Lowering maximum tuition fee and loan limits for HE foundation years in classroom-based subjects

Lead department	Department for Education
Summary of proposal	The proposal would reduce the maximum tuition fee and loan limits for classroom-based foundation years in certain subjects.
Submission type	Impact assessment - 6 November 2024
Legislation type	Secondary legislation
Implementation date	February/March 2025
RPC reference	RPC-DfE-24017-IA(1)
Date of issue	9 December 2024

RPC opinion

Rating	RPC opinion
Fit for purpose	The IA provides sufficient evidence and analysis to support the rationale for intervention and considers a wide range of options. The IA provides a good quantification of the impact of the preferred option on business, individuals and the Exchequer. The Department justifies the preferred way forward sufficiently, although the comparative assessment would benefit from illustrative monetisation of alternative options.

Urgent measure statement

The department has used the Better Regulation Framework's 'urgent measures' process for this provision. Where the Government decide that legislation is required urgently and there is insufficient time ahead of seeking collective agreement for a preferred regulatory option, and the necessary options assessment (OA) to be submitted to the RPC for independent scrutiny in accordance with the framework, departments are, instead, required to submit an impact assessment (IA) for scrutiny as early as possible after obtaining collective agreement. The IA should contain evidence, which should have been in set out in the OA, on the rationale, identification of options and the justification for preferred way forward. The RPC then offers an opinion that includes an overall fitness-for-purpose (red/green) rating, informed by the individual red/green ratings for those three categories.

RPC summary

Category	Quality[1]	RPC comments
Rationale for intervention	**Green**	The rationale for intervention is supported by sufficient evidence, including from consultation, data, an independent review and research reports.
Identification of options (including SaMBA)	**Green**	The IA considers a wide range of options and satisfactorily addresses impacts on small and microbusinesses. The IA would benefit from explaining how the particular cap figure was chosen.
Justification for preferred way forward	**Green**	The IA provides a good quantification of the direct impact of the preferred option on business, individuals and the Exchequer, and justifies the preferred option over alternatives in a qualitative assessment. The cost benefit analysis would benefit from greater consideration of uncertainty and potential behavioural responses to the proposal by providers and prospective students.
Regulatory Scorecard	**Satisfactory**	The IA provides fair directional ratings and across the categories and includes the estimates of costs to business and benefits to individuals.
Monitoring and evaluation plan	**Weak**	The IA sets out the questions and indicators that a review would address but would benefit from more detail, in particular by including information on the data, evidence sources and research methods that would be used.

Summary of proposal

A 'foundation year' (sometimes referred to as 'Year 0') is a one-year programme of study, typically offered by universities, to enable students without the necessary prior attainment, specific knowledge, or qualifications in the appropriate subject/s to progress onto the first year of their chosen undergraduate courses. The proposal would reduce the maximum tuition fee and loan limits for classroom-based foundation years in subjects assigned to Price Group D by the Office for Students (OfS) to £5,760. The maximum fee and loan limit for foundation years in all other subjects will remain aligned with the maximum fee limit for standard full-time undergraduate courses (currently £9,250 but due to increase £9,535 for the 2025/26 academic year). The new lower fee limit will apply from the start of the 2025/26 academic year.

The Department estimates that this will decrease UK tuition fee income for HE providers by between £152 million and £236 million in Equivalent Annual Net Direct Cost to Business (EANDCB) terms. There is a smaller saving to individuals as not all student loans would otherwise be fully repaid, and the IA estimates an Equivalent

[1] The RPC quality ratings are used to indicate the quality and robustness of the evidence used to support different analytical areas. Please find the definitions of the RPC quality ratings here.

Annual Net Direct Cost to Households (EANDCH) of -£108 million and -£168 million. The remaining savings are to the Exchequer in not having to cover loans that would otherwise not have been fully repaid and other reduced subsidy costs.

Rationale for intervention

The IA provides sufficient evidence to support the rationale for intervention. The IA provides data on a rapid increase in the number of students on foundation years in recent years, particularly in classroom-based subjects such as business and management studies. The IA notes that some of these subjects do not typically have subject-specific entry or skills requirements, and the additional year of study is not always necessary. In addition, there are also potential alternative, less expensive routes, such as AHE diplomas. The IA refers to a 2019 Independent Panel (chaired by Sir Phillip Augar) review that questioned whether this growth in numbers was in the best interests of students and taxpayers and recommended withdrawing financial support for all foundation years attached to degree courses, with exemptions for specific courses such as medicine. The Department also conducted a consultation in 2022, and the present policy proposal appears to be shaped in response to the comments received.

The rationale for intervention is also supported by research reports. One study indicated that students do not always have access to complete or high-quality information and are at risk of making poorly informed decisions about their course choices. A further study has shown that a proportion of classroom-based subjects was being delivered for significantly less than the current fee limit. The IA would benefit from providing more information from these research reports, such as any indication of the percentage of courses being delivered within the proposed new limit.

The IA reports (page 8) that growth in student enrolments onto classroom-based foundation years had slowed significantly in 2022/23 and, although this is addressed in the counterfactual scenarios in the cost benefit analysis, the IA would benefit from discussing this further in terms of the rationale for intervention.

Identification of options (inc. SaMBA)

The IA considers a wide range of options. On the ‘long-list’, the IA summarises why other reforms, such as Recruitment Limits and Minimum Eligibility Requirements were discarded. In addition to the do nothing and preferred option, the IA carries forward three alternative options: two ‘more ambitious’ options of lowering the maximum tuition fee limit to £5,760 across all foundation years provision (option 3); option 3 combined with topping up providers’ grant funding by £2,000 for each enrolment on higher cost and strategically important subjects (option 4); and non-regulatory options (such as developing educational training for prospective students). These options are additionally presented in the ‘summary: analysis and evidence’ table on pages 27-29. The IA explains that the cap of £5,760 was chosen to align with other access courses, but could present this more prominently and discuss the benefit over lower or higher caps.

On impacts on small and microbusinesses, the IA notes a possible disproportionate financial impact on small-sized HE providers, particularly specialist creative providers. However, the IA describes how, of the 106 providers offering foundation years, two are small-sized providers and only one offered classroom-based foundation years in 2022/23. The IA provides an estimate of the percentage annual income loss (0.94 to 1.36) for this provider. The IA satisfactorily explains why SMBs should not be exempt and discusses disproportionality sufficiently. The IA elsewhere (page 11) refers to publishing guidance to help HE providers prepare for the change and the IA would benefit from discussing this in the context of SMB mitigation. The IA notes that a substantial proportion of courses affected are provided via franchise partners and the IA would benefit from explaining this further, identifying any relevance to size of provider. The IA would also benefit from specifically discussing impacts on medium-sized businesses.

Justification for preferred way forward

The IA explains satisfactorily why the alternative options were rejected. This is through a qualitative discussion (mainly on page 12), and the structure of the assessment underpinning the options downselection could be improved by further integrating the discussion on critical success factors (page 13). The IA references (footnote on page 13) a government consultation response IA, which appears to further cover why alternative options were rejected. The present IA would benefit from incorporating more information from this IA. The IA explains why a non-regulatory option would not meet the policy objectives but would benefit from discussing further whether providing better information to students might form part of the policy proposal.

The IA usefully monetises overall impacts on businesses (costs), students (benefits) and the Exchequer (benefits). The IA could usefully set out the modelling and assumptions behind these estimates in an annex. The IA would benefit from providing broad-order, illustrative quantification of the comparative scale of impact of the ‘more ambitious’ options. As noted above, the IA could explain how the proposed cap of £5,760 was chosen over lower or higher figures.

The IA presents an NPSV figure of around zero (assuming administrative costs are negligible). This is based upon the direct impacts on businesses, students and the Exchequer cancelling out in overall societal terms. However, the IA acknowledges that the impact of the proposal will depend upon behavioural responses by providers and students. The IA would, therefore, benefit from greater discussion of uncertainty around overall net societal impacts, in particular resulting from the impact of the proposal on student numbers.

Regulatory Scorecard

The IA provides fair directional ratings across the categories of overall welfare, business and household impacts. The scorecard includes the estimates of the costs to business and benefits to individuals and the Exchequer. There is a reasonable discussion of non-monetised and distributional impacts, but these could be improved by further discussion around uncertainty and dependency of impact on behavioural responses. The assessment of overall societal impact as neutral could be justified further, considering whether non-quantified benefits are expected to outweigh non-quantified costs, particularly if the proposal changes the mix of courses that students study to have a positive labour market impact. Part B of the scorecard would benefit from a proportionate discussion of any possible competition and innovation impacts.

Monitoring and evaluation plan

The IA sets out the questions and indicators that a review would address but would benefit from more detail, in particular by including information on the data, evidence sources and research methods that would be used.

Regulatory Policy Committee

For further information, please contact regulatoryenquiries@rpc.gov.uk. Follow us on Twitter @RPC_Gov_UK, LinkedIn or consult our website www.gov.uk/rpc. To keep informed and hear our views on live regulatory issues, subscribe to our blog.

A committee member did not participate in the scrutiny of this case to avoid a potential conflict of interest.