

## Teaching Excellence Framework

### 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

For higher education institutions (HEIs) that can demonstrate high quality teaching, the Government propose to introduce the Teaching Excellence Framework (TEF), which would allow institutions to increase their fee caps in line with inflation, rather than keep them static in cash terms. This is intended to inform students about the quality of teaching at different HEIs and incentivise these institutions to deliver excellent teaching.

#### Impacts of proposal

##### Business

##### Benefits

Under the framework, institutions that apply for TEF status and meet the requirements would be allowed inflation-linked increases in the fee cap. The proposal would financially benefit all HEIs, further education colleges (FECs) and some alternative providers (APs) that currently charge tuition fees at, or near, the cap, as they are now classified as part of the business sector.

The IA models the benefit to institutions by comparing the counterfactual scenario (where student fees are assumed to remain fixed at their current levels) against the policy scenario (where institutions are allowed to uprate their fees in line with inflation). Each scenario is calculated by multiplying the relevant student numbers forecast in each year by the corresponding student fee cap. The benefit to institutions is the extra income they would gain from being allowed to increase their fees. Using forecasts of changes to the retail price index excluding mortgage interest payments (RPIX) to estimate the increase in fee caps, and the Department's forecasts of full time student numbers at HEIs increasing from 995,000 to 1,182,000 over the next ten years, the IA estimates a total average annual benefit to HEIs and FECs of £1.3 billion.

## Costs

There would also be costs to institutions in making an application to receive an institutional-level TEF status as well as disciplinary level awards. The IA uses information on the costs incurred by institutions in preparing an environment template for the '*Research Excellence Framework Accountability Review; Cost, benefits and burden*' report, as a proxy, to estimate an average annual cost to institutions of £21 million.

The IA estimates the average annual familiarisation cost across all institutions to be £0.28 million.

## Students

The benefit to institutions from the increase in fees would result in an equivalent cost to students of £1.3 billion.

The IA explains that students would benefit from the increased information available as a result of the TEF, in terms of informing where to study, the increase in the quality of higher education and the possibility of a higher graduate premium on salaries.

## Government/taxpayer

The cost of the panel that assesses TEF applications would be met by the Exchequer. The IA estimates the average annual cost of this to be £7 million.

## **Quality of submission**

The IA estimates that all institutions that pass the existing quality assurance review would be awarded a TEF level 1 and would, therefore, be entitled to a full inflationary linked fee cap rise in year 2. Institutions would be required to reapply for the TEF status in year 2 and, regardless of which level they are awarded, would be entitled to a full inflationary-linked fee cap rise in year 3. Based on the Higher Education Funding Council (HEFC) in England's analysis of the current distribution of the metrics related to the quality of teaching, the IA estimates that from year 3 onwards, 20 per cent of institutions would achieve a TEF level 1 status (entitled to a partial inflationary increase) and 80 per cent would achieve a level 2 or higher (entitled to a full inflationary increase). The Department's assumptions on take-up are set out clearly and are supported by HEFCE analysis and, therefore, appear to be reasonable.

Following the changes to the IA after the RPC's initial review, the RPC can now verify the estimated equivalent annual net direct cost to business (EANDCB) of - £1,126 million (2014 prices; 2015 base year). Based upon the exclusions set out in

the better regulation framework this measure is considered to be an expansion of an existing price control and is, therefore, classified as a non-qualifying regulatory provision that will not be accounted for under the business impact target. The Better Regulation Executive advised the Department to this effect.

As initially submitted, the IA included two issues that meant the RPC did not consider it to be fit for purpose. Following the RPC's initial review, the Department submitted a revised IA that responds to the points below.

#### Use of discount rate

The Department's original IA applied the standard real discount rate of 3.5 per cent to values (fee caps) that were expressed in nominal terms. The Department has now used real (i.e. inflation adjusted) values making use of the real discount rate appropriate and consistent. This has resulted in the absolute value of the EANDCB falling by around £268 million.

#### Familiarisation costs

Although the IA illustrated the total familiarisation costs to business for each year of the proposals, it did not explain the number of institutions that would be affected. The revised IA provides tables illustrating the number of institutions that would be affected.

### **Departmental assessment**

Classification	Non-qualifying regulatory provision
Equivalent annual net direct cost to business (EANDCB)	-£1,394 million (initial estimate) -£1,126 million (final estimate)
Business net present value	£10,314 million
Societal net present value	-£242 million (benefits not monetised)

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

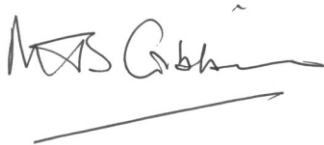
Classification	Non-qualifying regulatory provision (expansion of an existing price control)
EANDCB – RPC validated	-£1,126 million

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

Opinion: final stage IA  
Origin: domestic  
RPC reference number: RPC-3339(1)-BIS  
Date of implementation: September 2016

---

Small and micro business assessment	Not required (deregulatory)
RPC rating (of initial submission)	Not fit for purpose



**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.