

Submission to the Independent Review of Higher Education Funding and Student Finance – call for proposals

May 2010



Universities UK

- Universities UK represents 133 universities and higher education institutions in the UK. It is the primary leadership organisation for the UK's universities, working to support the long-term health of the sector. We aim to serve the interests of a wide group of stakeholders – students, researchers and academic staff, employers, the government, and the wider public.
- This submission to the Independent Review of Higher Education Funding and Student Finance sets out the long-term vision of Universities UK for the student funding system in England. The material contained in this document also has clear implications for Scotland, Wales, and Northern Ireland, and is thus relevant for the whole of the UK.
- The analysis and recommendations presented in the document have been the subject of a great deal of debate within Universities UK over a period of many months. This includes extensive consultation with all 133 institutions in Universities UK's membership – in meetings with members, through the organisation's formal committee structure, and in external events and discussions with key stakeholders. The material is thus wide-ranging in its scope – considering the full range of issues which have entered the public sphere in relation to student funding, and engages with potential policy options, even where we believe they are not viable or desirable.
- The work was led by a task group chaired by Professor Glynis Breakwell, Vice Chancellor of the University of Bath, with members comprising Professors David Greenaway, Paul O'Prey, Shirley Pearce, Geoffrey Petts, Andrew Wathey and Geoff Whitty, Vice Chancellors of the universities of Nottingham, Roehampton, Loughborough, Westminster, Northumbria and Director of the Institute of Education respectively.
- This submission represents the consensus view of Universities UK's membership, as endorsed by Universities UK's Board on 14 May 2010.
- In preparing this submission, we have been mindful of the pressures and challenges which are presented by the current public funding environment – pressures which are likely to persist for a decade or more. Thus, in setting out our long-term vision, we have also taken account of the position we are in now, and the constraints this inevitably places on the recommendations and proposals we can make. As a result, we make clear proposals on reforms to the student funding system which are needed now, and for which a clear and decisive case can be made. In other areas, the evidence is not as clear-cut, and in these cases we set out a discussion of the issues involved, and the potential consequences of making certain policy choices over others.
- A great many people have been consulted on in the course of preparing this submission, and we are grateful for all the input which has been received. In particular, we would like to thank the Chair and members of the task group, and also Alissa Goodman, Gill Wyness, and colleagues at the Institute for Fiscal Studies for their advice, and for carrying out the analytic work which underpins a number of our recommendations in relation to funding for full-time undergraduate students.

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- 1 The Independent Review of Higher Education Funding and Student Finance led by Lord Browne has come at a critical time. Demand for university places is exceptionally high, while universities face a very uncertain future in terms of their funding. And while it is acknowledged that the reforms introduced as a result of the 2004 legislation have been broadly positive overall, there remains much work to be done in addressing flaws in the current student finance system, and ensuring that we have a funding framework which is durable for the future and fairer for all students.
- 2 Universities serve the needs of students, the economy, and wider society. They are net contributors to the economy, deliver the skills and knowledge needed for future economic success, and also generate substantial public benefits.¹ In all of these spheres, requirements and expectations are changing rapidly. Universities have shown themselves to be adaptable and responsive to increasing demands in the past, but sustainable funding is necessary in order to ensure this is the case in the future.
- 3 Universities operate within a complex ecosystem of regulation and accountability, working with a large number of stakeholders, and exercising a high degree of autonomy in their governance and management. They receive state funding, but also operate under competitive pressure – more so now than ever before. These features make the university sector one of the UK's greatest assets, delivering world-leading education for students both here and abroad. This is why we do not propose wholesale restructuring of the higher education sector in our submission – but rather, suggest that evolution of the current system through a rolling programme of reform is what is required.
- 4 The proposals we make in this submission seek to preserve and enhance what is best about the current funding system for higher education and student finance, while addressing some of its most serious problems. We aim to describe a system which is sustainable, accountable, and which can provide effectively for the future needs of successive generations of students.
- 5 Our proposals for reform, and discussion of the issues and options, are grouped into the following areas: general proposals; the graduate contribution framework; student finance; public funding; and managing student numbers. Where we believe the evidence is decisive, we have set out clear proposals. Where the arguments are less clear-cut, we have set out a discussion of the issues and possible policy options, highlighting the strengths and weaknesses of the potential choices available. We have also indicated the areas where we believe further analysis and evidence is required before any firm policy recommendations can be made. Our main recommendations and points of discussion are summarised below.

¹ See *The impact of universities on the UK economy*, Universities UK, November 2009.

General

- There should be a rolling programme of reform of the student funding system in England, carried out over an appropriate timescale (at least 5–7 years).
- Any reforms should evolve from the current system, which is fundamentally strong – there is no case for wholesale revision of the structure of the system.
- The regulatory and accountability framework supporting higher education needs to be rethought, in terms of delivering desired outcomes. These we define as: increasing participation and social mobility; delivering a high-quality student experience; and making efficient use of public and private resources.

Graduate contribution

- The current fee should be renamed a ‘graduate contribution’, and the progressive nature of a private graduate contribution towards the cost of teaching should be more effectively communicated.
- The unit of funding prior to implementation of the recent cuts to the higher education budget in England should be restored as soon as possible.
- The graduate contribution towards the cost of higher education should increase over time, up to a maximum level. We can envisage a position in future in which this upper limit is appreciably higher than its current level, but we propose that it should remain regulated.
- Over time, the maximum graduate contribution should be set at a level which, in combination with other income sources, allows universities to recover the costs of their teaching provision, and develop appropriate pricing and financial strategies.
- The quality and accessibility of public information relating to higher education, and the operation of the information, advice and guidance system should continue to be improved. These improvements should reflect what prospective students themselves state would be most useful.
- The impact of increasing the graduate contribution on students, graduates, institutions, and government policy aims should be carefully and regularly monitored. The interests of students need to be protected in any new system, and mechanisms put in place, which mitigate the potential negative impact on students’ selection of institution arising from a higher graduate contribution.

Student finance

- The resource costs (RAB charge) of the current student loan system should be reduced. This could be achieved through a number of means:
 - i A real rate of interest should be introduced, which is set at least at the government’s cost of borrowing (currently 2.2%), but below what would be considered to be a commercial rate of interest.
 - ii Consideration should be given to increasing the repayment rate on student loans from its current level of 9%, but only in conjunction with other changes.
 - iii Consideration should also be given to extending the repayment period on the loan, but only in conjunction with other changes.

- The effects of introducing these changes should be monitored over time. This includes monitoring the impact on participation by particular groups of students, as well as the impact on individual institutions.
- At least a proportion of any savings generated by reducing the RAB charge on student loans should be recycled into the higher education system.
- There should be a maximum guaranteed government-backed, income-contingent loan available for students to meet their graduate contribution. This should be available on broadly the same terms as at present, but with important modifications intended to reduce the burden on public finances.
- The optimal solution in terms of student finance would be to continue to have a government-backed loan scheme to support graduate contributions up to a regulated maximum. However, we recognise that the very poor condition of the public finances over the next decade may make it difficult to reconcile the need for investment to sustain a world-class university system with a fully state-supported model. As a result, we believe that the alternative models for leveraging private finance into the sector which currently exist should be explored in more detail. This should include carrying out an impact assessment of these models on particular groups of students, institutions, and on national policy goals (such as increasing social mobility). We indicate some options which we believe are worthy of further analysis, but do not support any one particular proposal in this area in its current form.
- Maintenance loans for full-time students should be offered on the same terms as loans for fees, but any changes to the current level of loans or grants for maintenance costs should be delayed until the effects of changes to the loan system are better understood.
- The current requirement placed on universities to provide bursaries at a minimum level should be replaced with a system whereby universities are free to develop their own financial aid policies, within the context of an overall strategy to widen participation.
- The student support arrangements in Northern Ireland and Wales are currently broadly similar to those in England. We believe it is important for this parity to be maintained.

Supporting part-time undergraduate students

- The student funding system should move towards one which is indifferent in terms of the incentives to study full-time or part-time at undergraduate level.
- As a first step towards this, some or all of the financial support available to full-time undergraduate students should be extended to that cohort of part-time undergraduate students which will benefit the most – based on criteria such as intensity of study, qualification aim, and highest qualification on entry. We would not wish to see any expansion of the student finance system funded through a reduction in the level of loans and grants available to full-time students, but believe that the reforms to student finance we propose would facilitate the ability of government to devise an affordable solution for the expansion of loans to other groups of students.
- A group of sector experts should be convened as a matter of urgency to identify this cohort of students, and to develop the models which will deliver this policy outcome.

Supporting taught postgraduate students

- Strong consideration should be given to extending the support available to taught postgraduate students, both full-time and part-time. This is especially so in light of the economic importance of this group of students, and also to address issues of fair access.
- As part of this, the national evidence base regarding the financing of taught postgraduate education needs to be improved, and the dynamics of supply and demand in this market better understood.

HEFCE funding

- The review of the HEFCE teaching funding method which is currently underway should continue to be the primary vehicle through which proposals on the distribution of public funding for teaching are consulted on and developed. We will deal with this area in more detail through that means. Thus, the recommendations we make regarding public funding in this submission are at a higher level of generality than other areas.
- There will remain a strong role for public funding of the higher education system in future. The positive features of the methods used by HEFCE to distribute this funding currently should be retained in future. Consideration will need to be given to the ways in which the graduate contribution system as described in our proposals would interact with the public funding system.
- Some of the proposals currently under discussion in the sector regarding the graduate contribution may lead in the long term to greater variability in the pricing of undergraduate education for home and EU students. In such circumstances, in order to secure the desired outcomes relating to quality, participation and sustainability, these proposals might need to be accompanied by mechanisms to move student numbers (and associated HEFCE funding) more fluidly within the system.
- Careful analysis should be carried out of the potential effects of any changes to the HEFCE teaching funding method on all publicly-funded students, including part-time and taught postgraduate students, and on institutions with high proportions of such students.
- Options should be explored for increasing universities' responsiveness to changes in the pattern of student demand over time.

Managing overall student numbers

- The total number of the country's students in higher education should reflect the Robbins Principle, that 'courses of higher education should be available to all those who are qualified by ability and attainment to pursue them, and who wish to do so'.
- It is in the collective interest of universities, the government, and of society more broadly that there is some management of the overall call on public resources in relation to higher education, and thus that the overall number of students in the publicly-funded system should continue to be controlled for the time being. The management of overall numbers of publicly-funded students should be built on a sustainable system of student finance.
- Any efficiencies introduced into the system as a result of increasing student numbers need to be sustainable over time, and should not impact on the overall quality of the student experience.

In conclusion

- 6 The need for reform of the higher education funding system is urgent, and the price of failure would be high. This would be true under any circumstances, but the case for change is especially strong at the current time, given the centrality of universities to the UK's economic recovery. The future success of the university system is by no means secure, but we are confident that through the proposals contained in this submission, and with detailed consideration of the options in other areas which we highlight as part of a rolling programme of reform, universities will be able to deliver a high-quality, world-leading service from which students, graduates, the government, and taxpayers would continue to benefit, now and into the future.

**This section
sets out:**

- **The overview and purpose of Universities UK's submission to the Browne Review**
- **Our objectives in making proposals and setting out discussion of key issues**
- **The principles we have used to guide the development of these proposals, and which we will use to assess the recommendations made by the Review in due course**

1 Overview

- 1** This submission sets out the response of Universities UK to the call for proposals made by the Independent Review of Higher Education Funding and Student Finance (hereafter 'the Review'). Within this document, we make a series of recommendations which, taken together, describe a future funding system for teaching in higher education which will benefit students, universities, the government, and wider society.
- 2** In some of the areas we consider, the evidence is clear-cut, and firm policy proposals are made as a result. However, in other areas, our analysis has led to the conclusion that the evidence is less strong. In such cases, we set out a discussion of the key issues, and indicate the possible consequences of making certain policy choices over others. We also emphasise, where relevant, the need for further analysis and evidence gathering to be carried out before informed policy positions can be adopted.
- 3** We have developed a number of objectives which we have used to guide our thinking in preparing this submission. These are set out later in this section. We recognise that there are a number of ways in which these objectives could be achieved. As a result, we have also developed a set of principles which have been used in the preparation of the discussion in this document, and which we will also use in assessing the recommendations made by the Review in due course.
- 4** In this submission we describe a rolling programme of reform which will need to be carefully analysed and implemented over a suitable timescale – we think a minimum of 5–7 years, and possibly longer. We are mindful of the urgent need for change in some areas now, but also of the potential negative consequences of attempting to introduce too many perturbations into the system at once, and the destabilising effect this may have on participation, and on institutions (and by extension on the ability to meet student demand).
- 5** The 2004 reforms introduced a profound change into higher education in the UK. For the first time, the principle was established that graduates, not students, should contribute to the costs of their higher education. At the same time, student expectations have rightfully increased, and the relationship between the student and his/her university has changed irrevocably and for the better. We believe it is right that universities should continue to focus on providing the best possible experience for their students, which in the UK is at least comparable to the very best available anywhere in the world. The 2004 reforms also recognised that maintaining this level of excellence requires investment. While the income from fees capped at £3,000² has made a very important contribution to stabilising the sector's finances, evidence set out in our first submission suggests that they do not go far enough towards ensuring that UK higher education is sustainable in the long term, to meet the rising expectations of students, and to ensure that we can continue to compete internationally on the basis of high quality.

²
Rising annually with inflation.

- 6 We argue strongly that reducing investment in higher education is economically self-defeating – we need strong universities more than ever to drive growth and provide the kind of skilled workforce we will need to thrive as a nation in the future. However, we are also aware that repairing the national finances may take a decade or more. We therefore need a new compact on funding teaching in higher education which involves universities, the government, and graduates. Our proposals suggest how such a compact could be established on a sustainable basis for the future.
- 7 The system for funding higher education in the UK is complex and interconnected. Policy changes in one area inevitably have an impact on other areas. In our submission, we set out what the potential impact of our proposals may be on the whole system, and the issues which policymakers will need to take into account as a result. We also believe that the fundamental aspects of the current system are strong (while recognising where reform is most urgent). Thus, what we present is an evolution of aspects of the current system, which we believe is founded on sound principles. We do not see a case for dismantling what we have already and replacing it in large measure with something new.
- 8 Overall, our aim is to develop a system which will benefit students and the economy first and foremost. This is the principal mission of the UK's universities with regard to the education they deliver, and the current and future needs of students and society remain at the forefront of our thinking. We are also concerned to ensure that the current high quality of university education in the UK can be maintained in the future, and the impact of any reforms to student funding on quality is a key theme in our submission. Finally, we want to see participation increase – not just in terms of numbers of students, but also in terms of continuing to ensure that students who are qualified to do so can participate in higher education, regardless of their socio-economic group, age, race, gender, or any other factor.
- 9 This submission is structured as follows:
 - a This section sets out the overall vision, objectives, and principles underpinning our proposals and policy discussion.
 - b The second section contains a detailed analysis of the issues, and sets out the evidence which has led to the formulation of our proposals. Where the evidence is inconclusive we have said so, and have indicated where further work will be required. The analysis is structured around the key components of the student funding system: the graduate contribution framework, including student loans and grants; HEFCE and the use of public funding; and managing student numbers.
 - c The final section addresses the four questions set out in the call for proposals, summarising material which is presented throughout the submission.

2 Objectives

- 10 The objectives of Universities UK in making the proposals and setting out the discussion contained in this submission are as follows. These are grouped into five main areas: general objectives of the system as a whole; objectives for students; objectives for graduates; objectives for government; and objectives for universities.

General

- Ensure that the UK has a sustainable student funding system now and in the future, addressing the sustainability gaps which exist in the current system.
- Develop a system which can provide for the efficient use of public and private resources.
- Ensure that the UK can maintain its world-class status in the provision of higher education.
- Ensure that the services universities provide can successfully meet the needs of the UK economy, now and in the future.

- Ensure that all students, regardless of their background, have access to better-resourced higher education; and that protection remains in place in the publicly-funded system for graduates with low lifetime earnings.

Students

- Increase investment in the learning environment and in the student experience over the long term.
- Continue to provide a guaranteed package of government-backed support to help meet the present and future costs of higher education, including living costs.
- Increase choice in terms of when and how to meet the contribution to the costs of higher education, while maintaining the principle that there is no obligation on students to meet the upfront costs of their higher education.
- Increase the resources devoted to frontline teaching and learning.
- Improve the provision of information on courses and the HE offer to allow for appropriate comparisons and more informed choices to be made.
- Enhance student engagement in quality assurance.
- Ensure that universities are able to remain responsive to student demands.

Graduates

- Continue to retain the progressive features of the current student loan system, and increase these where possible.
- Continue to provide insurance through the loan system for graduates early in their careers, and for those with low lifetime earnings.

Government

- Reduce the resource cost of loans (the 'RAB charge').
- Develop the potential to increase the size of the overall loan book while reducing the risk associated with this in terms of public accounting rules.
- Develop means of spreading the risks involved in providing student loans.
- Maintain the capacity to stimulate demand for provision in key strategic areas as required.
- Retain the ability to regulate the system – through setting a maximum level for the graduate contribution.
- Introduce greater efficiency in the way the system as a whole is accountable and regulated.

Universities

- Increase investment through an increase in the graduate contribution, and build on existing efforts to facilitate investment through other means, such as employer contributions and private finance.
- Retain and enhance institutional autonomy, whilst recognising the broader public interest in maintaining a high quality system.
- Strengthen the quality assurance system, to make it more robust and outward-facing.
- Continue to ensure that provision can evolve dynamically in response to student demand.
- Develop means of embedding widening access initiatives and financial aid as part of an institution-specific recruitment strategy.

3 Principles

11 Universities UK has formulated a number of principles which it believes should guide the Independent Review team in the development of its recommendations. There is a range of ways in which the objectives set out above could be achieved, but some options could potentially introduce negative or unintended consequences which Universities UK believes would be unacceptable. These principles will also be used as criteria against which the recommendations of the Review will be assessed.

12 The principles are as follows:

- There needs to be increased revenue into the higher education sector, to maintain quality, enhance the student experience, and to ensure international competitiveness.
- The sector should be funded on a sustainable basis.
- Any increase in the maximum graduate contribution should be accompanied by an increase in the loan available to meet the cost of that contribution.
- Participation needs to be increased.
- Any changes introduced into the system should help promote social mobility – there must be no barriers to entry to higher education based on household income (although we recognise that the student finance system plays only a small part in improving this).
- The maintenance grant system should be targeted to those students who have the greatest financial need.
- The student support system should work towards being indifferent as to the incentives to pursue full-time or part-time study.
- The impact of any reforms on institutional viability should be analysed and taken into account.
- Clear and transparent information needs to be made available to prospective students, in order to allow them to make informed choices.

1 Background and context

Part 1 of this section sets out:

- Our analysis of the impact of the reforms introduced in 2004
- Changes which have taken place in the fiscal environment, which will impact particularly on the formulation of our proposals
- Analysis of future economic needs
- Analysis of the current and future demand for higher education
- A description of the regulatory framework for higher education, and the complex, interconnected nature of the system
- Why we believe that a rolling programme of reform is necessary

13 The Independent Review of Higher Education Funding and Student Finance was established as a condition of the 2004 reforms, to monitor the impact of the introduction of variable fees and associated legislation at that time, and to ensure that there was no adverse effect on important national policy aims. The financial and political context against which those reforms took place is now very different. We deal here with some of the most salient features of that context, the way it has changed, and the influence this has on the way our proposals are formulated. We do not attempt to provide a comprehensive analysis of the whole context, but rather, we focus on those elements which are most relevant in terms of their impact on higher education.

14 We also draw here on some of the material which was set out in our first submission to the Review, which looked retrospectively at the impact of the introduction of variable fees.

1 Impact of the 2004 reforms

15 The Universities UK response to the Review's call for evidence demonstrated clearly the positive nature of the reforms to student funding which were introduced with the legislation in 2004. The additional revenue brought into the sector has been used to enhance the student experience, while our universities now serve a larger and more diverse student population than ever³. Over the period since the introduction of the reforms, participation increased, including participation by students in the lowest socio-economic groups. The main fears associated with the introduction of the £3,000 fee have not been realised.

16 However, these gains relate only to full-time students. Whilst we note that in terms of full-time equivalent (FTE), full-time study accounts for 62% of full-time students who are under 21 on entry, and aiming for a first degree,⁴ we are concerned about the quality of the student experience across the sector. As we noted in our first submission, part-time student support is currently inadequate, and this is something we address further below.⁵

³ See *Making it count: how universities are using income from variable fees*, Universities UK, January 2010.

⁴ HEFCE analysis of HESA data, contained in HEFCE March 2010/10.

⁵ See Universities UK's first submission to the Review for more details, (available at www.universitiesuk.ac.uk/PolicyAndResearch/PolicyAreas/Documents/Independent%20Review%20of%20Funding%20and%20Student%20Finance%20First%20call%20submission.pdf).

Figure 1
Taxpayer costs of student support in England

- Maintenance grants
- Fee contribution (fee waivers)
- Fee loan subsidy
- Maintenance loan subsidy

Source: DIUS 2009 departmental report and HEFCE data

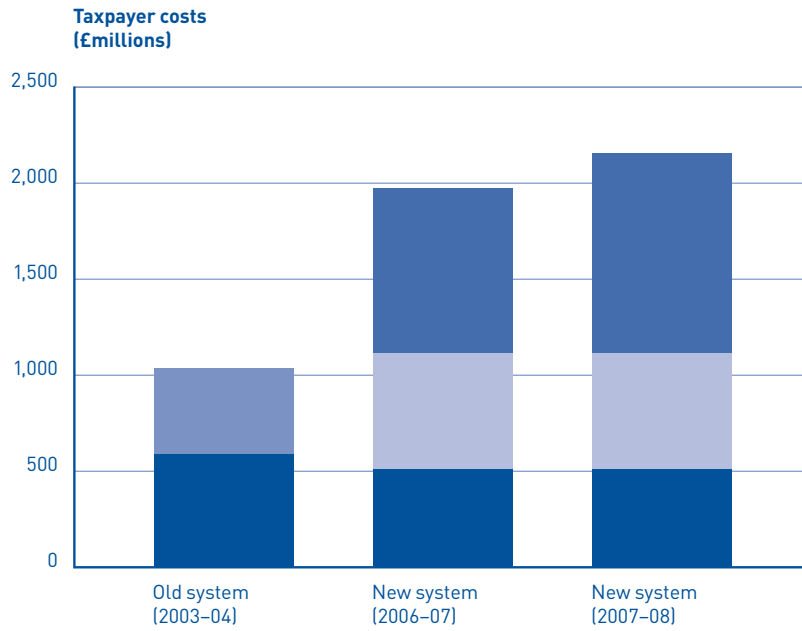


Figure 2
Deficit/surplus of higher education sector in England, 2005-06 to 2008-09

- Historical surplus/deficit as a proportion of total income recorded in HESA Finance return
- TRAC deficit

Source: Annual TRAC (transparency review data – FSSG report on sustainability of the HE sector Annex A, Finance Plus (HESA))

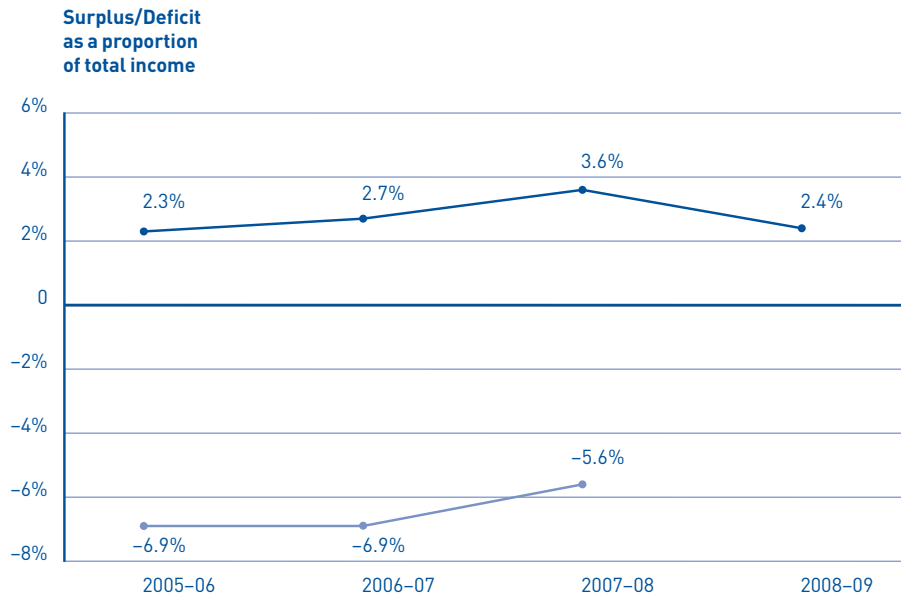


Table 1
Implications of Conservative
stated policies for DEL,
relative to Labour's
planned DEL for 2010–11
(£bn, 2010–11 prices),
April 2010

Note: Average annual
growth rates are calculated
over four years, relative
to Labour's planned DEL
spending in 2010–11.

Cumulative changes are
also expressed relative to
Labour's planned 2010–11
DEL spending.

Source: Institute
for Fiscal Studies

	£ billion 2010–11	£ billion 2011–12	£ billion 2012–13	£ billion 2013–14	£ billion 2014–15	Average annual change (%)	Cumulative change (%)
Total DEL	–6	–21.1	–34.2	–50.1	–59.4	–4.0%	–15.1%
Overseas Aid	0	1	2.2	3.4	3.8	9.1%	41.8%
NHS	0	0.1	0.3	0.4	0.5	0.1%	0.4%
Ministry of Defence	0	–2.7	–5	–7.8	–9.4	–6.3%	–23.0%
All other DELs	–6	–19.6	–31.6	–46.1	–54.3	–7.0%	–25.1%

17 Moreover, the gains described above have been achieved at considerable cost to the government. Analysis by the Institute for Fiscal Studies shows that universities gained a net £1.3bn additional fee income since the introduction of the new system, students gained £1.1bn in financial support through the provision of grants and the abolition of upfront fees, but that taxpayers contributed £1.1bn more to the system through grants and loan subsidies, and this figure increased again in 2007–08 with the introduction of more generous maintenance grants.⁶ The breakdown of taxpayer costs of student support is illustrated in Figure 1 opposite.

18 As we noted in our first submission, the UK spends proportionately more of its total investment in higher education on student support – 26% compared to an OECD average of 19%. This is likely to increase with the variable fee regime in steady state. The student funding system in its current form is unsustainable, especially against a backdrop of increasing student demand, and a national economic imperative to increase the skill base of the UK workforce.

19 In our first submission, we also noted the contribution that the additional income from variable fees has made to improvements in the financial health and long-term sustainability of the sector, which had been previously eroded by a long period of under-funded expansion. There are, however, already signs of the recession's impact on institutions' finances – for example, the reduction in the sector's surplus as a proportion of total income.⁷

II The current fiscal environment

20 While the need for investment in universities remains the same, the fiscal environment in which they are operating is very different now compared with six years ago. With a deficit in public finance of £163bn for this year, and substantial deficits predicted for years to come, cuts in funding for public services appear inevitable. The higher education sector, although strictly speaking not part of the public sector, has already borne a share of cuts, and we remain deeply concerned about the implications of further significant reductions in public funding. The effects of the new coalition government's spending plans on the higher education budget remain to be seen, although we note that analysis of Conservative party plans by the Institute for Fiscal Studies in April 2010⁸ suggested these plans could lead to a cumulative cut of 25.1% in non-protected departmental expenditure limits (DELs) by 2014–15 relative to Labour's planned DELs for 2010–11, with cuts of £6bn planned for this year (see Table 1 above).⁹

⁶ The interest charged on student loans currently is linked to inflation – it is based on the annual Retail Price Index (RPI) in March or the highest base rate of a number of major banks plus 1%; whichever is lower.

⁷ TRAC, the Transparent Approach to Costing, is the standard activity-based costing system used in all UK HEIs and provides the most consistent cost data available across UK higher education. TRAC cost adjustments are government-approved adjustments to the expenditure in published university financial statements, which are intended to make the costs in TRAC consistent across institutions which use different accounting policies for assets, and to include an adjustment for the cost of risk and financing. They therefore address the fact that historic expenditure may understate the true costs of past activity.

⁸ *Filling the hole: How do the three main UK parties plan to repair the public finances?* [available at www.ifs.org.uk/publications/4848].

⁹ The £6bn efficiency savings in 2010–11 have been confirmed as part of the coalition government deal.

Table 2
Projected proportion
of the working age
population with higher
education qualifications

Source: 2020 projected figure from *Ambition 2020: World-class skills and jobs for the UK* (UKCES 2009), 2007 figure from *Education at a glance 2009* (OECD 2009).

Country	2007 (OECD data)	2020 (UKCES data)	Change (percentage point)
Canada	48.3%	60.2%	+11.9
Japan	41.0%	59.9%	+18.9
Korea	34.6%	51.8%	+17.2
Denmark	32.2%	51.6%	+19.4
United States	40.3%	48.0%	+7.7
Iceland	29.8%	46.7%	+16.9
Norway	34.2%	45.8%	+11.6
Australia	33.7%	45.7%	+12.0
Spain	29.0%	44.2%	+15.2
United Kingdom	31.8%	43.5%	+11.7

III Future economic needs

- 21** Universities serve the needs of students, the economy, and wider society. They are net contributors to the economy, deliver the skills and knowledge needed for future economic success, and also generate substantial public benefits. In all of these spheres, requirements and expectations are changing rapidly. The proportion of jobs requiring skills at Level 4 or above is expected to increase by 11 percentage points between now and 2020.¹⁰ Universities will meet these skills needs through provision at different levels – both undergraduate and postgraduate – and through different modes and types of study (full-time, part-time, distance learning etc).
- 22** The trend towards increased participation in higher education in recent years suggests an increase of 11.7 percentage points in the proportion of the UK's working age population with higher education qualifications between 2007 and 2020 (see Table 2 above). However, the profile of the working-age population in other countries is also projected to change. Thus whilst 43.5% of this population in the UK is expected to have a higher education qualification by 2020, this still places the UK only 10th in the OECD rankings in this respect (behind, for example, Denmark with 51.6%). A further increase in the rate of participation is likely to be required in order for the UK to remain globally competitive in the knowledge economy.
- 23** The UK Commission for Employment and Skills (UKCES) Skills Audit states that 'actual expansion in the number of jobs is most likely in the higher skilled occupations of managers, professionals and associate professional/technical occupations. Indeed growth in these three groups over the next ten years is likely to be equivalent to the whole net increase in employment for the economy as a whole. These groups account for 43% of jobs today, and may well account for 47% by 2017 – a growth of nearly 2.2 million jobs' (illustrated in Figure 3 opposite).¹¹
- 24** Increasing the supply of graduates into the economy is not only a means of meeting existing and future demand, but also has the potential to further stimulate economic growth. UKCES has echoed the Leitch Review in pointing to the importance not only of meeting projected expansion and replacement demand, but of the UK securing a continuing edge in the pursuit of competitive advantage in the face of increasing international competition. As the Skills Audit points out, 'there is likely to be a continuing or increasing focus on skills in high wage (and other) economies as a source of competitive advantage, as countries/companies seek to move up the value chain and into higher quality goods/services'.¹²

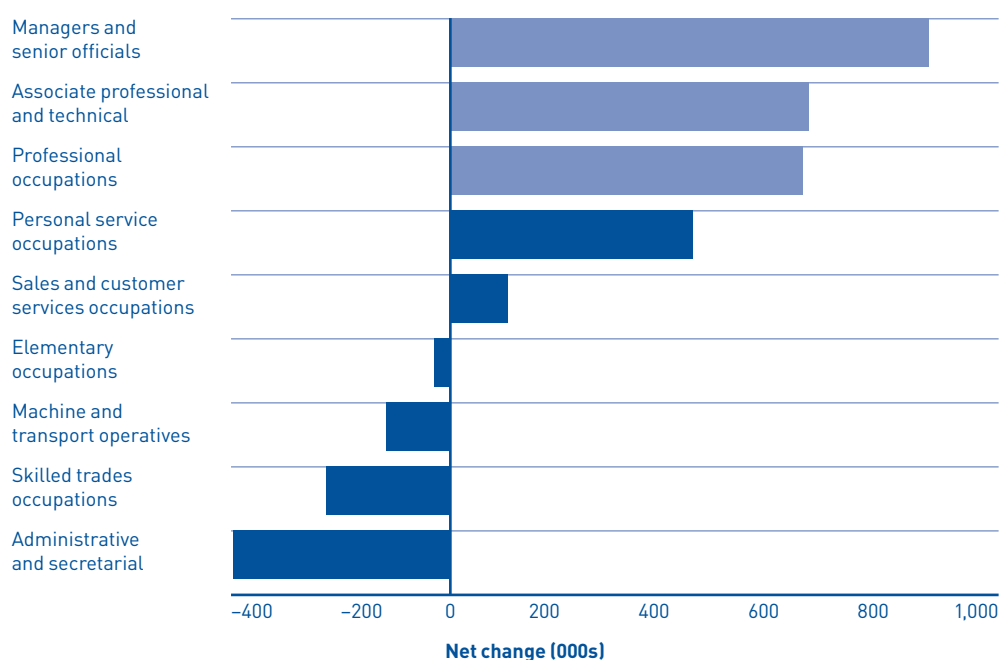
¹⁰ From 29% now to 40% in 2020, according to the Leitch Review of Skills, *Prosperity for all in the global economy – world class skills*, December 2006.

¹¹ *Skills for Jobs: Today and Tomorrow – The National Strategic Skills Audit for England 2010*, UKCES, December 2009.

¹² *Ibid.*

Figure 3
UK workforce
projected net change
by occupational group
(thousands) 2007–17

Source: Working Futures
2007–2017 – Technical
report (2008). UKCES
([www.ukces.org.uk/
upload/pdf/WF%20III%20
Technical%20Report.pdf](http://www.ukces.org.uk/upload/pdf/WF%20III%20Technical%20Report.pdf))



25 UKCES argues that demand for high level skills matters as well as supply. The Skills Audit points out that the UK's growth in skills demand is one of the lowest in the OECD, and argues that action needs to be taken both to ensure that skills and qualifications match employer need, but also to encourage employers to make better use of available skills by 'moving up the value chain, into higher value added products and services: using a more knowledge-intensive work organisation and hence better means to effectively deploy their more highly skilled and qualified workers'.¹³

26 There is evidence that graduates, and the intellectual capital they bring, can have a transformative effect on the culture of a business, increasing productivity and innovation. For example, studies of the use made by employers of graduate level skills suggested that graduates were seen as bringing new ideas, enthusiasm and a fresh perspective to organisations.¹⁴ One study has suggested that graduates contribute in the region of three times their own salaries in terms of value to business, bringing with them the ability to innovate, and generate solutions to problems; to cope with the changes this brings about; and to develop faster than other employees and add value to an organisation more quickly. They also demonstrate leadership qualities faster than other employees and have the skills to articulate ideas into the 'cut and thrust of working life' research. The pattern of graduate recruitment during the recession also points to evidence of an appetite and clear business case for these benefits, even during an economic downturn.¹⁵

27 As the Leitch report made clear, in order to support the aim of a more highly skilled workforce by 2020, it will be important to provide opportunities for those already in work – more than 70% of the UK working age population is already over the age of 16.¹⁶ Prospective students in the workforce are more likely to want to study part-time or have an interest in 'compressed' degrees. Looking forward, career patterns are changing – with employees less likely to stay in the same roles throughout their careers. This may mean opportunities for re-skilling, including opportunities for accessing higher education, will become more important in the future. This will be particularly true for individuals whose education may have prepared them adequately for the labour market which previously existed, but who are less well-prepared for a labour market in which lower-skilled job opportunities are contracting as the occupational structure in the UK changes. Providing opportunities for people to acquire higher-level skills by participating in higher education later in life therefore has two dimensions – meeting economic needs *and* a social justice element. This points towards an increased need to reform funding provision for part-time undergraduate students.

¹³
Ibid.

¹⁴
T Hogarth *et al*, *Employer and University Engagement in the Use and Development of Graduate Level Skills*, University of Warwick Institute for Employment Research, 2007.

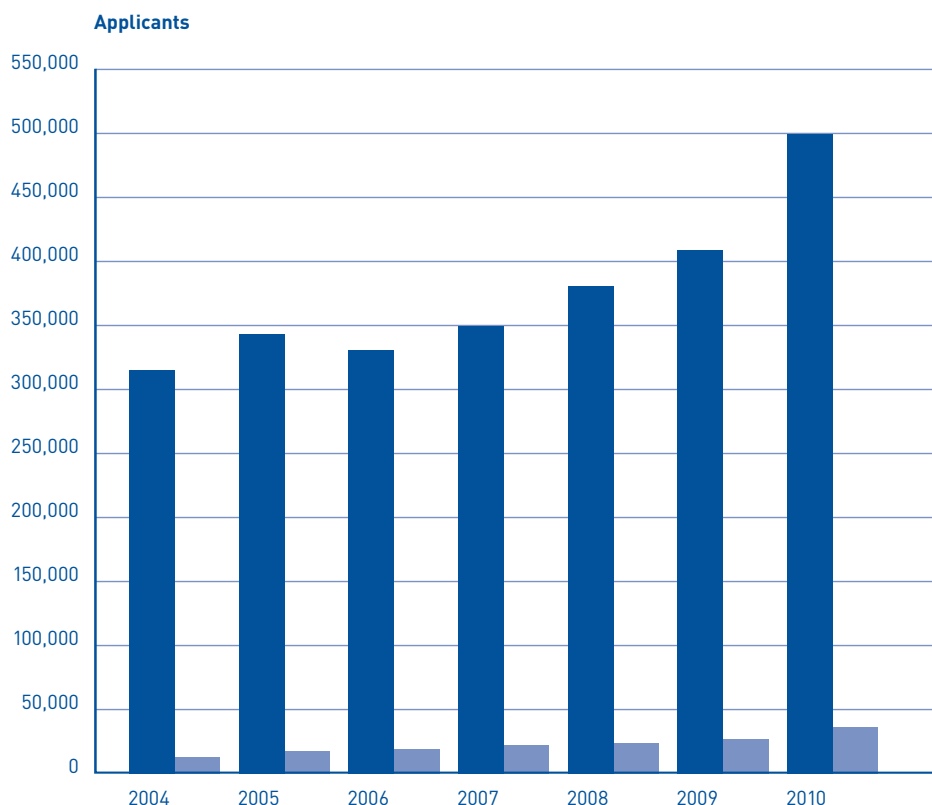
¹⁵
A Hesketh, *Adding Value Beyond Measure*, Association of Graduate Recruiters, 2004. See also: *Small Business Solutions: Graduate employment scheme* (available at www.fsb.org.uk/policy/assets/graduate%20employment%20scheme.pdf), which suggested that 25% of small businesses believed graduate internships would help them increase staffing during the recession.

¹⁶
Prosperity for all in the global economy – world class skills.

Figure 4
Increase in full-time undergraduate applicants to UK higher education institutions by region of domicile, 2004–10

■ United Kingdom
■ Other EU

Source: UCAS data



IV Current and future demand

17

Figures from UCAS show that 139,520 applicants for entry in 2009 were non-placed (that is 55 days after release of A level results had no offers, did not meet conditions of an offer or applied too late). This represents 22.4% of applicants for entry in 2009, an increase in the proportion of applicants without a place in 2008. UCAS is currently undertaking further analysis using information on prior attainment to determine the extent of unmet *qualified* demand, and the increase in this over recent years.

18

H Chowdry, C Crawford, L Dearden, A Goodman, A Vignoles, *Widening Participation in Higher Education: analysis using linked administrative data*, Institute for Fiscal Studies, June 2008.

19

These figures relate to the English population only. There are no comparable data for EU students from outside the UK. Thus although eight of the ten EU countries from which the most UK students are drawn are projected to show decreases in their 18 year old populations by 2027, it is not clear how this might translate into full-time demand.

28 Demand from UK and EU students for full-time undergraduate courses in the UK is very high, and has risen significantly over the last few years (see Figure 4 above). But in recent years the imbalance of supply and demand has been especially severe, and thousands of qualified applicants have been unable to secure a place.¹⁷ The additional constraints on student recruitment introduced for 2009 entry were explicitly linked to pressures on the government's student support budget.

29 With regard to future demand for full-time study, it should be noted that the majority of UK domiciled, full-time first degree entrants are young (78% are aged under 21 years of age). As we noted in our first submission to the Review, prior educational attainment is the primary determinant of young participation in higher education, irrespective of socio-economic background. The vast majority of students with two or more A levels go on to further study, and the overwhelming majority of such students currently study full time.¹⁸ The proportion of the 17-year-old population in England achieving this level of qualification has increased over the last ten years (see Figure 5 opposite), and this trend is likely to continue with the raising of the compulsory leaving age to 18. These trends in prior attainment, combined with the projected rise in the young population from the higher social classes noted in submissions to the first call for evidence suggest a continuing strong demand for full-time study – at least from English students (see Figures 5 and 6 opposite).¹⁹

Figure 5
Proportion of
17-year-old population
achieving two or more
GCE/VCE/Applied
A levels or equivalent,
1994–2007

Source: Department for
Children, Schools and
Families, SFR 02/2008

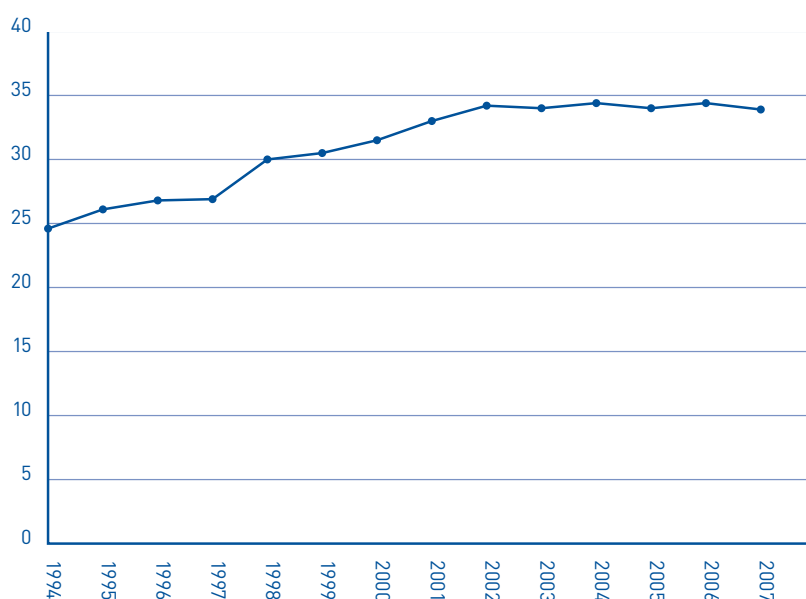
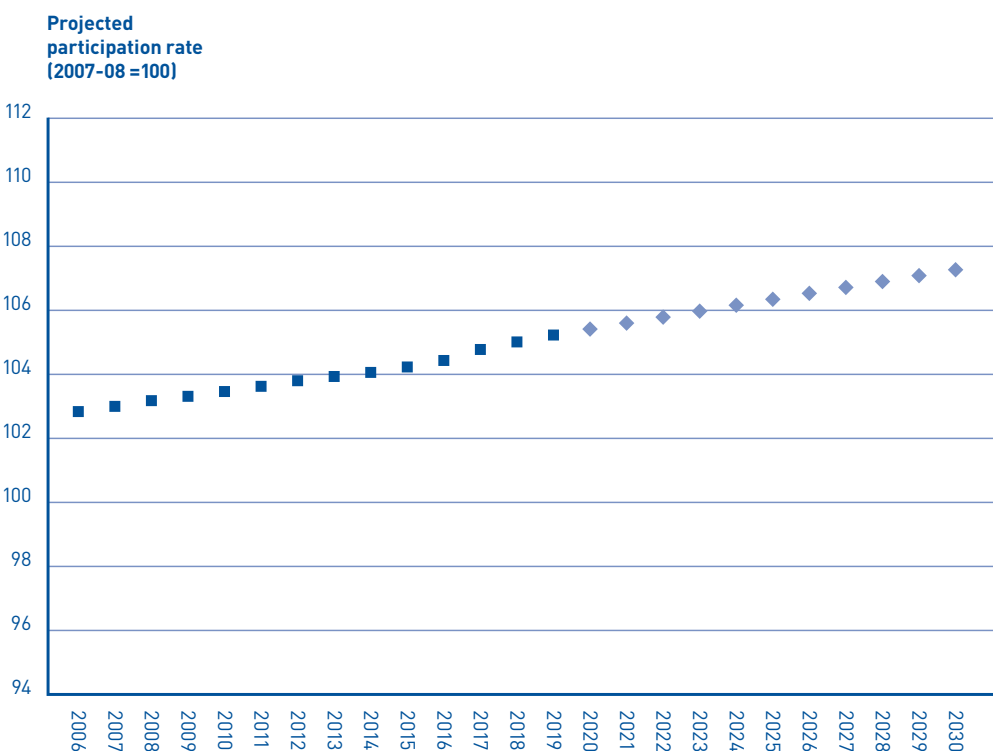


Figure 6
Variation in young
participation rate
from changes to
social class, 2006–30

■ Actual social class
◆ Extrapolated social class

Source: HEPI, Demand
for Higher Education
to 2029, 2008
(www.hepi.ac.uk/466-1366/Demand-for-Higher-Education-to-2029.html)



- 30** Part-time undergraduate demand is much more difficult to quantify because there is no shared admissions service. This means there is little reliable data on UK-wide (or England-wide) trends in part-time applicants. It is true that part-time undergraduate enrolments in English HEIs have increased by only 2.3% over the last five years (between 2004–05 and 2008–09), but enrolments are only *indicative* of the level of demand – they also reflect patterns of supply. Forthcoming research commissioned by Universities UK will explore some of the factors influencing patterns of part-time participation. The research shows that reported institutional experience of levels of part-time demand varies. Some institutions have perceived significant unmet demand and have developed provision accordingly; others are aware of little demand.²⁰
- 31** The ‘push’ factors stimulating part-time demand will differ from those stimulating full-time demand, with shifting employment patterns and specific perceived skills requirements likely to be more significant. It is possible that policy changes being introduced now (for example, any increase in the number of apprenticeships available), will help stimulate an increase in desire for part-time study in the future among groups of students who have traditionally chosen full-time study.

V The regulatory and accountability framework for higher education

- 32** The regulatory and accountability framework which supports the teaching and learning experience of publicly-funded students in the English higher education system²¹ should reflect the status of this system as both a public good and a source of private benefit. With this in mind, it should result in a series of desired outcomes:
- a** Participation by those who are qualified by potential, ability and attainment, and especially in ways that promote social mobility and economic growth.
 - b** High quality of student experience and outcomes, so that our universities remain national assets.
 - c** Sustainable provision that makes efficient use of both public and private resources.
- 33** These outcomes sit at the apex of a regulatory and accountability ecosystem which comprises three key elements – price, volume, and information; and three main agents – government, universities, and students (or prospective students). All these components need to be finely balanced to achieve the desired outcomes. Policymakers collectively will, therefore, need to consider how best to manage the various elements of this system in future to protect the outcomes. It is these outcomes, and not the ‘balance of power’ between the agents per se, that are our chief concern. There will be a number of pressures on the system in future, including, potentially, an increase in the role that private and for-profit providers have to play in the wider reputation of UK higher education.²² Consideration of the regulatory framework as it applies to private providers of higher education in the UK will have to be a major factor in debates about the evolving role of HEFCE and other bodies.
- 34** We stress that there remains a strong public interest element in universities, regardless of the way in which they are funded, and there will need to be some form of appropriate regulation and accountability to assure this. This is a question that goes beyond providing a guarantee of appropriate financial support to students, to a broader balancing or smoothing of market effects in the interests of these students – for example, it will incorporate the assurance of quality and the provision of information to students. There is also a public interest in the overall financial sustainability of the system.

²⁰
C Callender, G Mason, A Jamieson, *The supply of part-time provision in higher education in the UK* [Working title], Universities UK, forthcoming.

²¹
That is, home and EU undergraduate and taught postgraduate students.

²²
Cf *The growth of private and for-profit higher education providers in the UK*, Universities UK, March 2010.

- 35** The actions of the agents in this regulatory and accountability framework are influenced by a range of external factors. These include, for example, levels of demand; levels of prior attainment; the extent of risk aversion; and assessed national skills needs. For example, where there is a high level of qualified demand relative to volume of places, the influence of student demand will be more limited. As a result, government may seek to influence the maximum institutional teaching resource in this system (public funding and graduate/student contribution combined) to ensure the decisions of individual institutions do not undermine the intended outcomes. Conversely, were the volume of places to significantly outstrip supply, government might seek to influence the lower end of this resource, to ensure quality across the system is maintained. A further complicating factor is that the nature of the external factors may be contested (for example, in relation to the future skills needs that are of greatest public benefit); or the evidence may not be clear (for example, the extent of risk aversion among potential students).
- 36** There are a number of safeguards in place within the current system to protect the student experience. HEFCE has a statutory duty to ensure that provision is made for assessing the quality of education provided in the institutions that it funds. This duty is discharged through the Quality Assurance Agency (QAA), which safeguards quality and standards in UK HE, checking how well universities and colleges meet their responsibilities. Universities UK is committed to a quality assurance (QA) system which is accountable, rigorous, transparent, flexible, responsive and public facing.
- 37** Following extensive consultation, including with student unions, we are working with HEFCE, GuildHE and QAA to implement a number of improvements to the QA system. These include ways to make institutional audit more flexible and responsive. We support student auditors on audit teams, fully contributing to audit judgements.²³ We also support the work of the Office of the Independent Adjudicator (OIA), as a rigorous and independent adjudicator for student complaints. The OIA is funded by institutional subscriptions and free at the point of use for students.
- 38** Finally, we note that there are specific regulatory constraints relating to particular subjects, with more than fifty professional, statutory and regulatory bodies operating in higher education.

VI A rolling programme of reform

- 39** Since we propose evolution of the system rather than a radical overhaul, there should be a rolling programme of reform of the student funding system in England, carried out over an appropriate timescale (of at least 5–7 years). This should allow for reforms to be introduced in the short term where both the evidence and the need are demonstrably greatest, while providing for the gathering of further evidence and conducting of additional analyses where the impact of policy options is more uncertain.
- 40** The changes we propose represent an evolution of the current system, which we believe is fundamentally strong in principle. We do not see a need for wholesale reform, or for scrapping large parts of the system and starting again.

²³
For further information see
HEFCE December 2009/47:
*Future arrangements for quality
assurance in England and
Northern Ireland.*

2 The graduate contribution framework

Part 2 of this section sets out:

- Our recommendation that the language of tuition fees and loans be replaced with the language of a graduate contribution
- Our recommendation that this contribution be allowed to increase over time, up to a regulated maximum
- Our proposals for the changes we think are urgently required to the system of full-time student support
- Analysis of models that have been suggested to fund a graduate contribution above the maximum supported by a government loan
- A discussion of how maintenance support, including bursaries, should develop
- Our proposals for practical steps to expand this system to part-time undergraduate students
- Our proposals for supporting taught postgraduate students

I Introduction

- 41 The 2004 reforms established the principle that full-time home and EU undergraduate students would contribute as graduates towards the cost of their studies. However, these reforms have only gone part of the way to setting the higher education system on a path to sustainable funding for the future, and more needs to be done to ensure this system remains fit for purpose and delivers high quality outcomes for *all* its students – part-time, as well as full-time; undergraduates as well as postgraduates.
- 42 We set out here a number of ways that the current system of full-time student support might be modified – with respect to the terminology used to describe the system, the level of the contribution; and the terms of loans, all of which we believe need to be urgently addressed. We also discuss how maintenance support for these students might evolve. We then discuss the practical steps that we think should be taken now in line with our principle that the student finance system should move towards being indifferent as to the incentives to undertake full-time or part-time undergraduate study, and the desirability of extending support to taught postgraduate students.

II The principle of a graduate contribution

- 43 We support an evolution of the current system for full-time home and EU students, which is designed to ensure that students do not have to pay upfront, but that graduates contribute towards a proportion of their education through income contingent loans for fees.
- 44 This system is better suited to a diverse sector of autonomous institutions than a graduate tax or a mandatory fixed-length graduate contribution scheme. It preserves a choice for students and their families in decisions about how to contribute towards the cost of their higher education and allows a more significant role for student choice in driving funding for institutions. It also helps to ensure the maintenance of high quality provision in a more tightly constrained public funding environment, by delivering a secure, clearly hypothecated income stream. Any mandatory graduate contribution scheme would, in contrast, be more than likely to either require public funding to be maintained at current levels (with all funding currently used to support the student loan scheme being redirected to universities), or to require an increase in public expenditure, simply to preserve the current unit of funding.²⁴

²⁴ By unit of funding we mean the publicly planned unit of funding comprising HEFCE grant and public fee and private regulated fee.

- 45** We would also support a system which continued to make government loans for tuition contributions available to all students, regardless of household income. This structure is preferable to restricting such loans to particular groups of students based on household income, which undermines the message that participation in higher education is about the graduate's ability to pay, rather than the student's or their family's ability to pay.²⁵
- 46** However, whilst the 2004 reforms established for the first time the principle that the graduate should contribute towards a proportion of the cost of their education, this principle is not widely understood by prospective students and the wider public. The perception that 'fees' represent a mandatory private contribution by students (or their families) makes it difficult to make the case for the progressive nature of a private graduate contribution towards teaching costs. Despite three years of a heavily-subsidised loan scheme, therefore, the 'adaptability' challenge remains substantial, and it is essential that the Review considers how the case for private contributions can be more effectively communicated and internalised by potential students and the wider public, through developing a clearer narrative.
- 47** Because of this, we would strongly support a change in the way the fee for full-time home and EU students is described and communicated to students. Specifically, the Review should give strong consideration to describing this as a 'graduate contribution'. At the very least, a more coordinated campaign involving both government and universities should ensure that the following messages and features are clearly communicated:
- a** The contribution represents a future investment on the part of the student.
 - b** There is mutual investment between the student and their institution: the 'tuition fee' paid by the student covers only part of the cost of teaching and investment in the student's learning environment.
 - c** Repayments are made on an income contingent basis – essentially a payroll deduction.
 - d** Because of this, any change in the interest rate on loans to support this contribution alters the length of the loan rather than the monthly repayments.
 - e** The option to pay upfront remains.
- 48** Such messages may be particularly important for students from non-traditional backgrounds and those who are particularly risk averse, and the language could be further refined through consultation with such groups. Wider use of illustrative case studies may be a useful means of getting these messages across.²⁶

III The level of the graduate contribution

- 49** Our concern is to help protect investment in a high quality student experience across the sector. We propose that the unit of funding for teaching prior to the implementation of recent cuts should be restored as soon as possible and at the very least maintained in the immediate future.²⁷ Given the fiscal outlook over the medium term, and the level of student demand, it is likely that this will have to be secured through a higher graduate contribution. Over the longer term, we can envisage a position in which this upper limit would be appreciably higher than its current level, but we propose that it should remain regulated.
- 50** Over time, the maximum graduate contribution should be set at a level which, in combination with other income sources, allows universities to recover the costs of their teaching provision, and develop appropriate pricing and financial strategies.

²⁵ We also note that the administrative structures associated with means-testing can be problematic.

²⁶ Cf The case studies used at: www.direct.gov.uk/en/educationandlearning/universityandhighereducation/studentfinance/repayingstudentloanscoursesstartingfrom1998/dg_10034867

²⁷ In our first submission we noted that the publicly planned unit of funding for teaching (HEFCE grant and public fee and privately regulated fee) was around £7,500 in 2009–10 before unfunded student numbers were taken into account.

Table 3
Circular flows of payments, current system and system with 2.2% real interest rate and £5,000 average tuition fee (£ per year of study)

Source: Institute for Fiscal Studies

	Current 2009–10 system	New 2.2% interest rate + £5,000 fee system	New system compared with current system
Taxpayers	-7,400	-7,000	+400
Students	+5,000	+5,000	0
Graduates	-5,400	-7,600	-2,200
Universities	+7,800	+9,600	+1,800
Sum of gains and losses	£0	£0	£0

- 51** Our rationale for this position is that sustaining quality is essential, and that further investment is therefore needed. We should aspire to ensure our overall spending per student allows us to maintain a world-class university system.²⁸ As we outlined in our first submission, simply protecting the overall level of funding secured following the introduction of variable fees will not, over the long term, be sufficient to ensure the sector continues to deliver high quality provision; meets rising student expectations; and adapts to the needs of an increasingly diverse student population.
- 52** We recognise that any increase in graduate contributions would strengthen the positive trend of rising student expectations and engagement, and we fully support this. As we showed in our publication *Making it count*, universities demonstrably increased their investment in the quality and sustainability of the student learning environment and in supporting high quality outcomes for students (for example, through enhanced careers services) following the introduction of variable fees. Further, as our joint publication with the CBI, *Future fit*, demonstrated,²⁹ universities continue to develop a range of approaches in conjunction with employers to enhance graduate employability. We recognise that such employability skills will be of paramount importance in future.
- 53** Since these reports were published, we have conducted some initial case studies, which examine strategic priorities for investment to enhance the student learning experience and outcomes. These illustrate ways that significant enhancements to the core student experience could be delivered if universities have the resources to invest further in this. They also illustrate the resource implications inherent in embedding innovations and enhancements in the student experience across the curriculum, and doing so in ways that will benefit students over the long term.³⁰
- 54** There is a broader public interest in the long-term sustainability of teaching in the higher education system. The work of ensuring the robustness of data on the full costs of teaching (TRAC data) and embedding this in institutions' strategic planning continues to be taken forward by the TRAC Development Group.
- 55** The effects of any increase in the average graduate contribution on students, graduates, universities and taxpayers, would depend on the reforms introduced to the student finance system. In order to support the development of our submission, and to help provide definitive information for the sector, Universities UK commissioned analysis from the Institute for Fiscal Studies (IFS) on the impact on students, graduates, and the Exchequer of changing certain parameters in the current student funding system. This analysis is publicly available,³¹ and was further developed through funding from the Nuffield Foundation.³²
- 56** This IFS modelling (discussed further below), suggests that a £5,000 average tuition fee across the sector and a 2.2% real interest rate would result in a small net gain for taxpayers and an average increase in graduate contributions (although these do not take account of any possible behavioural changes). Students would be unaffected, as long as the fee could be covered by a loan (see Table 3 above, which illustrates the flow of payments in terms of £ per year of study).

²⁸ We note that the UK's annual expenditure on educational institutions per student for all services relative to GDP per capita in 2006 was 28% compared with an OECD average of 29% (*Education at a glance 2009*, OECD 2009).

²⁹ *Future fit: preparing graduates for the world of work*, Universities UK/CBI, 2009.

³⁰ A report on these case studies will be provided to the Review team in due course.

³¹ *The public expenditure and distributional implications of reforming student loans and grants – A project for Universities UK*, Institute for Fiscal Studies, April 2010, available at www.ifs.org.uk/docs/uuk_presentation10.pdf

³² L Dearden, G Kaplan, A Goodman, G Wyness, *Future funding arrangements for higher education*, Institute for Fiscal Studies, April 2010. Available at www.ifs.org.uk/comms/comm115.pdf

- 57** The flow of payments table above indicates the effects of an increased graduate contribution (and illustrative reform of the student finance system) on full-time home and EU students and graduates. However, a broader evaluation of any change would be needed – the impact of increasing the graduate contribution on students, graduates, institutions, and government policy aims should be carefully monitored over the long term. There is a need to consider, for example, the effect of changes in the graduate contribution for full-time undergraduates on participation by other groups of publicly-funded students – namely, home and EU part-time undergraduates and taught postgraduate students, and the resources available to institutions with a high proportion of students from either or both of these groups. Equally important is the need to monitor the impact on policies to widen participation to university, and to increase social mobility.
- 58** This monitoring should also include consideration of the effects of change on other groups of students who participate in the English Higher Education system; and on institutions and students in the devolved administrations.³³ This includes the impact on student mobility across borders and between countries and the overall coherence of the UK Higher Education system. For example, higher contributions in England could lead to a change in the proportion of students from the devolved administrations studying in their own country.³⁴ A maximum home and EU graduate contribution significantly higher than the current level could also impact on the opportunities for non-EU students to study in England.
- 59** A change in the graduate contribution could also have other less immediately apparent effects on student mobility that would need to be considered. For example, it could further impact on the willingness of funding councils to reimburse universities for the loss of income from outgoing (UK) Erasmus students,³⁵ and could mean that some UK HEIs became less willing to accept EU students on Erasmus placements as a result of seeking to ‘balance the books’ in terms of Erasmus exchange.

IV Reforms to student finance

a Overview

- 60** Providing government student loans for fees and maintenance has an impact on public finances in three ways. First, there is the net impact of student loans on Public Sector Net Debt (PSND, or ‘the national debt’), which is the difference between total cash loan outgoings in a given year minus total loan repayments in that year. Second, there is the impact of student loans on the Public Sector Borrowing Requirement (PSBR) – an ‘annual flow’ measure of public debt. This equates to an estimate of the non-repayment of loans due to any interest subsidy, write-off period and default (the Resource, Accounting and Budgeting or RAB adjustment). This RAB adjustment also appears as non-cash resource spend within departmental expenditure limits (DELs).
- 61** Any increase in the size of the loan book would impact on the national debt if this leads to the cash value of loans issued further exceeding loan repayments in a given year. However, over the long term, changing the repayment terms could positively impact on the national debt either by increasing the rate of repayment or by making the loan book a more attractive proposition for private finance (thereby removing a part or all of the loan book from the public accounts).
- 62** The extent to which PSBR and departmental budgets are affected depends on the way that the RAB adjustment is made – that is, whether it relates to loans issued in a given year or to the total stock of loan debt. In essence, if the RAB adjustment is based only on loans issued in a given year (as it is in the DIUS departmental report for 2009), it would be possible to increase the size of the loan book without affecting PSBR as long as the real rate of interest charged reduced the present value of non-repayments as a proportion of total lending.³⁶

³³ Comparing resources between England and the devolved regions is highly complex. As recommended in our first submission, we would expect the Review to maintain ongoing communications with relevant bodies in the devolved administrations to better understand the detailed effects of any recommendations.

³⁴ The changes in both England and Wales in 2006–07 appear to have had some effect on the choices of students in Wales – See the Universities UK report, *Variable tuition fees in England*, December 2009.

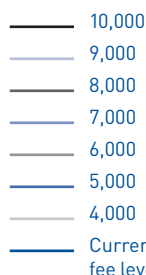
³⁵ The Higher Education Funding Council for Wales has already warned that it won’t be able to fund a shortfall in fee waiver reimbursements for outgoing and incoming Erasmus students in 2010–11.

³⁶ According to correspondence with experts in this area, it is not entirely clear that the RAB charge is calculated in this way across all assessments of government spending.

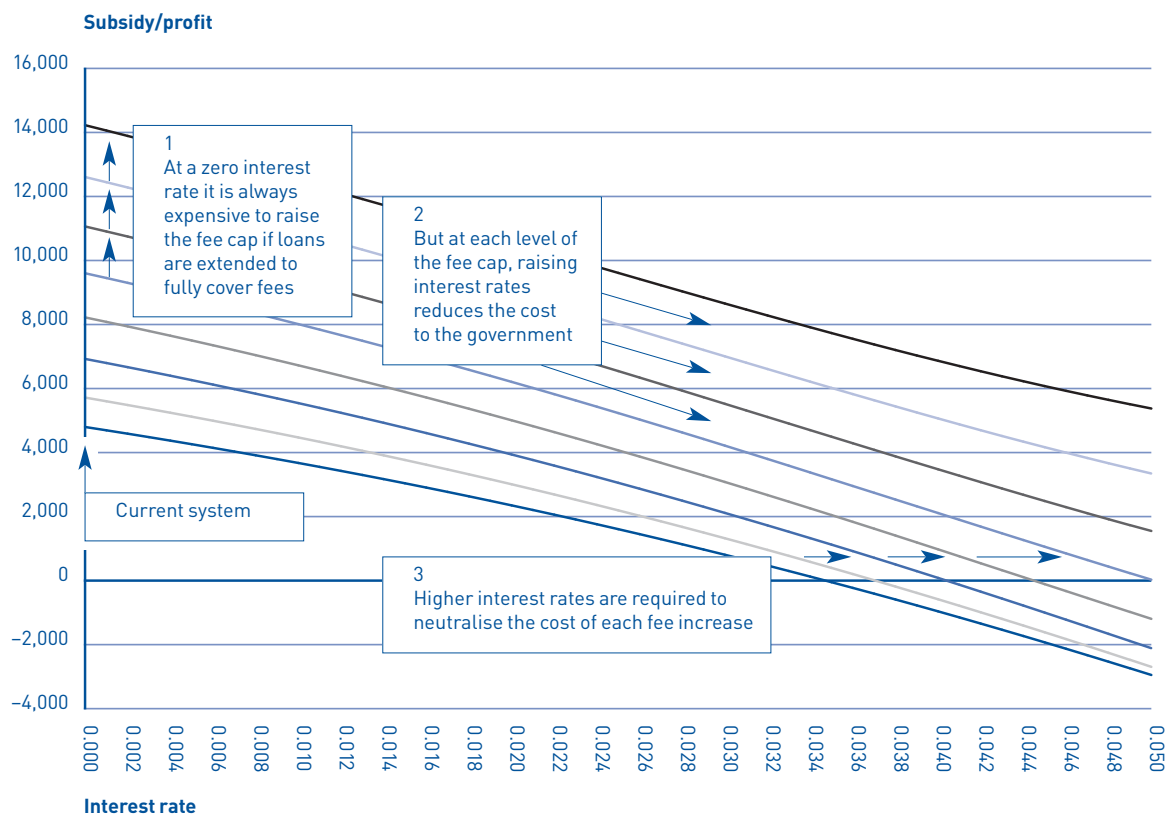
- 63** Without clarity on the definition of the RAB adjustment used in all assessments of government spending commitments it is difficult to know how much flexibility government has to increase borrowing without having a detrimental effect. If the RAB adjustment relates to the whole stock of unpaid loans then this flexibility may be considerably reduced, especially if a real rate of interest is introduced only on new loans – since a significant number of the ‘old’ loans, which the government estimates attract around a subsidy of around 26 pence for every £1 lent, would remain in the system for up to 25 years.
- 64** In the current economic climate, a significant reduction in the RAB charge on loans is imperative to enable the government to support sustainable funding for institutions. At least a proportion of any savings on the RAB charge should be recycled back into funding for universities.
- 65** The three elements of the current student loan repayment system that result in the RAB charge are the interest subsidy (outstanding loan balances are indexed to inflation); income contingent repayments (currently set at 9% of earnings over £15,000); and the maximum period of loan liability (current 25 years). Different groups of graduates benefit from each of these features because of differences in lifetime earnings profiles. For example, the debt write-off after 25 years benefits many more female graduates than males.
- 66** We propose that appropriate marginal income contingent repayments and protection for low earners should remain a feature of loans to support the graduate contribution to tuition and of loans for maintenance support. It is these features that enable us to describe this part of the system as a graduate contribution through payroll deduction rather than a credit card style debt.
- 67** We would also support a system which continued to make government loans to support graduate contributions available to all students, regardless of household income. This structure is preferable to restricting such loans to particular groups of students based on household income, which undermines the message that participation in higher education is about the graduate’s ability to pay, rather than the student’s or their family’s ability to pay.
- 68** However, in order to reduce the cost to government of providing loans, some reforms could be introduced. There are three main options here:
- a** Introduce a real interest rate. A real rate of interest equivalent to the government cost of borrowing would spread the risk between government and the cohort of borrowers, with the greatest savings coming from medium and high earning graduates. The risk to the government could be further reduced by raising the interest rate further to reflect a cohort risk premium (the additional debt not repaid because of write-off and other default).
 - b** Increase the repayment rate from 9% of earnings. In comparison with the current system, the greatest savings would come from graduates with low lifetime earnings.
 - c** Increase the maximum loan liability period from 25 years. In comparison with the current system, all savings would come from graduates with low lifetime earnings.
- 69** Under any one or combination of these reforms to government lending, there would be no direct risk to institutions themselves, and a variable risk to government (depending on how much of the cohort risk it was prepared to meet).

Figure 7
Fee and 'break even'
interest rates

Average fee levels



Source: Institute for Fiscal Studies



70 We propose that the system should be reformed so that the graduate cohort bears the cost of some of the non-repayment in the system, to reduce the influence of this cost on levels of participation. The system should move closer to a cost neutral scenario for government, especially given the fiscal pressures likely to be in place over the next 5–10 years. However, this will need to be balanced against:

- a An assessment of the possible negative effects of reforms to the loan system on participation.
- b An assessment of the appropriate length and level of marginal repayments for future graduates.
- c An assessment of the appropriate level of protection for low earners.

71 We consider below some of the options for adjusting one or more of the parameters in the loan system. We conclude that a rate of interest at least at the government's cost of borrowing, but below what we consider to be a commercial rate of interest, should be introduced. Consideration should be given to options for combining this with other adjustments to the repayment rate and length of repayment. These reforms should apply to both loans to support the graduate contribution and to maintenance loans.

a A real rate of interest

72 According to the modelling undertaken by the IFS for Universities UK,³⁷ if government loans to support the graduate contribution were to be provided to full-time students at an average of £5,000 across the sector, and there were no change in the rate of loan repayments, a real interest rate of around 4.1% would be required to make the system 'cost neutral' (see Figure 7 above) with higher interest rates required to neutralise the cost of any subsequent increase in the maximum graduate contribution level. For the student, this interest rate would be on top of any index-linked rate of interest (which is currently variable as it is set to RPI). A risk to government would, of course, remain since graduate earnings profiles have to be simulated based on historic data and assumptions about earnings growth.³⁸

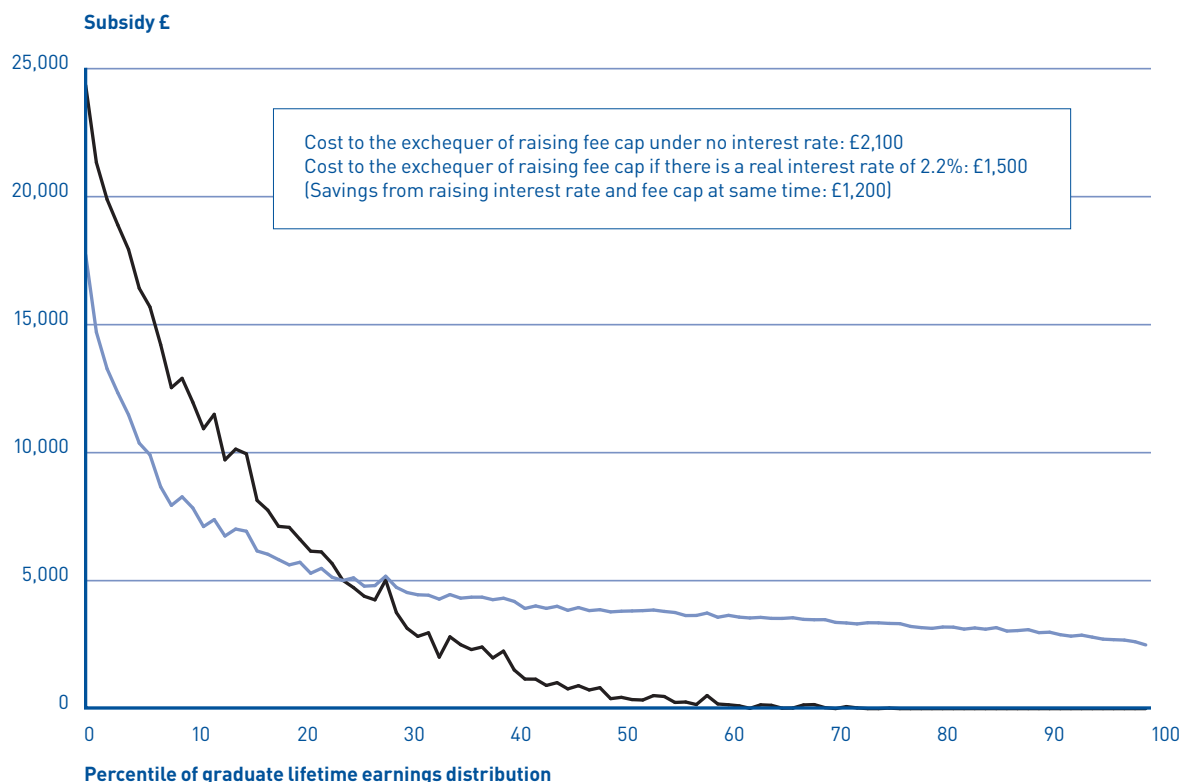
³⁷ See [www.ifs.org.uk/docs/Universities UK_presentation10.pdf](http://www.ifs.org.uk/docs/Universities%20UK_presentation10.pdf)

³⁸ The IFS models shown here use an updated simulation of graduate earnings profiles based on *British Household Panel Survey* (BHPS) and *Labour Force Survey* (LFS) data. The assumed earnings growth is 1.8% per year between 2008 and 2014 and 2% per year from 2014 (based on the detailed macro-forecasts in the IFS Green Budget).

Figure 8
Real rate of interest
on average £5,000 fee

- £3,000 fee,
no interest rate
- £5,000 fee,
2.2% interest rate

Source: Institute for
Fiscal Studies



- 73** If the government were to introduce a real rate of interest equivalent to its cost of borrowing (2.2%) it could save £1,200 per student over a three-year course in comparison with the current system (or £400 per student per year), whilst generating more income for universities. Graduates with low lifetime earnings (those in the bottom quartile of the earnings distribution) would receive a higher subsidy in comparison with the current system because of the write-off period; others would receive a lower subsidy (that is, they would repay their loans for longer), as shown in Figure 8 above.³⁹
- 74** The saving shown in Figure 8 assumes that the rate of repayment remains unaltered. Graduates could, however, voluntarily increase the rate of repayment in response to a higher rate of interest. The effects of this on overall taxpayer costs are difficult to predict – they could be positive or negative depending on the future earnings profiles of those who increase the rate of repayment. The effect on the total RAB charge could also be affected by any reduction in the take-up of loans following such a reform.
- 75** One acknowledged issue with the introduction of a real rate of interest is that it raises the possibility of an increase in a graduate's real debt if the graduate's repayment in a given month is less than the real interest charged. The government has the option of targeting interest subsidies to prevent such a rise in the real debt either across the life of the loan or, as some have suggested, after an initial period early in a graduate's career.⁴⁰ The potential benefits of these targeted interest subsidies should also be considered by policymakers – they are a mechanism that avoids penalising career breaks and may make any reforms easier to sell to the wider public and to prospective students.

³⁹ The IFS modelling shows that savings from imposing a real rate of interest of 2.2% are more progressive among female graduates than among male graduates.

⁴⁰ N Barr and A Johnston, *Interest subsidies on student loans: a better class of drain*, Centre for the Economics of Education, March 2010. The suggestion here is that the real debt would be allowed to rise for the first five years after graduation.

b Increasing the repayment rate/maximum loan liability period only

- 76** The IFS has explored for Universities UK the implications of other changes designed to save the government more money – an increase in the repayment rate, and an increase in the loan liability period (both modelled on the current system).
- 77** Increasing the repayment rate alone would reduce the subsidy for lower earners in comparison with the current system, as shown in Figure 9 opposite. An increase of five years in the maximum loan liability period (to 30 years) would also mean that lower earners paid more, and would only generate a small saving. The effects of this are shown in Figure 10 opposite.

Figure 9
Increasing the
repayment rate
from 9% to 15%

■ Current system
■ 15% repayment rate

Source: Institute for
Fiscal Studies

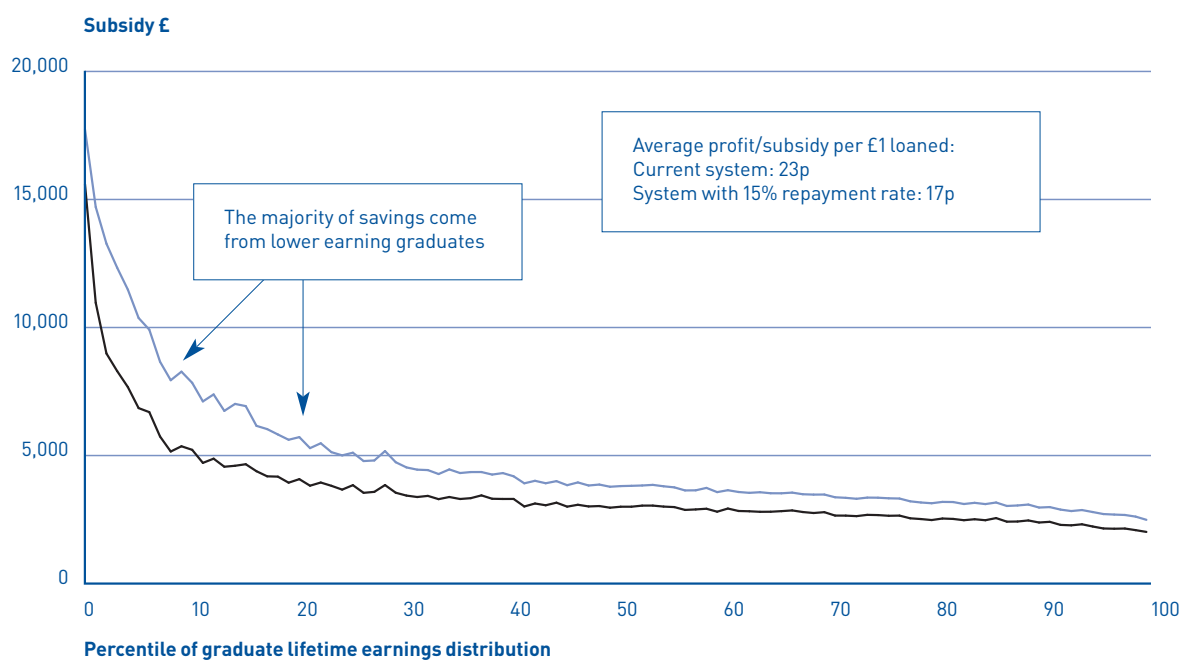


Figure 10
Increasing the
maximum liability
period from
25 to 30 years

■ Current system
■ 30-year write-off period

Source: Institute for
Fiscal Studies

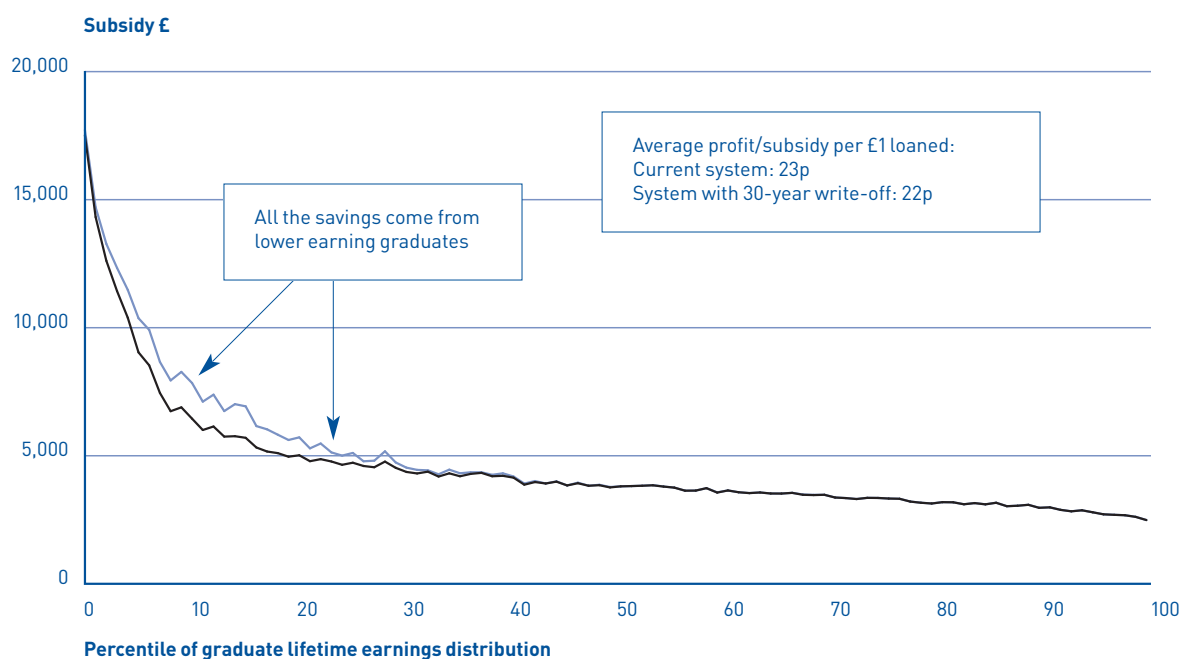


Table 4
Combinations of
repayment rates and
interest rates for zero
government subsidy
(with £5,000 average fee)

Source: Institute for
Fiscal Studies

Subsidy at 10th centile of lifetime earnings distribution	Mean subsidy	Subsidy at 90th centile of lifetime earnings distribution	Interest rate (%)	Repayment rate (%)
18,700	0	-11,800	4.8	7.6
18,300	0	-10,800	4.6	7.8
18,000	0	-10,200	4.5	8
17,700	0	-9,700	4.4	8.2
17,300	0	-9,200	4.3	8.4
17,000	0	-8,600	4.2	8.6
16,700	0	-8,100	4.1	8.8
15,800	0	-7,100	3.9	9.4
15,200	0	-6,600	3.8	9.8
14,600	0	-6,100	3.7	10.2
14,000	0	-5,600	3.6	10.6
13,100	0	-5,100	3.5	11.2
12,200	0	-4,600	3.4	11.8
11,100	0	-4,100	3.3	12.6
11,400	0	-4,100	3.3	12.4
9,700	0	-3,700	3.2	13.6
9,900	0	-3,700	3.2	13.4
8,000	0	-3,200	3.1	14.8
8,300	0	-3,200	3.1	14.6
8,500	0	-3,200	3.1	14.4

c Combination of reforms

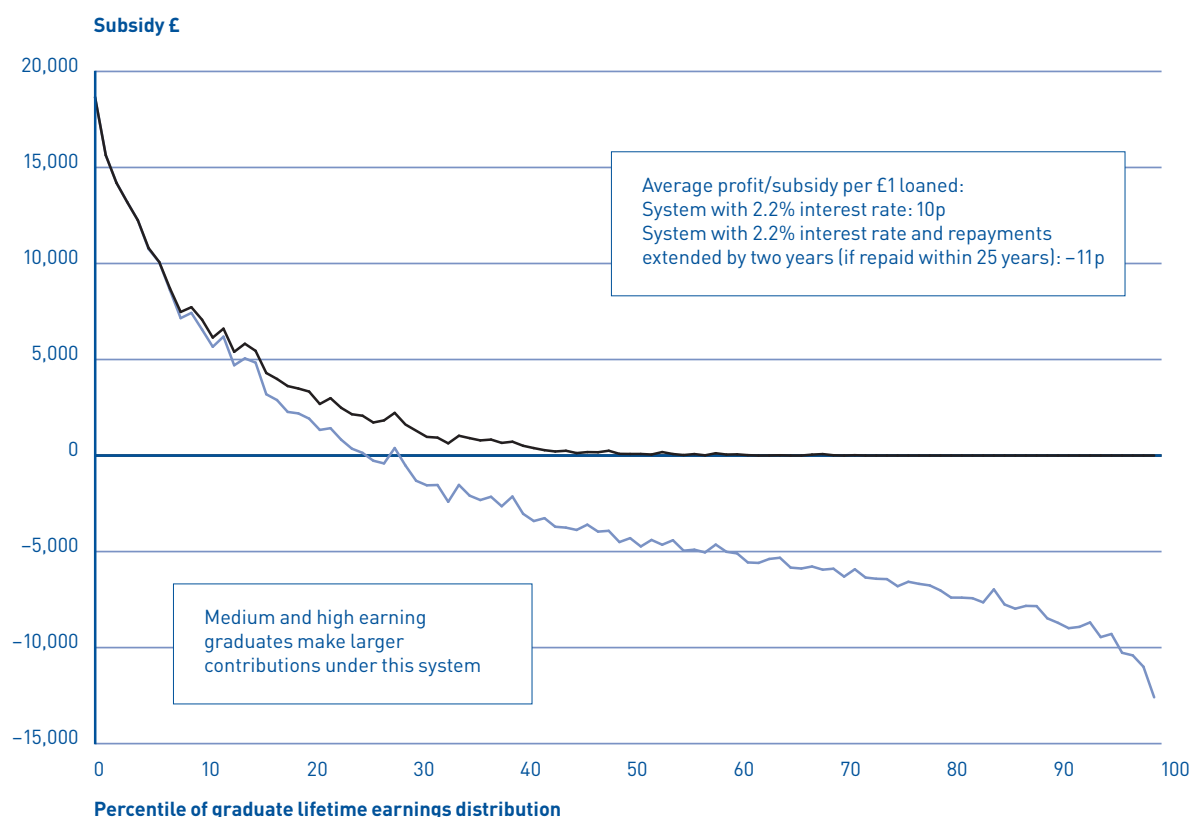
- 78** Further modelling by the IFS has shown how the government subsidy of the loan scheme could be neutralised through a combination of charging a real rate of interest and altering the repayment rate. As the rate of interest increases, the repayment rate required to achieve cost neutrality decreases (with a concomitant increase in the subsidy for the lowest earners).
- 79** We propose, however, that it is essential to avoid a rate of interest that approaches a commercial rate, for the following reasons:
- a** The potential effects on participation, especially as this could obscure the benefits conferred by a national⁴¹ income-contingent loan scheme by making government loans appear similar to commercial loans.
 - b** The potential for significant adverse selection – that is, the effects on the take-up of loans by those who believe they will have high lifetime earnings. If such assumptions proved to be correct, the cost to the taxpayer could be increased because the contribution from those who would be net payers into the system would go down.
 - c** Future opportunity costs in comparison with those for current graduates. The length of repayment could be extended significantly compared to the current system.
- 80** Under a £5,000 average loan, if the government wished to achieve cost neutrality but constrain the rate of interest so that it was below a 4% positive rate (which we suggest would be close to a commercial rate), it would need to introduce a repayment rate of at least 9.4%. Cost neutrality with a 3.1% interest rate could only be achieved with a 14.4% repayment rate.

⁴¹ 'National' in this context means England-wide.

Figure 11
Compulsory overpayment

- Current system with 2.2% interest rate
- Two-year extension with 2.2% interest rate

Source: Institute for Fiscal Studies



- 81** The scenarios in Table 4 opposite look only at combinations that are projected to be cost neutral to government – it would of course be possible for government to continue to share part of the cohort risk whilst introducing both a real rate of interest and a higher repayment rate. The overall system thus produced would remain progressive, with higher earning graduates receiving a lower overall subsidy (or no subsidy at all).
- 82** We propose, therefore, that such combinations are considered as part of a rolling programme of reforms, as a means of maximising the savings to the Exchequer, and the amount that can be recycled back into the university system, whilst retaining the benefits of a government-backed loan system.

d Other possible reforms

- 83** There are various other ways in which this contribution system could be developed to serve particular policy aims. For example, it would be possible to extend by two years the repayment period for all graduates (whilst retaining an amnesty after, say, 25 years) to create a 'redistributive tilt' within the system. The effect of this is illustrated in Figure 11 above.⁴² Because it would generate additional income, moreover, it would be possible to use this income to increase the government subsidy, thereby helping to limit the amount of remaining costs that have to be borne by the cohort of borrowers. However, this reform could be highly problematic – it introduces a new driver for repayments (years), which would be difficult to explain and could be difficult to calculate for those with sporadic incomes. This option would also impose further opportunity costs for graduates, which may restrict institutions' ability to raise funds from philanthropic giving. Given these issues, we would not recommend this reform.

⁴² The option of extending repayments is explored more fully in Barr and Johnston, *Interest subsidies on student loans*.

- 84** A further option is to introduce incentives for early repayment of loans in full (for example, a 10% discount). This could impact in the short term both on the RAB costs associated with loans and potentially on total government borrowing (the national debt) – if repayments were sufficient in scale to positively affect the balance between loan repayments and loans distributed in a given year. However, as the IFS has shown, in order for such a scheme to result in savings to the public purse over the long term, it would rely on graduates who would otherwise receive higher subsidies taking advantage of the lower discount.⁴³ This adaption of the loan system may also be seen to confer additional advantages to those with the family resources to pay off the full loan (or a substantial part of it) early. It is probably unnecessary to provide additional incentives for early repayment if a real rate of interest is introduced, since this in itself is likely to provide a significant incentive for some students to use alternative resources to cover their contribution to tuition and/or maintenance costs.
- 85** In conclusion, given the urgent need to reduce the RAB charge, there is a need to introduce a real rate of interest at least at the level of the cost of government borrowing but below a commercial rate. A higher repayment rate is one way to increase government savings on the RAB charge whilst limiting the interest rate. In deciding on the appropriate combination of these reforms, we would expect government to consider the effects on graduates' private resources – in particular, to ensure that any increase in the marginal rate of repayment would be sustainable for graduates in future macro-economic scenarios – and to evaluate the effects of reforms on participation over time.

e Monitoring the effects of reforms

- 86** Of primary concern is the effect these changes might have on participation. Such effects are very difficult to predict – whilst recent work by the IFS suggests that an increase in *upfront* costs of higher education on its own has a negative effect on participation, there is no existing research on how responsive participation is to changes in deferred costs. It is for these reasons that we have highlighted the importance of providing prospective students and the wider public with clear messages about the benefits of income-contingent repayments; proposed that any rate of interest be kept below a commercial rate; and propose any reforms to student grants (targeted at students from lower income households) are deferred (see below). The government should continue to monitor the effects of such reforms on participation.
- 87** These reforms could also result in changes to loan take-up. It is certainly conceivable that the take-up rate of loans to support the graduate contribution and the take-up rate of maintenance loans could be reduced, especially among those confident of higher lifetime earnings and/or with access to the resources to pay upfront.⁴⁴ Whilst overall changes in loan take-up could be monitored, it would not be possible to tell whether this would result in relatively higher taxpayer costs because of future earnings.
- 88** As a final point, we note that the student support arrangements in Northern Ireland and Wales are currently broadly similar to those in England. We believe it is important for this parity to be maintained.

⁴³ Dearden *et al*, *Future arrangements for funding higher education* (www.ifs.org.uk/comms/comm115.pdf).

⁴⁴ Take-up of maintenance loans is around 80% (Student Loans Company Statistical First Release 06/2009). There are no publicly available figures for the take-up of tuition fee loans at sector level.

f An option for the loan book: wholesale front-end funding

- 89** Even with these reforms to the student loan repayment system, issues about the size of the national debt would remain. One option that has been proposed to deal more directly with this is that of wholesale front-end funding. Under this model, loans would be entirely provided for by private finance, with the interest rate reflecting a cohort risk premium and administrative charge. This option is based on the Hungarian model. It has therefore been shown to be administratively feasible on a smaller scale, and could represent a significant improvement on the current policy of selling off 'tranches' of student loan debt. The model has not, however, been tested on such a scale as would be implied by even the current loan book for English and EU students, and the appetite of private finance for funding loans in this way is unclear. So any model, and the maximum amount of the total loan book it could support, would need to be subject to further expert consideration. A new portfolio of loans with a real rate of interest may, however, be more attractive than the current student loan book – although it is likely a significant amount of 'old system' student loan debt would remain within the system. It is not entirely clear, however, that loans financed in this way would be removed from the government's balance sheet and would thereby reduce public sector net debt, which would be the principal reason for introducing such a scheme.
- 90** There are other issues to consider with this scheme. Under this model, the ONS regulates the level of government guarantee (subsidy) and determines at what level this would designate the scheme either 'private' or 'public'. If the government subsidy were to increase beyond this designated level then the system would become a publicly-financed loan system. Therefore this system might reduce the flexibility that is available under a publicly-financed loan scheme for the government to increase its 'share' of unpaid debt (for example, by reducing the interest rate or the repayment rate). The level of cohort risk is also shaped by the need to ensure this package is attractive to potential purchasers.

V Models for funding a contribution above the guaranteed government loan

- 91** Comparisons between the US and UK systems would suggest that in terms of equity, access and regulatory controls available to the government, the optimal funding solution would be to continue to have a government-backed loan scheme to support graduate contributions up to a regulated maximum. The government is in the best position to secure favourable borrowing terms as well as the best position to safeguard repayment or contribution conditions for graduates. Furthermore, a national public system does not rule out the introduction of private finance on a regulated basis, for example through the sale of loan books – either upfront or at a later stage. A national structure also provides stability for universities and their students, by reducing their exposure to risk to finance a core part of their activities.
- 92** Reducing the subsidy on loans may make it possible for the government to support a higher graduate contribution without a significant increase in the measures of national debt, either by increasing the attractiveness of the rate of repayment or by making the loan book a more attractive proposition for private finance.
- 93** We recognise that future governments may face some pressure to limit the size of the loan book they are willing to take on or guarantee, especially in the context of significant public and political concern about the size of the national debt overall. In determining the amount it can afford to fund, the government will need to make assumptions about loan take-up by students and pricing strategies by institutions that will be difficult to model using historic data. Given the fiscal climate and accompanying scrutiny of public finances, governments may need to make 'high-risk' assumptions about these two factors.

- 94** There are other reasons why government might want to limit the amount of loans provided through a national scheme. First, increasing the size of the overall loan book increases the overall cohort risk. The government has the option of absorbing part of this risk, but its flexibility is limited. For example, under a fully publicly-funded scheme flexibility is limited by the need to protect the fisc; where there is wholesale front-end funding from private sources with a government guarantee, there may be further limitations on the subsidy because the government has to ensure the commitment is not accounted for as public borrowing (based on terms negotiated with the ONS or other regulator). A full-scale private sale of the student loan portfolio risks an increased cost for borrowers in line with increased financing costs.
- 95** The government is also likely to be particularly concerned about allowing all private contributions to be financed through a national scheme if there is significant variability in the level of the graduate contribution. Where there is a national cohort risk premium there is at least the prospect that students at institutions where lower graduate contributions are set will be faced with a comparative increase in the length of repayment (through an increased interest rate or a combination of this and an increased repayment period) simply because of an increase in the contribution at other institutions. The effects of this may be politically manageable up to a certain level but might appear inequitable in any scenario where graduate contribution levels differ considerably.
- 96** The government will also face competing pressures in determining where to target any expansion of the loan system. There will be strong arguments in favour of increased full-time loans to support the graduate contribution to tuition, to help the sustainability of the system; in favour of increased maintenance loans to reflect realistic living costs; and in favour of expanding loans to other groups of students (for example, part-time and postgraduate students, which we discuss below). Any one or a combination of these would increase the overall size of the loan book and the cohort risk.
- 97** These factors suggest that there may be a limit to the maximum graduate contribution (by full-time home and EU undergraduates) that the government is prepared to support through loans. The maximum which the government considers to be acceptable for a national scheme may not, in the long term, match the level of investment that some institutions state they need to secure sustainable investment in some or all of their courses, and which they believe the market will be in a position to provide (subject to safeguards to ensure appropriate participation).
- 98** Because of this, it has been suggested that models might be developed, which would allow universities (either collectively or individually) to set a higher level of graduate contribution, and potentially to take on additional risks in doing so, without increasing the cost and risk to the government and the national cohort of borrowers.
- 99** There are a number of potential limitations and disadvantages associated with the development of any funding structure incorporating these models. We explore some of these issues below. Further analysis of any potential adverse consequences on students, graduates and universities – particularly with respect to promoting social mobility – and of the mechanisms that might address these, would be required before any such models could be introduced. We do not, therefore, support any of the models discussed below in their current form.

a Universities cover the RAB charge of additional loans

- 100** One option for funding a higher private contribution without additional resource costs to government would be to allow universities to charge beyond the maximum loan available from government (or through a government-backed scheme) for some or all of their courses, but for these universities to pass the estimated resource costs of these loans back to government. The university would therefore be paying the RAB charge for any of its students who took out the additional loan. These funds would have to be sufficient for the government to meet in full its share of the additional costs of government loans above the standard maximum, whilst still allowing all eligible students to borrow at the rate of interest set for this level. This option assumes there is limited concern with the level of overall government borrowing.

101 The attractiveness of this option is that it would not depend on an institution being able to raise funds from private sources. On the other hand, it does represent an additional risk to government (if the funds passed back to government were less than the additional public funds required to support higher loans) or could penalise universities (if these funds were higher than the public resource costs). There is, moreover, every likelihood that the number of students able to make the additional contribution through resources other than a loan would vary between institutions. One way round this issue would be for government to assume that all students liable for a higher graduate contribution borrowed the full amount through a loan and to levy funds accordingly. However, this is unlikely to make this model attractive to all institutions, particularly those where a relatively large proportion of students chose to pay upfront.

b Universities responsible for financing arrangements

102 A number of other models have been suggested for funding a higher graduate contribution than that supported by a government-backed loan, which would all make universities more directly responsible for financing arrangements for their students. A potentially positive element to such an evolution of the system would be that it would increase institutions' stake in the future prosperity of their students, which could be an important long-term connection. There are, however, a number of potential unintended negative consequences of introducing such structures into the higher education system. We reiterate that further analysis of the behavioural effects and consequences of any of these options would be required before they could be introduced. Based on our assessment of the issues, we suggest that the development of any of these models would present a number of challenges, and might require the development of mechanisms to 'smooth' the effects of different institutions' capacity to absorb risk. In particular, it is not currently clear how such options might meet the following conditions, which we believe would be critical under any of these models:

- a** There would need to be clear mechanisms in place to safeguard against the unintended consequences of such models on other important policy aims, such as widening participation.
- b** Prospective students would need to be provided with clear information to combat any increased complexity.
- c** Financing arrangements would need to draw on comparable and reliable information about graduate earnings profiles for different courses.
- d** Any repayments would need to be affordable to graduates across the sector.

i A 'trust' for part of the loan book

103 One suggested model is that of a 'trust' for student loans held by a group of universities and applying only to loans for contributions above the maximum government loan available. This trust would 'purchase' the loan portfolio from government and draw in private sector finance. The government could continue to hold some stake in such a system through the provision of a regulated subsidy. Further expert investigation of this option would almost certainly be needed to clarify whether or not such loans would be classified as being off the government's balance sheet.

ii 'Deferred fees'

- 104** A second model is that of 'deferred' fees (or contributions).⁴⁵ Under this model, the part of the contribution funded through a government-backed loan, and any maintenance loans, would be paid through the current income-contingent repayment arrangements. If the graduate repays their government-backed loans, they begin to repay the 'deferred fee' element and these repayments are received by the university. Thus, in its pure form, the university only receives the income associated with deferred fees once loans payable under a national scheme are repaid and if their graduates earn enough within a set period. The latest earnings profiles produced by the IFS suggest that a graduate would take on average around 15.4 years to repay the average debt accumulated through current fee and maintenance loans provided by government.⁴⁶ So even if there were no change in the availability of government loans, it would be some time before universities could begin to see the benefit from their own deferred fees. A modification might therefore be needed to this model, to promote financial sustainability for institutions. One possibility is that the deferment of income could be mitigated by selling an index-linked cash flow, for example, to a pension fund.

iii Institutional loans

- 105** A third model would see either a single institution or a group of institutions providing institutional loans in partnership with a commercial bank. This would either involve institutions negotiating loan terms on the students' behalf (and underwriting these loans), but the loan would be given to the student directly from the bank and would be repaid to the bank, or a loan negotiated between banks and institutions, with institutions then funding the cost of the additional contribution for students, and graduates repaying their own institution. The outcome would be the same – with universities receiving the income straight away.

c Regulatory issues

- 106** Under any of the three models for universities to take responsibility for financing arrangements, the regulation necessary to ensure the conditions stated above were met would need to be carefully considered. The objective of maintaining institutional autonomy would need to be balanced against protecting the interests of both students and graduates across the sector. The government and universities have a strong interest in fair access for students, and would want to continue to ensure that any arrangements do not damage participation. The government and universities may also be concerned about the opportunity costs for graduates that could result from any larger overall loan repayments.
- 107** There are several elements that could be subject to regulation, which we believe the Review should consider if any of these options are explored further. The analysis of the issues below highlights some of the problematic elements of the models discussed above, and we restate that Universities UK does not support any of these models in their current form.

i Information on graduate earnings

- 108** Comparable and reliable information about graduate earnings would be vital to ensure a level playing field for institutions or groups of institutions competing for private finance, and could be helpful as a means of informing student choice. If banks are to offer loans to individual institutions or to groups of institutions, it is likely that they would do so on the basis of an institution's overall credit (that is, the basis on which they already lend to universities), together with an assessment of the likely graduate earnings of students at that institution. The same sort of assessment is likely to be undertaken by any purchaser of an index-linked cash flow under a 'deferred fee' system.

⁴⁵ For a fuller discussion of this model see N Shephard, *Deferred fees for universities* (available at www.oxford-man.ox.ac.uk/~nshephard/defer111109.pdf).

⁴⁶ This is based on the central earnings growth projection used in the IFS modelling for Universities UK (www.ifs.org.uk/docs/uuk_presentation10.pdf).

- 109** Any of the models discussed above would therefore require better information on graduate earnings profiles. There are two problems with the information currently available. The sixth-month Destination of Leavers in Higher Education (DLHE) survey achieves a relatively high response rate, and is useful to universities in keeping in touch with alumni, but is commonly acknowledged to be conducted too early to capture graduate destinations meaningfully. The longitudinal DLHE survey (conducted twice to date, in 2006 and 2008 with a further survey planned for 2010, and taken 3.5 years after graduation) is based on a 5% sample of graduates and has a very low response rate. HEFCE and HESA are currently reviewing both approaches, supported by a review group which includes Universities UK representation, but improving the quality and reliability of this data, and enhancing it with data from other sources (for example, the HMRC for earnings data) will be an important and necessary step regardless of other reforms. We also note the possibility of developing the Labour Force Survey to include useful information in this respect (for example, place and course of study).
- 110** However, even with improved information about earnings profiles of past graduates, this will only ever be an imperfect predictor of what will happen in the future, either to individual graduates or to particular cohorts. Institutions, like government, would necessarily be taking on an element of unknown risk.

ii The terms of repayment (including rate of interest)

- 111** We have emphasised in our proposals that loans to support the graduate contribution should be income-contingent and should protect low earners. Mortgage-style repayments, with a fixed repayment period, would reduce institutional risk but would be regressive, because lower paid graduates would pay a higher proportion of their income. There is also the possibility that they would act as a deterrent to some students; or a deterrent to graduates to choose lower-earning career paths.
- 112** Even if additional institutional loans were income-contingent, however, the question would remain as to whether universities could be permitted to increase the monthly repayment rate of their graduates to ensure payments to their own loan scheme would begin straight away, or would be required to defer repayment until any national loan obligations had been met. The former could result in a significant increase in monthly repayments.
- 113** If institutions were to negotiate borrowing terms with the private sector, part of the risk could be shared with the cohort of borrowers (reflecting the proposed reforms to the national scheme). The level of risk could be regulated – for example, government could seek to ensure that the interest rate was no higher than that on loans available through a government-backed scheme.
- 114** There remains a risk that a system containing both government and institutional loans (or a variant of loans) could be confusing to potential students. If any such models are developed, clear information should be provided to students about the finance available to them at different institutions.

iii The extent of institutional risk

- 115** If there is some regulation of the level of interest payable by the cohort of borrowers, then this could mean different institutions facing differential borrowing terms to finance this part of the graduate contribution. Institutions accountable for public funds (including research funds) could be required by HEFCE to meet certain conditions before entering into such arrangements. Institutions will in any case want to consider how entering into new borrowing agreements would impact on their existing commitments.

- 116** However, whilst this would help ensure such arrangements did not undermine the financial sustainability of institutions, it has been argued that this would unfairly restrict the ability of some institutions to increase the graduate contribution on particular courses where both market demand and future earnings profiles were comparatively strong. Even where institutions were permitted to borrow in this way, differential borrowing terms could mean significant differences in the level of income achieved through setting the same level of graduate contribution.
- 117** One option to address this might be for private finance arrangements to be negotiated at a course level rather than at an institutional level. Any incentives for collaborative borrowing arrangements could then be developed at course level, rather than necessarily between institutions across their courses. It is plausible that such collaborative models could counteract some of the differential effects that other student characteristics (such as socio-economic background and prior attainment) have on future earnings. Both the effects of such characteristics, and the impact of any collaborative models, would need further investigation.
- 118** The effect the development of such models could have on the burden and costs for institutions should also be recognised, particularly if institutions themselves took on the task of tracking graduates and collecting repayments. The resources required to manage this are likely to differ in scale and nature from those required to manage bursaries.

VI Maintenance support

a Government support

- 119** We propose that the reforms to government-backed loan repayment arrangements discussed above would apply to maintenance loans as well as loans to support the graduate contribution to tuition.
- 120** Alongside its expenditure on subsidised loans, the government also commits around £1.05bn cash expenditure on maintenance grants. Reducing the RAB cost as described in the IFS modelling based on a £5,000 average tuition fee loan could result in a small shift in the balance of current expenditure towards expenditure on grants – assuming there were no change in this element. The effect could be amplified if the take-up of loans decreased.
- 121** The government currently makes policy decisions about the balance of grants and loans for different groups of students, depending on their household income.
- 122** The overall balance of loans and non-repayable support should continue to be considered under any revised framework. As a policy instrument, grants and other non-repayable support serve to address risk aversion among students and offer the opportunity to reduce the future opportunity costs faced by graduates – shortening the length of repayments compared with covering all costs through a loan.
- 123** Because of the uncertain effects on participation of the proposed changes to the loan system, we recommend that any significant changes to the government grant system and the level of maintenance loans be delayed until the effects are better understood. We also note that savings generated through, for example, returning to the 2006 grant thresholds would in all likelihood be smaller than the savings generated through reform to the changes to the loan repayment structure described above.

b Bursaries

- 124** The reforms in 2006 showed that institutions were prepared to go significantly beyond the mandatory minimum requirements and develop targeted schemes which satisfied the Office for Fair Access (OFFA) that the fees they charged would not damage access. Universities have also continued to invest in access programmes. As we noted in our first submission, there is evidence that more needs to be done to communicate the support available at different institutions and inform student choice. In particular, universities will need to show how bursaries fit in to the total package of support and how this allows students to meet the costs they can anticipate. However, take-up of bursaries has been shown to have notably improved in the second year of the variable fee regime. This is likely to be due in part to improvements to the process for allowing students' household income data (collected to assess eligibility for state means-tested support) to be shared with institutions. There is significant value in terms of simplicity for the student and in terms of minimising the burden on institutions in such an arrangement, although the administrative processes underpinning it must be robust and reliable.
- 125** As noted in a number of previous submissions to the Review's call for evidence, there is a strong correlation between prior attainment and participation in university, and financial aid alone is not sufficient to promote participation. A future system should therefore support universities in investing a range of resources – including donations from alumni – in both access and financial aid initiatives. These initiatives should be located within a broader access strategy, which would include the development of universities' links with schools (as supported in the current Widening Participation Strategic Assessments sent to HEFCE).
- 126** The current requirement placed on universities to provide bursaries at a minimum level should therefore be replaced with a system whereby universities are free to develop their own financial aid policies, within the context of an overall strategy to widen participation. We would work constructively to ensure appropriate oversight of these strategies is achieved. This should avoid the monitoring of the proportion of (additional) fee income spent on bursaries and other access projects, which may not reflect the range of institutional investment in such measures, and may not encourage investment from business (for example, in scholarships) or from donors. It is important that such investments are recognised, as they can be a significant additional source of 'graduate contributions' of a different kind: students who elect to pay upfront can choose to support others later through contributing towards student bursaries and access initiatives at their former institutions. HEFCE Widening Participation Strategic assessments, or similar assessments of overall widening participation strategies, could include information on universities' fundraising activities in relation to financial aid and access measures.
- 127** The trends in institutional fundraising suggest it is reasonable to anticipate that – over the long term – more income might be raised from graduates and other donors to support bursaries and scholarships in future. In 2007–08 UK universities reported securing more from fundraising than ever before. They secured £682m in new funds in 2007–08; this is an increase from £442m in 2005–06 and £531m in 2006–07.⁴⁷ There was also an increase in the median level of new funds secured by those institutions taking part in the government's matched funding scheme (from £743,000 in 2006–07 to £905,000 in 2007–08). This suggests a positive relationship between an increase in investment in these activities and fundraising outcomes. Continued support from government for institutional fundraising through the matched funding scheme or other similar initiatives would therefore represent a valuable and efficient long-term investment in the sector as a whole, and in opportunities for prospective students.

⁴⁷ N Gilby, C Lloyd, S Finch, *Ross-CASE Survey 2007–08 Final Report*, Ross Group/CASE, November 2009, available at www.rosscasesurvey.org.uk

128 A national bursary scheme which redistributed income raised from students/graduates at one institution (through loans supporting the graduate contribution) to students at another would not be a desirable addition to the system. A fixed additional amount distributed through a central 'pot' could merely act as an inefficient way of getting funding to a student. It would be unlikely to achieve the aim of more equitably meeting student 'need', since there would remain some differences between the costs that students faced depending on where (and what) they studied. A more reasonable approach is to allow institutions to supplement national student support with their own bursaries and scholarships, which reflect the needs of their students and their strategic priorities. This goes beyond the value of bursaries offered. For example, the use of bursaries to support retention might be more appropriate to one institution than another.

VII Supporting part-time undergraduate students

129 Universities UK supports as a long-term aim the movement towards a system of student support that is indifferent as to the incentives to pursue full-time or part-time undergraduate study. As we have argued above, it is important that the system provides a high quality experience and high quality outcomes for *all* the students who participate within it. This student population is increasingly diverse, and will continue to be so if higher education is to continue to meet the needs of students and society.

130 The 2004 reforms introduced the principle of a graduate contribution for full-time home and EU undergraduate students, but did not extend this to other groups such as high-intensity part-time first degree students. This had the effect not only of ensuring that part-time students remained reliant on upfront payments or employer contributions to undertake a course, but also made it more difficult for institutions to charge part-time fees pro rated to full-time fees, and thus secure the quality of the experience for these students. There was a significant concern that increasing funding for part-time students would merely mean government funding substituting for funding from employers (that is, it would create 'deadweight costs' to the state). The heterogeneity of the part-time population (in terms of age, prior qualifications and qualification aims) also made estimating the costs of extending grants and income-contingent loans on a pro rata basis exceptionally difficult.

131 We would not wish to see any expansion of the student finance system funded through a reduction in the level of loans and grants available to full-time students. We believe that the reforms to student finance proposed above would facilitate the ability of government to devise an affordable solution for the expansion of loans to other groups of students, although we recognise the challenges of doing so in the context of constrained public finances.

132 We propose there are practical steps that should be taken now to identify the cohort of part-time students that should be targeted in terms of increased student support, to produce the greatest benefit from an extension of some or all of the support available to full-time students on a pro rata basis. The definition of 'greatest benefit' should be broad, encompassing the most effective delivery of high-quality provision and high-quality outcomes to all those who participate in higher education or have the potential to do so. In determining what support should be made available to which cohort, the differences in the circumstances of part-time students should be considered. The characteristics of the cohort could be expected to include intensity of study, qualification aim, and highest qualification on entry.

- 133** We would expect this work to be carried out by a group of sector experts, including representatives of a wide range of institutions (in terms of the proportion of undergraduates studying part-time), and representatives from the business community as appropriate. The identification of this cohort should draw on work undertaken recently to better understand the characteristics of part-time students and the effects of differential funding arrangements. This would include, for example, work by London Economics for Million+, which explores the impact of changing student finance arrangements on resource flows across the sector, and in which the costs of extending support to one cohort of part-time students have been analysed.⁴⁸ We would also highlight a forthcoming report for Universities UK, which will explore the characteristics of the current part-time population (including levels and types of funding), and examine the wide range of issues affecting part-time supply and demand.⁴⁹
- 134** The question of how to maximise employer support is likely to be particularly important in identifying this cohort. Among its findings, this Universities UK report will include an assessment of the characteristics of part-time students most likely to benefit from employer support for their studies. The study will show that, for example, high levels of prior qualification are positively associated with employer contributions. It is plausible that employers would want to continue to 'invest' in these employees even if income-contingent loans were available. Furthermore, some universities have developed close relationships with local providers to deliver bespoke training needs (for example, in one university 80% of part-time provision is delivered in the workplace).⁵⁰ Not only would such institutions be in a good position to set the level of the graduate contribution to ensure continued close engagement between employers and universities, but the employers themselves would retain an incentive to fund their own employees (assuming such provision had been developed with their needs in mind). It should also be recognised that employer support for higher education can be provided in a range of ways, including through work placements, sponsorship, and curriculum development. We would support appropriate incentives to encourage employer contributions of this kind.
- 135** We do not underestimate the practical difficulties associated with implementing such reforms, for example, modelling the likely costs of loan provision. However, the arguments in favour of this policy are strong, particularly with respect to provision of loans to support a graduate contribution for part-time students, which could both increase the opportunities for participation (especially, for example, among those seeking to retrain for alternative employment) and, potentially, increase the resources for institutions offering this provision. The effects of any reforms to student finance on stimulating supply and demand, improving completion rates, and changing the shape of the part-time student population should be monitored.
- 136** Consideration should be given in parallel to the extent to which other changes might be required to ensure the sector is offering the provision that best meets the needs of students and society. The forthcoming Universities UK report on part-time students will provide important insights into the factors that shape the supply of part-time study.
- 137** We note that the sector's position on issues such as a change in the way public funding is allocated will continue to evolve through relevant consultations such as the HEFCE review of the teaching funding method. Further policy reforms geared to the appropriate stimulation of supply could, however, include:
- a** Improved access for students to information about part-time provision
 - b** The provision of appropriate financial support directly to institutions, including support of institutions' ongoing relationship with employers
 - c** The information available to institutions, especially related to part-time demand and potential gaps in provision.

⁴⁸ *Fair funding for all*, Million+, January 2010, (available at www.millionplus.ac.uk/research/fair-funding-for-all).

⁴⁹ Callender *et al*, *The supply of part-time provision*.

⁵⁰ *Ibid*.

VIII Supporting taught postgraduate students

- 138** In the light of the Smith Review⁵¹ of postgraduate education, it would also be desirable to extend the support available for taught postgraduate students, in particular, to help ensure fair access to qualifications which increasingly secure a premium in the job market. Participation in postgraduate education has grown rapidly in the last decade and at a faster rate than undergraduate education. This is now a major area of business for most universities. In addition there are a small number of institutions which are exclusively postgraduate. Much of the growth in this type of provision has been driven by a rise in international students. However, for UK-domiciled students, participation in postgraduate education has risen at a *slower* rate than participation in undergraduate education (a 14% increase since 1997–98, compared to a 25% increase at undergraduate level).
- 139** The Smith Review argues that ‘if the UK is to compete in a global knowledge economy and capitalise on new, emerging industries, it is likely that there will be increasing demand for the UK workforce to be trained to postgraduate level’.⁵² The review notes evidence from a range of sources that the ability to recruit high quality postgraduate researchers, and the strength of the research base, is a key factor for many businesses in choosing to locate in the UK. The value that employers place on postgraduate level skills is borne out by the wage premium associated with postgraduate qualifications (lifetime earnings are 15% higher, on average, for those with a masters qualification, compared with a first degree, and 23% higher for those with a PhD).
- 140** Postgraduate fees are largely unregulated, and there is no universal system of support for such students. 60% of taught postgraduate students receive no support towards fee or living costs. A small number of postgraduate students access Professional Career Development Loans (PCDLs), provided by banks at a commercial rate of interest (with the interest paid by government during the period of study and for one month after completion) but there is no information about the number of students who unsuccessfully apply for such loans. Contributors to the Smith Review suggested that possible reasons for low take-up of PCDLs include ineligibility and concerns about the rate of interest and repayment terms.
- 141** There is relatively little data about the characteristics of the postgraduate cohort, or about motivations and barriers to study at this level, including whether the cost of postgraduate study and the lack of student support are factors in dissuading students from pursuing further study. In particular, as the Smith Review points out, the issue of fair access to postgraduate education has been relatively neglected:
- ‘The report by The Panel on Fair Access to the Professions brought this sharply into focus – recognising the connection between access to postgraduate study and entry into professional careers. As postgraduate level skills are increasingly required in a knowledge-driven economy, it is important that the opportunity to benefit from postgraduate study is open to everyone.’⁵³
- 142** Notwithstanding the evident need to increase the information available about postgraduate students, and to understand better the supply and demand issues at play in this arena, there appear to be powerful arguments both in terms of economic interests and access for increasing the support available for postgraduate study, in order to incentivise participation at this level. If this does not prove possible, other changes may need to be considered to mitigate the potentially adverse consequences on taught postgraduate participation resulting from any changes to the undergraduate fee and support structure.
- 143** It would be important to consider patterns in the mode of study if any policy to extend student support to taught postgraduate students is considered. We note that the majority of UK and EU postgraduate students at English HEIs study part-time: in 2008–09 68% of these students were studying part-time; 72% of UK taught postgraduate students were studying part-time, and between 2007–08 and 2008–09 there was a 13.5% increase in part-time taught postgraduate entrants.⁵⁴

⁵¹ *One step beyond: Making the most of postgraduate education*, Department for Business, Innovation and Skills, March 2010.

⁵² *Ibid.*

⁵³ *Ibid.*

⁵⁴ Source: HESA.

3 HEFCE funding

Part 3 of this section sets out:

- A summary of some key developments in public funding for institutions
- Our view of the benefits of HEFCE teaching funding and of its delivery through a block grant
- An initial discussion of the potential effects of a reformed graduate contribution framework on HEFCE funding
- Our initial analysis of some of the options for reforming funding to stimulate quality and change

I Introduction

- 144** We will offer a more detailed consideration of the principles underpinning HEFCE funding in our response to HEFCE's review of the teaching funding method. However, in this part of our submission we briefly consider the following:
- a** The role of HEFCE teaching funding and the benefits of its delivery through a block grant.
 - b** The potential effects of a reformed graduate contribution framework on HEFCE funding.
 - c** Some of the ideas for changes to the distribution of this funding that have been discussed (or may gain traction in future), where the primary drivers include increasing quality and stimulating change.
- 145** One question for the Review is whether initiatives developed in the light of specific funding constraints and against a backdrop of severe imbalance of supply and demand can and should be used as the basis for funding in the future. We consider here some of the proposals for using public funding as a lever to increase the movement of students and associated funding within the system. Issues around the constraints on overall capacity imposed by public funding of both institutions and students are considered in more detail in part 4 of this section.

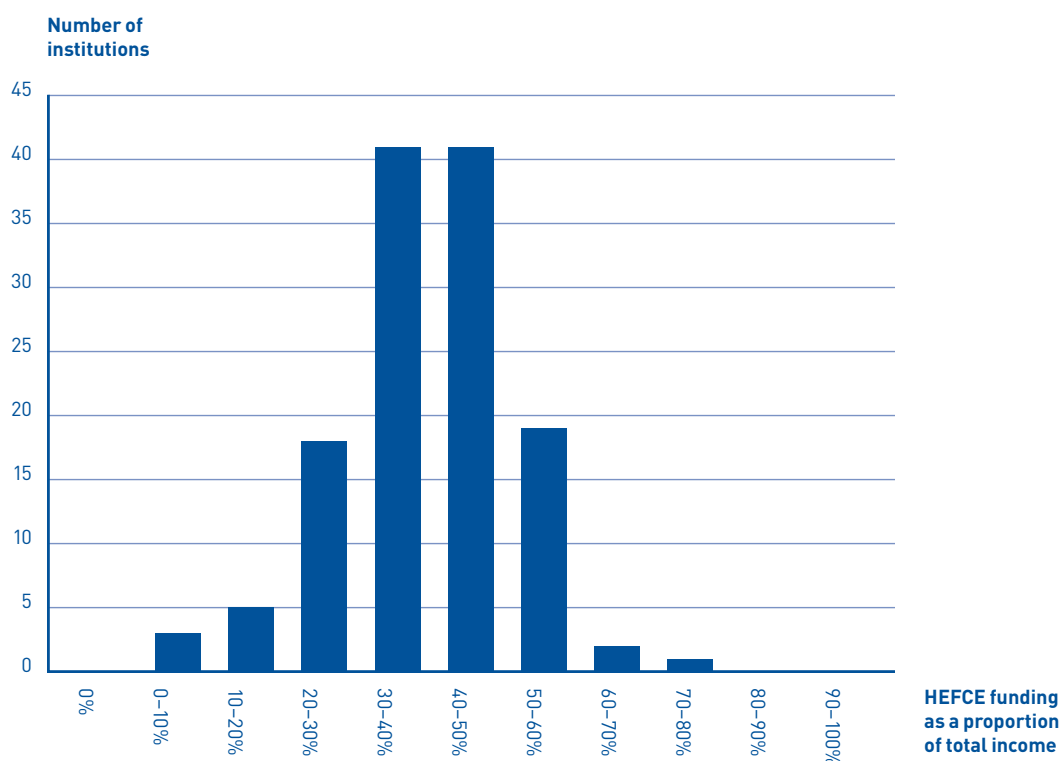
II The place of HEFCE funding in English HEIs

- 146** Universities are autonomous, self-governing charities – supported by the state but not within the public sector. This is reflected in the diversity of their income sources – as noted in HEFCE's submission to the Review's first call for evidence, funding council grants accounted for 35.4% of English Universities' income in 2007–08 (down from 38.0% in 2005–06), and that percentage has fallen further to 33.8% in 2008–09.⁵⁵ There is also some variation across the sector in the proportion of income (for teaching and research) derived from this source, as illustrated in Figure 12 overleaf.
- 147** The very great majority of HEFCE teaching funding is currently distributed as 'similar funding for similar activity', and is linked to the number of students and the relative costs of different subjects. There are well-rehearsed issues about how to determine the costs of activity and the assumptions to be made about other resources for teaching, which HEFCE will be seeking to resolve through its ongoing review of the teaching funding method.
- 148** Within the teaching grant there is also some targeted funding to recognise additional costs, and, importantly, 'contested' funding for strategic growth in student numbers (institutions bid against defined criteria).

⁵⁵
Source: *Finance Plus 2010*,
HESA.

Figure 12
Total HEFCE funding
as a proportion of
total income for higher
education institutions
in England, 2008–09

Source: *Finance Plus 2010*
(HESA, 2010)



- 149** The system does allow for a reduction in funding over time at an institution that does not manage student numbers to match (within the tolerance band) historic levels of HEFCE funding. However, because HEFCE controls the envelope of institutional funds, it is able to make strategic decisions about how to manage public funds to maintain a high quality HE system in England. HEFCE retains considerable discretion over the allocation of funding through the Strategic Development Fund and through moderation funding.
- 150** HEFCE funding sits alongside the cost of loans and grants as part of a package of taxpayer support to universities and their students. We recognise that the place of HEFCE funding can be expected to evolve in response to changes in patterns of participation, and in consultation with the sector. Mechanisms to account for receipt of public funding from HEFCE should also continue to evolve to reflect any changing balance of public and private funding, and any further differentiation between institutions, to ensure that they remain proportionate and risk-based. There are, however, a number of features of this funding that we believe are particularly beneficial to the sector as a whole:
- a** It explicitly acknowledges the public benefits of higher education alongside those accruing to the individual participant.
 - b** The majority of HEFCE teaching funding is provided through a block grant, which allows institutions to be responsive to student need – investing strategically, and responding to changing local and national needs and circumstances, whilst managing fluctuations in the market. Delivering the majority of public funding to institutions through a block grant avoids the funding method being used to over-engineer provision or as a form of workforce planning.
 - c** It is an efficient way of ensuring that public funding for teaching reflects some costs which the market cannot and should not be expected to bear. These include both the costs of delivering particular subjects and the additional costs associated with recruiting and retaining particular groups of students. Support for these activities through public funding helps universities meet important economic and social policy aims such as widening participation.

- d** It is an efficient way of ensuring that incentives can be put in place for completion. The completion rates for UK students are among the highest of any OECD country.⁵⁶
 - e** It helps protect against volatility of funding that might threaten, for example, provision in geographic or subject areas which become temporarily unpopular. A certain degree of stability is desirable to ensure that universities can plan in a reasonably long-term manner.
 - f** Funding can be provided to support capacity building, for example in the development of employer co-funded provision.
- 151** We are not aware of any models where all public funding for teaching has successfully been driven solely by the market. The only jurisdiction to have introduced such a 'voucher' system as the principal mechanism for funding higher education – the State of Colorado – declared the system a failure, and even then only after it had adapted the system so that the state could reward institutions that delivered provision of high strategic importance (the 'fee for service' element).
- 152** The administrative costs of introducing a 'voucher' scheme of this kind should not be underestimated. As Universities UK pointed out in a review of the funding options for higher education, published in 2000,⁵⁷ there are a number of difficulties inherent in developing such a system, including determining how vouchers would be allocated; how their value would be determined; and how overall expenditure would be controlled.
- 153** One of the arguments in favour of vouchers – that students would better understand the value of the provision they are accessing – might nevertheless provide a useful lesson for future policy. It should be possible, without introducing vouchers, to improve the information available to students about the source of funding for their teaching, and in particular, to demonstrate the amount that public funding contributes alongside their own contribution.

III The impact of a revised graduate contribution

- 154** Some consideration will need to be given to the way the graduate contribution framework described above might interact with public funding. Universities UK will consider this issue further as part of its submissions to HEFCE's ongoing review of the teaching funding method. However, we offer some brief reflections here.
- 155** The proposals we make with regard to the graduate contribution may lead in the long term to some liberalisation of the price controls currently in operation in relation to undergraduate education for home and EU students. In order to secure the desired outcomes relating to quality, participation (including social mobility) and sustainability, these might need to be accompanied by mechanisms to move student numbers (and associated HEFCE funding) more fluidly within the system. The options for achieving this are problematic, as discussed below. In any case, active involvement of institutions in discussions with HEFCE about the overall shape of provision, including overall provision at regional level, should remain a feature of the system.
- 156** Under the current HEFCE funding model, the 'fee assumption' remains at the old 'standard' fee level (currently £1,310). HEFCE has indicated that this fee assumption should be revised.
- 157** There is a difficult balance to be struck between providing appropriate incentives for institutions to raise funds (to limit the flow of public funding to institutions which can raise the same amount from private contributions), and ensuring appropriate funding to support provision for which it is not feasible or appropriate to depend on the market to meet the costs (including support of widening participation policies). We note that such issues will be considered as part of HEFCE's review of the teaching funding method.

⁵⁶ For tertiary type 5A education (all higher education in the UK excluding PhDs and qualifications such as HNC, HND and DipHE) the UK comes third for rate of completion with 79.4%, behind Japan with 91.3% and Denmark with 80.5% and above the OECD average of 68.8% (*Education at a Glance, 2009*, OECD, 2009). For the UK, this includes both full-time and part-time students.

⁵⁷ *Review of the funding options for higher education*, Universities UK, November 2000. See also B Bekhradnia and W Massy, *Vouchers as a mechanism for funding higher education*, HEPI, September 2009.

- 158** The overall effect of any revision on the distribution of funding between institutions would depend on decisions about the appropriate resource level for particular types of provision. A real challenge is to ensure that public investment and institutional strategy support the long-term sustainability of teaching provision, and we note that HEFCE has indicated it would seek to revise the current price bands with reference to TRAC data, which seeks to recognise the full sustainable costs of teaching provision. An issue that would remain with this approach is that the full economic costs of teaching in particular subjects (measured by TRAC) are likely to vary significantly across the sector.
- 159** In considering options in this area, due attention should be paid to the potential effects of any changes to the teaching funding method on all publicly-funded students, including part-time and taught postgraduate students, and on institutions with high proportions of such students, in order to protect participation and the overall quality of the student experience across the sector.

IV Analysis of other options for reform

a Making the current system more responsive to 'market dynamism'

- 160** The current HEFCE consultation on the principles underpinning the teaching funding method reflects a concern that there may be insufficient responsiveness to 'market dynamism', or the changes in demand for places in particular institutions over time, in the current funding model.⁵⁸
- 161** One way to adapt the funding method to increase dynamism would be through an adaptation of the contract range mechanism to ensure that funding was made more responsive to changes in demand. This could involve what would appear to be a relatively simple change such as narrowing the upper limit of the tolerance band and/or removing the opportunity for institutions to migrate back within the contract range. Either of these measures would result in institutions being more rapidly subject to withdrawal of funding if their student recruitment was out of step with historical resource levels.
- 162** Even with what appears to be a relatively modest change to the system, consideration would need to be given to the potential unintended consequences, and of the effects on particular institutions (for example, those with a higher proportion of 'non-traditional' students). It should also be recognised that under the current funding method there are a number of reasons why institutions might find themselves outside the contract range, which is one reason why there are a number of contract ranges beyond the +/-5% in operation across the sector. It could be that a simpler funding method reduces this element of unpredictability but it is unlikely to eliminate it entirely.
- 163** A more radical change might allow for much more significant movement of both student numbers and the funding associated with these numbers between institutions – for example, allowing the aggregate resource to change significantly (perhaps by something like 15%). Such a change could be considered particularly desirable where the potential for overall growth is limited – essentially recycling numbers within the system instead of relying on bids for additional numbers. However, it has been argued that increased 'contestability' for students and the associated funding should become more of a feature of the system in any future scenario. It is likely that any increased fluidity in numbers on this or a comparable scale would only be practicable over a longer period, rather than year-on-year. To ensure quality and sustainability, universities need time to plan for significant changes in numbers and the associated effects on, for example, infrastructure and staffing requirements.

⁵⁸ HEFCE March 2010/10: *Review of the teaching funding method – consultation on key principles and features.*

- 164** It is unlikely that measures of demand would be appropriate for allocating student numbers and associated funding, since, under current arrangements, high levels of demand can be accompanied by relatively low levels of recruitment. There is no evidence that the most 'popular' institutions, that is, those with the highest proportion of applicants to places, are most desirous of expansion in student numbers – indeed, some may seek to maintain or reduce numbers to preserve quality and increase postgraduate capacity.
- 165** This could change, of course, if the maximum graduate contribution were higher, and particularly if it were, over time, comparable with the fee level for overseas students. Even if there were some displacement of non-EU with home and EU students, however, there are likely to be a number of other factors limiting the extent to which some of these institutions would seek to expand their intake to meet demand. These include: the balance of teaching and research activity; the desire to protect quality; and practical constraints imposed by an institution's physical location.
- 166** There are other options for moving funding around the system. These include developing funding incentives for the provision of particular subjects or developing funding incentives linked to quality. We now consider some of the issues around these.

b Providing funding incentives for movement of student numbers between subjects

- 167** The mechanism developed for 2010–11 to reward institutions shifting the balance of their provision towards strategically important and vulnerable subjects (SIVS) could be extended. HEFCE has suggested that it 'may subsequently offer this funding to more subjects following further engagement with government and the UK Commission for Employment and Skills on skills priorities, and the progress of consultation on teaching funding from 2012–13'.⁵⁹ In its teaching funding consultation, HEFCE notes that, in future, such a mechanism could extend to movement of numbers between institutions.
- 168** This does, however, raise some important questions about the circumstances under which such a mechanism could operate effectively. First, it has been developed against the backdrop of a student number control which many regard as burdensome and impractical, and which may need to be less rigorous if the student finance system were put on a more sustainable footing. A similar system could of course be developed under a less stringent control of numbers by adapting the current funding methodology – for example, by narrowing the tolerance band and/or introducing additional monitoring of student numbers. Institutions would also, as now, need to balance the aims of securing public funding and pursuing strategic objectives, but the flow of funding could be more responsive to changes deemed to be in the national interest. However, it remains the case that for this funding to be most efficient as an incentive or reward mechanism, institutions should be confident that they will be able to deliver the movement of students for which they have bid, which may be difficult when take-up of offers varies each year.
- 169** Second, in order to attract greater funding, this mechanism requires subjects deemed strategically important to attract more funding than other subjects. Up until now, this initiative has focused on subjects in the higher three cost bands but, were the market in public value to become more contested (as is likely to be the case, for example, if a reduced amount of public funding is targeted to 'strategic' provision), there is no guarantee that this would continue, and more explicit funding incentives might therefore be necessary. Were this mechanism to be expanded significantly, moreover, it would also depend on substantial movement out of 'cheaper' subjects that could in themselves then become more vulnerable – especially given that movement would be most likely to come from subjects where there was perceived to be least demand. At the very least, some consideration would need to be given to the cumulative effects of such policies if they continued to focus on a small number of subjects.

59
HEFCE Circular Letter
06/2010: *Support for moving
full-time undergraduate
numbers into strategically
important and vulnerable
subjects (SIVS) in 2010–11*,
April 2010.

170 Third, a decision has to be taken about how long additional funding is to be made available, and what conditions are to be attached to the additional funding. In its teaching funding consultation HEFCE has indicated a preference for 'short-term and highly-fluid' funding to promote change. However, there is a difference between short-term funding that meets short-term policy priorities from which institutions might be expected to retreat when the funding stream dries up, and short-term funding that is intended as initial pump priming, but with institutions expected to absorb any additional costs in the long term. The latter will be the case as long as institutions have to make a commitment to continue to fund places in particular subjects but with no guarantee of additional funding for these places over the same period. In the case of this most recent initiative, HEFCE is committing additional funding only for two further years 'in principle' and is expecting institutions to continue recruiting additional entrants in these subjects beyond this period. Thus institutions would either have to find the additional funds from other sources, or find ways of delivering the courses more cheaply. We note that it may take some time to develop and expand provision and a certain degree of stability is desirable to ensure that universities can plan in a reasonably long-term manner.

c Linking teaching funding to quality

171 In its *Higher Ambitions* document the government explicitly suggested that HEFCE could seek to direct more funds into subjects of strategic importance by diverting funds 'away from institutions whose courses fail to meet high standards of quality or outcomes'.⁶⁰ This statement could be read either as a desire to strengthen HEFCE's existing powers to remove funding from institutions who do not secure confidence judgements from the QAA,⁶¹ or as a desire to increase the movement of public funding between institutions, based on a system of quality metrics.

172 As the QAA and HEFCE have noted, there is no evidence of systemic failure in the quality of the student experience or standards. However, as discussed above, we are working with HEFCE, GuildHE and QAA to implement a number of improvements to the QA system.⁶²

173 We also consider that it is important that the quality assurance system is as transparent as possible. We are working with the QAA to make their reports easier to understand, and their judgements clearer. Universities UK is also working with the Higher Education Public Information Steering Group to ensure that the information for prospective students is as useful and accessible as possible. This is underpinned by research with prospective and existing students and will lead to a consultation (sponsored by Universities UK, HEFCE and GuildHE) in autumn 2010.

174 With respect to the policy of using quality metrics to drive resource allocation, there are a number of problems with identifying comparable measures of teaching quality. The student population is diverse and the form that high quality provision takes will vary so long as it reflects this diversity. The precise identification of the value added by institutions to students' outcomes (including career destinations) will always be problematic. To overcome these issues at a system level would require a bureaucratic and burdensome process that would detract from the delivery of frontline teaching. A version of this has been tried in the past with the Teaching Quality Assessment (TQA) and with no demonstrable benefit to students or staff that outweighed the increased effort required. If funding were tied to this form of quality assessment, it could lead to unintended behavioural consequences across the sector, as well as a substantial increase in the burden of regulation.

⁶⁰ *Higher Ambitions – The future of universities in a knowledge economy*, Department for Business, Innovation and Skills, November 2009.

⁶¹ See HEFCE September 2009/31: *Policy for addressing unsatisfactory quality in institutions*.

⁶² HEFCE October 2009/40: *Report of the Committee for Teaching Quality and the Student Experience: HEFCE's statutory responsibility for quality assurance*; QAA submission to the Innovation, Universities, Science and Skills Select Committee, December 2008.

4 Managing overall student numbers

Part 4 of this section sets out:

- The key principle that we believe should guide the overall level of participation
- The difficulties associated with managing growth in numbers where resources are constrained and demand is high
- The potential issues with allowing growth to be delivered through ‘efficiency savings’ applied to the sector
- Our conclusion that some management of the overall call on the state’s resources remains desirable, but that a more sustainable student finance system should allow for some relaxation of the stringent controls currently in place

I Introduction

- 175** The total number of the country’s students in HE should reflect as far as possible the ‘Robbins Principle’ that ‘courses of higher education should be available to all those who are qualified by ability and attainment to pursue them and who wish to do so’. We believe that participation should increase to support this aim.
- 176** However, we also recognise that it is in the collective interest of universities and of society more broadly that there is some management of the overall call on the state’s resources, and this should be built on a sustainable system of student finance.
- 177** We would not want to see a significant erosion of the overall unit of funding per student to support expansion, as happened in the 80s and early 90s. It is vital that any efficiencies developed across the sector with respect to teaching activities are sustainable over time and do not negatively impact on the sustainability of other core activities (for example, research). It will be important that any efficiency ‘benchmarks’ developed through funding initiatives respect the diversity of the sector and the autonomy of individual institutions. This sustainability will look different at different institutions, but could be supported by the removal of substantive barriers such as the charging of VAT on shared services. Universities UK will, over the coming year, play a leading role in developing models for sustainable efficiencies across the sector.

II Controlling and managing growth

- 178** Experience suggests it will be difficult to design a system of funding appropriate to a period where demand significantly exceeds supply which can be used as the basis of a more durable future funding method, particularly if there is a desire to protect as far as possible the overall unit of funding.
- 179** The HEFCE funding method from 1992 essentially applied a yearly efficiency saving across the whole sector, and then allocated funding back to HEIs wanting to expand. Places were funded at different rates for different HEIs, and HEIs were given expansion funding at their particular rate. The Maximum Aggregate Student Number (MASN) control was introduced to limit growth – essentially to limit the extent of the reduction in the unit of funding from continued expansion within the same resource envelope.

- 180** In 1998 a funding method was developed which allowed institutions to bid for additional numbers without a reduction in the unit of funding. This was at a time when the annual cash and resource cost of student support (including fee waivers for lower income students) was around £1bn less than it is currently, and when the overall size of the loan book was significantly smaller, due to the absence of tuition fee loans. This institutional funding methodology remained in place once variable fees had been introduced. Up until 2009–10, HEIs were permitted a relatively high degree of freedom in managing their student numbers – the tolerance band mechanism allowed institutions some freedom to move numbers between publicly-funded student types, even if this had the effect of increasing the number of students eligible for full-time student support. The current ‘student number control,’ which restricts institutions’ full-time undergraduate intake, is explicitly designed to limit the call on government student support.⁶³
- 181** It has been argued that this student number control, based on entrants rather than total numbers, is, on balance, a reasonable scenario for the sector as a whole in the short term. It still permits some flexibility for institutions – allowing a shift in the balance of their subject provision for undergraduate entrants within the tolerance band limits. Moreover, government policies have helped ensure that overall full-time home and EU undergraduate entrants increased in 2007, 2008 and 2009, and may increase further in 2010 (depending on the outcome of the University Modernisation Fund initiative). Thus, at a sector level, the control itself is unlikely to reduce the overall number of full-time students in higher education in the next few years.
- 182** However, it needs to be accepted that this may not be the case at individual institution level – for example, if a university has a high graduating cohort in comparison with its 2008–09 entrants its overall size will shrink. In addition, since the student number control has been introduced alongside the tolerance band system, it means some institutions have been faced with a choice between fines for over-recruitment and permanent loss of grant. There are also a number of practical difficulties in exactly meeting admissions targets, which are more pronounced for particular institutions and courses.
- 183** The University Modernisation Fund is also worthy of comment. This fund will provide 20,000 extra places for 2010–11, 10,000 of which are full-time. These funded places follow a pattern established with the ‘unfunded’ places in 2009–10 – restriction to subjects seen to be most important for the future economic strength of the country, in line with the New Industry, New Jobs (NINJ) agenda and with clear directives on mode of study to be supported.⁶⁴ A critical new dimension of this is that successful institutions must commit to invest part of the funding in efficiency measures, and to demonstrate that they have delivered savings sufficient to sustain these places in future years. Institutions will, moreover, have only one year in which to deliver additional numbers.
- 184** Since universities will be free to decide whether to bid for these places or not, the immediate outcomes of this process are difficult to foresee.⁶⁵ Whatever the short-term outcomes, however, important long-term questions remain concerning how the efficiencies secured should be used to judge the potential for broader, more sustainable change in practices across the sector. Specifically, as HEFCE has noted in its guidance, there is a need to ensure that efficiencies are appropriate to individual institutions. It is not clear whether the efficiency savings identified by the universities that opt in to this initiative will be appropriate for wholesale extension across the sector.
- 185** Looking forward, it is not clear whether a future government will set a target for growth in participation or the amount it is prepared to spend on higher education. If either of these limits were clearly articulated, then, in order for the Robbins Principle not to be undermined, a clear set of financing and study options would need to be available and practically deliverable. One danger to be avoided is a short-term assessment of skills needs – the lifetime benefits to the student of having a degree and to society of having a high level of skills in its working-age population should be remembered.

⁶³ See, for example, HEFCE’s Grant Letter from the Secretary of State for 2010–11 [22 December 2009].

⁶⁴ A relatively broad interpretation of eligible subjects has been adopted in this latest announcement: HEFCE Circular Letter 08/2010: *Allocation of funding for additional new entrants and efficiency activities in 2010–11 through the University Modernisation Fund*, April 2010.

⁶⁵ HEFCE expects to inform institutions of the outcomes by the end of May 2010.

- 186** A more sustainable student support system (discussed above) should, however, ensure that the call which students make on the state's resources is more predictable and manageable than it is at present. In particular, it may mean that the rigorous student number control currently in place could be relaxed.
- 187** Building further growth on a sustainable system of funding is preferable to other options, such as encouraging institutions to recruit some publicly-fundable students on a 'full fee' basis.⁶⁶ Since public support for these students would be limited in some way⁶⁷, a policy of this kind would appear to offer maximum choice to those with the ability to pay. Such a policy is especially vulnerable to changes in the political environment, particularly if the level of demand begins to shrink back. The introduction of this 'full fee' provision to address a short-term crisis in demand could therefore create problems in future.⁶⁸

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It should be noted that non publicly-funded students, such as ELQ students, can already be recruited on this basis. These students are not eligible for student finance.

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A decision would need to be made about whether such students should be eligible for government student finance. One option would be to allow such students to access support on the same terms as others, as is currently the case – a fee loan for such students would only cover a proportion of fees. A variant of this might be to develop bespoke student finance for these 'full fee' students, to further control the costs to government. This would be similar to the operation of full-fee domestic students under the Australian system between 1998 and 2008, where domestic full-fee students were eligible for government loans on less favourable terms (a 20% loan fee and maximum amount applied), and not in all cases for the full tuition fee.

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There would, for example, be a strong argument for compensating institutions that were no longer able to take students on that basis, as has been in the case in Australia, following the withdrawal after ten years of 'full-fee' provision for domestic students at Australian universities.

1 In light of short-term pressures and longer-term trends, how do your proposals for reform ensure the sustainability of the higher education system as a whole?

- 188** The English higher education system as a whole remains underfunded by historical and international comparison, and there are several key areas of the student teaching and learning environment where 'sustainability gaps' have already been identified. To address this, further investment in the system is needed. The recent policy history, and the public funding environment over the medium term, suggest that any substantive increase will have to be through a higher graduate contribution.
- 189** We have already demonstrated the uses to which universities have put the income from fees received since 2006 to improve the student experience through investment in, for example, teaching infrastructure, support services and staff. In addition we have asked some of our member institutions to identify their specific priorities for investment if additional income were available.
- 190** We recognise the drive for universities to 'invest to save' in the current economic climate. In looking at how this might apply to the delivery of teaching, we will need to be confident that any efficiencies can be achieved without damaging the aggregate contribution universities make in other areas. Material changes, such as a removal of the VAT barriers to developing shared services, may be required to ensure this.
- 191** We have proposed reforms to the government-backed loan system that we believe would make this system more sustainable, and reduce the pressures that have recently led to cuts to frontline teaching resources. Our proposals would maintain the progressive elements of the current system (income contingent repayments and a maximum period of liability, which are beneficial to those with low lifetime earnings, and especially to women) but significantly reduce the interest subsidy (which mainly benefits higher earning graduates in mid-career).
- 192** For the reasons we outline, an optimal scenario would be to continue to have a government-backed loan scheme to support graduate contributions up to a regulated maximum. However we recognise that, even if the public subsidy for loans is reduced, the availability of government-backed loans may not be sufficient to ensure the sector remains globally competitive over the long term, and to underpin the continuation of high quality provision.
- 193** We have discussed suggested options for developing a future framework that would allow a maximum graduate contribution level to be set beyond the level for which guaranteed government-backed loans are available. This would involve institutions themselves increasing their stake in the student finance system in some way. We have outlined the careful consideration that would need to be given to any possible models, in order to avoid unintended negative consequences and inequitable levels of risk for students, graduates and institutions. We are of the firm view that these issues would need to be addressed in any further development of such models.
- 194** We have affirmed our support for the continuation of a public funding method that takes some account of the alternative sources of teaching income available to institutions, and we will consider these issues more fully in our response to the HEFCE teaching funding consultation. However, due account should be taken of the effect of any significant changes in the public funding available to particular institutions, because of the effect on students and alumni.
- 195** We will continue to work with the sector to develop and embed appropriate costing methodologies for teaching that can inform the public funding method.
- 196** We propose that existing capacity building initiatives to support institutions across the sector in developing relationships with employers be maintained and developed.

- 197** Whilst we recognise that economic change makes predicting the future effects of policy changes difficult, we believe the government should commit to assessing the effects of any policy changes on all parts of the HE funding and finance system. We would not want to see a situation in future where changes to the student support system are introduced without due consideration of the likely effect on the HE budget as a whole, and on the sector's ability to meet student demand.
- 198** Our proposals relate to the English HE system. We recognise that they could lead to further differentiation between the funding structures in England and those in the devolved administrations, and, potentially could create budgetary pressures here, if these administrations seek to support their students' participation in English universities. We reiterate the statement in our first submission that the Review team should be cognisant of the impact of any recommendations upon the devolved regions in developing their recommendations, and that appropriate communications with the officials of the Welsh Assembly government and the Scottish Executive should be maintained.

In summary, we would seek the following outcomes:

- 199 For students:** Increased investment in the learning environment; continuation of a guaranteed package of government support; potential shift in the balance of government support towards cash expenditure on grants and away from resource costs of loans; maximum choice – the option of upfront payment of the contribution towards tuition remains.
- 200 For graduates:** Continuation of the progressive features of the current loan scheme.
- 201 For universities:** The potential for increased graduate contributions; greater freedom to collaborate and draw on sector experience to deliver sustainable efficiencies.
- 202 For government:** Reduction in the resource cost of loans, with the potential to increase the size of the overall loan book; potential enhanced role for private finance as more of the risk is covered by the cohort of borrowers.

2 What type of mechanism should be used to drive up quality, efficiency and innovation in the UK HE system, and what metrics should be used to assess quality improvements?

- 203** We have demonstrated clear links between recent levels of investment in the system and improvements in the quality of the student experience.⁶⁹ Conversely, further improvements to this student experience may be at risk (in an increasingly competitive global environment) if we do not continue to invest.
- 204** An increase in the funding available for frontline teaching and learning should be a priority. Therefore our proposals suggest we should not reintroduce a national system of teaching quality assessment that implies a significant bureaucratic cost and burden for institutions, especially given the relatively recent experience which pointed to the limited benefits, relative to cost, of such a system. This would effectively rule out any system of institutional funding based on a complex system of quality or outcome 'metrics'.
- 205** Quality assurance arrangements should continue to reflect the autonomy of institutions and should build on current levels of student engagement. There is more work to be done to improve communication of the outcomes of audits to the wider public, and to improve communication of how threshold standards are ensured. We are working closely with the QAA and others on this. We are also leading on enhancing the external examining system, and will, together with GuildHE, deliver concrete recommendations for improvements by December 2010.

⁶⁹ *Making it count*, Universities UK, 2010.

- 206** Prospective students should be able to access appropriate information to exercise informed choice. Whilst a considerable amount of data is already published by subject and institution (relating, for example, to continuation rates, class of degree, and employment destinations), we are committed to the development of comparable information to allow students to exercise informed judgements. Universities UK is pleased to be jointly sponsoring a consultation on public information in higher education in autumn 2010. This consultation will be informed by research commissioned by HEFCE asking students and prospective students what information they require about Higher Education in order to inform their choices, and how they wish to access this information. Preliminary results suggest key issues may be related to the accessibility of this information, and to the operation of the information, advice and guidance (IAG) system more widely.
- 207** Our proposals are underpinned by a belief that the increase in student expectations is a positive development for the sector as a whole, since it is likely to act as a driver to enhance the quality of provision. We support the efforts of individual institutions and sector-wide groups to identify investment needs, and to ensure effective communication of the provision students can expect from their courses.
- 208** We have argued that the delivery of public funding through a block grant also drives quality – it supports the strategic investment by institutions in the learning and teaching environment, in ways that are appropriate to their various missions, enables universities to innovate, take risks and cross-subsidise in the strategic interest of the institution, and in the interests of current and future students.
- 209** Such funding should continue to be weighted for higher cost subjects, and to reflect the higher costs associated with particular groups of students, in order to remove disincentives to particular types of provision – there will remain a role for government via HEFCE in supporting this.
- 210** The system already demonstrates considerable dynamism and innovation in responding to the needs of students, employers and society. We propose that support for this dynamism should be maintained, and perhaps enhanced, but without causing volatility in funding that might threaten, for example, provision in geographic or subject areas which become temporarily unpopular. Capacity in higher education takes time to build up and once lost can be difficult to recover. Some ‘smoothing’ may continue to be necessary in the interests of students and the UK as a whole.
- 211** As the balance of public and private funding continues to shift, the regulatory and accountability framework we have at present can be expected to evolve. But there remains a strong public interest element in universities, regardless of the way they are funded (for example, because of their role in promoting social mobility and the international reputation of the UK), and there will need to be some form of appropriate regulation to ensure this. We would support models that incorporated a significant ongoing role for institutions themselves as part of the dialogue between HEFCE, government and universities.

In summary, we would seek the following outcomes:

- 212 For students:** Frontline teaching and learning resource protected and enhanced as far as possible; improvements in access to information allow for appropriate comparisons between courses; enhanced engagement in quality assurance; receive appropriate assurances from their institution about the provision they can expect.
- 213 For universities:** Continued commitment to strengthen the quality assurance system, in order to make it more robust and outward-facing; ensure appropriate reassurance about threshold levels of standards, while retaining the centrality of institutional autonomy; support quality enhancement.
- 214 For government:** Provide public funding to underpin the excellence of the system as a whole; maintain the capacity to remove disincentives to provision in some subjects.

3 What type/s of participation will be important to incentivise in future, and how should this be achieved without compromising quality and sustainability?

- 215** The level and breadth of participation in the sector should reflect the role of universities in driving social mobility and economic growth.
- 216** Demographic projections suggest a continued strong demand for higher education from the young population, and economic/skills projections suggest a strong demand for graduates in the job market.
- 217** An urgent priority is the development of a sustainable system for funding full-time undergraduate provision, where qualified demand is currently demonstrably strong. But we propose a rolling programme of reforms that will support the development of more flexible provision which best meets the needs of students and the economy.
- 218** We propose that practical steps are taken now to identify the cohort of part-time students for whom an extension of student support would be of the greatest benefit, and then to develop ways of most effectively extending this support as a matter of priority.
- 219** Strong consideration should be given to extending the support available for taught postgraduate students, both full-time and part-time. This is especially so in light of the economic importance of this group of students, and also to address issues of fair access.
- 220** There is a clear danger in expansion without appropriate resource. Universities UK welcomes the additional funding for universities secured in the recent budget, but it will be important to ensure that the use of any efficiency 'benchmarks' pays sufficient attention to the diversity and autonomy of institutions in the sector.

In summary, we would seek the following outcomes:

- 221 For students:** Help to ensure universities are able to respond to student demand; improve the support available for a wider range of study options.
- 222 For universities:** Support the evolution of their provision in response to student demand and the needs of the economy and society.
- 223 For government:** Take a broad ranging view of the value of graduates in the economy; recognise the limitations of workforce planning.

4 How would fair access be promoted and enforced in the higher education system you propose?

- 224** The principle that home and EU graduates of full-time undergraduate courses should be able to access higher education free at the point of use would be maintained. An expansion of loans to support a graduate contribution for other groups of students would further embed this principle.
- 225** We would prioritise a change in language – from tuition fees to a graduate contribution – and a coordinated communication campaign to accompany this.
- 226** It is difficult to predict the changes in participation that might occur if the system is reformed. As such, it is important that a rolling programme of reforms is proposed (so, for example, we suggest fundamental changes to the availability of grants are not made at the same time as changes to the terms of student loans). Similarly, government should retain the ability to set the maximum level of the graduate contribution, which can be assessed against participation trends over time.
- 227** A future system should support universities in investing a range of resources – including donations from alumni – in both access and financial aid initiatives, and the location of these initiatives within a broader access strategy. The current requirement placed on universities to provide bursaries at a minimum level should therefore be removed.
- 228** We propose that the potential effects (in isolation and in combination) of any reforms to student finance and institutional funding on a wide range of publicly-funded students should be considered, in order to protect participation and the overall quality of the student experience across the sector.

In summary, we would seek the following outcomes:

- 229 For students:** Further embed the principle that higher education is free at the point of use; continued expectation of some financial support for living costs.
- 230 For universities:** Support the embedding of access initiatives and financial aid as part of a broader recruitment strategy; build on existing work in providing students with information on financial support.
- 231 For government:** Retain the ability to set a maximum graduate contribution and to target financial support for widening participation policies through public funding and direct student support.

Some of the recent and forthcoming Universities UK publications that are particularly relevant to this submission are listed below. These are referenced in the text as appropriate.

- 1 *Universities UK's response to the Independent Review of Student Higher Education Funding and Student Finance – Call for Evidence*
January 2010
www.universitiesuk.ac.uk/PolicyAndResearch/PolicyAreas/Documents/Independent%20Review%20of%20Funding%20and%20Student%20Finance%20First%20call%20submission.pdf
- 2 *Making it count: How universities are using income from variable fees*
Universities UK, January 2010
www.universitiesuk.ac.uk/Publications/Pages/Makingitcount.aspx
- 3 *Variable tuition fees in England: assessing their impact on students and higher education institutions: a fourth report*
Universities UK, December 2009
www.universitiesuk.ac.uk/Publications/Pages/VariabletuitionfeesinEngland4.aspx
- 4 *The impact of universities on the UK economy*
Universities UK, November 2009
www.universitiesuk.ac.uk/Publications/Pages/ImpactOfUniversities4.aspx
- 5 *The growth of private and for-profit higher education providers in the UK*
Universities UK, March 2010
www.universitiesuk.ac.uk/Publications/Pages/Privateandforprofitproviders.aspx
- 6 *The supply of part-time provision in higher education in the UK* [Working title]
Universities UK, forthcoming
- 7 *The social benefits of going to university: a literature review* [Working title]
Universities UK, forthcoming

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This publication has been produced by Universities UK, which is the representative body for the executive heads of UK universities and is recognised as the umbrella group for the university sector. It works to advance the interests of universities and to spread good practice throughout the higher education sector.

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