

Delivering outcomes for students: the new approach to regulation in Higher Education

Department for Education

RPC rating: Fit for purpose

Description of proposal

DfE proposes to combine the regulatory functions currently undertaken by the Higher Education Funding Council for England (HEFCE) and the Office for Fair Access (OFFA) under a single new regulator, the Office for Students (OfS), which is expected to function more as a risk-based market regulator than as a funding body (the model previously followed by HEFCE). The Department will also introduce a Teaching Excellence Framework, which will present information on the quality of teaching offered by institutions. Institutions scoring well against this framework will be permitted to increase their fees. Under the new framework, the Office for Students will be tasked to ensure that providers have suitable mechanisms in place for improving access to HE for students from disadvantaged backgrounds.

The Department notes that there have been significant changes in the way the Higher Education (HE) sector operates over the last two decades – in particular an increase in the number of new entrants to the market and a shift from grant-based to loan-based finance so that students – rather than Government – are more clearly the funders of HE.

As a result, it argues that there is a clear rationale for a shift towards a more market-based approach, which will lower barriers to entry still further by reducing the reliance of new entrants on incumbents (for example, with respect to degree awarding powers). It expects that such an approach will also reduce information asymmetries between students and providers of HE, and will make the regulatory burdens placed on different providers more consistent. It also notes that the elements of the measure relating to improving access for disadvantaged students are introduced with the intention of improving equity rather than on a strict economic rationale.

Impacts of proposal

The main monetised impacts presented are:

- Costs to providers of setting up the new regulatory system and of compliance with it, in particular participation in the Teaching Excellence Framework, arrangements for improving access for disadvantaged students, and new transparency requirements. These are clearly set out in a table on p11 of the impact assessment, and amount to £8.1 million in total one-off costs, plus between £9 million and £11 million per annum in recurrent costs (dependent upon numbers of institutions joining and remaining within the framework);
- Benefits to providers arising from lower frequency of reviews for most low-risk providers; increases in the caps applied to fees; reduced barriers to entry; and increased access to international students (for some institutions). These are clearly set out in a table on p11 of the impact assessment, and in total increase from around £20 million to around £40 million per annum over the appraisal period, as the numbers of institutions affected increases;
- Costs to students and government arising from increases in the caps applied to fees – these amount to a transfer from students and/or government to providers rising from around £12 million to around £30 million over the appraisal period;
- Benefits to students arising from bursaries and other access measures put in place by providers as a result of the new arrangements for increasing access – these amount to a transfer from providers to students rising from around £8 million to £20 million over the appraisal period;
- Costs to government arising from the need to manage increases in the number of applicants to the Teaching Excellence Framework, estimated at around £0.2 million per annum from 2019/20 onwards; and
- Benefits to government as a result of the fact that the new Office for Students will be funded by fees charged to providers, while the previous regulator was funded by government. This is a transfer from providers to government estimated at £5.5 million per annum, and offsets some of the costs to providers set out above.

The Department also expects that there will be benefits to students as a result of increased transparency and competition in the sector, which it expects should lead to increased innovation and hence to improvements in quality or reductions

in price. Similarly, it expects benefits to society as a result of increased access to university for disadvantaged students, and increased ability for UK institutions to compete for international students. It does not attempt to monetise these benefits, but expects that they will be significant. Overall, the monetised benefits also amount to a net saving, as a result of reductions in the regulatory requirements applied to some institutions.

Quality of submission

The analysis presented is based largely on modelling carried out for the Department's 2017 impact assessments in support of the Higher Education and Research Act and appropriately updated based upon new information. It omits the costs to institutions of managing the immigration frameworks around international students, on the basis that these are not yet clear. The Department also expects to produce improved figures following consultation, and when the detail of the OfS's plans is clear. Overall, however, it provides a clear and proportionate assessment of the impacts of the measure upon business and upon society as a whole and is fit for purpose at this stage. The RPC also appreciates the Department's attempts to corral a large amount of complex analysis within a single IA.

It is occasionally difficult for the reader to understand when different costs and benefits have, and have not been netted off within the various tables, and the IA could be improved by a clearer indication of this – especially around costs of access.

The small and micro business assessment (SaMBA) explains that the Department expects that the measure will be net beneficial to smaller institutions, and sets out appropriate reasoning for this expectation.

The Department does not discuss its approach to monitoring and evaluation for this significant change within the impact assessment; given the scale of the change and the uncertainties associated with it, the RPC expects that an appropriately detailed review will be undertaken in due course.

Departmental assessment

Classification	Qualifying regulatory provision (OUT) under the rules for the 2015-17 BIT.
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Equivalent annual net direct cost to business (EANDCB)	-£15.2 million
Business impact target score	To be confirmed
Business net present value	£151.1 million
Overall net present value	£33.5 million

RPC assessment

Classification	Under the framework rules for the 2015-17 parliament: qualifying regulatory provision (OUT)
Small and micro business assessment	Sufficient
RPC rating (of initial submission)	Fit for purpose



Anthony Browne, Chair