
SECURING A SUSTAINABLE FUTURE FOR HIGHER EDUCATION

**AN INDEPENDENT REVIEW OF HIGHER
EDUCATION FUNDING & STUDENT FINANCE.**

12 October 2010

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AN INDEPENDENT REVIEW OF HIGHER EDUCATION FUNDING AND STUDENT FINANCE

EXECUTIVE SUMMARY

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FOREWORD



Lord Browne at City of Westminster College.

England has an internationally respected system of higher education. There are now a record number of people enrolled, studying an increasingly varied range of subjects at a diverse set of higher education institutions ('HEIs'). Graduates go on to higher paid jobs and add to the nation's strength in the global knowledge based economy. For a nation of our scale, we possess a disproportionate number of the best performing HEIs in the world, including three of the top ten.

However, our competitive edge is being challenged by advances made elsewhere. Other countries are increasing investment in their HEIs and educating more people to higher standards.

In November 2009, I was asked to lead an independent Panel to review the funding of higher education and make recommendations to ensure that teaching at our HEIs is sustainably financed, that the quality of that teaching is world class and that our HEIs remain accessible to anyone who has the talent to succeed. Over the last year, we have consulted widely and intensively. Our recommendations are based on written and oral evidence drawn from students, teachers, academics, employers and regulators. We have looked at a variety of different systems and at every aspect of implementing them – financial, practical and educational – to ensure that the recommendations we are making are realistic for the long term. I would like to thank all those who have contributed their knowledge, experience and time to this review. Our findings are contained in our full report and summarised here.

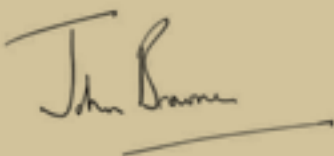
- Great advances have been made in making it possible for more people from all backgrounds to enter an HEI. Currently 45% of people between the ages of 18 and 30 enter an HEI, up from 39% a decade ago. Improvements have been made to ensure that students from disadvantaged schools or backgrounds are given a fair chance to study for a degree. Our recommendations build on this success. Support by way of cash for living ('maintenance') will be increased. Those studying for a degree part time will be given proportionate access to funding to those studying full time.
- The quality of teaching and of the awarded degrees is the foundation upon which the reputation and value of our higher education system rests. Our recommendations in this area are based on giving students the ability to make an informed choice of where and what to study. Competition generally raises quality. The interests of students will be protected by minimum levels of quality enforced through regulation.
- England's HEIs are very varied, in the type of student they attract, the standards of attainment they require for entry, the courses taught and so on. While most of higher education takes place in an HEI called a university this one word does not capture the reality of their diversity. Our recommendations reinforce this diversity. And since one size does not fit all, we would expect the result to be that HEIs will set varied charges for courses.
- A degree is of benefit both to the holder, through higher levels of social contribution and higher lifetime earnings, and to the nation, through higher economic growth rates and the improved health of society. Getting the balance of funding appropriate to reflect these benefits is essential if funding is to be sustainable. Our recommendations place more of the burden of funding on graduates, but they contribute only when they can afford to repay the costs financed. Students do not pay charges, only graduates do; and then only if they are successful. The system of payments is highly progressive. No one earning under £21,000 will pay anything.

We estimate that only the top 40% of earners on average will pay back all the charges paid on their behalf by the Government upfront; and the 20% of lowest earners will pay less than today. For all students, studying for a degree will be a risk free activity. The return to graduates for studying will be on average around 400%.

In formulating our recommendations we had to balance the level of participation, the quality of teaching and the sustainability of funding; changing one component has an impact on the others. What we recommend is a radical departure from the existing way in which HEIs are financed. Rather than the Government providing a block grant for teaching to HEIs, their finance now follows the student who has chosen and been admitted to study. Choice is in the hands of the student. HEIs can charge different and higher fees provided that they can show improvements in the student experience and demonstrate progress in providing fair access and, of course, students are prepared to entertain such charges.

Our recommendations will lead to a significant change; we do not underestimate the work that will be required. Since this review was commissioned the pressure on public spending has increased significantly. This will add urgency to make funding sustainable. We hope that, as these recommendations are debated, no one loses sight of the powerful role that higher education will play in continuing to build the greatness of this nation.

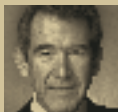
Respectfully submitted on behalf of the Review Panel, by



**LORD BROWNE OF MADINGLEY, FRS, FRENG
CHAIRMAN**

12 October 2010

PANEL MEMBERS



John
Browne



Michael
Barber



Diane
Coyle



David
Eastwood



Julia
King



Rajay
Naik



Peter
Sands

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THE PRINCIPLES

01



MORE INVESTMENT SHOULD BE AVAILABLE FOR HIGHER EDUCATION.

The current system puts a limit on the level of investment for higher education. As a consequence we are at risk of falling behind rival countries. Our proposals introduce more investment for higher education. HEIs must persuade students that they should 'pay more' in order to 'get more'. The money will follow the student.

02



STUDENT CHOICE SHOULD BE INCREASED.

No HEI can grow in the current system to respond to student demand. Many prospective students do not get adequate advice or information to help them choose a course of study. Our proposals put students at the heart of the system. Popular HEIs will be able to expand to meet student demand. Students will be better informed about the range of options available to them. Their choices will shape the landscape of higher education.

03



EVERYONE WHO HAS THE POTENTIAL SHOULD BE ABLE TO BENEFIT FROM HIGHER EDUCATION.

No one should be put off from studying in higher education because they cannot afford the cost of living while they are studying. HEIs will be evaluated on how well they are doing in providing fair access to all.

04



NO ONE SHOULD HAVE TO PAY UNTIL THEY START TO WORK.

The pressure on public finances could mean that students have to pay upfront or rely on loans from banks and money from families to meet the costs of higher education. We reject those approaches. In our proposal, Government will meet the upfront cost of higher education through the Student Finance Plan (see page 11 for more information). Students will not have to rely on banks or families to meet the costs of learning or living.

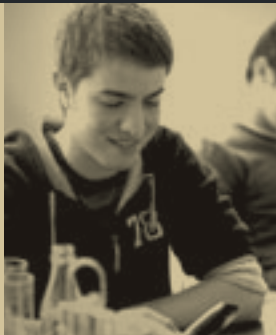
05



WHEN PAYMENTS ARE MADE THEY SHOULD BE AFFORDABLE.

Students should only pay towards the cost of their education once they are enjoying the benefits of that education. A degree is a good investment. Payments will be linked to income, so those on low incomes pay nothing. No graduate will face demands for payments that they cannot afford to make. Payments stop when the Student Finance Plan is complete – this is not a lifetime graduate tax (see page 6 and 7 for more information).

06



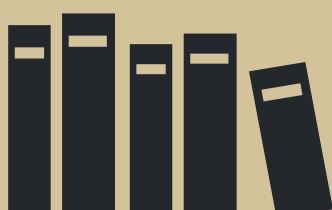
PART TIME STUDENTS SHOULD BE TREATED THE SAME AS FULL TIME STUDENTS FOR THE COSTS OF LEARNING.

The current system requires part time students to pay upfront. This puts people off from studying part time and it stops innovation in courses that combine work and study. In our proposal the upfront costs for part time students will be eliminated, so that a wider range of people can access higher education in a way that is convenient for them.

THE PROPOSAL

HIGHER EDUCATION

EMPLOYMENT



LEARNING

LIVING

EARNING



LEARNING

Students choose where they want to study and what they want to study. Government pays the costs of learning upfront.

LIVING

- Support for living costs available to all through an annual loan of £3,750. No means testing for access to loans for living costs.
- Additional support for students from families with an income below £60,000 per year, up to £3,250 in grants

EARNING & PAYING

- Students pay nothing up front. Graduates only make payments when they are earning above £21,000 per year.
- Payments are affordable – 9% of any income above £21,000.
- If earnings drop, then payments drop. If graduates stop work for whatever reason, then payments stop as well.
- The payment threshold is reviewed regularly to bring it into line with growth in earnings
- The interest rate on the loans is the low rate that Government itself pays on borrowing money. There is a rebate for low earners.
- Any balance remaining after 30 years is written off

PAYMENT HOLIDAY

If graduates stop work for any reason, then payments stop as well.



PAYING

OPTIONAL



GIVING

GIVING

- HEIs that charge the most for learning contribute to the costs of student finance by paying a levy on that income

Graduates can choose to make optional tax deductible payments to support their chosen HEI

PAYMENTS DUE BY GRADUATE EARNINGS

£ Annual earnings	Monthly		Weekly	
	Gross income	Payment	Gross income	Payment
0	0	0	0	0
21,000	1,750	0	404	0
25,000	2,083	30	481	7
30,000	2,500	68	577	16
40,000	3,333	143	769	33
50,000	4,167	218	962	50
60,000	5,000	293	1,154	68

The payment due is dependent only on the income of the borrower; it is independent of the interest rate and size of debt outstanding.

THE BENEFITS

We have been guided throughout our work by three aims: to increase participation, improve quality and create a sustainable long term future for higher education in this country. Our proposals are designed to deliver the following benefits.

PARTICIPATION

HIGHER EDUCATION EXPANDS SUSTAINABLY TO MEET QUALIFIED DEMAND, WITH ACCESS FOR ANYONE WHO HAS THE TALENT TO SUCCEED.

Our proposals create the financial scope for higher education to expand. We recommend a 10% increase in the number of places; and new support for the costs of learning for part time students. We propose an increase in the support for living costs for students from low income backgrounds. We recognise the role of HEIs in promoting access to higher education for all and ask the schools system to respond by improving guidance.

QUALITY

HEIs ACTIVELY COMPETE FOR WELL INFORMED, DISCERNING STUDENTS, ON THE BASIS OF PRICE AND TEACHING QUALITY, IMPROVING PROVISION ACROSS THE WHOLE SECTOR, WITHIN A FRAMEWORK THAT GUARANTEES MINIMUM STANDARDS.

Our proposals are designed to create genuine competition for students between HEIs, of a kind which cannot take place under the current system. There will be more investment available for the HEIs that are able to convince students that it is worthwhile. This is in our view a surer way to drive up quality than any attempt at central planning. To safeguard this approach, we recommend that the Higher Education Council enforces baseline standards of quality; and that students receive high quality information to help them choose the HEI and courses which best matches their aspirations.

SUSTAINABILITY

INCREASED PRIVATE CONTRIBUTIONS AND MORE TARGETED PUBLIC INVESTMENT TO SUPPORT HIGH QUALITY PROVISION AND ALLOW THE SECTOR TO GROW TO MEET QUALIFIED DEMAND.

The current funding and finance systems for higher education are unsustainable and need urgent reform. In our proposals, the system is put on a more sustainable footing by seeking higher contributions from those that can afford to make them, and removing the blanket subsidy for all courses – without losing vital public investment in priority courses. These measures create the potential to allow the numbers of student places to increase by 10% and enhance support for living costs while still allowing public spending reductions to be made.

HOW WOULD IT BENEFIT ME?

STUDENTS & GRADUATES

- Better education through a system that is built around their aspirations
- More choice, more opportunities
- Better information about courses
- No barriers to access
- Affordable payments



PARENTS & FAMILIES

- No upfront payment for the costs of learning
- Affordable contribution to the costs of living
- Additional targeted help for low income families
- Less means testing



HIGHER EDUCATION INSTITUTIONS

- More competition
- More say, more control
- Emphasis on quality
- Opportunity to raise more investment



GOVERNMENT

- Less involved, less regulation
- More trust in the decisions of students and HEIs



THE COMPARISON

How our plan differs from a graduate tax.

ISSUES	GRADUATE TAX	STUDENT FINANCE PLAN
<i>Cost of learning</i>	No upfront costs	No upfront costs
<i>Cost of living</i>	Will require support through loans – this means that graduates have to pay the additional tax as well as make loan payments	Graduates make a single set of payments to cover the costs of learning and living provided upfront by Government
<i>Payment terms</i>	Linked to income, no fixed mortgage style payments, payments continue indefinitely	Linked to income, no fixed mortgage-style payments, payments stop when costs of learning and living are paid back – or 30 years – whichever is earlier
<i>Protection for graduates on low incomes</i>	Graduates start paying when they cross the income tax threshold – £6,475 per year	Graduates pay nothing until they earn £21,000 per year
<i>Costs for graduates</i>	Uncapped, could be several multiples of the cost of the degree	Maximum payment is equal to the charge of the degree. Majority of graduates will pay less
<i>Funding to HEIs</i>	Tax revenues take time to build up – for first 25 years, model depends on Government filling that gap; after that, depends on Government enforcing a ring fence around graduate tax revenues	Direct funding relationship between student and HEI
<i>Burden on Government</i>	Additional £3bn a year until 2015-16 at least; additional spending continues until ca. 2041-42	No additional spending; continuing requirement to provide student finance
<i>Relationship between students and HEIs</i>	Student experience does not matter to HEI for raising funding	HEI depends on student willingness to pay for significant proportion of funding, so providing a high quality student experience is critical
<i>Incentives for HEIs</i>	No variability in funding, so no incentives to focus on quality, access or student experience	Sustaining income – or raising it – depends on improving quality, access and student experience

THE ADMINISTRATION

HOW IT IS FINANCED

- The Student Finance Plan will be administered by Student Finance, an organisation operating at arm's length from Government
- Students will be able to apply for finance at the same time as applying to study. Rather than choose the course and then seek finance separately, there will be a single application gateway.

The elements of the plan are:

- **Living:** Providing students with grants and loans for living costs on the basis of their own or their parents' income
- **Learning:** Paying the costs of learning upfront on behalf of the student
- **Paying:** Collecting payments from graduates, via the tax system, and managing their remaining payments
- **Giving:** Providing an easy way for graduates to make voluntary tax deductible payments to their chosen HEI

HOW IT IS REGULATED

THE HIGHER EDUCATION COUNCIL

The higher education system is currently overseen by four bodies. These will be replaced by a single Higher Education Council, charged with looking after students' interests and the public investment in higher education. It will take a more targeted approach to regulation, with greater autonomy for HEIs.

The Council will be independent from Government and from HEIs. It will have five areas of responsibility:

- **Investment** – identifying and investing in high-priority courses; evaluating value for money; dealing with the unexpected, with the primary aim of protecting students' interests
- **Quality** – setting and enforcing minimum quality levels across the whole sector
- **Equity of access** – making sure that individual HEIs and the sector as a whole make measurable progress on admitting qualified students from disadvantaged backgrounds

- **Competition** – ensuring that students get the benefits of more competition, by publishing an annual survey of charges, looking after the interests of students when an HEI is at risk and regulating the entry of new providers
- **Dispute resolution** – students can ask the Council to adjudicate on a dispute that cannot be resolved within their HEI, and the Higher Education Council can provide a decision which binds both sides

.....
The Higher Education Council will explain how it is investing taxpayers' money, and safeguarding students' investment in higher education through an annual report to Parliament.

AN INDEPENDENT REVIEW OF HIGHER EDUCATION FUNDING AND STUDENT FINANCE

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- 2.2 The 2006 changes have increased income for institutions without reducing demand from students – and established the principle that graduates will pay towards the cost of higher education.
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6.4 The Higher Education Council will target funding to improve access and completion rates for students from disadvantaged backgrounds.

6.5 The Higher Education Council will monitor the effects of competition and ensure that it is meeting the interests of students.

6.6 The Higher Education Council will adjudicate on disputes between students and institutions.

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7.3 Support for the costs of learning and living will come from Government, not from banks.

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THE INVESTMENT CASE FOR HIGHER EDUCATION

SUMMARY

England has an internationally respected system of higher education that produces major benefits for individuals and the country. Sustaining future economic growth and social mobility in an increasingly competitive global knowledge economy will require increased investment in higher education. Other countries are already broadening and strengthening their higher education systems and we need to rise to this challenge.

1.1 A STRONG HIGHER EDUCATION SYSTEM IS AN IMPORTANT ELEMENT IN THE ECONOMY AND CULTURE OF A LEADING NATION.

Higher education matters. It helps to create the knowledge, skills and values that underpin a civilised society. Higher education institutions (HEIs) generate and diffuse ideas, safeguard knowledge, catalyse innovation, inspire creativity, enliven culture, stimulate regional economies and strengthen civil society. They bridge the past and future; the local and the global.

Higher education matters because it transforms the lives of individuals. On graduating¹, graduates are more likely to be employed², more likely to enjoy higher wages and better job satisfaction, and more likely to find it easier to move from one job to the next. Participating in higher education enables individuals from low income backgrounds and then their families to enter higher status jobs and increase their earnings.³ Graduates enjoy substantial health benefits – a reduced likelihood of smoking, and lower incidence of obesity and depression. They are less likely to be involved in crime, more likely to be actively engaged with their children's education and more likely to be active in their communities.⁴

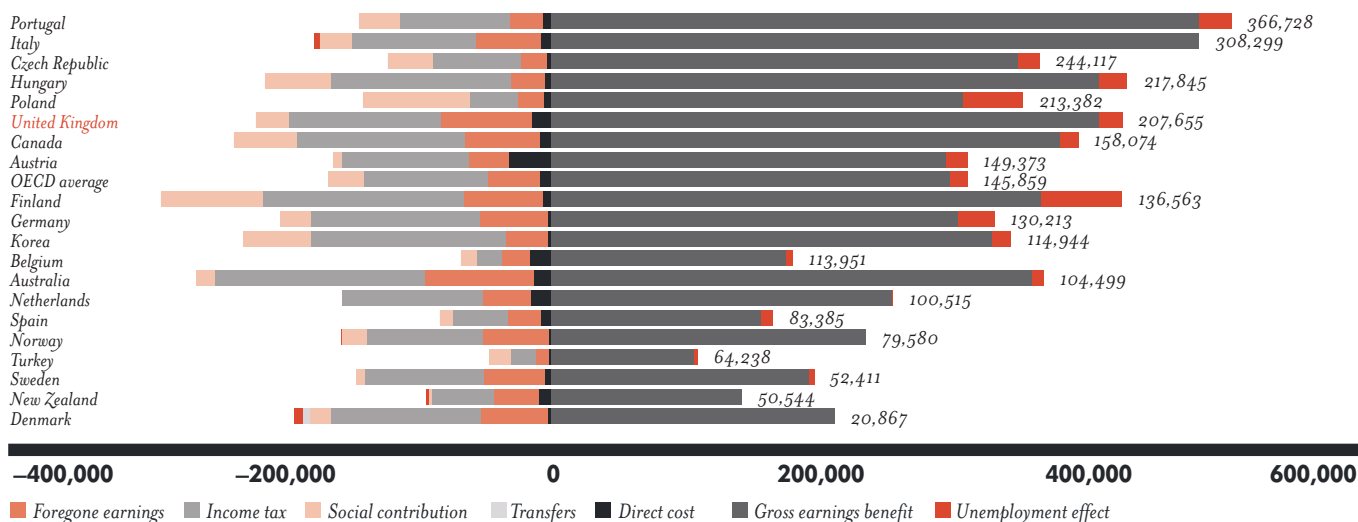
Higher education matters because it drives innovation and economic transformation. Higher education helps to produce economic growth, which in turn contributes to national prosperity. OECD countries which expanded their higher education sectors more rapidly from the 1960s onwards experienced faster growth.⁵ Analysis submitted to the Review suggests that, in the UK between 2000 and 2007, the increase in employed university graduates accounted for 6% of growth in the private sector (measured by the extra wages they earned as a result of being graduates) or £4.2bn of extra output.⁶

Employing graduates creates innovation, enabling firms to identify and make more effective use of knowledge, ideas and technologies.⁷ Internationally successful businesses employ high levels of graduates⁸, and 'innovative active enterprises' have roughly twice the share of employees educated at degree level than those that are not active in innovation.⁹

These benefits are captured in the premium employers pay to employ graduates. A degree provides graduates with an entry

COMPONENTS OF THE PRIVATE NET PRESENT VALUE FOR A MALE WITH HIGHER EDUCATION

US Dollars



to employment as well as a habit of learning. Over the course of a working life the average graduate earns comfortably over £100,000 more, in today's valuation¹⁰ and net of tax, than someone with A levels who does not go to university.¹¹

1.2 OUR HIGHER EDUCATION SYSTEM HAS REAL STRENGTHS ON WHICH WE CAN BUILD.

England has a leading system of higher education, drawing students and staff from all over the world. It has four universities in the global top 20 and 15 in the top 100.¹² It has record numbers of students: 45% of young people now enter higher education. The UK as a whole is the second most popular destination for international students, behind only the United States.¹³ These students are estimated to generate £3.3bn of output across the economy and over 27,800 jobs.¹⁴ Some of them continue to work in important jobs in the UK after their studies; our economic links and diplomatic ties benefit from those who move elsewhere as well. The historic strength and openness of our higher education system has contributed to Britain's cultural and intellectual life, as well as its role in the world.

Higher education is a major part of the economy, larger in size than the advertising industry, and considerably larger than the aerospace and pharmaceutical industries.¹⁵ With an income of £23.4 billion a year¹⁶, it has been estimated as generating £59 billion of output.

The higher education system includes a diverse range of institutions, including universities, colleges and specialist institutions. These institutions have high levels of autonomy by international standards.¹⁷ They offer an ever wider range of subjects, increasingly flexible study routes and a broad range of qualifications. Matching what they provide to what students want and the skills needed by employers is an important challenge.

Compared to other countries, high numbers of students in England complete their degrees and go on to employment with an earnings premium that is high by international standards. As the chart above shows, the net benefit for UK graduates (shown in US dollars) is 33% higher than the OECD average. Overall, over two million students each year benefit from the transformative experience that higher education can provide.¹⁸

1.3 FUTURE ECONOMIC GROWTH AND SOCIAL MOBILITY ARE AT RISK UNLESS WE CONTINUE TO INVEST IN HIGHER EDUCATION.

The UK is the sixth largest economy in the world and the fourth largest in the OECD. It depends heavily on international trade and changes in the global economy have a big impact here.¹⁹ Work by the UK Commission on Employment and Skills (UKCES)²⁰ suggests that the UK's comparative advantage in the future will be defined by high performing, high value added sectors. Growth in these sectors depends on growth in high level skills and the UK will have to be part of this race to the top on skills, as for good social and economic reasons it has long been out of the race to the bottom on wages.

Achieving this future is a challenge. The UK ranks 10th on its employment rate amongst the 30 OECD countries, and 11th on its productivity rate – it is outside the top quartile of OECD performance.²¹ Its performance is exceeded by countries such as the USA, Germany, Norway and the Netherlands.

In 2008, it was rated as only the 12th most competitive nation in the world, a fall of three places in as many years. On higher education and training, it ranks as low

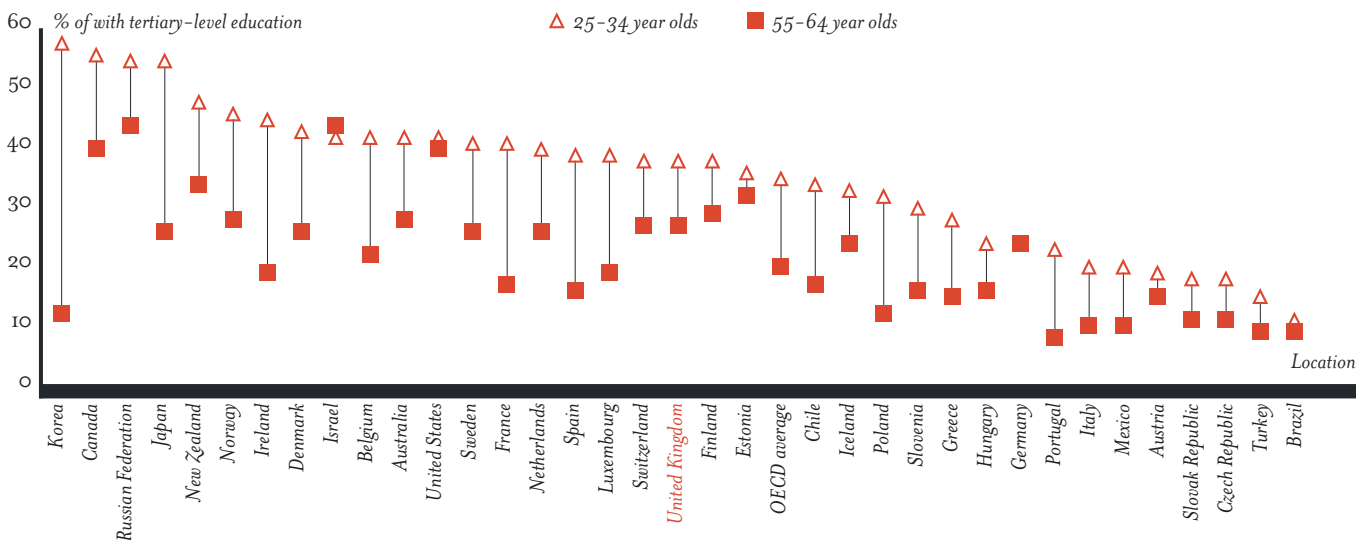
as 18th. The UK is judged to be ‘at a competitive disadvantage’ due to its ‘inadequately educated workforce’, which is identified in the survey as the 4th most problematic factor for doing business in the UK.²² On the quality of its maths and science education, it was ranked 55th out of 139 countries.²³ Already, employers in the UK frequently report that some graduates lack communication, entrepreneurial and networking skills, as well as an understanding of how businesses operate.²⁴

On the numbers of people who have the skills provided by higher education, the UK ranks 15th among the 30 OECD countries.²⁵ For younger workers (25-34 year olds), the UK ranks 19th, down from 14th five years ago, so its relative position is worse for younger people that it is for older people, and both are in decline.

The chart below compares OECD countries in 2008 on the population aged 25 to 34 with tertiary education and the population aged 55 to 64 with tertiary education. It shows that many countries – such as Korea, Japan, Ireland, Belgium, France and Spain – that have historically lower levels of participation than the UK have now moved ahead of us and their participation rates among young people are higher than ours. The OECD average shows a sharper increase than the UK as well.

POPULATION THAT HAS ATTAINED TERTIARY EDUCATION (2008)

This chart compares the population aged 25 to 34 with tertiary education to the population aged 55 to 64 with tertiary education in 2008, in percentage, by age group.²⁶



The risk of failing to expand participation is that we will see a reduction in our standards of living. UKCES analysis suggests that the consequence of failing to increase skills levels is likely to be that the UK gets stuck in a low skill equilibrium, where a substantial part of the economy produces low specification goods and services, which are sold on the basis of low price, and which can only support relatively low paid jobs.²⁷

The UK already has one of the least equal societies among OECD countries, and the income gap has widened over the last 30 years.²⁸ A low skills equilibrium would compound inequality, broadening the divide between high and low level skills and reducing the opportunities for mobility. Overall, the effect would be reduced levels of productivity and lower growth relative to the UK's international competitors, and hence lower levels of prosperity.

1.4 WE NEED A LONG TERM FUNDING SOLUTION FOR HIGHER EDUCATION IN ENGLAND THAT ALLOWS US TO SUSTAIN AND IMPROVE OUR INTERNATIONAL POSITION.

Rising to the international challenge of raising levels of participation and remaining globally competitive on the quality of our higher education system will require increased investment.

Average investment per student across OECD countries is increasing: by 14 percentage points from 2000 to 2007. Public spending constraints in the wake of the economic crisis have also sparked public debate about private contributions to higher education. Finland, Sweden and Denmark have adopted the international trend and recently introduced tuition fees for some programmes.²⁹ Many countries have seized the opportunity to accelerate other reform policies to improve the capability of their higher education systems to compete internationally.

In this context, we cannot be complacent in expecting to capitalise on the strength of our higher education system. We are slipping down the global league tables in terms of the quantity of higher level skills in the labour force and falling even faster on the measure of young people with higher level skills. The international competition will not let up – other countries will keep on capitalising on the

benefits of higher education for their economies and citizens and raise the bar on participation and investment. Whatever changes are made now in England require a long term perspective. Our system needs a sustainable funding solution for the future, even as it faces significant reductions in public investment over the next few years.

EVALUATION OF THE CURRENT SYSTEM

SUMMARY

Over the last 50 years, the higher education system has become more diverse, grown to accommodate more students and the principle that private contributions should help to meet the costs of higher education has been established. The latest changes made in 2006 have raised increased income for institutions without harming demand from students but major challenges on participation, quality and sustainability still remain.

2.1 OVER THE LAST 50 YEARS, FUNDING CHANGES HAVE DRIVEN REFORMS TO THE SYSTEM AS A WHOLE.

Half a century ago, only 6% of young people went on to higher education.³⁰ The system was funded through general taxation, though those who benefited were generally from higher income backgrounds, and generally went on to good jobs with high salaries.

In 1963, Lord Robbins recommended that the elite model of higher education should begin to be expanded.³¹ He suggested that university ought to be open to all who had the aptitude and desire to go; that Colleges of Advanced Technology ought to be transformed into universities; and that the number of full time places per academic year ought to more than double in the 20 years following the report's publication.

Increased demand, informed by the strength of the graduate premium and improvements in secondary school education, meant that, by the mid-1990s, around a third of school leavers sought a place in higher education. As the sector expanded, it became more diverse as well; the most fundamental change being the conversion of former polytechnics into universities in the early 1990s, intended to end the binary divide between academic and vocational study.

Public investment in higher education did not, however, keep step with demand. Between 1989 and 1997 universities experienced a drop in funding per student of 36%.³²

The deterioration in funding led the Government to set up the National Committee of Inquiry into Higher Education, chaired by Lord Dearing, which reported in 1997 with a recommendation that ended the era of universal free higher education tuition. Lord Dearing's vision was that all those with the potential to benefit would participate in higher education. He focused on the role of higher education in contributing to international economic competitiveness while recognising that higher education was also 'part of the conscience of a democratic society'.³³

To support the continued expansion and strengthening of the system in pursuit of these aims, Lord Dearing recommended that students pay a deferred contribution toward the cost of their tuition fees, recoverable through income contingent loans repaid by graduates after they started working.

The Government of the time decided that students should pay £1,000 per year (indexed over time) towards the cost of their course – but contrary to Dearing’s recommendation, Government policy was to charge this fee upfront, rather than allow students to defer it until after they had graduated and were in work.

The principle of a deferred graduate contribution to tuition costs was considered as early as Lord Robbins’ report in 1963. Robbins concluded that the proposed expansion of higher education should be funded for the foreseeable future through general taxation³⁴; but he suggested that students could be asked to contribute in the future on a deferred basis through the repayment of loans.³⁵ That principle of a deferred contribution was also fundamental to Lord Dearing’s report in 1997.

However, it was not put into practice in England until the Higher Education Act of 2004; and it went into effect for students entering higher education in 2006. The 2006 reforms allowed students to take out income contingent loans to pay the fee that they were charged for their course, thus removing the upfront cost imposed in 1997. Fees were capped at £3,000 (indexed over time) and it was envisaged that they would vary between institutions. It was considered unfair that students on courses with poor wage returns should be asked through a flat rate fee to subsidise those whose courses gave higher returns.

The Government intended the changes that came into effect in 2006 to enhance the income of institutions without putting more pressure on public resources. To address concerns that a variable fee system might increase inequality in access to the most selective institutions, the reforms included the creation of the Office for Fair Access (OFFA), with the remit to ensure that higher fees did not inhibit equity of access. If an institution intended to charge a fee above the previous level, it had to draw up an Access Agreement, signed off by OFFA, demonstrating how it would safeguard fair access. Institutions also had to provide bursaries (of at least £300 per year) for students from low income backgrounds. For its part, the Government increased the maintenance support for students through an improved package of grants and loans, targeted at students from low income backgrounds.

2.2 THE 2006 CHANGES HAVE INCREASED INCOME FOR INSTITUTIONS WITHOUT REDUCING DEMAND FROM STUDENTS – AND ESTABLISHED THE PRINCIPLE THAT GRADUATES WILL PAY TOWARDS THE COST OF HIGHER EDUCATION.

The 2006 changes have achieved some key changes that came across strongly from the evidence we received about the current system.

INCREASED INCOME FOR INSTITUTIONS.

Institutions have welcomed the additional fee income generated by the 2006 reforms. Universities UK noted in evidence presented to us that the reforms brought in £1.3bn of additional annual income to English universities by the end of the third year.

They suggested that there has been investment in:

- improving staff to student ratios;
- supporting students’ finances, including through bursaries;
- renewing the physical infrastructure for teaching and learning including new and refurbished lecture rooms, Information Technology upgrades and expanded library services;
- support for learning, including subject specific help, study skills support and support in developing the skills for employability; and
- improving the broader package of student services, including expanded careers advisory services, the provision of more social space, new support centres and major new sporting facilities.

Overall, two thirds of the additional funds have been spent on staff costs and around 25% on bursaries and outreach activity.

CONTINUED GROWTH IN DEMAND FROM STUDENTS.

The 2006 reforms have not had a negative impact on full time participation rates, either at an aggregate level or for particular groups of students. This is contrary to what was feared at the time the changes were introduced.

As the Higher Education Funding Council for England (HEFCE), the body that currently administers the public investment in higher education, stated in its response to our call for evidence about the 2006 reforms, “once the likely effect on participation rates of changes in the population size are taken into account, there is no evidence from the national trends that changes to tuition fees or student support have been coincident with reductions in the young participation rate”.³⁶

HEFCE research also shows that in the last five years there has been a “significant and sustained increase in the participation rate of young people living in the most disadvantaged areas (representing 20% of young people)”.

This does not mean that fees have no impact on demand under any circumstances. Analysis by the Institute for Fiscal Studies³⁷ suggests that increased upfront fees – taken on their own – do have a negative impact. That finding is consistent with international evidence. However, in the 2006 changes the impact of fees was offset by the provision of loans for fees so that they could be deferred – and by improved grants for maintenance.³⁸

This suggests that allowing students to defer the payment of fees is critical. This is an important lesson from the history of fees changes in England and elsewhere.

IMPROVED COMMITMENT TO FAIR ACCESS.

Evidence submitted by the Office of Fair Access shows that spending on access agreement commitments has increased steadily alongside increases in fee income since 2006 (see table below).³⁹ In each year, more than one quarter of the additional income has been converted into access spend. Most of the money has gone on bursaries, which institutions were required to pay to low income students as part of the 2006 reforms.

A CHANGED DEBATE.

The 2006 reforms were widely debated and strongly opposed by some on the basis that higher education should be free for students and graduates. Since then the debate has changed.

Throughout the range of submissions that we have received, there is broad agreement among groups with an interest in higher education that those who benefit directly from higher education as graduates ought to make a contribution to the costs. Employers and HEIs support this principle, as does the National Union of Students.

ADDITIONAL SPEND ON COMMITMENTS MADE IN ACCESS AGREEMENTS

(HEIs and FECs)⁴⁰

	<i>Additional fee income (£m)</i>	<i>Additional access spend (£m)</i>	<i>Access spend as a proportion of additional income (%)</i>
2006-07 (actual)	460	120	26
2007-08 (actual)	894	225	25
2008-09 (actual)	1,359	350	26
2009-10 (predicted)	1,490	391	26
2010-11 (predicted)	1,564	400	26

The primary reason for this is that graduates benefit directly from higher education. The public also receives a benefit but this is less than the private benefit.

Recent OECD research shows that in the UK the benefits of higher education to the individual are, on average, over 50% higher than the public benefits.⁴¹ The private returns to higher education in the UK are high by international standards, though the private benefits exceed the public benefits in most other OECD countries as well. As a consequence it is not surprising that the argument for a private contribution to higher education has been made – and won – elsewhere as well as in England, in countries with a wide range of political values such as Australia, New Zealand, the United States, Canada, Japan and Korea .

There is a second important argument as well. Unlike primary and secondary education which are paid for out of general taxation, higher education is neither compulsory nor universal. Access to it is determined by aptitude – not everyone is qualified to enter higher education – and by choice – some people choose not to go even though they are qualified to do so. As a consequence it is reasonable to ask those who gain private benefits from higher education to help fund it rather than rely solely on public funds collected through taxation from people who may not have participated in higher education themselves.

2.3 THE CURRENT SYSTEM FACES MAJOR CHALLENGES THAT THE 2006 CHANGES HAVE NOT RESOLVED.

Despite the achievements of the 2006 reforms, the following challenges remain.

NO CHANGE IN THE BALANCE OF CONTRIBUTIONS.

The 2006 changes were designed to bring in more private contributions to higher education and hence make the system more sustainable. However, although the income from fees has been additional income for institutions, overall there has been no increase in the private contribution made by students and graduates. This is best illustrated by analysis undertaken by the Institute for Fiscal Studies (IFS).⁴² The table below taken from their work shows that the additional contributions that graduates will make over

time (an additional £1.7bn compared to the previous system) are about equal to the additional support that students have received upfront (£1.6bn).

That upfront support for students is important to protect participation and access; however, it is clear on this basis that the contribution made by graduates as a result of the 2006 changes does not reduce the reliance of the system on public funding.

The debate may have changed in favour of changing the balance between public and private contributions to higher education, but the reality has not.

CHANGE IN BALANCE OF INVESTMENTS IN HIGHER EDUCATION

2003/04 – 2008/09

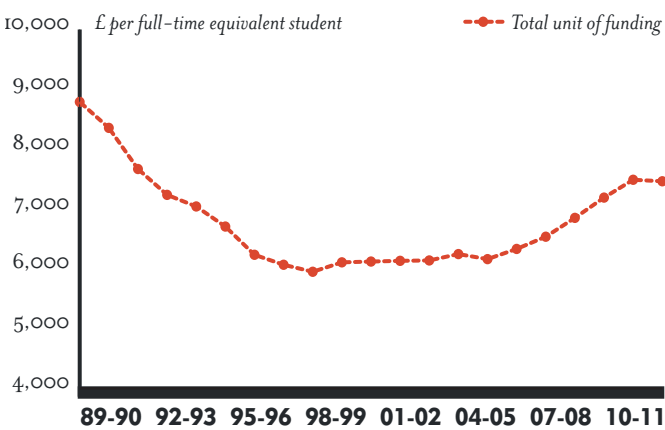
<i>£ billion</i>	2003/04	2008/09	<i>Change</i>
Taxpayers	-5.6	-6.7	-1.1
Students	-0.5	+1.1	+1.6
Graduates	+0.6	-1.1	-1.7
Universities	+5.5	+6.7	+1.3

INVESTMENT IS INSUFFICIENT TO DEAL WITH THE INTERNATIONAL CHALLENGE.

The introduction of additional fee income since 2006 has gone some way to address the decrease in funding per student that had occurred previously but – as the chart below shows – it still remains below where it was as recently as 1992. All institutions now charge the maximum fee allowed by the 2006 reforms; no institution is able to access additional investment to improve quality by persuading students to pay. Hence the 2006 reforms have helped to address the investment challenge but they have not met it in full.

GOVERNMENT PUBLICLY PLANNED UNIT OF FUNDING

Real terms 2009-10 prices



NO RESILIENCE AGAINST FUTURE REDUCTIONS IN PUBLIC SPENDING.

The 2006 reforms put a cap on student fees of £3,000 (uprated over time). All institutions already charge at the maximum level. Yet all that this fee income has done is to counteract some of the under investment of the past. Funding levels remain below those of other countries. Institutions have no scope to raise additional funds through tuition fees to invest in improving quality.

That is not a sustainable position for the future. It is made worse by the start of public spending reductions, which will accelerate over the next spending review period. A large amount of public funding may be removed from the higher education system – as from other areas of public spending – and yet institutions will not be able to raise additional funds from students, even if students are willing to pay to secure a quality experience.

INSUFFICIENT NUMBERS OF STUDENT PLACES.

Government has had to limit student places since 2006, even though the reforms were intended to put higher education funding on a more sustainable footing.

As a consequence the demand for places exceeds availability. The number of unsuccessful full time applicants as a proportion of the total number of applicants through the Universities and Colleges Admissions Service (UCAS) has increased by around 17 percentage points over the last five years to 36%. Unplaced applicants include those who received no offers, those who declined their offers or withdrew their application. Some estimate that among the unplaced applicants there are at least 20,000-30,000 applicants who may have been qualified to enter higher education but were unable to obtain a place.

In the decade ahead, the numbers of young people in the population will decline, but the impact of this on demand for higher education will be offset by rising school attainment; compounded by rising demand from mature students, it is likely that demand for higher education as a whole will continue to increase. Funding the increase in student places that is needed to meet demand is an important challenge – and one that the current system is unable to meet.

LIMITED PROGRESS ON FAIR ACCESS.

Good progress has been made over the last five years in widening participation to the higher education sector as a whole. There has been less progress in widening access to the most selective institutions for students from lower income backgrounds despite efforts by these institutions to improve the situation.

Sir Martin Harris’s recent report on fair access presented data to show that despite the substantial increases in participation among the least advantaged 40% of young people across higher education overall compared to the mid-1990s, the participation rate among the same group of young people at the top third of selective universities has remained almost flat over the same period. After controlling for differences in attainment at secondary school, there is still a difference in the participation rate of these students on the most selective courses.

INADEQUATE SUPPORT FOR PART TIME STUDENTS.

Part time students do not have the same access⁴³ as full time students to support for paying fees. Part time students have to pay fees upfront; full time students can defer the fees until they are earning. This means that students may choose full time study even though part time study may better suit their circumstances; and institutions might focus on the

full time courses they provide rather than explore innovative modes of part time study.

The lack of support for part time study makes it much more difficult for this country to catch up with other countries on the skill levels of the existing workforce. Individuals who are already in work and do not have a higher education qualification are usually unlikely to give up their jobs and enter full time study. Part time study may be a realistic option for them, but access to part time study is hampered by the lack of Government support. The potential exists to combine the experience of individuals already in work with the skills that higher education can provide; but it is not being exploited.

SYSTEM NOT RESPONSIVE TO THE CHANGING SKILLS NEEDS OF THE ECONOMY.

Analysis from the UKCES suggests that the higher education system does not produce the most effective mix of skills to meet business needs.⁴⁴ 20% of businesses report having a skills gap of some kind in their existing workforce, up from 16% since 2007. The CBI found that 48% of employers were dissatisfied with the business awareness of the graduates they hired.⁴⁵

This evidence suggests there needs to be a closer fit between what is taught in higher education and the skills needed in the economy. It also adds force to the argument for helping existing workers to enter part time study and improve their skills.

LIMITED IMPROVEMENTS IN THE STUDENT EXPERIENCE.

Student expectations have increased since 2006 now that students are paying more towards the costs of higher education, but it is by no means clear that the quality of the student experience has improved.

Many institutions claim to have improved the quality of teaching and to be focusing more on meeting the demands of students. However, the NUS⁴⁶ and other student organisations have suggested there is no evidence that quality has increased as a result of the additional fee income. The results of the National Student Survey (NSS) do not indicate significant change – an increase of just two

percentage point in overall satisfaction: from 80% in 2005, to 82% in 2010).⁴⁷

This data should be seen in the context that institutions continue to receive a large block grant through HEFCE. They get this year on year regardless of what students think about the quality of teaching. And, because the demand for student places exceeds the numbers of places that are available, institutions do not have to compete as hard as they might to recruit students. The combination of these factors means that the incentives for institutions to improve the student experience are limited.

2.4 THE CASE FOR REFORM CONSISTS OF INCREASING PARTICIPATION, IMPROVING QUALITY AND CREATING A SUSTAINABLE SOLUTION FOR FUNDING.

Reflecting on the challenges faced by the current system, the case for reform can be summarised under three headings: participation, quality and sustainability.

PARTICIPATION

The higher education system in this country does not meet the aspirations of many people who wish to enter higher education. There are not enough places for those who want to study full time; and there is insufficient support for those who want to study part time. Fair access has not been achieved.

QUALITY

Students are no more satisfied with higher education than ten years ago. Employers report that many graduates lack the skills they need to improve productivity. Institutions have no access to additional investment to pay for improvements to the courses they provide. In any case the incentives for them to improve the student experience are limited.

SUSTAINABILITY

The balance of private and public contributions has not changed. The higher education system remains dependent on public resources; and public resources are being cut.

In all of our work we have been guided by seeking to meet these challenges.

PRINCIPLES FOR REFORM

SUMMARY

In fulfilling our ambition to discuss the issues facing higher education with those most knowledgeable about it – the leaders of institutions, academics, students and employers – we have discovered a consensus on the need for reform and different views on how to achieve it.

Our proposals are holistic and guided by six key principles that we believe are widely shared.

Principle 1: There should be more investment in higher education – but institutions will have to convince students of the benefits of investing more

Principle 2: Student choice should increase

Principle 3: Everyone who has the potential should have the opportunity to benefit from higher education

Principle 4: No student should have to pay towards the costs of learning until they are working

Principle 5: When payments are made they should be affordable

Principle 6: There should be better support for part time students

3.1 THERE IS A WIDE CONSENSUS THAT THE CURRENT SYSTEM NEEDS SUBSTANTIAL REFORM.

Since November 2009, we have held four days of public hearings, questioning 36 witnesses. We have received over 150 submissions from academics, universities, colleges, student groups, parents and businesses, totalling over 2000 pages of evidence. We have visited 13 higher education institutions where we have held discussions with students and staff. We have held five meetings of our Advisory Forum, made up of over 20 organisations that represent the full range of the higher education system, and consulted all major political parties. We have held discussion groups and workshops with pupils, students and parents. And we have spent over 50 hours together as a panel, scrutinising the evidence, examining the options for reform and testing the recommendations that we report in this document.

In our work we have found that there is a wide range of views about how higher education funding and student finance should be reformed. Some people focus on ways to make the existing system more financially sustainable. Others argue for a graduate tax, the proceeds of which could fund higher education in the future and remove the need for student fees. A graduate tax would mean that high earning graduates pay more, possibly more than the cost of their own education, and their contribution helps to pay for the costs of others. Recognising the pressure on public resources, we have also received proposals for greater private sector involvement in funding higher education. In these models, either students or institutions would seek upfront investment from the private sector rather than from Government and pay it back over time using future income.

As in previous discussions about higher education funding, reform of funding is closely linked for most people to broader reform of the system. Hence alongside proposals for funding reform, we have heard about the ways in which institutional autonomy is constrained in the current system – through controls on student places as well as the cap on fees. We have received evidence on the critical role of information, advice and guidance for prospective students – and the variable quality of what is available. Some of the proposals submitted to us cover issues that are outside our

scope – such as research. Focusing on higher education teaching and student finance nevertheless presents us with a large range of options to consider. We have done this in the context of a wide consensus amid the diverse range of people with an interest in higher education that substantial reform of the current system is needed.

3.2 REFORM MUST BE HOLISTIC SO THAT THE ENTIRE SYSTEM IS GUIDED BY COMMON PRINCIPLES.

In considering the alternative proposals, we have taken a holistic view. No part of the system can be seen in isolation; and the system as a whole must be credible and sustainable or no individual part of it will work. We have thought in detail about many different parts of the system. Following our whole-system approach, first we describe six key principles to guide reform. These may not be universally accepted but we believe that they are widely shared by those with an interest in higher education.

PRINCIPLE 1: THERE SHOULD BE MORE INVESTMENT IN HIGHER EDUCATION – BUT INSTITUTIONS WILL HAVE TO CONVINCe STUDENTS OF THE BENEFITS OF INVESTING MORE.

We have made the case that investment in higher education should increase; the decision on whether this case is convincing will rest with students. The rationale for seeking private contributions to the cost of higher education is strong and widely accepted. Previous reforms failed to deliver a real increase in private contributions for higher education. Especially with public resources now limited, new investment will have to come from those who directly benefit from higher education.

This is an important choice, so it is vital that it is in the hands of the students who will be asked to pay more. In our proposals, there will be no single fixed price for higher education. Institutions are all different and they provide a wide range of different courses. We want this diversity to flourish. Different courses will cost different amounts. Institutions will have to persuade students that the charges they put on their courses represents value for money.

There is a critical role for public investment even if students are investing more. There are clinical and priority courses such as medicine, science and engineering that are important to the well being of our society and to our economy. The costs of these courses are high and, if students were asked to meet all of the costs, there is a risk that they would choose to study cheaper courses instead. In our proposals, there will be scope for Government to withdraw public investment through HEFCE from many courses to contribute to wider reductions in public spending; there will remain a vital role for public investment to support priority courses and the wider benefits they create.

PRINCIPLE 2: STUDENT CHOICE SHOULD INCREASE.

No institution can grow in the current system to respond to student demand; and the number of student places in the system as a whole is restricted as well. Prospective students do not always get adequate advice or information to help them choose a course of study. Most of the investment in higher education goes to institutions through a block grant and students have no sight of what it is buying.

We want to put students at the heart of the system. Students are best placed to make the judgment about what they want to get from participating in higher education. We have looked carefully at the scope to distribute funding by some objective metric of quality; but there is no robust way to do this and we doubt whether the choices of a central funding body should be put before those of students.

In our proposals, there will be more student places across the system as a whole. Relevant institutions will be able to expand faster to meet student demand; others will have to raise their game to respond. Students will be better informed about the range of options available to them. Their choices will shape the landscape of higher education.

**PRINCIPLE 3:
EVERYONE WHO HAS THE POTENTIAL
SHOULD HAVE THE OPPORTUNITY TO
BENEFIT FROM HIGHER EDUCATION.**

Higher education provides a major opportunity for creating social mobility. The current system cannot afford to fund sufficient student places to meet the demand from individuals who have the potential to succeed. Our proposals address this funding challenge.

No one should be put off from studying in higher education because they cannot afford the costs of living while they are learning. In the current system, maintenance support is provided through a complex mix of grants, loans and institutional bursaries. In our proposals, this system will be simplified and support for living costs will be improved, especially for those from low income backgrounds.

Further work needs to be done to improve access to higher education and to the most selective institutions in particular. In our proposals, public investment to improve access will be more targeted and institutions will be evaluated on how well they are doing in providing fair access.

**PRINCIPLE 4:
NO STUDENT SHOULD HAVE TO PAY
TOWARDS THE COSTS OF LEARNING
UNTIL THEY ARE WORKING.**

The pressure on public finances could mean that students have to pay upfront or rely on loans from banks and money from families to meet the costs of higher education. We reject these approaches.

The evidence is clear that upfront payment has a negative effect on participation and access. The IFS estimates that a £1000 increase in fees – with the requirement that these are paid upfront – will reduce participation by 4.4 percentage points. The effect will be particularly severe for students from low income backgrounds: their participation in higher education may slump by almost a third. The same evidence shows that, if fees can be deferred, then participation can be protected.

We believe that student choice will have an important role in improving the quality of higher education, but student

choice will not be effective if students have to make risk averse decisions that are driven by the need to meet obligations to family members, an employer or a bank.

This means that Government will pay upfront at the direction of students; and students will face no upfront costs.

**PRINCIPLE 5:
WHEN PAYMENTS ARE MADE THEY SHOULD
BE AFFORDABLE.**

There is no point in allowing students to defer payment if they are required to pay back on very costly mortgage style terms. This will damage participation and access just as much as requiring students to pay upfront.

In our proposals, payments will be linked to income, so those on low incomes will pay nothing and those on higher incomes will pay the most. No graduate will face demands for payments that they cannot afford to make. Graduates with low incomes will not pay interest. Payments will stop when the costs of learning have been repaid. No one will pay for longer than 30 years; any outstanding payments will be written off by Government.

This principle means that payments are made in way that is consistent with the central reason for seeking a contribution from graduates, which is that they have acquired a private benefit through higher education. Linking payments to income means that graduates pay in line with the benefits they derive from higher education after they have graduated and gone into work. On average, students make large financial gains from entering higher education, but some do not – either through their own choices, e.g. by entering a low paid job for public service reasons or taking time off to look after children, or through bad luck, e.g. injury. In our proposals, those who get less financial benefit from higher education will pay less.

**PRINCIPLE 6:
THERE SHOULD BE BETTER SUPPORT FOR
PART TIME STUDENTS.**

The current system requires part time students to pay upfront. This puts people off from studying part time and it stops innovation in courses that combine work and study.

Yet the benefits of higher education are not reserved for those who study full time. Already, close to 40%⁴⁸ of undergraduate students in English higher education institutions choose to study part time. Some are young students who opt for part time study over full time study; most are older students who are returning to education after a period in work or looking after children; many of them did not follow the typical route through school, and higher education provides them with a ‘second chance’.

As economic growth relies more on people with high level skills, it is likely to be through part time rather than full time study that people already in the workforce will be able to retrain and prepare themselves for work in new industries. Research shows that, three years after graduation, those who had studied for their first degree part time had a higher average salary than those who had studied full time, were more likely to be in a graduate job, and were more likely to have remained in employment ever since they graduated.⁴⁹

In our proposals, the upfront costs for part time students will be eliminated, so that a wider range of people can access higher education in a way that is convenient for them.

3.3 THESE SIX PRINCIPLES HAVE GUIDED US IN DESIGNING A NEW SYSTEM WHICH ADDRESSES THE TRADE OFFS BETWEEN THE PROPOSALS THAT WE HAVE RECEIVED.

Our proposals, as we will show, do require graduates who go on to successful careers after graduation to pay more, but not upfront, on the basis of choices that they have made and on terms that we believe are affordable. Crucially the lowest 20% of earners on average will pay less than they do today. Support for living costs will be improved. Unlike in a model where students have to seek loans from banks, the upfront investment in the costs of learning will come from Government. Students will direct where that money goes through their choice of course and institution.

The relationship between the student and the institution will be at the heart of the system; and institutions will have more autonomy than today to respond to what students want. There will be improvements in the information and

guidance given to students when they are choosing courses, as well as strong measures to ensure that access to both higher education as a whole and the most selective institutions is improved. Graduates will pay back the money paid by Government to institutions on their behalf after they are earning. Unlike a graduate tax model, what students pay will be linked to the higher education course they chose; and they will not be required to pay indefinitely.

We recognise that public investment in higher education is reducing. We believe that there should nevertheless be investment in increasing the numbers of student places so that everyone who has the potential to benefit from higher education has the opportunity to do so; and improving the help that students get for living costs.

In our proposals, public spending reductions are made by removing the blanket subsidy that the public currently provides for all courses through the HEFCE grant; and targeting investment in priority areas rather than spreading it thinly. This will expose institutions to more competition as they will no longer get a large block grant year on year regardless of the quality of teaching; more of the investment in higher education will be directed by students.

To ensure these changes deliver benefits for students, institutions and the public, there will be a single Higher Education Council, merging the functions of the current public bodies. Its primary role will be to look after students’ interests and the public investment in higher education.

The following three chapters describe our proposals in more detail, starting with how it will work for the student – Chapter 4 outlines the enhancements in the role of student choice and Chapter 5 explains the operation of student finance – then Chapter 6 turns to changes in the HEFCE grant and regulation.

In Chapter 7 we discuss alternatives to our proposals and explain in more detail why we have rejected them.

ENHANCING THE ROLE OF STUDENT CHOICE

SUMMARY

Rather than create a bureaucratic and imperfect measure for quality, our proposals rely on student choice to drive up the quality of higher education. Students need access to high quality information, advice and guidance in order to make the best choices. Improvements are needed. Providing students with clearer information about employment outcomes will close the gap between the skills taught by the higher education system and what employers need. Institutions have a responsibility to help students make the right choices as well. The higher education system will expand to provide places for everyone who has the potential to succeed – and the expansion will follow the choices made by students.

RECOMMENDATIONS

Every school will be required to make individualised careers advice available to its pupils. The advice will be delivered by certified professionals who are well informed, benefit from continued training and professional development and whose status in schools is respected and valued. Similar careers advice will be available to older people as well.

There will be a single online portal for applications for university entry and student finance. We envisage that this portal will be run by UCAS. UCAS will work with institutions to gather more information about courses so that it is available to students when they are applying for university entry.

Institutions and students will work together to produce Student Charters that provide detailed information about specific courses and include commitments made by students to the academic community they are joining. Institutions that have higher charges will be expected to make stronger commitments to their students.

Institutions will no longer be required to provide a minimum bursary to all students receiving the full grant from Government for living costs. They will have the freedom to focus on activities that may be more effective in improving access.

The higher education system will expand to accommodate demand from qualified applicants who have the potential to succeed.

Entitlement to Student Finance will be determined by a minimum entry standard, based on aptitude. This will ensure that the system is responding to demand from those who are qualified to benefit from higher education. All students who meet the standard will have an entitlement to Student Finance and can take that entitlement to any institution that decides to offer them a place. Institutions will face no restrictions from the Government on how many students they can admit. This will allow relevant institutions to grow; and others will need to raise their game to respond.

4.1 STUDENT CHOICE WILL DRIVE UP QUALITY.

Higher education in England has a reputation for high quality. Student satisfaction is high, high enough that England is one of the few countries in the world that feels able to survey students and publish the results. But the system should not be complacent about quality. Student satisfaction has not improved significantly in recent years. Our competitor countries are investing more in quality and introducing other reforms. So we have considered how to sharpen the incentives for quality in our higher education system.

One option is to link funding to a measure of quality. However, there is no measure that we have seen that could function effectively across the whole range of institutions and courses. There is no ‘national curriculum’ for higher education. Looking at student outcomes by institution can be misleading as these reflect which students the institution selected as much as the value added by the institution.

Even if an appropriate measure could be found, it would create a new administrative burden. Institutions might focus on the measurement process rather than on their students.

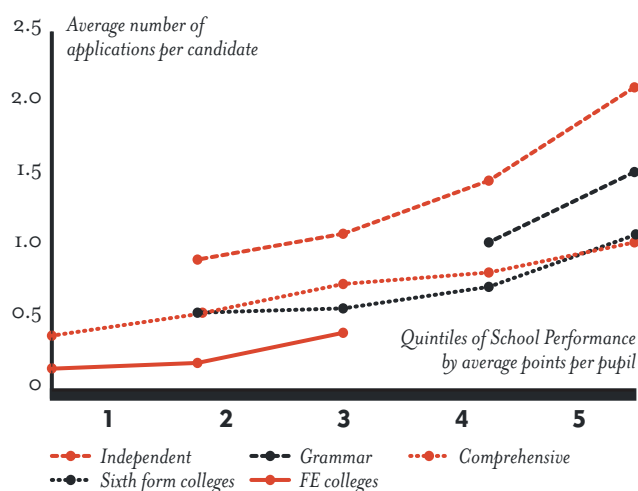
In our proposals, we are relying on student choice to drive up quality. Students will control a much larger proportion of the investment in higher education. They will decide where the funding should go; and institutions will compete to get it. As students will be paying more than in the current system, they will demand more in return.

4.2 STUDENTS NEED ACCESS TO HIGH QUALITY INFORMATION, ADVICE AND GUIDANCE IN ORDER TO MAKE THE BEST CHOICES.

School pupils start to make decisions relevant to entering higher education many years before they apply. Early choices, such as which GCSEs to study when aged 14 can have a huge impact on what A levels a person can do and then which course or which university will offer them a place.

Research by the Sutton Trust has shown that half of young people consider the advice and guidance that they received before making these choices to be inadequate. Other reports have highlighted that careers professionals have a

NUMBER OF STUDENT APPLICATIONS TO THE MOST SELECTIVE UNIVERSITIES



low status within schools, they lack understanding of the range of options available to pupils and do not have enough time to advise them in depth.

The chart above displays the numbers of applications to the most selective universities made by pupils from different types of schools. It shows that pupils from even the best-performing comprehensive schools – the top quintile on a national ranking of all schools – are only making as many applications as pupils from independent schools placed in lower quintiles.

The role of better guidance will be to encourage talented pupils from all backgrounds to make more applications to higher education, and in particular to selective institutions. They have the ability to benefit from higher education, yet they do not apply. Government has a responsibility to ensure that all pupils, in all types of school, have access to high quality advice about the benefits of higher education and well informed support to ensure that they are able to make the best choices.

We recommend that every school is required to make individualised careers advice available to its pupils. The advice will be delivered by certified careers professionals who are well informed, benefit from continued training and professional development and whose status in schools

in respected and valued. Similar careers advice will be available to older people as well. We are expanding the opportunities to study part time and people returning to education from work or other responsibilities will need effective and high quality guidance to take advantage of the new opportunities.

There are gaps in the information available to students. Research by HEFCE has identified the following pieces of information as being 'very useful' to the highest proportion of students when choosing a course :

Student evaluation

Student satisfaction with:

- The standard of teaching
 - The course
 - The support and guidance received
 - The feedback on assessment
 - The library facilities
 - The IT facilities
 - The Student Union
-

Course information

- Weekly hours of teaching contact time
 - Proportion of the assessment that is by coursework
 - Proportion of students employed in a full time professional or managerial job one year after completing this course
 - Proportion of students in employment in the first year after completing the course
 - Professional bodies which recognise the course
 - Average salary in the first year after completing the course
-

Finance information

- Cost of university halls of residence
 - Maximum available bursary
 - Maximum household income for eligibility for a bursary
-

Some of this information already exists, but it is spread across many different sources. Some of the information is not collected in a way which allows easy comparison. Some of it exists at the level of the institution as a whole, but only helps students in making decisions when it is available at course level.

When students are faced with complex choices, it is important that the systems they deal with are as simple as possible. In the current system students apply for higher education entry through the Universities and Colleges Admission Service (UCAS) and for finance through the Student Loans Company (SLC). The two organisations have different application timetables and require students and their families to fill out different forms.

We propose closer integration between these services: a single online portal for applications for university entry and student finance.

We envisage that this portal will be run by UCAS. UCAS will work with institutions to gather the information identified above so that it is available to students when they are applying to higher education.

When scrutinising a particular institution more closely, students will want to know more about what is on offer there. Equally institutions may want to indicate to prospective students what they expect from them in terms of playing a part in the academic community. We recommend that institutions and students work together to produce Student Charters that provide detailed information about specific courses. The content of the Charters will vary according to what institutions and students agree to include. Institutions that have higher charges will be expected to include stronger commitments to their students, especially those seeking to charge above £7,000 per year (which is roughly equivalent to what institutions will have to charge to maintain investment at current levels based on our assumptions about the reduction in HEFCE funding).

Institutions may want to include commitments to students on the minimum contact time with teachers that they will have and promise timely individual feedback on assignments. They may also choose to provide greater detail about class sizes or name the teachers who will be

responsible for key courses. Students may decide to include commitments on attending a minimum number of classes or completing a minimum number of assessments per term.

Disputes about whether the Charter commitments have been kept by either the institution or students will be dealt with within the institution. When disputes cannot be resolved at that level, they can be referred to the HE Council.

4.3 PROVIDING STUDENTS WITH CLEARER INFORMATION ABOUT EMPLOYMENT OUTCOMES WILL CLOSE THE GAP BETWEEN THE SKILLS TAUGHT BY THE HIGHER EDUCATION SYSTEM AND WHAT EMPLOYERS NEED.

Students choose their degree courses for many different reasons. Some will be particularly interested in one course and decide to pursue it with relatively little concern about what it will do for their employment prospects. Others choose a course because it will improve their employment prospects.

Our proposals will improve the information that is available about employment prospects. The UCAS portal will allow students to compare courses on the proportion of students in employment after one year of completing the course; and average salary after one year.

Employment outcomes will also make a difference to the charges set by institutions. Where a key selling point of a course is that it provides improved employability, its charge will become an indicator of its ability to deliver – students will only pay higher charges if there is a proven path to higher earnings. When complemented by the improvements we propose to information, this will help students make a better choice about what to study. Courses that deliver improved employability will prosper; those that make false promises will disappear.

4.4 INSTITUTIONS HAVE A RESPONSIBILITY TO HELP STUDENTS MAKE THE RIGHT CHOICES AS WELL.

More than half of young people from the most advantaged areas in the country enter higher education compared to fewer than a fifth of those from the most disadvantaged

areas.⁵⁰ There is also large difference in the courses that young people from different income groups undertake. The most advantaged 20% of young people are around seven times more likely than the most disadvantaged 20% to enter the most selective one third of institutions.⁵¹

The most important factor in determining whether a school pupil goes on to higher education or enters a selective institution is the results achieved in GCSEs and A levels.⁵² We do not pretend that the higher education system is responsible for the issues that need to be addressed in primary and secondary education. However, as we have already noted, even pupils from the best performing comprehensive schools make on average fewer applications to higher education than their peers in independent schools; and evidence from the Sutton Trust suggests that there may be around 3,000 pupils in each cohort of secondary school students who have results that would allow them to attend one of the most selective institutions, but who do not do so.⁵³ So there is an issue of aspiration, as well as attainment.

The higher education system can have an important role in providing advice and guidance that raises aspiration. Since the 2006 changes, institutions have been required to promote access as a condition of charging higher fees. They spent almost £400m in 2009-10 on meeting this commitment.

Most of the money goes on providing bursaries to students receiving the full maintenance grant from Government. Yet the latest evidence from OFFA – the body responsible for promoting fair access since the 2006 changes – states that bursaries have been ineffective in influencing the application decisions made by students from disadvantaged backgrounds. The higher bursaries offered by the more selective institutions have not worked to attract more students from disadvantaged backgrounds to those institutions; and most of the growth in participation of these young people has been in institutions offering lower bursaries.⁵⁴

Institutions should have the freedom to focus on activities that may be more effective in improving access. These may include: outreach to schools that do not typically send students to higher education or the more selective institutions: and summer schools and preparation classes

for the ‘missing 3,000’ that the Sutton Trust have identified. Institutions are in the best position to design targeted activity that meets the goal of widening access in their own student population.

Offering bursaries may continue to be one part of what institutions do; but institutions will not longer be required to provide a minimum bursary to all students receiving the full Government maintenance grant. This will release funding for other measures to promote access.

We recognise that some students rely on bursaries for living costs; we will address that need in our proposals for the costs of living.

4.5 THE HIGHER EDUCATION SYSTEM WILL EXPAND TO PROVIDE PLACES FOR EVERYONE WHO HAS THE POTENTIAL TO SUCCEED – AND THE EXPANSION WILL FOLLOW THE CHOICES MADE BY STUDENTS.

In the current system, institutions are funded by HEFCE on the basis of a notional annual allocation of undergraduate places,⁵⁵ which does not change significantly year on year. As we observed in Chapter 2, there are insufficient numbers of student places in the present system to accommodate demand. The combination of these factors means that year on year institutions are secure in knowing that they can fill their own student places no matter the competition from other institutions; and obtain guaranteed HEFCE funding as well as charge the maximum fee to all students. Growth within successful institutions is stifled; less successful institutions are insulated from competition; and students do not have the opportunity to choose between institutions on the basis of price and value for money.

In our proposals, the higher education system will expand to accommodate demand from qualified applicants who have the potential to succeed. It is difficult to put a precise number on how many additional student places will be needed. Some estimates suggest that there are up to 30,000 qualified applicants who were unable to secure a place in the last academic year. To give them an opportunity to benefit from higher education will require increasing the number of student places by roughly 10%. We

propose that this increase is made over the next three years.

The precise figure will need to be adjusted in the light of actual demand. It is critical that the increase is not across the board in all institutions; the allocation of student places should follow trends in student demand so that the system begins to be more responsive to the choices of students. This may mean that some institutions lose places; and that others grow by more than 10%.

While we envisage that this allocation of places will initially be done by the HE Council, this method does not in the longer term do enough to facilitate student choice and create competition between institutions. We recognise that Government needs some control over the allocation of student places to manage its budgets effectively – Student Finance budgets in particular are demand led and depend on the student population in any given year; but that can be achieved while making the higher education system more responsive to student demand.

We propose that entitlement to Student Finance is in the future determined by a minimum entry standard, based on aptitude. This will ensure that the system is responding to demand from those who are qualified to benefit from higher education. All students who meet the standard will have an entitlement to Student Finance and can take that entitlement to any institution that decides to offer them a place. Institutions will face no restrictions from the Government on how many students they can admit. This will allow relevant institutions to grow; and others will need to raise their game to respond.

Rather than create a new test of aptitude, our proposal builds on the UCAS tariff admissions system, which is currently used by around 70% of full time undergraduate students. Since 2000, the UCAS admissions process has operated a tariff point system. This operates by converting a variety of Level 3 academic and vocational qualifications (including A Levels, Advanced Diplomas, international qualifications, music and performing arts examinations) into a generic index of tariff points.

By way of example the table below sets out the conversion of A Level scores to UCAS tariff points.

CONVERSION OF A LEVEL SCORES TO UCAS TARIFF POINTS

<i>A Level</i>	<i>UCAS tariff points</i>
A*	140
A	120
B	100
C	80
D	60
E	40

The minimum tariff entry standard will be set every year by Government shortly after the UCAS deadline for receiving applications. In our proposal to simplify the application process for students, Student Finance applications will be submitted at the same time. Government will therefore make its decision about the entry standard knowing both the demand for student places in that year; and the demand for Student Finance. It will be able to predict to a reasonable degree of certainty what the entry standard should be in order to manage the amount of money that it has available to spend on Student Finance.

If a smaller number of students chose to take up their places than expected, reducing the Student Finance outlay, the Government could allocate additional places – through the HE Council – directly to institutions through the existing Clearing process.

To institute this new method of allocating student places, the tariff point mechanism will need further development. A significant minority of students admitted in the current system do not have tariff points – for example, 11% of students entering higher education in 2009 had qualifications certified by the Business and Technology Education Council (known as BTECs), and yet BTECs are not recognised by the tariff system.

In consultation with the higher education sector, UCAS is already conducting a review of the tariff system so that it captures the full range of Level 3 qualifications that institutions take into account when admitting students.⁵⁵ Our proposals should only be implemented after this

review is complete, or students with less traditional qualifications will be disadvantaged.

We envisage that, even after the UCAS review, there will remain some applicants who do not have qualifications that convert into tariff points. The mission of higher education to reach out to everyone who has the potential to benefit means that, for example, applicants with work experience rather than formal qualifications should have the opportunity to seek entry. This will be an issue for some applicants for full time study and a more significant issue for applicants for part time study where we expect that many of them will be seeking to enter higher education later in life as a 'second chance' to develop their skills rather than direct from school.

To allow institutions to admit these applicants, some student places will need to be allocated directly to institutions rather than through the tariff point entry system and Government will assess the balance between the two allocation methods each year. To introduce an element of demand led competition, a proportion – e.g. 10% – of these places will be reallocated each year by the HE Council, taking account of patterns in student demand and completion rates.

Having two allocation methods also requires that applicants will need to state whether they have tariff points at the start of the admissions process. This will prevent attempts to 'game' the system by applicants who have tariff points seeking places that are intended for applicants from non traditional backgrounds.

Institutional allocations will also be used for priority courses. Government will provide additional investment for these through the HE Council to ensure that there is adequate supply of these courses to meet the needs of the economy. Ensuring that supply meets the requirements of the public interest requires that student places are allocated; though there should be a significant competitive element in the allocation, so that institutions that are failing to attract students are not funded year on year and popular institutions are able to expand.

THE STUDENT FINANCE PLAN

SUMMARY

Throughout our work, students and experts in student finance have told us that the student finance system is complex and confusing. Our proposals simplify the system, improve the support for the costs of living, ensure that students pay no fees upfront and deliver a system of affordable payments for students when they are in work.

RECOMMENDATIONS

The student finance plan will be simplified. The elements of the plan are:

- SF Learning – paying the costs of learning upfront on behalf of the student
- SF Living – providing students with money for living costs
- SF Paying – collecting payments from graduates, via the tax system, and managing their remaining payments
- SF Giving – providing an easy way for graduates to make voluntary tax deductible payments to their chosen institution

Full time students will pay no fees upfront. Government will provide the upfront costs. The same upfront support for the costs of learning will be extended to part time students.

Institutions will contribute to meeting the costs of finance for learning. They will receive from Government all of the money for charges of up to £6,000; and pay a levy on the income from charges above that amount to cover the costs to Government of providing students with the upfront finance.

The loan system for the costs of living will be simplified to create one flat rate entitlement of £3,750. This means anyone applying for a loan knows exactly how much funding they are eligible for and if they are only applying for loans then no means test is necessary.

The maximum grant for the costs of living available to students from low income backgrounds on top of the loan will increase to £3,250. The full grant will be available up

to a household income of £25,000 and a partial grant up to a household income of £60,000. All students will receive at least as much cash in hand as they do now (total of grant and maintenance loan).

Institutions will not be required to provide a minimum bursary and that cash in hand for students will come through the grant for the costs of living instead. Making the minimum bursary part of the Government package of support will mean that students receive all of their minimum support for living costs from one place and on the basis of a single application.

Students with higher earnings after graduation will pay a real interest rate on the outstanding balance for the costs of learning and living. The interest rate will be equal to the Government's cost of borrowing (inflation plus 2.2%). Students earning below the repayment threshold will pay no real interest rate. Their loan balance will increase only in line with inflation. Those earning above the threshold whose payments do not cover the costs of the real interest will have the rest of the interest rebated to them by Government.

The repayment threshold will be reviewed regularly and increased in line with average earnings. As the threshold has not been increased since 2005, there will be a one-off increase at the start of our new system from £15,000 to £21,000.

Changing the threshold in line with earnings increases the costs of loans for Government. Some of that cost will be offset by increasing the maximum payment period from 25 to 30 years. After 30 years, any outstanding balance will be written off by Government.

Institutions will be able to use the system by which students make payments to Government to attract more charitable giving.

5.1 THE STUDENT FINANCE SYSTEM IS COMPLEX AND CONFUSING – IT MUST BE SIMPLIFIED.

Throughout our work, students and experts in student finance have told us that the student finance system is complex and confusing. The entitlement rules have changed many times since 2006; support for maintenance is provided through a mixture of loans and grants; loans are linked to grants through obscure substitution rules; the means testing is perceived as burdensome; and there is a wide range of institutional bursaries that students often do not know about when making application decisions.

Many people assume wrongly that fees have to be paid upfront or that student loans are a mortgage style debt.

Evidence from the US suggests that the costs of such complexity and confusion are high: students may be discouraged from applying for higher education unless they are certain that they can afford it.⁵⁷ The students most at risk at being put off are those that are already least likely to participate.

In our proposals, the student finance plan will be simplified. The elements of the plan are:

- SF Learning – paying the costs of learning upfront on behalf of the student
- SF Living – providing students with money for living costs
- SF Paying – collecting payments from graduates, via the tax system, and managing their remaining payments
- SF Giving – providing an easy way for graduates to make voluntary tax deductible payments to their chosen institution

SUPPORT FOR THE COSTS OF LEARNING: SF LEARNING

5.2 THERE WILL BE NO UPFRONT COSTS FOR ANY STUDENT, REGARDLESS OF THE MODE OF STUDY.

The removal of upfront costs for full time students was an important feature of the 2006 changes. Despite the

pressure on public resources, Government must continue to meet in full the upfront costs of higher education.

We have considered proposals in which the upfront costs would be met through private finance. We reject these because private finance would not be available on the same terms to everyone; and it would be more expensive even for the students who can access it.

We recommend that the same upfront support for the costs of learning is extended to part time students as well. Higher education will be free at the point of entry for all students, regardless of the mode of study, giving them more choice about how they choose to study – and where.

Full time students will be entitled to support for the full length of their course – plus an additional year in case anything goes wrong for them. This means students will not be penalised if they have to drop out during a year and come back to study later on or if they need to take longer to complete their course.

Completing a degree by part time study provides further flexibility. The intensity of part time study is conventionally related to the time it would take to complete the course by studying full time – so where a part time student undertakes a degree that would normally take a full time student three years to complete and intends to do it over six years, the student's intensity of study is said to be 50%.

Though it is less likely that a student will complete the degree when the period of study required is longer, there is evidence to show that useful learning outcomes can be achieved below 50% intensity, and that in fact the clearest split between completion and non completion of a degree course falls not at 50% intensity but at 30%.⁵⁸

We propose therefore that entitlement to support for costs of learning will begin at an intensity equivalent to one third of the full time equivalent – 33%. This is a simpler measure for students and institutions than the 30% threshold mentioned in the evidence as it can be readily translated into an equivalent number of modules of study. The maximum period of support will be nine years.

The aim of these recommendations is that all prospective entrants to higher education will be able to study in the way that suits their circumstances without having to pay upfront.

5.3 INSTITUTIONS WILL CONTRIBUTE TO MEETING THE COSTS OF FINANCE FOR LEARNING.

As we will show under the section on paying back the costs of learning, the loans that students take on for meeting these costs are risk free. No one has to pay back the loan unless they are earning above £21,000 per year. Payments are linked to income. Graduates on low incomes do not pay interest. Any loan amount that is not paid off after 30 years is written off by Government.

The financial risk on the loans is therefore borne by Government, not by the student. This is exactly what the principles that we have set out recommend, but the consequence is that institutions bear no risk either. They could set unrealistic fees, out of proportion to the employment returns from the courses they provide, and yet still receive all of the fee income.

In our proposals, institutions will contribute to the meeting the costs of finance for learning. They will receive from Government all of the money for charges of up to £6,000; and pay a levy on the income from charges above that amount to cover the costs to Government of providing students with the upfront finance.

The table below illustrates the amount of the levy at different fee levels. As the fee amount rises, the marginal benefit to the institutions declines. This reflects the fact that the higher the amount of the loan, the higher the number of students who will rely on the Government to write off outstanding amounts.

The levy will deter institutions from transferring costs to the Government by charging fees that do not match the employment returns from their courses. It will encourage institutions to function efficiently so that they are able to

keep fee levels down and not lose an increasing proportion of the fee to the levy. The levy begins at an annual charge of £6,000. This may be less than the charge that institutions need to make to replace the HEFCE funding that is removed from the system. The purpose of starting the levy at a lower point is to instil a focus on efficiency throughout the system.

The levy will be the same for all institutions. To differentiate the levy according to the student cohort in an institution would create incentives for institutions to recruit only students whom they expect to have strong earnings potential. Institutions will pay the levy on all charges for the costs of learning, whether those are paid upfront on an optional basis by students or deferred through a loan from the Government. The purpose of this is to avoid giving institutions an incentive to seek out those students who are able to pay upfront, rather than those will rely on a loan to pay the costs of learning.

We do not in our proposals include a cap on what institutions can charge for the costs of learning. There is no robust way of identifying the right maximum level of investment that there should be in higher education. A cap also distorts charging by institutions. In the current system, all institutions charge the maximum amount for all courses – so the cap has become a standard price for higher education rather than a means of control to prevent unfair charges. In our proposals, we envisage that the levy will regulate the prices set by institutions so that they do not rise above the level that can be sustainably financed through future loan repayments; and the payment system will protect students by making the loan completely risk free for them.

AMOUNT OF THE LEVY AT DIFFERENT FEE LEVELS

Nominal fee up to /£	6,000	7,000	8,000	9,000	10,000	11,000	12,000
Levy per additional £1,000	–	40%	45%	50%	55%	65%	75%
Proportion of total received by institution	100%	94%	89%	85%	81%	77%	73%

SUPPORT FOR LIVING COSTS: SF LIVING.

5.4 ALL STUDENTS WILL HAVE A MINIMUM AMOUNT OF SUPPORT FOR LIVING COSTS, WITH ADDITIONAL HELP FOR STUDENTS FROM LOW INCOME BACKGROUNDS.

The prospect of paying living costs while studying can deter students from entering higher education. Students from low income backgrounds in particular, whose families are not able to support them in paying living costs, need help from somewhere else in meeting the costs of living. Theoretically they could get loans from banks but banks may not lend to students who have yet to work and come from low income backgrounds. In any case taking on commercial debt may deter students from higher education and push them into working rather than studying. Government must therefore provide money for living costs in order to support participation and improve equity of access.

The 2006 reforms increased the cash in hand support available to full time students from lower income households, through a combination of grants, loans and bursaries. Students from higher income households gained from being able to defer their fees, so that any contribution made by their families went to meeting their living costs. The evidence suggests that improvements to the support for living costs helped to ensure that the changes in fees in 2006 did not have a negative impact on participation.

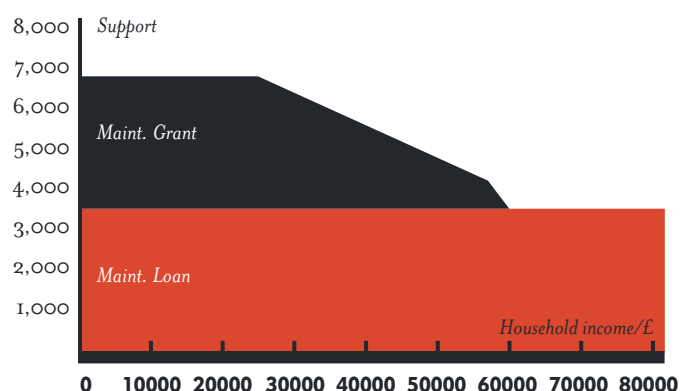
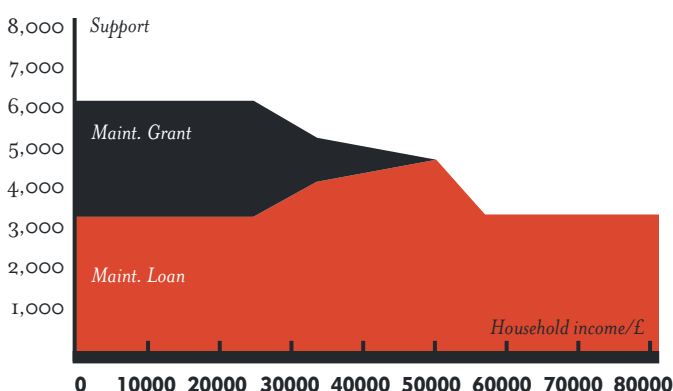
Nevertheless the current system is criticised for imposing a heavy burden of means testing on families; and we have received evidence that the level of support for students from low income households in particular is insufficient and that students need to rely on part time work or family contributions to make ends meet.

To deal with these issues, our proposals will reform the support for living costs in three ways:

- Simplify the maintenance loan system to create one flat rate entitlement of £3,750. This means anyone applying for a loan knows exactly how much funding they are eligible for and if they are only applying for loans then no means test is necessary.
- Increase the maximum grant available to students from low income backgrounds to £3,250. The full grant will be available up to a household income of £25,000 and a partial grant up to a household income of £60,000. All students will receive at least as much cash in hand as they do now (total of grant and maintenance loan).
- Eliminate the requirement for institutions to provide a minimum bursary and provide that cash in hand through the grant instead. Forcing students to rely on the bursary for living costs makes the system more complex for them and we have received evidence to suggest that students do not always apply for the bursary or even know that it exists. Making the minimum bursary part of the Government package of support will mean that students receive all of their minimum

MAINTENANCE SUPPORT VERSUS HOUSEHOLD INCOME

Current versus proposed (£)



support for living costs from one place and on the basis of a single application. Institutions will of course be free to offer financial aid on top of the support provided by Government. They may choose to do so in order to support their ambitions for attracting students from a wide range of backgrounds; and ensuring that they stay on in study until they complete their degrees. On the basis of the evidence we have received, we would expect the most selective institutions in particular to offer generous bursaries to students from low income households.

Under these proposals, the purpose of each element of the support for living costs will be clearer. Maintenance loans will provide a base level of support for all students; grants will provide targeted support to students from low income households; and institutions will be free to provide extra financial aid to meet objectives on access and retention.

The impact of the proposals is illustrated below for students from a range of different household income levels.

MAINTENANCE SUPPORT VERSUS HOUSEHOLD INCOME

Current versus proposed

£ Income	Current (2010/11)			Proposed		
	Grant	Loan	Total	Grant	Loan	Total
0	2,906	3,497	6,403	3,250	3,750	7,000
25,000	2,906	3,497	6,403	3,250	3,750	7,000
27,500	2,406	3,747	6,153	3,050	3,750	6,800
30,000	1,906	3,997	5,903	2,850	3,750	6,600
32,500	1,406	4,247	5,653	2,650	3,750	6,400
35,000	1,040	4,430	5,470	2,450	3,750	6,200
37,500	875	4,512	5,388	2,250	3,750	6,000
40,000	710	4,595	5,305	2,050	3,750	5,800
42,500	546	4,677	5,223	1,850	3,750	5,600
45,000	381	4,760	5,140	1,650	3,750	5,400
47,500	216	4,842	5,058	1,450	3,750	5,200
50,000	51	4,924	4,976	1,250	3,750	5,000
52,500	0	4,606	4,606	1,050	3,750	4,800
55,000	0	4,106	4,106	850	3,750	4,600
57,500	0	3,606	3,606	575	3,750	4,325
60,000	0	3,564	3,564	75	3,750	3,825
62,500	0	3,564	3,564	0	3,750	3,750
65,000	0	3,564	3,564	0	3,750	3,750
67,500	0	3,564	3,564	0	3,750	3,750
70,000	0	3,564	3,564	0	3,750	3,750

THE STUDENT FINANCE PLAN *continued*

Unlike the support for the costs of learning, the support for the costs of living will not be available to part time students. These students are able to combine study with work; and they have access to other Government benefits in a way that full time students do not.

AFFORDABLE PAYMENTS: SF PAYING.

5.5 PAYMENTS WILL BE LINKED TO INCOME SO THAT GRADUATES PAY FOR HIGHER EDUCATION IN PROPORTION TO THE BENEFIT THEY HAVE RECEIVED.

Our principles for the design of the new system state no student will have to pay upfront; it is Government that pays upfront; students only pay when they are working and in proportion to the benefit they have received. The design of the paying component of the Student Finance Plan is essential to achieving this progressive ambition.

In the current system, students pay on the basis of income after graduation. The payments are not fixed like in a mortgage but vary according to income – so students pay 9% of any income above £15,000. There is no real interest rate and the outstanding loan balance rises only in line with inflation. Any loans outstanding after 25 years are written off.

The current system does have some attractive features but it does not produce progressive effects. No students pay any interest on their loans. This means that even the wealthiest students after graduation receive a subsidy from Government – typically £3,000 – whereas that subsidy could be targeted on students on lower incomes. Wealthy students and families who understand the way the subsidy works realise they are being paid by the Government to borrow money and some will do so regardless of whether they have a genuine need.

By contrast – because the current system is poorly understood – many other students and their families are worried by the fact that they run up debt by going into higher education. In these discussions of debt, student loan obligations are still grouped alongside credit card debts and commercial mortgage style loans, as if they are all the same.

Another as-yet hidden problem in the current system is that the threshold at which payments begin has not changed since

the 2006 reforms. It has remained constant at £15,000, even though earnings have grown in the meantime. This means that students who were regarded as low earners before 2006 – and not required to make payments – are now earning above the threshold and so they are making payments. If the threshold remains as it is, soon even a student working full time on the minimum wage after graduation will have to make payments. That is unacceptable.

To deal with these issues, we will make the following changes to how the current system works to create the new SF Paying system:

- Students with higher earnings will pay a real interest rate. The interest rate will be equal to the Government's cost of borrowing (inflation plus 2.2%).
- Students earning below the repayment threshold will pay no real interest rate. Their loan balance will increase only in line with inflation.
- Those earning marginally above the threshold whose payments do not cover the costs of the real interest will have the rest of the interest rebated to them by Government.
- The repayment threshold will be reviewed regularly and increased in line with average earnings. As the threshold has not been increased since 2005, there will be a one-off increase at the start of our new system from £15,000 to £21,000.
- Changing the threshold in line with earnings increases the costs of loans for Government. Some of that cost will be offset by increasing the maximum payment period from 25 to 30 years. After 30 years, any outstanding balance will be written off by Government.

The table below illustrates the monthly and weekly payments made by students in our proposals.

PAYMENTS DUE BY GRADUATE EARNINGS

£ Annual earnings	Monthly		Weekly	
	Gross income	Payment	Gross income	Payment
0	0	0	0	0
21,000	1,750	0	404	0
25,000	2,083	30	481	7
30,000	2,500	68	577	16
40,000	3,333	143	769	33
50,000	4,167	218	962	50
60,000	5,000	293	1,154	68

The payment due depends only on the income of the borrower; it is independent of the interest rate and size of debt outstanding

The introduction of a real interest rate will remove the perverse incentives around loan take up and fee deferral. Families with high household incomes will be more likely to pay upfront voluntarily and graduates with very high earnings will be more likely to choose to make early payments to clear their obligation. Both of these behaviours will ease the cash borrowing requirement for Government, focus the Government support for students on those who need it and make the Student Finance Plan as a whole more sustainable.

It will mean that the student from a wealthy household who goes on to become a high earning graduate will no longer benefit from any public subsidy. Even if this student took up the full amount of maintenance loan for the costs of living and paid no fees upfront, the public purse will receive in time payments equal to the net present value of the costs paid by Government upfront.

At the other end of the earnings scale, the targeted interest rate subsidy means that the outstanding balance of low earners will not grow in real terms – and, if they never earn enough to pay back the costs of living and learning, then after 30 years these will be written off by Government.

We envisage that the lowest paid graduates – or those who take significant breaks from work to fulfil other

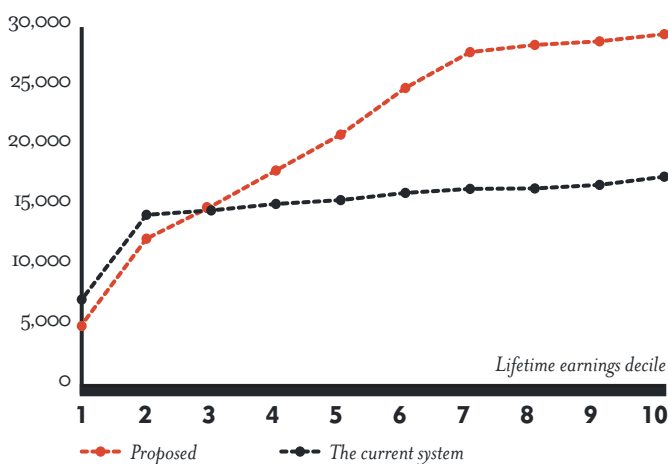
responsibilities – will pay no more than they do in the current system; whereas students who go on to have successful careers after graduating will pay more.

Our proposals also create the potential for Government to review the restrictions on access to funding to students who are studying for a second degree. The ability to re-train will be increasingly important in a changing economy. As more students will pay back the costs of learning in full in our proposals, access to upfront support for the costs of learning could be expanded.

The chart below shows the real value of payments that would be received from different graduates depending on their earnings over the long term – compared to what those graduates pay in the current system. It assumes that the charge for the costs of learning is around £6,000 and the total amount to be paid back by the graduate is £30,000 (£6,250 per year for three years for the costs of learning; and £3,750 per year for three years for the costs of living).

The progressive nature of the payment system in our proposals is clearly illustrated here. On average, the 20% of graduates with the lowest earnings will pay no more than they do now, whereas higher earners will pay significantly more.

ESTIMATED NPV OF PAYMENTS BY GRADUATE EARNINGS DECILE / £



ENCOURAGING DONATIONS: SF GIVING.

5.6 THOSE WHO BENEFIT MOST FROM HIGHER EDUCATION MAY CONTINUE GIVING TO SUPPORT A CHOSEN INSTITUTION.

There is no established culture of giving to higher education in the UK. Only two UK universities have endowments of more than £1bn – Oxford and Cambridge – compared to over 40 in the US. Data from 2009 show that barely over 1% of alumni make gifts to their institutions.⁵⁹ The percentage of alumni giving to their alma mater in the US in 2008-09 was the lowest in many years due to the economic downturn, but still stood at 10%.⁶⁰

A more widespread culture of giving will allow institutions to build up significant private funds that they can use either to support the quality of teaching or to improve financial aid or outreach for students from low income backgrounds.

Through SF Giving, we propose that institutions will be able to use the system by which students make payments to Government to attract more charitable giving. Students will designate the institution they want to receive their payments and either make optional additional payments alongside their payments to Government or keep making payments after they have cleared their obligation to pay for learning

and living. The payment will occur by way of a simple payroll deduction and take advantage of tax incentives for such giving.

THE OVERALL BALANCE OF CONTRIBUTIONS.

5.7 GRADUATES WILL BE REQUIRED TO MAKE A GREATER CONTRIBUTION TO THE COSTS OF HIGHER EDUCATION VARYING WIDELY ACCORDING TO HOW MUCH BENEFIT THEY HAVE RECEIVED FROM STUDYING.

The 2006 changes were premised on increasing the private contributions to higher education, to drive up income for institutions and reduce the reliance of the system on public funding. They did not achieve this and the overall balance of contributions between students and the Government did not change. The effects of the ongoing reliance of the system on public funding are now apparent, as public spending reductions force down total investment in the system.

Our proposals will mean that students do now make a contribution to the costs of higher education and the reliance on public funding reduces. As we explain in Chapter 6, we envisage a large reduction in the funding available to institutions through HEFCE. That reduction may be equivalent to removing all funding from anything other than priority subjects. This contributes to wider reductions in public spending. Government continues though to have a vital role in providing public investment for priority subjects and providing students with finance to ensure that no one has to pay upfront for the costs of learning.

The amount of the contribution made by graduates will depend on what students agree with institutions to pay for the costs of learning. The payment is not made upfront; it is affordable; and it reflects the large private returns from studying in higher education. The table overleaf illustrates that we expect the total contribution made by graduates to rise; though it will remain much lower than the contribution made by Government.

Equally, though students will still benefit from Government support, the amount of funding they receive will be more dependent than before on their household income (while studying) and their earnings over the long term (as graduates making loan repayments).

The illustrations below: cover students on courses that do not, at present, receive more than the base level of teaching grant; assume that these students face a fee of £6,100 under the new system (i.e. assume government withdraws all of the teaching grant for these courses and the institution raises fees to maintain its income); assume that the student chooses to defer the entire fee via a fee loan; and assess only the core elements of funding, including the teaching grant, fee, fee loan, maintenance grant and maintenance loan (rounding figures to the nearest £100).

(A) HIGH INCOME HOUSEHOLD ON ENTRY (TOP 20%) / THEN HIGH EARNING GRADUATE (TOP 20%)

At present, these students would benefit from a teaching grant of around £2,800 per year. The fee loan interest rate subsidy means they effectively pay around 85% of the £3,300 fee, with taxpayers paying the other 15%. On maintenance, they also benefit from a loan subsidy.

This means that of the £6,100 cost of course provision, £3,300 comes from public funds and £2,800 from private sources. A small maintenance loan subsidy of £500 does little to change this balance.

In our proposed system, the entire £6,100 cost of tuition would come from private funds as the teaching grant is removed and their graduate earnings would be too high to benefit from any fee loan subsidy.

For these students/graduates, the private contribution to the costs of learning will have increased by £3,300 or 118%. Also, they would no longer benefit from the subsidy on loans for the costs of living.

(B) LOW INCOME HOUSEHOLD ON ENTRY (BOTTOM 20%) / LOW EARNING GRADUATE (BOTTOM 20%)

At present, these students would benefit from a teaching grant of around £2,800 per year. A very large fee loan subsidy, along with loan write offs, means they might effectively pay around 50% of the £3,300 fee, with taxpayers meeting the other half. On maintenance, they would benefit from a grant of £2,900 and a maintenance loan subsidy of perhaps £1,800.

This means that of the £6,100 cost of tuition, £4,400 comes from public funds and £1,600 (27%) from private sources. Their total maintenance subsidy would be £4,700.

In our proposed system, these students would still have the majority of their teaching costs paid for from public sources, but this would be done via fee loan subsidies and write offs. Of the £6,100 fee, they might pay around 35% or £2,100. They would continue to benefit from a large maintenance subsidy which would increase to perhaps £5,700.

For these students/graduates, the private contribution to the costs of learning will have increased by £500 or 31%. But this would be more than offset by the increased support for the costs of living.

Overall, the position of students/graduates will therefore vary greatly. Some will eventually pay the entire costs of their maintenance and tuition, whereas some will still be net beneficiaries of public funds as their contribution to tuition will be lower than their net support for maintenance.

THE AGGREGATE POSITION.

At the aggregate level, an examination of the core funding flows shows that increased graduate contributions are allowing both reduced expenditure from general taxpayers and increased income for institutions if they can justify it. The table overleaf illustrates this changing balance of contributions under several fee assumptions.

Different numbers of students are eligible for different funding streams (before means testing). To present a transparent view of the changing balance of contributions, this table uses a common number of students – the HEFCE fundable population – to calculate the costs of all forms of support.

THE STUDENT FINANCE PLAN continued

BALANCE OF CONTRIBUTIONS TO FULL TIME UNDERGRADUATE STUDY (CORE FUNDING FLOWS)

£bn

	Current	If all fees £6,000	If all fees £7,000	If all fees £8,000
Taxpayers (net cost)	-6.2	-4.4	-4.4	-4.4
Change		-30%	-29%	-29%
Teaching grants	-3.5	-0.7	-0.7	-0.7
Maintenance grants	-1.4	-1.8	-1.8	-1.8
Maintenance loans – cash out	-2.5	-2.5	-2.5	-2.5
Maintenance loans – repayments	1.8	1.7	1.7	1.7
Fee loans – cash out	-2.2	-4.1	-4.4	-4.7
Fee loans – repayments	1.6	2.9	3.2	3.5
Student (net benefit)	3.9	3.6	3.5	3.4
Change		-7%	-10%	-12%
Maintenance grants	1.4	1.8	1.8	1.8
Maintenance loans – cash in hand	2.5	2.5	2.5	2.5
Bursary support	0.3	0.2	0.2	0.2
Voluntary, upfront fee payments	-0.3	-0.8	-0.9	-1.0
Graduates (payments)	-3.4	-4.6	-5.0	-5.3
Change		37%	46%	55%
Maintenance loans – repayments	-1.8	-1.7	-1.7	-1.7
Fee loans – repayments	-1.6	-2.9	-3.2	-3.5
Institutions (net income)	5.7	5.4	5.8	6.2
Change		-5%	2%	10%
Teaching grants	3.5	0.7	0.7	0.7
Fee loans – cash income	2.2	4.1	4.4	4.7
Upfront fee income	0.3	0.8	0.9	1.0
Bursary costs	-0.3	-0.2	-0.2	-0.2
Net student/grad contribution	-0.5	1.0	1.4	1.8

SAFEGUARDING THE PUBLIC INTEREST IN THE HIGHER EDUCATION SYSTEM

SUMMARY

In our proposals, the relationship between students and institutions will be at the heart of the system. We are reducing the reliance of the system on funding from Government and control by Government. Nevertheless there is an important role for regulation to look after students' interests and the ongoing public investment in higher education. We propose a new HE Council with five core responsibilities: investing in priority courses; setting and enforcing baseline quality levels; delivering improvements on the access and completion rates of students from disadvantaged backgrounds; ensuring that students get the benefits of more competition in the sector; and resolving disputes between students and institutions.

RECOMMENDATIONS

The higher education system is currently overseen by four bodies: HEFCE, QAA, OFFA and the OIA. These will be replaced by a single Higher Education (HE) Council. It will take a more targeted approach to regulation, with greater autonomy for institutions.

The HE Council will explain how it is investing taxpayers' money, and safeguarding students' investment in higher education, through an annual report to Parliament. It will provide targeted public investment for clinical training programmes and other priority programmes. It will define minimum levels of quality for these programmes.

The Quality Assurance Agency currently reports on institutions' processes for managing quality and standards and provides guidance on good practice. These activities should continue through the work of the HE Council.

It will be a condition of receipt of income from the Student Finance Plan for the costs of learning that institutions require all new academics with teaching responsibilities to undertake a teaching training qualification accredited by the HE Academy, and that the option to gain such a qualification is made available to all staff – including researchers and postgraduate students – with teaching responsibilities.

There will be a new Access and Success fund to support institutions in recruiting and retaining those students who need additional support due to the effects of a disadvantaged background.

To improve the accountability of institutions for achieving fair access, WPSAs and Access Agreements will be replaced with a single Access Commitment, to be agreed between institutions and the HE Council, and updated annually, as a condition for institutions to receive the costs of learning through the Student Finance Plan. The scrutiny of Access Commitments by the HE Council will be tougher for institutions with higher charges.

No minimum spend will be required from institutions that meet their targets on access and completion. Institutions that do not meet their targets will have to agree with the HE Council a minimum level of spend that will be used to improve performance.

The Council will carry out an annual survey of charges, allowing easy comparison for students between the charges set by institutions and the success of institutions in providing value for money.

New providers will be able to apply for targeted HE Council investment if they offer priority programmes – and they will be subject to the same quality requirements as any other provider.

Students on all courses, irrespective of the status of their institution, will be able to access the Student Finance Plan. All institutions which want to offer provision that is funded through the Student Finance Plan will be under the same conditions: they will make an Access Commitment, satisfy baseline requirements around quality and information, and pay a levy on charges above £6,000.

The HE Council will require the governing bodies of institutions to certify each year that the institution is a viable going concern. The Council will have powers to provide targeted funding to prevent institutional failure from taking place. It will also make recommendations to the governing body of an institution where it views that management is ineffective.

If institutional failure cannot be prevented in a way that is cost effective for public investment or in the best interests of students and staff, then the Council will explore options such as mergers or takeovers led by other providers so that the institution in a new form becomes a going concern.

The HE Council will take on the role of adjudicating on complaints which students have been unable to resolve through institutional routes. Bringing the regulatory and complaints functions together will enable regulation to be adapted in light of decisions about complaints where appropriate.

6.1 A SUCCESSFUL HIGHER EDUCATION SYSTEM WILL REQUIRE TARGETED REGULATION THAT SAFEGUARDS THE PUBLIC INTEREST.

In our proposals, the relationship between students and institutions will be at the heart of the system. We are reducing the reliance of the system on funding from Government and control by Government. Nevertheless there is an important role for regulation to look after students' interests and the ongoing public investment in higher education.

The higher education system is currently overseen by four bodies: HEFCE, QAA, OFFA and OIA. These will be replaced by a single Higher Education (HE) Council. It will take a more targeted approach to regulation, with greater autonomy for institutions.

The Council will be independent from Government and institutions. It will have five areas of responsibility:

- Investment – identifying and investing in high priority courses; evaluating value for money; dealing with the unexpected, with the primary aim of protecting students' interests
- Quality – setting and enforcing minimum quality levels across the whole sector
- Equity of access – making sure that individual institutions and the sector as a whole make measurable progress on admitting qualified students from disadvantaged backgrounds
- Competition – ensuring that students get the benefits of more competition, by publishing an annual survey of charges, and looking after the interests of students when an institution is at risk
- Dispute resolution – students can ask the Council to adjudicate on a dispute that cannot be resolved within their institution and provide a decision which binds both sides

The HE Council will explain how it is investing taxpayers' money, and safeguarding students' investment in higher education, through an annual report to Parliament.

6.2 PUBLIC INVESTMENT WILL BE TARGETED ON THE TEACHING OF PRIORITY SUBJECTS.

The current system incorporates a hidden blanket subsidy to institutions. The subsidy is delivered through a block grant that does not vary significantly from year to year. Institutions do not compete for this funding – they get it automatically. Our proposals will shift the balance towards a more dynamic system of funding, with students having more choice about where they study and directing a greater share of the resources for teaching through the Student Finance Plan.

There is nevertheless a strong case for additional and targeted investment by the public in certain courses. These may be courses that deliver significant social returns such as to provide skills and knowledge currently in shortage or predicted to be in the future. Students may not choose these courses because the private returns are not as high as other courses, the costs are higher and there are cheaper courses on offer, or simply because these courses are perceived as more difficult.

Typically the courses that may fall into this category are courses in science and technology subjects, clinical medicine, nursing and other healthcare degrees, as well as strategically important language courses.

The aim of additional public investment in certain subjects will be to ensure both that there is an incentive for institutions to continue to provide these courses and to reduce the charges for students to a level equivalent to other courses that they may choose instead.

HEFCE currently provides similar funding but solely on the basis of the cost of courses. It does not explicitly make decisions about whether the courses are a priority for the public interest. In our proposals, the funding method will change and there will be two categories of programme that attract investment from the HE Council.

- Clinical training programmes – this will contain the clinical components of what is currently known as Price Group A: courses such as medicine and veterinary science.
- Priority programmes – this will contain the programmes currently known as Price Group B and potentially some

proportion of Price Group C: this is primarily science and technology as well as healthcare courses.

In determining the appropriate levels of funding for each programme, the HE Council will consider:

- Data about delivery costs. HEFCE already has an effective way of measuring the cost of delivery using detailed financial returns from institutions. Comparisons with our international competitors should also be used to check that spending by English institutions is efficient compared to institutions in other countries providing similar programmes.
- The degree to which the programme produces graduates with skills which are or are predicted to be in shortage. This will need to be determined in consultation with Government and independent experts such as the UKCES.

The Council will regularly review the investment it provides to adapt to changes in delivery costs or the priority of certain courses. The amount of investment will be a matter for the Council to negotiate with Government on the basis of evidence about how much investment is needed to secure the delivery of priority subjects and sustain demand from students. We envisage that the minimum level of investment will be consistent with the current premium paid by HEFCE on equivalent courses – ca. £700m per year.⁶¹

6.3 THE HE COUNCIL WILL PROVIDE STUDENTS WITH ASSURANCE OF THE QUALITY OF COURSES – AND THERE WILL BE MORE QUALIFIED TEACHERS.

The regulation of quality is central to the credibility of the higher education system. Students and the public will invest in higher education; they will have to be assured that investment is not being wasted on substandard provision. Maintaining minimum quality standards also protects institutions which invest in quality provision from unfair competition by providers who cut corners.

The Quality Assurance Agency currently reports on institutions' processes for managing quality and standards and provides guidance on good practice. These activities should continue through the work of the HE Council.

The system we propose envisages targeted investment in priority subjects. It is important that institutions do not take public money to offer these priority courses and then fail to equip students with the skills and knowledge that the investment was supposed to procure. The HE Council will therefore define minimum levels of quality for these programmes. This will mean setting basic programme content requirements – e.g. minimum number of laboratory hours for applied science courses – which institutions need to meet in order for the programmes they provide to be eligible for direct public investment. Content requirements will be reviewed periodically, or in case of student concerns over quality.

Increasing competition for students will mean that institutions will have stronger incentives to focus on improving teaching quality. If they are not able to attract enough students, their funding will decrease.

Students will also expect that those teaching them have a minimum level of skill in teaching. Teaching in HE is diverse and a one size fits all ‘licence to teach’ is not appropriate. The HE Academy has developed a professional standards framework which can be used for accrediting individual institutions’ own teaching development activity so that it meets a nationally recognised minimum standard. This allows institutions to design teaching development programmes for their staff which make sense locally, yet meet nationally recognised standards.

It will be a condition of receipt of income from the Student Finance Plan for the costs of learning that institutions require all new academics with teaching responsibilities to undertake a teaching training qualification accredited by the HE Academy, and that the option to gain such a qualification is made available to all staff – including researchers and postgraduate students – with teaching responsibilities. Anonymised information about the proportion of teaching-active staff with such a qualification should be made available at subject level by each institution.

6.4 THE HE COUNCIL WILL TARGET FUNDING TO IMPROVE ACCESS AND COMPLETION RATES FOR STUDENTS FROM DISADVANTAGED BACKGROUNDS.

Students from disadvantaged backgrounds cost on average more to recruit and teach than others. The costs of widening participation in higher education. The HE Council will target funding to ensure that institutions provide them with additional tuition and support to help them to complete their degrees.

There are several HEFCE funding streams that seek to achieve this objective.⁶² These funding streams will be merged to create a single Access and Success fund. This will mean that public investment is tightly focussed on students from low participation neighbourhoods. In particular, it will mean that retention funding is better targeted. This funding currently rewards institutions for retaining students regardless of their background. The Access and Success fund will change this – it will only be available to support institutions in recruiting and retaining those students who need additional support due to the effects of a disadvantaged background.

To ensure transparency about the use of this fund, the HE Council will need to demonstrate in its reporting that the investment has been made directly in activities that are effective. To do this, it will need to obtain evidence and evaluation from institutions about which activities the funding has been invested in, and how they have advanced the aims of the fund.

Since the 2006 changes, institutions must agree an Access Agreement with OFFA in order to be able to charge higher fees. They are also required to produce a Widening Participation Strategic Assessment (WPSA) according to a framework set out by HEFCE in order to receive funding from the widening participation allocation.

To improve the accountability of institutions for achieving access, WPSAs and Access Agreements will be replaced with a single Access Commitment, to be agreed between institutions and the HE Council, and updated annually, as a condition for institutions to receive the costs of learning through the Student Finance Plan. It will set out as a minimum:

- The aims and objectives of the institution on equity of access and improving completion rates for students from disadvantaged backgrounds;
- How previous Access and Success funding has been invested;
- Evaluation of that investment;
- Individual institution-set targets for improving access in applications and admissions as well as improving completion rates, which must be agreed by the HE Council; and
- Performance against those targets.

Scrutiny of Access Commitments by the HE Council will be tougher for institutions with higher charges, especially those seeking to charge above £7,000 per year (which is roughly equivalent to what institutions will have to charge to maintain investment at current levels based on our assumptions about the reduction in HEFCE funding).

Institutions will also set out how much they spend on access-related activities. No minimum spend will be required from institutions that meet their targets on access and completion. Institutions that do not meet their targets will have to agree with the HE Council a minimum level of spend – set with reference to the current sector average – that will be used to improve performance.

The HE Council will ensure that the targets require the institution to improve its performance and will reserve the right to refuse to agree an Access Commitment where it does not feel that the institution has committed to significant improvement. This would mean that the institution would no longer be able to admit students with access to the Student Finance Plan for the costs of learning.

To support Access Commitments, the performance indicators on access that are produced by HESA will be improved. The indicators do not take sufficient account of institutions' admissions requirements, e.g. an institution could perform worse against the indicators if it does not admit students with no mathematics 'A' Level, even though mathematics may be considered by the institution to be a legitimate requirement for entry. We recommend that HESA works with institutions, UCAS and academic experts to develop indicators that have the confidence of the higher education sector and students.

6.5 THE HE COUNCIL WILL MONITOR THE EFFECTS OF COMPETITION AND ENSURE IT IS MEETING THE INTERESTS OF STUDENTS.

In our proposals, institutions will face increased competition. They will compete for students and they will set different charges. They may also face competition from new providers of higher education and, if they fail to meet students' aspirations for learning, they might ultimately close or be taken over.

There will be a role for the HE Council in regulating this competition, to ensure that it delivers positive outcomes for students and taxpayers.

The HE Council will carry out an annual survey of charges, allowing easy comparison for students between the charges set by institutions and the success of institutions in providing value for money.

Competition can also be increased to the benefit of students by allowing new providers to offer higher education teaching. New providers will be able to apply for targeted HE Council investment if they offer priority programmes – and they will be subject to the same quality requirements as any other provider.

Students on all courses, irrespective of the status of their institution, will be able to access the Student Finance Plan. All institutions which want to offer provision that is funded through the Student Finance Plan will be under the same conditions: they will make an Access

Commitment, satisfy baseline requirements around quality and information, and pay a levy on fee income above £6,000.

In a more competitive environment, some institutions will be more successful at attracting students than others; this means that some institutions may be at risk of failing.

Institutional failure – if it were to occur – would have implications for students and staff as well as past graduates. The HE Council will require the governing bodies of institutions to certify each year that the institution is a viable going concern. These statements will provide the HE Council with early warning of where institutions may have ineffective management or be at risk for other reasons. The HE Council will have powers to provide targeted funding to prevent institutional failure from taking place, e.g. by providing additional funding to small or specialist institutions that may be at risk due to temporary changes in student demand. It will also make recommendations to the governing body of an institution where it views that management is ineffective.

If institutional failure cannot be prevented in a way that is cost effective for public investment or in the best interests of students and staff, then the HE Council will explore options such as mergers or takeovers led by other providers so that the institution in a new form becomes a going concern.

The HE Council will have access to all of the money it uses currently – around £100m per year – to support such measures in a new Market Transition Fund. The judgements involved will be difficult and sensitive, often raising acute political interest. The HE Council will therefore establish rigorous standards of accountability for the use of this fund and impose requirements on institutions in receipt of it to report on the activities they are undertaking to improve their financial position and standing with students.

6.6 THE HE COUNCIL WILL ADJUDICATE ON DISPUTES BETWEEN STUDENTS AND INSTITUTIONS.

Students unable to achieve resolution of a dispute through their institution's own complaints procedures are able to bring their complaint to the Office of the Independent Adjudicator (OIA). The OIA has no regulatory powers, but expects its recommendations to be implemented in full by institutions. Failure to comply would be publicised in the OIA's annual report, though in practice this sanction has never been needed.

Once the HE Council is established, the HE Council will take on the role of adjudicating on complaints which students have been unable to resolve through institutional routes. Bringing the regulatory and complaints functions together will enable regulation to be adapted in light of decisions about complaints where appropriate.

The Council will provide a final route of recourse for students who are unable to resolve their dispute with an institution through internal complaints mechanisms. The HE Council's annual report will summarise the action it has taken in respect of complaints it has heard. Detailed decisions, anonymised as appropriate, will be made public.

OTHER PROPOSALS WE HAVE CONSIDERED

SUMMARY

This report makes recommendations that we believe are the best way of reforming the higher education funding and student finance system to enhance participation, quality and sustainability. We have looked at many alternative proposals during the past year. In this chapter we describe some of these alternatives and explain why we have rejected them.

7.1 A GRADUATE TAX HAS SOME ATTRACTIVE FEATURES BUT IT IS UNWORKABLE AND IT WEAKENS INSTITUTIONAL AUTONOMY AS WELL AS THE ROLE OF STUDENT CHOICE.

A graduate tax would provide an alternative to our proposals. Rather than paying back the costs of learning after they are in work, graduates would pay a supplement to their income tax and these payments would depend purely on income rather than the costs of learning.

We have looked closely at this option as it may deliver two benefits: it eliminates the headline fee which some believe acts as a disincentive to participating in higher education; and it is progressive in that high earning graduates pay more. We have modelled future graduate tax revenues and considered the practical issues in implementing it.

On the basis of our modelling, a graduate tax does not produce sufficient levels of revenue to fund higher education until ca. 2041-42. With a graduate tax set at a rate of 3% of earnings over the income tax threshold, revenue would not start flowing until 2015-16 (when the first students in the new system graduate) and would only build up very gradually over 25 years.

Government will need to fill this funding gap in every year until 2041-42. The cost of replacing fees is ca. £3bn a year. If there is to be more investment in higher education – as our proposals foresee – then the bill for Government is even higher. This means that rather than contributing to deficit reduction, higher education will squeeze out spending elsewhere.

In order to overcome this difficulty, we have considered hypothecating a graduate tax to the sector in order to allow universities to raise private sector finance against future tax receipts. The costs of raising finance will be high. Some estimates suggest the private sector may pay as little as 25% of the value of future tax receipts due to the slow build-up over time of the receipts and uncertainty about the amount. It is also likely that such a sale would be considered a tax securitisation, which the Office of National Statistics would classify as Government debt. Hence, even on this model, there would be upward pressure on the deficit from the graduate tax until 2041-42.

OTHER PROPOSALS WE HAVE CONSIDERED *continued*

Turning to the impact on graduates, even low earning graduates would have to pay a graduate tax. In our proposals, graduates pay nothing until they are earning above £21,000 per year. A graduate tax may begin at the income tax threshold, which is £6,475. Higher earning graduates would be required to pay several multiples of the actual costs of their course. Modelling suggests that a 3% graduate tax over the first 25 years after graduation would result in the highest earning graduates paying ca. £55k (the bulk of three-year courses cost in the range of £18k-£21k). Graduates will keep paying for as long as they are earning above the income tax threshold. In addition to this, most graduates will also repay debt incurred for living costs while studying.

From the perspective of the sector, the graduate tax significantly weakens universities' independence, as they would be reliant on Government for all of their teaching funding. Equally the relationship with students will matter much less to universities for securing their funding than the relationship with Government. The role we envisage for student choice in driving up quality will fall instead to the central funding agency that distributes the graduate tax revenues – yet, as we have observed, there are no reliable measures of quality by which this agency could seek to provide incentives for higher quality provision.

A graduate tax also raises a number of difficult practical questions about how to deal with students who would not be liable to pay tax if they left the UK and how to treat students who did not complete their courses.

Finally, compelling students to pay a tax and thereby preventing them from paying fees upfront, on similar terms to international students, may be regarded as unfair (placing domestic students at a disadvantage compared to international students).

We have also looked at variations on the 'pure' graduate tax, such as the proposal submitted to us by the NUS to have a system similar to a graduate tax, but with a capped maximum contribution. The NUS has done interesting work in this area, but their proposals would still have many of the problems outlined here. Crucially, their proposals would also remove the potential for increasing quality through the decisions made by students.

In any case instating a maximum contribution in a graduate tax model makes the system very close to one where the institution charges a fee but that fee is paid upfront by Government and the student does not pay until in work. The purported advantage of a graduate tax model is that higher earners pay more and low earners are protected from paying more than they can afford. These benefits can equally be gained through our proposals and we have set out the progressive consequences of our proposals in detail in Chapter 5.

ISSUES

GRADUATE TAX

STUDENT FINANCE PLAN

<i>Cost of learning</i>	No upfront costs	No upfront costs
<i>Cost of living</i>	Will require support through loans – this means that graduates have to pay the additional tax as well as make loan payments	Graduates make a single set of payments to cover the costs of learning and living provided upfront by Government
<i>Payment terms</i>	Linked to income, no fixed mortgage style payments, payments continue indefinitely	Linked to income, no fixed mortgage-style payments, payments stop when costs of learning and living are paid back - or 30 years - whichever is earlier
<i>Protection for graduates on low incomes</i>	Graduates start paying when they cross the income tax threshold – £6,475 per year	Graduates pay nothing until they earn £21,000 per year
<i>Costs for graduates</i>	Uncapped, could be several multiples of the cost of the degree	Maximum payment is equal to the charge for the degree. Majority of graduates will pay less
<i>Funding to universities</i>	Tax revenues take time to build up – for first 25 years, model depends on Government filling that gap; after that, depends on Government enforcing a ring fence around graduate tax revenues	Direct funding relationship between student and university
<i>Burden on Government</i>	Additional £3bn a year until 2015-16 at least; additional spending continues until ca. 2041-42	No additional spending; continuing requirement to provide student finance
<i>Relationship between students and universities</i>	Student experience does not matter to university for raising funding	University depends on student willingness to pay for significant proportion of funding, so providing a high quality student experience is critical
<i>Incentives for institutions</i>	No variability in funding, so no incentives to focus on quality, access or student experience	Sustaining income – or raising it – depends on improving quality, access and student experience

7.2 BUSINESSES WILL NOT BE COMPELLED TO CONTRIBUTE MORE – THEY CONTRIBUTE BY REWARDING GRADUATES WITH HIGHER WAGES.

We have received a range of proposals for the role of business in funding and financing higher education. Some argue that businesses should be compelled to invest more in higher education through the tax system with the extra tax receipts hypothecated to the higher education sector.

The starting point for this argument is absolutely right: businesses benefit from a strong higher education system. However, the primary beneficiary of higher education is the individual student. The student chooses where to study and what to study; and the student chooses where to use the new skills they have acquired. Businesses benefit from employing highly skilled graduates and they pay for that benefit through higher wages.

Asking businesses to contribute through a new tax is also likely to mean that the higher education system will have to be more responsive to their demands; and there is a risk that these may displace the choices made by students.

There are though important ways in which businesses and institutions collaborate in the interests of students. Many businesses help their employees to pay for the costs of learning. Some offer sandwich placements which allow institutions to develop degree programmes that combine academic knowledge with vocational skills. The HE Council may contribute to the costs of these courses when they support the objectives we have set out for public investment.

There is also an increasing number of employers who work with institutions to accredit skills developed in work to count towards a degree programme. This can provide an important ‘second chance’ for people who missed out on higher education after school to acquire a degree later in life and it can provide re-training in new skills – increasingly important in a changing economy. The HE Council may invest in ensuring that such accreditation is happening in all regions and all sectors of the economy.

7.3 SUPPORT FOR THE COSTS OF LEARNING AND LIVING WILL COME FROM GOVERNMENT, NOT FROM BANKS.

Throughout our work, we have focused on creating a system that is sustainable for the long term. Many people have suggested to us that financing student loans from the private sector is one means of achieving this.⁶³ The burden on the Government to provide upfront support to students could be reduced; and the financial risk of student loans could be divided and distributed between the banks that take part in the scheme.

The risk of any private sector scheme is that banks will want only to lend to students that are regarded as a good credit risk – so some students will have to pay upfront without access to finance; and the loans will be mortgage style debts rather than paid back according to income – so payments may not be affordable for everyone.

We expect that banks will only be willing to offer finance on the terms described in our proposals if they receive a significant subsidy from Government – and it is likely that the cost of providing this subsidy will be higher than the cost to Government of providing the loans itself.

The reason for this is that Government’s cost of borrowing the funds to make student loans will always be lower than that of banks. Banks will also expect to be compensated for the risks associated with student loans, which are longer in term than the finance products typically offered by banks and they have uncertain income flows because these are linked to future graduate earnings.

This means that, as well as the risk to the principles we have set out, private sector provision of loans will not reduce the costs of finance or improve the sustainability of the system.

7.4 POSTGRADUATE EDUCATION IS A SUCCESSFUL PART OF THE HIGHER EDUCATION SYSTEM AND THERE IS NO EVIDENCE THAT CHANGES TO FUNDING OR STUDENT FINANCE ARE NEEDED TO SUPPORT STUDENT DEMAND OR ACCESS.

Our terms of reference directed us to consider funding and student finance issues for postgraduate students, as well as undergraduates. We do not have the scope to look at research funding and so we have considered taught postgraduate provision, and not postgraduate research.

Taught postgraduate higher education in England is a successful part of the higher education system. Participation in taught courses at postgraduate level increased by 25% between 2002/03 and 2008/09, with a larger increase (46%) in the most popular category of courses: taught masters. This increase in participation is similar to the increase seen at the undergraduate level; and the percentage of students graduating with a taught masters compared to first degree graduates has remained constant at around 28%.

Some of the submissions we received nevertheless made the case that postgraduate students should receive the same student support as undergraduates. We have not recommended this for two reasons.

First, the private benefits of taught postgraduate education are predominant over the public benefits and have clearly tended to be sufficient to generate private investment. Many postgraduate students have already been in work and so may have savings as well as a financial track record which helps for obtaining credit. Some are supported by employers in doing their degree. Therefore they have better access to private investment than undergraduate students and undergraduate students should therefore be the priority for public investment. At a time when public resources are constrained, there is no compelling case for removing investment from undergraduate students to give it to postgraduate students.

Secondly, we have seen no evidence that the absence of student support in the taught postgraduate market has had a detrimental impact on access to postgraduate education. In the evidence that has been presented to us, we do see

that participation in postgraduate education by higher socio-economic groups is higher than for others; however, it is reasonable to suppose that access to postgraduate education is a function of the socio-economic make up of the undergraduate population – where the same trend exists – rather than anything else. Hence we should focus on improving access at the undergraduate level and that may over time help also to ensure that it is solely academic performance rather than social background that determines entry to postgraduate study.

THE SOCIO-ECONOMIC MAKE UP OF POSTGRADUATES AND UNDERGRADUATES

	<i>Privately educated</i>	<i>Change</i>
Postgraduate population	17%	83%
Undergraduate population	14%	86%
Total population	7%	93%

Source: drawn from Sutton Trust, itself drawing on DLHE data

It is possible that, in the future if students are paying higher fees to enter undergraduate education, they will be less likely to participate in postgraduate study. Trends in postgraduate study should therefore be monitored carefully, including after the introduction of any further changes to funding and student finance.

There is significant public investment in postgraduate study through HEFCE in the current system. In our proposals, this role will be taken over by the HE Council. We envisage that it will fund postgraduate courses on the same basis as undergraduate courses – by targeting investment on courses that are a priority for the public interest.

CONCLUSION

We were asked to provide a direction for the future of higher education in England that would enhance its success in the years ahead. We have been guided in our work by a respect for the world leading quality of the system, and for the institutional leaders, academics, staff and students that sustain it. We have never lost sight of the value of learning to students, nor the significant contribution of higher education to the quality of life in a civilised society.

Given the pressure on public spending, we have taken a reduction in public investment in higher education as a binding constraint in producing a set of proposals that could reasonably be implemented in the near future. Despite this, our vision is not one of shoring up the current system. Instead we have aspired to propose reforms that will enhance the strengths of the higher education system, while enabling the widest number of students to benefit from the pleasures and opportunities of learning.

We picked out three areas in Chapter 2 as intrinsic to the purpose of the higher education system and vital aims for its future. Our proposals will we believe deliver the following benefits under each.

Participation: higher education expands sustainably to meet qualified demand, with access for anyone who has the talent to succeed.

Our proposals create the financial scope for higher education to expand. We recommend a 10% increase in the numbers of places; and new support for the costs of learning for part time students. We propose an increase in the support for living costs for students from low income backgrounds. We recognise the role of institutions in promoting access to higher education for all and ask the schools system to respond by improving guidance.

Quality: Institutions actively compete for well informed, discerning students, on the basis of price and teaching quality, improving provision across the whole sector, within a framework that guarantees minimum standards.

Our proposals are designed to create genuine competition

for students between institutions, of a kind which cannot take place under the current system. There will be more investment available for the institutions that are able to convince students that it is worthwhile. This is in our view a surer way to drive up quality than any attempt at central planning. To safeguard this approach, we recommend that the HE Council enforces minimum standards of quality; and that students receive high quality information to help them choose the institution and programme which best matches their aspirations.

Sustainability: Increased private contributions and more targeted public investment to support high quality provision and allow the sector to grow to meet qualified demand.

The current funding and finance systems for HE are unsustainable and need urgent reform. In our proposals, the system is put on a more sustainable footing by seeking higher contributions from those that can afford to make them and removing the blanket subsidy for all courses – without losing vital public investment in priority courses. These measures create the potential to allow the numbers of student places to increase by 10% and enhance support for living costs while still allowing public spending reductions to be made.

ANNEXES

ANNEX A: THE TERMS OF REFERENCE OF THE INDEPENDENT REVIEW OF HIGHER EDUCATION FUNDING AND STUDENT FINANCE.

“The Review will analyse the challenges and opportunities facing higher education and their implications for student financing and support. It will examine the balance of contributions to higher education funding by taxpayers, students, graduates and employers. Its primary task is to make recommendations to Government on the future of fees policy and financial support for full and part time undergraduate and postgraduate students.”

NOTES:

1. In assessing options the Review will be expected to take into account:
 - The goal of widening participation to ensure that the benefits of higher education are open to all who have the talent and motivation to succeed; the avoidance of the creation of barriers to wider access; the impact of the system of bursary payments; promoting fair access to all institutions; facilitating choice and a diversity of access routes to higher education, including through links with further education colleges; and the scope for a greater diversity of models of learning, such as modular and part time study and the availability of student support for such courses.
 - Affordability for students and their families during their studies and afterwards; impact on public finances including affordability, sustainability and value for money for the taxpayer.
 - The desirability of simplification of the system of support.
2. The Review will take evidence from within Higher Education and among those with an interest in its success, including an advisory group to be convened by the Chair.
3. The Review will work with the Office for Fair Access and HEFCE and collaborate with Professor Adrian Smith’s review of postgraduate study. Its work will also take into account the conclusions of Professor Sir Martin Harris’s review on promoting access to higher education.
4. The Review is expected to report by the Autumn of 2010.

ANNEX B: ORGANISATIONS CONSULTED.

Throughout its process, the Review Panel committed to seek relevant information from all those with an interest in higher education, including students, the higher education sector and business. In conducting its business, the Review has aimed to be independent in its approach; and open minded in answering the questions posed by the Review’s Terms of Reference.

The Review was supported in its work by an Advisory Forum made up of 22 groups representing the interests of students, school leavers, graduate recruiters, institutions, academics and business. The Advisory Forum met five times during the course of the Review to engage in detailed debate on its key issues. Its membership is detailed below:

- 1994 Group
- Association of Colleges
- Association of Graduate Careers Advisory Services
- Association of Graduate Recruiters
- BMA Medical Students Committee
- British Academy
- British Youth Council
- CBI
- Guild HE
- HEFCE
- Million+
- National Student Forum
- NUS
- OFFA
- RCUK
- Royal Academy of Engineering
- Russell Group
- SKILL
- UCAS
- University Alliance
- Universities and Colleges Union
- Universities UK

The Review also received 90 submissions to its Call for Evidence (which ran from 7 December 2009 to 31 January 2010) and 65 submissions to its Call for Proposals (which ran from 15 March to 14 May 2010). These are available on the Review’s website. The Review Panel also held two sets of public hearings to cross examine evidence from expert

witnesses about the strengths and weaknesses of the current higher education system, and about their proposals for reform. The first set of hearings was held in Manchester and London, the second in Bristol and Leicester. Videos of these hearings are available on the Review’s website.

The list of witnesses we interviewed is included below.

- | | |
|--|--------------------------|
| 1994 Group | Prof Paul Wellings |
| Association of Colleges | Pat Bacon |
| Birkbeck | Prof David Latchman |
| Birkbeck | Prof Claire Callender |
| British Library & HEPI | Ginevra House |
| CBI | Richard Lambert |
| CIHE | David Docherty |
| GuildHE | Alice Hynes |
| HE Academy | David Sadler |
| HEFCE | Sir Alan Langlands |
| Imperial College Business School | Prof Jonathan Haskel |
| Institute of Education | Prof Anna Vignoles |
| Institute of Fiscal Studies | Alissa Goodman |
| Institute of Fiscal Studies | Prof Lorraine Dearden |
| LSE | Prof Nick Barr |
| Million+ | Pam Tatlow |
| NUS | Wes Streeting |
| NUS | Aaron Porter |
| NUS | Dr Debbie McVitty |
| NUS | Graeme Wise |
| OECD | Prof Dirk Van Damme |
| OFFA | Prof Sir Martin Harris |
| OFFA | Chris Scrase |
| OFFA | David Barrett |
| Open University | Martin Bean |
| Oxford University | Prof Herb Marsh |
| Oxford University | Prof Neil Shephard |
| QAA | Anthony McClaran |
| RCUK | Prof Alan Thorpe |
| Russell Group | Dr Wendy Piatt |
| Former Secretary of State for Education & Skills | Rt Hon Charles Clarke MP |
| Teeside University | Prof Graham Henderson |
| UCU | Sally Hunt |
| UKCES | Chris Humphries CBE |
| University Alliance | Prof Andrew Wathey |
| UUK | Prof Steve Smith |
| York University | Dr Paul Wakeling |

NOTES AND REFERENCES

1. This draws on data collected by the former DfES-sponsored Centre for Research on the Wider Benefits of Learning over the past decade; for instance: *The Wider Benefits of Learning: a synthesis of findings from the centre for research on the wider benefits of learning 1999–2006*, DfES RCBO5-06, (Oct 2006); *The Wider Benefits of Higher Education*, HEFCE 01/46, (2001); *Revisiting the Wider Benefits of Higher Education*, HEFCE, (Apr 2003)
2. On average, across OECD countries since 1997, unemployment rates of those with tertiary-level attainment have stayed at or below 4% while for those with less than upper secondary education they have breached 10% several times. *Education at a Glance 2010 OECD* (Sept 2010)
3. Returns to Education for the 'Marginal Learner': Evidence from the BGS70, Lorraine Dearden, Leslie McGranahan, Barbara Sianesi, Centre for the Economics of Education Discussion Paper (Dec 2004)
4. Summary of literature reviews in *Tertiary Education for the Knowledge Society: Volume 1 – special features: governance, funding, quality OECD 2008*
5. Greenaway and Haynes (2000) analysis of the international macro-economic empirical literature, cited in *Tertiary Education for the Knowledge Society: Volume 1 – special features: governance, funding, quality OECD 2008*
6. A finding presented by Professor Jonathan Haskell, Professor of Economics, Imperial Business School, in the econometric analysis he submitted to the Review's first Call for Evidence. This measured the impact of increased skills on growth by calculating i) the increase in how much effective units of labour (labour services) have risen as a consequence of more university graduates (by weighting the increase in graduates by the extra wages they earn), and ii) the contribution of these skills on output in the UK's £1 trillion market sector. His work also tries to isolate the economic impact of publicly funded research, suggesting that this generates £30bn annually, or 2% of GDP.
7. Griffith et al. (2004) cited in *The Value of Skills: An Evidence Review Evidence Report 22 UKCES* (Jul 2010)
8. *International Competitiveness: Competitiveness and the Role of Universities*, Council for Industry and Higher Education, (Apr 2007)
9. *Innovation in the UK: Indicators and Insights*, DTI Occasional Paper No.6, July 2006, which defines a business as innovation active if it is engaged in any of the following: i) introduction of a new or significantly improved product (good or service) or process for making or supplying them; ii) innovation projects not yet complete, or abandoned; iii) expenditure in areas such as internal research and development, training, acquisition of external knowledge or machinery and equipment linked to innovation activities.
10. A 3.5% discount factor is applied, in line with HM Treasury's Green Book. This is a way of putting a present day value on benefits received in the future – the normal practice for investment decisions which yield a return in the future and is based in the idea that irrespective of inflation, people would prefer to receive a given benefit now (say £100) than in the future.
11. A decade ago, Government calculations had given the lifetime earnings benefits of having a degree for graduates as around £400,000 (gross). However, this figure was calculated by comparing the earnings of graduates with the national average wage (which includes graduates as well as those with lower level qualifications and no qualifications), over a lifetime, and it was not discounted to give a present day value. Whilst the methodology underpinning the £400,000 figure was valid and robust on its own terms (it was a finding supported by the Centre for the Economics of Education in its 2008 *Higher Education Funding Reforms in England: The distributional effects and the shifting balance of costs*), a more insightful comparison is with the earnings of graduates compared with those who stop their education at A levels (i.e. those at the next 'level' down who probably could have gone onto higher education, but for one reason or another did not). This is normally taken as those with two or more A levels (ie. NQF Level 3) which is the general entrance requirement for higher education. On this basis the former Department for Education and Skills undertook further analysis (around 2002) which led to an estimate of the graduate premium of £120,000 (gross – i.e., before tax). The analysis underpinning the £120,000 figure was more advanced than the £400,000 estimate as it used econometric analysis to control for a range of background factors that affect earnings, independently of the qualification itself.
12. 2010 QS World University Rankings, which places Cambridge at the top of the league for the first time in 2010.
13. The UK has 10% of the market share of international students in tertiary education, second to the USA's 18.7%. In third place is Germany, with 7.3%. *Education at a Glance 2010 OECD* (Sept 2010)
14. *The economic impact of universities on the UK economy*, Universities UK (Nov 2009), using financial data from 2007/08.
15. *The higher education sector is of comparable size to the printing and publishing and legal activities industries. The economic impact of universities on the UK economy*, Universities UK (Nov 2009), using financial data from 2007/08.
16. 'Core' public sector income is defined as funding council grants and tuition fee payments from public sources. Total public sector income in 2007/8 made up 61% of total income, though this includes funds won on a competitive basis for a range of services, including research contracts. *The economic impact of universities on the UK economy*, Universities UK (Nov 2009),
17. *Education at a Glance 2010 OECD* (Sept 2010)
18. HESA enrolment data for England 2008/09 shows 2,005,840 students, including 449,315 full and part time postgraduates, and 1,556,525 full and part time undergraduates.
19. Sixty years ago, exports (and imports) accounted for less than 10% of the economy. Today, the economic significance of international trade has tripled. In 2008, the value of exports was equivalent to 27% of GDP, and imports 30%. *Skills for Jobs: Today and Tomorrow The National Strategic Skills Audit for England 2010, Volume 2: The Evidence Report*, UKCES 2010
20. *Skills for Job: Today and Tomorrow UKCES*, Mar 2010. The three scenarios are:
21. *OECD Economic Outlook 2008*.
22. *Global Competitiveness Report 2008–09* K. Schwab and M.E. Porter
23. *Global Competitiveness Report 2010–11* K. Schwab and M.E. Porter World Economic Forum (Sept 2010)
24. *International competitiveness: Competitiveness and the role of universities*, CIHE (Apr 2007)
25. *Measuring the level of tertiary education achieved by adults of working age are those from 25 years old to 59 (female) or 64 (male) years old. Education at a Glance 2010 OECD* (Sept 2010)
26. *Education at a Glance 2010 OECD* (Sept 2010)
27. *Ambition 2020*, UKCES
28. *The UK is the 24th least equal of all OECD countries. Recent trends show that inequality widened from the mid 1980s to 1990s and then narrowed (at a faster rate than most other OECD countries) from the mid 1900s to the mid 2000s. Growing Unequal? Income Distribution and Poverty in OECD Countries 2008 OECD*
29. *In 2008, the proportion of expenditure on tertiary institutions covered by individuals, businesses and other private sources, including subsidised private payments, ranges from less than 5% in Denmark, Finland and Norway, to more than 40% in Australia, Canada, Japan and the United States and the partner country Israel, and to over 75% in Korea and the partner country Chile. In Korea, around 80% of tertiary students are enrolled in private universities, where more than 70% of budgets are from tuition fees. Education At a Glance 2010, OECD* (Sept 2010)
30. *Educational Inequality and the Expansion of UK Higher Education*, Jo Blanden and Stephen Machin, Department of Economics, University College London and Centre for Economic Performance, London School of Economics (July 2003; September 2003 – Revised). http://cee.lse.ac.uk/conference_papers/19_03_2004/jo_blanden.pdf
31. *Committee on Higher Education chaired by Lord Robbins*, 1963

NOTES AND REFERENCES continued

32. *The Future of Higher Education*, Government White Paper, 2003, page 4.
33. *The National Committee of Inquiry into Higher Education 1997*. <https://bei.leeds.ac.uk/Partners/NCIHE/>
34. See memorandum in response to the Robbins Report from the CST and Paymaster General to the Cabinet, October 1963: <http://filestore.nationalarchives.gov.uk/pdfs/small/cab-129-114-c-173.pdf>
35. Robbins report, paragraph 647, notes if “as time goes on, [and] the habit [of parents contemplating higher education for their children] is more firmly established, the arguments of justice in discrimination and of the advantage of increasing individual responsibility may come to weigh more heavily and lead to some experiment in this direction [extending loans to students]”
36. HEFCE submission to the Call for Evidence (December 2009–January 2010), available to download at <http://hereview.independent.gov.uk/hereview/call-for-evidence>
37. Institute of Fiscal Studies submission to the Call for Evidence; available to download from the Review’s website, as above.
38. IFS’ research suggests: a £1,000 increase in fees results in a 4.4 percentage point fall in participation rates; a £1,000 increase in loans results in a 3.2 percentage point increase in participation rates; and a £1,000 increase in grants results in a 2.1 percentage point increase in participation rates. These percentage point impacts are substantial when compared to the actual 2006/07 participation rates of 14%, 17% and 31% for low, medium and high income students.
39. Office for Fair Access submission to the Call for Evidence; available to download from the Review’s website, as above.
40. OFFA, *monitoring outcomes reports for 2006–07 and 2007–08*. For 2008–09 to 2010–11, figures are based on institutions’ own estimates. OFFA does not have complete data on the reported cost to institutions of implementing their access agreement commitments. However, those institutions that did return figures reporting on the costs of delivery, reported an average of around 1% of additional fee income.
41. *Education at a Glance*, OECD 2010.
42. Submission to Call for Evidence, as above. In creating table 2, the IFS assessed the cost of the 2006 reforms in net present terms (i.e. by considering the cost of loans over their 25-year lifetime) and examined the impact on the circular flow of payments across taxpayers, students, graduates and universities. The analysis takes 2003/04 as the baseline year because of the introduction of grants in 2004/05 and compares this to the 2008/09 system because of the changes in grant eligibility since 2006/07
43. What more can be done to widen access to highly selective universities? A Report from Sir Martin Harris, Director of Fair Access (April 2010)
44. *Ambition 202: World Class Skills and Jobs for the UK* UKCES, 2009
45. CBI/Pertemps Employment Trends Survey 2007
46. National Union of Students submission to the Call for Evidence; available to download from the Review’s website, as above.
47. National Student Survey 2010; see <http://www.hefce.ac.uk/news/hefce/2010/nssresult.htm>.
48. UUK policy briefing, 2006
49. *Destination of Leavers of Higher Education* longitudinal study (November 2008) – evaluating the progress of the graduating cohort of 2004/05.
50. HEFCE, *Trends in Participation in Higher Education: core results for England*.
51. Martin Harris’ Report on Fair Access
52. *Widening Participation in Higher Education: Analysis using Linked Administrative Data*. IFS, 2010
53. ‘The Sutton 13’ – Birmingham, Bristol, Cambridge, Durham, Edinburgh, Imperial College, London School of Economics, Nottingham, Oxford, St Andrews, University College London, Warwick and York.
54. OFFA, 2010, *Have bursaries influences choices between universities*
55. Student number controls were introduced in the late 1990s to protect the unit of funding as the HE sector expanded to meet rising demand. At present, the Government manages this process by specifying to HEFCE in its annual spring grant letter: The total T-grant envelope, delivered as a block grant to institutions, giving them discretion about how they chose to spend it on teaching and related activities. The unit of funding for teaching, based on dividing the T-grant between the FTE undergraduate notional allocation per institution. Any Additional Student Numbers (ASN) allocations provided by central Government to advance specified strategic priorities. The FTE undergraduate allocation per institution is calculated by rolling forward the mainstream teaching funding provided in the previous year – adjusted for inflation, agreed funding for additional student numbers or a reduction (‘holdback’) if the institution has not recruited sufficiently in the previous year. HEFCE then checks whether this new funding level is appropriate for the student numbers it expects the institution to have in the coming year, by comparing it against a standard level, based on sector wide rates of funding per student. The standard level for each institution is calculated by formula based on their student numbers and their mix between A–D price banded subject areas. This keeps the funding method simple and limits the need for extensive audit arrangements to test whether students have been recorded against the right subject: the boundaries between different subjects are not clear cut at higher education level, and having only four price groups means few boundaries. HEFCE’s calculations also take account of what income can be expected from student fees as its grant is not intended, nor sufficient, to meet all tuition costs: students, and increasingly employers, are also expected to contribute. HEFCE’s fee assumption though is a sector wide one, rather than an institution specific one. ‘Assumed resource’ comprises actual HEFCE teaching grant plus assumed fee income; ‘standard resource’ is the level of resource HEFCE would expect for the institution based on its student numbers and mix between different subject areas. As long as assumed resource is within +/-5% of the standard resource, then the funding HEFCE has calculated will be confirmed. If it is not within this margin, HEFCE adjusts funding, or expects the institution to adjust its student numbers, to ensure the funding it provides is at an appropriate level. This margin, known as the ‘tolerance band’, exists because HEFCE cannot measure activity in fine detail at institutions: differences in how institutions teach particular subjects (in terms of course content, teaching methods and staffing) result in varying costs for ostensibly similar courses. This funding method is designed to ensure institutions are not driven towards uniformity of provision.
56. The UCAS review was launched in July 2010 and will run for 18 months to two years.
57. *College Grants on a Postcard: A Proposal for Simple and Predictable Federal Student Aid* (2007), Susan M. Dynarski and Judith E. Scott–Clayton, John F. Kennedy School of Government, Faculty Research Working Papers Series.
58. Part time first degree study: entry and completion, (HEFCE, 2009)
59. Rose–CASE survey 2009.
60. <http://chronicle.com/article/Charts-Giving-to-Colleges-and/63865/>
61. This figure is for investment in undergraduate courses. Funding for postgraduate courses is separate from this.
62. The HEFCE allocations for 2010–11 include:
- Widening access for people from disadvantaged backgrounds: Full time (£60m)
 - Widening access for people from disadvantaged backgrounds: Part time (£70m)
 - Widening access and improving provision for disabled students (£10m)
 - Teaching Enhancement and Success improving retention: Full time (£170m)
 - Teaching Enhancement and Success improving retention: Part time (£50m)
63. For example, the Russell Group and Professor Neil Shephard, (Oxford MAN Institute) in their submissions to the Review’s Call for Proposals.



To read the full report of the Independent Review
of Higher Education Funding & Student Finance, please visit

www.independent.gov.uk/browne-report