Department for Business Innovation & Skills

IMPACT ASSESSMENT

Higher Education: Students at the Heart of the System

JUNE 2011

Higher Education White Paper impact assessment

Lead department or agency: BIS

Other departments or agencies:

Impact Assessment (IA)

IA No: BIS0147

Date: 28/06/2011

Stage: Consultation

Source of intervention: Domestic

Type of measure: Primary legislation

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Introduction

An impact assessment is a tool to assess the impacts of regulatory changes on the economy. This impact assessment has been arranged to cover five broad areas of regulatory change: 1. Changes to funding for HE and financial support, 2. Information policies 3. Fair access, 4. Reforming the control of student numbers, 5. Reforming the regulatory framework. The policies are not yet fully developed - Government will be consulting on the various options presented in this impact assessment.

This IA quantifies as far as possible the benefits and costs of the proposed policies and compares them with a set of other options and the counterfactual. The policies are designed to work together to lead to a fundamental change in the system, putting more emphasis on student choice (with more funding flowing via the student rather than HEFCE, and improved information) and aiming to deliver a more effective and efficient higher education system.

The preferred option for HE funding was justified in an interim impact assessment published on 29 November 2010. This IA provides an update under the first strand, 'Changes to funding for HE and financial support', extending the time frame to ten years and including part-time loans. For costs, it is possible to provide some quantified estimates, although we do not yet know the size of loans taken out by students in future years. Quantifying benefits is much more difficult because we do not yet know the knock-on effect of the extra income going in to universities over and above the current levels of teaching grant, or the improved maintenance package for students. The quantified figures here therefore do not capture the full benefit of the increased investment in HE and broader policy changes. They do not attempt to place a simple monetary value on the improvements to education bought by the reforms. Nor do they capture the long run benefits of providing greater levels of maintenance support. Furthermore they do not capture wider benefits from allowing funding to follow the student and introducing more competition among providers. So a simple comparison of only those costs and benefits that can be quantified would not allow an accurate assessment of the policy options.

In assessing HE funding reform, net benefits are measures against a 'counterfactual' of no change in policy (here option 1). In some cases the counterfactual i.e. 'do nothing' is indeed a policy that can be considered, but in this case it is not financially feasible and merely serves as a reference point for policy for options to reform the funding system. Three policy options are considered: option 2 – applying the spending cuts to the current system, option 3 – applying the spending cuts to the 2003/04 system and options 4a and b – changing the system to one based on the approach set out by Lord Browne but allowing for factual differences in achieving these.

For the improvements to information some costs for the proposals are available. Quantifying the benefits is not straightforward. There is an estimated benefit from improving participation by more deprived groups, improving retention and improving the student's abilities to make decisions. For the three other policy strands, evidence has been sought with which to quantify costs and benefits but it is not yet possible to provide robust figures.

Comments on the analysis in this Impact Assessment are welcome particularly in areas where quantification is currently not possible. These would be used in the Final Impact Assessment.

Summary: Intervention and Options

What is the problem under consideration? Why is government intervention necessary?

Reform of the Higher Education system in England is necessary to make it financially sustainable for the long term whilst protecting participation and quality. Higher education is recognised to be central to economic growth. Our economic circumstances make it urgent to build an increasingly strong alignment between the teaching and research activities of universities and the needs of the economy. The HE system needs to become more competitive and dynamic with scope for new provision to emerge and greater incentives for HE Institutions to work with employers. We will be introducing a new regulatory framework to deliver the HE reforms and will be encouraging more dynamism and competition in HE.

What are the policy objectives and the intended effects?

Reforms to higher education will create a more dynamic and student-led system, which supports economic growth and is affordable for Government. They will put higher education institutions on a secure financial footing and allow participation in HE to be maintained. This will ensure a continued supply of the higher level skills needed for growth. By tackling the barriers to fair access to HE and providing better information, reforms will also support Government objectives to promote social mobility. The higher education reform programme also reflects wider themes that the Government is pursuing across all public services.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

This impact assessment has been arranged to cover five broad areas of regulatory change: 1. Changes to funding for HE and financial support, 2. Information policies 3. Fair access, 4. Reforming the control of student numbers, 5. Reforming the regulatory framework. Government will be consulting on the various options presented in this impact assessment. It is not yet possible to quantify the benefits from some of these strands.

The preferred option for HE funding was justified in an interim impact assessment published on 29 November 2010. This IA provides an update under the first strand, ‘Changes to funding for HE and financial support’, extending the time frame to ten years and including part-time loans. The funding changes redistribute money between the tax payer, students, HE institutions and graduates. The additional economic benefits are not possible to quantify but are likely to be reinforced by the other policies covered in this impact assessment. However, the economic costs of the alternatives involve reducing student numbers and consequently a significant cost to the economy.

Will the policy be reviewed? It will be reviewed. **If applicable, set review date: 1**/2015

What is the basis for this review? Duty to review. **If applicable, set sunset clause date:** N/A

Are there arrangements in place that will allow a systematic collection of monitoring information for future policy review? Yes

Ministerial Sign-off For consultation stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister: David Willetts Date: 28/06/2011

Summary: Analysis and Evidence — Aggregated summary

Description: **Aggregated summary of all options (quantified impacts only)**

PriceBase Year 12/13	PV Base Year 12/13	Time Period Years 10	Net Quantified Benefit (Present Value (PV)) (£m)		
			Low:	High:	Estimate of the net quantified impact -£8,058m* *Although not quantified, the full benefits of these proposals are likely to be substantial

COSTS (£m)	Total Transition (Constant Price)	Years	Av. Annual Quantified Cost (excl. Transition) (Constant Price)	Total Quantified Cost (Present Value)
Low				
High				
Best Estimate	£0.2m quantified		£2,828.5m over 10 years	**£23,093m over 10 years**

Description and scale of key monetised costs by 'main affected groups'

The provisional nature of the White Paper means that some of the policies in this Impact Assessment cannot be assessed yet. It is not possible to quantify all the costs and benefits.

For HE funding, there is a significant amount of data available to estimate the costs associated with the new funding system. This includes the full resource cost to government and graduates (through loan repayments) over the full lifetime of the loans. However, it is important to note that graduates will not experience the full cost of their loan repayments in the 10 year period – a summary of the stream of payments is shown in table 7. It remains difficult to quantify the expected benefits of switching to a system where funding follows the student and the repayment system has been made more progressive.

The total NPV cost of £23,093m over ten years given here mainly comes from the additional fee loans (enabling greater overall investment in HE teaching compared to now, and allowing all eligible students to access HE with no upfront costs) and increased maintenance support (designed to offset any negative impacts on participation from increased fees). These additional costs are partially offset by reduced teaching grant expenditure. This summary figure also includes costs for the proposals to improve information provision via the Key Information Set. The £2,828.5m is the average annual figure in constant prices.

The costs of administering the new funding system and the costs to business are estimated to be ongoing rather than transitional, so are included in the overall costs. The £0.2m represents the cost of providing better information through the Unistats website.

Other key non-monetised costs by 'main affected groups'

Additional costs may be incurred by other policies discussed here depending on decisions following the results of the White Paper consultation.

BENEFITS (£m)	Total Transition (Constant Price)	Years	Av. Annual Quantified Benefit (excl. Transition) (Constant Price)	Total Quantified Benefit (Present Value)
Low				
High				
Best Estimate			£1,713.4m over 10 years	**£15,035m over 10 years**

Description and scale of key monetised benefits by 'main affected groups'

As discussed above, the main driver of cost increases is from increasing investment and maintenance funding to students. The benefits of the policies are designed to work together to lead to a fundamental change in the system, putting more emphasis on student choice and aiming to deliver a more effective and efficient higher education system. Quantifying benefits is much more difficult because we do not yet know the knock-on effect of the extra income going in to universities over and above the current levels of teaching grant, or the improved maintenance package for students. The quantified figures here therefore do not capture the full impact of the policy. They do not attempt to place a simple monetary value on the improvements to education bought by the reforms. Nor do they capture the long run benefits of providing greater levels of maintenance support. Furthermore they do not capture wider benefits from allowing funding to follow the student and introducing more competition among providers. The present value of quantified benefits shown here, £15,035m also include the estimated impact of better information provision on social mobility, which are realised through the graduate premium and improved retention rates. The £1,713.4m is the average annual figure in constant prices.

Other key non-monetised benefits by 'main affected groups'

The non-quantified benefits from the reforms include the expected improved incentives for further competition to drive efficiency and quality among Higher Education institutions, leading to improved education, as well as equity and distributional impacts from generous grants, greater coverage for loans for part-time students and the more progressive repayment system. These non-monetised benefits (which are also further discussed in other areas of this impact assessment) are expected to offset the costs of the proposed option.

Key assumptions/sensitivities/risks	**Discount rate (%)**	3.5

This impact assessment is not yet able to provide a full analysis of policy direction in areas that are still open to consultation. The main quantified figures here relate to the cost benefit analysis of HE funding changes. The analysis is based on modelling assumptions that reflect the most up to date policy positions but do not affect the figures announced in the Spending Review 2010. The main assumptions on student numbers and average tuition fee level have not changed from the interim IA, but the analysis has been updated to cover an extended 10 year time period (assuming steady-state position from 2016/17) and to include part-time students (covered by the funding reforms).

Direct impact on business (Equivalent Annual) £m):			**In scope of OIOO?**	**Measure qualifies as**
Costs: £4m	**Benefits:** 0	**Net:** £-4m	No	

Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?			England		
From what date will the policy be implemented?			Academic year 2012/13		
Which organisation(s) will enforce the policy?			BIS, HEFCE, OFFA		
What is the annual change in enforcement cost (£m)?			Not quantified		
Does enforcement comply with Hampton principles?			Yes		
Does implementation go beyond minimum EU requirements?			N/A		
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)			**Traded:** N/A		**Non-traded:** N/A
Does the proposal have an impact on competition?			Yes		
What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?			**Costs:** 0		**Benefits:** 0
Distribution of annual cost (%) by organisation size (excl. Transition) (Constant Price)	**Micro** 0	**< 20** 0	**Small** 0	**Medium** 0	**Large** 0
Are any of these organisations exempt?	No	No	No	No	No

Specific Impact Tests: Checklist

Set out in the table below where information on any SITs undertaken as part of the analysis of the policy options can be found in the evidence base. For guidance on how to complete each test, double-click on the link for the guidance provided by the relevant department.

Please note this checklist is not intended to list each and every statutory consideration that departments should take into account when deciding which policy option to follow. It is the responsibility of departments to make sure that their duties are complied with.

Does your policy option/proposal have an impact on…?	**Impact**	**Page ref within IA**
Statutory equality duties[1] Statutory Equality Duties Impact Test guidance	Yes	Published separately
Economic impacts		
Competition Competition Assessment Impact Test guidance	Yes	65
Small firms Small Firms Impact Test guidance	Yes	66
Environmental impacts		
Greenhouse gas assessment Greenhouse Gas Assessment Impact Test guidance	N/Q	
Wider environmental issues Wider Environmental Issues Impact Test guidance	N/Q	67
Social impacts		
Health and well-being Health and Well-being Impact Test guidance	N/Q	
Human rights Human Rights Impact Test guidance	No	
Justice system Justice Impact Test guidance	No	
Rural proofing Rural Proofing Impact Test guidance	No	
Sustainable development Sustainable Development Impact Test guidance	No	

[1] Public bodies including Whitehall departments are required to consider the impact of their policies and measures on race, disability and gender. It is intended to extend this consideration requirement under the Equality Act 2010 to cover age, sexual orientation, religion or belief and gender reassignment from April 2011 (to Great Britain only). The Toolkit provides advice on statutory equality duties for public authorities with a remit in Northern Ireland.

Summary: Analysis and Evidence Policy 1

Description: **Reforms to the HE funding and student finance system**

Price Base Year 12/13	PV Base Year 12/13	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low:	High:	**Estimate of the net quantified impact -£8,340m*** **Although not quantified, the full benefits of these proposals are likely to be substantial*

COSTS (£m)	Total Transition (Constant Price)	Years	Av. Annual Quantified Cost (excl. Transition) (Constant Price)	Total Quantified Cost (Present Value)
Low				
High				
Best Estimate			£2,827m over 10 years	**£23,080m over 10 years**

Description and scale of key monetised costs by 'main affected groups'

As noted above, the estimated *quantified* costs and benefits for funding reform are shown in detail below (see Table 6) but cannot capture all the expected benefits of switching to a system where funding follows the student and the repayment system has been made more progressive. The total PV cost of £23,080m over ten years mainly comes from the additional fee loans (enabling greater investment in HE) and maintenance (offsetting negative impacts on participation from increased fees). These costs are partially offset by reduced teaching grant expenditure. The £2,827m is the average annual figure in constant prices. This includes the full resource cost to government and graduates (through loan repayments) over the full lifetime of the loans. However, it is important to note that graduates will not experience the full cost of their loan repayments in the 10 year period – a summary of the stream of payments is shown in table 7. Some of this additional investment will contribute to fair access improvements (e.g. via scholarships and bursaries), but is inherently linked with the broader funding changes. The quantified costs and benefits are shown here only to avoid double counting.

The costs of administering the new funding system and the costs to business are estimated to be ongoing rather than transitional, so are included in the overall costs.

Other key non-monetised costs by 'main affected groups'

None identified.

BENEFITS (£m)	Total Transition (Constant Price)	Years	Av. Annual Quantified Benefit (excl. Transition) (Constant Price)	Total Quantified Benefit (Present Value)
Low				
High				
Best Estimate			£1,679m over 10 years	**£14,740m over 10 years**

Description and scale of key monetised benefits by 'main affected groups'

Increases in income and reductions in public expenditure are shown in Table 6. As discussed above, the main driver of cost increases is from increasing investment and maintenance funding to students. The benefits of the policies are designed to work together to lead to a fundamental change in the system, putting more emphasis on student choice and aiming to deliver a more effective and efficient higher education system. Quantifying benefits is much more difficult because we do not yet know the knock-on effect of the extra income going in to universities over and above the current levels of teaching grant, or the improved maintenance package for students. The quantified figures here therefore do not capture the full impact of the policy. They do not attempt to place a simple monetary value on the improvements to education bought by the reforms. Nor do they capture the long run benefits of providing greater levels of maintenance support. Furthermore they do not capture wider benefits from allowing funding to follow the student and introducing more competition among providers. The total present value of quantified benefits shown here, £14,740, over 10 years comes from the estimated impact of better information provision on social mobility, which are realised through the graduate premium and improved retention rates. The average annual benefit over 10 years is £1,679m is in constant prices. These benefits will also be linked to improvements in information and fair access, but have only been quantified here to avoid double counting.

Other key non-monetised benefits by 'main affected groups'

The additional income received by students (in maintenance) and HEIs (in fees) supports better quality, a better student experience and equity benefits. It is not possible to quantify this precisely, but it needs to be taken into account in judging the overall impact of the reforms.

Key assumptions/sensitivities/risks	**Discount rate (%)**	3.5

This analysis updates the interim impact assessment which provided an indicative analysis of the potential economic impact of the reforms. The cost benefit analysis is based on modelling assumptions that reflect the most up to date policy positions but do not affect the figures announced in the Spending Review 2010. The main assumptions on student numbers and average tuition fee level have not changed but the analysis has been updated to cover an extended 10 year time period (assuming steady-state position from 2016/17) and to include part-time students (covered by the funding reforms).

Direct impact on business (Equivalent Annual) £m:			**In scope of OIOO?**	**Measure qualifies as**
Costs: £4m	**Benefits:**	**Net:** £-4m	**No**	

Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?	England				
From what date will the policy be implemented?	Academic year 2012/13				
Which organisation(s) will enforce the policy?	BIS				
What is the annual change in enforcement cost (£m)?	N/A				
Does enforcement comply with Hampton principles?	Yes				
Does implementation go beyond minimum EU requirements?	N/A				
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)	**Traded:** N/A	**Non-traded:** N/A			
Does the proposal have an impact on competition?	Yes				
What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?	**Costs:** 0	**Benefits:** 0			
Distribution of annual cost (%) by organisation size (excl. Transition) (Constant Price)	**Micro**	**< 20**	**Small**	**Medium**	**Large**
Are any of these organisations exempt?	No	No Yes/No	No Yes/No	No Yes/No	No Yes/No

Summary: Analysis and Evidence — Policy 2

Description:

Information – enabling students to choose the courses that best meet their needs

Price Base Year 2012/13	PV Base Year 2012/13	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: Optional	**High:** Optional	**Estimate of the net quantified impact £281.8m*** **Although not quantified, the full benefits of these proposals are likely to be substantial*

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low				
High		1		
Best Estimate	£0.2m		£1.5m over 10 yrs	**£13.4m over 10 yrs**

Description and scale of key monetised costs by 'main affected groups'

It is not yet possible to quantify all the potential changes in this area. The one-off changes to the Unistats website (paid from existing BIS budgets) is estimated between £100,000 and £300,000, so the best estimate is £0.2m. For ongoing costs, HEFCE estimate £1.38 million per annum to higher education institutions to gather information contained in the key information set (KIS). There will also be ongoing costs to Government of £150,000 from the KIS – in total these amount to about £13.4m (NPV) over ten years.

Other key non-monetised costs by 'main affected groups'

We have not costed the option of sharing more data and will explore this further in the next version of the impact assessment.

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low				
High				
Best Estimate			£34.4m	**£295.2m**

Description and scale of key monetised benefits by 'main affected groups'

It is not possible to quantify all the potential benefits from improved information in HE. The present value of quantified benefits over 10 years, £295.2m, represents estimates for improvements in social mobility, impacting on an improved graduate premium for suitably qualified students from more disadvantaged backgrounds attending the most selective HE institutions. These benefits will also arise from improvements in fair access, but to avoid double counting are only quantified in this section.

Other key non-monetised benefits by 'main affected groups'

Individuals considering entering higher education (HE) will be able to compare courses within and across HE websites on a more comparable basis. This will help individuals to locate information more quickly and should reduce search costs. Additional graduate salary information on Unistats allows applicants to access relative wage return information on previous graduates to inform their decision whether to enter HE and where to study. More information on actual entry qualifications can help with A-level choices.

Key assumptions/sensitivities/risks — **Discount rate (%)** 3.5

The quantified benefits include an assumption of increased social mobility from more students from lower income groups entering Russell Group universities. This is based on a range of sources of evidence set out in the background evidence on information, including HESA performance indicators, graduate premiums and studies on social mobility.

Direct impact on business (Equivalent Annual) £m):			In scope of OIOO?	Measure qualifies as
Costs: 0	**Benefits:** 0	**Net:** 0	No	

Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?			England		
From what date will the policy be implemented?			Academic year 2012/13		
Which organisation(s) will enforce the policy?			HEFCE		
What is the annual change in enforcement cost (£m)?			Not yet quantified		
Does enforcement comply with Hampton principles?			Yes		
Does implementation go beyond minimum EU requirements?			N/A		
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)			**Traded:** N/A	**Non-traded:** N/A	
Does the proposal have an impact on competition?			Yes		
What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?			**Costs:** 0	**Benefits:** 0	
Distribution of annual cost (%) by organisation size (excl. Transition) (Constant Price)	**Micro**	**< 20**	**Small**	**Medium**	**Large**
Are any of these organisations exempt?	No	No	No	No	No

Summary: Analysis and Evidence — Policy 3

Description:

Fair access – require any institution charging over £6,000 to agree an access agreement with the Office for Fair access (OFFA)

Price Base Year 12/13	PV Base Year 12/13	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low:	High:	Best Estimate: N/Q

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low				
High				
Best Estimate	0		0	0

Description and scale of key monetised costs by 'main affected groups'

Higher Education Institutions (HEIs) that intend to charge over £6,000 will need to draft an access agreement and submit it to OFFA - we expect the cost of doing this to be similar to what they already incur, so that there is no additional marginal cost.

Other key non-monetised costs by 'main affected groups'

HEIs will be spending money on access and retention measures (this IA includes OFFA's guidance on expenditure per fee above £6,000) and have to assess the progress made against their access agreements. The costs of these measures have not been quantified separately here as the changes in costs are inherently linked with the changes to the funding regime (see quantified costs and benefits above). The additional spending by government and HEIs will come through the National Scholarship Programme and HEI bursaries and scholarships. These are shown in the transfers table for the funding regime.

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low				
High				
Best Estimate	0		0	0

Description and scale of key monetised benefits by 'main affected groups'

The benefits from improved access will come from improvements to social mobility, and will also be linked with the policy changes to information. These benefits are not quantified here to avoid double counting with the benefits already quantified above.

Other key non-monetised benefits by 'main affected groups'

Access agreements are intended to widen participation across the HE sector including to the most highly selective courses. Without them social mobility and overall participation would be lower, with indirect costs to society and direct costs in reduced graduate returns. As indicated above, the changes in spending are inherently linked with the changes to the funding regime.

Key assumptions/sensitivities/risks — **Discount rate (%)**

Direct impact on business (Equivalent Annual) £m):			In scope of OIOO?	Measure qualifies as
Costs: 0	Benefits: 0	Net: 0	No	

Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?	England
From what date will the policy be implemented?	Academic year 2012/13

Which organisation(s) will enforce the policy?	OFFA				
What is the annual change in enforcement cost (£m)?	No additional costs yet				
Does enforcement comply with Hampton principles?	Yes				
Does implementation go beyond minimum EU requirements?	N/A				
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)	**Traded:** N/A		**Non-traded:** N/		
Does the proposal have an impact on competition?	Yes				
What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?	**Costs:**		**Benefits:**		
Distribution of annual cost (%) by organisation size (excl. Transition) (Constant Price)	**Micro**	**< 20**	**Small**	**Medium**	**Large**
Are any of these organisations exempt?	No	No	No	No	No

Summary: Analysis and Evidence — Policy 4

Description:

Creating dynamism and competition in student number allocations

Price Base Year:12/13	PV Base Year 12/13	Time Period Years 10	Net Benefit (Present Value (PV)) (£m) Low:	High:	Best Estimate:

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low				
High				
Best Estimate	0		0	**0**

Description and scale of key monetised costs by 'main affected groups'

Other key non-monetised costs by 'main affected groups'

HEFCE will be consulting on the details of this option and a more through assessment of the costs will appear in the next version of the impact assessment.

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low				
High				
Best Estimate	0		0	**0**

Description and scale of key monetised benefits by 'main affected groups'

Other key non-monetised benefits by 'main affected groups'

Creating dynamism in student number allocations can allow some institutions to respond better to student demand. Encouraging more competition in recruitment helps to drive up choice and quality and competitive pricing. Freeing up of 'AAB' places should allow more students to get their first choice.

Key assumptions/sensitivities/risks	Discount rate (%)	

Direct impact on business (Equivalent Annual) £m): Costs:	Benefits:	Net:	In scope of OIOO?	Measure qualifies as
			No	

Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?	England
From what date will the policy be implemented?	From academic year 2012/13
Which organisation(s) will enforce the policy?	HEFCE
What is the annual change in enforcement cost (£m)?	Not yet quantified

Does enforcement comply with Hampton principles?			Yes		
Does implementation go beyond minimum EU requirements?			N/A		
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)			**Traded:**		**Non-traded:**
Does the proposal have an impact on competition?			Yes		
What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?			**Costs:**		**Benefits:**
Distribution of annual cost (%) by organisation size (excl. Transition) (Constant Price)	**Micro**	**< 20**	**Small**	**Medium**	**Large**
Are any of these organisations exempt?	No	No	No	No	No

Summary: Analysis and Evidence — Policy 5

Description:

Reforming the regulatory framework – introduction of a regulatory framework to underpin the new system

Price Base Year 12/13	PV Base Year 12/13	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low:	High:	Best Estimate:

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low				
High				
Best Estimate	0		0	**0**

Description and scale of key monetised costs by 'main affected groups'

Other key non-monetised costs by 'main affected groups'

The proposals on regulation are the minimum necessary to protect both the student and public interest and to maintain high quality standards, whilst at the same time breaking down barriers to market entry and simplifying the regime wherever possible. We have not estimated the costs but will explore further in the next version of the impact assessment.

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low				
High				
Best Estimate	0		0	**0**

Description and scale of key monetised benefits by 'main affected groups'

Other key non-monetised benefits by 'main affected groups'

Positive impact on existing HEFCE funded providers from simplifying the regulatory burden within the regime and applying a risk based approach to regulation where appropriate. Alternative providers will benefit from changes to DAPs and University title which will make it easier and more attractive for them to enter the sector on a more equal basis. Students will benefit from a regulatory framework that creates a dynamic HE sector that encourages competition, innovation and ensures high quality standards.

Key assumptions/sensitivities/risks	Discount rate (%)	

Direct impact on business (Equivalent Annual) £m):			In scope of OIOO?	Measure qualifies as
Costs: 0	Benefits: 0	Net: 0	No	

Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?	England

<table>
<tr><td colspan="3">From what date will the policy be implemented?</td><td colspan="3">From Academic year 2012/13</td></tr>
<tr><td colspan="3">Which organisation(s) will enforce the policy?</td><td colspan="3">HEFCE</td></tr>
<tr><td colspan="3">What is the annual change in enforcement cost (£m)?</td><td colspan="3">Not yet quantified</td></tr>
<tr><td colspan="3">Does enforcement comply with Hampton principles?</td><td colspan="3">Yes</td></tr>
<tr><td colspan="3">Does implementation go beyond minimum EU requirements?</td><td colspan="3">N/A</td></tr>
<tr><td colspan="3">What is the CO_2 equivalent change in greenhouse gas emissions?
(Million tonnes CO_2 equivalent)</td><td colspan="2">Traded:
N/A</td><td>Non-traded:
N/A</td></tr>
<tr><td colspan="3">Does the proposal have an impact on competition?</td><td colspan="3">Yes</td></tr>
<tr><td colspan="3">What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?</td><td colspan="2">Costs:</td><td>Benefits:</td></tr>
<tr><td>Distribution of annual cost (%) by organisation size
(excl. Transition) (Constant Price)</td><td>Micro</td><td>< 20</td><td>Small</td><td>Medium</td><td>Large</td></tr>
<tr><td>Are any of these organisations exempt?</td><td>No</td><td>No</td><td>No</td><td>No</td><td>No</td></tr>
</table>

References

Include the links to relevant legislation and publications, such as public impact assessments of earlier stages (e.g. Consultation, Final, Enactment) and those of the matching IN or OUTs measures

No.	Legislation or publication
1	Equality impact assessment http://www.bis.gov.uk/hereform/all-documents/
2	Interim impact assessment urgent reforms to Higher Education funding and student finance November 2010 http://www.bis.gov.uk/assets/biscore/higher-education/docs/i/10-1309-interim-impact-assessment-he-funding-and-student-finance.pdf
3	Interim equality impact assessment urgent reforms to Higher Education funding and student finance November 2010 http://www.bis.gov.uk/assets/biscore/higher-education/docs/i/10-1310-interim-equality-impact-assessment-he-funding-and-student-finance.pdf

Evidence base for summary sheets

Higher Education Reforms White paper

Impact assessment

Introduction

The Higher Education White Paper

Our universities have a fundamental value: the creation and transmission of knowledge for its own sake; expanding the individual and collective intellect; exploring the unknown and the things we take for granted. Higher Education (HE) also contributes to key Government objectives of growth and social mobility, and in doing so provides a number of benefits to individuals, families and wider society.

As we have moved from a minority to a mass system of higher education, we face new challenges of how to fund it in such a way which is affordable for Government whilst maintaining participation and quality and allowing all those with the ability to benefit to be able to access a university education.

And there are additional challenges arising as a result of globalisation. Increasing competition from other countries able to invest heavily in education and research mean that we need to take action to ensure our system remains internationally competitive.

The Higher Education White Paper sets out how the Government will respond to these challenges: creating a more dynamic and student-led system, which supports social mobility and economic growth and is affordable for Government. They will put higher education institutions on a secure financial footing and enable our higher education system to compete internationally.

This will be followed in 2012 by a Higher Education Bill, which will take forward any changes to primary legislation needed to implement reforms to higher education.

Scope of this Impact Assessment

This impact assessment focuses on those proposals set out in the HE White Paper which involve regulatory change and/or require primary legislation to implement via a HE Bill in 2012.

Government will consult further on the proposals in the Higher Education White Paper before taking forward this legislation and will publish a further, more detailed impact assessment prior to the introduction of a Bill.

The policy proposals put forward in the HE White Paper and which fall within scope of this impact assessment are:

Policy proposal	Rationale for change	Policy goal
Funding and student finance Re-direct funding so that more of it flows through the student, rather than centrally allocated grant. Provide support so that no eligible student has to pay up front.	Government has a role to provide financial support for students where credit markets would otherwise fail. The current system of funding is unaffordable and graduates that benefit most from higher education should be expected to contribute more towards the cost.	To reform the funding of higher education, to make it fair and sustainable and ensure that the methods for allocating public funds create the right incentives to drive competition to deliver efficiency, quality and innovation.
Information Increase the amount, quality and accessibility of information available to prospective students.	Information asymmetries are a source of market failure in higher education. There is evidence that young people do not have access to adequate information when making decisions about higher education. This disproportionately affects disadvantaged students and so impacts on social mobility.	To put students at the heart of the system by providing better information about course content and outcomes that will allow prospective students to make more informed decisions and choose the right course for them; thereby contributing to skills, growth and social mobility.
Fair Access Require any institution charging over £6,000 to agree an access agreement with the Office for Fair Access.	Although progress has been made on widening participation in higher education, the number of disadvantaged students going to the most selective universities has remained relatively flat. Those charging higher fees will therefore be required to do much more to support fair access and will have to demonstrate what progress they will make on this.	To increase social mobility by enabling more people from disadvantaged backgrounds to enter higher education, and subsequently gain employment in the professions and other rewarding, well paid occupations. To make greater progress in extending fair access for applicants of the highest ability to the most selective higher education institutions.
Student number controls Within budgetary constraints, allow more flexibility in how student numbers are allocated.	The current system constrains flexibility and thus the extent to which student choice can drive competition between institutions.	More competition will drive improvements in quality and value. Giving students the ability to exercise greater choice will allow them to attend the institution that best meets their needs.
Regulatory framework Introduce a simplified regulatory framework to underpin the new system	Funding reforms will mean HEFCE's influence over the sector through conditions attached to teaching grant will reduce over time as most money will flow through tuition fees. Government needs a new way of regulating the system. Simplifying the regulatory framework – whilst still allowing the Government to protect the public interest - will allow for a more dynamic system.	To create an open and dynamic HE system by encouraging competition and innovation in supply and enabling new providers to enter the system on fair terms. To secure and sustain high standards of HE qualifications thereby sustaining public confidence, protecting the consumer interest and maintaining a high international reputation for the UK HE system.

Problem under consideration

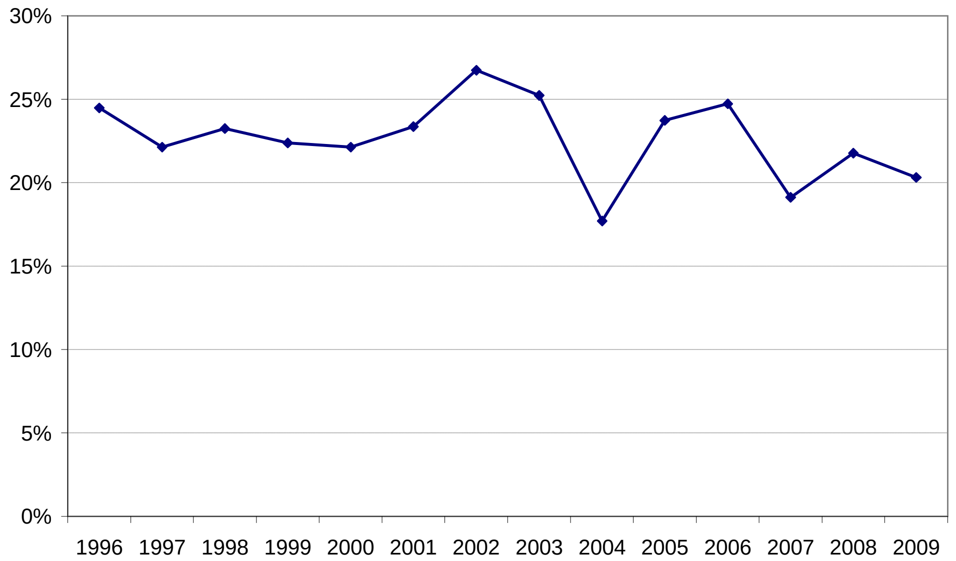
Why higher education matters

Growth

Higher education contributes to growth through equipping individuals with the skills that enhance their productivity in the workplace (“human capital”), promoting the economy’s knowledge base and driving innovation. High levels of human capital are necessary for product or process innovation, assisting in developing new technologies, providing a talent pool for entrepreneurship and promoting agglomeration externalities arising from the concentration of skilled individuals and firms in one place. A one percentage point rise in the number of people with tertiary education within OECD countries increased GDP per capita growth by 1.1 percentage points[2].

Higher education also generates substantial labour market benefits for individuals. Over their working life graduates currently earn, on average, over £100,000 more net of tax, in today’s valuation and taking into account foregone earnings whilst studying, compared to an individual with two or more A Levels and no degree. Despite expansion in the supply of graduates over time, the relative wage premium for a degree has stayed fairly stable[3]. Arguably, this shows that there has been an increase in demand for graduate-level skills[4].

Chart 1. Average wage premium for undergraduate degrees (%) 1996-2009*



Source: The Returns to higher Education qualifications. London Economics report to BIS 2011 (forthcoming). * The chart compares the cohort of graduates to the cohort of non-graduates in an annual snap shot of relative wage rates from the Labour Force Survey. The wage premium measures the average percentage increase in the hourly wage rate a graduate would expect to receive compared to someone with only 2 or more A levels, controlling for a number of other characteristics which could also affect earnings

[2] Gemmel (1996) in Sianesi and Van Reenan, 2003

[3] London Economics, 2011

[4] Jenkins et al, 2007

Social mobility

Because participation in higher education increases earning potential and expands opportunity for individuals, it is also strongly correlated with increased social mobility. While there is an active debate about the interaction and relative importance of different influences and interventions at different stages of the life cycle - including cognitive and non-cognitive attributes, parental education and GCSE and A-Level choices – most research indicates that achievement in post-compulsory education, particularly in HE, is extremely important in determining the level of intergenerational mobility.[5] There is wide agreement that middle-class families have been better able to take advantage of increasing educational opportunities, partly because of higher levels of social and cultural capital, and that the growing imbalance in access to higher education by family background was a powerful driver of the decline in intergenerational mobility (between the 1958 and 1970 birth cohorts).[6]

Health and wellbeing

Higher education also brings many personal benefits to graduates and their families. They are healthier – less likely to be depressed, to smoke or to be obese than similar people who did not participate in higher education[7] which in turn has a positive impact on their quality of life and longevity.

Graduates also create a more educational family environment including, for example, reading more to their children and owning more books than non-graduates.[8] Perhaps because of this, the children of graduates are less likely to experience educational difficulties than children whose parents are educated below A-level[9]. In particular, one study found that a mother’s education strongly affects her children’s educational achievements; if a mother has a university degree, there is a two-thirds chance that her child will obtain a degree, compared to only 12% for a mother’s whose highest qualification is an O-Level. [10]

Research

Our research base makes a significant contribution to innovation and growth and generates income for the higher education institutions that house it. For example, the quality of UK research attracts overseas students worth £2.2bn p.a. to the UK. Research provides highly skilled people to the job market.

Research also generates new ideas and technologies, improves company performance and creates new businesses. Between 2003 and 2010, 37 university spin outs were

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[5] Crawford et al, Social Mobility : A Literature Review, BIS, 2011

[6] Blanden et al, Explaining Intergenerational Income Persistence: Non-cognitive Skills, Ability and Education, 2006

[7] Bynner et al, 2003, Revisiting the benefits of higher education, report by the Bedford group for lifecourse and statistical studies

[8] Bynner et al 2003, Revisiting the benefits of higher education, report by the Bedford group for lifecourse and statistical studies

[9] Bynner et al 2001, The wider benefit of HE, report by the institute of Education for the Higher Education Funding Council in England and the Smith Institute, HEFCE report 01/46

[10] Ermisch (1999)

floated on the stock exchange with an IPO value of £1.7 billion and 24 university spin out companies were acquired by other businesses for a total value of £2.4bn[11]. The excellence of our research base also attracts global investment to the UK. For example, in 2008/09 the UKTI used the strength of the research base to attract over 200 R&D investments to the UK.[12]

The challenges facing higher education

Sustainable funding

Over the past 25 years, we have moved from a minority to a mass system. Over half of young people now aspire to go to university and almost all parents aspire for their children to go. There have been increasing numbers of university applicants with non-traditional qualifications. That is a huge achievement. But the funding system has not evolved to keep pace and, in the current economic climate, even the level of public funding devoted to higher education we inherited, is not affordable.

Social mobility

Although there have been improvements in widening participation in higher education over the last 15 years, the participation rates of the most disadvantaged young people in the most selective universities has remained virtually unchanged over the same period. Attendance at a selective institution is a recognised route into the professions but 70% of our high court judges and 54% of top journalists went to independent schools. This is not because students from state schools are less able. A recent study of Oxford University found that private school pupils perform less well in their final examinations relative to their GSCE results when compared with state school students[13]. A second study of Bristol University found that state school pupils on average outperform independent school students who entered with similar grades[14].

This is not only wasteful, it is also unfair. Higher education should be a powerful engine of social mobility. We want to live in a society where anyone with the ability to benefit from higher education should be able to compete for places, including to the most selective institutions, on equal terms.

Information, quality and the student experience

Funding reforms will motivate students to demand a better higher education system and HEIs will be incentivised to be more responsive to students, improve quality and value and get better at demonstrating what they offer.

To help prospective students make informed choices and hold providers to account, we need to provide better, more easily accessible information on which programmes and

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[11] Unpublished data provided by UNICO

[12] UKTI, 2008

[13] Ogg, Zimdars & Health, British Educational Research Journal, 2009, 35.5

[14] Hoare & Johnston, Studies in Higher Education, 2010

institutions will meet their needs and equip them with the skills to get a good job when they graduate.

International competition and globalisation

The higher education sector does not only need to respond to domestic challenges. There are growing populations and rising prosperity in many parts of the world, new technologies and dramatic improvements in the speed and ease of moving capital, goods and information. Among OECD countries, the UK's comparatively strong position as a highly skilled economy is under threat as more and more countries focus on increasing the skills of their populations as a source of competitive advantage. While the UK's graduation rate has remained more or less stable over the last eight years, others have improved – in 2000 we were ranked fourth in terms of graduation rates (for tertiary type A qualifications), in 2008 we were 15th[15].

Rationale for intervention

There are well established economic arguments for intervening in higher education, including market failures and equity issues. A market will only produce the efficient outcome and level of investment where there are no market failures. However, there are two primary forms of market failure in higher education: imperfect information generating credit market failures; and positive externalities causing sub-optimal investment. Left alone, this would produce an inefficient outcome. Individuals, particularly those from disadvantaged backgrounds, may not choose or be able to afford to invest in higher education.

Evidence on this was presented and discussed in the interim impact assessment published by BIS[16] in November 2010 when the Government provided its initial response to the Independent Review of Higher Education Funding and Student Finance[17].

The nature of government intervention in higher education is complex and there is no one optimal solution. Market failures present in higher education differ from those of a traditional public good or compared to, for example, health care and primary education (see Barr, 2004, for further detail). Other countries operate their higher education systems based on different combinations of government intervention[18].

The approach taken to Government intervention in England has evolved over time and there is scope for the current system of intervention to be adapted to produce a more efficient outcome. For example, by creating more incentives for competition by removing

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[15] OECD (2010) Education At A Glance

[16] BIS (2010) Interim impact assessment http://www.bis.gov.uk/assets/biscore/higher-education/docs/i/10-1309-interim-impact-assessment-he-funding-and-student-finance.pdf

[17] Browne Review (2010) *www.independent.gov.uk/browne-report*

[18] BIS (2010) Review of Student Support in other countries, BIS Research report number 10

the subsidies paid to some providers which currently prevent others from being able to compete; and by allowing more funding to follow student choice.

The evidence on the challenges facing our higher education system and on the existence of market failures demonstrates that there is a rationale for government to:

1. overcome the credit market failures and provide the necessary finance to prevent barriers in access, and directly support HE where the positive externalities and spillovers are greatest;
2. remove information barriers to enable the market to deliver accurate price signals and thus individuals to make more informed decisions;
3. encourage fair treatment of all individuals regardless of social background so that they are equally able to make choices that suit them;
4. drive a more competitive system based on choice, quality and efficiency; and
5. remove regulatory barriers to create a level playing field between all providers and enable new providers to enter.

The five policy proposals analysed in this impact assessment directly relate to addressing the interventions outlined above.

Policy objectives

Reforms to higher education will create a more dynamic and student-led system, which supports social mobility and economic growth and is affordable for Government. They will put higher education institutions on a secure financial footing and enable our higher education system to remain internationally competitive.

The higher education reform programme reflects wider themes that the Government is pursuing across all public services - driving transparency and accountability through publishing better information about service delivery; promoting fairness by tackling the barriers to social mobility; giving customers more power to get the service they want; deregulating and encouraging fair and dynamic markets and increasing local decision making and autonomy.

Description of proposals being considered

The Higher Education White paper proposes a wide range of reforms to higher education. This impact assessment focuses on proposals that involve regulation and/or require legislative change and will feed into a Higher Education Bill in 2012. These can be summarised into five main themes:

- **HE funding and student finance** – p23
- **Information – enabling students to chose the courses that best meet their needs** – p 38
- **Fair Access –** p 46
- **Creating dynamism and competition in student number allocations** – p. 50
- **Reforming the regulatory framework** –p. 59

These are summarised in the table below.

Each proposal has its own assessment of the impact if it was implemented in isolation (see subsequent sections). The costs and benefits of each proposal are measured against a 'do-nothing' baseline.

During the consultation period and before the Higher Education Bill in 2012, we want to improve the available evidence so that the individual proposals can be more thoroughly assessed. We welcome input from consultees. A further, more detailed impact assessment will then be published alongside the Higher Education Bill.

One in, one out rule

The proposals contained in this impact assessment are out of scope for one in, one out rules.

Consultation

Consultation to date

These proposals build on the report of the Independent Review of Higher Education Funding and Student Finance. The review, which took place over 12 months, took views from a wide range of stakeholders and was conducted in an open and consultative manner.

Since the review reported in October 2010, we have consulted on our developing proposals with partners across Government, with delivery partners and with key organisations within the higher education sector. We have also engaged the views of students, higher education providers of all types, of economists, academics and other experts in higher education and beyond.

Further consultation

A 12-week public consultation is being run alongside the Higher Education White Paper and will provide further opportunity for feedback on these proposals prior to a Higher Education Bill in 2012.

THEME	DETAILED PROPOSALS
HE funding and student finance (page 10)	Re-direct funding so that more of it flows through the student, rather than centrally allocated grant Provide loans for fees so that no eligible student has to pay upfront; extended to part-time students studying at 25% intensity or more Provide support for living costs, with more support for the poorest students Introduce a more progressive repayment system linked to income, whereby high earning graduates pay back the most and low earners are protected
Information (page 32)	Require all institutions to provide a standardised Key Information Set about all of their courses Improve the Unistats website to provide a single source of comparable data Stimulate a wealth of information by releasing more raw data about progression of students and graduate outcomes
Fair Access (page 42)	Require all institutions that intend to charge more than £6,000 to demonstrate to the satisfaction of the independent Director of Fair Access what more they will do to attract students from disadvantaged backgrounds.
Student number allocations (page 46)	Within budgetary constraints, allow more flexibility in how student numbers are allocated.
Reforming the regulatory framework (page 55)	Introduce a single regulatory framework for all higher education providers. All institutions offering a recognised “English degree” (i.e. having “degree awarding powers” in England) would need to satisfy a quality threshold, administered by the Quality Assurance Agency. Institutions that want their students to access student support funding (loans and grants) would need to first satisfy eligibility conditions around quality, access and financial health. Specific conditions attaching to student support will be set down in an institution’s financial memorandum which will include requirements around information, quality, financial reporting, dispute resolution, student numbers, pricing. Not for profit institutions would additionally, subject to satisfying the necessary conditions, be able to access grants to fund those additional costs and public policy priorities that

cannot be met by a student-led funding system alone.

HE funding and student finance

An interim impact assessment of the HE funding and student finance reforms in England was published on 29 November 2010, measured the discounted costs and benefits of different options using the latest actual data where available or the assumptions listed in that paper. This updates that analysis.

The relevant time period begins in 2012/13 – the first year that students eligible under the new system will enter Higher Education. A 10 year period for impact assessments has been applied despite the uncertainties around future spending after the current spending review period. By academic year 2016/17 we expect that over 95% of both full and part-time students in HE to have started their courses in 2012 or afterwards. All these students are expected to be on the same package of support and attract the same level of teaching grant funding, so the system will broadly be in steady state by this point. To calculate the net present value, a discount rate of 3.5% was applied with 2012/13 representing year 0.

Since the interim impact assessment there have been the following developments:

- Amendments to regulation have been passed to enable any HEFCE (or TDA) funded institution to charge tuition fees of up to the ‘basic amount’ of £6,000; and up to the ‘higher amount’ of £9,000 where they agree an access agreement with the Director of Fair Access.
- The Education Bill, currently going through parliament, includes clauses to introduce new regulation of part-time fees from 2012/13.
- The Education Bill also includes provisions to enable a real rate of interest to be part of the new student repayment package.

Other elements concerning the student finance package have been subsequently updated and are incorporated in this revised impact assessment:

- Tuition loans for part time students will be available for those studying at least 25% the intensity of a full time course (extended from 33%).
- The income threshold at which repayments start to be made by graduates will be up-rated annually from 2016, rather than being every five years.

Problem under consideration

In October 2010 Lord Browne published his Independent Review of Higher Education Funding and Student Finance. This identified the need for a more sustainable HE funding and student finance system with the right incentives to drive participation and quality and a rebalancing of contributions towards those who benefit paying a greater proportion of the cost. Also in October 2010, the Spending Review resulted in large reductions to government grant support for HE: reducing the overall resource grant budget for HE, excluding research funding, from £7.1 billion to £4.2 billion in real terms by 2014-15. This is part of the Government's wider aim to eliminate the structural deficit over the course of this Parliament. Alongside these issues, there are inherent market failures in HE such as positive externalities and imperfect information provision which necessitate intervention considerations around funding and student finance.

Rationale for intervention

The rationale for intervention in HE funding and student finance was detailed in the interim impact assessment and has also been provided in the overarching evidence at the beginning of this document. As well as the problems identified by Lord Browne, the interim impact assessment identified evidence of two forms of market failures in HE: the presence of positive externalities such as spillovers from human capital accumulation to economic growth and wider benefits to society; and imperfect information such as on future benefits from undertaking HE. These lead to uninformed decision making among potential students, adverse selection and moral hazard, causing private credit markets to fail to provide the sufficient level of finance necessary to produce the socially optimum level of HE; and risk aversion among potential borrowers, especially those from more disadvantaged backgrounds (leading to a sub-optimal level of investment in HE).

The presence of these market failures provides the rationale for government intervention in the funding and financing of HE. For example, asymmetric information necessitates the provision of student finance by governments so that no students face any up-front costs from investing in HE and the barriers to accessing finance are reduced. Reform of the method of funding HE will also help to drive more competition within the sector. The current mechanism of allocating public funding through block teaching grants allocated by the HE Funding Council for England (HEFCE) reduces the incentives for institutions to compete to attract students, preventing benefits from competition of further efficiency, quality and innovation.

Policy objective

To reform the funding of higher education, to make it fair and sustainable and ensure that the methods for allocating public funds create the right incentives to drive competition to deliver efficiency, quality and innovation.

Description of options considered

Option 1: Do-nothing

Do-nothing would involve maintaining the current system with the levels of public funding before the Spending Review 2010 (SR2010) announcement and the Government's intention to cut the deficit. This announcement included a real terms reduction to the overall resource grant budget for Higher Education (excluding research funding) from £7.1 billion to £4.2 billion by

2014-15. Therefore, do-nothing is not feasible. It represents the most appropriate baseline on which to form the analysis to demonstrate the marginal impacts of the following options. This baseline was agreed at the BIS Peer Review Group for the interim impact assessment as part of the Chief Economist sign-off so as to treat the SR2010 announcement and need for HE reforms as one issue. The analysis for all other options, as is the norm for impact assessments, considers the marginal impact compared to this baseline.

Option 2: Current funding system with reduced government funding

If we chose to maintain the current system, then the planned reduction to public expenditure in HE over the Spending Review period announced in October 2010 would have to be met either through a reduction in the grant available for teaching or through a reduction in the number of student places available. A reduction in the unit of resource would have serious implications for the standard of service that HEIs would be able to provide. To maintain the current unit resource, the only alternative would be a reduction in student numbers. The reduction in student entrants to remain within the spending envelope set for HE was estimated to be 58%. This reduction in student entrants is the option explored here.

Option 3: Return to previous funding system with reduced government funding

In the context of reduced government funding for HE (excluding research) another option might be to return to the funding system in place prior to the previous reforms. This system was characterised by an upfront fee of £1,200 for all students and a less generous student support package (including fee loans up to £1,000 and means-tested fee grants but no maintenance grants). To maintain the level of unit grant resource in the baseline option but meet the SR2010 spending envelope set for HE, would require a 49% reduction in student numbers. This reduction in student entrants is the option explored here.

Options 4a and 4b: Browne approach

The independent review by Lord Browne assessed the options for HE reform and recommended a sustainable approach to funding which more appropriately reflects the costs and benefits involved for individuals and government, drives quality and protects participation. This approach has been broadly endorsed by the Government as consistent with the rationale presented above. **Option 4 a** presents the impact of implementing the full Browne package and **Option 4 b** presents an alternative package of reforms (which remains within the limits of the Spending Review resource envelope allocated for HE).

4a:

- No overall fee cap. Universities pay a levy on the income from fees over £6,000 to cover the costs to Government of providing students with the upfront finance.

- Government meets the upfront costs of learning through loans for full and part time students.
- A maximum maintenance grant of £3,250 available up to a household income of £25,000 (same as now) and a partial grant up to a household income of £60,000.
- A flat rate loan of £3,750 to cover the costs of living available to all students.
- Graduates don't start paying back loans until they are earning £21,000.
- On repayment, a real rate of interest, equivalent to the government cost of borrowing charged on student loans. This would only apply to graduates earning above the repayment threshold.
- Outstanding loan balance written off after 30 years.

4b - as in 4a except:

- Basic fee of £6,000, upper limit of £9,000. No levy but HEIs charging more than £6,000 have to invest more in access instead.
- Partial maintenance grant up to a household income of £42,600.
- A means tested maintenance loan of between £3,575 and £5,500
- On repayment, interest rate for those earning above the £21,000 threshold increases gradually, reaching the full RPI+3% at £41,000.

The main element of the Browne approach is the rebalancing of contributions between public and private contributors; with HEIs able to set higher tuition fees for undergraduate courses (where justified) and thus enables a reduction in the publicly funded teaching grant. Students meet the cost of their course through contributions upon graduation and are provided with financial support as students so as they get at least as much support as under the current system. The graduate repayment system proposed by Browne reflects more accurately, through a higher interest rate, the assumed cost to the government of borrowing, and increases the repayment threshold from which repayments are expected to be made, benefitting lower earning graduates. However, some care is needed in drawing comparisons against the base case in option 1. No adjustment has been made for either option 4a or 4b for the lower borrowing costs the Government might expect to incur over the lifetime of the loans as a result of its plans to cut the deficit.

Costs and benefits

This impact assessment gives a fuller breakdown than the interim impact assessment of the quantified costs and benefits. The main components are summarised in Table 1. Note that it is not possible to quantify robustly the benefits to students from additional maintenance and to HEIs of additional income.

Table 1: Quantifiable Costs and Benefits of Higher Education

For:	COSTS	BENEFITS
GOVERNMENT	Teaching grant allocated to institutions through Higher Education Funding Council for England	Increased tax and National Insurance contributions from additional graduate earnings.
	Student maintenance grants	
	Loan provision (including non-repayment and interest subsidy[19])	
	Administration costs (mainly to HMRC and Student Loan Company)	
	Foregone taxation from students not earning while in HE	
	National Scholarship Programme	
STUDENTS	Upfront fee payments (where they choose to pay upfront).	
	Foregone earnings while in HE	
GRADUATES	Graduate contributions (loan repayments)	Graduate premium - increased earnings over working life from HE attainment.
BUSINESS	Administration cost of student loan repayment system	

Quantifying costs and benefits

The methodology applied to quantify the costs and benefits is based on that applied in the interim impact assessment. The differences in the numbers are due to several updates in the analysis. This includes the changes to the student repayment package identified earlier, the inclusion of part-time students in the analysis and updated current expenditure and Resource Accounting Budget (RAB) charge projections. This changes the comparative do-nothing option and therefore the marginal costs and benefits in the options that follow.

[19] Note that non-repayment and interest subsidy costs of loans do not materialise until the end of the loan period (30 years)

- **Benefits:**

The benefits to government and graduates accrue over the future working lifetime of the graduate and thus need to be calculated by discounting as necessary.

For graduates, the benefit from undertaking HE is the graduate premium in the form of additional lifetime earnings and a greater likelihood of being employed. There is evidence (external reports/analysis and BIS internal analysis) which suggests that additional lifetime earnings for a graduate (assuming a 46 year lifetime upon entering HE) are on average £100,000 compared to those who are qualified to no more than A level or the equivalent qualification. This figure is net of taxes and discounted across the working lifetime at 3.5% for 30 years and 3.0% thereafter.

For students, there are additional benefits from the maintenance spend and the additional income from fees which may boost teaching quality, although these cannot be directly quantified.

For Government, the “exchequer benefits” are the additional tax and National Insurance Contributions graduates make from their additional lifetime earnings. BIS internal analysis of the average graduate premium suggests these exchequer benefits are £80,000 per graduate.

For business, it is assumed the benefits from additional labour productivity from having an appropriately skilled workforce is reflected in the graduate premium they pay to their employees. Therefore it is assumed that in monetary terms, there are no benefits to businesses above and beyond those reflected in the graduate premium paid by firms to their graduates.

There may also be further benefits for businesses beyond the direct accumulation of human capital. The labour productivity gains are reflected in Table 1 and assumed in the analysis to be reflected by the value of the graduate premium. However, there is evidence that spillovers from human capital accumulation can increase productivity more than the direct productivity effect for the individual accumulating that human capital. For example, Moretti (2004) estimated the social return to HE based on data from the United States and found that a percentage point increase in the supply of college graduates increases the wages of high school drop-outs by 1.9%, high school graduates' wages by 1.6%, and college graduates wages by 0.4%. There may also be productivity benefits for business which are not reflected by wages (and are retained by firms in the form of profits). Evidence[20] on the impact of private sector training (so not directly relating to HE but still useful to reflect the impact of human capital accumulation) shows that a 1 percentage point increase in the proportion of employees trained is associated with about

[20] Dearden, Reed and Van Reenen http://www.ifs.org.uk/wps/wp0516.pdf

a 0.6% increase in productivity and a 0.3% increase in wages. However, estimating the magnitude of these wider benefits and spillovers from HE is difficult so they remain unquantified in this analysis.

- **Costs:**

For Government, the costs of providing loans is represented in this analysis as the Resource Accounting Budget (RAB) charge; which is the amount of loans which are never repaid and any differential between the interest rate charged and the government's cost of borrowing. These costs were estimated by assuming an average graduate contribution of £7,500 per year, profiling future expected earnings profiles of graduates to forecast estimated repayments on loans and assuming take up rates for student support of 90% for fee loans and 80% for maintenance loans.

To enable accounting for future lifetime earnings in the time period for this analysis, the costs are treated as if they were incurred in the year a student enters HE, even though the actual cost to government will be spread over the lifetime of the loan. More details of the derivation of the RAB charge are set out in the Department's annual resource accounts.

In order to show the flows of funding and how those are changing in the chosen option, we have also set out a table showing the transfers of payments between different participants over the 10 year timeframe of the IA, with the stream of payments as they made.

Government also incurs costs from the teaching grant which is currently allocated to the HEFCE to distribute among HEIs and the maintenance grants provided to students from low income households to enable them to overcome financial barriers of undertaking HE. These are calculated by:

- The average HEFCE grant per student is determined by the number of funded students and the level of funding for each type of course. The Browne and SR10 options take into account the decision to stop grant funding for less expensive courses and reduce funding for more expensive courses, which reduces the average grant. This average is then applied to estimates of the number of students to be funded under each option. There are additional savings to targeted grants and overall efficiency savings that are applied to each option.
- The average maintenance grant given to students depends on the income distribution of students applying to the SLC and the rates and thresholds decided by policy with regards to what students at different incomes should be entitled to. The average grant is multiplied by a take-up rate based on historical data and projections for the number of students eligible for support in each year.

Government administration costs are incurred by HMRC and the Student Loans Company (SLC) to administer the student loan system. These estimates were based on indicative estimates made by BIS, SLC and HMRC before taking into account any further efficiency savings. These initial estimates of £60m a year have not changed since the interim impact assessment and thus, remain subject to revision.

There are also opportunity costs for Government from students being in HE because of the foregone taxation and national insurance contributions (NIC) when those students who might otherwise expect to be employed are not working. It is assumed that this amounts to £1,176 per student per year they are in HE. This figure was based on an average estimate of foregone earnings of £10,000 (PWC, 2005) and applying a basic tax rate of 20% and primary NI contribution of 11% on those earnings.

For graduates, the costs are the costs of tuition (either upfront or through loan repayments upon graduation) and the repayments on any maintenance loans taken out. For accounting purposes in this analysis, it is assumed that all these costs including all loan repayments occur in the first year the student enters university. The loan repayments are treated as being equivalent to the cash outlay government made minus the RAB charge expected to be incurred on those loans, discounted accordingly over a graduate's expected future lifetime earnings.

The cost of tuition was estimated on the assumption from BIS internal analysis that 90% of students take up a loan from government to cover these tuition costs and 10% pay upfront. To calculate the cost for this 10% of students who do not take out loans, a figure calculated as 10% of the government's cash outlay was applied. This amends the methodology applied in the interim impact assessment which calculated the up-front payment of fees based on the repayment amount that those who initially pay it with a loan. This would have been an underestimate as the repayment amount will not be the full amount of the initial cash outlay (due to the RAB charge, explained above).

The cost of maintenance loans taken out to cover the cost of living whilst at university was based on internal BIS analysis that suggests 80% of students take up loans.

The opportunity cost for students, of undertaking HE are the foregone earnings from not entering the workforce immediately upon completing A levels/equivalent. There is evidence this amounts to, on average £10,000 per student per year (PWC, 2005). However, the graduate premium calculation incorporates these foregone earnings so it is not appropriate to double count it as a cost although this would not have adjusted for the likelihood of being young with non-graduate qualifications and unemployed.

For businesses, the introduction of a new threshold for repayment of student loans (from £15,000 to £21,000) is likely to impose some additional administration costs for businesses.

As explained in the interim impact assessment, compliance costs to implement the changes would be incurred in financial year 2014/15 in preparation for the first graduate cohort under the proposed reforms, due to enter employment in 2016. It is assumed that all companies use commercial software packages and any necessary updates to that software would be possible through inclusion in regular software updates, thereby presenting no additional cost to employers. The compliance cost therefore falls on payroll administrators in terms of familiarisation with the changes and for those firms who insource their Pay As You Earn (PAYE) systems some time from IT technicians to ensure software implementation. BIS estimates the compliance costs for the 155,000 estimated enterprises in 2014, updated for inflation to be in the range £2-£4m. Table 9 in the interim impact assessment gave a detailed breakdown relating to the upper range of this estimate.

Ongoing costs would commence from 2016, the first year which graduates from the first cohort of students under the new system (entering HE in 2012/13) would enter employment. Therefore whilst these are out of the time period for this impact assessment but are important to recognise, particularly for the steady state estimation. There are two obligations for employers in the current student loan repayment system; to make the necessary salary deductions each month and annually to submit returns to HMRC on the repayments deducted by the employer. The time taken to make the monthly deductions might incur some additional costs so that the payroll administrators determine the correct repayment threshold for each graduate. There is also the risk of increased errors which would necessitate some additional checking time and resource from payroll administrators and the graduates to resolve. If the number of students borrowing finance to fund HE increases (for example given the introduction of fee loans for part-time study) this may also raise the amount of resource required in payroll administration. Any impacts would disproportionately affect small businesses who are less likely to benefit from economies of scale. However, small and medium businesses are less likely to employ graduates. The extent of these additional costs is unclear because businesses do already have systems in place and an understanding of the regulations which are broadly unchanged and thus may be able to build upon those existing structures, reducing the potential for new administrative costs.

The ongoing costs could also fluctuate depending on the volume of graduates who enter the repayment system. It is expected that there will be an increase in the overall number in the repayment system due to the extension of loan provision to part-time students. From 2016 there might be up to 200,000 number of additional graduates repaying in the new system due to the introduction of loans for part-time courses and therefore the ongoing costs previously estimated should be uprated by 20%, suggesting total administration costs between £2.4m - £4.8m per year from 2016. The upper limit is used in the quantified cost estimates shown in this impact assessment.

- **Aggregating costs and benefits:**

To aggregate the costs associated with the provision of student finance requires estimating the number of students expected to enter that system, or the population eligible for fee loan and maintenance support. Table 2 presents BIS's estimates which were applied to the cost analysis.

Table 2: Student support population estimates (rounded up to nearest ten thousand)

Thousands		2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Baseline (option 1)	Full time*	1010	1000	1000	1000	1000	1000	1000	1000	1000	1000
	Part time**	230	230	230	230	230	230	230	230	230	230
	Total	**1240**	**1230**	**1230**	**1230**	**1230**	**1230**	**1230**	**1230**	**1230**	**1230**
Option 2	Full time*	830	650	500	470	470	470	470	470	470	470
	Part time**	170	130	110	100	100	100	100	100	100	100
	Total	**1000**	**780**	**610**	**570**	**570**	**570**	**570**	**570**	**570**	**570**
Option 3	Full time*	860	700	570	550	550	550	550	550	550	550
	Part time**	180	150	130	120	120	120	120	120	120	120
	Total	**1040**	**850**	**700**	**670**	**670**	**670**	**670**	**670**	**670**	**670**

* full-time students eligible for maintenance

**part-time first degree students

To aggregate the opportunity costs for the Exchequer associated with having students in HE and not in the workforce requires an estimate of the stock of student body (for example, entrants plus continuers). To estimate this, it would not be appropriate to utilise the student population in table 2 because only counting those students eligible for maintenance would be a less comprehensive measure of the student body and thus be an under-estimate. The "Full-Time HEFCE fundable" student population used in internal BIS modelling is the more comprehensive estimate although it must be noted that it is still an underestimate of the overall student body because some students are funded from elsewhere in Government, for example, Department of Health, or privately.

From 2012-13 these projections suggest there will be around 950,000 full-time students in HE each year (excluding post-graduate but including all types of undergraduate), including 344,000 new entrants. It should be noted that this population excludes part-time student entrants, due to limited historic information available. However, this assumption is consistent with evidence that suggests the majority of part-time students work whilst studying so do not incur this opportunity cost (or, if any, only a reduction in their contributions which would be difficult to quantify, and probably small).

To aggregate the benefits from HE it was necessary to estimate the number of graduates expected each year, which was done based on the more comprehensive "HEFCE-fundable" population and data from BIS' internal analysis[21] on qualifying rates. This suggests that 73% of full-time undergraduate entrants to go on to achieve a level 4 qualification, which amounts to, from the over 340,000 student entrants estimated from 2012-13, over 250,000 graduates each year. A key assumption here is that the graduation rate does not change over the 10 year period this impact assessment covers. This is considered reasonable to assume because there has not been a great deal of variability in the percentage in recent years.

It should be noted however that this population excludes part-time graduates so is likely to reflect an underestimate of the benefits from HE. However, the part-time rate of qualifying is lower than for full-time students (the respective figure suggesting that 38% of part-time undergraduate entrants progress to achieve a level 4 qualification) and less is known about the benefits from part-time courses so the impact on the quantified estimates from this assumption could be low.

Analysis of Options

Option 1:

Option 1, do-nothing, was identified as not feasible in the interim impact assessment given the 2010 Spending Review envelope and the need to cut the deficit. However, it provides the useful baseline from which to analyse the other policy options.

Options 2 and 3:

In the interim impact assessment, option 2 estimated the potential impact if the current system is applied under the constraint of the 2010 Spending Review envelope. The cut in student entrants required each year of the SR period to meet this budget constraint was calculated to be 58%. Option 3 estimated the potential impact if the previous system from 2003/04 was applied under the constraint of the 2010 Spending Review envelope. The

[21] BIS student number projections model, based on HESA 08/09 data.

reduction in student entrants necessary each year of the SR period to meet this budget constraint under this previous system was calculated to be 49%.

The interim impact assessment identified these options as being unfeasible given the impracticalities of implementing either of them. There is evidence of high levels of current demand for HE, including UCAS data from 2010 which showed the number of UCAS applicants increased by 31% between 2004 and 2009. Therefore these options would only be able to be achieved in practice by implementing stricter controls on student numbers. The updated analyses of the marginal impacts of these two options are included in Tables 3 and 4. This shows they would be associated with large negative impacts (in the form of foregone economic benefits) and it is for this reason, as well as the unfeasible practical considerations, that they continue to be disregarded as not-preferred options.

Options 4a and 4b:

These options analyse the approach set out by Lord Browne and a variation based on Browne. The interim impact assessment identified these options as the remaining viable options for consideration as they are consistent with the policy objectives of creating a fair and sustainable HE system with the right incentives to drive efficiency and quality. It is also consistent with the need to continue to address the equity, credit constraints and risk aversion problems identified earlier to be caused by imperfect information, through ensuring that no students face up-front costs of undertaking HE and Government accordingly provides the necessary finance and support. As noted earlier, these treat the long term exchequer costs of issuing and financing the loan as measured through the RAB charge as if they were incurred in the year a student enters HE, even though the actual cost to government will be spread over the lifetime of the loan. They are different in kind from the immediate grant savings in teaching and maintenance grants.

Option 4a analyses the potential impact if all the recommendations in the Browne Review were followed and Option 4b the potential impact of an alternative set of proposals, based on Browne. The different features of Option 4b compared to option 4a are:

- The level of the graduate contribution cannot rise in an unconstrained manner (above £9,000 with restrictions on those institutions wishing to charge between £6,000 and £9,000) that would create barriers to access as well as potential risks for the government budget in terms of student support,
- There is more support for living costs for those students from lower income households, with means-tested loans available up to £5,500 per annum.
- A more progressive repayment system with the application of an interest rate at RPI+3% but that varies

The quantifiable analysis of the marginal impact of these options is set out in tables 5 and 6 below. These results suggest there are negative net marginal benefits associated with each option. One reason for this is methodological because although the transfer of funding from teaching grant to a student loan should be a zero-sum game, the population of students eligible for a teaching grant is smaller than the population eligible for loans (for example, because the latter includes any students who drop out). This is therefore particularly important for explaining the difference between option 4a and 4b, because 4b is associated with a more generous student support package (as identified above).

Whilst it has been possible to quantify many of the costs and benefits associated with this proposed HE funding and student finance system, there are significant benefits from Option 4b which it has not been possible to quantify. These benefits include those from:

- a more progressive repayment system which would have equity benefits and reduce the potential disincentive for students to apply to higher education; for example up to around a quarter of graduates (those on the lowest incomes) will repay less in Net-Present-Value terms (assuming debt of £30k), than under the current repayment system (assuming debt of £21k). This is predominantly because the earnings threshold at which repayments start will be raised from £15k to £21k. As a result, low earners (including many part-time workers) will never earn the threshold at which repayments start.
- a greater proportion of part-time student entitlement for loans to cover the costs of tuition, which is designed to remove barriers to this route for potential students
- re-routing funding to follow students rather than through HEFCE allocation of block teaching grant funding which provides the incentives for institutions to compete to attract students, which will deliver efficiency, innovation and quality benefits, and
- a more generous student support package increasing the likelihood of students entering and completing HE, especially for those from lower-income households.

It is not possible to quantify these significant benefits and so the results in Table 6 do not reflect these.

Conclusion:

Based on these arguments, resource constraints and the significant potential unquantifiable benefits associated with Option 4b, this is the preferred option. A further table is set out for this option showing the flows of funding between the different participants which also demonstrates the timing of the different flows of payments in the new system.

Table 3: Monetised Costs and Benefits (Do nothing option)													
£m (rounded to nearest £10m)		notes	**12-13**	**13-14**	**14-15**	**15-16**	**16-17**	**17-18**	**18-19**	**19-20**	**20-21**	**21-22**	**Total**
QUANTIFIED COSTS													
TO GOVERNMENT	**HEFCE Grant, Student Grants and National Scholarship Programme**		6,290	6,260	6,070	5,860	5,670	5,490	5,320	5,150	4,990	4,820	55,920
	Loan RAB		1,590	1,630	1,660	1,710	1,750	1,800	1,850	1,900	1,950	2,000	17,840
	Foregone taxation whilst students in HE		1,100	1,100	1,000	1,000	1,000	900	900	800	800	800	9,400
	Admin Costs to SLC and HMRC		60	60	60	50	50	50	50	50	50	40	520
TO BUSINESS	**Admin costs of changing PAYE systems**	marginal change only	0	0	0	0	0	0	0	0	0	0	0
TO GRADUATES	**Student support loan repayments**		4,320	4,420	4,520	4,630	4,760	4,890	5,020	5,160	5,300	5,440	48,460
TO STUDENTS	**Upfront Fee Payments**		310	300	290	280	270	260	250	240	230	230	2,660
	Loss of earnings as not in Labour force	included in graduate premium	0	0	0	0	0	0	0	0	0	0	0
TOTAL QUANTIFIED COSTS			**13,670**	**13,770**	**13,600**	**13,530**	**13,500**	**13,390**	**13,390**	**13,300**	**13,320**	**13,330**	**134,800**
QUANTIFIED BENEFITS													
TO GOVERNMENT	**Exchequer benefits from graduates**		20,100	19,400	18,700	18,000	17,300	16,600	15,900	15,200	14,400	13,700	169,300

TO STUDENTS / HEIs	**Decrease in drop out rate due to better student support**	marginal change only	0	0	0	0	0	0	0	0	0	0	0
TO GRADUATES	**Graduate Premium**		25,100	24,200	23,300	22,500	21,600	20,700	19,800	18,900	18,100	17,200	211,400
TOTAL QUANTIFIED BENEFITS			**45,200**	**43,600**	**42,000**	**40,500**	**38,900**	**37,300**	**35,700**	**34,100**	**32,500**	**30,900**	**380,700**
NET QUANTIFIED BENEFITS			**31,530**	**29,830**	**28,410**	**26,970**	**25,400**	**23,910**	**22,310**	**20,800**	**19,180**	**17,560**	**245,900**

Table 4: Marginal quantified costs and benefits from Option 2 (to maintain current system given SR 2010; equivalent to a 58% cut in student entrants from 12-13 onwards) in net present value terms

£m (rounded to nearest £10m)		notes	12-13	13-14	14-15	15-16	16-17	17-18	18-19	19-20	20-21	21-22	Total
CHANGE IN QUANTIFIED COSTS													
	HEFCE Grant, Student Grants and National Scholarship Programme	Negative as fewer students to fund	-770	-1,770	-2,590	-2,890	-2,850	-2,760	-2,670	-2,580	-2,500	-2,420	-23,800
	Loan RAB	Negative as fewer students	-160	-460	-740	-900	-950	-970	-1,000	-1,030	-1,050	-1,080	-8,340
	Foregone taxation whilst students in HE	Negative as students work instead	-230	-350	-610	-590	-570	-550	-530	-510	-500	-480	-4,920
TO GOVERNMENT	**Admin Costs of Changes to SLC and HMRC**	No change as not implemented	0	0	0	0	0	0	0	0	0	0	0
TO BUSINESS	**Admin costs of changing PAYE systems**	No change as not implemented	0	0	0	0	0	0	0	0	0	0	0
TO GRADUATES	**Student support loan repayments**	Negative as fewer students	-450	-1,240	-2,020	-2,450	-2,570	-2,640	-2,710	-2,790	-2,860	-2,940	-22,670
	Upfront Fee Payments	Negative as fewer students	-30	-80	-130	-150	-150	-150	-140	-140	-130	-130	-1,230
TO STUDENTS	**Loss of earnings as not in Labour force**	Negative as fewer students	-1,990	-2,950	-5,190	-5,020	-4,850	-4,680	-4,530	-4,370	-4,220	-4,080	-41,880
TOTAL CHANGE IN QUANTIFIED COSTS			**-3,630**	**-6,850**	**-11,280**	**-12,000**	**-11,940**	**-11,750**	**-11,580**	**-11,420**	**-11,260**	**-11,130**	**-102,840**
CHANGE IN QUANTIFIED BENEFITS													
TO	**Exchequer benefits from**	Negative as fewer	-11,64	-11,25	-10,87	-10,50	-10,14	-	-	-	-	-	-

GOVERNMENT	**graduates**	graduates	0	0	0	0	0	9,800	9,470	9,150	8,840	8,540	100,200
TO STUDENTS / HEIs	**Decrease in drop out rate due to better student support**	No change as no investment	0	0	0	0	0	0	0	0	0	0	0
TO GRADUATES	**Graduate Premium**	Negative as fewer graduates	-14,550	-14,060	-13,580	-13,120	-12,680	-12,250	-11,840	-11,440	-11,050	-10,680	-125,250
TOTAL CHANGE IN QUANTIFIED BENEFITS			**-26,190**	**-25,310**	**-24,450**	**-23,620**	**-22,820**	**-22,050**	**-21,310**	**-20,590**	**-19,890**	**-19,220**	**-225,450**
NET CHANGE IN QUANTIFIED BENEFITS			**-22,560**	**-18,450**	**-13,160**	**-11,620**	**-10,890**	**-10,310**	**-9,730**	**-9,180**	**-8,620**	**-8,090**	**-122,610**

Table 5: Marginal quantified costs and benefits from Option 3 (reduced government expenditure by reverting to 2003/04 system; equivalent to a 49% cut in student entrants) in net present value terms

£m (rounded to nearest £10m)		notes	12-13	13-14	14-15	15-16	16-17	17-18	18-19	19-20	20-21	21-22	Total
CHANGE IN QUANTIFIED COSTS													
TO GOVERNMENT	**HEFCE Grant, Student Grants and National Scholarship Programme**	Negative as fewer students to fund	-760	-1,740	-2,510	-2,810	-2,780	-2,700	-2,610	-2,530	-2,450	-2,370	-23,260
	Loan RAB	Negative as fees phased out	-220	-640	-990	-1,200	-1,280	-1,320	-1,360	-1,390	-1,430	-1,470	-11,300
	Foregone taxation whilst students in HE	Negative as students work instead	-200	-280	-350	-340	-330	-320	-310	-290	-280	-280	-2,980
	Admin Costs of Changes to SLC and HMRC	No change as not implemented	0	0	0	0	0	0	0	0	0	0	0
TO BUSINESS	**Admin costs of changing PAYE systems**	No change as not implemented	0	0	0	0	0	0	0	0	0	0	0
TO GRADUATES	**Student support loan repayments**	Negative as fewer students	-500	-1,430	-2,320	-2,870	-3,070	-3,180	-3,270	-3,360	-3,450	-3,550	-27,000
TO STUDENTS	**Upfront Fee Payments**	Negative as fewer students	-60	-150	-220	-260	-260	-260	-250	-240	-230	-220	-2,150
	Loss of earnings as not in Labour force	Negative as fewer students	-1,680	-2,350	-2,980	-2,880	-2,780	-2,690	-2,600	-2,510	-2,420	-2,340	-25,230
TOTAL CHANGE IN QUANTIFIED COSTS			**-3,420**	**-6,590**	**-9,370**	**-10,360**	**-10,500**	**-10,470**	**-10,400**	**-10,320**	**-10,260**	**-10,230**	**-91,920**

CHANGE IN QUANTIFIED BENEFITS													
TO GOVERNMENT	**Exchequer benefits from graduates**	Negative as fewer graduates	-9,830	-9,500	-9,180	-8,870	-8,570	-8,280	-8,000	-7,730	-7,470	-7,220	-84,650
TO STUDENTS / HEIs	**Decrease in drop out rate due to better student support**	No change as no investment	0	0	0	0	0	0	0	0	0	0	0
TO GRADUATES	**Graduate Premium**	Negative as fewer graduates	-12,290	-11,880	-11,470	-11,090	-10,710	-10,350	-10,000	-9,660	-9,330	-9,020	-105,800
TOTAL CHANGE IN QUANTIFIED BENEFITS			**-22,120**	**-21,380**	**-20,650**	**-19,960**	**-19,280**	**-18,630**	**-18,000**	**-17,390**	**-16,800**	**-16,240**	**-190,450**
NET CHANGE IN QUANTIFIED BENEFITS			**-18,700**	**-14,790**	**-11,280**	**-9,600**	**-8,780**	**-8,160**	**-7,600**	**-7,070**	**-6,540**	**-6,010**	**-98,530**

Table 6: Marginal quantified costs and benefits from Option 4a (Browne Approach as per all recommendations) in net present value terms

£m (rounded to nearest £10m)		notes	12-13	13-14	14-15	15-16	16-17	17-18	18-19	19-20	20-21	21-22	Total
CHANGE IN QUANTIFIED COSTS													
TO GOVERNMENT	**HEFCE Grant, Student Grants and National Scholarship Programme**	Negative as grant is cut	-700	-1,620	-2,350	-2,610	-2,570	-2,490	-2,400	-2,320	-2,240	-2,160	-21,460
	Loan RAB	Positive as higher fees	240	660	1,060	1,310	1,420	1,470	1,510	1,550	1,590	1,630	12,440
	Foregone taxation whilst students in HE	No change: student no's constant	0	0	0	0	0	0	0	0	0	0	0
	Admin Costs of Changes to SLC and HMRC	Positive as changes implemented	10	10	20	10	10	10	10	10	10	10	110
TO BUSINESS	**Admin costs of changing PAYE systems**	Positive as changes implemented	0	0	0*	0*	0*	0*	0*	0*	0*	0*	30
TO GRADUATES	**Student support loan repayments**	Positive as larger loans	350	990	1,540	1,900	2,070	2,150	2,210	2,270	2,330	2,400	18,210
TO STUDENTS	**Upfront Fee Payments**	Positive as higher fees	70	180	260	300	310	300	290	280	270	260	2,520
	Loss of earnings as not in Labour force	No change: student no's constant	0	0	0	0	0	0	0	0	0	0	0
TOTAL CHANGE IN QUANTIFIED COSTS			**-30**	**220**	**530**	**910**	**1,240**	**1,440**	**1,620**	**1,790**	**1,960**	**2,140**	**11,850**
CHANGE IN QUANTIFIED BENEFITS													

TO GOVERNMENT	**Exchequer benefits from graduates**	No change: student no's constant	0	0	0	0	0	0	0	0	0	0	0
TO STUDENTS / HEIs	**Decrease in drop out rate due to better student support**	Increase as investment made	2,450	2,080	1,730	1,530	1,410	1,300	1,200	1,100	1,010	930	14,740
TO GRADUATES	**Graduate Premium**	No change: student no's constant	0	0	0	0	0	0	0	0	0	0	0
TOTAL CHANGE IN QUANTIFIED BENEFITS			**2,450**	**2,080**	**1,730**	**1,530**	**1,410**	**1,300**	**1,200**	**1,100**	**1,010**	**930**	**14,740**
NET CHANGE IN QUANTIFIED BENEFITS			**2,480**	**1,860**	**1,200**	**620**	**170**	**-140**	**-420**	**-690**	**-950**	**-1,210**	**2,890**

*Business costs are projected to be £0m in 12-13 and 13-14 and c£4m a year from 14-15 to 21-22, which round to £0 in this table. The total costs over 10years are therefore £32m; this has been rounded and included in the total column.

Table 7: Marginal quantified costs and benefits from Option 4b (SR10 final approach) in net present value terms													
£m (rounded to nearest £10m)		notes	**12-13**	**13-14**	**14-15**	**15-16**	**16-17**	**17-18**	**18-19**	**19-20**	**20-21**	**21-22**	**Total**
CHANGE IN QUANTIFIED COSTS													
	HEFCE Grant, Student Grants and National Scholarship Programme	Negative as grant is cut	-740	-1,730	-2,520	-2,820	-2,790	-2,690	-2,600	-2,510	-2,430	-2,350	-23,180
	Loan RAB	Positive as higher fees	360	990	1,570	1,920	2,070	2,140	2,200	2,260	2,320	2,380	18,210
	Foregone taxation whilst students in HE	No change: student no's constant	0	0	0	0	0	0	0	0	0	0	0
TO GOVERNMENT	**Admin Costs of Changes to SLC and HMRC**	Positive as changes implemented	10	10	20	10	10	10	10	10	10	10	110
TO BUSINESS	**Admin costs of changing PAYE systems**	Positive as changes implemented	0	0	0*	0*	0*	0*	0*	0*	0*	0*	30
TO GRADUATES	**Student support loan Repayments**	Positive as higher fees	480	1,340	2,070	2,570	2,800	2,900	2,990	3,070	3,150	3,240	24,610
	Upfront Fee Payments	Positive as higher fees	90	230	340	400	400	390	380	370	360	340	3,300
TO STUDENTS	**Loss of earnings as not in Labour force**	No change: student no's constant	0	0	0	0	0	0	0	0	0	0	0
TOTAL CHANGE IN QUANTIFIED COSTS			**200**	**840**	**1,480**	**2,080**	**2,490**	**2,750**	**2,980**	**3,200**	**3,410**	**3,620**	**23,080**
CHANGE IN QUANTIFIED BENEFITS													

TO GOVERNMENT	**Exchequer benefits from graduates**	No change: student no's constant	0	0	0	0	0	0	0	0	0	0	0
TO STUDENTS / HEIs	**Decrease in drop out rate due to better student support**	Increase as investment made	2,450	2,080	1,730	1,530	1,410	1,300	1,200	1,100	1,010	930	14,740
TO GRADUATES	**Graduate Premium**	No change: student no's constant	0	0	0	0	0	0	0	0	0	0	0
TOTAL CHANGE IN QUANTIFIED BENEFITS			**2,450**	**2,080**	**1,730**	**1,530**	**1,410**	**1,300**	**1,200**	**1,100**	**1,010**	**930**	**14,740**
NET CHANGE IN QUANTIFIED BENEFITS			**2,250**	**1,240**	**250**	**-550**	**- 1,080**	**- 1,450**	**- 1,780**	**- 2,100**	**- 2,400**	**- 2,690**	**-8,340**

*Business costs are projected to be £0m in 12-13 and 13-14 and c£4m a year from 14-15 to 21-22, which round to £0 in this table. The total costs over 10years are therefore £32m; this has been rounded and included in the total column.

Table 8: Marginal costs and transfers from Option 4b (SR10 final approach)												
£m (rounded to nearest £10m)		notes	**12-13**	**13-14**	**14-15**	**15-16**	**16-17**	**17-18**	**18-19**	**19-20**	**20-21**	**21-22**
CHANGE IN COSTS												
TO GOVT	**HEFCE Teaching Grant**	Negative as grant is cut	-810	-1,860	-2,710	-3,010	-2,970	-2,870	-2,770	-2,680	-2,590	-2,510
	Student Grants	Positive as improved maintenance package	10	40	50	60	60	60	60	60	60	60
	National Scholarship Programme	Positive as implemented	50	90	130	130	120	120	120	110	110	100
	Fee Loan Outlay	Positive as increase in fees	790	2,080	3,060	3,560	3,620	3,530	3,420	3,310	3,200	3,090
	Maintenance Loan Outlay	Positive as loan entitlement increased	50	120	160	180	180	180	170	170	160	160
	Foregone taxation whilst students in HE	No change as student no's constant	0	0	0	0	0	0	0	0	0	0
	Admin Costs of Changes to SLC and HMRC	Positive as change implemented	10	10	20	10	10	10	10	10	10	10
TO GRADUATES	**Student support loan repayments**	Negative: more generous repayment system	0	0	0	0	-40	-40	-70	-130	-180	-200
TO STUDENTS	**Upfront fees**	Positive as change to repayment threshold	90	230	340	400	400	390	380	370	360	340
	Loss of earnings as not in labour force	No change	0	0	0	0	0	0	0	0	0	0
TO HEIs	**Bursary and scholarship fund**	Positive as NSP matching and further recycling of fees	170	400	580	650	650	640	620	600	580	560
TO BUSINESS	**Admin costs PAYE change**	Positive as threshold change	0	0	0*	0*	0*	0*	0*	0*	0*	0*
CHANGE IN BENEFITS												

	Exchequer benefits from graduates	No change: student no's constant	0	0	0	0	0	0	0	0	0	0
	Exchequer benefits from non-students	No change: student no's constant	0	0	0	0	0	0	0	0	0	0
TO GOVT	**Student support loan repayments**	Negative: more generous repayment system	0	0	0	0	-40	-40	-70	-130	-180	-200
TO GRADUATES	**Graduate premium**	No change: student no's constant	0	0	0	0	0	0	0	0	0	0
	Student Grants	Positive as improved maintenance package	10	40	50	60	60	60	60	60	60	60
	NSP	Positive as implemented	50	90	130	130	120	120	120	110	110	100
	Bursary and scholarship fund	Positive as NSP matched and more recycling of fees	170	400	580	650	650	640	620	600	580	560
TO STUDENTS	**Maintenance loans**	Positive as loan entitlement increased	50	120	160	180	180	180	170	170	160	160
	HEFCE Teaching grant	Negative as funding cut	-810	-1,860	-2,710	-3,010	-2,970	-2,870	-2,770	-2,680	-2,590	-2,510
	Fee loans	Positive as increase in fees	790	2,080	3,060	3,560	3,620	3,530	3,420	3,310	3,200	3,090
TO HEIS	**Upfront fees**	Positive as increase in fees	90	230	340	400	400	390	380	370	360	340
SUM CHANGE*	*net benefiters have a positive change, net contributors have a negative change											
TO GOVT			-100	-480	-710	-930	-1,060	-1,070	-1,080	-1,110	-1,130	-1,110
TO GRADUATES			0	0	0	0	40	40	70	130	180	200
TO STUDENTS			190	420	580	620	610	610	590	570	550	540
TO HEIs			-100	50	110	300	400	410	410	400	390	360
TO BUSINESSES			0	0	0*	0*	0*	0*	0*	0*	0*	0*

Total Sum Change	**-10**	**-10**	**-20**	**-20**	**-20**	**-20**	**-20**	**-20**	**-20**	**-20**

*see notes on pg.44

Notes to Table 8:

- This table shows the flows of funding between different participants in the years in which those costs occur, not the resource costs and benefits associated with the activities in each year (as set out in the quantified costs and benefits tables).
- The HEFCE grant savings here relate to the £3bn savings by 14-15 announced in the Spending Review, which have been discounted accordingly. These numbers are used for modelling purposes only and are not a representation of Departmental budgets. Current financial modelling assumptions are provisional and subject to change
- This Impact Assessment assumes that increased fee income to HEIs will outweigh cuts to teaching grant funding, enabling an increase in HEI investment in all years of the policy. 12-13 is the exception; this is because funding cuts will cover the whole of the financial year, whereas fee increases will cover only 2/3rds of the financial year as the policy starts in Sept 2012.
- As in tables 3-7, the costs to business are around £4m a year (between 14-15 and 21-22) so round to 0 in the tables; the costs are included in the Total Sum Change row.

Assumptions

The same assumptions listed on page 17 of the interim impact assessment apply to this updated analysis. These assumptions used in the modelling were discussed with and considered reasonable central estimates by the Office of Budget Responsibility in November 2010[1].

The primary assumption in the analysis of Option 4a and 4b is that which suggests participation is not expected to change from the baseline case. There are several reasons that support this assumption:

- There is evidence from research commissioned as part of the Browne Review (BIS Research Report No. 13[2]) which found that during previous HE reforms the sensitivity to price increases among students was offset by comparable increases to student support provision.
- The high levels of applications for HE places suggest that there is excess demand in the system suggesting that any potential price sensitivity to the reforms which reduce demand for places could be offset by utilisation of the excess demand for these places. An accurate measure of excess demand is difficult but a proxy could be unplaced applicants; in 2010, the number of unplaced applicants increased by a third from 2009[3]. A better estimate however may be reapplications because of the unplaced applicants in 2010, nearly half (45%) declined offers or withdrew their applications, and a further 1.2% had outstanding offers. In 2010, the number of applicants reapplying was 39% of unplaced applicants in 2009 and 9% of total applicants in 2010.
- Student numbers are currently hindered from expanding due to constraints imposed by governments so as to manage the potential budget implications.

However, the interim impact assessment included some illustrative sensitivity analysis of the preferred option if the number of student entrants changed by 10%. That suggested that by 2014/15 a 10% reduction in student entrants would increase the net costs of the preferred option by around 2.5 due to the foregone economic benefits of additional earnings and tax/NIC contributions. The same result would apply to this updated analysis. Analysis for a 10% increase in student entrants is meaningless due to the unfeasibility of increasing student numbers because of student number controls identified above.

Other assumptions include:

- Savings to the HEFCE grant relate to the £3bn in 14-15 announced in spending review (see note on pg. 44). They include a small amount of cuts to the core grant for postgraduates.
- For the current system, the assumption on the RAB charge has been updated as part of the standard modelling updates to the RAB calculations each December. With a set of assumptions consistent with those used during the HE reforms, the estimate for the

[1] Office for budget responsibility Economic and Fiscal outlook November 2010 page 124
http://www.nccesb.org.uk/pdfs/publication-obr-economic-and-fiscal-outlook-november-2010.pdf

[2] http://www.bis.gov.uk/assets/biscore/corporate/docs/i/10-1189-impact-2006-07-he-finance-reforms-on-participation.pdf

[3] UCAS, 2010

RAB charge for full time students under the new system has also changed from 28% to 32% because of changes in the income threshold at which repayments start to be made by graduates (changing to annual from 2016 rather than being up-rated every 5 years).

- For the purposes of the impact assessment, the central average fee loan assumption was £7,500 for Option 4b, reflecting the fee that would need to be charged for the sector to broadly maintain income from fees and core teaching grant combined.

Direct costs and benefits to businesses

- As identified above, businesses will incur additional costs from administering the new student loan repayment system. This is due to an increased volume of students eligible under the new system and several features of the new system which add complexity and may generate errors.

Information – Enabling students to choose the courses that best meet their needs

Problem under consideration

Increasing student choice, and providing students with clear and transparent information to support those choices, will be central to the reformed HE system. At each stage of their journey, students and their advisers need to know what information is available and how they can access it in a form which suits them.

This begins at school when young people are forming ideas about their futures with their parents, teachers and careers advisers, and making the choice to progress to Higher Education. It is then especially important that prospective students can access clear and comparable information when it comes to applying for higher education, to help them narrow down their options and make final choices of subject and institution.

Improving information at the pre-application stage is important because, once an undergraduate has started on a course; it is rare that they 'switch' to another HEI. Latest HESA Performance Indicators show that only 6.0% of 2008-09 starters are projected to transfer to another HEI[4]. This is because course contents and structures vary greatly from one university to another. So choosing a suitable course will affect their likelihood of completion, whether they are able to get the most from their course, and whether it helps prepare them for a suitable career.

At the moment, some higher education institutions report that too many young people choose subject packages that do not prepare them adequately for higher education and their desired career. And young people say they do not get the help and advice they need to make the right decisions for them:

- Only 44% of 17-18 year olds felt that they had received sufficient guidance to support their decisions about what choices to make at 18 and another 44% said that they would have liked more guidance;
- 46% of 17-18 year olds would have valued information about university/HEI[5]

In particular, students need help to access and select the information which is most relevant to them, and to understand its significance. The National Student Forum 2008 annual report[6] concluded that the main problem is that students cannot easily navigate their way through the

[4] HESA Performance Indicators, www.hesa.ac.uk/index.php/content/category/2/32/141/

[5] Eleanor Ireland, Sarah Golden and Marian Morris (National Foundation for Educational Research), *Evaluation of Integrated Aimhigher: Tracking Surveys of Young People*, (DfES, Research Report 811, 2006)

[6] http://webarchive.nationalarchives.gov.uk/+/http://www.dius.gov.uk/policy/nsf/index.html National Student Forum 2008 annual report

wide range of current information sources. These findings were confirmed in a subsequent UCAS study carried out for BIS in 2009[7].

So we need to signpost information, provide students with information in places where they look, and to help them easily compare courses at different institutions. Our ultimate goal is to provide students with a choice of high quality information websites, where they can access reliable information, personally tailored to their own needs.

The Government does not have the resources to develop commercial standard information tools (such as consumer price comparison websites) and the current Government supported website, Unistats, has relatively low usage. So our long-term strategy is to ensure that relevant student data is made available to third party providers, so that they can turn the raw data into meaningful information, innovatively presented.

However, it will take time for third parties to come into the information market, so we are taking action to help improve existing information sources such as HEI websites and Unistats.

Rationale for intervention

Information asymmetries are a source of market failure in HE which is why government intervenes to ensure that information is available to prospective students to aid their decision-making. It is particularly important that students with no family experience of higher education understand the choices available to them. However, behavioural biases mean that the amount of information available is not the only factor that will prevent the efficient operation of a market; but also the ability of people to identify, access, understand and use it to inform their decisions – not only about whether to participate in HE, but also what to study and where.

There is a large amount of information available to prospective students about the value of undertaking HE (such as employment prospects, earnings of previous graduates), the different courses available[8], the quality of those courses (for example, student satisfaction surveys, success rates), as well as various league tables, reputation and marketing. However, as noted above, as well as the volume of information available it is important that it is made available in such a way that is accessible to students.

There are a growing number of independent organisations providing analysis of information and data for students to use, including innovative online comparison tools, as well as more traditional league tables. However, we are aware that this is limited by the restricted availability of the raw data that Government and its partners hold. By releasing more of this data we could encourage the development of a ‘market’ of information providers. So the Government needs to work with key partner organisations who own the datasets to facilitate increased access to data.

Whereas Government is not equipped to develop commercial standard web tools, we are convinced that - armed with the data they need - private providers will provide the investment and innovation needed to re-present information to students in an interactive, personalised format. This will help students to select the information which is most relevant to them.

[7] The current provision of online higher education-focused information, advice and guidance. A UCAS report prepared for BIS, July 2009

[8] Via UCAS, university prospectuses, HEFCE, HESA

However, it will take time for additional websites to come on stream. So we are supporting HEFCE to improve information for students in the short term. This is based upon a major HEFCE (2010a and 2010b) research exercise into the kind of information that users need to make their decisions, the most popular information sources, and how existing information is being used. While a large amount of the information students identified as being important was available when students searched for it, the research found that only a minority actively searched for the information they wanted, suggesting that greater awareness of sources of information may also help student decision making.

The HEFCE research concluded that the two most popular information sources for students were university websites and UCAS. Unistats was 3rd. A list of 16 most commonly requested items was compiled, including student satisfaction, graduate employment outcomes, and course contact time.

The measures under Options 1 and 2 directly reflect the findings of that research.

Policy Objective

HE reform is intended to put students, their interests and their needs at the heart of the system. If students are to be active consumers, making the right choices, and holding providers to account for the quality of their experience, we need to provide information in a much better way. This is consistent with the Government’s commitment to greater transparency across all public services, providing information which will allow service users to understand how the service is performing, and make soundly based choices.

Description of options considered

These options are complementary: options 1 and 2 provide short term improvements; option 3 is a longer term strategy.

Option 1 – Key information Set

The Key Information Set (KIS) will provide a standard set of 17 comparable aspects of higher education, on a course by course basis, on each higher education institution’s website. (I.e. the 16 most commonly requested items in HEFCE research, plus course fees). This will help applicants to find quickly and compare easily the headline items which they consider most important.

The KIS includes (amongst other things):

- **Student satisfaction**: the views of previous students, through the National Student Survey results;
- **Graduate employment and employability**: the starting salaries and employment destinations of previous graduates;
- **Professional body recognition**;
- **Course costs**: including tuition fees and average accommodation costs;
- **Study methods and assessment:** including average weekly ‘contact’ time;
- **Students’ union activities**.

Option 2 – Reforms to Unistats website

To reduce the information asymmetries between different types of prospective student and their advisers, a national source of clear and comparable information will be available to complement individual institutions' websites. The Unistats website is a comprehensive reference tool which we can build upon. In summer 2011 graduate salary information will be added onto Unistats. This means that Unistats will then include all information items, most requested by students, which are available on a national basis. From 2012, Unistats will include summaries of all the locally sourced data in published Key Information Sets.

In response to feedback from students we also want to improve the presentation of Unistats, so prospective students can make more useful comparisons between courses at different institutions. We have asked HEFCE to begin work on this, drawing on the best practice of external websites and applications.

Option 3 - Stimulating a wealth of HE information

In order to truly empower students, we want to increase the accessibility of information that can influence their choices about higher education and to encourage a range of providers to present this more innovatively.

We want to see more data shared proactively, at a detailed level, with a wide range of professional organisations who are working to improve student information. They will then be able to analyse and represent the information in a variety of formats to meet the needs of students themselves, their parents, careers advisers and teachers.

As a starting point, we are working with major holders of student data – HESA,UCAS, HEFCE and the SLC – to make more data available on their websites in a re-usable format, and at more detailed levels (such as by institution and course). As an example, we are asking UCAS and higher education institutions to publicise the actual entry qualifications of previously successful applicants, on a course-by-course basis.

We are also investigating how we can publish more outputs from the linked datasets we are developing. For example, this would include anonymised data linking an individual's school education and their higher education. As this information base develops, students will become more knowledgeable about the possible progression routes from their school or college qualifications through to higher education achievements, and even on to a particular chosen profession.

Costs and benefits of each option

Options 1, 2 and 3

Costs

Option 1 will require higher education institutions (HEIs) to provide more information.

1.1 The Higher Education Public Information Steering Group (HEPISG) has already conducted pilots of the Key Information Set with HEIs. Eight institutions participated in a pilot of in creating and/or collating the information items that were recommended by the expert working groups. They were asked to: focus on the processes needed to establish the creation of these data; identify and suggest solutions for any problems and challenges in managing the data flows; consider the practical and technical aspects of sourcing the data; consider how the data might be passed from the institution to the central body with responsibility for collating the KIS; and ascertain whether there are any challenges for a particular subject or institution type. They were also asked to consider the costs and time required to achieve this task.

1.2 The pilot institutions were: Canterbury Christ Church University, Oxford Brookes University, University of Exeter, Harper Adams University College, Sheffield Hallam University, University of Oxford, Loughborough College and University College Birmingham.

Using evidence gathered from the pilot HEFCE estimate that it will cost £1.38 million for HEIs to gather information contained in the KIS – which gives an approximate average of £10,000 per institution (although the cost will vary considerably, depending on the size of the HEI). HEIs will find this from within their own resources.

In addition, there are estimated ongoing costs to government of £150,000.

This is based on the following HEFCE workings:

Expected number of courses	24,000
Estimated average time per course (hours)	1.5
Estimated average annual salary	£45,000
Estimated average salary including overheads	£63,000
Estimated average cost per hour	£38
Estimated institutional cost	£1,380,570
Estimated central collection costs	£100,000
Estimated central web-site and widget costs (ongoing)	£50,000
Estimated government cost	£150,000
Total cost	£1,530,570

On Option 2, changes to the Unistats website will result in a one-off cost in terms of website development. **We have asked HEFCE to provide us Options for a one off investment of between £100k and £300k – to be paid from existing BIS budgets.**

We are working with key stakeholders to develop further Option 3 and it is not possible to estimate the costs of this option at this stage of policy development.

Benefits

The primary benefit of the KIS is that individuals considering entering higher education will be able compare courses within and across higher education websites on a more comparable basis. This will also help applicants to locate information that they consider most important more quickly reducing the 'search costs' involved with applying to higher education institutions.

Additional graduate salary information on Unistats allows applicants to HE to access information on relative wage returns of previous graduates by course and institution. The decision to enter HE represents an investment by individuals in 'human capital' and in order to make a balanced decision in addition to the costs relating to entering HE individuals should weigh this up against potential future wage returns. Changes to the Unistats web interface should make the site more user friendly assisting comparisons between courses at different institutions.

Providing more data from Higher Education Statistical Agency (HESA), UCAS and Student Loans Company (SLC) available via their websites in a more re-usable format will help information to be used in different ways than at present to assist students. For example we are asking UCAS and higher education institutions to publicise the actual entry qualifications of previously successful applicants, on a course by course basis. This can help students when making choices over A level subjects to select subjects that are more appropriate for a particular course at an institution.

All of options 1, 2 and 3 enable applicants to HE to make a more informed choice over the course and institutions they choose to apply to. We will be monitoring drop out rates (and the reasons cited by students) along with continuation rates as these indicators provide a proxy as to the suitability of matches between students and courses.

There is not sufficient quantitive evidence to assess these benefits for the purpose of this impact assessment.

As well as providing benefits broadly across HE, there is good evidence to show that improved information will improve social mobility through more students from disadvantaged backgrounds choosing to go to the most selective HE institutions which confer the highest benefits. Evidence indicates that young people from more disadvantaged groups do not have access to the same level of information, advice and guidance as their peers from more advantaged backgrounds - much of this is summarised in the Sutton Trust report for the National Council for Educational Excellence (October 2008). Other reports, including "Primed for Success" (Institute of Education/Sutton Trust, 2008) and "Knowing Where to Study? Fees Bursaries and Fair Access" (Staffs University/Sutton Trust, 2009), highlight the lack of knowledge of young people from disadvantaged backgrounds about the differences and relative benefits of different types of HE. <u>There is some evidence that enables an estimate of the potential benefits that could arise from this.</u>

Dearden et al ("Returns to Education for the Marginal Learner: Evidence from the BCS70, 2004) provides evidence of returns from HE for men from lower socio-economic classes (SEC) around double of that for men from higher SEC. Earnings for lower SEC men without HE qualifications are substantially lower than for their peers from higher SEC, so that HE redresses some of this inequality. Although women generally have higher returns, there is no differential effect related to SEC.

A variety of studies, including "University Quality and Graduate Wages in the UK" (Hussain, McNally & Telhaj, 2009) and "The Mobility Manifesto" (Sutton Trust/Boston Consulting Group,

2010) indicate that there are higher returns for students who study at the most selective institutions[9].

Combining these studies[10] allows the calculation of the additional lifetime earnings benefit achieved by one extra lower SEC students attending one of the most selective institutions[11]. This is estimated to have a NPV £50,000 per student, noting that this is for male students only.

HESA Performance Indicator (PI) information is used to estimate the number of students from lower SEC attending who might attend the most selective institutions. Annual entry to the Russell Group (RG) [12] is around 51,000. PIs indicate that currently 18.6% of students at RG institutions are from lower SEC. Their 'benchmark PIs', which are calculated to indicate an achievable level based on factors such as entry tariffs, indicate that this figure should be 21.3%. Therefore, increasing RG lower SEC intake to the PI benchmark level, would give an increase of just under 1400 additional lower SEC students. Assuming that half of these would be men gives an annual NPV benefit of £34.4m. This figure represents an upper limit on the benefits to be achieved.

It is important to note that these benefits will not only arise from the changes to information, but also the changes to fair access (discussed below). However, to avoid double counting, these are only quantified in this section.

Summary of Costs and Benefits

Table 8: Marginal quantified costs and benefits from Information Options net present value terms

£m		12-13	13-14	14-15	15-16	16-17	17-18	18-19	19-20	20-21	21-22	Total Ten Year
CHANGE IN QUANTIFIED COSTS												
TO HEIs	**Set up cost**	0.2										0.2
	Running costs	1.4	1.3	1.3	1.2	1.2	1.2	1.1	1.1	1.0	1.0	11.9
To Govt		0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	1.3
TOTAL CHANGE IN QUANTIFIED COSTS												**13.4**

[9] Based on evidence from a variety of sources, Sutton Trust/BCG calculate the lifetime earnings of graduates from 'elite' universities (defined as Russell Group institutions), 'other' universities and for those with just A levels.

[10] It is assumed that the additional benefit shown by Deaden et al. is replicated in the returns at 'other' and 'elite' universities, so that it is possible to calculate and compare the lifetime earnings for lower and higher SEC graduates from 'elite' and 'other' universities. While earnings of higher SEC graduates are higher, the increase for lower SEC graduates is higher.

[11] It is assumed that overall numbers of students at the most selective institutions is held constant, so that an additional student from a lower SEC requires one less student from a higher SEC background.

[12] Russell Group was used as the proxy for the 'elite' or most selective HEIs.

CHANGE IN QUANTIFIED BENEFITS												
TO STUDENTS	**Improvements in social mobility**	34.4	33.2	31.2	31.0	30.0	29.0	28.0	27.0	26.1	25.2	295.2
TOTAL CHANGE IN QUANTIFIED BENEFITS												**295.2**
NET CHANGE IN QUANTIFIED BENEFITS												**281.8**

Unintended consequences

Options 1,2,3

We need to ensure that providing more information to prospective students does not produce the following unintended consequences:

a) Students expecting automatic entry into specific HE courses, with certain A level results.

In producing more information on the results of previously successful applicants, we must include contextual advice which reminds applicants that: places are limited; some courses are very competitive; and HEIs reserve the right to make final decisions on admissions.

b) Information on 'typical' entry qualifications do not artificially restrict pre-HE qualification routes I.e. we do not want to give the impression that there are only a few, very narrow entry routes to popular courses. We want to leave open options for candidates with non traditional qualifications or access qualifications.

c) Increased information serving to reinforce differences between applicants who 'know the system' and those who don't understand the significance of the information available.

Prospective students need access to quality advice and guidance to help them understand the increased information available.

To address all these concerns, it is essential that the proposed improvements to advice and guidance in schools and colleges take effect. These proposals are outlined in the HE White Paper.

It is also important that new information websites provide clear explanations of the significance (and limitations) of the information which they provide and point readers towards sources of advice and guidance.

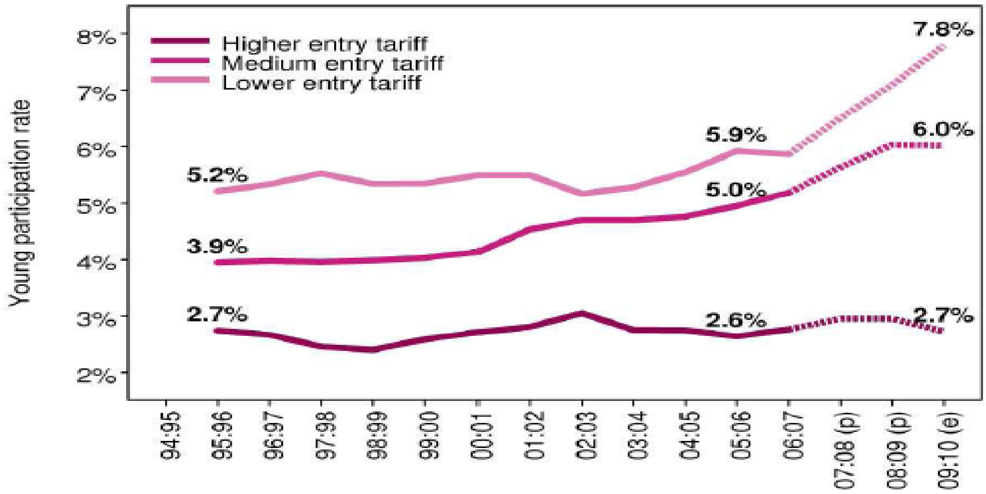
Fair access

Problem under consideration

Access to Higher Education

Whilst participation in HE has improved in recent years, there has not been enough progress in securing fair access to some of our best known universities. The Director of Fair Access in his 2010 report on "What more can be done to widen access to highly selective universities" shows that over the past 15 years the relative chances of disadvantaged young people entering HE compared to the most advantaged had improved, but the relative chances of them attending the most selective third of universities had slightly decreased (see chart 1 below).

Chart 1. Participation rates on the bottom 40% (by income) of young people



Source: What more can be done to widen access at selective universities, OFFA, 2010

Rationale for intervention

In a fair society, anybody with the ability to benefit from higher education should have an equal opportunity to access higher education, regardless of their background. Institutions that want to charge above the basic level for tuition fees, i.e. over £6,000, should be expected to re-invest some of their additional fee income into promoting wider participation and improving fair access. Those charging the very highest fees, up to a maximum of £9,000 should be expected to do the most to ensure that students from disadvantaged backgrounds are not deterred from applying to those institutions.

Policy Objective

BIS Guidance to the Director of Fair Access was published in February 2011 and sets out the main policy objectives of access agreements[13]:

[13] http://www.bis.gov.uk/assets/biscore/higher-education/docs/g/11-728-guidance-to-director-fair-access Guidance to the Director of Fair Access, issued by BIS, February 2011

- increase social mobility by enabling more people from disadvantaged backgrounds to enter higher education, and subsequently gain employment in the professions and other rewarding, well paid occupations;
- make greater progress in extending fair access for applicants of the highest ability to the most selective higher education institutions;
- continue to make progress in widening participation to higher education at large, attracting a higher proportion of students from under-represented groups.

Option being considered

All institutions that intend to charge more than the basic £6,000 annual graduate contribution will have to demonstrate to the satisfaction of the independent Director of Fair Access what more they will do to attract students from disadvantaged backgrounds. They will do this by submitting for the Director's approval new Access Agreements. This is not a new mechanism and has been in use since variable fees were first introduced in 2006. New Access Agreements are needed now because of the significant changes to the way HE will be funded from 2012/13 and the increased relevance of Access Agreements within the new arrangements.

Box 1: Contents of an access agreement

Each access agreement must include details of institutions:

- fee limits and fee income above £6,000
- expenditure on additional access measures
- additional access measures including (where applicable):
  - outreach
  - student retention and success
  - financial support for students (including support under the National Scholarship Programme)
- monitoring and evaluation arrangements
- provision of information to prospective students.

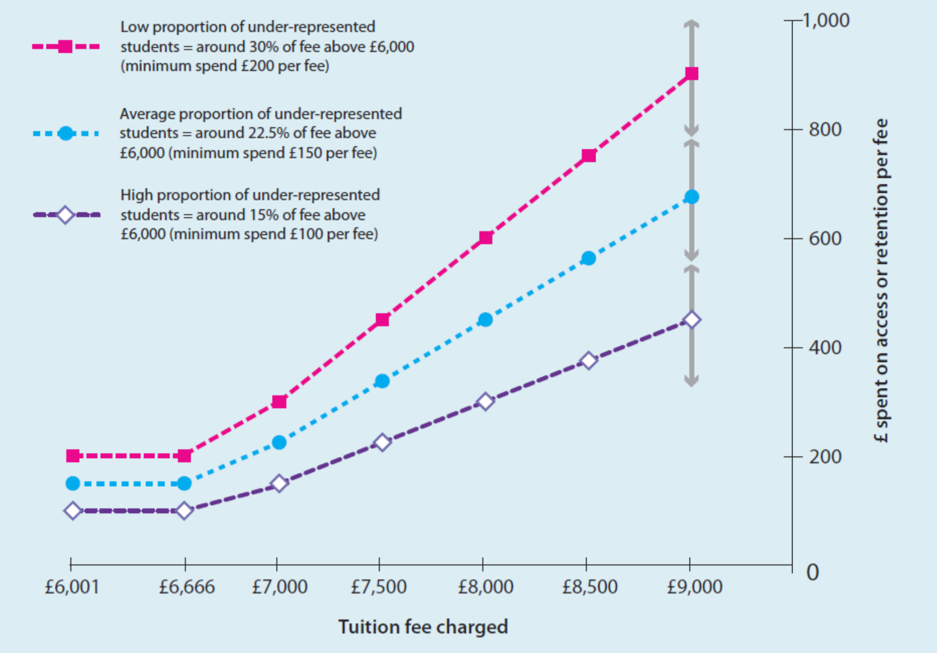
Costs

Nearly all institutions will already have an access agreement so this policy reflects a 'marginal change'. Institutions who intend to charge more than £6,000 will have to submit a revised access agreement for 2012-13 academic year and the cost of doing so per individual HEI will vary across HEIs. The deadline to submit access agreement returns to OFFA was April 19th 2011. On 20th April OFFA made a statement that said 'as of 9am 20th April, 139 institutions (122 higher education institutions and 17 further education colleges) have submitted access agreements for 2012-13 to the Office for Fair Access (OFFA). One additional higher education institution has been given an extended deadline, due to the very high proportion of its courses that are part-time'.

For illustration we discuss the type of costs borne by HEIs associated with access agreements. There will be costs incurred to draft the agreement. Guidance from OFFA[14] suggests most agreements will only need to be several pages long, although agreements with significant variation between courses or multiple targets may need to be longer. HEIs may also submit financial data or information about targets in Excel files. **We would expect the cost of doing this to be similar to that which they already incur. Although, there are differences this year and where these have imposed additional costs we would welcome evidence on this as part of the consultation and report in the autumn from the Director of Fair Access on how well institutions have been able to respond to these new requirements.**

HEIs will also be spending money on access and retention measures. OFFA have provided some guidelines on the amount of this spend depending on the tuition fee charged and level of under-represented students. This guidance is shown in the chart below.

Chart 1. Guideline expenditure per fee above £6,000 (including a minimum spend per fee)



Source: OFFA, March 2011 How to produce an access agreement 2012-13

In addition, the changes in spending on improving access, for example through bursaries or scholarships, is inherently tied in with the changes to the funding regime, and the additional income that HEIs will generate through fees. Some assumptions have been made on how these funding flows will occur between HEIs, government and students and are demonstrated in table 7 above.

Finally, HEIs will have to assess the progress made against their access agreements. The indicators used will vary across HEIs but can include current HESA performance indictors as well as appropriate benchmarks they propose and agree with the Director of Fair Access. Most HEIs will already have a framework to assess access agreements. **We would expect the cost**

[14] http://www.offa.org.uk/wp-content/uploads/2011/03/2011-01-OFFA-How-to-produce-access-agreement-2012-13.pdf March 2011 guidance, OFFA, How to produce an access agreement

of doing this to be similar to that which they already incur. Although, there are differences this year and where these have imposed additional costs we would welcome evidence on this as part of the consultation and report as above.

Benefits

Access agreements are intended to widen participation across the HE sector, including to the most highly selective courses. It is difficult to assess directly the impact of access agreement as it is uncertain what the counterfactual (no access agreements) is. There are incentives for HEIs to deliver their access agreements as OFFA does have sanctions available to them. The social mobility type benefits arising from this measure are already included in the quantified benefits under policies 1 and 2.

Enforcement and Sanctions

The major sanction available to OFFA is not to approve or renew an Access Agreement, when it is reviewed each year. This would remove the institution’s right to charge its students above the basic level. OFFA also have available sanctions should an institution breach or fail to deliver its access agreement, which include

- to impose a fine (via the funding body) up to a maximum of £500,000
- to require restitution if students have been disadvantaged or commitments have not been honoured.

We have asked the Director of Fair Access to provide advice in the autumn following the first round of approval of new Access Agreements on what further steps might be needed to ensure the delivery of Access Agreements. This may include areas we might look at to enhance the powers available to the Director when an institution is failing to make adequate progress.

Creating dynamism and competition in student number allocations

Problem under consideration

One role currently undertaken by HEFCE is to regulate the number of students which each university and college may enrol. This is necessary in order to manage the national budgets, because any institution that enrols additional students creates potential additional cost for the student support budget. However, the current controls do not allow the free exercise of choice by students, because institutions are not able to expand in response to rising demand from applicants. That in turn protects institutions with lower levels of demand, because they are still able to fill their places with students who cannot get to their first choice institution (although there are also instances where it can increase choice for students because it protects provision which otherwise could become unviable due to relatively low demand). Once alternative providers become subject to number controls as a condition of designation for student support, from 2013/14, the current system would also prevent new providers from increasing student numbers in the same way as applies to existing HEFCE-funded institutions. This would undermine the beneficial effects that greater competition in recruitment could achieve in driving up choice and quality and encouraging competitive pricing.

Box 1: How HEFCE student number controls currently operate

In recent years additional entrant controls have been put in place for each institution for HEFCE-fundable full-time undergraduate and full-time HEFCE-fundable PGCE entrants – institutions which exceed their entrant control are liable for a reduction in their HEFCE grant pro rata to the level of over-recruitment.

Rationale for intervention

There are several limitations with the current method HEFCE uses to allocate student numbers across institutions. These limitations lead to lower competitive pressures amongst higher education institutions. Controlling student numbers places a cap on the number of students that can attend university. From assessment of the available evidence we conclude that the current cap imposed on higher education has led to some unmet demand (i.e. in the absence of student number controls there are students who would like to and have the aptitude to enter higher education but are unable to do so because of the cap). Evidence on unmet demand is explored further below. Nick Barr and Neil Shephard in 'Towards setting student numbers free'[1] explain that in a competitive market if a university's quality dropped we would expect reduced demand and downward pressure on price. However, excess demand (unmet demand) largely negates these pressures. A cap on student numbers also makes it difficult at the micro level for individual institutions to respond to a growth in demand. Incumbent institutions at present have an advantage over new entrants in accessing student support which increases the market power of incumbents. On the other hand, alternative providers, who are not currently subject to student number controls, because they are not funded by HEFCE, are able to increase student numbers. This can increase costs of student support, and means there is an increased risk of reductions to grant for the HEFCE-funded sector in order to remain within the overall HE budget.

Evidence of unmet demand

Unmet demand is a difficult concept to define, but has been proxied in the past by using the difference between the number of applicants, and accepted applicants. This total number of ‘unplaced applicants’ will not be a true measure of excess demand as it does not account for applicants’ true intentions, nor adjust for those who drop out, or fail to reach the grades required to successfully participate.

Previous BIS internal estimates of the proportion of those *truly* representing unmet demand have been based on a 2007 UCAS report 2 - which gave a high level breakdown of why applicants remained unplaced.

The 2007 UCAS report highlighted, there are many reasons why applicants remain unplaced:

- 37.5% received no offer from any of the courses or institutions they applied to;
- 6.1% withdrew from the process;
- 51.9% declined at least one offer;
- For 4.6%, the decision process is unknown.

Importantly, only 38% of all non-placed applicants re-apply at some stage. This is probably a better measure of people who were serious about going to university, but were not offered a place. In addition, we are mainly interested in unmet demand from English-domiciled students at English HEIs. The UCAS report included students with years of entry 2003 to 2006 who had not by the end of the admissions cycle been successfully placed at a full-time course on a UK HEI. It should be noted that there were no student number controls between 2003-06. Although, the UCAS 2007 report includes data over a period where there were no number controls it remains a good evidence source to base estimates of unmet demand in higher education. **We welcome views from stakeholders on our estimate of unmet demand and how this could be improved.**

Given the above, the following table derives what would be a better estimate of "excess demand" from UK and EU domiciled students in English institutions - i.e. around 63,000 students in 2010.

Table 1. BIS estimates

	2006-entry	2007-entry	2008-entry	2009-entry	2010-entry
Non-placed applicants (From the UK and EU)	78,000	82,000	85,000	114,000	165,000
Estimate of 'true' unmet demand (using 38% as a proxy)	29,000	31,000	32,000	43,000	63,000

Source: BIS estimates based on UCAS data

Measures proposed

To promote greater competition and dynamism, Government intends to introduce mechanisms to create more freedom in the allocation of student numbers.

Measure 1: removing number controls on high-achieving students

This option allows all institutions to recruit unlimited numbers of high achieving students, e.g. equivalent to AAB and above at A-level to allow more competition for these students and more responsiveness to student choice by allowing popular institutions to offer more places to AAB students if they wish to expand and can attract applicants. It would be feasible to start with an AAB-cohort in 2012/13 and potentially introduce a gradual increase in the cohort size to in future years. (Note: during discussion of this option, reference to “AAB" should be assumed to also include recognised equivalent qualifications, not only those with A-levels at those grades).

Impact analysis

HEFCE have estimated based on 2009-10 HESA data, the number of entrants who would be freed from controls, if the following different grade thresholds were used:

AAB-equivalent	ABB/AAC-equivalent	BBB-equivalent
57,000 students	84,000 students	100,000 students
18% of entrants	26% of entrants	31% of entrants
17 HEIs (14%) with min. 50% of places freed from controls	26 HEIs (21%) with min. 50% of places freed from controls	35 HEIs (28%) with min. 50% of places freed from controls
106 HEIs (86%) with less than 50% freed	97 HEIs (79%) with less than 50% freed	88 HEIs (71%) with less than 50% freed

Table notes – figures in all tables are indicative only and:

- Do not include: Entrants registered at FE colleges or several qualifications with recognised equivalence
- Do include: Those who achieve an equivalence through a larger number of low grade scores, not all of which would necessarily be counted as an equivalence
- Are not adjusted for: population or grade achievement increases by 2012/13

HEFCE have also estimated the distribution of grades across HEIs in 2009-10 for each potential alternative grade combination. However, it must be noted the data in this table is only indicative at this stage as the data is subject to revision due to necessary adjustments required.

Implementation of measure 1

In broad terms, HEFCE would count the number of AAB students admitted to each institution in 2010/11 using their HESA data and use this to calculate a reduction to their student number control limit for 2012/13.

This is not the same as cutting the number of places an institution is allowed to recruit. Institutions would no longer need this allocation/control on AAB places because they would have freedom to recruit as many students with these grade equivalents as they could and wanted to.

What it would prevent is an institution that lost a share of the AAB market being automatically able to make it up by recruiting more students below AAB, because their remaining allocation for non-AAB entrants would be fixed, as now.

In order to factor in annual growth in the number of students achieving AAB, (currently estimated at around 6,000 per year), HEFCE would ensure the overall student numbers did not grow beyond affordable levels by top-slicing that number of places from the numbers available in the controlled sub-AAB population in the form of a pro-rata cut to all institutions. This would create a marginal decrease each year in the number of sub-AAB places available. The size of the decrease would need to be calculated annually on the basis of the forecast population size, participation rates and achievement levels. The larger the cohort (e.g. if expanded to ABB or BBB in future years), the less straightforward it would be to predict an accurate cohort size. There would be implications for getting this wrong either way – a cost pressure created if it was underestimated, and an unnecessary level of cuts on institutions' core allocations if it was overestimated.

Impact on institutions

1. Analysis identifies three main classes of institutions:-
    2. High proportion of AAB, highly selective
    3. Medium proportion of AAB, mixed economy institutions with above average overall entry requirements
    4. Low proportion of AAB concentrated in small pockets of provision that are highly regarded in their field

It is anticipated that most of the movement will be within these groups rather than between, but that we can expect significant interaction between groups 1 and 2, and that Group 3 is likely to see the greatest impact on overall numbers.

On the whole, the choices for potential students will be between their preferred option and the next nearest best alternative, suggesting that most of the movement will be within these groups rather than between them. The differences in subject mix between groups 1 and 3 are such that for many courses they will not be in direct competition with each other. For example, a highly regarded Film production and Animation course will not lose candidates to Physics or the social sciences.

From an institution's perspective, they will have to concentrate on what they do best and may well find they are unable to compete for these students in subjects where they do not have the highest of reputations. Hence, we can expect significant changes within institutions in Groups 1 and 2 as the disciplines of the market impact. The effect on institutions will be mitigated to some extent by the underlying year on year growth of the AAB population.

Competition is likely to be primarily on quality – any institution or department within an institution that is complacent risks losing numbers to others that are both able to attract sufficient students with AAB and wish to grow. Quality over all its dimensions will ultimately be the determinant and those that lag behind will find they have to lower their offers and increasingly compete for places in the controlled core.

Ignoring any further measures for redistributing numbers such as core/margin, the greatest impact on overall numbers will be on Group 3 as they are most dependent on the controlled sub AAB population that will have to be top-sliced to support the growth in AAB numbers. Next will be Group 2 because of their mixed economy and also because they will be more exposed to competition from Group 1 and in relatively small measure Group 3.

Impact on students

Freeing up AAB from student number controls ought to result in more offers of places and greater choice for high achieving students as institutions compete for this highly prized segment of the student population. Whatever the institution might be planning on doing, the outcome will be determined by the students exercising their choices and the ability of institutions to attract the quality applicants in the first place.

More than any other group of students, these high achievers are on average more likely to be the most discerning of all students and will make carefully considered choices between competing alternatives which will vary according to the subjects they wish to study.

Once it is agreed how the uncontrolled population is to be defined, HEFCE would look at the impact on particular student groups through their Sector Impact Assessment. For instance, there is a possibility that disabled students, BME students and male students are over-represented in the non-AAB population. Thus it could be argued that any top-slice of the controlled population will have an adverse effect on these groups. This effect could be minimised by keeping the non-controlled population small and predictable.

Unintended consequences

Risks identified

Allowing free recruitment of students above a certain grade level makes those with the required grades more appealing to institutions than those with equivalent potential who might receive a lower grade offer on the strength of contextual data, as there will only be a restriction on numbers for the latter group. Because lower prior attainment is a factor associated with disadvantaged students there is the potential for them to be disproportionately affected by this.

A squeeze on places at Group 3 universities will impact disproportionately on opportunities for widening participation students, many of whom apply to Group 3 universities

A shift in the availability of sub-AAB places from Group 3 universities towards FE colleges will not necessarily provide greater social mobility or better returns for any widening participation students displaced from HEIs to HE in FE.

Potential for an increase in highly qualified students from EU and other UK countries due to a perception that opportunities at the most selective universities are increasing – could potentially displace less well qualified English students

Mitigating factors

In many of the most selective institutions and courses, very high grade offers are common, so AAB would capture some grade discounting in recognition of contextual data. This is borne out by the relatively small increase (<10%) in the number of students gaining ABB or BBB at the most selective institutions (those with over 80% AAB) compared to AAB, suggesting that AAB or above accounts for the majority of offers, except where alternative qualifications are taken into account. This therefore suggests that there would be little impact on the likelihood of institutions considering contextual data at the most selective institutions where the fair access gap is largest. In fact, without a cap on AAB recruitment, there would be scope for institutions to expand the number of students considered for discounted grade offers. For those with 60-70% AAB populations, the additional number of students if expanding the threshold in future years to ABB or BBB is more typically around 10-20%, confirming that that for the next ‘layer’ of selective universities, more grade discounting might be encouraged if the uncontrolled population was BBB rather than AAB. However, there would be other significant risks to fair recognition of alternative qualifications if the control was relaxed to BBB equivalent populations, as well as increased cost risks, so BBB Is not recommended as a starting point.

From the point of view of the student, all institutions will still have allocations for sub AAB recruitment, albeit cut pro rata according to the size of their AAB cohort. So the vast majority will still be able to recruit well over 50% of their current entrant population from those with grades below AAB.

The main adverse impact would be any cuts to the sub AAB allocations, both due to the annual top-slicing to allow for the increase in the AAB population, and the core/margin model where it takes places from higher charging institutions to allocate them towards provision charging an average of £7.5k or less. However the first of these is likely to be marginal in impact. In future years, if we were concerned about places being taken from particular types of institution, it would be feasible to operate a core/margin reallocation of places towards such institutions if there was justification for it according to fair criteria.

In terms of whether the system favours students who have high grades, and the fact that this includes a disproportionate number of independent school pupils, considering such a high percentage of this cohort already go to university, it is important to note that this proposal does not favour them any more than the current system. However for as long as universities choose to consider high grades as a proxy for ability and potential, even if not the only proxy, it is reasonable to expect that this cohort of students will continue to have high participation rates, higher than those with lower grades, regardless of the number control system. This model is therefore not expected to impact on their forecast participation rates.

The question of whether there would be sufficient recognition of qualification equivalence to A-Levels depends on a number of factors. In 2012/13 while controls are freed only from AAB students, there would be few equivalences (primarily international baccalaureates), and so this would not automatically exclude large numbers of alternatively qualified students. If it was expanded to ABB or below in future years, it is likely that decisions would need to be made on which equivalences could be counted, which could potentially exclude some students, particularly if we set a list of qualifications that are equivalent to the required level. In addition, some institutions do not recognise all equivalences – it is a matter for their admissions policy ultimately regardless of what the tariff recognises. However although this anticipates a number of students would not gain recognition, as mentioned above, the majority of places will continue to be available to students who do not have AAB equivalent qualifications, so it is not anticipated it would disadvantage them.

Overall, for all the points above however, we anticipate that continued robust monitoring of fair access targets in OFFA agreements will act as a key driver to prevent any marginal move away from offering a fair balance of places to students from less privileged backgrounds.

Measure 2: Core/margin reallocation of places on the basis of indicators relating to quality and value for money

The proposal is to introduce a core and margin system for allocating student number control places to institutions, allocating up to an estimated 20,000 places in 2012/13 on the basis of fee levels, demand, quality and value for money so that in combination with Measure 1, around 23% of all full time entrant places would be allocated on a contestable basis in 2012/13. The size of the margin would then be steadily increased in future years to create greater dynamism in the allocation of places.

To implement Measure 1, HEFCE would already have revisited each institution's allocation, adjusting it down for the number of AAB students they recruit. The remaining allocation of numbers in each institution would then become their "core". Each institution will then have a pro rata cut taken from its core. The cut will cover a) the overall expected increase in AAB students from the previous year (in recent years this has been around 6,000, however demographic trends may reduce this) and b) the creation of a margin.

The margin would then be allocated out as follows:

Institutions that do not charge above £7,500 on average (after fee waivers are taken into account) for its full time courses would be eligible to bid for additional places, to encourage an expansion in quality provision that offers students good value for money.

Impact on shape of the market and institutions

If demand is relatively inelastic for higher charging HEIs, this analysis suggests expansion at under £7.5k would not have a significant impact on the market at sector level. We estimate based on the fee proposals we are aware of that all FE colleges and up to 20 HEIs would be covered by the £7.5k measure. It is unlikely to create a significant shift of students going from higher charging HEIs to low charging expansion seeking HEIs. However at institutional level, the combination of Options 1 and 2 is likely to see the largest impact on institutions that charge above £7,500 on average but have lower proportions of AAB students, since with a larger proportion of their numbers ‘core’ than those with AAB students, they will take a larger cut to create the margin, but will not be able to benefit from Measure 2 in order to win back places on the basis of their fees. The impact of this on HEIs with large franchise agreements with local FE colleges who might see a fall in students and therefore funding and fee income given this policy would need to be monitored, although FE colleges would have more scope to increase their own number allocations without as much reliance on franchised places, through Measure 2.

Summary of potential impacts

The table below summarises the potential impacts of measures 1 and 2 on students, institutions and Government budgets.

POTENTIAL IMPACT OF:	Measure 1 Removing number controls on high-achieving students, e.g. AAB equivalent	Measure 2 Allowing expansion of providers offering only low price provision i.e. average fees of less than £7.5k
Students	Positive: Creates greater dynamism for around one fifth of students allowing more students a better chance of getting their first choice institution.	Positive: encourages recruitment <£7.5k offering low-cost option for students. Negative: as price is not only consideration for students they may not receive type of provision they want, may reduce satisfaction
Institutions	Positive: some incentives to drive competition between HEIs for places (positive impact on quality and efficiency) Negative: some HEIs will experience a fall in overall student numbers. Negative: potential instability for those institutions unable to continue to attract high achieving students, particularly those with only limited numbers of courses with high entry	Positive: opportunities for some parts of the sector to grow and offer competitive pricing. Greater opportunity for FE colleges to increase their provision without reliance on franchising arrangements. Negative: Institutions offering higher cost courses above £7,500 would stand to lose places to lower cost provision, with the potential for this to create loss of income and greater instability.

	Measure 1	Measure 2
	requirements.	
Risk on Government Budgets	Low as the size of AAB/ABB students attending university is fairly stable year on year.	Neutral: this option would not allow expansion beyond controlled numbers.

Additional longer term proposal: Off quota recruitment

There is currently a need to control the number of HE places for UK and EU students because they are automatically eligible for student support, so create a cost liability for government, regardless of whether or not a student is sponsored or claims no support. For this reason this reduces the incentive on institutions to encourage employer or charitable supported places because such places cannot be in addition to an institutions' student number limit, even if all costs are covered by the sponsor.

There is currently an exception to student number controls made for 'closed courses', i.e. bespoke provision agreed between a provider and an employer only for their employees. However in 2009/10 this arrangement involved only 6,000 students on 209 courses at 38 institutions, which, of a total student population of around 1 million represents only a marginal increase in the number of places made available through employer sponsorship.

The intention is therefore to work with the sector on a model that will enable employer and charitable supported places to be 'off quota' i.e. in addition to the controlled 'quota' of student numbers, provided they do not create cost liability for government and are able to meet key principles whereby the principles of fair access apply, the places are genuinely additional and there is no reduction in entry standards in their recruitment.

By reversing the disincentive to encourage more sponsored places, we would hope to see an increase in the number of places available overall to students, therefore a potential decrease in the amount of unmet demand.

Reforming the regulatory framework

Problem under consideration

The funding reforms together with the introduction of a more market based approach means a new regulatory framework is necessary. The Higher Education Funding Council for England's (HEFCE) influence over the sector through conditions attached to teaching grant will reduce over time as most money will flow through tuition fees. Consequently, a new, fit for purpose, regulatory framework is needed which manages the increased risks inherent in a new system and maintains high quality and standards in higher education.

At the same time the Government wants to free up the higher education sector so that it is easier for institutions to expand and new providers to enter the market on fair terms. In doing so the Government is seeking to break down barriers around, for example, University Title, degree awarding powers and access to student support and to ensure that low-cost, work-focussed degrees delivered in innovative ways by further education colleges and other non-traditional providers are able to compete on a level playing field in prospective students' decision-making.

Rationale for intervention

The Government currently regulates the publicly funded higher education sector through HEFCE operating primarily through the conditions attached to the teaching grant allocated to higher education institutions each year. The reforms to the higher education sector, whereby funding will in future follow the student rather than through the HEFCE teaching grant, means that we now need to review the overall regulation of the sector.

The proposed new regulatory framework will take account of better regulation principles and, as far as possible, will look to remove, improve, or simplify requirements. The Government wants to increase the autonomy of universities, recognising that the current success of the higher education system owes much to the historic ability of institutions to determine their own mission, and then pursue it energetically and creatively without excessive burdens of external compliance. Future regulation will be strictly limited to that which is necessary to protect students and the national interest, while maximising the scope for a well-functioning market that works in the interests of students. The Government will therefore adopt a risk-based approach where appropriate to do so that could mean deregulation in some areas for institutions that are performing well. The White Paper identifies some specific areas where this may be possible and proposes further work to develop the proposals.

In addition, the Government wants a dynamic, responsive higher education system, with fewer barriers for new institutions that want to start to offer courses. Competition is a great driver of improvement and a more diverse sector will mean more and better choice for students and better value for money through new and potentially innovative and lower cost approaches to teaching. The overall regulatory regime must therefore support and encourage this more fluid market.

Policy Objective

The Government's objectives for regulation in the HE sector are:

- To create an open and dynamic HE system by encouraging competition and innovation in supply and enabling new providers to enter the system on fair terms,

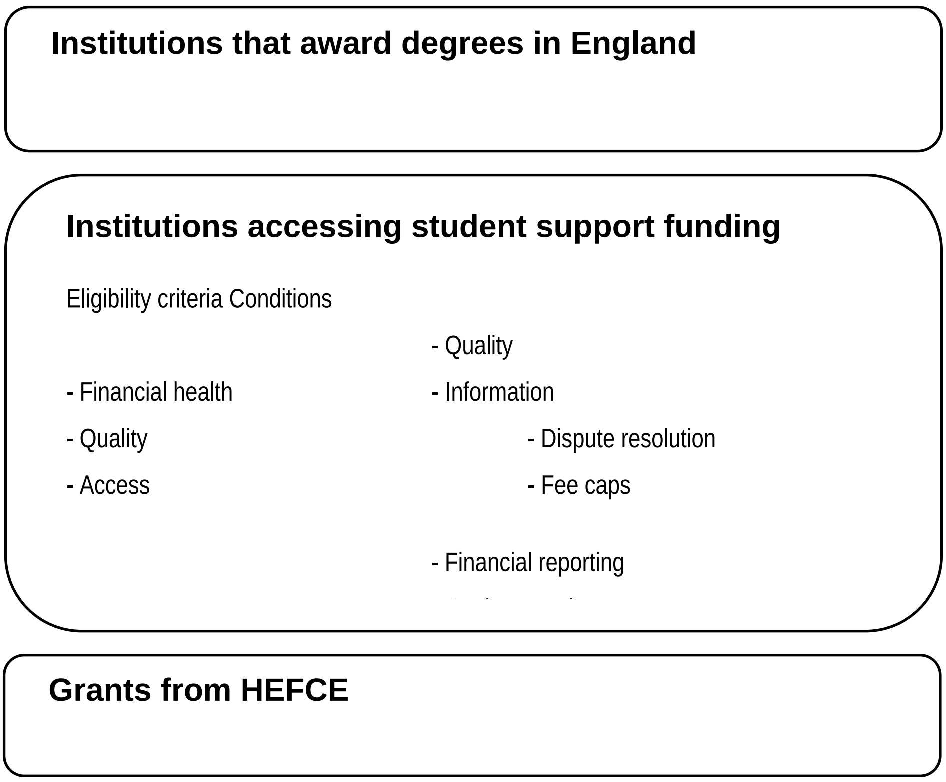
- To secure and sustain high standards of HE qualifications thereby sustaining public confidence, protecting the consumer interest and maintaining a high international reputation for the UK HE system.

Description of options considered

To meet these objectives, we are proposing a single, transparent regulatory regime that covers all institutions that want to be part of the recognised English HE system. There would be three broad categories in the framework:

- All institutions offering a recognised "English degree" (i.e. having "degree awarding powers" in England) would need to satisfy a quality threshold, administered by the Quality Assurance Agency.
- All institutions that want their students to access student support funding (loans and grants) would need to first satisfy eligibility requirements around quality, access and financial health. Specific conditions attaching to student support will be set down in an institution's financial memorandum which will include requirements around information, quality, financial reporting, dispute resolution, student numbers, pricing.
- Not for profit institutions would additionally, subject to satisfying the necessary conditions, be able to access grants from HEFCE to fund those additional costs and public policy priorities that cannot be met by a student-led funding system alone.

Figure 1. Grouping of regulatory reform being considered



Source: BIS

Costs and benefits

Regulating to allow institutions to award UK degrees or use the University Title

As of October 2010, England has 131 Higher Education Institutions (HEIs) supported by some form of direct government support[1], of which 89 are universities[2,3]. Some Further Education Colleges (FECs) in England also deliver HE courses (that is, courses above Level 3 qualifications), with funding direct from HEFCE, or indirect via an HEI. In addition, there are a growing number of alternative providers[4] active in HE activities. They provide a wide range of products, not just HE level qualifications, with institutions varying from those with UK degree awarding powers[5] or accredited by a recognised UK awarding body[6], and overseas universities with UK campuses, to smaller private colleges targeting international students for degree level study, as well as a growing number of alternative institutions providing foundation and pre-degree courses[7].

The English HE brand, the ability to award degrees and be called a university, and the high quality this implies, is prestigious, desirable and commercially valuable – which is why DAPs and UT are so attractive to non-traditional providers. However, they argue that the conditions and processes attached to DAPs and UT at present do not allow them to operate and compete with publicly funded institutions on an equal footing.

The Higher Education White paper will be consulting on options for change including changes to TDAPs and UT processes and criteria to enable alternative types of provider who may not fit with the assumed models to enter the sector.

For instance, it sets out the intention to review the criteria and process for awarding Taught Degree Awarding Powers (TDAPs) with the aim of opening up the sector to alternative providers including non-teaching bodies such as EdExcel. This should enhance diversity of provision and enable wider choice of suppliers of validated degrees. FECs will also benefit from being less reliant on existing HEIs - who may well reduce their student numbers franchised out to FECs and increase their charges for validation as they seek to protect themselves from greater competition from FECs. This change will require primary legislation.

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[1] This includes some private institutions which benefit from some form of government funding, either through student support for students on their courses or research funding.

[2] Universities UK

[3] Institutions with university in the title, awarded by QAA

[4] Defined as those who are not publicly funded

[5] There are currently five private universities with degree awarding powers: BPP University College of Professional Studies Ltd, University of Buckingham, The College of Law, Ashridge Management College, and IFS School of Finance.

[6] Specific courses offered by private providers may be accredited by UK awarding bodies, such as universities, to award recognised degrees in the UK.

[7] Universities UK (2010), The growth of private and for-profit higher education providers in the UK, research report, March 2010

All providers with TDAPs will be subject to the quality assurance arrangements managed by the QAA. To ensure standards are maintained, we will be making explicit the power to remove DAPs from any provider and suspend DAPs (with restoration subject to meeting conditions within a prescribed timetable).

It will seek to accelerate the process by, for example, consulting on taking a different approach to track record – the criterion requiring the demonstration of four years' experience before being eligible to apply.

We intend to review the UT and DAPs application processes with a view to shortening/streamlining and building in alternative provider focus and to design and implement of a clear, fit for purpose renewal process supported by guidance

Simplifying the process in this way would be intended to generate administration savings for Government as well as institutions. For example, if the time taken to apply for TDAPs is reduced this will not only reduce the administration cost of processing an application but enable the benefits of having TDAP to accrue earlier.

The Higher Education White Paper announces a review of these options. These reviews will enable these options to develop. We have not quantified the impact of these options in this impact assessment but this could be carried out as part of the review and included in future updates to this impact assessment. We would welcome evidence from stakeholders to help quantify the impact.

Regulations to allow institutions to access student support funding under the new regulatory regime

Students can only apply for student support if the course they are planning to study is designated for student support purposes. Courses are designated by the Secretary of State for these purposes under the Teaching and Higher Education Act 1998 (Section 22(1)). The Secretary of State exercises this power in the Education (Student Support) Regulations ("student support regulations") which set out the criteria for designated courses.

Currently certain higher education courses provided by publicly funded institutions such as universities or FE colleges can be automatically designated for support if they meet the eligibility requirements in the student support regulations. Those institutions that are in direct receipt of HEFCE (or TDA) funding are subject to regulation around quality, access and fees as a condition of HEFCE grant.

Alternative providers that do not receive any public funding can, under the student support regulations, apply to the Student Loans Company (SLC) to have courses specifically designated for student support purposes on a course by course basis. However, these institutions are not currently subject to the same regulatory conditions as HEFCE (and/or TDA) funded institutions although all courses must be validated by a recognised UK awarding body to provide assurance on quality.

As we move to a system whereby funding follows the student rather than through the HEFCE grant we need to ensure a system of designation for student support that maintains quality and standards in higher education and protects the interests of students and the public. To date this has been achieved through the conditions attaching to HEFCE grant. However, under our proposed new regulatory framework these conditions will become conditions attaching to student support. An institution will first need to meet provider eligibility requirements on quality, access and financial health. Specific conditions attaching to student support will be set down in an institution's financial memorandum which will include requirements around information, quality, financial reporting, dispute resolution and student numbers. We will pursue a risk-based approach where appropriate which could mean deregulation in some areas for institutions that are performing well.

Quality

The primary responsibility for academic standards and quality in UK higher education rests with individual universities and colleges. The Quality Assurance Agency for Higher Education (QAA) checks how well they meet their responsibilities, identifies good practice and makes recommendations for improvement. QAA also publishes guidelines to help institutions develop effective systems to ensure students have high quality experiences.

To ensure that quality and standards continue to be safeguarded, and hence that the reputation of English higher education is maintained, all HE providers seeking DAPs and those wishing to access student support will be required to subscribe to the QAA and be subject to QAA review.

Existing higher education providers with DAPs are either already subject to this requirement or do so voluntarily so this will not be a change for them. However, for new providers to the sector who choose to seek DAPs or access student support this will involve a cost in terms of QAA subscription. Currently HEFCE funds a system of quality review of HE that is undertaken in FE colleges, which QAA carries out under contract to HEFCE; FECs do not currently subscribe to the QAA. Future arrangements for subscription to the QAA under the new funding arrangements will need to be considered by HEFCE and QAA. It is not yet known what future subscription costs might be although evidence on the current costs is included in Box 3,which is reproduced from the QAA website (at April 2011) and which reflects the current subscription arrangements for publicly funded and non-publicly funded subscribing institutions.

The White Paper proposes a move towards a risk-based quality assurance regime and a consultation on whether the HEFCE successor body would need additional legislative powers to introduce or operate such a system. Under a risk-based quality assurance regime, some institutions would benefit from reduced baseline regulation, balanced with quality reviews triggered by concerns being raised.

Box 2: Evidence on Subscription Costs to Quality Assurance Agency

Subscription requires the payment of an annual subscription fee. The subscription rates for publicly-funded subscribers are agreed with the HEIs' representative bodies in a banding structure based on the size of an HEI's HE student population (headcount, not FTE; including all modes of study; and including students studying overseas for a UK award). The current subscription rates for publicly-funded subscribing institutions are set out below:

Subscription rates for the academic year 2010-11		
Student numbers (HE headcount from HESA 2008-09 return)	**Band**	**Subscription amount for the academic year 2010-11**
Up to 1,000	A	£2,575
1,001 to 4,000	B	£6,180
4,001 to 7,000	C	£13,390
7,001 to10,000	D	£20,549
10,001 to 15,000	E	£27,398
15,001 to 20,001	F	£34,248
20,001 to 30,000	G	£40,000
30,001 and above	H	£50,000

The subscription rates for non publicly-funded subscribing institutions have been reviewed to ensure that they are set at a fair level and that there is no risk of cross-subsidy from funding council contract income or subscription income from the publicly-funded subscribing institutions.

The minimum subscription rate for non publicly-funded subscribing institutions was set at £6,180 from August 2010. From August 2011 it will rise to £13,390; from August 2012 to £20,549 and from August 2013 to £23,350. In each case these are minima; in other words, if the student population would place a non publicly-funded subscriber in a band attracting a higher charge, then that higher charge would be the charge payable.

The net effect of these changes is that, by August 2013, non publicly-funded subscribers will be paying a full cost subscription calculated according to QAA's costing and pricing policy. Bands A to D in the current structure will not be available to non publicly-funded subscribers, which will pay a minimum of £23,350 (subject to adjustment for inflation). Bands E to H will apply equally to publicly-funded and non publicly-funded subscribers according to student population.

Equity of access

Access

Under our proposals all HE providers wishing to access the student support system will be required to have an Access Agreement approved by the Director of Fair Access if they charge more than the Basic Fee Amount (set at £6k for 2012/13).

Currently all HEFCE funded providers are required to have an Access Agreement if they charge above the Basic Fee Amount so this will not change for them. However, non-HEFCE funded providers are not currently subject to access requirements. Consequently, fee loans for students at alternative institutions will be limited to £6k in 2012/13 to reflect the fact that they are not subject to access requirements.

Under the proposed new regime students will be able to access up to the Higher Fee Amount to study at an alternative provider if the provider meets the eligibility criteria and satisfies the conditions for student support, including having an approved Access Agreement if they intend to charge over the Basic Fee Amount. This could make the provider a more attractive choice for the student.

We will consider a risk-based approach to this requirement once we have evidence from the operation of the new system. All HEFCE-funded institutions are currently required to submit a Widening Participation Strategic Assessment (WPSA) as a condition of continuing to receive funding from the Widening Participation Allocation (WPA), part of their teaching grant. HEFCE are currently looking at the area of widening participation and the role of the WPSA in those future arrangements. In letters to HEFCE and the Office for Fair Access, Ministers have stressed the importance of the two organisations working together, including the development of a single reporting cycle for WPSAs and Access Agreements, and ensuring that these documents are complementary and that burdens on institutions are minimised.

Conditions attaching to student support

Dispute Resolution

All HE providers who hold DAPs and/or are designated for student support purposes will be required to:

- have transparent procedures in place for dealing with complaints and academic appeals, and;
- subscribe to the Office of the Independent Adjudicator (OIA) Scheme.

This proposal extends this requirement to alternative providers who hold DAPs and/or are designated for student support purposes. There is already provision in the scheme for ‘non-qualifying institutions’ to join and two providers have already done so.

The potential for additional administration costs for HEIs by meeting these conditions would be expected to be offset by the benefits of signing up to this scheme. For example institutions use the feedback from OIA decisions, and OIA seminars and materials, to improve their complaints procedures and the information provided to students. So this could help improve student satisfaction and potentially reduce the overall number of complaints. Students will be able to see that complaints are professionally handled, as part of a high quality service.

Evidence from the National Union of Students National Student Survey shows that the overall satisfaction rate for students studying in all types of higher education institutions (HEIs) and at further education colleges (FECs) in England remains high, with 82% saying they were satisfied with their course in 2010. The table below shows a more detailed breakdown of the NSS results by question area.

Table 2. NUS National Student Survey results for students in England

Questions	2009 NSS % satisfied	2010 NSS % satisfied
The teaching on my course	83%	83%
Assessment and feedback	65%	67%
Academic support	74%	75%
Organisation and management	72%	73%
Learning resources	80%	79%
Personal development	79%	79%
Overall satisfaction	81%	82%

Source: National Union of Students (NUS) http://www.hefce.ac.uk/learning/nss/data/2010/. At total of 152 HEIs and 113 FECs from across the UK took part in the 2010 survey.

Financial Accountability

Currently, HEFCE requires institutions in receipt of the block grant public funding to provide an annual financial assurance return and undergo a five yearly audit by HEFCE. The impact on institutions is small because the information needed is drawn from existing financial information compiled for their own internal accounting and audit purposes.

In future all institutions which are designated for student support purposes will be subject to financial review, the details of which are currently being considered.

Fee caps

Since 1998, English HEIs have seen the introduction of fees in two stages, first the introduction of a £1,000 flat fee for all students in 1998/99, and then the introduction of a variable fee with a cap of £3,000 per year in 2006/07. In 2010 legislation was passed for variable fees at a basic level of £6,000 and a higher level of £9,000 to apply from 2012/13.

Despite this provision in the legislation for variable fees to be charged by HEIs, in practice there has been very limited price variation on undergraduate courses for UK and other EU students. The vast majority of public universities currently charge the same (maximum) price[8] – the current fee cap level of £3,290 per year in academic year 2010/119 – but there are also a smaller number of alternative providers with different fee

[8] In 2009/10 only 3 English HEIs proposed to charge below the current maximum. Universities UK (2010) Variable tuition fees in England: assessing their impact on students and higher education institutions. A forth report

[9] Rising annually in line with inflation

structures offering whole first degrees, with prices ranging from those comparable to the publicly funded HEIs to around double the price.[10]

At present only HEFCE and TDA funded institutions are covered by the fee cap. This means that alternative providers can be designated for student support purposes but are not subject to the fee cap. Their students studying on designated HE courses can claim up to the maximum amount for student support (capped at £6,000 in 2012) but they are not required to agree an Access Agreement and are not subject to student number controls. We are currently considering how the fee cap might operate in the new regulatory regime.

Information

It is intended that all institutions wishing to access the student support system should subscribe to HESA, publish course information on Unistats and, as a part of the quality assurance regime, publish the 'Key Information Set' and participate in the National Student Survey and the Destinations of Leavers in Higher Education survey. The impact of policy changes related to information is considered further in the relevant section of this IA.

Summary of impacts

We believe that the proposals on regulation are the minimum necessary to protect both the student and public interest and to maintain high quality and standards, whilst at the same time breaking down barriers to market entry and simplifying the regime wherever possible.

The impacts will differ depending on the type of provider and whether and how much of the HE system they wish to access. Below is summary of the impacts by type of provider.

- **Existing HEFCE funded providers** – the overall shape of the regulatory regime will be as now so there will be little impact in terms of the level of regulation. There will however be a positive benefit from the ongoing work to simplify the burden within the regime and apply a risk based approach to regulation where appropriate.
- **Alternative providers –** will benefit from the changes to DAPs and University Title which will make it easier and more attractive for them to enter the sector on a more equal basis. Having entered the sector the impact of the regulatory regime will depend on what they wish to access: if they wish to hold DAPs they will have to sign up to a quality assurance regime; if they wish to access student support finance they will be required to comply with the requirements of the single regulatory regime that apply across the sector.

  This could involve a big shift for alternative providers who already provide HE and currently benefit from student support with very few strings attached as they will, in future, be required to comply with the regulation. However, we want to introduce a regulatory system within which all providers are treated on an equal and fair basis and which protects the student and public interest. In exchange for these potential costs they would be able to continue to access very generous loans for their students from 2013/14. In addition, in respect of potential additional requirements around quality, information and dispute resolution, these are consumer protection issues, which we expect most companies would see as a vital part of their

[10] [note on difficulties in comparing prices given some differences in study mode options, including studying for 2-year degrees]

marketing to demonstrate quality when comparing their offer to existing HEIs in a more competitive system.

As at 31 August 2010 there were 83 private providers with courses designated for student support. The total number of students at these institutions claiming student support in academic year 2009/10 was 4,160 at a total cost of £28.9 million (however, this figure also includes the maintenance grant so the actual figure will be lower).

We are still developing the policy in respect of the individual areas of regulation and so an accurate assessment of the likely costs to these organisations is difficult at this stage. However, based on existing costs and how we think regulation will apply to these organisations under the new regime, (which is subject to further consultation), our assessment is as follows:

- **Quality –** three of these organisations currently hold degree awarding powers (DAPs) and, as such, are already subject to quality audits by the Quality Assurance Agency (QAA). The remaining institutions mostly offer degrees under either a validated or franchised arrangement with an institution with DAPs. As such they are mostly subject to QAA collaborative audit arrangements. We therefore envisage that, in adopting a proportionate approach to regulation, these organisations will not be required themselves to subscribe to the QAA if they have satisfactory quality assurance arrangements in place as a consequence of a collaborative arrangement. For institutions without DAPs offering HE provision that is not validated or franchised by an institution with DAPs, we will consult on options to bring this within QAA quality assurance processes to ensure all students on courses that attract student support are afforded the same quality protection. Any arrangements would be within the new quality framework and regime on which there will be further consultation.

- **Access –** only those organisations which intend to charge more than the basic fee amount (set at £6,000 in 2012/13) will be required to have an Access Agreement approved by the Director of Fair Access. We do not have information on what these organisations charge at the moment nor what they are likely to charge in 2013/14 when the requirement comes into force and we cannot therefore, at this stage, estimate the costs.

- **Dispute resolution -** one organisation is already a ‘qualifying institution’ and therefore required to subscribe to the Office of the Independent Adjudicator (OIA). This will be a new requirement for the other two organisations that hold DAPs at a cost of £495 per annum (at 2011 rates). Students on courses at institutions that offer provision franchised or validated by institutions with DAPs, already have access to the OIA through the validating or franchising institution. We therefore envisage that, in adopting a proportionate approach to regulation, organisations offering only franchised or validated HE will not themselves be required to subscribe to the OIA, and we will be consulting on options to ensure all students on courses that attract student support have access to dispute resolution.

- **Financial accountability –** the detail around how HEFCE will in future review the financial health of organisations is currently being considered. However, it is likely that it will continue to take a light touch risk-based approach and, as far as possible, rely on existing information that an organisation already has to produce for its own accounting and auditing purposes. Consequently, if there are any additional costs associated with these requirements these are likely to be minimal.

- **Information –** For those organisations offering degrees under a franchised arrangement, they are already required to provide information to the franchising authority and consequently there will be no additional costs. However, for those not franchised, i.e. offering degrees under a validated arrangement or non-validated provision, this requirement could impose additional costs, and we are still considering how the policy will apply in this area. However, a very rough estimate based on the costs of producing the KIS on page 54 could be as follows:

    - Average £10,000 cost based on universities with anything up to 10,000 students.
    - The vast majority of these organisations have less than 50 students claiming student support and therefore the costs associated with information collection will be at the extreme lower end of the scale at say £500 - £1000 per organisation and in many case much less
    - If we assume that 50% of these organisations offer degrees on a validated arrangements potential costs could be in the region of 40 X £500/£1000 = £20K - £40K per annum max.

In addition, alternative not-for-profit providers meeting agreed criteria will be able to apply for HEFCE grants in the same way as HEIs and FECs.

Table 3. Summary of impacts by type of provider

	Existing HEFCE/TDA funded providers	Existing alternative providers with courses currently designated for student support purposes	New alternative providers
Amount of regulation	Broadly the same and a possible reduction with a new risk based approach where appropriate.	An increase in regulation however the possibility of reducing the regulatory burden over time based on good performance	Decision to enter the sector will be based on benefits exceeding costs. Possibility of reducing the regulatory burden over time based on good performance

Source: BIS

- **Students** – will benefit from a regulatory framework that creates a dynamic HE sector that encourages competition, innovation in provision and greater choice, and ensures high quality and standards across the sector.

- **Government** – it is difficult to assess the impact on Government at this stage. If more providers enter the market this could increase the level of regulatory activity carried out by Government. However, a more risk based approach could lead to savings to Government in future years. We will be exploring the impact on Government in more detail in the next version of this impact assessment.

It has not been possible to quantify the potential impacts in this impact assessment due to the early nature of decisions in the White Paper. The details of the aspects of the regulatory framework discussed above are to be consulted and reviewed over coming months. The HE White paper contains more detail. We would welcome evidence from stakeholders to help quantify the impact.

Annex: Specific impact tests

Competition assessment

We have fully considered the questions posed in The Office of Fair Trading competition assessment test[1] and concluded that none of the proposals outlined in this impact assessment are likely to hinder the number or range of suppliers or the ability and incentive for businesses to compete.

Table 1. Competition assessment.

Question: *In any affected market, would the proposal...*	Answer
..directly limit the number or range of suppliers?	No
..indirectly limit the number or range of suppliers?	No
..limit the ability of suppliers to compete?	No
..reduce suppliers' incentives to compete vigorously?	No

Source: BIS

Competition Impacts

There is evidence (in the Browne review[2]) that the current HE funding system (of block grants from HEFCE to HEIs) does not incentivise institutions to further improve their performance. The proposed funding and finance package aims for money to follow students and therefore drives incentives for providers to compete for those students. Such competitive pressures can generate quality and efficiency improvements. Additionally, in a system where graduate contributions more closely reflect the actual level of costs they incurred during HE, they will have the incentive to pressure their HEI to drive improvements so as to maximise their net benefits.

Whilst the Higher Education reforms will primarily affect Higher education institutions there are some Further education colleges (FECs) in England that also deliver HE courses (courses above Level, 3 qualifications), with funding from HEFCE or indirectly through an HEI. Therefore, they too will be affected by the potentially increased incentives for further competitive pressures and the removal of barriers to entry to create the right incentives to enable a greater number of private providers to enter the sector, further driving these competitive pressures.

[1] http://www.oft.gov.uk/shared_oft/reports/comp_policy/oft876.pdf

[2] http://www.bis.gov.uk/assets/biscore/corporate/docs/s/10-1208-securing-sustainable-higher-education-browne-report.pdf
Securing a sustainable future for higher education, AN INDEPENDENT REVIEW OF HIGHER EDUCATION FUNDING & STUDENT FINANCE 12 October 2010

An example of the existence of these barriers to entry is the current nature of regulation as discussed in the earlier section of this IA entitled "reforming the regulatory framework". A specific example is the requirement start-up providers in the UK expected to show a 4 year track record in provision before application which creates incumbent advantage and a criticism from established overseas universities that their overseas provision is not adequately taken into account so that competition from abroad is currently limited. Consideration of these issues feature within the HE White Paper.

The benefits of increased incentives for competition could be great but one potential consequence may be an inability of some institutions to attract students (if they are inefficient, provide low quality courses or so do not provide value for money) and thus cannot survive. The risks to the financial viability of such HEIs after the reforms depend on:

- individual institutions' ability to charge graduate contributions at different levels (which depend on the quality and type of courses on offer).
- the response from students to individual institutions;
- broader impact of funding decisions in other areas

In order to promote quality through competition, the reforms aim to break down some existing barriers which deter new providers from entering the English higher education sector so that students have a wider choice from a more diverse range of institutions to offer higher education courses. To facilitate this, the reforms aim to amend the rule which states that only teaching institutions can award degrees and will encourage the use of externally validated degrees, such as those delivered by the Open University, London Universities External Examinations Council and the new BTEC degree. The reforms will also ensure that low-cost, work-focussed degrees delivered at further education colleges, sixth-form colleges and schools are able to compete on a level playing field in prospective students' decision-making.

It is difficult to accurately measure the potential future demand for such courses as it will depend on many factors such as responsiveness by students to price and historic information is limited and unlikely to be a reliable indicator due to the potential for change. Additionally, the extent to which FE colleges (providers) can respond is difficult to know, particularly due to their reliance on Government funding for capital expansion to enable increased provision. However, it is known from the pressure from the larger FE colleges asking for a greater proportion of student number allocations that they have the potential to increase student numbers rapidly, particularly if they are less reliant on partnerships with publicly-funded HEIs. This increase in supply would generate the competitive pressures and thus potential benefits of efficiency, quality and provision that meets the demands of students.

However, there are potential effects that could limit the impact of the above benefits. These include:

- the breakdown of partnerships with HEIs that may result in lost benefits of a natural pathways for students to progress from FE into HE,
- the lower completion rates from FECs compared to HEIs and the low application/acceptance ratios among FECs[3] that suggests FECs may be a less-efficient supplier of graduates,

[3] HEFCE data (2011)

- the specialisation of provision from FECs on typically non-residential and highly tailored courses to local industries or vocational subjects, may limit the ability of FECs to expand beyond the demand for such courses so the potential expansion is, at least in the short-term, expected to occur in those disciplines where the largest and most reputable private providers specialise (law and business studies)

Overall, however, the competitive pressures generated by the HE reforms are expected to be positive.

Small firms impact test

The evidence below shows the majority of HEIs in England are publicly funded, not for profit, charities, although there are some private providers. Emerging data from the British Accreditation Council (BAC) shows that the majority of these private providers are employers of less than 50 staff, thereby small-medium businesses. The analysis above identified that there will be a number of private providers affected by the HE White paper reforms but the intended effects are to benefit such providers and ensure a level-playing field across a diverse range of providers.

Environmental Impact

There are few environmental impacts expected. In the proposed reform and context of reduced government funding, the incentives for HEIs to make efficiency savings is expected to drive energy efficiency so as to reduce their energy costs and utilise space and resource in a more effective way. Those HEIs who are able to raise their income in the proposed more sustainable funding system would have the incentive to invest in renewing their physical infrastructure (likely to be more energy efficient than existing infrastructure). For those which struggle to replace the loss of public funding through higher graduate contributions, there is a risk that the capital investment in energy efficiency buildings does not occur.

There is insufficient evidence to quantify the environmental impact of travel to and from institutions. If the reforms lead to more students studying from home this may reduce the environmental costs of travel to distant universities. However, it might increase the environmental cost of shorter journeys made within cities.

Background evidence on HE Providers

The majority of HEIs in England are publicly funded, not for profit, charities, but with a small number of private providers. The main source of growth in recent years for public providers has been through the changes in legislation, which has seen an increase in diversity of publicly funded provision. UniversitiesUK (2010) [4] has also identified growth

[4] Universities UK (2010), 'The growth of private and for-profit higher education providers in the UK', UUK research report, March 2010

in the number of private providers, particularly private colleges providing qualifications accredited by UK universities and targeting international students.

There is limited comprehensive data available on private providers and the students that attend those institutions at the moment, but the type of products that they offer and their target markets suggests that the focus of a large number is on international students and for a broader range of qualifications (in a smaller set of subject areas) than just degree level qualifications. The available information suggests that private providers are relatively small institutions, and do not, in general, offer the wide range of other activities provided by publicly funded HEIs.

One data source on student demand for private providers is from data on the HEFCE fundable undergraduate entrant population. This suggests that currently there are around 14,000 full-time HEFCE fundable undergraduate entrants on HE courses in FE Colleges; around 4.2% of this student population.

A recent survey[5] by the Higher Education Statistics Authority (HESA) of private providers found that there are currently under 40,000 students in total at private providers (40% undergraduates, 43% postgraduates and 17% "other" undergraduates). This suggests that current demand among private providers is currently comparable in size to one large UK university – the total is slightly smaller then the University of Manchester's student numbers for example.

The British Accreditation Council (BAC) is the national accrediting body for private post-16 education in the UK. The BAC has 488 BAC-accredited UK colleges as of the end of August 2010. At the time of drafting this impact assessment BAC had received 410 annual returns for 2009-10. Annual returns contain information on number of teaching staff and other staff. From this information a firm size distribution can be constructed (see table below). It should be noted that this data covers both Further Education colleges and Higher Education Institutions and should be treated as an estimate given further annual returns are expected.

Table 1. Estimated firm size distribution of organisations offering private post 16 education accredited by the British Accreditation Council *

Number of staff (teaching and other staff)	Percentage of organisations
1-49	83%
50-249	16%
250+	1%

Source: British Accreditation Council annual returns as at February 2010 for 2009-10. Figures represent 410 returns (from a possible 488) and should be treated as estimates for 2009-10.

[5] HESA Survey (April 2011)

Annex 1: Post Implementation Review (PIR) Plan

A PIR should be undertaken, usually three to five years after implementation of the policy, but exceptionally a longer period may be more appropriate. A PIR should examine the extent to which the implemented regulations have achieved their objectives, assess their actual costs and benefits and identify whether they are having any unintended consequences. Please set out the PIR Plan as detailed below. If there is no plan to do a PIR please provide reasons below.

Basis of the review: [The basis of the review could be statutory (forming part of the legislation), it could be to review existing policy or there could be a political commitment to review]; Ongoing evaluation of the proposed reforms: the impacts will continue to be reviewed as part of the broader evaluation, inline with BIS best practice.
Review objective: [Is it intended as a proportionate check that regulation is operating as expected to tackle the problem of concern?; or as a wider exploration of the policy approach taken?; or as a link from policy objective to outcome?] The objective of the review will be to assess whether the HE Reform is operating as expected and whether it has achieved its policy objectives.
Review approach and rationale: [e.g. describe here the review approach (in-depth evaluation, scope review of monitoring data, scan of stakeholder views, etc.) and the rationale that made choosing such an approach] The scale of the reforms will necessitate a range of approaches from monitoring based on administrative data sources to specially designed and commissioned evaluation studies to understand the operation or impact of specific aspects.
Baseline: [The current (baseline) position against which the change introduced by the legislation can be measured] Many aspects of the baseline position are readily available from administrative data sources - such as the overall levels of applications, participation and completion of different types of students in different types of institution, modes of study, subject areas, etc. Robust information is also available on overall costs and institutional finances. It will be necessary to establish appropriate measures of baselines in other areas such as student satisfaction, student finances, employer perspectives and private provision. In some cases measures do exist from surveys such as the National Students Survey and the Student Income and Expenditure Survey.; in others, such as private provision, specific studies will need to be commissioned. For some other areas, such as social mobility, it may not be possible to establish a baseline against which progress can be meaningfully measured within the timescale of any review. In these cases it will be necessary to agree proxies or leading indicators against which progress can be measured.
Success criteria: [Criteria showing achievement of the policy objectives as set out in the final impact assessment; criteria for modifying or replacing the policy if it does not achieve its objectives] For Government, there are two primary objectives in Higher Education, which are to drive economic growth and social mobility. We will be developing the success criteria in the final impact assessment.
Monitoring information arrangements: [Provide further details of the planned/existing arrangements in place that will allow a systematic collection systematic collection of monitoring information for future policy review] A number of administrative data sets already exist which will underpin monitoring arrangements, the key of which are: - HESA Student Record - which contains information on all students studying in publicly funded HE. The HESA record is also linked to the National Pupil Database to allow detailed exploration of progression.) - UCAS applications - HESA (institutional) finance record In addition to these administrative sources, consideration will be given to continuing or establishing

other survey-based data collections to cover: - student finances - student destinations - student satisfaction - employer views
Reasons for not planning a PIR: [If there is no plan to do a PIR please provide reasons here

This publication is also available on our website at http://www.bis.gov.uk/HEreform

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