

## Entry into the higher education sector and a single entry gateway

### Department for Business, Innovation and Skills

#### RPC rating: **fit for purpose**

The impact assessment (IA) is now fit for purpose as a result of the Department's response to the RPC's initial review. As first submitted, the IA was not fit for purpose.

#### Description of proposal

Latest data show there to be 1,063 higher education providers in England. Of these, 129 are termed 'higher education institutions' (HEIs). HEIs receive teaching grant funding from the Higher Education Funding Council for England (HEFCE). There are also 244 further education colleges. The remaining 690 are known as 'alternative providers' (APs). The system of regulation for APs is different to the other institutions and is considered to be significantly more burdensome. This makes it difficult for APs to enter the sector and compete with incumbent publicly-funded providers. The Department aims to provide a less burdensome regulatory framework that supports the sector's growth, whilst protecting student and taxpayer interests.

The proposals consist of the following three main areas.

- Single entry gateway. In particular, this would involve:
  - o a move from a system of specific course designation to institution-level operating models ('Approved' and 'Approved (fee cap)'), making APs subject to the same conditions as HEFCE-funded HEIs;
  - o replacing the current annual re-designation of providers with a five-year review visit and a lighter touch annual review return.
- Degree-awarding powers (DAPs). This would allow providers to obtain DAPs on a probationary basis for three years and reduce the track record requirement to three years.
- University title. University title would be granted to all HE providers with full taught DAPs.

## Impacts of proposal

In terms of business impact, the main effect of the proposals would be to the benefit of APs. The overall number of APs has increased significantly in recent years, but only 110 (about 15 per cent) of the estimated 690 APs have obtained specific course designation. This designation allows them to offer student loans of up to £6,000 for these courses. To obtain designation, providers have to undergo stringent tests.

There are two main parts to these tests. First, checks on financial sustainability, management and governance. These are conducted by HEFCE, and APs are required to provide audited financial accounts and other evidence. Secondly, a review by the Quality Assurance Agency of the provider's arrangements for maintaining academic standards and the quality of the courses it offers. Designation can presently be obtained only for individual courses and is subject to annual re-designation. Under the proposal, this would be replaced by a lighter touch regulation, which would allow designation by provider (rather than course) and removing the requirement to go through the full re-designation process every year.

This would make it much less burdensome for APs to achieve designation and thereby more easily facilitate access to undergraduate student loans of up to £6,000. APs which achieve this will have the status 'Approved' under the new system. In addition, the policy package creates a further new status, 'Approved (fee cap)'. Achieving this status would allow APs to offer their students up to £9,000 of student loans. At present, £9,000 is available only to publicly-funded providers. The impact of this particular proposal provides by far the largest monetised benefit to business (see below).

### Benefits

The increase in the potential amount of student support to £9,000 would mean that some providers would be able to increase their fees for undergraduate courses, with the full amount covered by the student loan. The Department commissioned two research reports and a survey of APs to understand the size and structure of the AP market, and APs plans for the future. Using this information, the Department estimates that, in the first year of the proposal (2018/19), there would be 145 APs that would become 'Approved', of which about 40 per cent (57) would be 'Approved (fee cap)'.

The Department estimates that these 57 APs would benefit from an increase in fee income averaging £1,000 for each student. With an average of 501 students per AP, the total benefit to APs is £28.7 million in 2018/19. The Department expects the number of APs achieving 'Approved (fee cap) status would double by the end of the appraisal period, resulting in this benefit rising to £57.3 million in 2027/28.

Other benefits come from administrative savings. The most significant is from DAPs being gained in parallel with obtaining 'Approved/Approved (fee cap)' status in the first instance, and upgraded to full DAPs if the three-year probation period is completed successfully. This is estimated to result in a benefit averaging around £2.5 million annually.

### Costs

In order to charge up to £9,000, providers would need to sign access agreements. These specify a range of measures that the provider has to undertake to improve access to higher education from under-represented groups. This includes a range of financial support measures, including bursaries, scholarships and fee waivers. Data from the Office for Fair Access show that providers with access agreements provide, on average, an additional £390 in financial support for each student. With an average of 501 students per AP (as used above), the total additional cost to APs would be £11.35 million in 2018/19. Together with the administrative cost of signing access agreements, this cost is projected to rise to around £30 million by the end of the ten-year appraisal period.

The RPC verifies the Department's estimated equivalent annual net direct cost to business (EANDCB) of -£29.6 million. This will be a qualifying regulatory provision that should be accounted for under the business impact target.

### **Quality of submission**

The Department has addressed the issues highlighted in the RPC's initial review. This has involved the changes listed below.

- Removing from the EANDCB figure the additional profit to business from an assumed 10 per cent increase in students. This impact was assumed to follow from a reduction in uncertainty brought about by the ending of annual re-designation. The RPC's initial review questioned the evidence base for the 10 per cent assumption, why it was net of displacement and whether it was a direct impact.
- Including in the EANDCB figure an estimate for the cost to business of familiarisation with the proposal.
- Providing explanation of the non-business impacts.
- Providing explanation of the business impact calculations.

As a result, the absolute value of the EANDCB has been reduced by £4.0 million.

Prior to publication, the IA would be improved further by addressing the following points. First, the potential impact of an increase in competition on incumbent providers, in particular whether their student income could fall. Second, further explanation of the non-business impacts of the proposal. In particular, a summary table, similar to that provided for business impacts on page 19, would be helpful. Third, explaining further why the cost to providers of providing greater financial support to students increases at a faster rate than the additional income to providers. Fourth, the IA would also be clearer if the tables, from page 23 onwards, were numbered. This would help with cross-comparison against the figures in the neighbouring paragraphs.

Finally, the IA refers (paragraph 136) to some consultation respondents feeling that extending ‘university title’ to a greater number of providers runs the risk of diluting the value of English universities. The IA responds to this but would benefit from further discussion of stakeholder concerns on this issue and more generally on the challenges of expanding the HE sector whilst maintaining quality and academic standards.

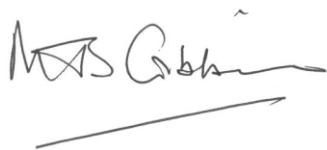
### Departmental assessment

Classification	Qualifying regulatory provision (OUT)
Equivalent annual net direct cost to business (EANDCB)	- £29.6 million (final submission) - £33.6 million (initial submission)
Business net present value	£271.2 million
Societal net present value	£489.4 million

### RPC assessment<sup>1</sup>

Classification	Qualifying regulatory provision (OUT)
EANCB – RPC validated	- £29.6 million
Business impact target (BIT) score	- £148.0 million
Small and micro business assessment	Not required (deregulatory)
RPC rating of initial submission	Not fit for purpose

<sup>1</sup> For reporting purposes, the RPC validates EANDCB and BIT score figures to the nearest £100,000.



**Michael Gibbons CBE**, Chairman

To avoid any potential conflict of interest, committee members Jeremy Mayhew and Jonathan Cave did not participate in the scrutiny of this case.