Department for Education

Higher Education Policy Statement and Reform: Government Consultation Response

Impact assessments and analysis

Date: July 2023

Contents

Introduction

In February 2022, the Government published a consultation setting out proposals to further reform the way the Higher Education (HE) sector operates and is regulated. These proposals took into account the recommendations put forward by the Independent Panel to the Review of Post-18 Education and Funding, chaired by Sir Philip Augar.

The consultation closed on 6th May 2022, with a total of 318 responses received from a wide range of interested parties, including Further Education (FE) and HE providers, awarding bodies and members of the public. The responses were analysed in a report authored by a third party, York Consulting, and this analysis is being published alongside the Government's formal consultation response.[1]

This impact assessment considers the impact of the following two key reform measures:

- **Recruitment limits**, issuing statutory guidance to the Office for Students, setting out that it should impose recruitment limits where HE provision is found to be in breach of the Office for Students' condition B3 (which requires Office for Students-registered providers to deliver positive outcomes for students on HE courses), where proportionate to the Office for Students' assessment of the provider's regulatory risk.

  This would mean that some provision which does not deliver positive student outcomes may be subject to a recruitment limit. This would aim to limit the number of students who can be recruited onto that provision, until the Office for Students is content that its quality concerns have been addressed

- **Reducing the maximum fee and loan limits to £5,760 for foundation years in classroom-based subjects** (such as social sciences and business studies), which cost less to deliver and in which there has been rapid and disproportionate growth, whilst retaining the maximum fee and loan limits of £9,250 for foundation years in all other subjects.

Summary of impacts

Impact on HE providers and sector income

How the Office for Students decides whether to impose a recruitment limit for breaches of condition B3, and how any recruitment limit is applied, will have a significant bearing on the impact of recruitment limits on HE providers and their income. The Office for Students' approach to B3 is not only driven by high-level metrics but contextual information will also be considered during investigation. The Office for Students is yet to confirm its prioritisation

[1] Higher education reform consultation analysis: research report - GOV.UK (publishing.service.gov.uk)

criteria for its 2023 investigations, which will ultimately inform which cases are likely to face further scrutiny and, therefore, be at greater risk of a recruitment limit being imposed.

Recruitment limits will only have a financial impact (in terms of tuition fee income foregone) on HE providers where provision is found to be in breach of condition B3 and the Office for Students deems the imposition of recruitment limits to be proportionate to the regulatory risk at the provider. Current data on student outcomes from the Office for Students suggests that providers that are not meeting the minimum numerical thresholds for one or more of the B3 metrics are more likely to be level 4/5 providers[2] (though it does not follow that the Office for Students are necessarily most likely to judge these providers in breach and impose a recruitment limit).

Once in effect, the financial impact of recruitment limits on HE providers will depend on the decisions of the Office for Students. We expect these to be limited since recruitment limits will likely apply to specific provision at a provider, and therefore is likely to account for a small proportion of total students and tuition fee income.

The financial impact of lowering tuition fees for classroom-based foundation years subjects will mostly fall on medium and low tariff providers, as foundation year provision is more prevalent at these types of providers. We expect the financial impact – in terms of tuition fee income loss – will be limited as these courses account for a relatively small proportion of total HE student numbers, and tuition fee income, at the majority of providers. We recognise that there will be some variation in the impact of these reforms across different providers.

Overall, the cumulative financial impact of both measures is expected to be limited. The measures are both targeted and are likely to only affect certain parts of some HE providers' provision, which will likely account for a small proportion of those providers' total students and, accordingly, their total tuition fee income. Over time, any negative financial impact on HE providers is likely to lessen as a result of the behavioural response of students and mitigating actions taken by providers (e.g., improving the quality of provision, changing the types of provision on offer, or recruiting more students onto other courses which are not affected by these measures).

Impact on students

Most students will be largely unaffected by recruitment limits because we expect provision to meet the Office for Students' condition B3. Announcing the policy could benefit students currently on courses that are not meeting condition B3, as it may incentivise HE providers

[2] OfS student typology provider grouping has been used to group providers. If a provider has more than 50% of its FTE at level 4 or 5, it is classified as a small or large Level 4/5 provider. See [Provider typologies 2022 - Methodology for grouping OfS-registered providers (officeforstudents.org.uk)]

to proactively improve the quality of their provision before the Office for Students imposes recruitment limits.

Once implemented, it is expected that most students affected by recruitment limits will benefit as a result of being redirected onto other courses or pathways which offer better outcomes. However, there is a small risk that some students may not be able to take up alternative learning options because of their personal circumstances.

Reducing tuition fees for classroom-based foundation years subjects will benefit students who choose to study a foundation year in those subjects, because it will reduce the cost of studying these courses and, in turn, reduce the total amount of student debt they accrue, resulting in better value for money. The reduction in tuition fees for classroom-based foundation years could benefit some students who are more cost sensitive and debt averse, leading to some learners subsequently choosing to enter HE for the first time and study a foundation year due to a perceived reduction in the cost of study. However, some courses may become financially unviable, and some providers may consequently decide to reduce or stop foundation years provision in those subjects. As a result, some students may prefer to pursue alternatives like Access to HE courses, at a lower cost.

Impact on employers/economy

By limiting recruitment onto provision with poor outcomes, providers will be incentivised to focus on quality before expanding. If improvements in teaching quality lead to higher learning gain, this would lead to an increase in the quality of skilled labour entering the labour market and improve the contribution graduates make to productivity growth.

Lowering fees for foundation year courses in classroom-based subjects, while maintaining funding for higher-cost provision – such as that in laboratory-based subjects – will help to achieve a better balance of foundation years provision. Foundation years play an important role in improving access to HE for certain underrepresented groups and help to support a diverse uptake of strategic and socially valuable courses – such as medicine and dentistry.

Impact on Exchequer

It is unlikely that recruitment limits will generate savings to the Exchequer since we assess that most students affected by recruitment limits will choose an alternative course or educational option which is eligible for student support. However, we could see an improvement in loan repayments to the Exchequer over the longer term, if the threat or imposition of recruitment limits leads HE providers to act to improve the employment outcomes that students achieve.

Reducing foundation year fees for classroom-based subjects will generate savings to the Exchequer from a reduction in tuition fee loan outlay. It is possible that some of these savings could be offset by increased student demand for these courses following the fee reduction, but this risk could be mitigated by providers potentially withdrawing some foundation years where financial incentives to offer them have been reduced or removed.

Recruitment limits to prevent the growth of courses with poor outcomes

Problem under consideration

The Independent Panel to the Review of Post-18 Education and Funding, chaired by Sir Philip Augar, found that too many students were recruited onto courses which offered poor outcomes, including poor retention, poor graduate employability, and poor long-term earnings potential [3].

Analysis by the Institute for Fiscal Studies found that, although the average gain in lifetime earnings from an undergraduate degree is around 20%, 15% of women and 25% of men would be better off financially if they had not gone to university[4]. This is supported by dashboard data published by the Office for Students on student outcomes[5]. The dashboard presents data on continuation, completion and progression rates for individual providers and is used by the regulatory body to monitor whether providers are meeting condition B3, which requires Office for Students-registered providers to deliver positive outcomes for students on HE courses.

Using the published data dashboard[6], Figure 1 below provides a visualisation of individual provider performance for first degree courses, split by mode of study and type of provider. It shows that there is considerable variation in continuation, completion and progression outcomes across the HE sector, with a small proportion of providers performing below the minimum numerical thresholds for one or more of the B3 outcomes metrics, as set by the Office for Students[7].

Evidence of poor student outcomes at some providers means that the HE sector is not delivering value for money for some students. This is a cause for concern as HE constitutes a significant investment for the student and the taxpayer. Through the Student Loan Company (SLC), almost £20 billion is loaned in student support to around 1.5 million HE students in England each year[8], with full-time students starting in academic year 2023/24

[3] Ibid p.102

[4] The Impact of Undergraduate Degrees on Lifetime Earnings, Institute for Fiscal Studies, 2020.

[5] Office for Students student outcomes data dashboard

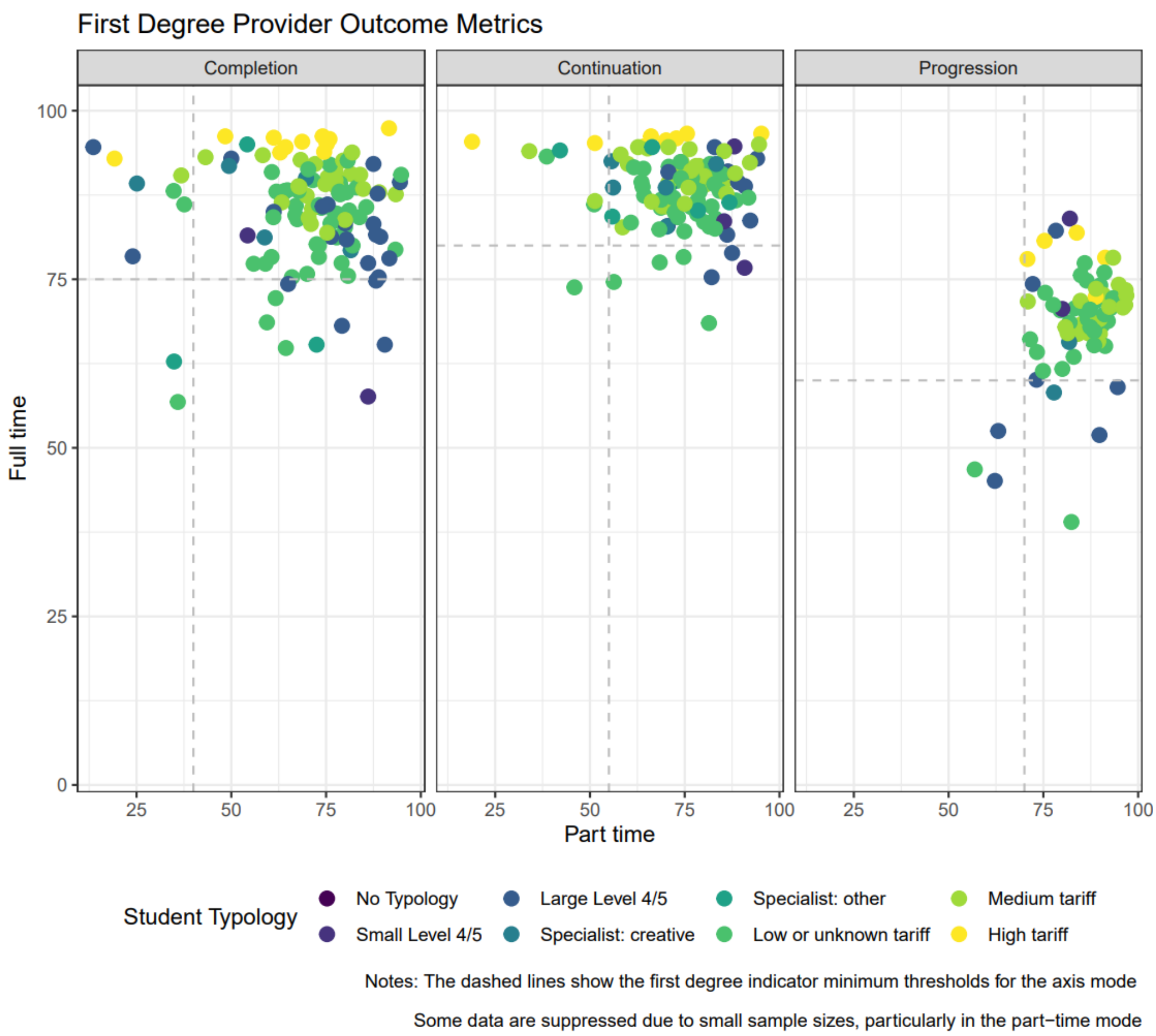
[6] Data accessed 12/04/2023, using the aggregate measure for each indicator (2012-13 – 2020-21 across the outcome indicators) Full details in table 1: Office for Students Description of student outcome and experience measures

[7] These thresholds set the level below which the Office for Students considers there to be a significant risk that a HE provider is not delivering positive outcomes for all its students. Office for Students – Setting numerical thresholds for condition B3. The minimum numerical thresholds are summarised in Table 2 below.

[8] Student support for higher education in England 2022 - GOV.UK (www.gov.uk)

expected to graduate with a forecast average debt of around £42,600[9]. Government action is therefore justified to address those pockets of HE provision which do not offer sufficiently good outcomes and value for money to students and the taxpayer, compared to what is on offer elsewhere in the sector.

Figure 1 – First degree provider outcome metrics[10]



Source: [Office for Students Student Outcomes Dashboard]

[9] Student loan forecasts for England, Financial year 2022-23 – Explore education statistics – GOV.UK (explore-education-statistics.service.gov.uk)

[10] The graph shows provider indicator metrics at a whole provider for first degree courses. Only providers with a data point for both part-time and full-time study are included. Providers with fewer than 23 students in the denominator are also excluded. The data come from the Office for Students Student Outcomes Dashboard, accessed on 12/04/2023.

Rationale for intervention

The Independent Panel found that too many students were recruited onto courses which offered poor outcomes, including poor retention, poor graduate employability, and poor long-term earnings potential. To address this, the panel recommended:

> *'If there is no evidence of progress in recruitment practice or outcomes of students on low value courses then Government should intervene.'*[11]

In particular, the panel suggested that the government should:

> *'Consider the case for encouraging the Office for Students to stipulate in exceptional circumstances a limit to the numbers a [HE Provider] could enrol on a specific course, or group of courses.'*[12]

While the HE sector is delivering for most students, analysis by the Institute for Fiscal Studies finds that around 20% of undergraduates can expect to earn negative returns after they graduate[13]. Additionally, recent survey evidence published by the Higher Education Policy Institute (HEPI) in 2023 shows that 31% of responding students felt that they had received poor or very poor value for money from their HE course[14].

The need for reform to address low-quality HE provision delivering poor outcomes has become more pressing in the face of demographic change. After a period of decline, the UK 18-year-old population is projected to grow by 17% from 2023 to 2030[15]. The latest published measure of Cohort-based Higher Education Participation shows that 46% of young people will have entered HE by age 20 in 2020/21, up from 44% three years ago[16]. This measure has been increasing year-on-year for 20 years, meaning that record numbers of young people may be entering HE in the coming years. Without appropriate action, a growing number of future students will be at risk of being recruited to HE provision which offers poor outcomes.

Policy objectives

The Independent Panel Report (the Augar report) suggested that the Government should monitor the situation [of low value courses for students and taxpayers] and consider

[11] Independent panel report to the Review of Post-18 Education and Funding (publishing.service.gov.uk) p.102

[12] Ibid

[13] The Impact of Undergraduate Degrees on Lifetime Earnings, Institute for Fiscal Studies, 2020.

[14] Student-Academic-Experience-Survey-2023.pdf (hepi.ac.uk)

[15] National population projections - Office for National Statistics, 27/01/2023 update

[16] DfE Participation Measures in HE, 2020/21

“targeted number caps” to address provision which *“persistently manifest[s] poor value for money for students and the public.”*[17]

Following consideration of the Higher Education Reform consultation responses, Government has decided to issue statutory guidance to the Office for Students, setting out that it should impose recruitment limits where HE provision is found to be in breach of the Office for Students’ condition B3, which requires Office for Students-registered providers to deliver positive outcomes for students on HE courses, where appropriate to the Office for Students’ assessment of the provider’s regulatory risk.

The B3 condition establishes minimum numerical thresholds for three outcomes measures[18]. These thresholds are different for different combinations of mode and level of study. For example, for full-time students studying for a first degree, the numerical thresholds are:

- Continuation - the proportion of students who continue their HE course after their first year - set at 80%.
- Completion - the proportion of students who have gained a HE qualification (or who were continuing in the study of a qualification) four years after they started their course - set at 75%.
- Progression – the proportion of students who progress onto professional or managerial employment, further study or other positive outcomes 15 months after they left HE - set at 60%.

If provision falls below one of the numerical thresholds, the Office for Students may prioritise the provision for further investigation using its risk-based approach. In the second stage, the Office for Students considers contextual information to decide whether there are contextual factors which can justify outcomes which are below the minimum thresholds. If this is not the case, the provision is likely to be found in breach of B3.

This government’s view is that, if the Office for Students has found that provision is not meeting condition B3, a recruitment limit should be imposed to prevent the growth of provision identified as not delivering positive student outcomes. As the independent regulator, it will ultimately be for the Office for Students to determine whether imposing a recruitment limit, in addition to other measures, is an appropriate response to the breach of condition B3. In practice, this would mean that specific providers in breach could have their ability to recruit new students onto such provision limited. We expect that the Office for

---

[17] Independent panel report to the Review of Post-18 Education and Funding Independent Panel Report. p. 101 - 102

[18] This process is set out here - Regulatory Advice 20: Regulating Student Outcomes (Published by Office for Students on its website)

Students would lift the recruitment limit if and when it determines the provision is delivering positive student outcomes.

The application of recruitment limits will address the concerns and recommendation of the Independent Panel, which invited the Government to consider limits on student numbers:

> *"Where there is persistent evidence of poor value for students in terms of employment and earnings and for the public in terms of loan repayments, the Office for Students would have the regulatory authority to place a limit, for a fixed period, on the numbers eligible for financial support who could be admitted to the course."*[19]

The Office for Students' condition B3 provides a mechanism to identify provision with poor outcomes that might justify the imposition of a recruitment limit.

The imposition of recruitment limits to prevent the growth of courses with poor outcomes will help to tackle low-quality HE provision which is not delivering positive student outcomes and does not represent value for money for students and the taxpayer.

Description of policy options under consideration

In the HE Reform consultation, published on 24th February 2022[20], the Government proposed five options for introducing controls on student numbers. These ranged from a basic sector-wide cap on providers and subjects, through to more granular outcome-based judgements about what provision should be capped and at what level.

As set out in the consultation response[21], these proposed options were discounted in favour of a new approach, which is outlined in Option 1 below. Respondents to the HE Reform consultation raised concerns that the implementation of a separate outcomes judgement framework for the purposes of student number controls, in parallel with the Office for Students' quality regime, would introduce duplication and bureaucracy. We have therefore chosen to pursue a model of recruitment limits which would be integrated with the Office for Students' quality and standards framework.

The policy options now under consideration are:

- **Option 0 – No intervention**. No additional limits are placed on providers[22]. The Government would rely on the powers of the Office for Students, existing sanctions and planned quality and standards interventions, without the use of recruitment limits.

[19] Independent panel report to the Review of Post-18 Education and Funding Independent Panel Report. P.102

[20] Higher education policy statement and reform

[21] Higher education policy statement and reform - GOV.UK (www.gov.uk)

[22] There are existing policies to control the numbers of entrants onto some courses, for example, medicine.

- **Option 1 (Preferred) – Issuing statutory guidance to the Office for Students, setting out that it should impose recruitment limits where HE provision is found to be in breach of the Office for Students' condition B3, which requires Office for Students registered providers to deliver positive outcomes for students on HE courses, where proportionate to the Office for Students' assessment of the provider's regulatory risk.** The Office for Students would decide on the nature and scale of the recruitment limit needed following an investigation into the breach of condition B3 and consideration of proportionality.

- **Option 2 – Sector-wide student number controls to prioritise provision with the best outcomes and to restrict the supply of provision that offers poorer outcomes.** Recruitment limits would be set by the Department for Education (DfE) using a judgement framework based on outcomes data and the Government's strategic priorities. There are multiple approaches the Government could take to setting the controls. These would include setting controls at the level of the sector, provider, subject, course, or mode of study. These controls would be designed to prioritise HE provision with the best outcomes for students, society, and the economy, while seeking to control the growth of provision with poorer outcomes. All of these proposals were sector-wide interventions that would result in all providers being in scope of student number controls.

  a. We have decided not to proceed with Option 2 due to the concerns expressed in the consultation response regarding the risk of overlap with the Office for Students' quality and standards conditions in the regulatory framework. Respondents to the consultation showed limited support for a sector-wide intervention, judging that it might have a negative impact on students, particularly those from disadvantaged backgrounds, by affecting their ability to freely choose provision.

  b. Given that the Office for Student's regulatory framework already sets clear requirements for student outcomes, these requirements would offer mechanisms for ensuring the quality and standards of provision. At this stage, we consider that targeted recruitment limits are preferable to sector-wide controls for addressing pockets of low-quality provision in the sector.

- **Option 3 – Non-regulatory options** – We have considered relying on non-regulatory options, such as improved information and guidance for prospective students. Much of this work is already ongoing and does not obviate the need to take further steps to address the issues highlighted above. Alongside work to help students make informed choices, there is an important role for the Office for Students in ensuring that courses with poor outcomes are prevented from growing and that providers are incentivised to improve their student outcomes.

Previously discounted options

We have considered reapplying sector-wide limits on student numbers, similar to the 2010-2015 system. However, this would undermine the existing market-led system of HE and would not target provision delivering poor outcomes.

Summary of preferred option with description of implementation plan

Option 1 is our preferred option for implementing recruitment limits. Having considered the consultation responses, we have decided to issue statutory guidance to the Office for Students, setting out that it should impose recruitment limits where HE provision is found in breach of the Office for Students' condition of registration B3, which requires Office for Students-registered providers to deliver positive outcomes for students on HE courses, where appropriate to the Office for Students' assessment of the provider's regulatory risk. We anticipate that such recruitment limits would be set as a specific condition of registration, possible in addition to other Office for Students measures, and would be enforced using the Office for Students' existing powers. This will build on and reinforce the work the Office for Students has already done over the last two years to strengthen its quality and standards regime.

The Office for Students is expecting to publish the outcomes of the first B3 investigations by summer 2023. The Government will work with the Office for Students to ensure they can use recruitment limits in relation to the outcomes of these and subsequent investigations, after it has fully considered delivery and implementation. Providers will be able to address any issues with their provision in the interim, ahead of the first recruitment limits being imposed, whilst the Office for Students considers this. [23].

If a provider fails to improve student outcomes, then the Office for Students is able to consider a range of interventions, including specific ongoing registration conditions, a monetary penalty (fine) and/or suspension or deregistration of a provider.

It will be necessary for the Office for Students to evaluate the effectiveness of the recruitment limits after implementation. The nature of this evaluation will be determined by the Office for Students in due course.

[23] It is assumed that providers will have already begun addressing issues in response to the B3 condition of registration. Providers commencing improvements after the announcement of this regulation will still have some years of data included in their aggregate metric indicators in 2026/27 that pre-date this announcement. Where older years' data are no longer representative of provision outcomes, the Office for Students can consider this within their judgement framework. See Office for Students Condition B3 – Student Outcomes, #22

Analysis of options

The providers that will be directly impacted by recruitment limits will depend on the Office for Students' approach to regulation of outcomes through condition B3. The Office for Students is a risk-based regulator. The raw data on provider performance will be considered in conjunction with contextual information to inform which providers are prioritised for investigation. This contextual information might include considerations of statistical uncertainty, benchmarks, provider scale, data lags and student intake composition.

Given that it is unlikely the Office for Students will begin to impose recruitment limits before it has considered their delivery and implementation, it is difficult to predict how many HE providers could be in breach of condition B3. It is likely that providers who are currently below the minimum numerical threshold for one or more of the B3 metrics will take action to improve the quality of this provision before recruitment limits are implemented. It is also possible that some provision currently meeting condition B3 may be considered in breach at the time the policy is implemented.

The data on student outcomes is historic, which means there could be a lag between providers making improvements and the data reflecting these changes. The Office for Students' investigations would therefore act as a buffer between present quality and a provider's reported metrics to ensure that recruitment limits are proportionate to regulatory risk. Additionally, the Office for Students can consider instances where older years' data are no longer representative of current performance[24], choosing instead to use more recent data or findings from investigations.

Given these considerations, we have taken a proportionate, high-level approach to analysis in this impact assessment, illustrating the possible impacts of implementing recruitment limits in principle, based on the latest available Office for Students data about the current performance of HE providers against the three B3 student outcome metrics. Supplementary analysis and sensitivity analysis in Annex A highlights some of this uncertainty.

Analysis of option 0 – Do Nothing.

Under the 'do nothing' option, the Government would not issue guidance to the Office for Students to impose quantitative limits on the number of students that a provider is able to enrol onto its provision, over and above those already in place for certain subjects (such as medicine).

Assuming that the Office for Students did not use this power, providers would retain the ability to recruit up to the maximum number of places they have available. This means that without intervention, a growing proportion of HE students could remain at risk of enrolling on

[24] See Office for Students Condition B3 – Student Outcomes, #22

provision which delivers poorer outcomes compared to elsewhere in the sector. In the absence of recruitment limits, the risk to students of enrolling on poor quality provision would continue to be managed using other interventions and powers available to the Office for Students.

Analysis of Option 1 (preferred) – **Issuing statutory guidance to the Office for Students setting out that it should impose recruitment limits where HE provision is found to be in breach of the Office for Students' condition B3, which requires Office for Students-registered providers to deliver positive outcomes for students on HE courses, where proportionate to the Office for Students' assessment of the provider's regulatory risk.**

Due to uncertainty over how the Office for Students will operationalise recruitment limits, and the behaviour of HE providers in the period up to the Office for Students starting to impose recruitment limits, it is difficult to predict how many HE providers could be directly impacted. Accordingly, as stated above, the analysis of option 1 is high level and illustrative.

Overall, since the option is aimed at tackling specific pockets of low quality in certain parts of the HE sector, rather than limiting overall student numbers at the sector level, it is reasonable to assume that the scope of the impact would be relatively limited with only a small proportion of the HE sector – in terms of student and provider numbers – expected to be directly impacted.

HE providers registered with the Office for Students that are meeting condition B3 would not be directly impacted by this measure. The Office for Students would consider imposing recruitment limits in those cases where it judges a provider to be in breach of condition B3. The scope and nature of the limit would be decided according to the nature of the breach. The Office for Students would make an evidence-based judgement and set a proportionate recruitment limit. Because of the discretion and autonomy given to the Office for Students, the scale of impact is difficult to assess at this stage. Final decisions on design and implementation will be for the Office for Students.

Since the intention of recruitment limits is to prevent the growth in student numbers in provision with poor outcomes rather than necessarily to reduce them, for the purposes of this impact assessment, we have assumed that limits would be set at, rather than below, the current number of students in this provision. However, it would be for the Office for Students to decide on the operation of a recruitment limit, including the level it is set at, in any particular case, in light of its assessment of a provider's regulatory risk.

Student behaviour responses

A recruitment limit could have reputational implications for a provider, influencing student preferences and, subsequently, choices. It is possible that the imposition of recruitment limits for provision that does not meet condition B3 could encourage some prospective students to choose other options, including other providers, courses, or pathways. As the potential likelihood and scale of this student response is highly uncertain, we have not captured this behavioural effect in our analysis.

Impact on students

Since the purpose of recruitment limits is to disincentivise provision delivering poor outcomes, pre-announcing the policy ahead of the first recruitment limits will encourage HE providers to raise the quality of provision currently not meeting condition B3. Students already enrolled in this provision would therefore benefit from an improved learning experience, achieving better outcomes and value for money as a result.

Once the policy is in effect, the overwhelming majority of students entering the HE sector for the first time would not be directly impacted since most provision is expected to be compliant with the Office for Students' condition B3. However, a very small proportion of new entrants would no longer be able to gain a place on the provision they would have otherwise attended due to a recruitment limit now being in place.

We judge that the students most affected would be those with the lowest level of prior attainment, on the basis that places are awarded competitively based on entry requirements. However, the extent to which this occurs in practice will depend on the access and participation policies and plans which HE providers have in place to take on students from lower prior attainment backgrounds.

The impact on students unable to enrol on their preferred provision because of recruitment limits will depend on the range of alternative options available to them and the choices that they instead make. It is impossible to assign probabilities to potential alternatives at students' disposal; options will vary from person to person and yield unique benefits based on circumstance, ability, attainment, and career aspirations.

Since recruitment limits would be targeted at limiting the growth of provision with poor outcomes, it is expected that students who choose alternative HE routes would attend higher quality provision that enables them to achieve better outcomes and value for money than they would have otherwise. Non-HE pathways offer different advantages and benefits, such as enabling earlier entry into the labour market, lowering the opportunity cost of study in terms of foregone earnings. Regardless of the alternatives chosen, reduced attendance in provision delivering poor outcomes should decrease the number of students failing to get good returns for their investment in HE.

We consider that for the majority of students affected by recruitment limits there would not be a significant negative impact on student choice. However, there is still a possible risk, albeit small, that recruitment limits could restrict choices for some students. Those who have a more limited range of viable options available to them, either because they have very specific learning preferences or requirements, or because they are constrained about what and where they can study because of their personal circumstances, will be restricted to a greater extent.

Impact on providers

Familiarisation costs

HE providers would incur direct familiarisation costs associated with reading and understanding how the recruitment limits policy fits into the existing regulatory framework and the consequences of a breach. Since the Office for Students' regulatory framework already provides for the imposition of student number controls, additional familiarisation costs arising from the SoS guidance and any further policy statement from the Office for Students are expected to be low.

Because the Office for Students will need to consider delivery and implementation, for the purposes of this analysis, we have assumed that all familiarisation costs are incurred in 2026/27 for registered providers (though this could be sooner), or the year of registration for providers forecast to register thereafter. Costs are calculated over a ten-year appraisal period.

i. Estimates of staff wages are taken from ASHE[25] and are uplifted by 18% to account for non-wage costs[26], which yields a per-hour unit labour cost of £30.

ii. Estimates of reading time are obtained from two sources.

   a. The low estimate uses a mid-point of technical text reading time (75 words per minute)[27] and an estimate of 2,500 words of the text needing to be understood[28]. In the low scenario, it is assumed that only one staff member is required to familiarise themself.

   b. The high estimate uses the lower bound[29] of familiarisation time obtained from survey responses during the HERA consultation, 4 hours[30]. It then multiplies time by labour costs for a whole team, which we assume consists of 5 people.

iii. The middle point of the estimates is then taken.

For the registered providers – which are forecast to total 445[31] in 2026/27, with 10 new registrations each year for the next 9 years[32] – familiarisation is estimated to cost £113,000 with an estimated EANDCB of £13,000[33].

---

[25] ASHE 2022, gross hourly pay of full-time Managers, directors and senior officials (table 2.5a). Wages adjusted to 2023-24 prices using GDP deflator series, updated March 31st 2023.

[26] Schools policy appraisal handbook (2021)

[27] Time to read from BEIS Business Impact Target (2017)

[28] Approximately equal to the skills bill word count for P3 Ch1 (2,622)

[29] The familiarisation with HERA is likely to be much larger than recruitment limits.

[30] Low estimate of survey responses from estimates to understand HERA, 2019.

[31] Provider count from the Office for Students provider register (17/04/2023) + Office for Students forecasts until 2031/32. The trend of 10 per year is assumed to continue until 2035/36

[32] Table A5 in Annex A contains the full forecast table.

[33] 2019 prices and 2020 base year. EANDCB figures for 2023/24 prices and 2026/7 base year estimated at £19,000 and business NPV at £160,000.

Lost tuition fee income from non-compliance

HE providers would only be financially impacted if the Office for Students finds them in breach of condition B3 and imposes a recruitment limit on the relevant provision. Provision not in breach of condition B3 would not be affected by the imposition of recruitment limits under this policy. The financial impact would be in the form of tuition fee income foregone, due to a constraint being placed on the number of students that a provider can accept onto the provision subject to a recruitment limit.

It is expected that recruitment limits will have a limited financial impact on HE providers:

- Firstly, recruitment limits are a targeted measure which we expect in most cases would only be applied to the specific provision in breach of condition B3. This means that the financial impact is likely to be small – since the provision affected will account for a small proportion of total student numbers and thus tuition fee income – and will only be realised when the Office for Students deems a recruitment limit to be appropriate and proportionate to the regulatory risk at the provider.
- Secondly, HE providers could continue to recruit students onto provision where the Office for Students does not have concerns about student outcomes (subject to capacity constraints), which will enable them to mitigate the financial impact of any recruitment limit imposed on provision as a result of breaching condition B3.
- Thirdly, it is expected that the financial impact of any recruitment limit will be time limited, since we expect it will be lifted once Office for Students judges the provision is no longer a regulatory risk.
- Finally, because the Office for Students will not start imposing recruitment limits until it has considered delivery and implementation, HE providers who currently have provision not meeting condition B3 have some time to take appropriate action where necessary to improve the quality of their provision.

If students ‘displaced’ as a result of recruitment limits cannot be absorbed onto other provision offered by the same provider, they are likely to be offered places by other providers in the sector offering similar provision (assuming they have capacity and the students have the requisite qualifications). In such circumstances, these providers may benefit financially from the additional tuition fee income. It would therefore follow that, at the sector level, the overall net financial impact should be minimal.

Assessing the number of providers that could be directly impacted

Table 2 shows the minimum numerical thresholds set by the Office for Students for the three B3 metrics – continuation, completion, and progression – for each level and mode of study, which is taken from the Office for Students student outcomes data dashboard[34]. For example, the Office for Students minimum threshold, with respect to the completion rate for full-time first-degree students, is set at 75%.

Table 2 – Office for Students minimum numerical thresholds for B3 metric indicators

Level	Mode	Completion	Continuation	Progression
All Undergraduates	Apprenticeship	55	70	75
All Postgraduates	Apprenticeship	80	80	80
First Degree	Full-time	75	80	60
Other Undergraduate	Full-time	65	75	45
Undergraduate With Postgraduate Components	Full-time	85	85	75
Postgraduate Research	Full-time	75	90	85
Postgraduate Taught Masters	Full-time	80	80	70
Other Postgraduate	Full-time	80	80	85
PGCE	Full-time	85	85	85
First Degree	Part-time	40	55	70
Other Undergraduate	Part-time	55	55	65
Undergraduate With Postgraduate Components	Part-time	60	60	80
Postgraduate Research	Part-time	60	70	85
Postgraduate Taught Masters	Part-time	65	65	85
Other Postgraduate	Part-time	60	65	85
PGCE	Part-time	75	75	85

Source: Office for Students student outcomes dashboard

As the Office for Students has not yet published the outcomes of investigations undertaken as part of its quality regime, we cannot yet predict how many HE providers could be impacted or identify which ones are at most risk of being found in breach. Nevertheless, we have used data on the current performance of HE providers against condition B3 to identify which parts of the HE sector are potentially at greater likelihood of being investigated and are therefore at greater risk of being subsequently found in breach.

It should be noted that current performance is not necessarily a good predictor of future performance. As explained above, since the Office for Students is not expected to start

[34] These thresholds are taken from the Office for Students student outcomes dashboard, accessed 12/04/2023.

imposing recruitment limits before it has published the outcomes of its investigations, and considered delivery and implementation, HE providers should have time to improve the quality of provision currently not meeting condition B3. It is therefore reasonable to assume that the number of HE providers found to be below the minimum numerical thresholds for one or more of the B3 metrics when recruitment limits start to be used by the Office for Students will be lower than the number that we see today.

Data from the Office for Students dashboard has been used to compare the student outcomes of taught or registered students at Office for Students registered providers against these minimum thresholds to identify which types of providers are currently performing below the required level. These providers would be at greater risk of being impacted by recruitment limits if the policy was in place today.

The data used to measure against these metrics is historic and lagged – the indicator values use the most recent four years of available data to create an aggregate for the period[35]. This aggregate increases the sample sizes, which in turn lowers the statistical uncertainty for each value. It also means, however, that older years' data are represented. Sensitivity analysis of the most recent years' data in isolation is contained in Annex A.

It is possible that the Office for Students may choose to investigate any level or mode of HE provision. In this impact assessment we have focused on full-time first degrees because this is the largest segment of HE provision, measured by either headcount or full-time equivalent. This analysis considers student outcomes at the provider level, rather than at subject or course level within those providers[36].

Based on the latest available data, there are currently 102 providers registered with the Office for Students whose provider-level indicator[37] for either completion, continuation or progression is currently below a minimum numerical threshold for full-time first degrees. Around two thirds of these providers (65 of the 102) are level 4/5 providers[38], which tend to teach relatively smaller numbers of students than many HE providers. No high tariff providers are presently below a B3 threshold for this level and mode of provision.

---

[35] Years for continuation are 2017/18 – 2021/22 entrants for full-time (FT) provision and 2016/17 – 2020/21 entrants for part-time (PT) provision; for completion they are 2014/15 – 2018/19 entrants (FT) and 2013/14 – 2017/18 entrants (PT); and for progression they are 2017/18 – 2020/21 qualifiers. For more details, see Office for Students description of outcome and experience measures, p.9. Accessed 13/04/2023.

[36] Data at the subject level within providers is available but owing to small samples sizes, many of the data points are suppressed or less statistically robust, which means it is not possible to form a complete picture of the sector.

[37] As noted above, the provider indicator value uses a four-year aggregate of the most recent years of data

[38] OfS student typology provider grouping has been used to group providers. If a provider has more than 50% of its FTE at level 4 or 5, it is classified as a small or large Level 4/5 provider. See Provider typologies 2022 - Methodology for grouping OfS-registered providers (officeforstudents.org.uk)

Table 3 – Count of providers with full-time first-degree provision indicators below a minimum numerical threshold for B3 outcome metrics[39]

Student Typology[40]	Progression	Completion	Continuation	Below Any
High Tariff	0	0	0	0
Medium tariff	2	1	1	3
Low or unknown tariff	9	6	11	17
Specialist: other	3	5	3	9
Specialist: creative	5	1	1	6
Large Level 4/5	30	13	15	44
Small Level 4/5	11	9	7	21
No typology	1	1	2	2
Total	**61**	**36**	**40**	**102**

Source: Office for Students Student Outcomes Dashboard

The total number of full-time equivalent (FTE) students at these 102 Office for Students registered providers is 100,570 which represents only 8% of the full-time first-degree student population (FTE) in England (c. 1.3m). Of the 100,570 FTEs receiving provision that is falling below any of the B3 metrics, 27,510 FTE students (27%) are based at a level 4/5 provider[41] despite these providers making up two thirds of the provider count (Table 4).

Table 4 – Full-time first-degree student numbers (FTE) at providers below a full-time first-degree B3 threshold in 2021/22[42]

Student Typology	Progression	Completion	Continuation	Below Any	Sector FTFD FTE
High tariff	-	-	-	-	324,370
Medium tariff	630	180	250	880	363,780

[39] Providers with fewer than 23 students in the denominator are excluded. Taught or registered students.

[40] OfS student typology Provider typologies 2022 - Methodology for grouping OfS-registered providers (officeforstudents.org.uk)

[41] OfS student typology Provider typologies 2022 - Methodology for grouping OfS-registered providers (officeforstudents.org.uk)

[42] Student numbers data from Office for Students size and shape of provision data dashboard, accessed 20/04/2023, taught or registered.

Low or unknown tariff	15,860	15,060	46,600	53,910	510,550
Specialist: other	1,280	2,140	1,050	2,610	14,730
Specialist: creative	7,860	730	730	8,590	53,850
Large Level 4/5	10,930	19,480	15,030	26,600	30,000
Small Level 4/5	610	400	180	910	1,950
No Typology	5,830	5,830	7,070	7,070	7,240
Total	43,000	43,820	70,910	100,570	1,306,470

Source: Office for Students size and shape of provision data dashboard

We do not know how recruitment limits will be set, as that is for the Office for Students to decide in due course. Any estimates of forgone tuition fee income would therefore be overly speculative at this point. As an illustration, if the Office for Students finds a course in breach of B3 that has 50 students and is growing by 20% per year, a recruitment limit would be set at some level below 60 students. If we assume that the Office for Students decided to freeze growth for the coming year, the estimated foregone tuition fee income for one year would be £9,250 (max fee cap assumed) multiplied by 10 (students) = £92,500. This is purely an illustrative example of a single year's income and should not be seen to suggest how the OfS would set a recruitment limit, or at what level with respect to a course/cohort size. A provider with limits on a course with a higher number of students or a more stringent recruitment limit (either by duration or cap level) would experience a larger amount of forgone tuition fee income. The quantum of lost income would also depend on the provider's ability to expand other, uncapped courses. These sources of uncertainty – in addition to the multi-year lead-in time, during which the sector landscape could change – prevent a realistic quantitative assessment of impacts.

Impact on the Exchequer

The expected impact on the Exchequer will depend on the behavioural response of students and providers. It is unlikely that there will be a significant upfront saving (in student support) to the Exchequer since we consider that most students affected by the recruitment limits will choose an alternative course or educational option that still entitles the student to fee and/or maintenance loans.

In the longer term, there would be benefits to the Exchequer if, as a result of more students studying high-quality courses with better outcomes, a higher proportion of loans are repaid, and more income tax is payable. There could also be broader impacts on productivity and growth, which would further benefit the economy and the Exchequer.

Impact on the Office for Students

Recruitment limits would impose an additional burden on the Office for Students to design the detailed implementation of the policy, since they would administer recruitment limits and subsequently monitor providers' student numbers, as well as considering enforcement where providers breach their recruitment limit. This may require additional resource for the Office for Students, and the costs associated would usually have to be covered by registration fees paid by the sector. Depending on timing, it may be that the costs could be absorbed by the Office for Students.

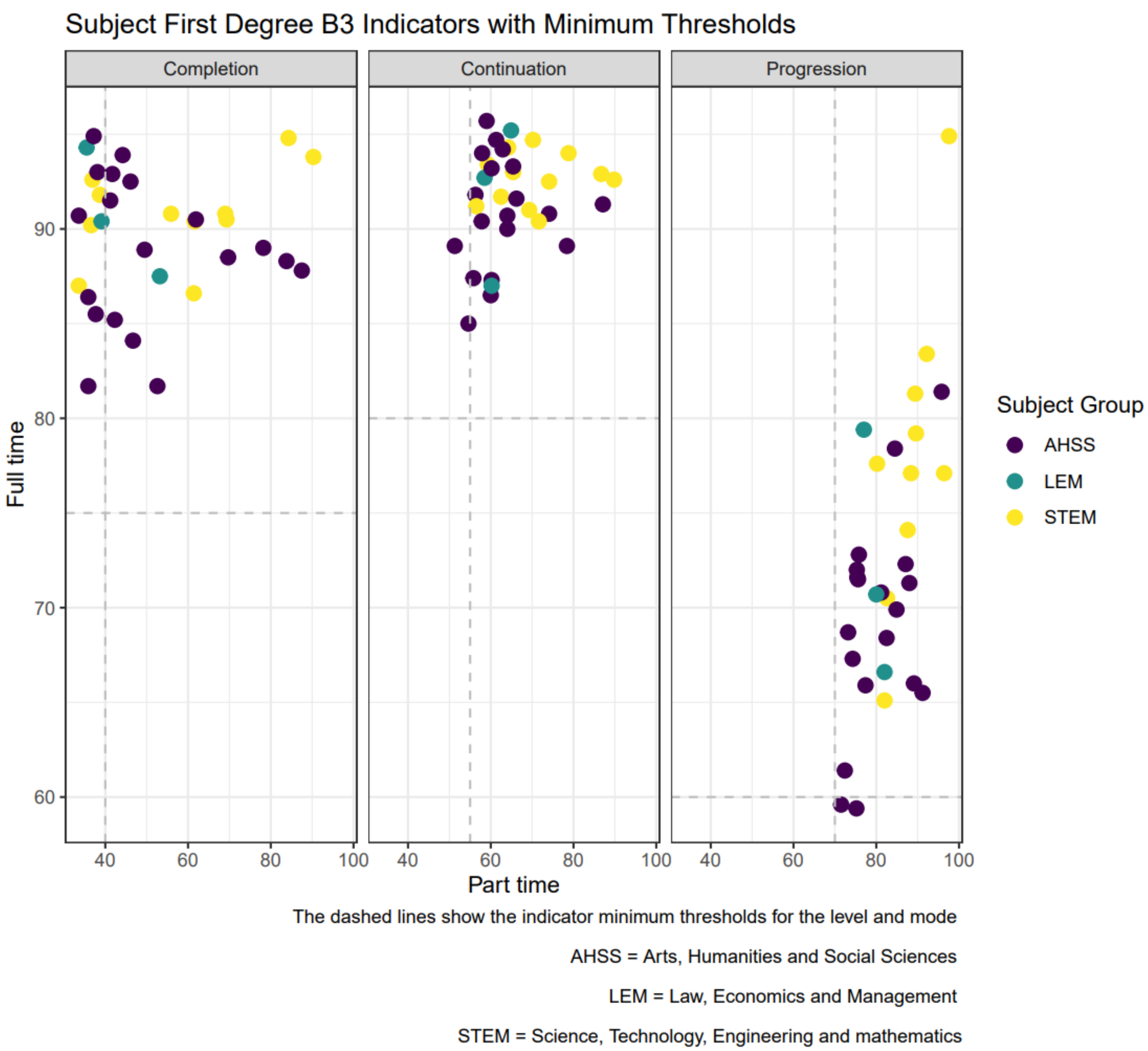
Analysis of Option 2 – **Sector-wide recruitment limits to prioritise provision with the best outcomes and to restrict the supply of provision that offers poorer outcomes**

Sector-wide recruitment limits could theoretically be set at any level. Depending on the approach chosen, the impacts would differ. This option was discounted following consideration of feedback received as part of the HE reform consultation. The analysis of this option is therefore high level, reflecting that a different option is being pursued; it focuses on subject outcomes as this was the focus of questions in the HE reform consultation.

Outcomes vary considerably by subject, including against metrics not considered as part of condition B3. Subjects also offer different benefits for the economy, society, and students. The metric selected to judge subjects – whether earnings, strategic importance, potential to alleviate skills shortages, contribution to net-zero or some other framework – will determine which subjects perform worst and would be more likely to have a recruitment limit imposed.

Analysing the CAH2 subject groupings at a sector level, there is variable performance against the B3 metrics. Looking at first degree-level courses, most CAH2 subjects exceed the full-time minimum numerical thresholds in each metric, though a significant number fall below a part-time minimum threshold. This could be owing to the reduced sample size, which raises statistical uncertainty. If choosing which subjects to apply a sector-wide recruitment limit to within the B3 framework, it is likely that subjects performing poorly against one or more metrics would be selected.

Figure 2 – Subject Aggregate First Degree B3 indicators[43]



Source: Office for Students size and shape of provision data dashboard

Impact on students

Significantly more students would be affected under a sector-wide recruitment limit compared to the preferred option. This option would likely lead to larger numbers of students being unable to study what or where they otherwise would have. By implication, more would end up studying at other provision or pursuing different post-18 education pathways. This could have the impact of displacing additional students because their place is taken by a

[43] For full details of subject groupings see Appendix A of Can Higher Education Boost Intergenerational Mobility? Evidence from an empirical matching model. Britton et al., 2023

prospective student who could not take up a place on their preferred course. A cascading effect would ensue, whereby many students do not attend their preferred route.

For students who move onto other pathways that involve learning over a shorter period of time, the costs they incur during and after study may be lower. For example, students on shorter courses would be able to avoid the full tuition fee and maintenance costs typically incurred by a student on a traditional three-year course. They may also be able to enter the labour market earlier, lowering the opportunity cost of study in terms of earnings foregone.

There could be a negative impact on student choice if the range of options available to them is significantly reduced. There is a risk that studying a less preferable course, even if it delivers better outcomes, could impact on student satisfaction, wellbeing and impinge on the quality of their experience in HE, particularly if the course does not align as closely with the student's ability and career aspirations. Choosing a different course could lead to alternative career pathways and prospects – and accordingly different employment and earnings outcomes – after they graduate.

Impact on providers

All providers would be subject to a sector-wide cap, regardless of whether they breached the Office for Students' condition B3. This would mean that a high number of providers would be subject to recruitment limits, though the number would depend on the framework and approach selected. Those specialising in provision that is capped, or with a significant proportion of their student base studying capped provision, would be most affected. Depending on their ability to re-focus their provision to offer uncapped courses, providers would see slower growth in student numbers and therefore fee income.

Furthermore, an additional burden would potentially be placed on providers from compliance with both the Office for Students' conditions on quality and standards and an additional judgement framework on student outcomes to determine what provision would have recruitment limits applied. This would result in comparatively higher regulatory burdens for providers with a potential risk, depending on the judgement framework chosen, of overlap and incoherence between the two.

Impact on the Exchequer

The Exchequer could benefit from reduced loan outlay from students who, instead of attending HE, chose different pathways eligible for comparatively lower amounts of student support. Additionally, wages and therefore tax receipts and student loan repayments could be higher if this led to a supply of students with post-18 education qualifications entering the labour market with the level and mix of skills, knowledge and training that more closely aligned with the skills needs of the economy. These impacts would be highly dependent on the design of the recruitment limit – such as whether it targeted subjects based on the future needs of the economy. The impacts would also depend on the pathways students selected as alternatives.

Impact on Office for Students

The impact on the Office for Students would depend on whether it would be responsible for administering sector-wide recruitment limits. If it was, then this would represent a significant burden of administration, monitoring and enforcement for the Office for Students, which would be likely to require significant resource given the number of providers that the Office for Students would need to monitor. The costs of this would need to be passed on to the sector.

Small and Micro Business Assessment (SaMBA)

For the purpose of this assessment, we have considered small and micro-sized HE providers. We cannot accurately predict the potential provider impact of recruitment limits, as we do not know which individual HE providers may be found to be in breach of condition B3. The number of providers whose provider-level full-time first-degree metric for either completion, continuation or progression is currently below a minimum quality threshold is 102 providers, based on the latest available data. Two-thirds of these providers are level 4/5 providers which, though comprising a significant proportion of the sector, tend to teach fewer students.

Level 4/5 providers are likely to be small or medium sized, and if these data trends remain in place when the Office for Students starts to use recruitment limits, these providers are more likely to be impacted by this policy. It should be noted that current performance is not necessarily a good predictor of future performance. Moreover, as the Office for Students will first need to fully consider delivery and implementation, HE providers will have time to improve the quality of those courses which are currently not meeting one or more B3 minimum thresholds.

Impacts on trade and investment

We do not expect recruitment limits to significantly affect trade or investment. As noted above, there could be some reputational damage from providers being subject to a recruitment limit, which could deter a subset of international students. Conversely, because recruitment limits are intended to improve the quality of provision, they should enhance the attractiveness of English institutions relative to international competition. For providers who are at risk of being subject to a recruitment limit, the threat could also prompt investment in their provision quality, which will boost international competitiveness and also benefit domestic students.

Impacts on competition

We do not expect recruitment limits to harm competition in the HE sector as its aim is to target pockets of low-quality provision. Using the competition checklist,[44] we have assessed that the only way in which recruitment limits are likely to impact competition is through choices and information available to consumers. This impact, however, is judged to be minimal and not disruptive due to the targeted nature of recruitment limits and their intention to drive up quality, rather than squeeze providers out of the market.

Impact on protected characteristics, as set out in the Equality Act 2010

A separate Equality Impact Assessment has been produced alongside this document.[45]

Impact on families

We do not anticipate significant impacts on families. The Equality Impact Assessment highlights possible issues for individuals with caring responsibilities being unable to attend local provision, though these are minimal due to the nature of the policy. Other impacts were not identified.

[44] Competition impact assessment: guidance for policy makers

[45] Higher education reform: equality impact assessment - GOV.UK (www.gov.uk)

Foundation Years

Problem under consideration

The government considers that integrated foundation year courses[46] offer a distinct pathway to HE, particularly for talented students from under-represented backgrounds, adult learners and for those who do not have the combination of A level subjects needed to study their desired degree. Some foundation year courses, such as those in medicine, dentistry, and veterinary sciences, are important in ensuring under-represented student groups can progress onto these career paths. The government wants to ensure that routes into HE are accessible and cost-effective, while ensuring that providers are supported to keep offering provision that leads to good outcomes for students and the economy.

Foundation Years provision has expanded rapidly in recent years, with the number of entrants rising by an average of more than 20% per annum from 8,700 in 2011/12 to 69,300 in 2021/22[47]. This growth has been largely concentrated in low and medium tariff institutions[48] which account for 60% and 23% respectively of total foundation year entrants in 2021/22[49]

In its report, the Independent Panel to the Review of Post-18 Education and Funding expressed concern about the proliferation of foundation year courses, with many students enrolling on subjects such as Business and Administrative studies which do not typically require specific entry requirements. It concluded that '*universities are using foundation years to create four-year degrees in order to entice students who do not otherwise meet their standard entry criteria*[50].

This conclusion is supported by DfE analysis of HESA data which shows that 54% of all foundation year new entrants in academic year 2021/22 were in classroom-based subjects[51], with 51% of all foundation year students studying business and management

[46] A foundation year course (sometimes referred to as Year 0) is a one-year programme of study, typically offered by universities, to enable students without the necessary prior attainment or qualifications in the appropriate subjects to progress onto the first year of their chosen undergraduate course.
[47] Internal DfE analysis of unpublished HESA data from 2011/12 to 2020/21. Figures reflect UK domiciled entrants (excluding those domiciled in Guernsey, Jersey and the Isle of Man), studying full-time first degrees at English providers. Figures have been rounded to the nearest 100.
[48] Providers are grouped into low, medium, and high tariff groups based on the UCAS tariff points of the cohort.
[49] Figures reflect UK domiciled entrants (excluding those domiciled in Guernsey, Jersey and the Isle of Man), studying full-time first degrees at English providers.
[50] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/805127/Review_of_post_18_education_and_funding.pdf, page 103.
[51] Classroom-based subjects will be defined as all subjects in Office for Students Price Group D. The Office for Students splits all subjects into price groups for funding purposes. Price Group D includes classroom-based subjects such as humanities, business or social sciences. These are regarded as lower cost subjects and as such receive no additional grant funding from government to cover teaching costs.

courses (compared to 13% of first year UG students). In 2021/22, the proportion of foundation year students studying business and management courses at low tariff providers was nearly 40% of all foundation year students[52].

It was also the judgment of the Independent Panel that foundation year courses may not offer students good value for money in all cases. The Panel found that there were other courses (such as Access to HE Diplomas) which had similar aims and outcomes but could be studied at a lower cost to the student, compared to foundation years, (typically requiring students to take a fourth year of loan support to cover the cost of study)[53].

[52] All figures are from Internal DfE analysis of unpublished HESA data from 2021/22. Figures reflect UK domiciled entrants (excluding those domiciled in Guernsey, Jersey and the Isle of Man), studying full-time first degrees at English providers

[53] In the case of AHE courses, the ALL balance is written off if the student goes on to complete a Level 6 degree course (defined as a course eligible for HE student support). There will be no changes to the funding model for AHE courses, but we are not proposing to introduce any loan write-offs for foundation years. At the time of writing, £5,197 was the maximum amount of funding available. New funding rates and arrangements have been introduced for academic year 2022/23 onwards.

Table 6: Number and percentage change in Foundation years students and First Year Undergraduates from 2015/16 to 2021/22, by subject

	Number of Foundation year students				Number of first year Undergraduate students			
CAH1 Subject grouping	2015/16	2021/22	% change	CAGR	2015/16	2021/22	% change	CAGR
Medicine and dentistry	125	555	344	28%	6,025	9,110	51	7%
Subjects allied to medicine	830	4,460	437	32%	40,860	50,785	24	4%
Biological sciences	2,395	2,510	5	1%	38,405	18,780	-51	-11%
Veterinary science	70	115	64	9%	775	1,535	98	12%
Agriculture and related subjects	55	255	364	30%	2,205	2,085	-5	-1%
Physical sciences	1,500	1,585	6	1%	14,425	8,840	-39	-8%
Mathematical sciences	435	465	7	1%	6,635	5,670	-15	-3%
Computer science	1,605	2,875	79	10%	14,765	16,960	15	2%
Engineering and technology	3,530	4,140	17	3%	15,940	15,785	-1	0%
Architecture, building and planning	340	570	68	9%	5,635	7,135	27	4%
Social studies	1,635	6,915	323	27%	35,205	38,920	11	2%
Law	445	1,460	228	22%	13,805	17,985	30	5%
Business and administrative studies	4,250	35,580	737	42%	42,025	43,640	4	1%
Languages	360	465	29	4%	17,545	11,620	-34	-7%
Historical and philosophical studies	335	440	31	4%	14,860	11,725	-21	-4%
Education	325	685	111	13%	14,420	9,770	-32	-6%
Combined studies	190	900	374	30%	560	1,265	126	15%

Source: Unpublished DfE internal analysis of HESA data in the academic years 2015/16 and 2021/22
Note: Compound Annual Growth Rate (2015/16 t0 2021/22). The subjects included in this table are the subjects there was data present for from the academic years 2015/16 to 2021/22, hence some subjects have been excluded meaning total student numbers may differ to those referenced across the rest of the document.

Rationale for intervention

The government considers that foundation years play an important role in enabling students, especially mature students and students from certain ethnic minority backgrounds[54], to access HE. Evidence shows these courses offer a better route into HE than some alternatives such as Access to HE diplomas[55]. The proportion of students who progressed to a degree programme in the two years following an Access to HE course (55%) was lower than the proportion who progressed after a foundation year (78%). The government wants to ensure that routes into HE are accessible and cost-effective, while ensuring that providers are supported to keep offering provision that leads to good outcomes for students and the economy.

However, the government shares the Independent Panel's concern about the proliferation of foundation year courses in some classroom-based subjects, such as Business and Administrative studies, and agrees that this provision may not be aligned with student need or offer good value for money.

Government has therefore decided to lower the maximum fee and loan limit to £5,760 for foundation years in classroom room-based subjects while retaining the maximum fee and loan limits at £9,250 for all other subjects.

Research commissioned by the DfE features evidence that, although foundation years on average cost the same as undergraduate courses in the same subjects, foundation year courses in classroom-based subjects can be less costly to deliver compared to higher cost laboratory-based subjects. This factor is also reflected in the way the Office for Students allocates the Strategic Priorities (SP) Grant, where funding rates are informed by the assignment of subject areas to six price groups based on course characteristics and associated teaching costs, and strategic prioritisation. This cost difference could mean that some HE providers have a stronger financial incentive to offer foundation years in classroom-based subjects where the cost of provision is less than the maximum fee they can charge (currently set at £9,250).

Often courses in these classroom-based subjects are direct entry degree courses which do not have subject-specific entry requirements. The government is therefore concerned that students are being recruited on to classroom-based foundation years that they do not necessarily need to access a degree programme. As a consequence, these students are taking on an additional year of student loans, and debt, which represents poor value for money for both students and taxpayers.

---

[54] Providers of Medicine and Veterinary Medicine (such as the Royal Veterinary College) have suggested that foundation years play a key role in expanding the number of ethnic minority students who enter these courses

[55] Preparing for degree study - Office for Students

Policy objective

The Government's view is that foundation years offer a distinct pathway into HE; however, it also recognises the Independent Panel's concerns about the proliferation of foundation year provision.

Government therefore considers that students should not be charged maximum fees (£9,250) for all foundation year courses. To inform policy development, DfE commissioned IFF Research to carry out research on the costs of foundation year provision and their drivers[56]. This report has been published alongside the government response.[57]

IFF found that the cost of delivering foundation years and the first year of an undergraduate degree in a particular subject area were broadly similar and that courses in Biological, Mathematical & Physical Sciences; Engineering and Technology; and Medicine, Dentistry and Health were comparatively more costly to deliver than other subjects.

Taking into consideration the findings of this research and responses to the consultation, the government has concluded that a fee reduction for all foundation year courses is not appropriate. It has decided to lower tuition fees for foundation year provision in classroom-based subjects only. Supporting data and evidence show this provision to be comparatively less costly to deliver, without always requiring subject-specific knowledge or entry requirements, or the additional year of study for which students are being charged. Additionally, some of this provision has grown disproportionately in recent years.

Therefore, government has concluded that intervention is justified to rebalance the financial incentives that HE providers have to offer foundation year courses in a way that maintains the viability of higher cost foundation year provision, while ensuring that students can access potentially lower cost provision at a fairer price.

Description of policy options under consideration

The options under consideration are:

- **Option 0 – Do nothing. This option would leave foundation year tuition fees and loans unchanged. Providers would continue to be able to charge fees up to £9,250 across all subjects.**

- **Option 1 (preferred approach) - Differential fees with a maximum fee limit of £5,760 for classroom-based subjects (currently in Office for Students Price Group D) and a maximum fee limit of £9,250 for all other subjects.**

[56] https://www.gov.uk/government/publications/understanding-the-costs-of-foundation-year-study
[57] https://www.gov.uk/government/publications/understanding-the-costs-of-foundation-year-study

Discounted options:

- **Option 2 – Lowering the fee cap to £5,760 for foundation years across all subjects**.
- **Option 3 – Lowering the maximum fee limit to £5,760 across all Foundation Years provision and topping up providers' grant funding by £2k for each enrolment on higher cost and strategically important subjects.**
- **Option 4 – Non-regulatory option (e.g., developing educational training for prospective students).**

Option 2 was rejected due to the concern that it would not maintain the viability of high-cost and strategically important foundation year provision.). Evidence shows that these subjects are comparatively more expensive to teach[58] and lowering fee levels for these subjects without any alternative funding to cover the shortfall could mean that HE providers withdraw these foundation year courses. This would have the effect of restricting student access and choice, especially for those students who rely on foundation years as a route into higher education.

Option 3 was rejected on the grounds that it would not achieve a fair balance of contributions between the student and the taxpayer since the Exchequer would be required to provide increased levels of direct grant funding through the SP Grant to cover the shortfall in funding for higher cost courses.

Option 4 was rejected because it was deemed highly unlikely that the sector will, by itself, put the necessary brake on growth in classroom-based foundation year provision given the incentives in play. This is in large part because of the strong competition for students which now exists in the HE sector, meaning providers have no incentive for taking action that could potentially mean they lose students (and therefore tuition fee income) to other providers.

Summary of preferred policy option

The government's preferred option is to reduce the maximum fee and loan limit to £5,760 for foundation year courses in classroom-based subjects where the most rapid and disproportionate growth in foundation year courses has occurred. The figure of £5,760 is equivalent to the maximum level of funding support available for an Access to HE Diploma course of 600 credits in the highest standard band, using the new skills funding rates which

[58] https://www.gov.uk/government/publications/understanding-the-costs-of-foundation-year-study

will apply from academic year 2024/25[59]. Maximum fee and loan limits for foundation year courses in all other subjects will remain at £9,250.

The government believes this represents a fair compromise between maintaining the viability of higher cost foundation years provision and ensuring that students can access lower cost provision at a lower fee level.

Analysis of options for foundation years

The analysis below provides an initial assessment of the likely impacts of the reforms to foundation year fee and loan limits. This analysis will be refined and updated at the point secondary legislation is laid.

It is unclear what the behavioural response of providers and students to a reduction in fee levels for classroom-based subjects (currently in Office for Students Price Group D) is likely to be and the impact that this will have on provision and take-up. Moreover, we do not have forecast data on future income and funding at the institutional level which enables us to predict what provider income levels will be in the future. For both these reasons, we cannot accurately assess the potential financial impact on providers until data about students confirmed as attending courses in 2025/26 becomes available.

For the purposes of this impact assessment, we have considered the potential financial impacts on providers under two scenarios, both of which are highly illustrative and are intended to show the sensitivity of the expected financial impacts to foundation year student number levels and growth.

The first illustrative scenario assesses the expected financial impact on providers based on the assumption that foundation year student numbers remain at 2021/22 levels, while the second illustrative scenario allows for further growth in foundation years students up to 2025/26 (with numbers rising at the same pace as the average rate of growth over the last 5 years, which has been around 23% per annum). While the potential financial impact on providers is likely to be much greater under the second scenario (on account of the larger number of foundation year student implied), the likelihood of this occurring is deemed to be low. Firstly, this is because we do not realistically expect foundation year student numbers to continue growing at the same rate as in recent years, and secondly, we expect providers to start adapting their foundation year provision in response to the announcement of the

[59] The hourly funding rate for a high skilled band course under the new funding arrangements is £9.60 [Further education adult skills funding rates and funding for innovative provision - GOV.UK (www.gov.uk)]

policy (for example, by shifting foundation year provision away from classroom-based subjects or offering other alternative provision).

While the first scenario could be considered more probable and indicative of expected provider impacts than the second scenario, the first scenario could also overstate the potential impacts on providers for the same reason as above - that providers will respond to the announcement by shifting foundation year provision away from classroom-based subjects.

Analysis of Option 0 (do nothing)

Under this option, the foundation year fee cap for all subjects would stay at its current level (£9,250).

Impact on students

In the absence of government intervention, some foundation year students would still be at risk of achieving poor value for money compared to students enrolled on alternative courses and pathways with a similar purpose, but which offer comparable outcomes at a lower cost.

This risk will be greatest for foundation year students at low tariff providers[60] where they have a lower completion rate[61] (42%) compared to medium (58%) and high tariff providers (61%).

Impact on providers

All foundation year providers, across all subjects, would continue to be able to charge the highest undergraduate fee rate for all foundation years[62]. Given that the majority of foundation year provision is at low and medium tariff providers, where 60% and 23% of foundation year students study respectively (as of the 2021/22 academic year), it is expected that these types of providers would continue to be the main beneficiaries under this option.

---

[60] It is important to note that low tariff does not necessarily correspond to low quality, and that a potential driver of these gaps will be differences in student intake between the provider groups.

[61] Internal analysis of unpublished HESA data. These completion rates are based on UK domiciled, full-time, first-degree entrants to foundation years at English HEIs in 2015/16 who had completed a degree by the end of 2020/21. These figures reflect students counted within the 1st December HE population.

[62] This is subject to the provider being Approved (Fee Cap) and having an Access and Participation Plan.

Impact on taxpayers

Assuming the number of foundation year students continues to rise, total student outlay on foundation year courses will continue to increase accordingly.

Analysis of Option 1 (designated approach) - **Differential fees with a maximum fee and loan limit of £5,760 for classroom-based subject (currently in Office for Students' Price Group D) and a maximum fee and loan limit of £9,250 for all other subjects).**

Under this option, we would move to a system of differentiated fees for foundation years, where lower maximum fees and fee loan limits are set at £5,760 for classroom-based subjects, while keeping the current maximum fee and loan limit of £9,250 for courses in other subjects.

Impact on students

Students who enrol on foundation year courses in classroom-based subjects will benefit from the lower fees. As well as improving the value for money they receive from these courses, lower fees will also reduce the total amount of student debt they incur should they progress to a first degree. Lower fees may induce some students who are comparatively more cost sensitive and debt averse[63] to now pursue HE because they perceive the cost of study to have fallen. This effect may be offset by a reduction in the number of places available on foundation year courses in classroom-based subjects if providers respond to the reduced profit incentive by reducing provision.

Overall, using our highly illustrative scenarios and modelling assumptions, students will save an estimated £143m to £332m[64] per annum from the lower fee limit for classroom-based courses.

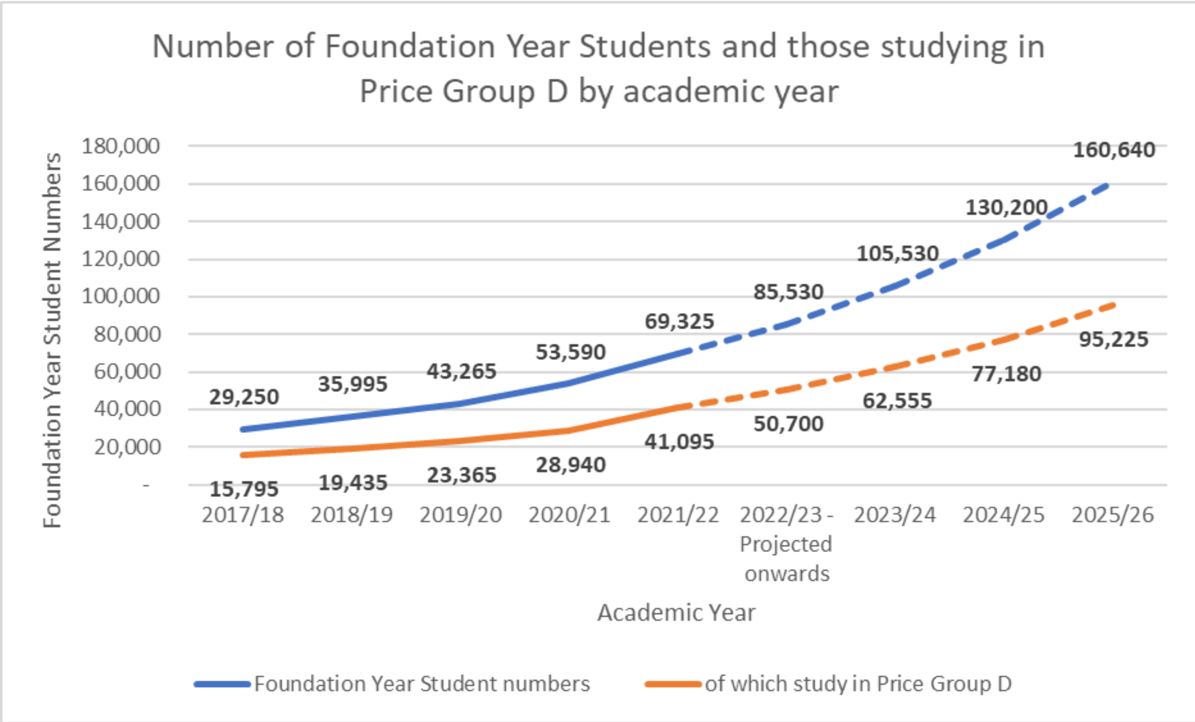
Students who enrol on foundation year courses in other subjects would not benefit from any lowering of fees. It is possible that maintaining fees for these courses at £9,250 may deter prospective students from enrolling because they perceive the total cost of study to be too high. However, the higher fee limit will help ensure that this provision remains available to students and is high-quality (providers may have had to scale-back their foundation years in subjects that are more expensive to teach if fees for those subjects were also reduced to £5,760)

---

[63] [Impact of the student finance system on participation, experience and outcomes of disadvantaged young people (publishing.service.gov.uk)]

[64] This is calculated using Price Group D student numbers in 2021/22, and forecasts for 2025/26 multiplied by the difference in tuition fee of the current policy and the proposed policy option (£3,490)

Figure 3: Number of total foundation year students and students studying subjects in price group D from the academic years 2017/18 to 2021/22 with student number projections from 2022/23 onwards.

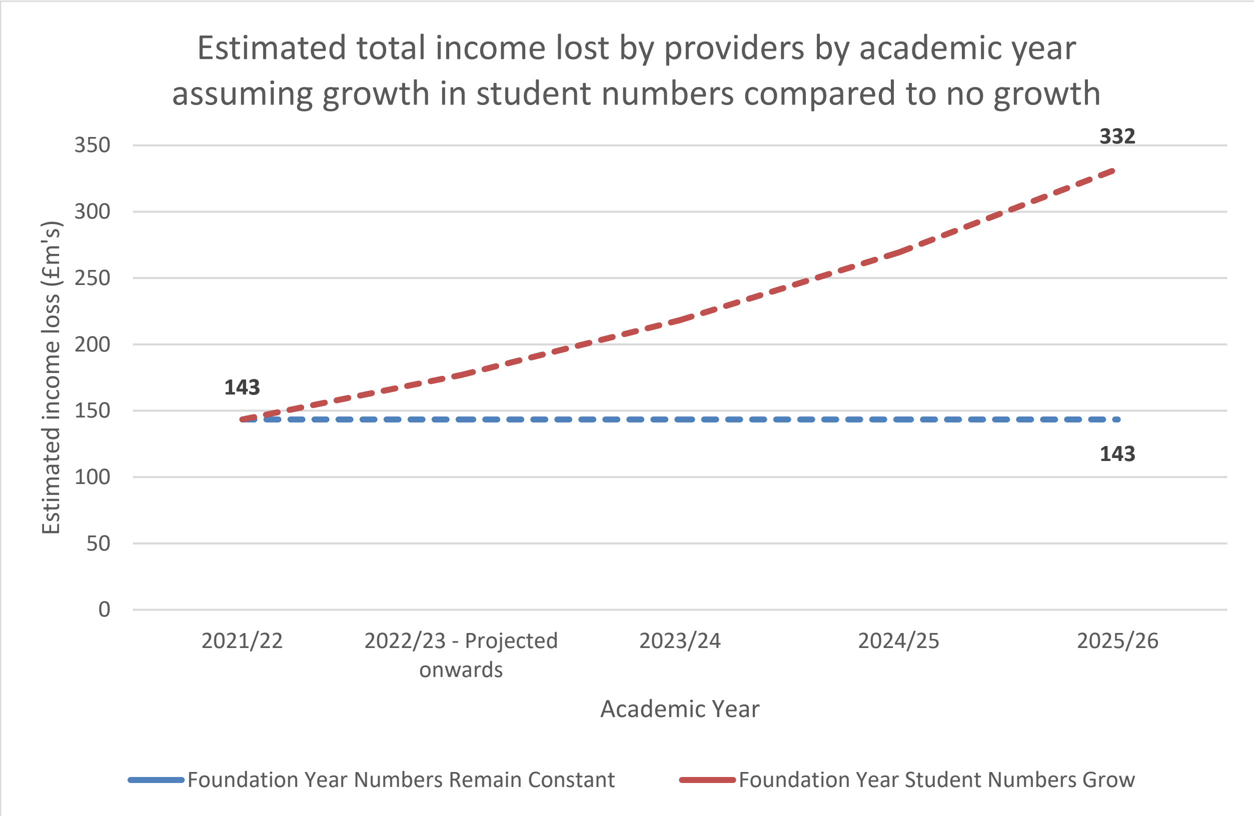


Source: Internal DfE analysis using student numbers derived from HESA for the 2021/22 academic year

Figure 3 above illustrates projected student numbers from 2021/22 onwards, assuming that recent growth rates over the last five academic years of around 23% per annum continues.

Figure 4 below illustrates the range of potential impact these forecast student numbers are likely to translate into, for providers. Assuming that foundation year student numbers remain the same as they were in 2021/22, the income lost by providers is estimated to be around £143m. Assuming foundation year student numbers grow in line with the growth from 2017/18 (23% per annum), the income lost by providers is estimated to be £332m. Given that we cannot accurately predict the growth in student numbers, it is our judgment at this time that the income loss by providers is likely to be between £143m and £332m per annum, from 2025/26.

Figure 4: Estimated total income lost by providers in 2025/26 assuming growth in foundation year student numbers compared to no growth in student numbers.



Source: Internal DfE analysis using student numbers derived from HESA for the 2021/22 academic year

Impact on providers

There are a total of 105 Office for Students Approved (fee cap) providers in England offering foundation years. Of these, 80 providers would be affected under this option (the remaining 25 providers are assumed not to be impacted as they did not provide foundation years in classroom-based subjects in 2021/22[65]). Table 7 below sets out which types of providers would be affected and the estimated scale of the financial impact.

We estimate that lowering the maximum fee limits for foundation year provision in classroom-based subjects will reduce the total amount of tuition fees income that HE providers receive from these courses (between £143m and £332m), based on our highly illustrative scenarios and modelling assumptions. Low, Medium, and unknown tariff providers are expected to be particularly affected since they account for over 95% of the total estimated income lost.

[65] Of these 7 are high tariff providers, 7 are medium tariff providers, 10 are specialist providers (7 of which are providers specialising in the creative arts), and 1 is a low or unknown tariff provider.

Table 7: Estimated annual income lost by impacted foundation years providers, by tariff group.

Provider type by tariff	Number of providers operating foundation years in classroom-based subjects	Estimated annual income loss (£m's) – minimum	Estimated annual income loss (£m's) – maximum
High tariff	8	1	2
Large Level 4/5[66]	1	2	4
Low or unknown tariff	41	126	292
Medium tariff	25	14	31
Specialist: creative	2	0	0
Specialist: other	3	1	3
Total	**80**	**143**	**332**

Source: Internal DfE analysis using student numbers derived from HESA for the 2021/22 academic year

These are estimates of the unmitigated financial impact of the policy. Providers may be able to offset these potential income losses by recruiting larger numbers of students onto other courses (capacity constraints allowing). Alternatively, providers may scale back or cease provision of classroom-based foundation years where there is no longer a financial incentive to offer them (due to the lower fee limit); their reduced spending on such foundation years would mitigate the loss of fee income.

Impact on taxpayers

Lowering tuition fees and fee loan limits for classroom-based foundation years will reduce the total amount of student loan outlay compared to the do-nothing option. It may also lead to a small reduction in the proportion of loan support to these foundation year students that is written off, represented by the Resource Accounting and Budgeting (RAB) charge.

The Department for Education publishes forecasts for higher and further education student loans in England. These include forecasts of student numbers, student loan outlay and student loan repayments which can be found here: Student loan forecasts for England, Financial year 2022-23 – Explore education statistics – GOV.UK (explore-education-statistics.service.gov.uk)

Drawing on these forecasts, we set out a first assessment of the potential savings to the Exchequer in Table 8 below. A fuller assessment will be included in the updated impact assessment, which we intend to conduct when secondary legislation to change fee and loan limits for foundation years is laid.

[66] Large level 4/5 provider is a provider with 50% of FTE students at level 4/5 and the provider has more than 300 FTE. see Figure 4 Provider typologies 2022 - Methodology for grouping OfS-registered providers (officeforstudents.org.uk)

The forecast assumes low growth in the number of foundation year students, in line with the general growth in undergraduate numbers of around 2% per year. We acknowledge that, in the absence of any government intervention, foundation years may grow faster than the rest of undergraduate provision. Therefore, the savings to the Exchequer shown below should be treated as a lower bound estimate.

This option will reduce the total amount of upfront tuition fee loan outlay. Consequently, this will lead to a relatively small reduction in the government subsidy for student loans – as expressed by the RAB charge.[67]

Because this option only reduces the maximum fee limit for classroom-based courses, the reduction in student loan outlay will be less than for options 2 and 3. Option 1 will produce greater savings than Option 3, where some of the fee reduction for all foundation years would have been supplemented by increases in SP-Grant funding in higher-cost subjects. SP-Grant funding is more expensive to government to administer because – unlike funding through student loans – it is not repaid by graduates.

Table 8: Student finance outlay in option 1 (£m) – classroom-based fees capped at £5,760

Financial Year	2024-25	2025-26	2026-27	2027-28
Outlay	0	-65	-155	-165
RAB cost	0	-30	-70	-70
CAME	0	-80	-150	-160
PSND	0	-70	-150	-150
PSNB	0	-30	-70	-70
RDEL	0	-30	-60	-70

Source: Unpublished internal DfE analysis undertaken by repayments modelling team

Analysis of discounted options:

Analysis of Option 2 (discounted) – Lower the fee cap for foundation years across all subjects to £5,760

Under this option, maximum fee and fee loan limits would be lowered for all foundation years courses to £5,760.

[67] The RAB charge is the estimated cost to government of providing a subsidy for the student finance system. It is the amount of loan outlay issued each year which is **not** expected to be repaid, when future repayments are valued in present terms using the HMT discount rate.

Impact on students

This option would benefit all students who secured places on foundation year courses and not just those studying classroom-based courses (as would occur under Option 1).

All students would benefit from a reduction in the total amount of student debt they incur (assuming they progress and complete a full L6 degree) and improved value for money. Students with certain protected characteristics or from certain under-represented backgrounds would benefit from the lowering of fees as they are more likely to be cost sensitive and debt averse. This may, however, be offset by a reduction in the number of places available on foundation year courses across all subjects if providers respond to the reduced profit incentive by reducing provision, or if some higher-cost provision becomes financially unviable.

Under this option, all foundation year students will save £3,490, with total student level savings of between £242m and £561m[68] based on our illustrative scenarios and modelling assumptions, though some of this will be captured by the Exchequer.

As in Option 1, it is possible that lower fees may encourage more students to pursue HE because they perceive the cost of study to be lower. Since tuition fees for all foundation year courses would be lowered under this option, the potential increase in demand and take-up of foundation year courses could be greater than under Option 1.

This option could therefore serve to promote greater social mobility by enabling more students from certain under-represented backgrounds to access HE where previously the cost of study was a barrier to participation. However, the price-elasticity of student demand for foundation years is currently unknown, so it is difficult to know the extent to which a reduction in tuition fees will increase demand.

It is difficult to predict what the overall student behavioural response will be. On the one hand, lower fees are likely to increase demand due to a simple price effect (as explained above, this will depend on the price-elasticity of student demand). On the other hand, price can be seen as a sign of quality, so lower fees might be seen by students as implying reduced quality, which could reduce demand. At this stage, it is unclear which one of these countervailing effects would dominate.

On the supply side, any increase in student take-up of foundation year courses will also depend in the short run on the existing spare capacity of providers and, in the long run, on the ability of providers to expand the number of places and the relative costs and benefits of doing so.

Providers will also face financial pressures and may no longer be able to deliver high-cost provision under this option. As a result, the number and/or quality of high-cost courses is

[68] This is calculated using the 2021/22 student numbers and projected 2025/26 student numbers multiplied by the difference between £9,250 and the proposed tuition fee of £5,790.

likely to reduce significantly, where providers consider this provision unviable. Therefore, students who would need a foundation year in these subjects may decide not to enter HE, which would have a negative impact on their labour market prospects.

Impact on providers

Since fee levels will be lowered for all foundation year courses, all 105 Office for Students Approved (fee cap) providers in England offering this provision would be impacted.

The expected financial impact, in terms of tuition fee income foregone, is greater than under Option 1 and estimated to be between £242m and £561m, based on our illustrative scenarios and modelling assumptions. Low and unknown tariff providers are still expected to be particularly affected as they account for over 90% of the total estimated income lost.

Table 9: Estimated annual income lost by foundation years providers, by tariff group.

Provider type by tariff	Number of providers	Estimated annual income loss (£m's) - minimum	Estimated annual income loss (£m's) - maximum
High tariff	15	9	21
Large Level 4/5	1	3	7
Low or unknown tariff	42	177	409
Medium tariff	32	45	105
Specialist: creative	9	6	14
Specialist: other	6	2	4
Total	**105**	**242**	**561**

Source: Unpublished internal DfE analysis using HESA data for the 2021/22 academic year

As above, these are estimates of the unmitigated financial impact. Providers may be able to offset these potential income losses by recruiting higher numbers of students onto other courses (capacity constraints allowing).

Impact to taxpayers

This option would reduce the total amount of upfront tuition fee loan outlay to cover foundation year tuition fees. With lower tuition fees, students will borrow smaller tuition fee loans to fund their studies, resulting in lower student loan borrowing. As this policy option reduces the maximum fee limit across all foundation year provision, the savings to the taxpayer, in the form of both total loan outlay and RAB charge reductions, are highest relative to the other policy options.

Not all students will repay their student loans in full. Consequently, by lowering foundation year fees, this option would deliver some taxpayer savings by reducing the amount of student loan debt that is written-off by government.

The student finance savings for this option are show in Table 10. These estimates assume no behavioural impact from the tuition fee reduction, either from students or providers, and are based on The Department for Education's published forecasts for higher and further education student loans in England. These include forecasts of student numbers, student loan outlay and student loan repayments which can be found here: [Student loan forecasts for England, Financial year 2022-23 – Explore education statistics – GOV.UK (explore-education-statistics.service.gov.uk)]

Drawing on these forecasts, the potential savings generated by these options are shown in table 10 below.

Our forecast assumes low growth in the number of foundation year students, in line with the general growth in undergraduate numbers of around 2% per year. However, we acknowledge that, in the absence of any government intervention, foundation years may grow faster than the rest of the undergraduate provision. Therefore, the savings shown below should be treated as a lower bound estimate.

This option would reduce the total amount of upfront tuition fee loan outlay. Consequently, this will lead to a reduction in the government subsidy for student loans – as expressed by the RAB charge.

Table 10 student finance savings in option 2 (£m) - all foundation year fees capped at £5,760

Financial Year	2024-25	2025-26	2026-27	2027-28
Outlay	0	-100	-235	-245
RAB cost	0	-40	-90	-110
CAME	0	-110	-230	-250
PSND	0	-110	-230	-240
PSNB	0	-40	-100	-110
RDEL	0	-30	-80	-100

Source: Unpublished internal DfE analysis undertaken by repayments modelling team

Analysis of Option 3 – Lowering the maximum fee limit to £5,760 across all foundation years provision, and topping up providers' funding by £2k for each enrolment on higher cost and strategically important subjects

This option would lower the maximum fee limit to £5,760 across all foundation year courses as in Option 2 but providers offering courses in higher-cost and strategically important subjects would receive an extra £2k per student enrolment, funded through the SP-grant, to compensate for the reduction in tuition fee limit.

The additional top-up would help to retain higher-cost, strategically important provision. However, this would entail redirecting SP-grant funding from other important priorities.

Impact on students

The expected impact on students will be the same as Option 2, with all foundation year students expected to benefit both financially, and in value for money terms, from the reduction in tuition fees. The expected saving in tuition fees for students is estimated to be between £180m and £418m per annum based on our highly illustrative scenarios and modelling assumptions.

As with the previous option, lower fees could lead to an increase in demand and take-up of courses, especially if the cost of study is now perceived to be lower. However, as noted above, it is difficult to predict with any certainty the likely scale of any increase in demand if this occurs. Whether this translates into an increase in take-up also depends on supply responses.

The use of a top-up for higher cost foundation years may mitigate the risks identified under the previous option (namely that lower fees lead to a reduction in quality of provision or the withdrawal of loss-making courses), but only partially, and would still result in a reduction in overall income to provider. This may lead to withdrawal of provision or reduced quality of provision, limiting access and choice for some students.

Impact on providers

As with Option 2, all foundation year providers would be impacted by the lowering of tuition fee levels across all courses. However, the total financial impact will be less than under Option 2 since providers of higher-cost foundation years would receive top-up funding in compensation for the loss of tuition.

Under this option, the total income loss for providers is estimated to be between £180m and £418m based on our highly illustrative scenarios and modelling assumptions. Low, unknown, and medium tariff providers are expected to be particularly affected as they account for over 90% of the total estimated income lost.

Of the 105 providers in scope;

- 80 will not receive any funding top-up. Their total income loss adds up to £180m (97% of the total provider income lost for this option). Over half of these providers are low-tariff providers.
- 25 providers will receive some funding top-up. Their total income loss adds up to £5.3m. 14 of these providers are medium or high tariff providers, and only 1 is low or unknown tariff.

Table 11: Estimated annual income loss for foundation years providers that will not receive any funding top-up, by tariff group.

Provider type by tariff	Number of providers	Estimated annual income loss (£m's) - minimum	Estimated annual income loss (£m's) - maximum
High tariff	8	3	7
Large Level 4/5	1	2	5
Low or unknown tariff	41	147	341
Medium tariff	25	26	60
Specialist: creative	2	0	1
Specialist: other	3	1	3
Total	**80**	**180**	**418**

Source: Unpublished internal DfE analysis of HESA data

Impact on taxpayers

The savings, in terms of loan outlay and RAB charge, are likely to be similar to those shown in Option 2 above.

The Department for Education publishes forecasts for higher and further education student loans in England. These include forecasts of student numbers, student loan outlay and student loan repayments which can be found here: [Student loan forecasts for England, Financial year 2022-23 – Explore education statistics – GOV.UK (explore-education-statistics.service.gov.uk)]

Drawing on these forecasts, we set out a first assessment of the potential savings to the Exchequer in Table 12 below.

The forecast assumes low growth in the number of foundation year students, in line with the general growth in undergraduate numbers of around 2% per year. However, we acknowledge that, in the absence of any government intervention, foundation years may grow faster than the rest of the undergraduate provision. Therefore, the savings to the Exchequer shown below should be treated as a lower bound estimate.

This option would reduce the total amount of upfront tuition fee loan outlay. Consequently, this will lead to a reduction in the government subsidy for student loans – as expressed by the RAB charge.

The student loan outlay and RAB savings/costs for this option are shown in tables 12A and 12B below. However, the funding top-up will add a cost to government (RDEL[69]/PSNB[70]).

---

[69] Resource Departmental Expenditure Limit

[70] Public Sector Net Borrowing

Table 13 below shows the estimated provider top-up cost using 3 scenarios. First, if foundation years entrant numbers remained similar numbers in the 21/22 academic year, the cost would be around is £55m. However, using the student number forecasts estimated above[71] for 25/26 and 26/27 this additional cost to government is much greater at £130m and £160m respectively.

The cost of the provider top-up would then reduce the below RDEL/PSNB savings by between £55 and £160m (see table 13 below). Using the scenarios for the calculations of the provider top-up, the total costs to government are estimated to be as in table 12A and 12B below. Table 12A reflects the scenario where the number of foundation year students remains similar to those in 2021/22 and equates to a cost to government of £55m per annum. Table 12B regroups scenario's 2 and 3 which forecasts foundation year student number growth in line with growth in preceding years; this equates to a cost to government of £130m in the academic year 25/26 and £160m in the academic years 2026/27 onwards.

Table 12A: Student finance savings/costs in option 3 (£m) – Low provider top-up cost scenario[72]

Financial Year	2024-25	2025-26	2026-27	2027-28
Outlay	0	-100	-235	-245
RAB cost	-10	-20	-40	-40
CAME	0	-45	-180	-190
PSND	0	10	-20	-30
PSNB	-10	80	165	175
RDEL	-10	90	185	175

Source: Unpublished internal DfE analysis undertaken by repayments modelling team

Table 12B: Student finance savings/costs in option 3 (£m) – High provider top-up cost scenario[73]

Financial Year	2024-25	2025-26	2026-27	2027-28
Outlay	0	-100	-235	-245
RAB cost	-10	-20	-40	-40
CAME	0	30	-75	-85
PSND	0	85	85	75
PSNB	-10	155	270	280
RDEL	-10	165	290	280

Source: Unpublished internal DfE analysis undertaken by repayments modelling team

[71] Estimated as assuming that Foundation Years entrants numbers would keep growing at the same pace as they have been over the past 5 years.

[72] Negative figures reflect a saving. Positive figures reflect a cost.

[73] Negative figures reflect a saving. Positive figures reflect a cost.

Table 13: Cost of the provider top-up

	AY21/22	AY25/26	AY26/27
Estimated number of Foundation Year entrants in other (not classroom-based) subjects	28,230	65,415	80,710
% age of Foundation Year students impacted	41%	41%	41%
Provider Top Up per FTE	£2,000	£2,000	£2,000
Total provider income per FTE (Tuition Fee + Provider Top Up) from foundation years in other (not classroom-based) subjects	£7,760	£7,760	£7,760
Cost to Government (£m) – academic year	56	131	161
Cost to Government (£m) – financial year	38	87	151

Small and Micro Business Assessment[74]

For the purpose of this assessment, we have considered small and micro-sized HE providers. We do not expect this policy to have a disproportionate financial impact on small-sized HE providers. Reducing tuition fee and loan limits for classroom-based foundation year courses should mostly affect medium and low tariff providers, many of which are relatively large in terms of student and staff numbers.

Our analysis suggests a limited number of specialist providers could be impacted, some of which may be relatively smaller in size. However, as set out in our analysis, HE providers affected by lower fees for classroom-based foundation year courses may take mitigating action over time to reduce the financial impact of this measure.

Impacts on trade and investment

We do not expect the change in foundation year fee limits to significantly affect trade or investment. We do not envision any reputational damage to providers since the policy in targets specific subject areas rather than specific providers. Conversely, because the change in foundation year fee limits is intended to improve the quality of foundation year

[74] RPC Small and Micro Business Assessment (SaMBA) guidance - GOV.UK (www.gov.uk)

provision, this should enhance the attractiveness of English institutions relative to international competition.

Impacts on competition

We do not expect the change in foundation year fee limits to harm competition in the HE sector since its aim is to stop the proliferation of low-quality provision. Using the competition checklist,[75] we have assessed that the only way in which the change in foundation year fee limits is likely to impact competition is through choices and information available to consumers. This impact, however, is judged to be minimal and not disruptive due to the targeted nature of the policy change and its intention to drive up quality, rather than squeeze providers out of the market.

Impact on protected characteristics, as set out in the Equality Act 2010

A separate Equality Impact Assessment has been produced alongside this document.[76]

Impact on families

We do not anticipate significant impacts on families. The Equality Impact Assessment highlights possible issues for individuals with caring responsibilities being unable to attend local provision, though these are minimal due to the nature of the policy. Other impacts were not identified.

[75] Competition impact assessment: guidance for policy makers

[76] Higher education reform: equality impact assessment - GOV.UK (www.gov.uk)

Annex A – Additional Analysis of Recruitment limits

The indicator values for each provider must be considered alongside the statistical uncertainty associated with those numbers. Statistical confidence – the likelihood that the value is truly representative of the superpopulation[77] – tends to increase with sample sizes and response rates[78]. Put differently, the range of possible true values shrinks. Tables A1 and A2 below present the count of providers who had more than 95% and 100% of their statistical uncertainty distribution below the full-time first degree minimum numerical threshold for a B3 metric.

Table 3 in the main text presents similar data, taking no account of statistical uncertainty. There were 102 providers who had at least one indicator below a threshold. As the statistical confidence requirement increases to 95%, this number halves to 49; the same happens again if we increase the confidence level to 100%, leaving 24 providers below one of the thresholds. It is possible that providers whose indicators were further below thresholds or whose indicators could be deemed below thresholds with higher levels of confidence would be more likely to receive a recruitment limit.

Table A1 – Count of providers with full-time first-degree provision indicators below a minimum numerical threshold for B3 outcome metrics, 95% statistical confidence

Student Typology	Progression	Completion	Continuation	Below Any
High tariff	0	0	0	0
Medium tariff	2	1	0	2
Low or unknown tariff	6	5	9	15
Specialist: other	1	3	2	5
Specialist: creative	3	0	0	3
Large Level 4/5	10	4	5	17
Small Level 4/5	3	2	2	6
No Typology	1	1	0	1
Total	**26**	**16**	**18**	**49**

[77] See P.59 Office for Students student outcome and experience indicators methodology

[78] Responses to the Graduate Outcomes survey are used to construct measures of progression outcomes. For all analysis, providers with fewer than 23 students in the denominator are excluded.

Table A2 – Count of providers with full-time first-degree provision indicators below a minimum numerical threshold for B3 outcome metrics, 100% statistical confidence

Student Typology	Progression	Completion	Continuation	Below Any
High tariff	0	0	0	0
Medium tariff	1	0	0	1
Low or unknown tariff	2	4	7	9
Specialist: other	1	2	1	3
Specialist: creative	1	0	0	1
Large Level 4/5	4	2	3	8
Small Level 4/5	0	0	1	1
No Typology	1	1	0	1
Total	**10**	**9**	**12**	**24**

In addition to statistical uncertainty, benchmarking can be used to compare courses and account for differences in the student composition between providers. No analysis is presented here, though we expect the Office for Students to consider benchmarks alongside providers' indicator data.

Indicator values are considered over a multi-year period and can be aggregated. The analysis throughout this document has used the aggregate measure at a full-time first-degree breakdown for each provider. This reflects the Office for Students' regulatory position[79], though the Office for Students can also consider more recent data in isolation[80].

Table A3 shows the most recent years of data and the provider counts with indicator values below the full-time first degree B3 thresholds. Recency is a data feature that the Office for Students could consider if they deem it to be more representative of current performance. Using single years in isolation, however, will shrink the sample sizes and raise more questions of statistical uncertainty. Anomalous results are also more likely.

There were fewer providers with indicators below a B3 metric threshold when looking at a single year, and the count was not stable between the two years analysed (52 vs 72). At least three quarters of providers who were below a threshold in either their Year 3 or Year 4 data were also below the aggregate threshold. The number of providers with indicator values below the thresholds at a high level of statistical confidence also fell significantly.

---

[79] Office for Students – Description of student outcome and experience measures, #80

[80] See Office for Students Condition B3 – Student Outcomes, #22

Table A3 – Analysis of more recent years' data in isolation

Data Year Coverage	Provider count below a B3 threshold	Provider count below a threshold with 95% statistical confidence	Provider count below a threshold with 100% statistical confidence	Providers who were also in the Aggregate count	Providers who were also in the Year 4 count	Providers who were also in the Year 3 count
Aggregate	102	49	24		41	58
Year 4	52	28	14	41		36
Year 3	72	30	14	58	36	

Table A4 shows a regional breakdown of the providers with full-time first-degree provision below a metric threshold. Yorkshire and The Humber was the region with the highest proportion of providers included (nearly half). If many providers in a local area were all subject to a recruitment limit on similar courses, it might restrict student choice for individuals who are unable to move or travel for study. We assume that the Office for Students would take this into account when choosing where to apply recruitment limits, prioritising the most serious breaches of condition B3, preserving options for students.

Table A4 – Count of providers with full-time first-degree provision indicators below a minimum numerical threshold for B3 outcome metrics, Regional Split

Region	Progression	Completion	Continuation	Below Any	In Dashboard
North East	4	0	1	4	14
North West	12	6	7	18	51
Yorkshire and The Humber	10	6	5	16	33
East of England	2	2	4	7	32
East Midlands	4	1	1	4	23
West Midlands	4	6	3	10	33
London	12	11	15	24	125
South East	5	3	3	10	57
South West	8	1	2	9	40
Total	**61**	**36**	**40**	**102**	**408**

Forecasting future HE provider numbers over a ten-year period is difficult because of uncertainties around the likely behavioural response of HE providers to the regulatory framework and any wider policy decisions that may influence the relative costs and benefits of registration to non-registration[81]. The numbers presented in this Impact Assessment are based on our best judgement as to the most plausible scenario based on the latest available intelligence around current and projected HE provider applications to the regulatory framework. These forecasts are broad estimates rather than a fixed view of future demand or provider numbers.

Table A5 is used in the calculation of provider familiarisation costs. We assume that 445 providers will be registered in the 2026/27 academic year and that 10 will register each year thereafter.

[81] The impact of the introduction of the Lifelong Loan Entitlement (LLE) has not been incorporated in these forecasts

Table A5 – Office for Students registered provider forecast

	2022/23 (forecast figures by year end)	**2023/ 24**	**2024/ 25**	**2025/ 26**	**2026/ 27**	**2027/ 28**	**2028/ 29**	**2029/ 30**	**2030/ 31**	**2031/ 32**	**2032/ 33**	**2033/ 34**	**2034/ 35**	**2035/ 36**
New registrations	20	20	15	15	10	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**10**
De-registrations (including mergers)	16	10	10	10	5	5	5	5	5	5	5	5	5	5
Total HEP number	420	430	435	440	445	450	455	460	465	470	475	480	485	490

ISBN 978-1-5286-4310-8
E02940012 07/23

About this publication:

enquiries www.education.gov.uk/contactus

download www.gov.uk/government/publications

Follow us on Twitter:
@educationgovuk

Like us on Facebook:
facebook.com/educationgovuk