

Introducing registration fees for the Office for Students

Department for Business, Innovation and Skills

RPC rating: fit for purpose

Description of proposal

The impact assessment supports primary legislation giving the new Office for Students (OfS) the power to charge higher education institutions fees for registration. The OfS would combine the regulatory functions currently undertaken by the Higher Education Funding Council for England (HEFCE) and the Office for Fair Access (OFFA). The costs of the HEFCE and OFFA are currently covered fully by the taxpayer. The proposal would result in some of the functions of the new OfS being funded by higher education institutions through registration fees. The specific funding structure of the OfS will be determined in secondary legislation. This will be subject to consultation and a further impact assessment.

Impacts of proposal

Higher education institutions will be affected by the proposal primarily through having to pay new registration fees. The Department's estimate of the cost to business is indicative at this stage because of the uncertainty around the OfS funding model and fee structure. However, it has made an estimate based upon the current operating costs of the HEFCE and OFFA. The Department states that the set-up costs of the OfS will be fully funded by the taxpayer.

The current operating costs of HEFCE and OFFA combined is around £26.6 million each year. This is adjusted in the IA in a number of ways. First, around £2.1 million is deducted, mainly to allow for the management of the Research Excellence Framework to be transferred from HEFCE to Research UK. Secondly, around £7.2 million is added, mainly to allow for HEFCE funding of the Higher Education Statistics Agency and the Quality Assurance Agency for Higher Education. Taken together, these adjustments give a baseline operating cost for the OfS of around £31.6 million each year.

The Department then assumes that the merger of HEFCE and OFFA functions into the OfS will generate an efficiency saving of 10 per cent, reducing the cost to £28.6 million each year. This figure is then updated to 2018/19 prices, the first academic year when the OfS is expected to be in operation, to give £30.9 million. This figure is then subject to two further significant analyses. First, the Government's wider higher education (HE) reforms are expected to lead to a significant increase in the number

of HE providers. HEFCE has estimated that a doubling of providers would increase operating costs by 50 per cent. The Department's assumptions result in the operating cost of the OfS rising to £47.2 million by the end of the ten-year appraisal period.

The second analysis apportions costs between the HE sector and the taxpayer. There are three areas of cost to the OfS that might be funded by the taxpayer. These are: costs in relation to new providers; activities that may have a wider societal benefit (such as monitoring of extremism); and transitional. This analysis yields an estimate of £16.0 million (out of £30.9 million) of OfS's first year cost being recovered through registration fees. This rises to £32.4 million (out of £47.2 million) in the final year of the appraisal period.

Overall, the best estimate for the average annual cost to business is £27.2 million, or £25.1 million as an equivalent annual net direct cost to business (EANDCB) in 2014 prices.

Quality of submission

The Department has provided sufficient analysis for the primary legislation stage of the policy. The estimates are presented as "*purely indicative*" (page 2), given that decisions on the final structure of charging will be subject to consultation and set out in secondary legislation. The Department's analysis is sufficient at this stage but an EANDCB will need to be provided in the impact assessment for validation at the secondary legislation stage.

The Department has classified this proposal as a qualifying regulatory provision (an IN). However, the monetised costs are based on the existing regulatory functions of the HEFCE and OFFA, the cost of which would, under this proposal, be transferred to HE institutions through registration fees charged by the new OfS. Where the proposal amounts only to cost recovery of existing regulatory functions, it would not be classified as a regulatory provision and would, therefore, be out of scope of the business impact target (BIT). Any additional regulator activity would, however, be a regulatory provision and direct impacts on HE institutions from this will need to be accounted for under the BIT. The Department's impact assessment at the secondary legislation stage will need to separate the EANDCB into these two categories so that the RPC can validate a BIT score. If any additional regulator activity is captured in other impact assessments, the Department must provide assurance on this in the impact assessment at the secondary legislation stage.

It seems clear that there are no impacts on business resulting from the primary legislation alone and, therefore, at this stage, nothing needs to be accounted for under the BIT.

In strengthening the impact assessment at the secondary legislation stage, the Department should, in particular, address the areas listed below.

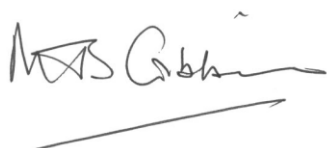
- The evidence base for the assumed (10 per cent at present) efficiency saving (paragraph 23).
- HE institutions' familiarisation costs and how they are "*likely to be covered by the government*" (paragraph 34).
- That costs to "Registered" (as opposed to "Approved") providers will be "*negligible*" (paragraphs 12 and 25).
- Small and micro business assessment (SaMBA). The Department has provided a SaMBA (page 14). This refers to the expected government funding of registration fees of new providers (in the first three years of their operation) and that fees will be proportionate to the number of students in an institution. The Department will need to provide a fuller assessment of the impact on small and micro businesses in the IA covering the secondary legislation, where the fee structure will be determined.

Departmental assessment

Classification	Qualifying regulatory provision (IN)
Equivalent annual net cost to business (EANDCB)	£25.1 million (indicative at this stage)
Business net present value	-£230.3 million (indicative at this stage)
Societal net present value	£0.0 million

RPC assessment

Classification	Some elements not a regulatory provision (RP); some elements possibly a qualifying regulatory provision (QRP) (IN) – to be confirmed at the secondary legislation stage
EANDCB – RPC validated	EANDCB for whole policy (split by non-RP and QRP) to be validated at the secondary legislation stage
Business impact target score	EANDCB for whole policy (split by non-RP and QRP) to be validated at the secondary legislation stage
Small and micro business assessment	Sufficient (at this stage)



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.