

Policy briefing

# Spending Review 2015: Universities and productivity



**million+ is a university think-tank  
working with modern universities  
which engage in high quality teaching,  
excellent research, knowledge  
exchange and innovation.**

million+  
90 London Road  
London SE1 6LN

Phone 020 7717 1655  
Twitter: @million\_plus  
info@millionplus.ac.uk  
www.millionplus.ac.uk

September 2015

As a precursor to the 2015 Spending Review the Chancellor of the Exchequer set the Department of Business, Innovation and Skills challenging targets to reduce spending. One result is that student maintenance grants will be replaced with loans from 2017. However, reductions in spending are not the whole story. Ministers want to promote a new productivity plan and the Chancellor himself has recognised that Britain should be better at translating excellent research into wider gains for business and the country. Further investment in such translational research makes sense if we are to grow our way out of austerity.

The Prime Minister's own personal commitment to double the rate of participation in higher education from those living in low participation neighbourhoods by 2020 has the potential to transform the lives of thousands of individuals. We must also do more to support part time study if we are to deliver a skilled workforce fit for the future not the past.

As always, there are calls to reduce or even remove the student opportunity allocation. In reality this would undermine the focus on participation and student success to which the Prime Minister and the government so wisely committed in 2015.

Rather than being reduced, the allocation should be increased to support the new targets for access and equity of attainment set by Ministers.

This million+ submission to the 2015 Spending Review sets out a series of specific measures to ensure that universities, employers, small businesses and individuals can respond to the government's agenda. The rationales for a new stream of translational research funding, additional measures to support employers and individuals whose businesses, employment and life prospects would be enhanced by greater access to higher education qualifications, interventions to address well-documented failures in the part-time and mature student markets and new ideas to target higher education 'cold' spots are explained in detail. The urgent need to increase resources to support the education and professional development of the health and social care workforce and the risks posed to exports of the current operation of a visa regime which has led to a 49% decline in students from India in four years, are also highlighted.

Achieving savings by realigning the research council structure to reflect the main panel approach of the Research Excellence Framework might have merit. Four, rather than seven, different research councils would make sense and help to promote the inter- and multi-disciplinary research that has positive spill-over impacts on productivity.

However, the drive for further efficiency savings must be balanced with investment if the government's wider ambitions are to be realised. Our submission provides a strong platform for Treasury, BIS and other departments to work with universities, not only to step up to the productivity challenge, but also deliver the Prime Minister's goal of extending access to Britain's world-class university system.



**Professor David Phoenix OBE**  
Chair of million+ and Vice-Chancellor,  
London South Bank University

## Introduction

1 Britain needs a strong and competitive university sector to provide the graduates for the workforce of tomorrow, reskill the workforce of today, translate research to benefit businesses and contribute to productivity and the overall well-being of society by providing new opportunities to participate and study for a degree. Modern universities are well placed to deliver this agenda. They already deliver more opportunities than other institutions in the sector, offer courses aligned with new and emerging markets, support high-quality teaching and world-leading research, and deliver healthcare education and professional development for the NHS and other public and not-for-profit sectors.

2 The submission focuses on how universities can support the government's efforts to encourage regional growth, ensure successful student attainment, develop a dynamic flexible workforce with improved productivity to meet the country's skills challenge, increase participation in higher education by students from all backgrounds, and grow the UK's educational exports.

3 Our proposals consider how the government can build on an already successful university sector to ensure the current and future workforce has the skills and capacity to compete in a rapidly developing global economy. Through a mix of additional investment, regulatory changes, and incentives such as tax breaks for small businesses, the government can support universities in meeting employer demands for highly qualified, responsive employees that can help businesses in all parts of the country to grow.

# Supporting productivity through translational research funding

## Key features

- > A new fund for translational research targeted at universities that receive less than £5 million per annum in recurrent research funding
- > £100 million per annum over a 4-year period

## Rationale

4 Universities across the UK are engaged in excellent research and seek to work with businesses and those delivering public services in their region to promote innovation. Research funding is increasingly concentrated in 10-20 universities and further concentrated geographically (see Figure 1). In 2015-16:

- > 35 universities receive less than £1m in recurrent research funding
- > 37 universities receive between £1m and £5m in recurrent research funding
- > 15 universities receive between £5m and £10m in recurrent research funding
- > 16 universities receive between £10m and £20m in recurrent research funding
- > 13 universities receive between £20m and £50m in recurrent research funding
- > 6 universities receive over £50m in recurrent research funding (almost 40% of the total budget)

5 The Government's Science and Research budget is largely invested in areas of market success but the Chancellor has acknowledged that Britain is failing in translating much of its ground breaking research discoveries into practical and economic uses for the benefit of Britain and the economy.

6 It also leads to geographical concentration – In July this year, Jo Johnson MP, Minister for Science and Universities, acknowledged that 46% of investment goes to the golden triangle of universities (Cambridge, Oxford and some London institutions).<sup>1</sup>

7 The CBI has pointed out that medium-sized businesses (MSBs) are the UK's 'forgotten army' with the potential to inject as much as £20bn into the economy by 2020<sup>2</sup>. MSBs make up 1% of firms, 23% of revenue and 16% of employment but MSB productivity has grown at less than 0.5% of large firms. In contrast German MSBs contribute twice the number of jobs.

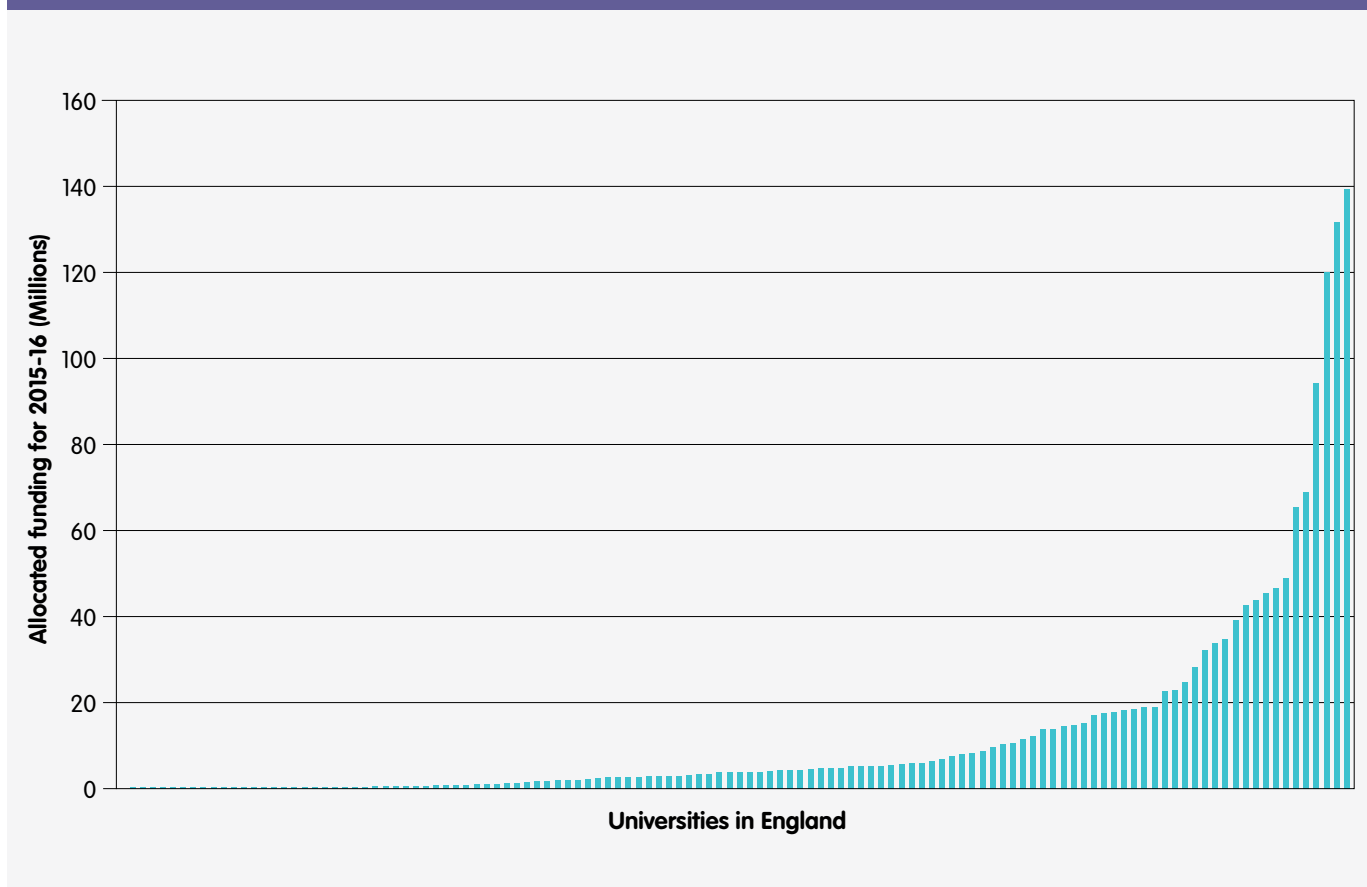
8 There is a particular problem in engaging SMEs and MSBs throughout the country in research. This is an area of potential market failure. The impact of modern universities on SMEs and their local economies is not captured in REF while the Higher Education Innovation Fund<sup>3</sup> is small (£150m per annum, with all universities eligible) in comparison to the funds allocated via HEFCE QR. HEIF is based on assessment of knowledge exchange strategies, and on external income secured by universities, rather than the impact on local economies.

<sup>1</sup> JO Johnson MP, 16 July 2015: <https://www.gov.uk/government/speeches/one-nation-science>

<sup>2</sup> CBI Pulling together: Unlocking growth in the UK's medium-sized businesses [http://www.cbi.org.uk/media/1196347/cbi\\_future\\_champs\\_a5summary.pdf](http://www.cbi.org.uk/media/1196347/cbi_future_champs_a5summary.pdf)

<sup>3</sup> HEIF has become more selective since 2011 as a result of changes to the distribution formula.

Figure 1: Recurrent research funding in English universities 2015-16



Source: <http://www.hefce.ac.uk/funding/annalocns/1516/>

## Supporting productivity through translational research funding continued

9 A fund for translational research would support universities with demonstrable excellent research to apply that to support businesses in their locality. One solution is to mobilise the existing valuable assets of universities that historically have not benefitted from large amounts of research funding to help them work more closely and support the research and innovation needs of local SMEs and MSBs.

10 In all, seventy-two universities in England received less than £5m per annum in taxpayer-funded support for research. These universities support excellent research and have the best records of working with SMEs and MSBs<sup>4</sup>. This leads to under-investment in projects to translate research into practical applications that promote innovation and improve systems, supply chains and productivity especially in smaller and medium sized businesses. Some of these universities are located in semi-urban and more rural areas in regions that need to develop capacity. Translational research should provide a minimum institutional threshold allocation with outcomes evaluated.

### Cost-benefit

11 The translational research fund would require a total allocation of £400m. This is approximately 3 per cent of the overall recurrent research budget allocated to universities. There would be no additional central operational costs as research-funding allocations are known and HEFCE has the required resources to administer the fund. Universities would need to demonstrate the value for money of the investments made.

<sup>4</sup> *Smarter Regions Smarter Britain* pg. 9, million+ March 2014.



## Supporting success in education attainment

### Key features

- > Retain and invest in the student opportunity allocation in line with increases in student numbers
- > Encourage collaboration between providers to support progression and attainment

### Rationale

12 Investment provided by the Student Opportunity Allocation helps mitigate risks faced by universities aiming for more socially inclusive profiles by recruiting and supporting students from a diverse range of backgrounds, in particular those from low participation neighbourhoods, disabled students and students from lower income families. Additional funding is required not only to facilitate progression but also to support success and degree outcomes where challenges remain.

13 The Student Opportunity Allocation cements institutional financial commitments to access, retention and the success of students. Modern universities provide additional resources to support access and the success of students who are, overall, much more representative of the population at large. These same universities receive less funding from alumni and endowments (on average less than £1 million per annum per institution in direct endowments or in kind). The majority of the student opportunity allocation is not awarded to increase access, but rather to enable universities to support students to progress through their courses and achieve successful outcomes.

14 The majority of young people who are qualified to enter university already do so. To fulfil targets in respect of access will require other initiatives. University-led partnerships with other providers focused on HE 'cold spots' should be funded and the opportunities provided by the expansion of broadband exploited via an education engagement fund. These initiatives and the removal of barriers to more flexible routes to study are likely to benefit first-time mature as well as younger students, including those already in the workplace looking to improve their skills. One in three students enters university for the first time when they are over 21. Improving the participation and success of these students should count in OFFA access targets.

### Cost-benefit

15 In March 2015, HEFCE announced that the 2015-16 funding allocations for student opportunity would total £380m. Of this, £279 million was allocated improving the retention of students at risk of not continuing their studies.<sup>5</sup>

<sup>5</sup> As part of the commitment by BIS to secure £450m of reductions to funding, in June 2015 HEFCE was asked to make reductions of £150m for the 15/16 financial year. This will result in a 2.4% reduction to the student opportunity allocation.

## Supporting a flexible and dynamic workforce

16 A number of changes to higher education funding regulations would make higher education more flexible and responsive to student demand and the needs of employers.

- i Open up access to student loans for people looking to retrain who already have degrees
- ii Encouraging small and medium-sized businesses to improve employee skills and productivity
- iii Enabling professional development in the NHS
- iv Creating new opportunities for part-time students
- v Creating flexibility to deliver two-year degrees

17 These changes are relatively straightforward but they would remove disincentives that either deter access or return to study including professional and technical qualifications and programmes.

18 The Government could also introduce tax or National Insurance credits for small and medium-sized employers preferring to invest in their existing workforce, to incentivise flexible working arrangements and contributions to study costs.

## Opening up access to student loans for people looking to return to study on a full or part-time basis

### Key features

- > Provide access to tuition fee loans for graduates who already have a degree to study for an equivalent or lower higher education qualification
- > Add Student Loans Company debt incurred from a second qualification to the balance of the debt owed from a previous qualification<sup>6</sup>

### Rationale

19 The Government has stated that it wants the UK workforce to be one of the most flexible and productive in Europe. A key feature of this flexibility has to be an education and training system that supports people returning to education and training as well as into education for the first time, when it is right for them and their job prospects.

20 Currently people who hold a degree have to pay fees up front, in cash, in full, if they want to access opportunities to retrain for higher education qualifications. This means that only those with significant amounts of ready cash can reskill. This is the result of the “Equivalent and Lower Qualification” (ELQ) policy, introduced at a time when undergraduate student numbers were capped and Government paid the majority of the cost of university tuition through the direct grant. The policy removed institutional teaching funding in respect of ELQ students to protect funding for first-time applicant numbers.

<sup>6</sup> This would be a financial addition, with a potential extension of repayment term length, rather than an addition of interest on earnings.

21 Since 2010, the Government has made two changes that render the ELQ policy unnecessary. First, undergraduate tuition funding changes mean that students bear the majority of the cost of their tuition but defer payment until after their earnings reach the repayment threshold. Second, the centrally allocated “student number control” system has been abolished with effect from 2015-16. As a result, universities can make offers to meet student demand with limited Government interference. The combination of these changes means that graduates returning to study and retrain in England would make no call on direct Government funding for teaching other than for high-cost subjects; nor would they take university places away from first-time students. It would also mean that potential students are able to improve their skills and qualifications through undergraduate and postgraduate courses on a part-time basis while still in the workplace – bringing benefit to both the individual and to the employer.

### Cost-benefit

22 BIS has relaxed the policy to allow those with a degree to access fee loans in order to study part-time for some STEM courses from the 2015-16 academic year at an estimated BIS cost of £5m. Costs of extending the policy can be assessed based on the pool of potential applicants using the Labour Workforce Survey together with an estimate of elasticity of demand. Those returning to study to retrain and gain new qualifications will not trigger a significant additional call on direct teaching funding since this is limited to high cost subjects and is, in part, taken into account in the relaxation of the ELQ policy for part-time STEM in 2015-16. A way to extend it further in the first instance is to provide access to loans to graduates once they have paid off the previous loan, or have been registered continuously with the Student Loans Company for 10 years or more.

## Encouraging small and medium-sized businesses to improve employee skills and productivity

### Key features

> SME and MSB demand incentivised by a scholarship tax credit to credit employee engagement in the study of higher education qualifications

### Rationale

23 The UK’s larger companies have a relatively good record of investment in re-skilling and retraining their workforces. For smaller and medium-sized businesses, this investment is more challenging. The decline in part-time study has been associated in particular with a decline in the study of higher education qualifications. SMEs have been less willing to provide direct support for the participation of their employees on ‘open’ courses under the higher fee regime.

24 The productivity benefits of reskilling workers are well documented. Alongside supply-side measures, there are monetised and non-monetised benefits of measures to remove barriers and incentivise SME and MSB demand and support for employee engagement in reskilling, studying for degrees and higher education qualifications.

## Supporting a flexible and dynamic workforce

continued

25 Easing the restrictions on the ELQ policy and introducing a tax credit for employers would support people who, for employment reasons, needed to undertake additional training and re-skilling. In many cases, the best option is through university courses and modules that are ordinarily part of a degree (e.g. a year 1 or year 2 course), or are at a lower level than a degree (e.g. HNCs and HNDs). Employers do not necessarily need or want their employees to undertake full degrees to support business growth, but rather shorter courses at a range of different levels (including sometimes at postgraduate level). Larger businesses have resources to commission courses that meet their needs – smaller organisations cannot do that so these policies would provide new incentives to develop their workforces.

### Cost-benefit

26 Costs would be determined according to the scope of any scheme by the Treasury. Monetised and non-monetised spill-over effects and benefits would offset loss of revenue.

## Enabling professional development in the NHS

### Key features

- > Resource and refocus the budget of Health Education England
- > Support capacity in universities to educate and train health professional staff required to deliver a 7-day NHS
- > Improve access to continued professional development to promote capacity across the NHS and service integration

### Rationale

27 There are over 670,000 nurses and midwives, over 237,253 Health and Care registered health professionals and over 100,000 registered social workers in the UK.

28 In liaison with healthcare providers and the professional organisations that set regulatory requirements, the contribution of universities to NHS professional education is wide-ranging, including widening entry routes through bridging programmes, supporting career development, and enabling staff to undertake interdisciplinary research to develop innovative solutions.<sup>7</sup>

29 Working alongside the wider workforce, these health and social care staff and the universities and education providers that support their education and professional development are key to the delivery of high quality patient care, innovation and the more integrated approach outlined in the NHS's Five Year Forward View.

### Cost-benefit

30 Health Education England (HEE) is responsible for medical and dental training and the education and training of nurses, midwives and allied health professional staff such as radiographers, podiatrists, physiotherapists, paramedics and healthcare support staff. Currently, the overwhelming majority of HEE's budget is focused on the education of doctors and dentists.

31 To deliver Government commitments to NHS efficiencies, 7-day delivery and the integration of health and social care, the training and education budget of Health Education England should be increased and re-focused.

<sup>7</sup> More information about the role of universities in support NHS professional education is available in the million+ publication A Manifesto For Health Education (March 2015) – <http://www.millionplus.ac.uk/research-policy/reports/latest-reports/a-manifesto-for-health-education>

## Creating new opportunities for part-time students

### Key features

- > Extend eligibility for maintenance and special support loans to part-time students
- > Removes barriers to alternative and flexible modes of study
- > Supports retention and student success by removing barriers to students transitioning to part-time study when enrolled on a full-time course

### Rationale

32 Full-time students have access to both tuition fee and maintenance loans and pay both back in the same way. Part-time students have access to tuition fee loans provided they study at 25% pro rata but have different repayment conditions compared to full-time students and have no access to maintenance support. Since 2012, demand for part-time education has declined by 40%. The design of the student support system should be such as to allow students to make choices on the most appropriate study pathway based on the method of delivery rather than whether or not they have access to particular financial support.

33 The Government has announced that maintenance grants for full-time students will be replaced by higher student maintenance loans with effect from the 2016-17 academic year.

This change will reduce the direct call on the BIS budget and removes one of the cost barriers to the creation of a more unified student support system previously identified. This measure would support access and flexibility for part-time students, and the retention of students who need to switch their mode of study. Making part-time study more accessible is likely to result in more individuals participating or continuing in higher education than would otherwise be the case.

### Cost-benefit

34 Maintenance grants for full-time students will no longer be available from 2016-17. Unlike their full-time peers, part-time students are required to commence repayment of their fee loans after a period of study and before they have completed their course if they earn in excess of the loan repayment threshold.

35 There are efficiency gains associated with the extension of maintenance loans to part-time students from 2016-17. Specifically, the impact of this policy would be to provide an alternative option to students thinking about leaving full-time higher education. Currently full-time undergraduates are faced with the choice of quitting university or considering studying on a part-time basis without any access to maintenance support.

## Creating flexibility to deliver two-year degrees

### Key features

- > Amend the fee regulations to allow universities to charge tuition fees of up to one and half times (1.5) of the higher fee cap for one year of an accelerated two-year programme
- > Tuition fees remain within the overall funding cap for a degree
- > Ensure the student support regulations provide for students to be able to take-out maintenance loans equivalent to the number of weeks of the accelerated course on which they are enrolled

### Rationale

36 The Government has a commitment to remove barriers in the market and encourage the provision of two-year undergraduate honours degree programmes. The fee system is fixed in such a way that there are disincentives to individuals and universities to participate in and offer accelerated courses. Currently institutions are limited to charging a maximum fee of £18,000 for an honours degree undertaken in two years compared to £27,000 for a three-year programme, despite having to cover the same amount of course content.

37 Students on a two-year course trigger similar institutional costs to those on longer programmes, including teaching hours, room

hours and facilities, marking, and academic and pastoral support. There are also central costs associated with student enrolments, quality assurance, design of courses and materials, marketing and training of lecturers although some of these costs are driven by head count rather than mode of study. Universities, like all organisations, seek efficiencies in their methods of delivery so the current funding system is a strong disincentive to develop accelerated programmes.

38 Organisations outside the higher education sector have noted the current system discourages two-year provision. In a letter<sup>8</sup> to the Secretary of State for Business, Innovation and Skills of June 2015 the Chief Executive of the Competition and Markets Authority recommended, "that BIS explore whether accelerated degrees could be encouraged within the overall funding cap to provide more choice for providers and users, and more opportunity for competition to drive efficiency."

39 For students, living costs and the more limited ability to work part-time are major barriers to entry to an accelerated programme. Access to maintenance loans equivalent to the weeks/length of the course would help to mitigate these challenges.

### Cost-benefit

40 This measure would remove barriers to student choice and a more flexible market within the cost envelope associated with the deregulation of student number controls. Students who graduate after two years would be likely to commence loan repayment earlier subject to their earnings reaching the repayment threshold.

<sup>8</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/437530/Letter\\_from\\_Alex\\_Chisholm\\_to\\_Sajid\\_Javid.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/437530/Letter_from_Alex_Chisholm_to_Sajid_Javid.pdf)

## Supporting participation in higher education

### Key features

- > Continue to invest in the Student Opportunity Allocation to increase access to university by students from low participation backgrounds
- > Incentivise university partnerships with schools and colleges to improve educational attainment at Level 3 targeted on HE 'cold spots' in rural and coastal areas and wards with high levels of unemployment and low levels of HE participation
- > Establish an education engagement fund as part of the rollout of broadband to encourage participation in learning and progression to higher education of older as well as younger learners

### Rationale

41 Expanding access and participation in higher education has previously always required an increase in funded numbers supported by additional direct grant. Lifting the numbers cap from 2015-16 removes restrictions in the market but it will influence provider behaviour and may lead to expansion of arts and humanities courses in universities that trade on historic reputation but have more socially exclusive student profiles.

42 Delivering commitments to increase progression from low participation neighbourhoods will provide long-term monetised and non-monetised benefits for individuals, employers and the Treasury. The costs of funding additional numbers in higher education will be offset in part by the abolition of maintenance grants from 2016. If the government freezes the £21,000 earnings threshold, there will be an associated reduction in the RAB charge.

43 The majority of students currently in receipt of maintenance grants are not evenly spread across the sector and are more likely to be studying in modern universities with strong records of promoting aspiration. With London Economics, million+ has estimated that the abolition of maintenance grants is likely to reduce progression to higher education marginally compared to what it might have been. In addition, the switch to loans may affect some students and families who do not regard the current interest bearing loan and repayment regime as Sharia compliant.

### Cost-benefit

44 In March 2015, HEFCE announced that the 2015-16 funding allocations for student opportunity would total £380m. In addition to the funding for supporting the retention of students already mentioned in paragraphs 12-15, the allocation comprises two other elements:

- > £68 million for widening access for students from disadvantaged backgrounds
- > £20 million for widening access and improving provision for disabled students
- > A further £13m was allocated for establishing collaborative outreach networks between institutions.<sup>9</sup>

<sup>9</sup> As part of the commitment by BIS to secure £450m of reductions to funding, in June 2015 HEFCE was asked to make reductions of £150m for the 15/16 financial year. This will result in a 2.4% reduction to the student opportunity allocation.

## A stable and predictable environment for universities to contribute to educational exports

### Key features

- > Government should acknowledge and promote the contribution of all universities to UK higher education exports
- > Support the development of transnational education programmes by maintaining and promoting routes to studying in the UK

### Rationale

45 As Figure 2 illustrates, 20 per cent of universities recruit half of international students; the remaining 50 per cent of non-EU enrolments is spread over 80 per cent of institutions. Although there are a small handful of institutions with large and well-known international operations, the true value to the UK economy comes from efforts right across the university sector.

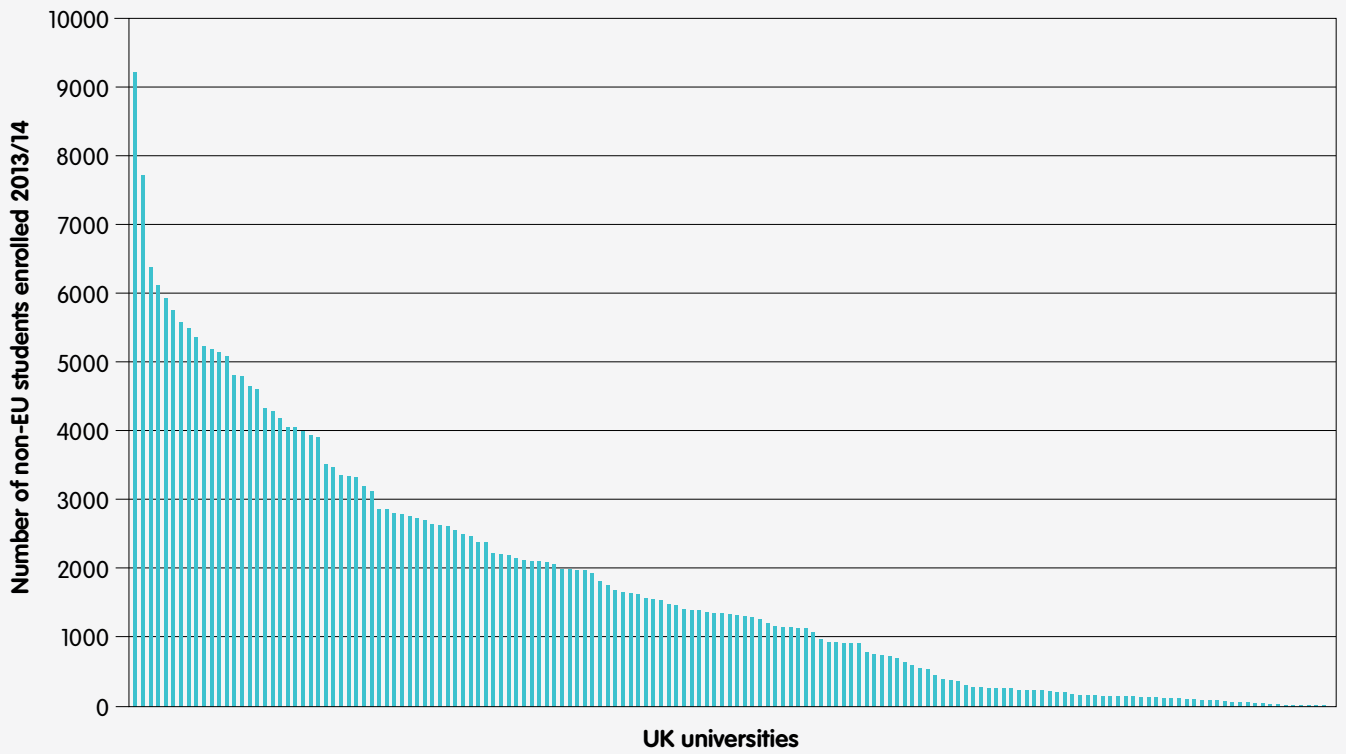
46 UK university transnational partnerships with overseas partners are highly dependent on the reputation of higher education provision domestically but many partnerships require international student mobility into the UK associated with courses that provide students with opportunities to study in their home and in a UK university. A strong and diverse university sector with continued access to Tier 4 student recruitment is vital if universities are to contribute to the Government's commitment to increase educational exports and expand the UK's share of the international market.

### Cost-benefit

47 In 2011-12, UK higher education exports were worth £10.7 billion. Of this, non-EU students studying in the UK generated £7.2 billion. Universities UK analysis demonstrates that £4.9 billion of this is non-tuition fee, off campus spending, i.e. money on goods and services in the wider UK economy, not cash going to the education sector itself. This income is incredibly valuable, not only to UK higher education institutions but to the communities they serve and the wider economy. Overall, education exports were worth £17.5bn to the UK economy in 2011, and by 2025 it is estimated that this figure could be £26.6bn – with nearly £17bn coming from higher education.



Figure 2: Distribution of non-EU student enrolment



Source: HESA 2013-14

## Identifying opportunities for efficiencies

48 Additional investment, regulatory changes and new incentives will ensure that the government can capitalise on the existing strength of universities in order to provide opportunities for economic growth. However, governments will always look for areas of spending that can be made more efficient. There may be scope in the context of higher education to consider some of the elements of administration that come from the management and assessment of research, particularly with regard to the current structure of the research councils. There may be merit in considering a greater alignment of the research council structure with that used to assess research outputs and impacts through the REF. This could mean reducing the total number of research councils to around four to reflect the main panel approach of REF – which was arrived at through consultation with the sector – rather than seven different research councils. This may also be a way to promote further inter and multi-disciplinary research.





leading the  
university agenda

---

**million+**

90 London Road  
London SE1 6LN

Phone 020 7717 1655  
Twitter: @million\_plus  
info@millionplus.ac.uk  
www.millionplus.ac.uk