

Universities UK briefing: Higher Education (Basic Amount) (England) Regulations 2010 and Higher Education (Higher Amount) (England) Regulations 2010, vote 14 December

Universities UK urges the House of Lords to support the raising of the tuition fee cap. This briefing summarises the key arguments in the debate and sets out UUK’s reasons for supporting the fee cap increase.

From the outset, Universities UK has opposed the cuts to public funding of higher education (which began well before the Spending Review was published). However, given that the cuts are now an unavoidable reality, we recognise that the government’s proposals are the best option in the current circumstances, and in many respects are more progressive than the current arrangements.

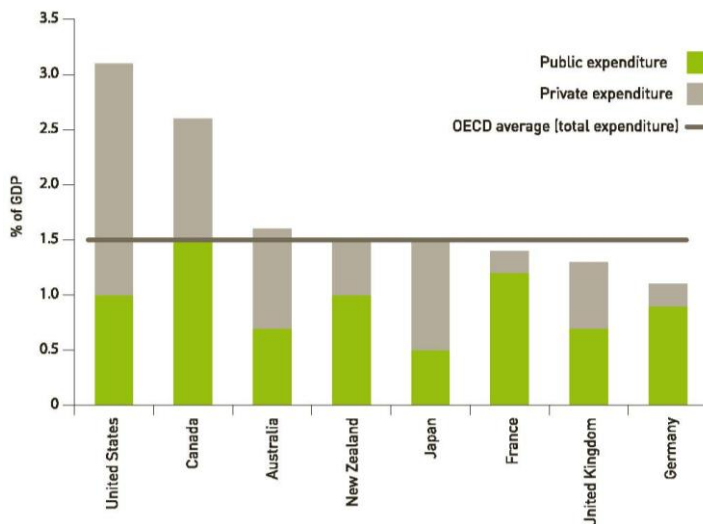
The growth in the number of people gaining at least a Level 4 qualification is essential for the economy and for social mobility

Higher education is an essential driver of future economic success for the UK. The globalised knowledge economy demands a flexible, well educated workforce. Universities currently make an enormous contribution to the economy (both local and national) but without the ability to charge higher fees, higher education will face a substantial cut in funding. This will hamper the ability of universities to contribute in full to future economic growth.

Recent research by the Commission for Education and Skills states that between 2007 and 2017 the three occupational groups most likely to require graduate-level skills will see the highest level of structural expansion. Almost 2.2 million jobs will be created in these three occupational groups compared to a net loss of 220,000 jobs in other less skilled groups.

Cutting back on the total investment in higher education would risk the UK falling behind its global competitors in the global knowledge economy. We can already see the warning signals from global comparisons of participation rates and investment in higher education:

UK Expenditure on tertiary education relative to competitor countries



Trends in graduation rates (Tertiary type A) – place of the United Kingdom

Rank	2000	2003	2004	2005	2006	2007	2008
1	NZ	Australia	Iceland	Iceland	Iceland	Iceland	Finland
2	Finland	NZ	Australia	NZ	NZ	Poland	SK
3	Norway	Finland	NZ	Australia	Australia	Australia	Iceland
4	UK	Iceland	Finland	Finland	Finland	Finland	Poland
5	Denmark	Poland	Norway	Denmark	Poland	NZ	NZ
6	Australia	Denmark	Poland	Poland	Denmark	Denmark	Denmark
7	NL	Norway	Denmark	NL	NL	Ireland	Ireland
8	Poland	NL	NL	Italy	Norway	Norway	Portugal
9	USA	UK	UK	Norway	Sweden	NL	Norway
10	Iceland	Ireland	Ireland	UK	Italy	Portugal	NL
11	Ireland	Sweden	Sweden	Ireland	Ireland	Sweden	Sweden
12	Spain	Japan	Italy	Sweden	UK	SK	Japan
13	Japan	Portugal	Japan	Hungary	Japan	Japan	USA
14	Sweden	Spain	USA	Japan	USA	UK	CZ
15	Canada	USA	Spain	USA	SK	USA	UK

Source: OECD (2010) *Education at a glance*

On Monday 6th December 2010, writing in The Times, Professor Steve Smith, President of Universities UK, set out his concerns about the potential impact of failing to pass the fee cap increase. He warned that it could lead directly to a sharp reduction in the number of student places available:

Our initial calculations indicate that if the graduate contribution remained at its current level, there would have to be around 700,000 fewer funded students in the system by 2015 to match the shortfall in funding, compared to the current number of around 1.2M. That is a reduction of 59% of the numbers currently available. Even if fees were to rise to £5,000 a year, the reduction in student numbers could still be substantial, potentially around 400,000 (35%).

(The full text of the article is reproduced at the end of this briefing).

Since the article was published we have learned that BIS estimates show the reduction in student numbers would have to be in the order of 58% to remain within the spending envelope set for HE without any fee increase, which suggests their calculations are very similar to our own.

A reduction of student numbers on this scale risks undermining social mobility as well as damaging our broader economic prospects by denying the opportunity of a university education to the broadest possible range of people. According to the OECD, of 12 developed countries, the UK is the place where the earnings of individuals are most strongly related to the earnings of their parents. A university education can contribute to changing that situation and the evidence suggests that fees have not been a barrier to access. Since the introduction of variable tuition fees in 2006, there has been an increase in the proportion of university acceptances for students from lower socioeconomic groupings.

The government's proposals retain strong elements of progressivity

The earnings threshold at which graduates start to repay loans will change from its current level of £15,000 per year to £21,000 in 2015. This is above the average salary for new graduates and significantly above the average salary of the lowest quartile of earners (which stands at £15,000). Someone earning £25,000 would expect to repay £30 per month. Someone earning £35,000 a year would repay £105 per month.

There has been some concern expressed that some graduates will never pay off their loans. For students with outstanding loans, the monthly repayment will vary with income but will not vary with the amount borrowed. This means that graduates with higher loans will pay off their loan for longer but any loan amount that is outstanding after 30 years will be written off under the Government's proposals. It is important to recognise that this write-off is a key element of the support that the Government is offering to graduates. This will benefit those, for example, who take a career break to raise a family or who have lower life-time earnings.

The Government's proposals will improve the financial support available to part time students. Following a recent government concession, students studying for 25% of their time will now be allowed to access tuition fee loans, and will no longer have to pay up-front tuition fees. This could mean that the number of students choosing to study part time increases.

The number of undergraduate students studying part time has risen from 285,000 in 1994/5 to 587,000 in 2008/9. The 40 per cent of students who currently study part-time are required to pay their fees up front unless they can secure a contribution from their employer – unlike full-time undergraduates who are eligible for government-funded loans to pay for their fees once they graduate.

With unprecedented demand for full-time university courses and a changing labour market, it has been envisaged that students in the workforce are more likely to want to study part-time or have an interest in more flexible degrees. However, since 2006/07, the growth in the number of part-time students has weakened.

A recent study supported by UUK found that:

- The current funding model financially disadvantages institutions providing part-time courses and fails adequately to cover the additional costs and risks associated with delivering part-time courses.
- Just 10 per cent of all part-time students currently get any government funded financial support toward their tuition fees and the costs of study. Only a third gets their fees paid in full by their employer.

The improved package of support for part time study is likely to open up new opportunities for part time study which can be accessed by those who are not willing or able to undertake full-time study.

In relation to the Government's plans as a whole, in its analysis published on 9th December 2010, the Institute for Fiscal Studies found that:

By decile of graduate lifetime earnings, the Government's proposals are more progressive than the current system or that proposed by Lord Browne. The highest earning graduates would pay more on average than both the current system and that proposed by Lord Browne, while lower earning graduates would pay back less. By decile of parental income, graduates from the poorest 30% of households would pay back less than under Lord Browne's proposed system, but more than under the current system. While all graduates from families with incomes above this would pay more, graduates from the 6th and richest (10th) deciles of parental income would pay back the most under the proposed system.

The Government has announced the creation of a National Scholarship Fund to assist with paying towards the tuition costs of students from less well off backgrounds. It has been questioned whether the Fund would introduce 'perverse incentives' leading universities to recruit fewer students from less well off backgrounds to minimise their payments into the Fund. We do not yet know the full details of how the Fund will work in practice but, but the government has suggested that it will *require* institutions charging more than £6,000 per year to participate in the new national scholarships programme, with bids match funded from within a university's own resources. Both Universities UK and the National Union of Students are working with the Government on the implementation of the scheme. It is also important to emphasise that there are other funding streams within the system that make up the widening participation and widening access package and these have to be viewed together as a whole before judgements can be made about the way the Fund will work.

The Higher Education Minister, David Willetts, published draft guidance to the Office of Fair Access (OFFA) on Monday 6th December which suggested the conditions that universities would need to meet in order to be permitted to charge above the standard fee of £6,000. It contained new conditions including the possibility of fines for non-compliance with the access agreements.

Universities UK has consistently opposed disproportionate cuts to HE funding but the increased fee cap offers the best option for a sustainable funding settlement

Under the terms of the Spending Review there will be an overall resource cut for BIS of 25% but the annual higher education budget faces a cut of 40% over the period of the Spending Review. The HE budget (excluding research) will fall from £7.1 billion to £4.2 billion, a 40% reduction by 2014/15. BIS has stated that it intends to build on Lord Browne's proposals, with a broadly offsetting reduction in the teaching grant, from 2012-13.

BIS modelling of the Browne proposals shows only the premium for Price groups A and B retained as core funding for full-time students (so grant funding for subjects in bands C and D is removed entirely).

It appears that the cuts will start immediately. Table 2.9 on page 51 of the Spending Review document shows that the BIS resource DEL will fall from £16.7 billion in 2010/11 to £16.5 billion in 2011/12. Larger cuts are anticipated in subsequent years, based on the assumption that replacement funding will come into the sector from an increased graduate contribution. The sector has already had to cope with substantial cuts in funding. The HEFCE budget for 2010-11 was £381 million less than planned.

The BIS capital budget will also face a 44% cumulative real terms cut by 2014/15

The University and College Union published research recently which suggested that the changes to the funding structure will threaten the future of a number of higher education institutions. Universities UK does not accept this. Indeed, it is if the Government's proposals fail that there will be risks to the sector. Universities UK makes the following points in response to these claims:

- Universities are currently considering the effects of the changes in funding arrangements and making appropriate plans. Universities will not yet have set their fee levels for courses starting in 2012 so it is very difficult to come to any general conclusions about the impact of the proposals on individual universities.
- The funding council's (HEFCE) latest analysis shows the overall financial position of universities and colleges is sound with strong cash balances and healthy levels of reserves.
- Universities have an impressive track record in managing change. Assumptions about the number of universities which will be 'at risk' fail to take account of universities' capacity to replace the reduced public (HEFCE) teaching grant with fees and adapt their business models to the new environment.
- The sector needs stability in the short term (for 2011-12) to enable institutions to adjust their provision to take account of the changed funding regime from 2012-13.

- There are mechanisms in place to ensure that if the funding council has serious concerns about the financial health of a university, they will engage with its governors and senior managers to enable it to recover its position.

The Government's proposals build on the logic of the original tuition fee model by empowering students as consumers

Notwithstanding the cuts to the higher education budget, the Government continues to fund teaching in universities. But in the future government funding will primarily be channelled through the student and not directly to universities, This will ensure that universities structure their provision to meet the needs of students, empowering students to make the choices about their university experience that reflect their needs.

The Government's proposals maintain the crucial link between the graduate and the institution they attend. This means that student choice and value for money will drive the funding flow into the sector more than ever before. Universities will be further incentivised to clearly demonstrate the quality of the course they offer and the benefits that a graduate will gain from it. This would not have been the case if the Government had opted for a pure graduate tax.

Alongside this, the changes will drive further improvements in the information, advice and guidance that universities provide to prospective students. This is likely to make it easier for students to assess their likely earning and employment prospects after graduation.

The earnings premium and employment prospects linked to a UK graduate degree both remain strong. This suggests that the distinctive skills of UK graduates have remained in high demand, against the backdrop of significant expansion in the higher education sector.

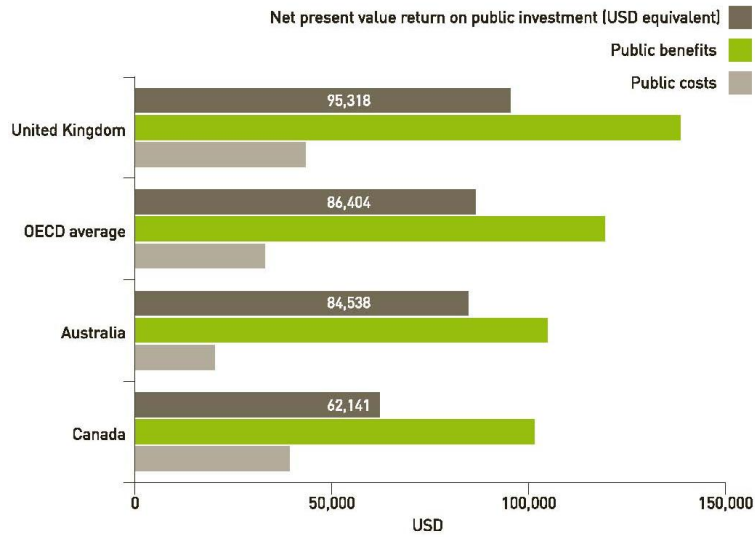
The most recent analysis by the OECD suggests that the net present value of a higher education qualification in the UK is \$207,655 (£134,320) for a male and \$152,858 (£98,875) for a female. This is one of the highest graduate premium among OECD countries.

88.3% of the UK's 25-64-year-old graduates in the labour market were employed in 2008. This is above the OECD average of 85.2% and competitor countries such as the US with 84.0%, Australia with 85.2%, Germany with 86.2% and France with 83.3%.

The period since the introduction of variable fees and loans for tuition has seen increased demand for university places in England. This includes an increase in the proportion of students from lower socio-economic groups going to university.

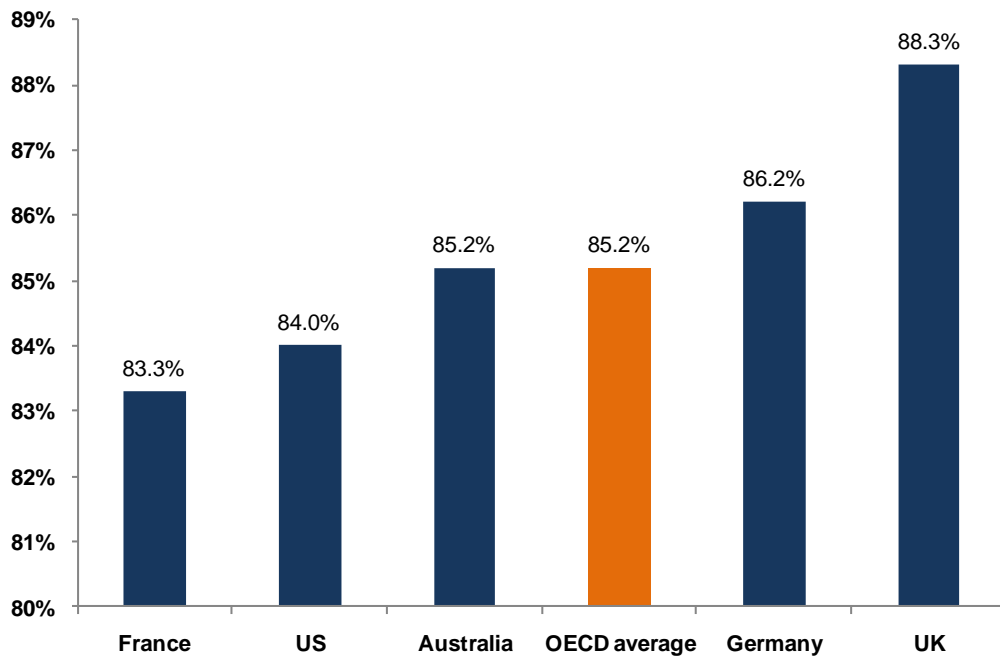
In 2009, students from the most disadvantaged areas were 50% more likely to enter higher education than they were in the 1990s, and around 30% more likely to enter higher education than they were five years ago.

Net public benefit for a male obtaining tertiary education



Source: OECD (2010) *Education at a glance*

Percentage of graduates aged 25-64 employed in the labour market



The Daily Telegraph recently ran a report that suggested degrees at English universities will become the most expensive in the world. Universities UK has a number of concerns about the report:

- Inconsistency in data sources: The table in the report looks at fees charged at public universities 'including government dependent private institutions' in other countries for comparison purposes *EXCEPT for England* where they use the maximum variable fee payable by full-time students in 2007-08. This makes for a misleading comparison and is far from robust.
- Definitional problems: Including both public universities and government dependent private universities in the definition of 'public universities' is also misleading. The OECD definition of public/private is based on governance rather than funding. This means that UK universities are actually classified as private universities.
- Exchange rate issues: They have taken the averages for the year 2006/07 and for some countries from 2007/08. The prices were in US\$ and then converted into £ by the current exchange rate. However, in 2006, £ was much stronger compared to the Euro, so these 2006 fees at foreign universities were worth much more at that time.
- Actual UK Data: The comparative figure for UK from OECD is \$4678 in 2006-07 (so around £2,960). There is no data for private independent institutions (ie those receiving less than 50% of core funding from government agencies).

It is also important not to look at the fee level in isolation but together with the package of student support that is offered. However, we recognise that the quality of the higher education system that we can provide does depend on the resources available to it. It is the role of universities to demonstrate the value of the degrees they offer.

The proposals will prompt further innovation in delivery of courses

Universities have transformed the way they deliver higher education over recent years. The extra investment enabled by the introduction of tuition fees has meant that the learning environment in universities has improved. This has included new lecture halls and classrooms (and, in some cases, new campuses). It has included investment in the latest teaching technology and in improvements to libraries and other learning environments. It has also included improved student support services and increased spending on bursaries. Further information on the investments made by universities since the introduction of fees can be found in Universities UK's publication [Making it Count](#), published in January 2010.

Universities UK is already leading work that aims to drive further efficiencies within the sector. Earlier this year we published the Wakeham report that identifies how the research community can cut costs while maintaining impact.



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Individual universities are implementing their own programmes to reduce costs and increase income streams where possible. These programmes cover the full range of university activities.

The sector is also working to manage pay and other staff costs. The 2009 pay negotiations resulted in a 0.5% consolidated increase for staff on the sector's single pay spine. The current round of negotiations has not concluded but the final offer from employers is 0.4%. A review of the pension scheme is also due to report in the spring of 2011.

Raise Tuition Fees Or Cheat A Whole Generation (by Professor Steve Smith)

The Times, 6 December 2010, page 22

Half a million people from around the UK applied to study at university this year. More than eight out of ten found a place. Applications for 2011 entry are already up by over 11%, so there will be even more students unable to find a place next year. But imagine if they had been chasing half as many places. Or even fewer. This is the stark scenario that we could be wrestling with if Parliament fails to pass the Government's proposals on tuition fees due to be voted upon next Thursday.

The future for higher education without the fee increase is almost too bleak to imagine. With no apparent 'Plan B' on offer Universities UK has been looking at how the government might respond. Put very simply, the only possibilities involve making cuts either in what is left of the teaching budget, or reducing student numbers. We cannot see any other alternatives, given that cuts have already been allocated to the higher education budget. Whatever scenarios we model, all involve huge cuts in student numbers. No blend of policy options will avoid that. Opponents of the fee increase are acting in the belief that they are being socially progressive but the outcome would be exactly the opposite. The opportunity for a generation to progress via a university education would be slashed.

Government spending is set to fall substantially by 2014/15 - some have suggested by up to 75%. The planned increase in tuition fees may offset the reduced funding but it leaves no room for growth without savings elsewhere. Universities UK has consistently and vociferously argued against the cuts imposed by this government (£2.9 billion), and announced by the previous government (£1.05 billion): in fact, all the logic indicates that increasing investment in higher education at this time would better equip the economy for recovery and growth. Indeed, that is what nearly every single competitor economy is doing. But in the UK the deficit reduction strategy is set in place and so the cuts to the higher education budget are a reality.

Our initial calculations indicate that if the graduate contribution remained at its current level, there would have to be around 700,000 fewer funded students in the system by 2015 to match the shortfall in funding, compared to the current number of around 1.2M. That is a reduction of 59% of the numbers currently available. Even if fees were to rise to £5,000 a year, the reduction in student numbers could still be substantial, potentially around 400,000 (35%).

To imagine what this might look like in terms of applications, we only have to revisit the recent past. In 2010 136,430 full-time UK students who applied to an English university didn't get a place. If overall student numbers have to contract to maintain current levels of funding, then it is easy to see this number increasing significantly.

Sometimes, I hear politicians advocate lower student numbers. For them there are too many people going to university. I don't believe they realise the scale of the reduction that would follow a failure to back the Government's proposals. But even then, the evidence does not support their case.

Recent research from the Commission for Education and Skills shows that between 2007 and 2017 just under 2.2 million jobs in the three occupational groups most likely to require graduate level skills will be created in the UK. In the same time period they predict a net loss of 220,000 jobs in other, less skilled groups. The UK needs more graduates not fewer.

As the economy changes and globalises it demands new skills. The kinds of skills that a university education provides. The ability to think critically and analyse evidence. The ability to present a case and to innovate. That's without mentioning the direct, technical skills and knowledge gained from the many vocational courses that universities already provide.

Cutting student numbers dramatically runs the risk of locking in inequality. Universities are engines of social mobility but a pupil's background has a major influence on their attainment in school. Fewer university places will make it harder to correct those inequalities. While the richest will always be able to buy themselves out of the system, politicians will be forcing universities to make a choice. A choice between squeezing places for an already hard pressed middle class or cutting back investment in programmes to broaden access for the less well off.

And, for me the most important point is that if we reduce student numbers, who will be the students who do not get to university? All the evidence shows that they will be predominantly those from less advantaged socio-economic groups, given that they are less likely to achieve the highest A-level grades, which remain the most used criteria for admission to the most selective courses. These students, of course, get massive added value from attending university, and thus a policy of reducing student numbers would be far more damaging to social mobility than one of increasing graduate contributions. What has widened participation is the expansion of the system, and thus cutting numbers would fundamentally damage participation.

The easy thing for universities to do in response would be to make noisy demands for more cash. But I believe we would be shouting at a closed door, unless there is any prospect at all of reversing the Spending Review decisions. The Government has chosen a system that builds on the logic of the one introduced in 2006. It can secure the long-term financial sustainability of the higher education sector. It gives increased power to the student as consumer, and puts student choice at the heart of the system. The price tag of that power is, indeed, high: no one relishes the prospect of students leaving universities with large debts. As public finances allow, the government should commit to increasing support for less well off students.

But backing away from higher graduate contributions now, and leaving universities to pick up the pieces, will undermine the coalition's own agenda for economic recovery and social mobility. The desire to appear fair is understandable. But reducing student numbers will create few winners and many more losers. In the end it will be fair to no one.



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About Universities UK

UUK is the representative organisation for the UK's universities. Together with Higher Education Wales and Universities Scotland, our mission is to be the definitive voice for all universities in the UK, providing high quality leadership and support to our members to promote a successful and diverse higher education sector.

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