at Oxford as for a degree at Balls Pond Road Technical College, since the degree from Oxford is worth so much more—a fact of which employers are already well aware. The proposal has been described as an "educational poll tax".⁹

62. PROBLEMS WITH THE TIMETABLE FOR IMPLEMENTATION. Even if the policy was ideal, it cannot be put in place effectively by 1998–99. One of the reasons for haste was the imperative to bring in more money; however, since the reforms yield no extra resources in the short term, there is no need for such haste.

63. Such dramatic changes as are being suggested require detailed planning. It is essential that administrative arrangements work smoothly and do not create unnecessary resistance. When detailed arrangements have been worked out it is necessary to explain them properly to the people who will be affected.

64. Excessive haste can, and has, caused problems.

- The over-rapid establishment of the Student Loans Company in 1990 worked badly and led to serious delays in issuing cheques to students.

- Ministers had to move quickly last month to defuse public worries about the gap year.
- One consequence of the Secretary of State's announcement, at a time when the details of income-contingent repayments had not yet been worked out, was to focus the attention of the press, and hence of prospective students and their parents, on the *stock* of debt (e.g., £12,000), rather than the *flow* of repayments (e.g., an extra 3p in the pound once the student starts earning). People generally think more naturally in terms of flow prices (e.g., our weekly grocery bill) than the stock—we would all be horrified if we knew how much we will spend on food (or drink) over the next 25 years.

65. We have serious doubts whether the many detailed changes necessary can be effectively implemented by October 1998. The following are intended only as examples of the wide range of issues to be addressed.

- Means-testing European students: though what mechanism, and by whom, will an income test be imposed on a doctor's son from Athens and a plumber's daughter from Frankfurt? University Registrars will very shortly be expected to answer such questions from EU students.
- Who will collect fees from students? If universities, what will be the implications for administrative costs if they are asked to accept fees on a monthly basis? What will universities do where students or their parents cannot or will not pay? It is easy to imagine a situation where nonpayment of fees will absorb far more than the additional hardship money proposed of £250 million per year—how absurd to be forced to use scarce hardship resources to support the sons and daughters of middle class parents who refuse to help their own children.

66. These are not merely administrative matters: they have major implications for the political acceptability of reform.

- Administrative mishaps erode Ministerial credibility and public confidence, costing Ministers the chance to lead on the front foot.
- Over the past 10 years, several Ministers have gone to the dispatch box announcing fundamental changes in university funding and, in some cases, legislating for such changes, only to abandon them because they had not been properly thought out. Not only higher education but also the new Government's credibility would be seriously damaged if such a thing were to happen again.
- Lack of clarity about the details of proposed arrangements has created unnecessary worry among students, prospective students and their parents, to say nothing of its effects on the blood pressure of Vice-Chancellors.

67. Over the next year or so, a series of political rows is almost inevitable, for example over the withdrawal of grants and introduction of fees. If reform is to be successful, it is imperative to avoid rows where they are not necessary. A realistic timetable for implementation is a critical ingredient for that purpose.

68. CONCLUSION. We totally share the Government's objectives. But the Government's proposals in their current form do nothing to achieve those objectives in the short run: they bring in no more resources; they do not improve access; they are unfair; and their unrealistic timetable puts the entire reform enterprise at risk.

4. A VIEW AHEAD

69. If present policies continue unchanged—in particular if the expenditure classification issue is not resolved—the crystal ball reveals a clear but disturbing picture:

- With few or no extra resources, the funding crisis will continue, with declining quality and rising student poverty.
- Access, at best, will not get worse, but there will be no increase in university attendance by students from poorer backgrounds. Increased pressure on parental and spouse contributions risks reducing participation by groups who depend on such contributions.
- There will be increasing resentment by parents who have to pay the £1,000 fee for a child at their local technical college, but see their neighbour paying the same fee for a son or daughter at Oxford or Cambridge.
- If the proposed timetable is not extended, there will be a long and inevitable series of implementation gaffes, with consequent—and entirely unnecessary—ill-feeling and hostility from the public. Ministers will spend a lot of time in television studios explaining administrative hiccoughs such as the gap year problem, rather than actively promoting the benefits of new policy.

70. Most of these problems are avoidable. Many policy directions are clear and imperative.

71. INCOME CONTINGENCY. Income-contingent repayments should be based on the graduate's weekly or monthly income and collected by the tax or national insurance authorities.

72. RESOLVING THE EXPENDITURE CLASSIFICATION ISSUE. Government should have two instruments for financing lending to students:

- (a) the capacity to classify publicly-funded student debt in the public accounts in a sensible way;
- (b) the capacity to involve private finance.

The mix of (a) and (b) would be a matter for Government choice in the light of prevailing economic circumstances. The two approaches are discussed in more detail in Annex 2.

73. We understand that the Department has put to the ONS our proposal (Barr, 1997) concerning (b), which the ONS has adjudged in its present form does not qualify as private finance. There are several ways forward. First, we are not aware of any ONS ruling on (a). Second, it would be useful to find out precisely which aspect of our proposal for (b) in their opinion falls foul of Eurostat criteria, and how the proposal might helpfully be modified. Third, it would be instructive to find out how Holland organises its higher education finance so that most lending to students is outside the budget.

74. We are confident from examples elsewhere that the problem can be solved within Eurostat rules. If Parliament willed it, it could be done.

75. These two policies—income contingent loans, and extra-budgetary resources—are *essential*, the first to protect access and bring in private resources, the second to ensure resources *now* rather than a long time in the future. The classification problem, as we have said repeatedly, is a strait jacket which has bound Sir Ron and the Secretary of State and his predecessors; if it is not removed, there is no escape from the ill-effects described above. Resolution of the problem, in contrast, opens up a whole range of options:

76. EXPANDING LOAN ENTITLEMENT is an essential component of improved access. It includes:

- offering loans which are large enough to cover all living expenses, available without a test of parental or spouse income;
- establishing a goal of increasing loan entitlement to 120 per cent of the current maintenance package; and
- extending loans to part-time and postgraduate students whose current entitlement is negligible.

77. PROMOTING ACCESS THROUGH TARGETED SCHOLARSHIPS AT UNIVERSITY LEVEL. As discussed earlier, scholarships administered by universities could strengthen ties with the local community.

78. PROMOTING ACCESS EARLIER IN THE SYSTEM. This involves additional resources to encourage young people to stay on in school or further education so as to qualify to enter university. It also involves improving the information available to young people from poorer backgrounds.

79. FEES. Policy towards fees has two elements which we regard as essential.

- A £1,000 tuition contribution for all students, covered by a loan available without income test.
- Variations about this fee level, determined by individual universities, subject to a regulatory régime, with income-contingent loans to cover such fees.

80. ISSUES FOR THE MEDIUM TERM. So far as further policy developments are concerned:

81. *Son of Dearing*. The Dearing Report (Recommendation 88) suggested that a new Inquiry be put into place in five years time. Its remit is, in important respects, already clear. It would include the finance of higher education in the light of the inevitable change in patterns of demand which will result from students bearing a greater fraction of costs themselves. For example, there will be increasing demand for part-time courses and, at the other end of the spectrum, for accelerated full-time degrees. For such purposes, university funding should not be per year of full-time study, but per course unit.

82. The follow-up Report would also need to evaluate improvements in access and, particularly, impediments to access resulting from any changes made. This is more necessary the greater the extent of continued parental/spouse contributions.

83. *McDearing*. It is highly probable that the proposed Scottish Parliament will wish to revisit the Scottish Report in the light of the inevitable changes that devolution will bring.

ANNEX 1

INCOME CONTINGENCY

84. WHAT INCOME CONTINGENCY MEANS. Full income contingency requires that repayments are a fraction (say 3 per cent) a graduate's current weekly or monthly income, as distinct from a mortgage or bank overdraft, where repayments are (say) £100 per month. This is what we have always meant by income contingency; it is what the CVCP and the NUS mean; it is what has been implemented in Australia, New Zealand and Sweden, among other countries.

85. If repayment were based on income a year in arrears, a mechanism would be needed to avoid penalising people whose income fell sharply and suddenly (e.g., someone who became unemployed, or who left the labour force because she was about to have a baby). This would be administratively costly. As discussed shortly, income tax or National Insurance contributions deal with the problem automatically.

86. INCOME CONTINGENT REPAYMENT ASSIST ACCESS in two powerful ways.

- Repayments relate exactly to the individual's current income and are thus automatically geared to ability to pay. This protects the individual from risk.

- The mechanism focuses attention on the flow of repayments (e.g., 3p in the pound) rather than the stock of debt (e.g., £15,000). It is much more natural to people to think in terms of flow prices (e.g., the weekly grocery bill) rather than (say) what it will cost to feed one's new baby until he or she is 18.

The mechanism has other advantages. Some religious groups are proscribed from commercial debt arrangements; income-contingent repayments solve such dilemmas.

87. A LOAN OR A TAX?. Repayments collected alongside income tax or national insurance contributions are a loan *not* a tax. A tax is a compulsory levy. Student loans are voluntary: it is the student's choice to go to university; it is her choice whether to finance her education through loans or through other means; she can choose whether to take out a larger or smaller loan; and she can choose to accelerate her loan repayments. In addition, loan repayments are "switched off" once the loan is repaid so that nobody repays more than she has borrowed, plus interest. In contrast, a tax goes on for life.

88. IMPLEMENTING INCOME CONTINGENCY. We have long advocated that student loan repayments should be an add-on to National Insurance Contributions (NICs). The lower earnings limit for NICs has two key characteristics from this perspective:

- it is lower than the threshold for income tax (for illustrative purposes £60 per week for national insurance, £80 for income tax);
- it is collected on a weekly basis rather than the annual income tax threshold.

89. For both reasons, using the lower earnings limit as the threshold for repayments leads to a repayment flow which is both larger and faster. The reason is straightforward: the part of the income distribution between £60 and £80 per week is very dense. It includes not only low earners but also people with higher incomes, who would escape loan repayments on that band of income if repayments were based on the income tax threshold. Raising the repayment threshold, in contrast, dramatically slows the flow of repayments.

90. One of the major advantages of income contingent repayments is that they ensure that a low threshold causes no equity problems: a person with low earnings makes low repayments. A low starting threshold also reduces poverty trap-type problems: with a threshold of £150 per week, a 3 per cent repayment starts at £4.50 per week, at the lower earnings limit repayments are under £2 per week.

91. Administrative implementation should be as follows:

- The National Insurance Contributions agency, at the request of the Student Loans Company (SLC), adds a flag to the National Insurance number of borrowers.
- The employer (i) *calculates* loan repayments as an add-on to NICs for any flagged employee who pays NICs, and (ii) sends it to the Inland Revenue with NICs and income tax in the normal way.
- The loan repayment can be *collected* and sent to SLC by either the Inland Revenue or the Contributions Agency—whichever computer more cost-effectively can talk to the SLC computer.

92. The only point that matters is that employers withhold loan repayments using the National Insurance tax base; who actually sends the money to the SLC—the employers themselves, the Inland Revenue, or the Contributions Agency—is a matter entirely of administrative cost-effectiveness.

ANNEX 2

PUBLIC ACCOUNTING FOR STUDENT LOANS

93. Under current British practice, lending to students is counted as public spending as though it were grant, taking no account of future repayments. Since not all lending to students is repaid, it would be wrong to deduct *all* student loans from public expenditure. But it makes equally little sense to present the public accounts as though *no* student loans are repaid. This approach implicitly assumes that there will be a plague which wipes out all graduates on the day they graduate, thus preventing any repayments at all.

94. There are two broad ways forward:

- lend students public money, but treat loans differently from grants in the public accounts;
- sell student debt so as to bring in private resources.

95. In terms of international statistical conventions, these can be achieved in either of two ways:

- by adopting a measure of the public deficit which conforms with EU standards; or
- by adopting a national measure.

96. This Appendix describes these different approaches, but does not discuss the arguments in favour of each (for which see Barr, 1997).

97. *Example 1: a national measure: Australia.* The Australian accounts (like all budgetary accounts) are divided into three parts, outlays, revenues and finance:

- Part 1: outlays include spending on defence, health education etc. The figure for education includes *all* lending to students, i.e., treats loans as though they were grants, as in the UK.
- Part 2: revenues include taxes, interest, etc.
- Part 3: finance: the simple deficit is calculated as outlays minus revenues. Thus the simple deficit, as in the UK, includes *all* lending to students.

98. That deficit figure is then adjusted (Australian Bureau of Statistics, 1997, Table 12 and pp. 78-9) in various ways. It is *increased* by the amount of privatisation proceeds, which are regarded as a one-off source of revenue. The deficit is *reduced* by the amount of lending to students, on the basis that it will be repaid and should therefore not be included in the structural deficit.

99. Thus the Australian approach conforms with current international criteria. It includes *all* lending to students as part of public spending in part 1 of the table, and therefore enters the unadjusted deficit in part 3. The deficit is then adjusted to remove lending to students. Thus Australia has a nationally defined measure of the deficit. Since the PSBR is a national measure, so does the UK.

100. *Example 2: a national measure: the UK.* In the budget Red Book (*Financial Statement and Budget Report*), the global total of central and local government spending is General Government Expenditure (GGE), as defined by Eurostat. For planning purposes, however, the relevant total is GGE(X), i.e., General Government Expenditure *excluding* certain items, e.g., spending financed by the national lottery proceeds.¹⁰ This is a national measure.

101. It would be open to the Treasury to include net lending to students in the X of GGE(X). As with the Australian example, lending would be part of public expenditure as measured for EU purposes, but would not be part of the national measure which government seeks to control.

102. *Example 3: an EU measure.* The EU measure of the deficit is the General Government Financial Deficit (GGFD). This is the key target variable for measuring convergence under the Maastricht treaty. GGFD differs from the PSBR in several ways: crucially, in the present context, it excludes financial assets, such as net lending to students. If loans were reclassified as financial assets, they would then automatically be excluded from GGFD.

103. Notwithstanding the fact that net lending to students is left out of the Maastricht measure of the public deficit, it has been said (without evidence or quantification) that changes in the way the deficit is calculated make the City nervous. This, doubtless, would be the case with a precipitate, unexplained change in presentation of the public accounts. The City, however, is not irrational. What is being suggested is accounting in the public sector in the same way as in any well-run private firm. The City would be reassured by a convincing explanation of the underlying economic rationale and by confirmation from the Bank of England about the conformity of the proposed change with European definitions of monetary aggregates. The City might equally be alarmed if it believed that Britain was investing too little in higher education in an increasingly competitive global world. It might be useful to seek the Bank of England's advice on the matter.

104. *Example 4: selling debt to bring in private resources.* In this approach, student debt is sold to the private sector, thus bringing in private resources immediately.

105. The choice between a national and EU measure, and between reclassifying public debt versus bringing in private money raises genuinely complex problems the solution to which requires considerable technical expertise. Other countries (e.g., Holland, Australia and New Zealand) have solved them, however. Thus there is no reason why these problems should not be solved in the UK also.

ANNEX 3

PARENTAL CONTRIBUTIONS: REGRESSIVE SOCIAL POLICY

106. **PROBLEMS OF PRINCIPLE.** We wholeheartedly support voluntary support within families, but it should not be forced.

107. *Children.* Many parents wish to help their sons and daughters, and many sons and daughters are happy to accept that help. But it is wrong in principle in effect to *require* parents to support their adult offspring.

- Students are adults, not appendages of their parents—and increasingly so as the age profile of students diversifies¹¹—so parental contributions can be argued to be wrong in principle. The problem is accentuated by rising divorce rates and increasingly fluid family structures.
- Parental contributions also have adverse incentives. If parents encourage their children to stay on in school after the age of 16, they risk hefty parental contributions if their child is successful and goes on to university. To impose on parents a tax for having bright and successful children is perverse.

108. The incentive structure might not matter in a country (Scotland) in which higher education is an aspiration for *all* social classes. But in England the demand for higher education is a very middle-class phenomenon. Thus the combination of parental contributions and stringent income testing is deeply regressive. If parents are poor, the pressure against higher education comes at school leaving age; if parents are nonpoor, it comes via the parental contribution.

109. *Spouses*. In Western societies it is agreed that married couples are two individuals rather than a single entity. Thus, for example, husband and wife are treated as separate individuals for income tax purposes.

- It is socially a retrograde step to make support for married women dependent on their husband's income.
- Again, the incentives are perverse, in that a couple is better off if they remain unmarried.¹²

110. The income on which to base support is that of the student, rather than that of his or her parents or spouse. Income-contingent repayments, based on the student's future earnings, achieve exactly that.

111. *PROBLEMS IN PRACTICE*. These are problems enough even if parental/spouse contributions worked exactly as they are supposed to. In practice, that is far from the case.

112. *Unpaid parental contributions*. Barr and Low (1988) analysed a survey of student incomes in the early 1980s and concluded that parental contributions work badly. About half of students entitled to parental contribution received less than they were supposed to, and the shortfall was substantial: students whose parents gave them less than the grant system supposed received only £53 of every £100 of assessed parental contribution. As a result, one student in 13 in 1982–83 remained below the long-term supplementary benefit level even when income from all sources was included. More recent work, based on 1992–93 data found that 37 per cent of students received less than the assessed parental contribution (CVCP, 1996, p. 14, quoting a survey commissioned by the Department of Education in 1993).

113. This, however, is not a complete picture. Unpaid parental contributions leave current students in poverty, as captured by the figures just quoted. In addition, unpaid contributions cause some students to drop out, and the *threat* of unpaid contributions deters an unknown number of students from applying in the first place.

114. *Disempowering students*. In other cases, parents pay the assessed contribution, but only if their son or daughter conforms with their wishes, e.g., “we will pay, but only if you do a sensible subject like accounting”. Parental contributions thus force young adults into a dependent position. The point is, if anything, even stronger in respect of spouse contributions.

115. *Gender and ethnic aspects*. Both problems—unpaid parental/spouse contributions and pressure to conform with parental/spouse wishes—are likely to affect women more strongly than men, particularly women from certain cultural and ethnic backgrounds.

116. *THE GOVERNMENT'S PROPOSALS INCREASE RELIANCE ON PARENTAL CONTRIBUTIONS*. Under the Government's proposals, fees will be paid through the parental/spouse contribution. This makes matters worse: it does not *per se* increase the absolute size of the parental contribution, but it makes it more upfront.

117. The point is best demonstrated by a real (but anonymised) example, which is no way extreme. William's daughter Jane is just starting university (hence no fees). Jane is entitled to total support of £3,560, £1,685 from a loan, £1,875 from a mix of grant (£1,025) and parental contribution (£850). Jane cannot get her loan until she has registered. But she has to pay her first term's hall fees, £792, on day one. To pay that bill she has her first term's grant, £359, leaving a shortfall of £433.¹³

118. Four points are noteworthy. First, William has to pay £433, i.e., *half* of the annual parental contribution, on Jane's first day (ignoring other needs such as food, books, etc.). Second, William received the assessment only in late August, giving him little time to prepare. Third, like many parents, he would prefer to make his contribution monthly, not least for cash flow reasons, given a tight budget (he has three other children still at school and a wife receiving the higher rate of attendance allowance). Finally, the situation just described is that *without* any fee contribution. If next year Jane had to pay hall fees *and* tuition fees for the first term, William could end up having to pay more or less the entire parental contribution on Jane's first day at university. For that reason we argue that, even if the proposed arrangements do not increase the *total* of parental contributions, they make them much more upfront.

119. *GETTING RID OF PARENTAL CONTRIBUTIONS*. If the grant were replaced by an income-contingent loan the parental contribution could be abolished. Parents who wished to help could do so. But students could act independently of parental support through a loan sufficient to cover all living costs and tuition fees. Setting young adults free in this way would be a fundamentally socially progressive measure. Exactly the same arguments apply to the abolition of a spouse contribution.

ANNEX 4

CURRENT AND PROPOSED STUDENT FINANCIAL ARRANGEMENTS

120. THE PROPOSALS COMPARED. Table 1 summarises current and proposed arrangements. The current system operates through:

- (a) 50 per cent of student living costs from a mortgage-type loan;
- (b) 50 per cent of living costs from a mixture of grant and parental contribution;
- (c) no tuition fees paid directly by the student.

121. The Dearing Report's preferred option (Option B in Table 2.2) comprises:

- (a) 50 per cent of student living costs from an income-contingent loan;
- (b) 50 per cent of living costs from a mixture of grant and parental contribution;
- (c) a tuition contribution of 25 per cent of average tuition costs.

122. The arrangements proposed by the Secretary of State have three components:

- (a) endorsement of the principle of income contingency;
- (b) abolition of the grant, replaced by an income-tested loan entitlement;¹⁴
- (c) the fee contribution to be income-tested.

Table 1: Current System, Dearing Preferred Option and the Government's Initial Response

	Living expenses	Tuition
Current system	50% mortgage-type loan; 50% grant/parental contribution	Free
Dearing, Option B	50% income contingent loan; 50% grant/parental contribution	£1,000 flat-fee from income-contingent contributions
Government "Poor" student	100% income contingent loan	Free
"Rich" student	Parental contribution of 50% of living costs <i>minus</i> £1,000; Income contingent loan, the rest	£1,000 flat-fee from parental contributions

123. To amplify the Government's proposals (the last two lines of Table 1):

- "Poor" students (parents'/spouse's net income below about £16,000 per year) are eligible for an income-contingent loan which covers 100 per cent of living costs, and pay no fees.
- "Rich" students (whose parents' or spouse's net income is above about £34,000 per year) pay the full £1,000 fee. They are entitled to an income-contingent loan equal to 100 per cent of living costs *minus* whatever parental contribution remains after payment of the £1,000 fee.
- In between, loan entitlement and fees are calculated on a sliding scale.

124. AN ILLUSTRATIVE EXAMPLE. Since these arrangements are complex (we have had to grapple with them for a long time) it might be helpful to illustrate them with a simplified numerical example. Suppose that students are deemed to need £4,000 to cover living costs, made up, under present arrangements (line 1 of Table 1) of a loan entitlement of £2,000 and grant/parental contribution of £2,000. Thus the maximum parental contribution (for a student not eligible for any grant) is £2,000.

125. Under Dearing Option B, a student would receive £2,000 in grant/parental contribution and a £3,000 income-contingent loan to cover the remaining £2,000 of living costs plus the £1,000 tuition fee.

126. Under the Government's proposals, a poor student would be eligible for an income-contingent loan of £4,000 to cover living expenses, and would not have to pay a tuition fee. A rich student would receive £2,000 in parental contribution, £1,000 to cover the tuition fee and £1,000 towards living costs, and would be eligible for an income-contingent loan of £3,000 to cover remaining living costs.

ANNEX 5

BACKGROUND PRESS ARTICLES

On the historical background:

"Loan scheme may cost students £100 a month", *The Times*, 28 June 1989, p. 3.

"Recovery of student loan costs 'will take 100 years'", *Financial Times*, 29 June 1989, p. 8.

“Baker’s Time Bomb Defused”, *Times Higher Education Supplement*, No. 1176, 19 May 1995, pp. 14–15.

On recent developments:

“Opportunity lost”, *The Guardian*, 2 September 1997, p. v.

“A better class of student”, *The Guardian*, 9 September 1997, p. iii.

“Universities in the first division should charge top prices”, *The Guardian*, 16 September 1997, pp. ii–iii.

NOTES

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2. Department of Economics and Research Associate, Centre for Educational Research, London School of Economics (NB) and Visiting Research Fellow, Centre for Educational Research, London School of Economics (IC).

3. Full-time equivalent student numbers in England rose from 560,000 in 1989–90 to 970,000 in 1996–97.

4. Particularly the new European standard, ESA95, which is to take effect in 1999.

5. For simulations of the expected flow of repayments from student loans, and hence the likely size of the “pot of gold”, see Barr and Falkingham (1993, 1996).

6. See Margaret Hodge, “Why Dearing demands a courageous response”, *Independent, Education +*, 24 July 1997, pp. 4–5.

7. “Today the Government announce a new deal for higher education, involving new funding for universities and colleges, free higher education for the less well-off, *no parent having to pay more than at present* and a fair system of repayment linked to ability to pay” (*Hansard* (Commons), 23 July 1997, col. 949) (our emphasis). “Our response to Dearing ensures that fees and maintenance together do not place an increased burden on middle-income families” (*ibid.*, col. 950).

8. A student who starts in October 1998 will graduate in July 2001. If the administration of repayments is tied to tax years, the earliest repayment can start is April 2002. The system will not be in balance until enough graduates are repaying to ensure that their total repayments cover all lending to current students. This problem will be compounded as the system continues to expand, but largely removed if the classification issue is dealt with.

9. David Robertson—also the only begetter of Balls Pond Road Technical College—quoted in *The Guardian Higher Education*, 16 September 1997, p.i.

10. There is already discussion of the need to adjust GGE(X) so that expenditure out of the Diana, Princess of Wales Memorial Fund does not add to the PSBR.

11. Half the students in higher education are over the age of 21 (*Hansard* (Commons), 23 July 1997, col. 949).

12. “If the student is not married but is living with someone as man and wife, a contribution cannot be assessed on the partner” (Tolley, 1996, para. 18.20).

13. The numbers, which have been rounded to the nearest whole pound, are slightly nonstandard (though in no way affecting the underlying argument) because Jane’s degree course has a 33 week academic year, comprising terms of 12, 11 and 10 weeks respectively. Hall fees are £66 per week.

14. Poor students are eligible for “a maintenance loan of the same value as the current grant and loan package” (*Hansard* (Commons), 23 July 1997, col. 950).

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Second Memorandum by Nicholas Barr and Iain Crawford

THE SECRETARY OF STATE'S ANNOUNCEMENT OF 23 SEPTEMBER

1. Yesterday the Secretary of State announced an extra £165 million for higher education in what the *Guardian* (23 September, p. 3) described as "a reshuffle [of] his departmental budget".
2. While welcoming the additional resources, we have three concerns:
 - The proposed arrangements do not appear to be fully income-contingent.
 - The additional resources will do little to restore quality, and thus do nothing to address the major short-term needs of higher education.
 - The additional funds, which are the result of an administrative change, are for one year only.

Thus we stand by the conclusions in our first submission.

NOT FULLY INCOME CONTINGENT

3. The Secretary of State announced that loan repayments will not begin until a graduate's earnings exceed £10,000 per year, and that repayments for someone earning £17,000 per year will be around £52 per month—lower than under the current loan system.
4. The fact that repayments bear a stronger relation to income than currently is welcome. However, it is not clear from the Secretary of State's announcement whether loan repayments will be fully income-contingent, i.e., collected as a fraction (say 3 per cent) of *current* income, for example as an add-on to income tax or national insurance contributions. Any other arrangement would have to base loan repayments on income one year in arrears. As argued in our main submission, this approach has significant problems.
 - Repayments cannot be tailored as closely to a person's income, and hence are less closely geared to ability to pay.

- A mechanism is needed to protect people whose income falls sharply and suddenly (e.g., a person who becomes unemployed, or who leaves the labour force because she is about to have a baby). Such a mechanism would be highly imperfect.
 - it would almost certainly work only with a lag;
 - it would require the graduate to take positive action to have the repayment abated;
 - such action is administratively costly both for the individual and for the Student Loans Company.
- The Department's press release specifically referred to a monthly bill of £52. While this is an undoubted improvement on repayments of up to £129 per month under the present scheme, it reinforces the concept of mortgage-style debt repayment, with all the barriers to access which mortgage repayments are known to create. It would have been much better to have said that repayments will be (say) 3 pence in the pound.

5. Australia and New Zealand, among other countries, have fully income-contingent repayments based on the graduate's income week by week or month by month. It would be interesting to know why the Department is not proposing to adopt this highly successful mechanism.

THE SUM IS SMALL RELATIVE TO THE NEEDS OF HIGHER EDUCATION

6. The Secretary of State announced (*Guardian*, 23 September, p. 15) that, alongside the pursuit of access, the additional resources "will help [universities] to improve standards." Part of the objective, in other words, is improved quality.

7. For those purposes the sum involved is small, and its effects may be close to zero for three reasons: excess inflation, an additional 15,000 students, and a reduction in some parental contributions.

8. *Inflation.* The education budget, like those of all departments, is based on the assumption of 2½ per cent inflation. According to expert opinion, however, the outturn for headline inflation is more likely to be 3 per cent. Headline inflation includes mortgage interest. As a result of the squeeze on the higher education budget over the past decade, debt servicing has become a significant element in most university budgets. The higher education budget is £7 billion. If inflation is half a per cent higher than assumed in the budget, at least £35 million of the £165 million will be needed just to stand still in the face of inflation—and even more if university indebtedness is higher than average.

9. *Additional students.* The system will be taking in some 15,000 extra students. If quality is not to be further reduced, they need to be funded at average rather than marginal cost, i.e., at £4,000 each. Thus a further £60 million of the £165 million is needed to stand still in the face of rising student numbers.

10. *Reduced parental contributions.* The Secretary of State announced that under the proposed arrangements some poorer families would be better off than under current arrangements. To the extent that this means that some families face lower parental contributions, a shortfall opens up in higher education funding. An unknown amount of the £165 million is needed to plug that gap.

11. For all these reasons, the additional resources may well prevent further erosion of quality, but will do little, if anything, to improve it.

THE SOURCE OF THE ADDITIONAL FUNDS IS NOT SUSTAINABLE

12. A separate question is where the £165 million is coming from. The Department has said that students will no longer be allowed to take their year's loan entitlement in a single payment in October (an option currently taken by some 90 per cent of student borrowers), but in three tranches, as currently with the maintenance grant.

13. From a Treasury perspective, instead of having to find the resources (currently about £900 million) for student loans in a single tranche around September, the Treasury can raise it in three tranches staggered over the year. This reduces the total of interest payments the Treasury has to pay on the that part of state borrowing which finances student loans. The interest saving, however, will not show up on the education budget, since the considerable cost of interest subsidy to students is borne elsewhere in the Treasury accounts.

14. From a DfEE perspective, an implication of moving to a termly basis is that summer term loans are shifted from the current financial year into the next, so that this year the Department has to fund only two terms' loans. Note, however, that this saving *happens once only*—in the first year.

15. As a *quid pro quo* for reduced public borrowing, the Treasury has allowed the Department to take the money earmarked for next year's summer term loans and spend it instead on higher education this year.

16. Thus the source of most of the £165 million is by the Department, in effect, borrowing against its budget next year, when it will

- (a) face calls to maintain payment of the £165 million *and*
- (b) have to pay three terms' worth of loans.

17. It is our recollection that the previous Government authorised one-off annual loan payments to students because of serious administrative problems at the Student Loans Company in its early days. These teething problems have long since been solved and, in our view, the SLC is an extremely well-managed institution. However, we are concerned that the SLC is being asked to make very major changes in its administrative procedure at a time when students are already turning up at university. This is exactly the issue of attempting to implement reform to an unrealistic timetable which we highlight in paragraphs 62–67 of our main submission. The lateness of the change presumably explains why there has been no parallel change for the Scottish universities, whose academic year starts earlier.

18. As a result of the Treasury's unwillingness to reclassify student loans in the public accounts—as in Australia and New Zealand—the Department is being forced to adopt financial measures which are unsustainable to a timetable which is dangerously tight.

19. Given that there can be no additional resources from student loan repayments for at least four years, the Department still has to solve all the short- to medium-term funding problems we highlight in paragraphs 45–51 of our main submission.

APPENDIX 9

Memorandum by the Institute of Physics

THE DEARING REPORT: FUNDING, ACCESS AND PARTICIPATION

The Institute of Physics welcomes the opportunity to provide an input to the inquiry by the Education and Employment Committee in advance of the drafting of the white paper.

The Institute would like to highlight the following key issues of great interest to our community.

The Dearing Committee have recognised the dangers inherent in the looming funding gap for the universities. Additional revenue from tuition fees will give a much needed boost to the sector if it is reserved exclusively for higher education.

The Institute calls upon the Committee to seek assurance from the Government that revenue will be reserved in this way.

The four year enhanced and extended MPhys/MSci undergraduate courses are being offered to ensure that the more able and committed students intending to become professional physicists are enabled, through the extended training, to move easily into postgraduate work at university or into Research and Development in industry. The Institute believes that the MPhys/MSci degrees are the minimum required to educate physicists to professional levels comparable to those reached in other European countries.

Further, the degrees are broadly based, unlike the vocational postgraduate MSc degrees. It is likely that with the introduction of fees the increased cost of these degrees relative to the three year BSc may have an adverse effect on student enrolment and subsequently on wealth creation.

The Institute urges the Committee to propose that fees are levied for three years only, irrespective of the length of the course.

The Institute is pleased that the report confirms its view that young people should decide what to study on aptitude and inclination, not on what it would cost them. Nonetheless, the introduction of fees could still influence the choices school children make when applying to university.

The Institute believes that student choice should be monitored very closely during the next few years as falling enrolments in the sciences would have serious consequences for the science base and the economy.

The Institute strongly welcomes the recommendation that Research Councils should meet the full costs of research programmes including the associated costs of premises and central computing.

These additional funds must not be obtained by a decrease in the volume of research nor by a transfer from the Funding Councils—central Government must supply additional resources as recommended by Sir Ron Dearing.

Dr Alun Jones

Chief Executive

12 September 1997

APPENDIX 10

Written evidence from the Committee of Vice-Chancellors and Principals (CVCP)

INQUIRY INTO THE DEARING REPORT: FUNDING, ACCESS AND PARTICIPATION

SUMMARY

CVCP

- strongly welcomes the Government's acceptance of the principle of graduate contributions to the higher education, especially to tuition fees, given the funding crisis facing universities and constraints on public funding;
- supports the Government's plans to introduce an income-contingent loans scheme for student maintenance and the payment of a proportion of tuition fees;
- believes that it would be indefensible if student contributions to fees did not flow back to higher education and lead to a direct improvement in the funding position of the sector—any additional sums generated by the Government's proposal must be re-invested in the higher education;
- urges the Government to look at alternative, internationally accepted approaches to national accounting in order to fully realise the benefits of their proposed funding scheme (Dearing Report, recommendation 80);
- welcomes the Dearing Report's recognition of the case for resumed growth in higher education and supports the recommendation to lift the cap on full-time undergraduate numbers (Dearing Report, recommendation 1);
- is fully committed to working in partnership with other stakeholders to widen participation in higher education by those currently under-represented;
- strongly endorses the Dearing Report conclusion that planned public expenditure cuts of 6.5 per cent between 1998–99 and 1999–2000 will put quality unacceptably at risk (Dearing Report, paragraph 17.17);
- Urges the Government to address the short-term funding needs of universities—estimated in the Dearing Report to be £350 million in 1998–99 and £565 million in 1999–2000 (Dearing Report, paragraphs 17.16 to 17.38).

The Report of the Dearing Inquiry

The Report of the Dearing Inquiry is vast and wide-ranging. CVCP is currently preparing a comprehensive response to the DfEE consultation, due to end on 6 October, on key elements of the Dearing Report. CVCP welcomes the opportunity to present evidence to the Select Committee on the funding, access and participation issues arising from the Dearing Report.

The Dearing compact

CVCP welcomes the general principles of the Dearing compact which inform the Report's vision for higher education over the next twenty years. CVCP endorses the Dearing view that it should be a national policy objective for higher education in the UK to be world class, both in learning and research. CVCP accepts that, in order to achieve this, a partnership is required between universities, staff, students, government and employers with each party recognising and fulfilling its obligations (Dearing Report, paragraph 3).

The funding crisis facing higher education

The Dearing Report identifies a long-term funding gap facing universities of £2 billion per annum by 2015–16 (paragraphs 17.16 to 17.38), and concludes that this gap cannot be met by further efficiency gains alone. It should be noted that this gap does not take into account increases in the volume of research over this period nor any real increase in rates of pay. Elsewhere, the Dearing Report recommends an independent pay review, and it is estimated that every 1 per cent increase in pay adds £60 million each year to the funding gap. In evidence to the Dearing Inquiry, CVCP identified a funding gap of £3.2 billion in 2000–01, rising to £5.8 billion in 2005–06 (Our Universities, Our Futures, CVCP's evidence to the National Committee of Inquiry into Higher Education).

The funding of higher education: contributions to tuition fees

CVCP wholly endorses the Dearing Report recommendation that graduate contributions to tuition fees are necessary, in view of the funding needs of the sector and the political context in which Dearing reported (Dearing Report, recommendation 78). Given the UK's rapid move over the last 20 years from an elite to a mass system

of higher education, and anticipated future demand, CVCP believes that contributions to fees are necessary. Graduates can expect much greater returns in their salaries, compared with non-graduates—approximately 30 per cent more for men and 46 per cent more for women, according to recent research by the University of Birmingham. In the light of this, CVCP believes fees to be right in principle, provided that a fair, income-contingent repayment system is in place for students.

Short-term funding issues

CVCP strongly endorses the Dearing Report's conclusion that planned expenditure cuts of 6.5 per cent would put quality unacceptably at risk. CVCP estimates that, following the first Budget of the Labour Government on July 1 1997, the planned cuts now amount to 8.3 per cent over the next two years. In addition, the Report identifies the most serious short term funding needs of universities. These are to relieve pressure on unit funding; to begin to restore the infrastructure; to improve student support and to resume growth in student numbers. The Dearing Report concludes that to address these needs will require a total of £350 million in 1998–99 and £565 million in 1999/2000. CVCP believes that these figures represent the minimum amount needed by the sector in the short-term. We urge the Government to address this shortfall and reiterate the Dearing Report's warning that the long term well-being of higher education must not be damaged by the needs of the short-term (Dearing Report, Foreward).

The expansion of higher education

CVCP welcomes the Dearing Report's recognition of the case for resumed growth in higher education and supports the recommendation to lift the cap on full-time undergraduate places. CVCP also supports the recommendation that the cap on full-time sub-degree places be lifted immediately (all recommendation 1). However, CVCP has strong reservations about the recommendation that the priority for growth in sub-degree provision should be accorded to further education colleges (recommendation 67). Universities play a major role in the provision of sub-degree courses—all provision above level 3 is higher education and, as such, has an appropriate place in universities. The commitment of universities to maintaining a wide range of provision at this level is a signal of healthy diversity in the system.

Sub-degree level provision in universities and colleges

The evidence on the relative share of sub-degree provision in HE and FE shows that the large majority of full-time sub-degree provision takes place in higher education institutions. In 1995–96 301,000 undergraduates (out of 1.3 million) enrolled in Higher Education Institutions (HEIs) were classified as studying towards outcomes other than first degrees. Of these, 113,000 were on full-time courses. Data for 1994–95 shows a total of 176,000 HE enrolments in FE colleges, including 57,000 full-time enrolments. Data also suggests that HEIs have the main share of part-time sub-degree enrolments.

Widening participation in higher education

CVCP welcomes the priority accorded within the Dearing Report to tackling the under-representation of social groups IV and V in higher education (recommendations 2, 3 and 4). It is worth noting the evidence of the Dearing Report that some progress has been made in this area in recent years. There has been a steady improvement in the API for socio-economic groups III, IV and V, from 8.3 per cent in 1995 to 15.1 per cent in 1995. The API for Group V doubled from 6 per cent to 12 per cent between 1991–92 and 1995–96. Nevertheless, CVCP considers increased access to universities for people from a wide range of backgrounds as central to the creation of a learning society.

Specific measures to widen participation

CVCP recognises the value of targeted funding incentives to widening participation, as recommended by the Dearing Report (recommendation 2), particularly in the short-term. CVCP is currently having discussions with funding bodies about collaboration on projects designed to address low expectations and achievement and promote progression to higher education (recommendations 3 and 4). Recommendations 2–4 imply significant new work for some universities in planning admissions and participation, including the benchmarking of institutions performance. CVCP is exploring ways of supporting the sector's efforts, for example, by consulting with UCAS about statistical services for future monitoring and by taking part in a research project on student choice proposed by the Institute for Employment Studies.

The Government's response to the Report of the Dearing Inquiry

CVCP welcomes the Secretary of State's recognition that higher education is in crisis on the basis of past underfunding; the relative levels of expansion of our competitors and the anomalies and inadequacies of the current funding system (Hansard, cols. 949–950, 23 July 1997).

Tuition fees

In its evidence to the Dearing Inquiry, CVCP called for the introduction of graduate contributions to tuition provided that a fair, income contingent loan system was introduced to facilitate this. The Secretary of State has accepted the principle of contributions to tuition, whilst exempting the poorest students from charges, and proposes a system of income contingent loans as a means of repayment. CVCP welcomes this decision and supports the Government's view that the introduction of a new income stream for higher education is essential to meet future demand and maintain quality.

Income contingent loans for student maintenance

CVCP fully supports the plans of the Government, as outlined in the 1997 Labour party manifesto, to replace the present mixture of loans and grants for full-time undergraduates with a system of income contingent loans. CVCP notes that there is a consensus of opinion in favour of this move, including ourselves, the NUS, the AUT and independent experts, including Dr Nicholas Barr and Ian Crawford.

Re-investment of the proceeds of the new funding scheme

CVCP believes it is essential that the proceeds of the Government's proposed new funding scheme are directly re-invested in higher education. It would be indefensible to expect present and future generations of students to contribute to fees without a direct improvement in the funding position of our universities. We fully endorse the conclusion of the Dearing Report (recommendation 79) that contributions made by graduates should be reserved for meeting the higher education.

Revenue raising potential of the Government's proposed scheme

It is important to note that in the short term the revenue raising potential of the proposed scheme is limited. The amount generated is dependent in part on the take up of loans (which is difficult to forecast), the amount of parental contributions and the threshold set for repayments. The Secretary of State has expressed the view that an earnings threshold of £5,000 as proposed by Dearing is too low, but the precise threshold is not yet known.

The PSBR question

For the full benefits of the Government's new funding scheme to be realised it is essential to resolve the issue of how loans to students are treated in national accounts. At present they are scored against the PSBR in the same way as grants. We fully support the Dearing Report recommendation 80 that the Government should look urgently at alternative, internationally accepted approaches to national accounting which do not treat the repayable parts of loans in the same way as grants.

*September 1997***Growing public acceptance of tuition fees**

The vast majority of parents are prepared to contribute towards the university tuition costs of their children, according to an opinion poll published today (Note 1, results attached).

Conducted by MORI, the poll reveals a radical change in attitudes towards who should pay for higher education in Britain with most people believing that students and their parents should foot at least part of the bill if universities need extra cash.

The findings of this latest survey show a marked shift in public opinion since 1991 when MORI carried out a similar poll. Both polls were commissioned by the Committee of Vice-Chancellors and Principals (CVCP).

Diana Warwick, Chief Executive of CVCP, said:

"This poll shows a remarkable shift of opinion. Higher education is a good investment for individuals. People now accept it's only fair that those who benefit from a university education should make a contribution as the Government has proposed. There is also strong evidence of the continuing demand for higher education at all ages."

On Tuesday 9 September 1997 international experts on university funding will gather in London for a special conference on the impact of higher education fees (Note 2). The conference will examine the Government's proposal for a new system of funding and student support announced in July 1997 (Note 3).

In this latest MORI poll:

- 83 per cent of parents who expressed an opinion said they would be prepared to pay towards their child's higher education tuition costs—46 per cent said they'd pay up to £1,000 a year and 37 per cent would pay £1,000 or over a year. Seventeen per cent said they were not prepared to pay (in the 1991 poll only 38 per cent of parents were prepared to make a contribution towards tuition fees);
- asked who should pay, assuming extra cash were needed for higher education, 69 per cent of adults agreed it should be least partly provided by students or their families (an increase from 42 per cent in 1991); only 25 per cent said the Government should pay all the extra money, as opposed to 50 per cent in 1991;
- 34 per cent of adults said they were interested in studying in higher education in the next five years—or were already studying in higher education; 65 per cent of this group said they were likely to undertake part-time education within the next five years;
- among young adults (15 to 20-year-olds), 46 per cent said they were "very interested" in studying at higher education levels (currently 31 per cent of 18 to 19-year-old school leavers go on to higher education).

Notes

1. Two thousand and eight interviews were conducted among adults aged over 15 across Great Britain between 24 and 28 July 1997.
2. *The Impact of Fees: Higher Education Funding after Dearing* conference will be held at the Cumberland Hotel, London W1, starting at 9.15 am. Speakers include Julian Schweitzer, World Bank, Dr Meredith Edwards, Deputy Vice-Chancellor, University of Canberra, Sir William Stubbs, Member, Dearing Committee, Diana Warwick, Chief Executive, CVCP, David Triesman, General Secretary, AUT, Douglas Trainer, National President, NUS and Chris Yap, Managing Director, ICL Interactive Learning.
3. The Government's proposal includes introducing a £1,000 means-tested tuition fee and replacing grants with a new scheme of loans repayable according to income after graduation.

MORI

ATTITUDES TO HIGHER EDUCATION—ON BEHALF OF CVCP TOPLINE RESULTS

- Two thousand and eight interviews among adults aged 15+ across Great Britain
- Questions finalised 17 July; Fieldwork 24-28 July 1997
- Data Edited and weighted to reflect GB profile
- *signifies a finding of less than half a per cent but not more

I'd like to ask you some questions about higher education, that is, Universities or Colleges of Higher Education where, for example, degree courses are offered.

1. SHOWCARD Thinking about yourself, how interested or not are you personally in studying in higher education in the next five years?

	Per cent
Very interested	13
Fairly interested	17
Not very interested	11
Not at all interested	54
Already studying	3
Don't know	1
Any interested	31

2. SHOWCARD How likely or unlikely is it that you will go into higher education, as a full-time student, in the next five years?

3. SHOWCARD And how likely or unlikely is it that you will go into higher education as a part-time student in the next five years?

Base: All interested in studying in higher education in the next five years (616)

	Full-time Per cent	Part-time Per cent
Very likely	15	19
Fairly likely	15	46
Not very likely	32	19
Not at all likely	37	14
Don't know	2	2
Any likely	29	65

4. SHOWCARD The money provided by the Government has not kept pace with the increased number of students at university. Universities have said that the quality of higher education in Britain may suffer unless extra money for teaching students is found. Assuming that extra money should be found, which, if any, of the following options best describes the way in which you believe it should be provided:

Base: All

	1997 per cent	(1991) per cent
(a) The Government/taxpayers should pay all the extra money	25	50
(b) The Government/taxpayers should pay part, and students or their families should pay part	59	39
(c) Students or their families should pay all the extra money	10	3
No extra money is needed	1	—
None of these	2	—
Don't know	4	6
Any parental payment	69	42

5. Using this card, please tell me to what extent you agree or disagree with the following statement . . .

If a person intends to go into higher education, then that person or his/her family should expect to have to pay something towards tuition fees.

Base: All (1996)

	Per cent	1997 Per cent
Strongly agree	20	9
Tend to agree	47	40
Neither agree nor disagree	10	13
Tend to disagree	10	20
Strongly disagree	11	16
Don't know	2	2
Any agree	66	49
Any disagree	21	36

6. SHOWCARD As I said earlier, the money provided by the Government has not kept pace with the increased number of students at university. This means that the amount of money for teaching each student is falling. How much, if anything, would you personally be prepared to pay per year for any of your children who may go into higher education?

Base: All with children aged 18 or under and expressed an opinion (535).

	Per cent
(a) Nothing	17
(b) Up to £250	7
(c) Over £250—£500	12
(d) Over £500—£750	8
(e) Over £750—£1,000	19
(f) Over £1,000—£2,000	17
(g) Over £2,000—£3,000	7
(h) Over £3,000—£5,000	6
(i) Over £5,000	7
More than nothing, but less than £1,000	46
Over £1,000	37
Over £3,000	13
Pay something	83 (1991—38)

APPENDIX 11

Memorandum by the National Union of Students to the Education and Employment Select Committee

THE DEARING REPORT: FUNDING, ACCESS AND PARTICIPATION

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Appendix: Press cuttings (not printed)

1. OVERVIEW

1.1 NUS welcomes the opportunity to give evidence to the Education and Employment Select Committee. The National Union of Students of the United Kingdom (NUS) represents nearly three million students in further and higher education and has played an active part in the debate surrounding the future of student funding.

1.2 Although the Select Committee has asked NUS to give evidence on the Dearing Report and its impact on funding, access and participation, it should be recognised that much of the Dearing Committee recommendations on funding have been overshadowed by the Government response. The principles, features and implementation of this scheme will have a profound impact on access and participation.

1.3 NUS is opposed to the introduction of a student contribution to fees of all forms. NUS argues a new partnership should be struck between business, students and government to fund a high quality education system. We accept that new sources of funding need to be found and that the current arrangements for higher education have left the sector in crisis. This has affected the quality of university education.

1.4 NUS believes that increased access and participation in higher education is vital to the culture and economy of the United Kingdom. At the core of further expansion should be increased participation from under represented groups, particularly from those in lower socio-economic backgrounds. A system of student support that includes a tuition fee contribution will be a significant barrier to achieving this.

1.5 NUS also has serious concerns about the ability of the Government to implement tuition fees for 1998 entrants. We call on the Government to scrap the introduction of the new scheme for 1998 and take the opportunity to review the principle and practice of tuition fees.

1.6 Finally, any introduction of tuition fees carries the risk that they will be used as an alternative source of revenue for the Exchequer. The consequences of this are an ever increasing upward demand on tuition fees.

Any money raised through new funding mechanisms should be ring fenced to improve and expand further and higher education.

1.7 This paper sets out the background to the current debate and outlines the impact on access and participation and the problems with implementation. NUS's funding solution for higher education is outlined in section 6.

2. BACKGROUND AND CONTEXT TO THE CURRENT DEBATE

2.1 Our present system of student funding dates back to the Anderson Committee report, *Grants to Students* (1960), which with the Robbins report into *Higher Education* (1963), marked the rapid increase in participation. Since 1960 the number of full time students publicly funded has increased from 200,000 to around 1.1 million today. Part time students add 500,000 to bring the total to 1.6 million.

2.2 Faced with this increase, successive Governments have for some time looked at ways of capping the percentage of public spending on higher education. At first this was a mixture of efficiency savings on behalf of institutions and a reduction in the student maintenance package. This has included the removing of the minimum grant, ending of travel cost reimbursement, removing access to the vast majority of benefits and, most recently, the phased reduction of grants and replacement with student loans.

2.3 Partly to meet this challenge, politicians, administrators and academics have discussed the possibility of raising funds by ending the grant and charging students for tuition. These calls have become stronger as the unit funding for each student has decreased. Previous attempts have met a strong public outcry and rejection by the main political parties.

2.4 Proposals to raise cash from tuition have taken two forms:

Top up fees

2.5 Favoured by some universities, the Government continues to pay the basic tuition fee but individual institutions charge an additional amount from the student either on an institutional basis or for particular courses. Whilst the institutions probably have the power to do this, those who have attempted it have run in to both legal problems and opposition from the student body. The present Government has indicated that they wish to outlaw this practice and NUS would positively welcome this. Some universities have resumed attempts to charge top-up fees since the publication of the Dearing Report.

Student contribution to tuition fees

2.6 The student makes a payment of tuition fees either as a one off, up front payment or to be repaid on graduation, usually through an income contingent repayment scheme. This is the basis of the Dearing proposals for funding and has been refined by the Government in its response.

THE DEARING REPORT

2.7 The National Union of Students had called for a major review of tertiary education for some time and, although disappointed that the committee was not asked to review further education, joined with other stakeholders in welcoming the establishment of the National Committee of Inquiry into Higher Education.

2.8 The committee was formed on 10 May 1996 to "make recommendations on how the purposes, shape, size structure, and funding of higher education, including support for students, should develop to meet the needs of the United Kingdom over the next 20 years, recognising that higher education embraces teaching, learning, scholarship and research". The committee was asked to report by the summer of 1997.

2.9 The work of the committee ensured that higher education did not feature as an issue during the 1997 general election and this played a part in the bipartisan support for the committee.

2.10 NUS played an active role in the committee's work making both written (*Opportunity, diversity and partnership: 1996*) and oral submissions and submitting a number of other papers on aspects of students development and student support. NUS also ran a full consultation with student unions on behalf of the committee through both written responses and a seminar day attended by Sir Ron Dearing.

2.11 The committee reported in July of this year with 93 recommendations. NUS responded favourably to much of the report, pleased that some significant changes were recommended to ensure a higher quality education and wider participation. These include the introduction of teaching qualifications for lecturers and the recommendations that when allocating funding for expansion the Government and the funding bodies should give priority to those institutions which are actively seeking to widen participation.

2.12 Despite the breadth of the report attention focused on its funding proposals which, on balance, recommended the charging of tuition fees with the broad retention of the present scheme for student maintenance with some adjustments. A publicly financed loan would be available to cover tuition fees and this, along with the loan for maintenance, should be paid back on an income contingent basis when the graduate is in employment. The committee was of the view that the interest rate should be linked to inflation.

2.13 The National Union of Students made clear in its submission that it thought tuition fee contribution wrong in both principle and practice. NUS still holds this view after the publication of the committee's report and the Government's response.

THE GOVERNMENT RESPONSE

2.14 Whilst in opposition the Labour Party, in its submission to the Dearing Committee, (*Lifelong Learning 1996*) made no mention of the idea of tuition fees arguing instead for the end of the current system of student support and larger maintenance loans.

2.15 This policy was briefly outlined in the Party's manifesto (*New Labour, because Britain deserves better: 1997*). In the run up to the election the Labour Party made very little comment on higher education except to make a commitment to "claw back" any funding from institutions that introduced top-up fees.

2.16 As the Government the Labour Party announced its response to Dearing on the day of the National Committee's press launch. The Secretary of State for Education, David Blunkett, outlined a funding proposal that, in the view of the Government, built on the Dearing funding proposal.

2.17 While the details of the Government proposals are still to be published the Secretary of State outlined a scheme that would introduce an annual tuition fee of £1,000, means tested so as to be free to students from poorer backgrounds. The present grant would be abolished and replaced with a loan with a means test of parental income attached. The total parental contribution would not exceed that charged under the present scheme.

2.18 The total repayment by individual students under the government's scheme could rise as high as £15,000.

Top-up fees

2.19 The Government proposals appear to relax their previous strong line on top-up fees. The Secretary of State did not rule out completely their introduction, saying "Top-up fees play no part in the Government proposals. No University or College should proceed on the basis of introducing such additional fees". In *Lifelong Learning 1996* the Labour Party said that they were "unfair and unsuitable" and that they "would introduce ability to pay as a criteria for access to higher education and this would deny opportunity to students from less well off backgrounds".

Public spending

2.20 The Government proposals are set against a background of public spending restraint and the adoption of the previous administration's spending plans. This has two major implications which have an effect on both the Government decisions to go further than Dearing and the speed and manner of their implementation.

(i) No tax increase.

2.21 Despite the addition of £1 billion to the education department in the recent budget the money available to the Government as a whole will not rise through higher taxation. Therefore further expansion of HE and repairing the damage done over the past decade, must be funded from other sources.

(ii) Keeping to the previous administration's spending plans.

2.22 The Government has committed itself to keeping to the spending plans of the past Government. Therefore any money will have to be found from within the individual departments. The Department for Education and Employment is charged with achieving two of the Government's five pledges—that of getting class sizes down to 30 or under for five, six and seven year olds and assisting with the welfare to work programme for young people; Ministers will be aggressively examining all the options to release resources for these key projects.

2.23 The Government aims to implement the new arrangements for students entering higher education courses in 1998. The details of the implementation are discussed later in this paper.

OTHER PARTIES

2.24 Both the Conservative and Liberal Democrat parties are opposed to tuition fees.

2.25 The previous Government must take responsibility for allowing higher education to reach such a crisis. They allowed a steady decrease in unit funding to a point where quality was significantly damaged.

2.26 In addition the Conservative Party in government refused to rule out tuition fees. They argued their was no place for them although it was a matter for individual institutions.

2.27 The Conservative Party are now undertaking a review of their policy but it is understood that Shadow Ministers support institutions setting their own tuition fees rate if they wish.

3. IMPLEMENTATION

3.1 The Government have announced that student tuition fees will be introduced from 1998. The plans were outlined in *Higher Education for the 21st Century* (1997) and outline the broad principles and features of the new scheme. Beyond this little further detail has been released and this has led to confusion among thousands of students and their families. It has also prevented representative bodies having proper opportunity to comment or offer advice on the nature of the scheme. It also suggests that the scheme will not be fully in place for those applying this autumn for 1998 places.

3.2 For these reasons NUS has called for the Government to delay implementation for one year. It will also give Government the opportunity to think again about the principle and outcomes of the policy.

1997 GAP YEAR STUDENTS

3.3 NUS believes the "Gap Trap" problems encountered in August of this year illustrate the problems of rushing the scheme's implementation.

3.4 More than 19,000 students applied for courses in 1997 and informed UCAS that they wished to defer for one year, entering HE in 1998. For many of these students it is the opportunity to spend a year undertaking voluntary work, travel or work experience. The time spent in these activities is increasingly viewed favourably by institutions and employers. It is a time to develop both personally and intellectually before embarking on a course of higher education.

3.5 The Government announced that the scheme was to apply to all students starting in 1998 meaning that 1997 gap year students would be required to pay the tuition fee contribution with the loss of the maintenance grant. These students applied in the autumn of 1996, in good faith, unaware that they would be caught by the change.

3.6 After being put under considerable pressure the Government announced on 14 August that these students would be exempt. One week before Baroness Blackstone, the Minister with responsibility for Higher Education, accused UCAS of "irresponsible scaremongering" and claiming that "Sir Ron Dearing's Inquiry sat for one year. No-one was in any doubt that he was considering the introduction of fees."

3.7 For those who applied in 1996 under a different Government and with a Labour Party who were excluding the possibility of tuition fees and made no mention of it in their submission to Sir Ron, the chance of those students being caught seemed remote.

3.8 The effect of this was a public row between the Universities admissions service, NUS and the Government. For those who it affected, awaiting their "A" level results, it caused unreasonable stress.

3.9 To the Government's credit it appeared to listen to the providers and consumers of higher education and made adjustments to the scheme, although there are still worrying inconsistencies and anomalies with the gap year arrangements.

3.10 The Government scheme failed to take account of those students who wished to defer but had not notified UCAS of their decision for a variety of reasons. In particular the wish to consider their options after receiving their "A" level results. Some estimates put this group as high as 70,000. This group has been forced to make the decision to enter the clearing system or to accept the Government scheme.

CONSULTATION AND COMMUNICATION OF CHANGES

3.11 The details of the Government scheme have not yet been announced nor the mechanism by which they will be passed into Law. But for those entering University in 1998 decisions on courses and institutions are completed by this December and the administration of student maintenance starts soon after.

3.12 Therefore the Government will need to publish its plans by November at the latest and have passed in to Law the relevant changes by April or May 1998.

3.13 Given the complexity of the present student maintenance scheme which uses local education authorities, the Student Loans Company and institutions to administer means tested grants and loans and the scope of the changes planned, it gives very little time for any detailed consideration of plans by representative groups. It also gives very little time to communicate the changes to schools, students and parents.

3.14 It is of great concern that students will not make the most appropriate decision about their future because of poor information or because the new scheme has not been properly thought through.

OTHER IMPLEMENTATION ISSUES

3.15 There are a number of other examples that give weight to the argument that the Government should think again.

(i) Access and foundation course students

3.16 Access courses for non traditional entrants to university who do not have the required "A" levels or need the opportunity to relearn academic skills add an additional year to the process of getting a higher education degree. Their courses are undertaken at a local further education college. Those who decided to return to study in 1997 and therefore enter higher education in 1998 will be charged the tuition fee. In addition many arts of degrees require an additional foundation year before starting their degrees.

3.17 Their position is similar to gap year students and should be treated in a similar way with fees being exempted for 1998.

(ii) Scotland

3.18 Scotland differs in that most of its courses in higher education are 4 years. The Government does not discuss the impact on the Scottish higher education system in "Higher Education into the 21st century" or how the new scheme will be implemented. Sir Ron Dearing's Inquiry recommended that the additional year would not be paid for by the student.

3.19 In addition Scotland has just voted for a Parliament with tax varying powers. If the Government intends to add what could amount to a tax on graduation the Scottish Parliament should have the opportunity to review this.

(iii) Additional allowances

3.20 Under the present system non-traditional entrants, such as those with dependants, partners and mature students have entitlement to additional allowances. These include the disabled student allowance, two home allowance and dependants allowance. The Government needs to consider carefully how it will provide adequate provision if it is not to further disadvantage these groups. It would seem unreasonable to expect these students with greater needs to incur considerably higher debt. For example the maximum disability allowance is £10, 215.

(iv) Northern Ireland

3.21 Northern Ireland is a net exporter of students to the UK, but a net importer of students from the Republic of Ireland. In addition, they have a higher average number of students from lower socio-economic groups.

3.22 The Downing Street Declaration called for parity between education systems yet the Republic of Ireland has recently abolished tuition fees within the higher education sector.

4. THE FUTURE OF FEES

4.1 NUS is concerned that the present scheme is the "thin end of the wedge" and that despite reassurance from the Government the tuition fee could be a backdoor way of raising taxation. This would further hurt participation.

4.2 The Government has set the fee level to £1,000, around 25 per cent of the average fee contribution. This will be levied in all institutions across all courses and the Government has pledged along the same lines as Dearing recommended that this figure should remain fixed. Yet there is little to prevent a future Government increasing the fees or allowing top-up fees.

4.3 It is already clear that not all of the additional money raised by the Government scheme will go into higher education and if press speculation is correct any new money from the first few years will be used to fund start-up costs of the new system, instead of financing expansion, or improving quality.

4.4 If this proves to be the Government's intention the first few cohorts of students in higher education who pay fee contributions will not see an improvement. They will be paying for previous policy failures.

4.5 There must be a concern that the temptation to continue this pattern of charging fees without significant improvement will prove high. If this is the case the fee contribution paid through the tax system will have all the features of a tax on education.

EXPERIENCE IN AUSTRALIA

4.6 In Australia, where a similar scheme was introduced in 1989, fees have escalated from 23 per cent of total fees to an average of 45 per cent. Fees now vary from an average of 20 per cent for an agriculture student to over 80 per cent for a law student. Indeed, later this year, the University of Melbourne will be one of six

Australian universities to start charging full cost fees for certain courses. Several more are now considering doing the same.

4.7 From 1998, Australian universities will be permitted to charge up-front fees for undergraduate places for up to 25 per cent of enrolment. These changes are partly due to a change in Government. However, at the time of the introduction of fees, similar reassurances were given to Australian students as have been given to UK students recently.

5. ACCESS AND PARTICIPATION

5.1 The National Committee of Inquiry noted that increasing participation in higher education is a necessary and desirable objective of national policy over the next 20 years. And this must be accompanied by an objective of reducing the disparities in higher education between groups.

5.2 Expanding higher education will increase participation from all sectors of the community but this will not be sufficient in itself to remove these disparities.

5.3 The committee made some welcome recommendations to increase participation and NUS accepts that student unions share a responsibility with institutions to put in place practices that encourage increased participation in higher education. NUS also accepts that there is much that can be done in primary and secondary schools to encourage all groups to consider higher education.

5.4 Reports 5 and 6 of the National Committee review the literature on widening participation and outline the disparities for ethnic students, women, alternative students, lower socio-economic groups and students with disabilities.

5.5 The report details what NUS has argued previously. Students from non traditional groups, ethnic minorities, mature students and disabled students achieve less from higher education than those from traditional backgrounds. Ethnic Minorities, who are over represented as a whole, attend lower status institutions particularly in the new universities, while women are under represented in certain courses and tend to enter higher education using non traditional methods.

5.6 Much of this is to do with culture, perceptions of education, and the pathways into learning that these groups take, and therefore higher education as a sector can not alone play a part in encouraging students to attend. It is clear that much of the hard work undertaken by the new universities demonstrates the success of pro-active work to encourage non traditional entrants.

5.7 Of significant concern is the disparity of those from lower socio-economic groups.

5.8 The committee found that despite the rapid expansion of higher education lower socio-economic groups are significantly under represented (Main report pp. 40–41). Since expansion began rates of participation between higher socio-economic groups (I, II and III_n) and lower socio-economic groups (III_m, IV and V) have remained constant, around 75:25 for the pre 1992 universities while the new universities have a mix of 68:32.

5.9 The inability to increase proportionally the participation from lower socio-economic groups needs to be addressed and represents the greatest single failure of our tertiary education system.

5.10 NUS, with certain vice-chancellors and many other interested groups, believes that tuition fees will prevent these ratios being narrowed and may well deter those individuals from entering higher education.

5.11 NUS wish to draw the attention of the Select Committee to paragraph 2.27 to 2.36 of report 6 of the committee's report *Widening participation in higher education for students from lower socio-economic groups and students with disability* (1997). This section examines "Financial aspects of participation in higher education, by socio-economic groups". It draws on previous research to make the following points:

- Students from lower socio-economic backgrounds accumulate an annual deficit of between £341 and £768 while those from the higher socio-economic groups range from a deficit of £224 to a balance of income over expenditure of £421.
- Despite earning more from paid work, students from lower socio-economic groups still have 25 per cent less income than those from the higher socio-economic groups.
- Students from lower socio-economic groups have less access to personal savings and enter additional borrowing requirements prompting consideration of the extensive repayment obligations.
- Students from lower socio-economic groups have significantly higher levels of essential costs than most other groups.

5.12 In short, students from lower socio-economic groups are likely to have less money, have to take paid work, and carry greater levels of debt.

5.13 And while Dearing and the Government argue that students get significantly higher benefits from completing higher education the returns available to disadvantaged groups vary significantly. Graduates from lower socio-economic groups are twice as likely to receive a low starting salary than any group of graduates.

5.14 These problems can only be exacerbated by the Government scheme of student support and tuition fee contribution which will add additional debt to the least well represented group within higher education.

5.15 During the launch of the report, committee member Professor Adrian Webb commented that the plans were a “leap in the dark” and despite the paragraphs quoted above very little research has been undertaken to review the impact of significantly increasing the levels of debt. At an NUS organised briefing day for Students Unions Sir Ron Dearing commented that there would be “no guarantees”.

5.16 There is already some evidence that applications for 1998 places from non traditional entrants will be less than before. City and Islington College who run access courses for higher education have reported that up to the week beginning 15 September they still had 80 places free on their courses. This time last year all the course places had been filled. Other colleges are reporting similar problems.

6. STUDENTS AND A STUDENT FUNDING

6.1 NUS proposals for a new system of funding for further and higher education are based on the following principles.

6.2 The funding system must:

- Ensure wider and equal access to everyone who wishes to enter post-16 education. In particular, it must not deter students from low-income backgrounds from entering post-16 education or force them to drop out.
- Ensure that further and higher education is free to students before and during participation and ensure that students have enough money to live on while they are at college.
- Provide sufficient resources to maintain and enhance the quality of further and higher education.
- Encourage lifelong learning and the development of a learning society.

6.3 We also identify two priorities for immediate funding.

- Immediate measures to end student hardship. In the short term this could be through a substantial increase in access funds. In the medium term there will need to be a fundamental review of the student financial support system including part time students.
- Fairness and common sense argue that in the immediate future there is a need to prioritise the funding of further education and further education students.

6.4 With the aim of achieving a new system based on these principles, we propose a partnership between the Government, institutions, business and students. Each would contribute to the renewal of further and higher education.

6.5 The Government would guarantee the principle of free tuition and increased investment in further and higher education and create a study finance system which ends student hardship, so ensuring that students in further and higher education have sufficient finances for their needs.

6.6 Institutions would give up the right to charge top-up fees and end the practice of charging students for “hidden extras”. Additional funding would be dependent on institutions increasing access, particularly for students from low-income backgrounds.

6.7 Business derives concrete benefits from a well-educated workforce and therefore shares the objective of increasing participation in further and higher education. Consequently business should have a role in funding further and higher education and in our proposals would contribute through a Business Education Tax.

6.8 Students would be guaranteed free tuition, adequate student financial support while they are at college, an institutional commitment to end hidden course costs and an end to the regressive student loan scheme. In return, as graduates from higher education they would contribute, on an income-contingent basis, to an “Investment in Education” scheme.

7. CONCLUSION

7.1 NUS does not underestimate the challenges that face the Government or those who work in, study in or care about higher education. A continuing legacy of underfunding and poor strategic planning has left a sector in crisis. Sir Ron Dearing and his committee were charged with finding a path out of the woods. Their work on analysing trends in participation, access and suggesting policy solutions is to be welcomed.

7.2 The inability of higher education to extend participation to all sectors of society, in particular from lower socio-economic groups, is its greatest failure. Extending the student contribution to tuition fees, which both breaks an important principle and adds significantly to the debt incurred by the poorest, will limit access.

7.3 As we have already seen, the rushed implementation of fees has caused concern amongst thousands of students and their families. The Government may well harm access further if it continues with the current programme of implementation. Students have a right to know what they will be expected to pay and how, before

applying for the 1998 intake. In addition, in the interests of good government, representative bodies should be allowed sufficient time to consider the impact of the scheme.

7.4 NUS is concerned that the Government's scheme will do little to improve the quality of higher education. There must be a guarantee that if money is raised from a new funding scheme this money must be used to raise the quality of the tertiary education system. If the money is not used for this purpose the payments will be little more than a tax on graduation.

7.5 Finally there is little to stop the further extension of tuition fees when the Government needs to raise additional funding.

7.6 NUS has called on the Government to scrap the scheme for the coming year and develop proposals that do not include a student contribution to fees.

APPENDIX 12

Student Loans in New Zealand¹

DR NICHOLAS BARR, LONDON SCHOOL OF ECONOMICS

1. SUMMARY OF THE NEW ZEALAND LOAN SYSTEM

1. *Tuition Fees* are set annually by each institution and vary considerably.
2. *Student Loans* are available for both tuition fees and living costs. The minimum withdrawal is \$400. The maximum loan covers:
 - tuition fees;
 - an additional \$1,000 for course-related costs;
 - living costs of \$150/week x total number of weeks of the course;
 - a once-and-for-all administration fee of \$50.
3. *Interest* payments have two key features:
 - The interest rate (8.2 per cent in September 1997) is close to the market rate.
 - The interest clock starts ticking on the day on which the student draws the loan.²
4. *Management.* The Ministry of Education has contracted a Student Loan Accounts Manager to manage loans. The loan balance, including interest, is transferred from the Student Loan Accounts Manager to the Inland Revenue on 28 February of the year following the end of the course.
5. *Collection.* Repayments are collected through the tax system once annual earnings exceed \$14,300. Repayments are 10 per cent of income above the threshold, i.e., repayments are added to *marginal* income. Thus, for example, someone earning \$24,300 per year would repay \$1,000 over the course of the year. There is a special tax code for employees with student loans.
6. The New Zealand Treasury aims to recover 89 per cent of every dollar lent, compared with an estimated 65 per cent for the Australian system. The main source of the difference is that in Australia (as in the UK) students pay a zero real interest rate, whereas in New Zealand interest subsidies are much smaller.

2. THE TREATMENT OF STUDENTS LOANS IN THE NEW ZEALAND PUBLIC ACCOUNTS

2.1 *The structure of the New Zealand Financial Statements*

7. The following is a (non-exhaustive) listing of the contents of the New Zealand financial statements (see Table 1 for a simplified presentation).

Part 1: Revenue and Expenditure

8. *Revenue* includes:
 - (a) Revenue from taxation.
 - (b) Revenue earned through government operations, including the sale of goods and services, and investment income.
9. *Expenses* include:
 - (a) Spending on such activities as social security, health and education.
 - (b) Finance costs.
10. *Balance:* the operating balance is revenue minus expenses.

Part 2: Assets and Liabilities

11. *Assets* include such items as:
 - (a) marketable securities;
 - (b) advances;
 - (c) receivables.
12. *Liabilities* include:
 - (a) Borrowing.
 - (b) Pension liabilities.
13. *Balance:* the capital balance is total assets minus total liabilities.

2.2 *The treatment of student loans*

14. Assume that in a given year the government lends a total of \$100 million to students. This is treated in the government accounts as follows.

15. *Current revenue.* Interest payment by students on the accumulated stock of loans advanced in previous years is part of Investment income under Revenue (b), above:

16. *Current Spending.* Student loans appear twice in current spending (paragraph 9, above):

- (a) Provision for bad debts resulting from this year's lending appears as part of Education spending under Expenses (a), above. The New Zealand government currently uses a figure of 10 per cent for bad debt provision;
- (b) Interest subsidies for certain groups of borrowers, (e.g., a parent staying at home to look after young children) appear as part of Finance costs under Expenses (b).

17. *Assets.* Accumulated lending to students in this and previous years (net of provision for bad debt) appears under Advances in Assets (b).

18. *Example.* If the Government lends students \$100 million this year, Education spending (Expenses, item (a), above) increases this year by \$10 million to cover bad debt. The remaining \$90 million enters the accounts under Advances in Assets, item (b), i.e., increases the total stock of accumulated student loans (net of provision for bad debt) by \$90 million.

19. Thus provision for bad debts and for any interest subsidies appear as part of current spending and interest payments by students as part of current revenue. The accumulated stock of student debt is treated as a financial asset.

20. The key point, so far as the UK is concerned, is that only a fraction of this year's \$100 million student loans appears as part of current spending, on the basis that lending to students is a financial asset which yields a future repayment flow. A New Zealand Treasury official points to normal bank practice for mortgage or other lending as a good analogy for why they consider student loan advances to be a financial asset and why only the bad debt provision should be considered as expenditure.

25 September 1997

NOTES

1. I am grateful to officials of the New Zealand Ministry of Education and the New Zealand Vice-Chancellors Committee for enormously informative tutorials.

2. Interest is added to the loan on 31 March each year.

TABLE 1: SIMPLIFIED REPRESENTATION OF THE NEW ZEALAND FINANCIAL STATEMENTS

Revenue and Expenditure

Revenue

- Revenue from taxation
- Revenue from government operations
 - Investment income
 - Student loans, interest payments by students

Expenses

- Social security
- Health
- Education
 - Students loans, bad debt provision
- Finance costs
 - Student loans, interest subsidy

Operating balance

*Assets and Liabilities***Assets**

Advances

Student loans, accumulated lending (net of bad debt)

Liabilities**Balance**

APPENDIX 13

Education and Employment Committee: Higher Education

EVIDENCE FROM QUENTIN THOMPSON (COOPERS & LYBRAND)

DIVERSITY IN TEACHING AND DIFFERENTIAL COSTS

1. Britain currently has a higher education system which embraces considerable diversity of offering to the potential student. Within any one subject area, there will be a range of:

- coverage of the topic (what does a degree in History cover?);
- style of teaching (balance of lectures, seminars, tutorials, etc.);
- approach to the subject (theory, practical, use of laboratory or field work);

and no doubt others.

There are many reasons for such diversity: they can be historical, they might reflect the views of an individual academic from some while ago, or they might be a reflection of the ethos of a whole institution from its foundation.

2. Whatever the reasons, many people welcome such diversity and would want it to continue. One thing is certain, such differences are extremely unlikely to be able to be delivered all at the same cost. Some approaches will be more expensive than others, e.g., the use of laboratories, emphasis on small tutorial groups. These differences in cost are little to do with other more objective differences such as result from geography or from an institution's capital inheritance. In fact the currently most expensive university in terms of unit cost of teaching is Leeds Metropolitan (excluding college fees in Oxbridge).

3. The current method of funding higher education seeks convergence of funding to a uniform unit price (within a subject area). This is an explicit policy of the Funding Council(s); however, even if it were not explicit, it is more or less inevitable given a formula based approach to funding and nearly 150 institutions to fund (in England at least—it would be possible to arrange funding differently in Wales, Scotland or Northern Ireland).

4. The results of such pressures towards convergence are likely to be two-fold. First, there is a real danger of squeezing much of the diversity out of the system, which many would regret. Second, and as seriously, there is a real danger of the system spiralling down (in terms of offering) to that of the provider of lowest cost—"if they can do it at that cost, why can't you?"—and thereby risking not only diversity but quality as well (a separate point). There are many who would argue that this is already happening.

5. So, if the nation values diversity in higher education, how should offerings be:

- judged as valid higher education experiences, (i.e., not off the bottom of an acceptable scale)?
- justified in terms of the extra costs associated with more expensive approaches (i.e., not off the top of the scale)?
- paid for?

6. The first of these points is relatively simple and is in the purview of the new QAA. The second is more difficult in that it requires a judgment to be made as to whether the "extra" associated with the extra costs is worth it or not. The question then becomes linked to the third point—in that if those making the judgment about whether the "extra" should be provided do not also have to make any contribution to the extra costs, there is a clear risk of overall costs spiralling upwards. This would be as unsatisfactory as costs spiralling downwards—although perhaps to different constituencies.

7. Who, therefore, should make this judgment—and pay for it? There are three possibilities. *First*, it could be the Funding Council; Council funding could not then be on the basis of a formula, but would require a judgment to be made, on an institution by institution basis, as to whether the different offering was worth the extra costs associated with it. The Council would probably need to use an agency to help make judgments about value for money within diversity.

8. *Second*, it could be left to the institutions themselves. Each institution could decide its own position on the diversity spectrum (subject to the QAA check that it was of adequate quality); it would then seek funding at that level. It would be for the Funding Council to decide how many student places it was prepared to fund at that level and price. This was more or less the position prior to the policy of convergence, but it produced cost differences without justification. The policy of convergence implies that the Funding Council does not now accept those historical cost differences as reflecting valid differences in offerings, which is why it is moving to convergence. However, if it were to accept the differences as valid, there would be no pressure on a university to change its offering and/or costs and the funding arrangement would simply ossify the status quo.

9. *Third*, it could be left to the students with (some, but not necessarily all of) the cost difference being included in the fee paid by the student—once the principle of students paying some of the fees has been established. The burden of imposing a fee on students is considerably reduced by having income contingent loans. It would thus not be a change in principle to allow the fee level to be different in institutions which had validly different costs and for such differentiated fees to be covered by differential income contingent loans.

10. The result would be that the high cost institutions (such as Leeds Metropolitan—as well as Oxbridge) would be able to set fee levels which reflected the higher cost of their offering but which were not covered by the convergent funding methodology of the Funding Council. A (differential) income contingent loan would mean that the higher burden was not felt by students until they were in employment. Whether the student valued the “extra” offered by such universities in return for the higher loan would be a good test, over time, of the value of the offering as perceived by the students. Of course change would be slow, but there would be change. Universities would need to explain their offering to potential students in such a way as to justify, to the student, the extra fee level; better information would be the key. Individual universities would, of course, also be able to establish bursaries to cover some or all of the fee differential if they so wished.

APPENDIX 14

Memorandum by HM Treasury

ACCOUNTING FOR PUBLIC EXPENDITURE

This memorandum describes the key aggregates used for planning and controlling public expenditure under the present public expenditure accounting regime, and how student loans are accounted for in these aggregates. This regime has been in operation for several years.

2. The memorandum:

- briefly sets out the background against which planning and control of public spending in the UK has up to now taken place;
- describes the PSBR, what it is and how it relates to the national accounts, and then describes the main spending aggregates, GGE, GGE(X) and the Control Total;
- in doing so, explains how student loans are accounted for in this framework;
- sets out the respective responsibilities of the Office of National Statistics (ONS) and Treasury in decisions regarding the definition and measurement of the various fiscal and spending aggregates.

THE BACKGROUND

3. The current approach in the UK towards planning and controlling public expenditure, and in particular the definition of the public expenditure Control Total reflects:

- a long tradition of cash accounting and of presenting Estimates to Parliament in cash terms;
- the emphasis placed on the public sector borrowing requirement (PSBR), a cash measure, in setting fiscal policy;
- the priority given by all governments to controlling the growth of public expenditure, formalised by the last Government as an objective for the level of public spending set in terms of general government expenditure (GGE), a measure of spending with coverage quite closely related to the PSBR.

4. The present Government has set a different framework for fiscal policy, which now has two main objectives—the “golden rule” (that current expenditure should be financed from current revenues, not by borrowing) and a stable debt-to-GDP ratio. The PSBR remains very relevant to achieving the debt objective, as it measures the need for new borrowing and thus, approximately, the net increase in the stock of public sector debt. For public spending, there is no specific target for GGE, but control of the aggregate level of spending remains important.

Total spending needs to be set at a level which is affordable and prudent, and able to be financed by a fair and efficient tax system.

FISCAL AGGREGATES—PSBR AND THE NATIONAL ACCOUNTS

5. The *Public Sector Borrowing Requirement (PSBR)* measures the public sector’s need to borrow from other sectors of the economy and overseas to finance the balance of expenditure and receipts arising from its various activities. These activities are defined widely to include transactions involving the purchase and sale of most financial assets, including lending (but not liquid assets such as bank deposits). All these transactions affect the public sector’s requirement to borrow, i.e., the balance which has to be financed through a net increase in financial liabilities.

6. All the transactions involved in student loans—the loans themselves, and subsequent repayments and interest payments—score in the PSBR. Making new loans to students increases the PSBR and the subsequent loan repayments by students reduce it.

7. Borrowing requirements are also defined and measured for general government—that is, the public sector less public corporations—and for central government and local authorities separately. Financing policy—which determines the amount of new gilts the Government issues—currently depends on the CGBR.

8. The *national accounts* distinguish between current and capital transactions and financial transactions. Loans, and loan repayments, are financial transactions. The balance between expenditure and receipts for current and capital transactions is termed, in the UK national accounts, the *financial deficit*.

9. As with the borrowing requirements, financial deficits are defined and measured for the public sector and general government, and also for central government and local authorities separately. The *general government financial deficit (GGFD)* is the measure of the government deficit which is specified in the Maastricht Treaty to be used in the convergence criteria for economic and monetary union.

10. As a financial transaction, loans to students do not score in the financial deficit (public sector or general government). Neither do repayments of those loans. But interest on those loans is a current transaction and in principle should score—as a government receipt—in the financial deficit.

MEASURES OF PUBLIC EXPENDITURE

11. *General government expenditure (GGE)* comprises current and capital expenditure, as defined in the national accounts, plus net expenditure on certain financial assets—specifically, net lending (new loans less repayments) and net expenditure on company securities. GGE is the expenditure side of the GGBR account; GGE less General government receipts equals general government borrowing (GGBR). Loans and repayments of loans, including loans to students, score in GGE, as net lending is scored on the expenditure side of the accounts. But interest payments by students should in principle be scored as general government receipts.

12. The previous Government's objective of reducing public spending as a share of national income was expressed in terms of *GGE(X)*—which is GGE, adjusted to exclude specific items. The exclusions are privatisation proceeds (which score as negative spending, because they represent the sale of a financial asset, company securities) and spending financed from National Lottery proceeds; in addition, interest and dividend payments are scored net of receipts.

13. The *Control Total* is the principal focus of public expenditure planning and control. Setting the Control Total in the Public Expenditure Survey, and then monitoring and controlling in-year the spending covered by it, has been the main means of delivering the objective for public spending, and has played a key role in delivering the desired path for the PSBR as well.

14. The Control Total covers around 85 per cent of GGE. The general rule has been to include all kinds of public spending in the Control Total, unless there are good reasons for exclusion.

15. The main exclusions are spending which is strongly cyclical—certain social security benefits (“cyclical social security”), and central government debt interest payments, which vary with the cycle in borrowing and hence the stock of government debt. There are a number of other more minor exclusions, for example the imputed estimates of capital consumption which the national accounts include in GGE. Spending which is excluded from *GGE(X)*—e.g., Lottery-financed spending—is also excluded from the Control Total. However, the Control Total includes a few items which are outside of GGE, but which it is desirable to include in the planning and control framework—for example public corporations' borrowing from the market is included because it impacts on the PSBR.

16. All net lending by general government, including lending to students, is included in the Control Total.

RESPONSIBILITIES OF ONS AND TREASURY

17. The UK national accounts are the responsibility of the Office for National Statistics (ONS). The ONS are responsible for the definition and measurement of the financial deficit, and also for the definitions of the various sectors—public sector, general government, etc. In setting these definitions, the ONS follow international guidelines in the form of the United Nations System of National Accounts (SNA) and the EU's European System of Accounts (ESA). The present ESA dates from 1979, but a new ESA (ESA 95) was published in 1995, and will form the basis of the UK national accounts from 1998 onwards.

18. The definition and measurement of the borrowing requirement (as in PSBR, GGBR, etc.) is the joint responsibility of ONS and the Treasury. There are no international guidelines for the borrowing requirement, but in setting the definition ONS and Treasury attempt as far as possible to maintain a close correspondence with national accounts concepts and aggregates.

19. GGE is defined by ONS, following national accounts definitions of current and capital expenditure and of general government, and is consistent with international agreed definitions of policy lending. The Treasury is responsible for the definitions of *GGE(X)*—that is, for defining the exclusions—and of the Control Total.

H M Treasury

13 October 1997

APPENDIX 15

Paper by Nick St Aubyn MP

The Committee heard evidence from Treasury officials. Their gist was that accounting changes, such as a switch to "resource accounting", do not affect cash flow. Since it is this which determines the Government's borrowing requirement in any one year, only a proposal which changed cash flow would unlock any real resources for current spending.

The present student loan scheme was originally intended by the previous Government to be run by the private sector. In this case, the present value of the loans would have produced a cash transfer available for current spending. The problem was that no-one wanted to take on this proposal.

This is the root cause of the present shortfall in higher education funding. According to the Student Loan Company annual report for 1996, in the academic year 1995-96 some 560,000 eligible students took up their entitlement to loans, with an average value of £1,252. Thus the loan book increased by £700 million. Assuming a prudent present value of 40 per cent of this face value of loans, under a privatised scheme this would have produced an additional £280 million in cash.

Instead of addressing this problem, the Government's proposals make it worse. The effect of additional loan expenditure wipes out all of the benefit from grant savings and tuition fee savings in 1998-99 and even two years later reduces a gross benefit of £1,250 million to just £150 million:

	1998-99 £ millions	1999-2000 £ millions	2000-01 £ millions
Additional loans expenditure ¹	(400)	(750)	(1,100)
Grants savings	250	600	850
Tuition fee savings	150	250	400
Net savings	0	100	150

¹ Costs are shown in brackets.

Source: Research Paper 97/119 HoC Library.

It is the practice in other countries, such as the USA, for student loans to be financed by an independent body. The difficulty in this country is that the loans are to be income contingent, as up to a point were loans under the previous system, as well as being subsidised. The only independent body prepared to take on this responsibility will be one with a vested interest.

Because the loans are both income contingent and subsidised, there is a lack of transparency in their value. This is a familiar problem in financial markets, which draw a distinction between "market" value and "fair" value. One solution is to redesign the structure of student loans to make them more transparent and therefore more marketable. The Government has pre-empted this option by the speed of their reaction to the Dearing Report.

However, it must be noted that a switch to the New Zealand system, where loans are fully income contingent but not subsidised, would yield a present value of 90 per cent of the face value of the loans. Taking the earlier example of the 1995-96 figures, the £700 million increase in the loan book that year would on this basis have yielded £630 million in cash terms. This one change would have avoided all of the concern and the distress created by the abolition of maintenance grants and the introduction of tuition fees, while solving the present funding shortfall.

Such a move is not now possible. Any proposal involving hiving off the student loan book to an independent body will therefore involve a loss in the long term of the difference between "market" and "fair" value. Such a body should preferably not only have a vested interest in the scheme, but also be willing and able to plough back the long term gain from banking this difference in value, hereafter referred to as the loan book equity.

The obvious contender to take responsibility for managing the student loan book is the universities. There will be a price. The CVCP told us that:

"Our acceptance of the principle of graduates contributing to tuition is conditioned . . . It would be indefensible to expect graduates to make a contribution to tuition fees unless this was reinvested as genuinely additional funding to protect the quality of teaching."

The flaw in the Government's scheme is that any transfer of resources in the short term to the universities would merely exacerbate its cash flow problem, since central government would still be funding the loans to pay those fees via the proposed higher maintenance loans for fee payers.

If however, the loan book is handed over to a university run body, then it is feasible for the universities to benefit not only from the present value of the tuition fees, but also from the long term gain from realising "fair" value for the loans as they mature.

The central recommendation is therefore that the new student loans be lent by an independent body run by the universities.

The Government would meet a proportion (probably 60 per cent) of this funding as an upfront market valuation of the cost of:

- (a) the income contingent delay;
- (b) the estimated level of default and;
- (c) the cost of the interest subsidy.

The balance of 40 per cent would be raised by issuing debt (whose repayment could be guaranteed without infringing the PSBR) by the Government.

The Government would receive the 40 per cent element on all loans except those relating to tuition fees. The universities would receive the immediate 40 per cent element on the tuition fee loans as well as the loan book equity, provided that in due course it can contain factors (a), (b) and (c) above.

The following table is a simple illustration of the effect of this central recommendation. The actual projections will require careful analysis by the Government as well as a projection over the medium term.

TABLE 1
Three year projection—Treasury cash release from proposal

	1998–99 £ millions	1999–2000 £ millions	2000–01 £ millions
Base case ¹	700	700	700
Additional Loans ²	400	750	1,100
Less:			
Tuition fee loans ²	(150)	(250)	(400)
Total Maintenance Loans	950	1,200	1,400
Cash release @ 40 per cent	380	480	560
Grant savings ²	250	600	850
Reduction in Treasury expenditure	630	1,080	1,410

¹ RP No. 97/119 page 18. "Base case" assumes no change from 1996 position.

² *Ibid*, page 43.

Two further tables appear in the Annex to show the benefit of the proposal to the Universities. These tables are illustrative only of the advantages of the central proposal.

They do however make clear the magnitude of the Government's changes, and its folly. We have already witnessed the effect on this year's intake in terms of the "gap year" reaction and the fall in applications for next year. Yet few of those students who have applied will have appreciated that, as they stand, the Government's changes yield no new cash to benefit their courses.

The effect of our central proposal, on the other hand, is to generate so much cash as to call into question the scale of the changes which the Government is so suddenly implementing.

Our second proposal therefore is that the Government should act to mitigate the abolition of maintenance grants.

The reduction in Treasury expenditure illustrated by our Table 1 is excessive, whereas the abolition of the grant will hit hardest those groups of students who are the least well represented in the student population.

Our third proposal, as implied by Table 3 below, is that the benefit accruing to the universities should satisfy their demand for additional resources to invest in upgrading and expanding HE.

The total benefit is approximately 100 per cent of the tuition fees levied.

Our final proposal is that, provided the benefits of the tuition fees accrue directly to the universities and independent of their funding from central government, the issue of any change in the fee level can be safely left in the hands of Parliament.

We would however recommend that any change in the fee level be subject to approval by both Houses following a report by the Select Committee, which can take evidence from all concerned parties.

No increase in fees should affect those already committed to their course of study.

Nick St Aubyn MP

ANNEX

TABLE 2
Loan company—three year projection

	1998–99 £ millions	1999–2000 £ millions	2000–2001 £ millions
Maintenance loan total	950	1,200	1,400
Tuition fee loans	150	250	400
Carried forward	—	1,100	2,550
Total loans outstanding	1,100	2,550	4,350
Debt at 40 per cent	(440)	(1,020)	(1,740)
Interest reserve	(440)	(1,020)	(1,740)
Write-off reserve	(110)	(255)	(435)
Loan book equity	110	255	435

TABLE 3
Benefit to Universities

	1998–99 £ millions	1999–2000 £ millions	2000–2001 £ millions
Tuition fees	150	250	400
Cash release on fees at 40 per cent	60	100	160
Increase in loan book equity	110	145	180
Total benefit to Universities	170	245	340
Benefit per cent fees	113 per cent	98 per cent	85 per cent

APPENDIX 16

Submission by the Union of Brunel Students

THE NATIONAL INQUIRY INTO HIGHER EDUCATION REPORT AND RECOMMENDATIONS

INTRODUCTION

The Union of Brunel Students serves the educational, welfare, sporting, cultural, social and recreational interests of over 10,000 members.

The Union represents the views and interests of students studying at the four West London campuses that make up Brunel University.

The Executive Committee of the Union of Brunel Students has studied the recommendations in the Report of the National Committee of Inquiry into Higher Education. The following report outlines the concerns and issues that the Union of Brunel Students considers to be of the utmost importance for the future of Higher Education and the quality of the educational experience available to students into the next century, in particular at Brunel.

The policy stated in this report has been based on the views and opinions given to the Union of Brunel Students by its student membership during the period of the Committee's Inquiry in a series of workshops and discussion forums.

For the purposes of this submission we have divided the recommendations put forward in the Dearing Report, policy and implementation of changes in Higher Education into the following main categories or themes:

1. Access to Education and Life long learning
2. Fees and student funding
3. Funding
4. Regions
5. Skills and employability
6. Teaching and Learning

7. Information Technology

8. Research

9. Miscellaneous

Dan Ritchie

President 1997-98

on behalf of The Union of Brunel Students

1. *Access to Education and Life long learning*

This section refers to Recommendations 1, 2, 3, 4, 6, 7, 11, 12, 17, 30, 38, 85, 91.

1.1 The Union of Brunel Students applauds the main thrust of Dearing's recommendations and the Government's statement that participation in Higher Education should be increased, in particular that those groups which have not traditionally had access to HE should be encouraged.

1.2 Dearing suggests that a number of measures be taken in order to support wider participation. He recognises that for many students, particularly disabled students and mature students with grown children, finances and other special arrangements are a particular problem and suggests that these groups be eligible for greater benefits. The Union of Brunel Students in particular supports this focus on traditionally disadvantaged groups.

1.2.1 The Union of Brunel Students supports the principle that entry to Higher Education should be based solely on academic ability and no group within society should be disadvantaged in access to higher education. Access to Higher Education should therefore be open to all who can successfully benefit from the experience.

1.2.2 The number of places should reflect the number of students able to apply themselves successfully to a higher education qualification. In some cases, particular provision should be made to enable people from disadvantaged groups to attend higher education institutions.

1.2.3 The funding for this should be provided as part of a national system to ensure a focus on increased access and widening participation. The legislation of minimum requirements without appropriate funding will lead to only the minimum rather than the optimum provision, without adherence to the spirit of the widening of access and provision of equality of access being carried out.

1.3 Dearing suggests that Higher Education should not be a one off experience for the individual but that "life long" learning should be encouraged through industry and the work place. The Union of Brunel Students supports the recommendation that each individual build up a portfolio of formal skills and qualifications and agrees with some reservations (see paragraph 7.1.4) that the increased use of technology will mean that distance and ongoing learning become more customary.

1.3.1 The Union of Brunel Students agrees that links to external agencies, in particular industry and careers services, should be strengthened in order that individuals can have an ongoing experience of education and this is already the experience of many students at Brunel University.

1.3.2 The Union of Brunel Students will not support any recommendation that prevents a student experience that includes full time and residential study.

2. *Fees and student funding*

This section refers to Recommendations 5, 6, 70, 76, 77, 78, 79, 80, 81, 82, 83.

2.1 The Union of Brunel Students applauds the identification by the National Committee of Inquiry of the particular needs of traditionally disadvantaged students such as disabled, mature, those intercalating due to illness and minority students, and that extra help should be made available to these students through the Benefits system and by additional funds through the funding bodies by Government.

2.1.2 The Union of Brunel Students supports the recommendation that additional funds be made available through the Access Funds System. However, the Union of Brunel Students would prefer these recommendations to be seen as, at most, only one part of the solution to the issue of student poverty and the effects that financial issues have on accessibility to higher education. Access Funds themselves are variously administered and should be reviewed in relation to the criteria used to allocate them to students in need.

2.2 The Union of Brunel Students agrees that there should be a constant review of the success of Higher Education to meet these ends at various levels.

2.3 The Union of Brunel Students supports the view that Higher Education must remain free at the point of entry in order that the over-riding principle of equality of access to those of intellectual capability be retained and achievable.

2.3.1 The Union of Brunel Students considers that the Government's response to the recommendation by the National Committee of Inquiry in relation to tuition fees rejects and undermines the Committee's rationale.

2.3.2 The Union of Brunel Students, through its Advice and Welfare services, is aware that student hardship and debt is an increasing and detrimental pressure on students' educational success.

2.3.3 The Union of Brunel Students believes that the total amount of funding available to students for maintenance costs should be increased in order to reduce the present levels of student hardship.

2.3.4 The Union of Brunel Students supports the view that there is a serious funding crisis in Higher Education which has impacted on staff, students and the quality of the educational experience.

2.3.5 The Union of Brunel Students urges the Parliamentary Committee to take note of the research evidence stated by both the Dearing Inquiry and the Department for Education and Employment that the benefits of Higher Education are only financially realised by the individual at a point some five years after graduation.

2.3.6 The Union of Brunel Students believes that the Government's proposed loan and repayment scheme is fundamentally flawed, in that it ignores the low pay position of most graduates in their first years at work.

2.3.7 The Union of Brunel Students believes that the repayment scheme outlined by the Government will lead to even more severe hardship amongst students and recent graduates, in particular those from traditionally disadvantaged groups and will act as a deterrent to potential students.

2.3.8 The Union of Brunel Students believes the Government's proposals for tuition fees and loans will have a particularly adverse effect on potential and actual undergraduate students in the Arts.

2.3.9 The Union of Brunel Students urges the Parliamentary Committee to reject the Government's proposals for tuition fees and loan repayments on the principle that it is diametrically opposed to the basic premise of equality of opportunity and access to Higher Education.

2.3.10 The Union of Brunel Students urges the Parliamentary Committee to reject the Government's proposals for tuition fees and loan repayments on the principle that it is against natural justice that the individual pay disproportionately for a system which is for the benefit of the nation, and that the Government's proposals, which do not ring fence the proceeds of tuition fees to Higher Education, equate to a punitive tax based on education rather than income.

2.3.11 The Union of Brunel Students urges the Parliamentary Committee to reject any proposals which endanger the position of Higher Education in its first principle of the extension of knowledge for the benefit of society as a whole.

3. Funding

This section refers to Recommendations 34, 35, 37, 61, 68, 71, 72, 73, 74, 75, 78, 79, 86, 87.

3.1 The Union of Brunel Students applauds the recognition by the Dearing report that there is a funding crisis in Higher Education and the recommendation that funds should follow students—i.e., that a *per capita* payment remain.

3.1.1 The Union of Brunel Students urges the Parliamentary Committee to prioritise solutions to this funding crisis in relation to all the changes recommended and to allocate immediate additional funding to the Higher Education sector.

3.2 The Union of Brunel Students supports the recommendation that there should be a national strategy by Government and the funding councils in regard to institutional funding that should allow for capital expenditure on building and equipment.

3.2.1 Any proposed allocation of funds for capital expenditure should be aimed at those institutions most in need.

3.2.2 Any proposed new system for additional funding for Higher Education should be directed at institutions and should be drawn from government and industry, not from students.

3.2.3 Additional funding should immediately be found and used solely to raise and maintain the standards of education delivered across the board and not to further the aim of creating an "Ivy League" of privileged institutions.

3.2.4 Any proposals for raising additional revenue for Higher Education should be centrally administered and the possibility of individual institutions raising funds through additional charges from students, such as top-up fees, should be ruled out. Their introduction can only be detrimental to the Higher Education system, institutions and students.

4. Regions

This section refers to Recommendations 34, 36, 37, 38, 68, 69, 75.

4.1 The Union of Brunel Students supports the general principle that institutions should make stronger links with their local and regional communities and industries so as to further the aim of life long learning and to connect the work of higher education with the needs of the nation.

4.2 The Union of Brunel Students applauds Brunel University's stated aim to be a "regional centre of excellence".

4.2.1 The Union of Brunel Students notes that this focus along with proposals regarding student funding and life long learning may have lead to a vast change in the nature of the student experience, for example with the majority of a university population being local to it.

4.2.2 The Union of Brunel Students urges the Parliamentary Committee to investigate the consequences of these proposals and to ensure that any gains in the breadth of the student experience do not either remove the benefits enjoyed by full-time students or undermine the quality of the student experience.

4.2.3 The Union of Brunel Students urges the Parliamentary Committee to ensure that the implications of the implementation of proposals intended by the regional focus for Higher Education does not reduce the choices of institution or delivery of courses for individual students.

4.2.4 The Union of Brunel Students applauds the Committee of inquiry in its aim to increase the opportunities for the relationship between education and employment and this should be reflected in the funding drawn from the local community and its industries and commerce who will directly benefit.

5. *Skills and employability*

This section refers to Recommendations 17, 19, 20, 21, 30, 31, 38, 39, 40.

5.1 The Union of Brunel Students applauds the Dearing Committee's emphasis on the acquisition of skills and employability as an important role for Higher Education.

5.2 The Union of Brunel Students agrees that this aim need not rely on work placements alone but on the nature and accessibility of the system to the life long learner.

5.2.1 The Union of Brunel Students applauds the recommendation that such skills are recognised at the admissions stage so that there is value given to previous experience rather than just academic achievement and agrees that this will go some way towards widening access to Higher Education.

5.2.2 The Union of Brunel Students urges the Parliamentary Committee to consider ways in which those life skills are assessed and valued.

5.3 The Union of Brunel Students supports the general principle that all courses should be planned and advertised with the learning outcomes clearly stated, in particular the transferable skills gained throughout the course.

5.3.1 The Union of Brunel Students notes that Brunel University already has a reputation for the employability of its graduates. Brunel operates a unique system to thin and thick sandwich courses which enable students to gain invaluable experience of the work environment, and apply and evaluate the knowledge they have gained during their study, through work experience. However, in most cases, even where transferable skills are planned into courses, they are not assessed.

5.3.2 The Union of Brunel Students urges caution and sensitivity in the planning and implementation of the teaching and assessment of transferable skills, with an awareness that this will have far reaching consequences in terms of course content and teaching approach and should enhance rather than undermine existing quality, depth and breath of teaching and learning.

5.3.3 The Union of Brunel Students urges the Parliamentary Committee to ensure that any changes will not be implemented without adequate staff student ratios, staff training and extra and adequate funding.

6. *Teaching and Learning*

This section refers to Recommendations 8, 13, 14, 15, 16, 20, 21, 22, 23, 24, 25, 26, 31, 47, 48, 49, 50, 64, 69.

6.1 Dearing recommends that a Teaching and Learning Institute be set up to train and qualify lecturers in Higher Education to teach.

6.1.2 The Union of Brunel Students recognises that there is a need to increase the present quality of teaching and learning and believes that this will be exacerbated with the implementation of many of Dearing's recommendations.

6.1.3 The Union of Brunel Students believes that only new lecturers will be required to meet any standards of teaching, this should be gradually widened to include existing teaching staff.

6.1.4 The Union of Brunel Students considers that any provision of the Teaching and Learning Institute should be centrally funded and ensure that any professional development for teaching staff is well delivered, rewarded and monitored.

6.2 The Union of Brunel Students supports the view stated in the Committee of Inquiry's report that at present the system rewards individuals and departments through the Research Assessment exercise for the quality and extent of their research and that there is no such equivalent reward for quality teaching (or promotion for individuals).

6.2.1 The Union of Brunel Students applauds the recognition that many departments who have good teaching but not the standard of research have suffered in the RAE and been subsequently underfunded.

6.2.2 The Union of Brunel Students supports the recommendation that a grant be offered to departments who want to opt out of the RAE to concentrate on teaching quality.

6.2.3 The Union of Brunel Students urges the Parliamentary Committee to consider ways in which the spirit of these recommendations be carried forward so that the re-instatement of the binary divide and the division of teaching and research be avoided whilst increasing the quality of both.

6.2.4 The Union of Brunel Students urges the Parliamentary Committee to consider that the need to provide value for money and high quality education will increase as the cost of the individual does so.

6.3 The Union of Brunel Students supports the view that an individual's educational attainment and acquisition of skills and experience should be documented and valuable in the labour market.

6.3.1 The Union of Brunel Students considers that a national system or strategy of qualifications and certification of skills, knowledge and experience would further the above aim and in line with the recommendations for life long learning would be preferable to, and prove irrelevant, the progress records and identification number recommended by the Inquiry.

6.3.2 The Union of Brunel Students agrees that flexibility and choice should be the underpinning features of the Higher Education system in the next century but that any transfers or choices available should have the students' not the institutions' interest at heart.

6.4 Dearing recommends that course planning be outcome orientated. The Union of Brunel Students supports the view that Higher Education should be delivered in a systematic and planned way.

6.4.1 The Union of Brunel Students urges the Parliamentary Committee to consider ways in which this aim can be achieved without losing any of our systems traditional and general educational benefits through students' involvement in the academic community.

6.5 The Union of Brunel Students believes that the range of recommendations made by the Committee of Inquiry highlight the need for quality teaching and learning within Higher Education.

6.5.1 The Union of Brunel Students believes that these far reaching changes intended to raise standards and the quality of the educational experience also highlight the need for an increased role of student input, feedback and for the student voice to be an effective one to ensure that the system remains one that is in the interest of students.

6.5.1 The Union of Brunel Students representational role is central to its mission and allows students to take responsibility for their contribution to the institutional community. Student representation at all levels of management of the University is supported by our institution in line with quality assurance best practice, and the Students' Union applies considerable resources to the support and development of student representatives in order that the quality of their contribution, and their personal achievement, be maximised for the benefit of the whole community.

7. *Information Technology*

This section refers to Recommendations 9, 15, 17, 41, 42, 43, 44, 45, 46, 53.

7.1 The Union of Brunel Students is concerned in regard to the statement of intent made by the Committee of Inquiry that every student should have their own computer as the need for IT skills and technology increases and its benefits in terms of access and distance learning.

7.1.2 The Union of Brunel Students agrees that access to Information Technology and its use for teaching and learning will increasingly become central to the educational experience.

7.1.3 The Union of Brunel Students agrees that all students should have access to Information Technology.

7.1.4 The Union of Brunel Students supports the view that in order to comply with the aim of accessibility and equality of opportunity within Higher Education, the responsibility for ensuring access to Information Technology must lie with the institutions and through them the funding bodies and central government.

7.1.5 The Union of Brunel Students urges the Parliamentary Committee to consider the need for provision of funds in order to provide hardware, software and skills to students in order to support the principle of equality of access, and that provision to individual students should take account of financial implication and the possible deterrent factor of yet another cost of education falling on the individual.

7.1.6 The Union of Brunel Students reiterates its concern that on no account should a lack of access to Information Technology disadvantage any student.

7.1.7 The Union of Brunel Students recognises the enormous positive implications of an increased use of technology in teaching, learning and access to information. However, the Union is concerned that the recommendations put by the Committee of Inquiry ignored the research evidence which was put to it by a number of submissions, that quality of learning and support within Higher Education, from a student perspective,

was dependent on the ability of the student to have face to face contact with the staff at the institution and a level of individual guidance. The Union urges the Committee to re-examine this evidence in reaching a decision as to the future role of Information Technology in Higher Education.

8. *Research*

This section refers to Recommendations 28, 29, 32, 33, 34, 35, 52.

8.1 The Union of Brunel Students supports the Dearing recommendation that a National Research Council for the Arts and Humanities be set up to operate alongside the existing research councils.

8.1.2 The Union of Brunel Students applauds the Committee of Inquiry for its recognition of the importance of research outside the perimeters of immediate industrial motivations.

8.2 The Union of Brunel Students supports the view that the number and application of existing post graduate qualifications is confusing and undermines the value of them in the eyes of the employers. Therefore the Union looks forward to proposals for a new qualification framework for post graduate courses to try to simplify the existing of various degree, diploma and certificates available.

9. *Miscellaneous*

9.1 The Union of Brunel Students supports Recommendation 12 which refers to a need for constant review by Students' Union of their services in particular in relation to part time and non traditional students.

9.1.1 The Union of Brunel Students, as most Students' Union, already undertakes this type of review as a membership led organisation.

9.2 The Union of Brunel Students supports the spirit of the recommendation that without compromising the autonomy of individual institutions, university internal complaints procedures should be reviewed to ensure they contain all the principles of natural justice.

9.2.1 In the light of the fact that student complaints are likely to increase as students feel more and more like consumers of their education and the more individuals have to pay for the education, the Union of Brunel Students considers that the reforms of the Higher Education system should include a review of the complaints procedures used internally by all institutions.

9.2.2 The Union of Brunel Students considers the existing systems for student complaints to be at best haphazard, and urges the Parliamentary Committee to institute a full review of systems in place.

9.2.3 The Union of Brunel Students believes that there should be a standardised and enforced system for student complaints based on principles applied within all other national or public systems, with natural justice at its centre.

9.2.4 The Union of Brunel Students urges the Parliamentary Committee to collect and consider evidence in relation to student complaints, as we believe there to be serious anomalies within the legal definitions and framework, which means that in some cases complaints and disputes arise and cannot be dealt with satisfactorily within internal or external procedures or systems.

9.2.5 The Union of Brunel Students supports the view that at the same time the student representational role should be increased to ensure that students are fully aware of the implementation of changes due to this review of Higher Education. The Union believes that taking such action would ensure a smooth change and reduce the instigation of complaints.

9.2.6 The Union of Brunel Students urges the Parliamentary Committee to investigate ways in which to ensure that institutions recognise students and their representatives as central to quality assurance, planning and review processes and procedures.

9.2.7 The Union of Brunel Students recommends to the Parliamentary Committee to take steps, in the light of Nolan, as well as the National Committee of Inquiry into Higher Education, that action is taken to ensure that all university information, financial or in regard to governance, should be clear and open.

9.2.8 In relation to consultation and the implementation of Government policy and the recommendations put to the Government by the National Committee of Inquiry and this Parliamentary Committee, the Union of Brunel Students believes that all the "stakeholders" of Higher Education should be given well publicised, well-informed and adequate time and opportunity to take part in consultation exercises, at a time when the constituent groups are all present within the system, and not during non-teaching weeks of the year.

CONCLUSION

The Union of Brunel Students endorses the majority of the recommendations of the National Committee of Inquiry into Higher Education. However, the Union has serious concerns in relation to the funding issues in particular, and in the detail of the implementation of any proposals in the impact they may have on the quality of the educational experience.

This submission has concentrated on the views and opinions of Brunel students and an analysis of the recommendations made by the NCIHE and the Government, rather than putting at this stage, direct statistical and research evidence.

The Union of Brunel Students will be willing to present further written and statistical evidence should they be invited to do so by the Parliamentary Committee.

SUMMARY OF POLICY STATEMENTS

The Union of Brunel Students will actively campaign in order that:

- there be a national system to ensure a focus on increased access and widening participation. Entry to Higher Education should be based solely on academic ability and no group should be disadvantaged;
- there be no tuition fees and that education remain free at the point of entry (see access). That the total amount of money available to students be increased and that there be fairer income contingent repayments to take account of drop out rates, student hardship and access;
- any funding system results in more money for institutions and that this should be drawn from industry and government—not students. Funding systems should not be based on a system that pays more to rich institutions but that takes into account what is needed to maintain and raise standards across the board;
- top up fees are not to be introduced in any circumstances;
- any national or regional focus does not reduce student choice as to the institution or course they wish to attend. It should not create “educational ghettos”. It should aim to increase the quality of the student experience, improve work experience opportunities and draw more money from the community into Higher Education.
- standards and value of courses remain high and that the principle of value and standards are considered so as to avoid a re-instated binary divide;
- any changes that rely on radical changes to teaching and learning will not be implemented without adequate staff student ratios, staff training and extra and adequate funding;
- the present quality of teaching and learning is increased;
- the government ensures that any professional development for teaching staff is well delivered, rewarded and monitored;
- the progress records are shown to be irrelevant in a system which has its own degree qualification and that this should be related to a national system or strategy;
- any transfers available should have the students’ not the institutions interests at heart;
- the changes Dearing proposes highlight the need for student input, feedback and an effective voice and include a formal requirement to ensure that the system remains one that is in the students’ interest;
- the policy of the central provision of IT available to students will only be implemented with the funding to make it work. Central funds should be provided to allow institutions to fully equip themselves and their students. CVCP should act as a mass market, forcing down the price of IT and making it available to students on loans, etc.;
- on no account should a lack of access to IT disadvantage any student nor should IT be used to undermine the important face to face contact students require for guidance in their learning;
- there should be a standardised and enforced system for student complaints, in the light of the fact that student complaints are likely to increase as students feel more and more like consumers of their education and the more individuals have to pay for their education, and that existing systems are at best haphazard;
- the student representational role is increased to ensure that students are aware fully of the implementation of changes so as to reduce the instigation of complaints. All university information should therefore be clear and open.

APPENDIX 17

Memorandum by Dr Bill Robinson, London Economics

I enjoyed myself at the Committee hearing on Wednesday, and I thought it might be helpful to summarise briefly what I said in my opening remarks, and the two important qualifications that were elicited by questioning from the committee.

My view is that if the government wants to channel more money into Higher Education post Dearing it can and should do so. Students can borrow more, repay out of their higher incomes in later life, and the extra resources thus tapped should solve the crisis in HE.

However, because student borrowing comes in the first instance from government, this solution will involve a higher PSBR. I don't think anyone should worry about that provided it is clear that the extra borrowing will eventually be repaid, so that additional cash for HE does not imply higher taxes or higher borrowing in the medium term. In this sense additional government lending is not the same as additional government spending. There is no accounting trick available to stop the PSBR going up, and nor should the government look for one. There are however plenty of ways of scoring the extra spending so that the government can reasonably claim that it is sticking to its control totals.

The very important caveat that I made in giving this advice is that there is a strong grant element in the current interest free loans, and to that extent lending does constitute extra spending.

In questioning two further caveats emerged. Although additional government borrowing, on-lent to students for the ultimate benefit of HE institutions, does not damage the long-term fiscal stance (provided proper account is taken of the subsidy element in the loan and of the cost of legitimate non-repayment and default) it does constitute a short-term relaxation of the fiscal position. At a time of booming demand this might be unwise, for reasons of macroeconomic balance.

Secondly, the size of the implied subsidy in student loans is an unknown quantity, since we do not yet know how much the private sector is prepared to pay for the existing student loan book. All we know is that the Twin Track negotiations broke down because the private sector wanted a very large risk premium for lending to each and every student who was entitled to a loan. This means that City will rightly regard the subsidy element in lending to students as large, and any calculation of the subsidy component should recognise this and err on the side of caution.

The size of this problem is reduced to the extent that student loans carry a rate of interest closer to the market rate of interest. My own preference would be to lend to students at a rate closer to that at which the government itself can borrow. Charging a higher rate of interest does not in itself much change the fiscal position, because in a world of income contingent debt repayment the flow of cash back to the government is determined by graduate incomes much more than by the interest rate. But it does reduce the *grant* element in student loans, which means that it is possible to give more money to HE while still claiming that the spending totals have not been breached. The higher the interest rate on student loans the smaller the amount of additional public *spending* associated with a given increase in *borrowing*.

We thus teased out, in our discussion this morning, an interesting trade off: the higher the rate of interest charged on student loans, the more front-loaded help we can afford to give HE without breaching the spending totals.

The financing of HE is a very suitable test bed for the proposed new system of resource accounting, the purpose of which is to cost policies on a new present value basis rather than a cash flow basis. Using the resource accounting methodology could help the government explain to a sceptical City audience that increasing borrowing to finance asset acquisition is not a fiscally irresponsible act.

A final point is that student loans can be regarded as an investment in the creation of human capital. The Golden Rule (government should borrow only to finance investment) can therefore be invoked to defend it.

I hope this short summary of our discussion will help the Committee in arriving at its conclusions.

Bill Robinson

17 October 1997

APPENDIX 18

Memorandum by the Open University (D 25)

As a member of the Dearing Committee, I would like to express my appreciation of the way your Select Committee has followed through some of the recommendations of the NCIHE. In particular your challenge to the Treasury practice of accounting in relation to student loans promises to be a significant achievement on behalf of Further and Higher Education.

There is another issue that has come before you that I should like to emphasise as being extremely important, i.e., the extent to which Income Contingent Contributions (ICC's) must be collected in a way that is genuinely income-contingent. Nicholas Barr and Iain Crawford have made the same point in their submission to the Select Committee. Unless the ICC is collected on a monthly basis, linked to tax and NI contributions, there is a danger that graduates with volatile income patterns, may find themselves disadvantaged when their income drops, and conversely that the Government is disadvantaged when graduate income increases irregularly. This issue goes beyond HE, as in the context of the University for Industry Advisory Group we are considering mechanisms such as this for graduates of what will be a much wider range of course types and study awards. If the principle is established now that ICC's must be *genuinely* income contingent, then the administrative complexity of tracking such payments wherever they apply, will be greatly reduced. If contributions of this kind are to work,

as they should, to the advantage of the educational system, and not deter access, then it is essential that suitable provision is made for their collection. I urge you to ensure that this issue is addressed in your report.

May I end by suggesting that you consider holding a session of the Select Committee here at the Open University? There would be some advantage, I believe, in the Committee experiencing at first hand some aspects of a university outside the mainstream of current provision, but wholly adapted to the provision of lifelong learning for the 21st century.

Professor Diana Laurillard

Pro-Vice-Chancellor

Technology Development

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